ASM

Pacific Technology

(STOCK CODE : 0522)

ASM Pacific Technology Limited

(Incorporated in the Cayman Islands with limited liability)

# *Breaking Records, Focused on the Future*

# Annual Report 2021

# Welcome

**Dear Reader, thank you for taking the time to peruse the 2021 Annual Report for ASM Pacific Technology Limited ("ASMPT"). This annual report provides a detailed view of the company's performance and outlook for the future.**

**ASMPT (HKEX stock code: 0522) is a leading global supplier of hardware and software solutions for the manufacture of semiconductors and electronics. With its global headquarters in Singapore, ASMPT's products and solutions encompass the semiconductor assembly & packaging, and SMT (surface mount technology) industries. These range from wafer deposition, to the various solutions that organise, assemble and package delicate electronic components into a vast range of end-user devices. These include electronics, mobile communications, computing, automotive, industrial and LED (displays). ASMPT partners with its customers very closely, with continuous investment in R&D helping to provide cost-effective, industry-shaping solutions that achieve higher productivity, greater reliability and enhanced quality.**

**ASMPT is one of the constituent stocks of the Hang Seng TECH Index, Hang Seng Internet & Information Technology Index, 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 and the Hang Seng Hong Kong 35 Index. To learn more about ASMPT, please visit www.asmpacific.com.**

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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

Benjamin Loh Gek Lim
Paulus Antonius Henricus Verhagen

### Executive Directors

Robin Gerard Ng Cher Tat
Guenter Walter Lauber

## COMPANY SECRETARY

Kong Choon, Jupiter

## AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
Registered Public Interest Entity Auditors
35/F One Pacific Place
88 Queensway
Hong Kong

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
MUFG Bank, Ltd.
Deutsche Bank

## CORPORATE HEADQUARTERS

2 Yishun Avenue 7
Singapore 768924
Republic of Singapore

## REGISTERED OFFICE

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

## 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

| | | |
|---|---|---|
| Website | : | http://www.asmpacific.com |
| Phone | : | (65) 6752 6311 |
| Fax | : | (65) 6758 2287 |

## 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.

- Record FY2021 EPS of HK$7.72 beats market consensus
- Record revenue of HK$21.95 billion (US$2.82 billion), a 49.3% YoY increase
- Record bookings of HK$26.12 billion (US$3.36 billion), a 65.6% YoY increase

- Record net profit[1] of HK$3.18 billion, a 398.8% YoY increase
- Record cash and bank deposits of HK$4.88 billion at end 2021
- Full Year 2021 dividend per share of HK$3.90, approx. 44.4% YoY increase

- Gross margin[1] of 40.6%, a 563 bps YoY increase
- Operating margin[1] of 18.9%, a 1,143 bps YoY increase
- Order backlog of HK$10.06 billion (US$1.29 billion) at end 2021

Note

1 FY 2020 results are on continuing operations basis (see page 57). The Group's former Materials Segment results are deconsolidated and equity accounted for since 29 December 2020.

| | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Revenue | **21,947,637** | 14,700,250 |
| Cost of sales | **(13,040,030)** | (9,561,369) |
| Gross profit | **8,907,607** | 5,138,881 |
| Other income | **133,384** | 102,596 |
| Selling and distribution expenses | **(1,802,229)** | (1,521,751) |
| General and administrative expenses | **(1,009,395)** | (901,769) |
| Research and development expenses | **(1,954,394)** | (1,621,576) |
| Other gains and losses | **(43,006)** | (55,135) |
| Other expenses | **(158,805)** | (147,476) |
| Finance costs | **(118,422)** | (167,690) |
| Share of result of a joint venture | **137,719** | – |
| Profit before taxation | **4,092,459** | 826,080 |
| Income tax expense | **(917,279)** | (189,468) |
| Profit for the year from continuing operations | **3,175,180** | 636,612 |
| **Discontinued operation** | | |
| Profit for the year from discontinued operation | **–** | 993,891 |
| Profit for the year | **3,175,180** | 1,630,503 |
| Profit for the year, attributable to owners of the Company | | |
| – from continuing operations | **3,168,976** | 627,625 |
| – from discontinued operation | **–** | 993,891 |
| | **3,168,976** | 1,621,516 |
| Profit for the year, attributable to non-controlling interests | | |
| – from continuing operations | **6,204** | 8,987 |
| Profit for the year | **3,175,180** | 1,630,503 |
| Earnings per share (from continuing and discontinued operations) | | |
| – Basic | **HK$7.72** | HK$3.97 |
| – Diluted | **HK$7.69** | HK$3.95 |
| Earnings per share (from continuing operations) | | |
| – Basic | **HK$7.72** | HK$1.54 |
| – Diluted | **HK$7.69** | HK$1.53 |

# CHAIRMAN'S STATEMENT

**"The Group's strategic growth and cost optimisation initiatives will underpin much of what it focuses on and executes over the coming years, as it strives toward growing organically and inorganically, while streamlining internal capabilities, operations and processes. In time, they will help the Group become even more future-oriented, agile and resilient."**

**ORASA LIVASIRI**
**CHAIRMAN**

## DEAR SHAREHOLDERS, EMPLOYEES, AND STAKEHOLDERS,

It gives me great pleasure to present ASM Pacific Technology Limited 2021 Annual Report. The year in review has been, in no uncertain terms, an exceptional one for us. We have achieved our strongest year ever by many performance indicators, and we continue to show sustained momentum and progress in reinforcing our leadership as a leading global supplier of hardware and software solutions for the manufacture of semiconductors and electronics.

Our strong results are juxtaposed with a macroeconomic backdrop of continuing contrasts: the effects of an unremitting pandemic against an increased global hunger for silicon content; geopolitical tensions against the reality of an increasingly interconnected, interdependent world, and the spectre of serious climate change against the tantalising possibilities offered by new advances in intelligent computing, environmental tech and petroleum alternatives.

For an industry bellwether like ASMPT, navigating this highly 'VUCA' world – Volatile, Uncertain, Complex and Ambiguous – has made it necessary for us to develop new ways of working, thinking and contributing as we continued to deftly navigate a dynamic supply chain and geopolitical landscape with our partners in the conduct of our business, while progressively transforming for the future.

As with the tumultuous year 2020, the milestones we have achieved for 2021 have only been made possible through the continued, committed, focused and skilful execution of our strategic initiatives and plans. In this regard, the Board and ASMPT's Management are deeply indebted to our team of more than 14,000 people across 29 territories worldwide.

Allow me now to share some brief highlights of this most eventful year.

## STRATEGIC INITIATIVES TO DRIVE LONG-TERM PERFORMANCE

For the full year 2021, the Group's record revenue of HK$21.95 billion (US$2.82 billion) and record net profit of HK$3.18 billion are just two of the standout performance indicators. Not forgetting shareholders, the Group also declared a total dividend per share of HK$3.90 for the full year 2021, which represents a significant 44.4% increase over 2020's dividend per share.

These strong metrics reflect a combination of the Group's robust business fundamentals, its ability to leverage opportunities amidst VUCA conditions, and the increasingly accretive effects from the Group's strategic growth and cost optimisation initiatives that will progressively transform its business over time.

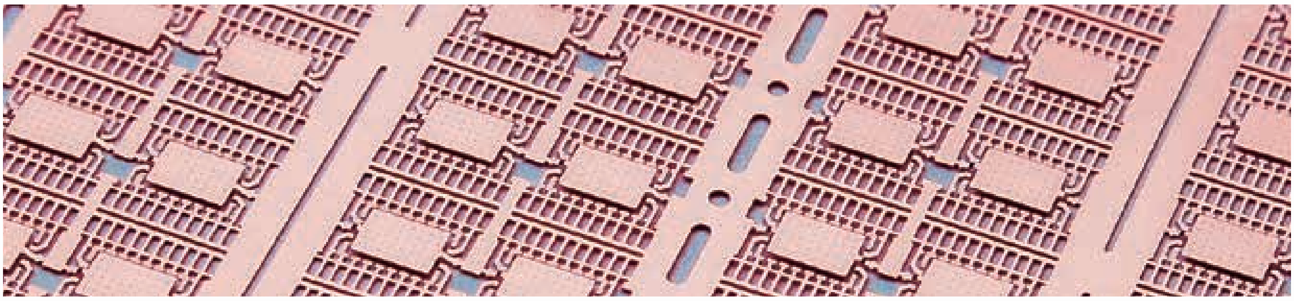
The strategic initiatives were progressively rolled out across the Group in 2021 as part of the Group's journey of overall business transformation that will unfold in distinct phases over the next few years. Growth initiatives include orienting the product mix toward more high-growth, advanced solutions and entering under-represented markets with potential, while cost optimisation initiatives focus on driving long-term operational excellence. These are described in greater detail in this year's report.

## RIDING MACROECONOMIC TAILWINDS SKILFULLY

Fuelled by sustained demands from global digital transformation, 2021 saw broad-based end market demand in a new chapter of the COVID-19 pandemic. This unprecedented hunger for capital equipment faced a constrained supply-chain environment exacerbated by geopolitical tensions. The Group was able to navigate this dynamic supply chain situation through its good balance of internal and manufacturing outsourcing capabilities. Active collaboration with suppliers on inventory levels also helped to strengthen the Group's supply chain resilience.

## AAMI JOINT VENTURE'S STELLAR FIRST YEAR

AAMI began operations on 29 December 2020 as a Joint Venture to manage and grow the Group's former materials business. I am pleased to note that AAMI's strong 2021 financial performance exceeded previously agreed targets, thereby enabling the Group to register a significant non-cash revaluation gain on its investment in AAMI. AAMI continues to hold significant importance for the Group.



## A BROAD SPECTRUM OF GROWTH

The Group continues to engineer a structural shift toward higher growth markets. For one, its automotive solutions, in our view the most extensive in the market, more than doubled in revenue and significantly expanded its customer base in 2021. The Group is confident of this sector's long term growth potential.

Other noteworthy areas include its advanced packaging solutions that registered strong growth with a deepening and widening customer base, and sustained investment including close collaboration with key customers on hybrid bonding to capture a sizeable market share in time. Meanwhile, the Group's leadership in thermo-compression bonding (TCB) technology continues strongly, with a recent and very major TCB order win that reflected the customer's confidence in the Group's ability to support its roadmap for transition to a more advanced TCB platform.

In advanced displays, the Group's extensive customer base has also been increasing capital spending on Mini LED and Micro LED manufacturing requirements and deploying its broad suite of advanced integrated solutions for a wide variety of display types. These all signal growing acceptance of these advanced display applications.

Last but not least, a key breakthrough into the memory market has seen leading customers adopting the Group's mainstream wire bonding and advanced packaging tools across memory applications, expanding the Group's served markets, and affirming its ability to secure a strong market position here.

## R&D ADVANTAGE

The Group's technology portfolio continues to be a key asset that it continues to strengthen and extend. In this regard, its R&D framework possesses some distinguishing capabilities that are described in greater detail in this year's report. The Group's R&D capabilities provide a potent combination of the ability to deliver innovation to customers consistently and at a more rapid clip than its peers.

## CONCLUSION

Many scholars and futurologists have commented on the increasing pace of technological change and that in the next few years we could experience more progress than in the past century. At the heart of this thought-provoking view is computational power getting faster, cheaper, more connected and converging. As society continues to morph in new ways with increased digital transformation, the future holds many possibilities of which we are only just beginning to experience and savour. However, as the past two years have shown us, the Volatile, Uncertain, Complex and Ambiguous environment we operate in is here to stay. We have to remain nimble, adaptive and able to steer those who depend on us through waters that may often be uncharted.

In this regard, the Group's strategic growth and cost optimisation initiatives will underpin much of what it focuses on and executes over the coming years, as it strives toward growing organically and inorganically, while streamlining internal capabilities, operations and processes. In time, they will help the Group become even more future-oriented, agile and resilient. In this journey, the Board and the Group's Management remain committed to operating a financially robust and socially responsible company over the long term.

In addition to the global ASMPT team, customers, suppliers and business partners, I must thank my fellow Directors and the Management team. Without their collective efforts, none of these achievements and possibilities for the future would have come to pass.

I am fully confident that we have the right foundation, plans and people in place to help steer this ship into a bright and sustainable future. I also want to thank you, dear shareholder, for your continued confidence and faith in our vision and purpose. Let's continue to run this race together.

**Orasa Livasiri**
*Chairman*

22 February 2022

# MANAGEMENT DISCUSSION AND ANALYSIS

**"The global ASMPT team's perseverance and strong customer-centricity enabled the Group to deliver at record levels amidst a dynamic and challenging macroeconomic environment.**

**We expect the challenging supply chain environment to persist and impact the broader market in 2022. While this dynamic situation remains a concern, the Group is also anchored by a strong order backlog. Riding on secular macro tailwinds and strong performance, the Group has confidently rolled out growth and cost optimisation strategic initiatives which will unfold in distinct phases over the next few years."**

**Ng Cher Tat, Robin**
**Group CEO**

## RESULTS SUMMARY

ASM Pacific Technology Limited and its subsidiaries (the "Group" or "ASMPT") delivered revenue of HK$21.95 billion (US$2.82 billion) for the fiscal year ended 31 December 2021, which was 49.3% higher than the preceding year's revenue, from continuing operations. The Group's consolidated profit after taxation for the year was HK$3.18 billion, an increase of 398.8% versus profit of HK$636.6 million for the previous year, from continuing operations. Basic earnings per share ("EPS") from continuing operations for the year amounted to HK$7.72 (2020: HK$1.54).

## DIVIDEND

The Group firmly believes in returning excess cash to its shareholders as dividends. After considering its short-term needs and cash on hand, the Board of Directors has resolved to recommend to shareholders the payment of a final dividend of **HK$2.60** (2020: final dividend of HK$2.00) per share. Together with the interim dividend of HK$1.30 (2020: HK$0.70) per share paid in August 2021, the total dividend payment for year 2021 will be **HK$3.90** (2020: HK$2.70) per share.

## REVIEW

In the Group's review of financial year 2021, it is vital to first acknowledge the contributions of the global ASMPT team. The team's perseverance and strong customer-centricity enabled the Group to deliver at record levels amidst a dynamic and challenging macroeconomic environment.

This review will begin with a commentary on notable business highlights that have featured prominently in the Group's 2021 performance. This will be followed by a financial review of the Group and its Segments namely Semiconductor Solutions Segment ("SEMI") and SMT Solutions Segment ("SMT").

### Secular Macro Tailwinds Continue Unabated

The Group's record 2021 performance was underpinned by a few key macro tailwinds including:

(i) Under-investment in semiconductor capital equipment in previous years;

(ii) Semiconductor self-sufficiency needs arising from dynamic geopolitical and challenging supply-chain environment;

(iii) Broad-based end market demand growth after emerging from the pandemic-induced global recession of 2020; and

(iv) Long-term secular growth trends arising from global digital transformation trends.

### Excellent Execution Amidst Dynamic Supply Chain Situation

While manufacturing utilisation reached record levels, the Group managed to activate a significantly higher proportion of its external manufacturing capacity to respond to these dynamic market conditions. The Group would have delivered even higher output if not for ongoing industry-wide supply chain challenges.

On top of effective capacity allocation, the Group has shifted to just-in-case inventory management for certain key electronics and electrical components to further strengthen its supply chain resilience. While the Group collaborated proactively with suppliers to find solutions to navigate unprecedented supply chain and logistical challenges, it still experienced some component price increases, in particular for spot purchases, along with increased logistics costs. In response, the Group strategically adjusted customer average selling prices to alleviate such cost pressures where feasible.

## REVIEW (CONTINUED)

### Strong Performance from High Growth Sectors

*Advanced Packaging ("AP")*

On the back of broadening customer base and widening customer adoption, the Group's comprehensive AP solutions across both its SEMI and SMT segments registered full year 2021 revenue contribution of approximately US$590 million, representing 35% growth YoY. The book-to-bill ratio for AP solutions was 1.15, higher than in 2020. On a broader perspective, the Group has estimated that its addressable market will progressively expand from US$1.6 billion in 2021 to US$2.7 billion in 2026, a compounded annual growth rate ("CAGR") of 11%.

*Automotive*

Underpinned by intensifying trends in automotive electrification, the automotive end market applications contributed approximately US$430 million to the Group's 2021 revenue, more than double last year's level. The Group also added a significant number of new customers in this space in 2021. In the longer term, the Group is confident that its estimated addressable market in the automotive space will grow from US$1.9 billion in 2021 to US$2.9 billion in 2026, representing a CAGR of 9%.

### Exciting Growth Developments

*Scaling Up Hybrid Bonding for Mass Adoption*

Supported by the need for supply chain diversification and resilience, leading tier-one customers are working closely with the Group to deliver hybrid bonding ("HB") tools for qualification in 2022. The partnership with EV Group has strong support and recognition from leading customers for its unique HB inline solution, which has also addressed some gaps faced by the industry. The Group believes that HB tools will deliver meaningful contributions from 2023 onwards, in line with its customers' ramp up plans. Sustained investments in HB reflect the Group's strong intentions to capture a sizeable share of the HB market.

*Significant Order Win for New Generation Chip-to-Wafer TCB*

Over the last few years, the Group's chip-to-substrate Thermo Compression Bonding ("TCB") tools have been the tool-of-record at leading tier-one customers. These workhorse TCB tools continue to dominate the share of installations globally. Underpinned by a broadening customer base and greater customer adoption, the Group's TCB platform is bringing some exciting opportunities that will help cement its dominant market position, as a recent chip-to-substrate TCB order win did to reinforce our position.

Additionally, in support of the heterogeneous integration ("HI") technology roadmaps of industry partners, the Group recently received orders for a more advanced chip to wafer TCB platform nearing US$100 million over the next two years, a significant portion of which will be delivered this year. This significant win highlights how the Group's cutting edge TCB innovations are uplifting its near-term performance. In anticipation of this new business, the Group has scaled up additional manufacturing site and capacity to deliver these next generation chip-to-wafer TCB tools.

Looking ahead, a combination of recently announced bullish capital investment plans from leading semiconductor companies in tandem with the Group's unique and extensive TCB process knowhow and capabilities, bode well for the Group's continued leadership as the partner of choice for subsequent generations of TCB tools.

## REVIEW (CONTINUED)

### Exciting Growth Developments (Continued)

*Inflection Point for Advanced Displays*

The Group believes that ongoing accelerated global digital transformation trends also mark an inflection point for the next technology replacement wave as ultra-fine pitch mini LED RGB and micro LED applications progressively emerge to replace conventional displays across both commercial and high-end consumer devices.

Across mainland China, Europe, Japan, Korea, Taiwan, and the US, the Group's extensive range of customers have been deploying the Group's broad suite of solutions for laser scribing, solder printing, die attach, and a "best-in-class" die reallocation cum mass bonding in high volume manufacturing ("HVM") for mini LED applications. Customers have also deployed the Group's leading edge multi-functional mass transfer cum mass bonding tool, which is already the tool-of-record for all major customers in upcoming high volume production for micro LED applications.

*Strategic Breakthrough into Memory Market*

Anchored by leading customers, the Group has made a strategic and meaningful breakthrough in the hitherto under-represented memory market. These memory market customers are adopting the Group's mainstream wire bond and advanced packaging tools for high volume manufacturing requirements for both conventional memory and high bandwidth memory applications. This represents an important development in the expansion of the Group's served markets and it is confident about securing a strong market position in this space.

*Excellent First Year Performance of AAMI (JV)*

Advanced Assembly Materials International Limited ("AAMI") delivered a strong performance in 2021. AAMI is on track to meet certain mutually agreed profitability targets from 2021 to 2023 set out in the shareholders' agreement, which will likely trigger an increase in the Group's ownership in AAMI from 44.44% to 49% in 2024. This necessitated registering a material non-cash revaluation gain on the Group's investment in AAMI. In addition, AAMI's new capacity investments will come on stream in 2022 and are expected to fuel further growth in the near and longer term. As such, AAMI continues to hold significant importance for the Group.

### Group Financial Review

Please note that the figures in the Group and SEMI segment financial review sections below have excluded one-off items to provide a more meaningful analysis of the Group's financial performance.

| (in HK$ million) | Q4 2021 | QoQ | YoY | FY 2021 | YoY |
|---|---|---|---|---|---|
| Bookings[1] | 5,250.0<br>(US$674.2 million) | -8.2% | +25.0% | 26,116.1<br>(US$3,361.6 million) | +65.6% |
| Revenue[1] | 6,200.7<br>(US$796.3 million) | -0.5% | +43.9% | 21,947.6<br>(US$2,824.0 million) | +49.3% |
| Gross Margin[1,2] (%) | 41.3% | +76 bps | +588 bps | 40.6% | +427 bps |
| Operating Margin[1,2] (%) | 20.0% | -80 bps | +976 bps | 18.9% | +1,007 bps |
| Net Profit[1,2,3] | 976.4 | -2.7% | +182.5% | 3,240.7 | +273.6% |
| Net Profit Margin[1,2,3] (%) | 15.7% | -36 bps | +773 bps | 14.8% | +886 bps |

Notes

1 results from continuing operations

2 excluding one-off items of HK$255.3 million (see note 7 of page 103 and note 10(b) of page 104) and their related tax credit of HK$24.4 million recorded in Q4 2020 amounting to HK$230.9 million

3 excluding one-off items of HK$65.0 million and their related tax charge of HK$0.5 million recorded in Q4 2021 amounting to HK$65.5 million (see page 14)

## REVIEW (CONTINUED)

### FY2021 Group Financial Review

The Group delivered a record full year revenue performance of HK$21.95 billion (US$2.82 billion), representing YoY growth of 49.3%. The strong revenue performance was also influenced by positive developments in the following end-markets:

(i) The Automotive, Consumer and Industrial markets expanded significantly with revenue more than doubling YoY, contributing around 16%, 23% and 10% of Group revenue respectively. Backed by its comprehensive product portfolio and unique process knowhow, the Group witnessed strong momentum in customer acquisitions;

(ii) The Communications market experienced strong double digit YoY growth, contributing around 22% of Group revenue. This growth was achieved on the back of strong System-in-Package ("SiP") requirements for smartphone and wearables applications; and

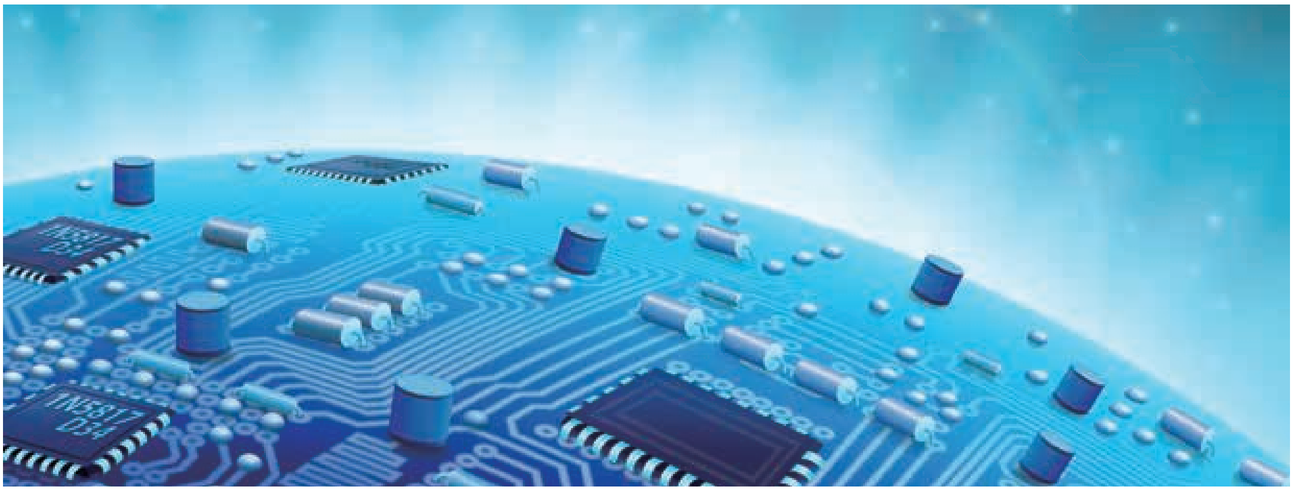
(iii) The Computing market, which contributed approximately 12% to Group revenue, experienced strong momentum from high performance computing ("HPC") applications.

Geographically, China (including Hong Kong), Europe, Taiwan, the Americas and Malaysia accounted for approximately 84.6% of full year revenue. Over the last 12 months, the Group experienced a low degree of customer revenue concentration risk since its top five customers accounted for only about 13.7% of total revenue.

In bookings, the Group experienced a record year of HK$26.12 billion (US$3.36 billion), representing YoY expansion of 65.6%. Notably, both the Group's SEMI and SMT segments also achieved record bookings, with SEMI comprising the majority. Supported by this record bookings performance, the Group ended the year with a strong backlog of HK$10.06 billion (US$1.29 billion), and a book-to-bill ratio of 1.19.

The Group's gross margin was 40.6%, a 427 bps increase YoY. Both the Group's SEMI and SMT segments achieved stronger gross margins, with a higher revenue contribution from the SEMI segment. Other factors were high operating leverage and positive margin accretive effects from the Group's strategic initiatives. However, some of these improvements were partially offset by cost impacts associated with component cost increases and higher logistical costs due to a constrained global supply chain environment.

The Group's operating margin was 18.9%, representing YoY expansion of 1,007 bps. This was mainly due to the effect of higher operating leverage as a result of record deliveries.



## REVIEW (CONTINUED)

### FY2021 Group Financial Review (Continued)

On the back of its strong margins performance, the Group's net profit (including share of results from AAMI) reached record levels to the tune of HK$3.24 billion, an increase of 273.6% YoY. This record net profit excludes a one-off non-cash net charge of HK$65.0 million and related tax impact of HK$0.5 million. This one-off net charge comprised a non-cash revaluation gain of HK$184.2 million relating to the Group's investment in AAMI. However, this gain was offset by two items:

(i) A non-cash goodwill impairment charge of HK$224.8 million related to the carrying acquisition value of AMICRA. When acquired in 2018, AMICRA was a tangible asset light business, while heavily backed by intangible intellectual property assets. This translated to a fair amount of purchase consideration being reflected in goodwill at the point of acquisition. While the Group has recognised the goodwill impairment charge, it remains confident of AMICRA's unique market leading technology to capture long-term secular opportunities arising from silicon photonics applications, particularly in cloud computing and emerging high end wearable markets; and

(ii) A provision of HK$24.4 million arising from supplier contract termination actions as part of the product portfolio simplification initiative.

Disciplined capital management enabled the Group to register record cash and bank deposits of HK$4.88 billion at the end of 2021 (versus 2020 HK$4.46 billion).

### Q4 2021 Group Financial Review

The Group delivered a strong revenue performance of HK$6.20 billion (US$796.3 million), representing growth of 43.9% YoY but a slight decline QoQ. This exceeded the top end of revenue guidance between US$720 million to US$770 million issued in the previous quarter's results announcement.

The Group's bookings of HK$5.25 billion (US$674.2 million) was an increase of 25.0% YoY, but a sequential decline of 8.2%. This dip was largely due to a high base effect and general seasonality trends. Of note, this quarter's bookings remain elevated compared with prior years' Q4 levels.

The Group's gross margin of 41.3% represented a YoY and QoQ improvement of 588 bps and 76 bps respectively, with YoY improvement due largely to relatively stronger gross margin performance across both SEMI and SMT segments.

The Group's operating margin of 20.0% represented a YoY improvement of 976 bps and a QoQ decline of 80 bps.

The Group's net profit (which includes share of results from AAMI) of HK$976.4 million was a record Q4, representing YoY improvement of 182.5% but QoQ decline of 2.7%.

## REVIEW (CONTINUED)

### Semiconductor Solutions Segment Financial Review

| (in HK$ million) | Q4 2021 | QoQ | YoY | FY 2021 | YoY |
|---|---|---|---|---|---|
| Bookings | 2,787.4<br>(US$358.0 million) | -21.4% | +7.8% | 15,939.0<br>(US$2,052.0 million) | +77.4% |
| Revenue | 4,097.0<br>(US$526.2 million) | +15.5% | +72.4% | 13,513.9<br>(US$1,738.9 million) | +69.6% |
| Gross Margin[1] (%) | 43.7% | +13 bps | +468 bps | 43.8% | +304 bps |
| Segment Profit[1] | 994.2 | +24.4% | +242.9% | 3,025.9 | +240.7% |
| Segment Margin[1] (%) | 24.3% | +174 bps | +1,207 bps | 22.4% | +1,125 bps |

Note

1 excluding one-off item recorded in Q4 2020 of HK$199.3 million (see note 7 of page 103)

The segment registered strong Q4 2021 revenue of HK$4.10 billion (US$526.2 million), representing 66.1% of Group revenue and robust growth of 72.4% YoY and 15.5% QoQ. This strong performance was due to the following:

(i) The IC/Discrete Business Unit's ("BU") mainstream tools experienced strong YoY revenue growth, with wire bonders, die bonders and test handlers dominating deliveries. Notably, its 12-inch die bonders gained market share and dominated global installations of such equipment in 2021.

Some of its AP solutions, in particular advanced placement flip chip bonders, laser dicing and grooving equipment and panel level electrochemical deposition ("ECD") tools, delivered strong YoY growth;

(ii) The Optoelectronics BU recorded strong YoY revenue performance across the board, with conventional & advanced displays, general lighting and photonics customers accounting for majority of the deliveries. In particular, silicon photonics applications delivered consecutive quarters of QoQ growth; and

(iii) The CIS BU's active alignment tools registered a YoY improvement in revenue, supported by its broad customer base. However, the overall BU's revenue declined largely due to the widely-reported semiconductor supply bottlenecks that impacted near-term outlook of the smartphone manufacturing value chain.

The segment registered strong Q4 2021 bookings of HK$2.79 billion (US$358.0 million), representing YoY growth of 7.8% but QoQ decline of 21.4%; this decline is in line with general seasonality trends. Despite this, bookings remained elevated compared with the Q4s of prior years. The demand for mainstream die and wire bonders, together with advanced packaging panel level ECD tools and TCB tools, accounted for the majority of segment bookings.

Segment Q4 2021 gross margin was 43.7%, a YoY expansion of 468 bps and a slight increase QoQ. YoY improvement was largely influenced by a few factors. These include improved operating leverage arising from elevated volume and capacity utilisation, increased workforce productivity, and positive accretive effects from strategic initiatives. These improvements were partially tempered by expenditure related to strengthen supply chain resilience and logistics cost impact arising from global supply chain challenges.

Segment profit achieved a quarterly record of HK$994.2 million in Q4 2021, an improvement of 242.9% YoY and 24.4% QoQ.

## REVIEW (CONTINUED)

### SMT Solutions Segment Financial Review

| (in HK$ million) | Q4 2021 | QoQ | YoY | FY 2021 | YoY |
|---|---|---|---|---|---|
| Bookings | 2,462.6<br>(US$316.2 million) | +13.4% | +52.7% | 10,177.1<br>(US$1,309.7 million) | +50.0% |
| Revenue | 2,103.7<br>(US$270.1 million) | -21.7% | +8.8% | 8,433.7<br>(US$1,085.1 million) | +25.3% |
| Gross Margin (%) | 36.7% | +10 bps | +566 bps | 35.5% | +441 bps |
| Segment Profit | 325.8 | -43.0% | +62.5% | 1,377.3 | +109.6% |
| Segment Margin (%) | 15.5% | -581 bps | +511 bps | 16.3% | +657 bps |

Segment Q4 2021 revenue performance was strong at HK$2.10 billion (US$270.1 million), accounting for 33.9% of this quarter's Group revenue. This represented growth of 8.8% YoY and decline of 21.7% QoQ. Segment revenue performance was driven by the following:

(i) Mainstream high-end placement tools dominated deliveries;

(ii) AP tools, in particular SiP placement tools, delivered YoY growth amidst rising customer needs for mobile and wearables applications; and

(iii) Mainstream printing tools performed well, with the new printer platform series gaining strong customer interest; this bodes well for its near-term performance.

The Segment achieved strong Q4 2021 bookings of HK$2.46 billion (US$316.2 million), an improvement of 52.7% YoY and 13.4% QoQ. The demand momentum from industrial and automotive customers continued into Q4.

Segment Q4 2021 gross margin was 36.7%, an expansion of 566 bps YoY and 10 bps QoQ. YoY improvement was mainly due to a combination of higher operating leverage arising from relatively higher volume and capacity utilisation, a favourable product mix and positive margin effects arising from ongoing strategic initiatives. These improvements were partially offset by costs to reinforce supply chain resilience, and higher logistics expenses arising from global supply chain constraints.

Segment profit was HK$325.8 million in Q4 2021, a YoY increase of 62.5% and QoQ decrease of 43.0%. Notably, for the full year 2021, segment profit achieved a record of HK$1.38 billion, a 109.6% YoY increase.

## REVENUE GUIDANCE FOR Q1 2022

The Group expects the challenging supply chain environment to persist and impact the broader market in 2022. While this dynamic situation remains a concern, the Group is anchored by a strong order backlog and expects revenue for Q1 2022 to be between US$640 million to US$690 million, a record Q1 at the mid-point of guidance.

## STRATEGIC INITIATIVES UNDERPIN LONG-TERM PERFORMANCE

Riding on secular macro tailwinds and its strong performance, the Group confidently rolled out growth and cost optimisation strategic initiatives which will unfold in distinct phases over the next few years.

### Growth Initiatives

**(i) Widen Technological Leadership in Advanced Packaging Tools**

*Grow in Emerging Markets*

- Anchored by a leading memory customer, the Group is confident of capturing emerging high bandwidth memory opportunities for TCB solutions.
- Mass transfer and mass bonding solutions are ready to address customers' HVM needs for mini LED and micro LED applications.
- Increasing SiP requirements will further drive demand for SMT SiP Placement and Multi-Chip Module Bonding solutions.
- Hybrid Bonding solutions are expected to ramp up for HVM from 2023 onwards for HPC applications.

*Intensify Process Innovation*

- Investing in advanced process innovations to widen its technological position in ultra-fine pitch Thermo-Compression Bonding, sub-surface laser dicing, ultra-precision glass stacking for augmented reality and virtual reality and laser-assisted mass bonding for mini and micro LED applications.

**(ii) Grow Market Share in Mainstream and Applicative Tools**

*Expand in Adjacent Markets*

- Breakthrough in the memory market will benefit the Group's mainstream tools in the near term, particularly wire bonders.
- Capture new opportunities at an accelerated pace in the automotive camera assembly and test solutions space, leveraging the leadership position of the Group's newly acquired company, Automation Engineering, Inc ("AEi").
- Tap growth opportunities in electric vehicles, energy and power semiconductors, which will benefit the Group's silver sintering solutions.
- Capture new opportunities in fuel cell manufacturing through SMT segment's printing solutions.

*Product Enhancements*

- The Group is enhancing its product capabilities to further strengthen its strong market position in the areas of ultra-short pulse laser dicing and grooving, 12-inch die bonding, high power module assembly and camera packaging for AR/VR.

**(iii) Actualising the 'AIoT'-enabled Smart Factory of the Future**

- Powered by Industry 4.0 digitalisation and the intensifying automation needs of electronics manufacturers, the Group has enjoyed strong growth for its range of software solutions, including its manufacturing execution system software suite. In addition, the Group has also developed a unique software-based framework that it calls 'AIoT', or 'Artificial Intelligence of Things'. This consists of integrated software solutions that blend connectivity, monitoring and analytics capabilities with AI-driven machine learning. All of these efforts are expected to progressively deliver significant value to the Group's customers.

## STRATEGIC INITIATIVES UNDERPIN LONG-TERM PERFORMANCE (CONTINUED)

### Cost Optimisation Initiatives

(i) Improving product and operational cost structures, including procurement and design-to-cost actions; and

(ii) Enhancing scalability and flexibility in capacity and supply chain management, in particular the optimal mix of internal and external manufacturing, to help navigate the peaks and troughs of business cycles in this industry.

These initiatives will translate into long term shareholder value creation through:

(i) Reducing cyclicality in Group revenue and profitability through business cycles in this industry; and

(ii) Achieving structural revenue growth and margins expansion for the Group's long term performance.

## LEADING EDGE RESEARCH AND DEVELOPMENT

Sustained Research and Development ("R&D") investment will be critical for delivering the required semiconductor and technology breakthroughs that will tap secular growth opportunities to create value for customers and shareholders. The Group's R&D framework bears witness to this, consisting of developing robust R&D Infrastructure and the capabilities of its unique Enabling Technologies Group ("ETG") to effectively enable and support innovation across the entire Group.

### Extensive R&D Infrastructure

With a total staff strength of more than 2,200, the Group's R&D team is focused on delivering highly innovative products from several R&D centres worldwide - the Americas (Boston), Asia (Chengdu, Hong Kong, Huizhou, Shenzhen, Singapore & Taoyuan) and Europe (Beuningen, Munich, Porto, Regensburg & Weymouth). Along with consistent annual R&D spending of about 10% of Group's equipment revenue over many years (2021: HK$1.95 billion versus 2020: HK$1.62 billion), the Group has delivered close to 2,000 patents and pending patents to date.

### Unique Enabling Technology Group

The ETG is a unique competitive advantage for the Group that is focused on building core competencies to address a broad array of critical technologies, including advanced motor, advanced process, metrology, motion system and control, precision design, software systems, thermal control, vibration control and vision technology.

ETG (presently about 550 strong) enables the Group to rapidly harness the potential of dynamic technology developments. Crucially, the ETG's technology experts are able to efficiently connect and collaborate with other technology leaders on advanced technology developments for the Group's applications. This provides some significant capabilities for the Group, such as a consistent on-schedule delivery of innovative solutions for both mainstream and advanced packaging, and the ability to regularly bring 'frontier' solutions to customers at a much faster pace than the competition.

## LIQUIDITY AND FINANCIAL RESOURCES

With the completed divestment of 55.56% of the Group's Materials Segment on 28 December 2020, the Group's continuing operations refer to its business activities that exclude the Materials Segment.

Cash and bank deposits as of 31 December 2021 increased significantly by 9.5% to HK$4.88 billion (2020: HK$4.46 billion). During 2021, HK$1.36 billion was paid as dividends (2020: HK$572.5 million). Capital additions during the year amounted to HK$369.3 million (2020: HK$272.0 million), which was fully funded by the year's depreciation and amortization of HK$526.2 million (2020: HK$556.4 million), excluding the depreciation of right-of-use assets of HK$216.6 million (2020: HK$206.4 million) as per HKFRS 16 in the current year.

As of 31 December 2021, the debt-to-equity ratio is 17.5% (2020: 23.1%). Debts include all bank borrowings and lease liabilities under hire purchase arrangements. The Group had available banking facilities of HK$3.34 billion (US$428.2 million) (2020: HK$2.30 billion (US$296.6 million)) in the form of bank loans and overdraft facilities, of which HK$1.86 billion (US$238.5 million) (2020: HK$775.3 million (US$100.0 million)) were committed borrowing facilities. Bank borrowings, which are mainly arranged to support day-to-day operations and capital expenditure, are denominated in US dollars, Hong Kong dollars and Euros.

The Group had bank borrowings of HK$2.70 billion as of 31 December 2021 (2020: HK$3.05 billion), consisting of variable-rate and fixed-rate bank borrowings. These bank borrowings are unsecured and repayable by instalments. A syndicated loan of HK$2.5 billion was arranged in March 2019, and it is a variable-rate borrowing. Repayment of this syndicated loan will commence from March 2022 until March 2024. The Group uses interest rate swaps to mitigate its exposure of the cash flow changes of the variable-rate syndicated loan by swapping certain portions of the syndicated loan from variable rates to fixed rates. The Group's equity attributable to owners of the Company was HK$15.28 billion (2020: HK$13.17 billion) as at 31 December 2021.

As of 31 December 2021, cash holdings of the Group were mainly in US dollars, Euros and Chinese RMB. The Group's SMT Solutions Segment entered into US dollar and Euro hedging contracts to mitigate foreign currency risks, as a significant portion of the production of SMT equipment and its suppliers are located in Europe, while a substantial part of the Group's revenue for SMT equipment is denominated in US dollars. In terms of currency exposure, the majority of the Group's sales and disbursements in respect of operating expenses and purchases were mainly in US dollars, Euros and Chinese RMB.

The Group has maintained a strong track record of rewarding its shareholders with consistent dividends every year since listing on HKEX in 1989. A final dividend of HK$2.60 per share is proposed. In addition to the interim dividend of HK$1.30 per share paid in August 2021, this represents a dividend per share increase of 44.4% compared with 2020.

## LIQUIDITY AND FINANCIAL RESOURCES (CONTINUED)

### Significant Investment

As at 31 December 2021, AAMI was regarded as a significant investment of the Group as the value of the Group's investment in AAMI comprised 5% or more of the Group's total assets. Information pursuant to paragraph 32(4A) of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") in relation to the Group's investment in AAMI is as follows:

| | | |
|---|---|---|
| (i) | Details of the investment in AAMI: | 4,444 ordinary shares in AAMI, representing 44.44% equity interests in AAMI. The investment cost of the Group's investment in AAMI is HK$1.24 billion. |
| (ii) | Fair value of the investment in AAMI: | HK$1.41 billion |
| (iii) | The investment's size relative to the Group's total assets: | 5.2% |
| (iv) | The performance of the investment in AAMI: | For the year ended 31 December 2021, the share of results of AAMI was HK$138 million, and no dividend was received from AAMI. |
| (v) | Principal activity of AAMI and its subsidiaries: | Manufacturing and trading of materials products |
| (vi) | The Group's investment strategy: | Long-term investment in the lead frame business |

## HUMAN RESOURCES

The Group's employees play key roles in helping its customers successfully enable the digital world. Its human resources approach comprises of maintaining competitive remuneration, advancing learning and development tools and systems, and creating an inclusive and positive work environment - all part of a holistic and sustained effort to attract, nurture and retain talented people.

Besides annual salary reviews, employees enjoy a range of benefits including medical and training subsidies, and team-bonding activities that help promote camaraderie and strengthen relationships at work. Discretionary bonus and incentives shares are also granted to eligible employees based on both Group financial performance and individual performance. The Group also advocates community contribution by its employees.

As of 31 December 2021, total headcount for the Group was approximately 11,700, which excludes some 2,700 flexi workers and outsourced workers. Of this 11,700, approximately 1,100 are based in Hong Kong, 5,800 in mainland China, 1,200 in Singapore, 1,100 in Germany, 1,000 in Malaysia, 400 in the United Kingdom, 400 in the United States, and the rest in other parts of the world.

Total manpower costs for the Group for 2021 was HK$5.55 billion, compared with HK$4.41 billion for 2020. The Group has committed to allocating the requisite costs for manpower to ensure that its employees are fairly remunerated. The Group continues to take a prudent and measured approach toward managing manpower costs, including creative options to manage manpower in the face of the industry's cyclical environment, the present increase in demand for the Group's products, and a more diverse, mobile and talented workforce.

## PEOPLE STRATEGY

Over the last 47 years, the Group has grown its workforce from a small team of less than a hundred employees in 1975 to approximately 11,700 (which excludes some 2,700 flexi workers and outsourced workers) today. This has been achieved through hiring in tandem with business growth and acquisition activities. Correspondingly, the organization has grown in complexity. The Group continues to seek ways to evolve its people initiatives by progressively incorporating structures and processes that will systematically develop and grow its talent pool.

Simply put, the Group's People Strategy focuses on bringing out the best in its people, its core asset. With an employee demographic spanning 'baby boomers' to 'Generation Z', a range of different propositions to attract, develop and retain talent is required. A three-year people's plan has been laid out with the following key focus areas:

## PEOPLE STRATEGY (CONTINUED)

### Technology-enabled Operational Excellence

Employees' experience of how great a place is to work in often begins with their experience of the company's internal processes. In the next three years, investments are being made to develop and streamline the various ways of working within the company and with external stakeholders, with a view to greatly enhance employee access to digitalized tools best suited for contemporary 'work-styles' and lifestyles. Two key components of this endeavour will be the right amount of resources channelled into the requisite technologies in tandem with internal process re-engineering.

### Talent management and development

The war for talent rages in the semiconductor industry. Meeting this challenge will entail both structured and creative ways of identifying talent, providing each team member with calibrated, targeted opportunities for growth and development that will enhance employee engagement and consequently, retention. More resources will also be channelled to the necessary leadership and technology development, to ensure that the Group's talent remains future ready.

### Succession Planning

This is a critical area of focus to ensure continuity of the Company's leadership capabilities. The Group has been successful in retaining its key leaders and many have served the company loyally. As the workforce ages and continues to evolve, succession planning capabilities need to be enhanced. A more structured and systematic approach is being put into place to ensure that each key role has at least 1-2 potential successors in order to optimise smooth leadership transitions in future.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group's environment charter focuses on energy efficient practices and technologies, resource conservation, recycling and pollution prevention. For example, the Group is ISO 14001 certified yearly for its environmental management system at all 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. The Group continues to put in the necessary efforts to be progressively more energy efficient. The Group has complied with the relevant environmental laws and regulations.

Further details of the Group's Environmental, Social and Governance (ESG) policies and practices will be made available in the 2021 Environmental, Social and Governance Report that will be published on www.asmpacific.com/en/about/sustainability and the Stock Exchange's website (www.hkexnews.hk) by 31 May 2022.

## COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group has a diversified portfolio of business operations across the world, and any failure to anticipate the trend of regulatory changes or cope with relevant requirements may result in non-compliance with local laws or regulations, leading to not only financial loss but also reputational damage to the Group. In order to mitigate any relevant risks, the Group actively assesses the effect of relevant developments and engages closely with regulatory authorities and external advisors on new laws and regulations as well as trending legislations, to ensure that relevant requirements are properly complied with in an effective manner.

# 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 2021.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Its principal subsidiaries are engaged in the design, manufacture and marketing of machines and tools used in the semiconductor and electronic assembly industries. Details of the Company's principal subsidiaries as at 31 December 2021 are set out in note 51 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The Directors recommend the payment of a final dividend of HK$2.60 (2020: final dividend of HK$2.00) per share which, together with the interim dividend of HK$1.30 (2020: interim dividend of HK$0.70) per share paid during the year, amounts to a total dividend of HK$3.90 (2020: HK$2.70) per share for the year.

Details of the results and the financial position of the Group are set out in the consolidated financial statements on pages 57 to 171.

## 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 5 to 8 and pages 9 to 21 of the annual report respectively. The financial risk management objectives and policies of the Group can be found in note 48 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 also contained in the Management Discussion and Analysis on pages 9 to 21 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 172 of the annual report.

## PROPERTY, PLANT AND EQUIPMENT

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

## SHARE CAPITAL

During the year ended 31 December 2021, a total of 1,909,200 shares were issued at par under the Company's Employee Share Incentive Scheme (the "**Scheme**") to an independent professional trustee appointed by the Board under the Scheme (the "**Trustee**") and to certain employees. Details of the movements in the share capital of the Company during the year are set out in note 37 to the consolidated financial statements.

## BANK BORROWINGS

Particulars of bank borrowings of the Group as at 31 December 2021 are set out in note 36 to the consolidated financial statements.

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

During the year ended 31 December 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities except that the Trustee, 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 275,100 shares in the Company at a total consideration of approximately HK$26.7 million (excluding ancillary trading fees, costs and expenses directly attributable to the purchase).

## DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2021, the Company's reserves available for distribution to shareholders amounted to HK$2,582,741,000 (2020: HK$2,398,920,000). 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. Benjamin Loh Gek Lim
Mr. Paulus Antonius Henricus Verhagen[1]
Mr. Petrus Antonius Maria van Bommel[2]

*Executive Directors*
Mr. Robin Gerard Ng Cher Tat, *Chief Executive Officer*
Mr. Guenter Walter Lauber
Ms. Patricia Chou Pei-Fen, *Chief Financial Officer*[3]

1 Mr. Paulus Antonius Henricus Verhagen was appointed as a Director of the Company with effect from 18 May 2021.
2 Mr. Petrus Antonius Maria van Bommel resigned as a Director of the Company with effect from 18 May 2021.
3 Ms. Patricia Chou Pei-Fen resigned as a Director of the Company with effect from 1 January 2022.

At the forthcoming annual general meeting to be held on 10 May 2022 (the "**2022 AGM**"), Mr. Paulus Antonius Henricus Verhagen, who was appointed as a Director of the Company after the annual general meeting held on 11 May 2021, is due to retire from the Board in accordance with Article 117 of the Company's Articles of Association. Further, Miss Orasa Livasiri, Mr. Wong Hon Yee and Mr. Tang Koon Hung, Eric are due to retire from the Board in accordance with Article 113. The retiring Directors, being eligible, will offer themselves for re-election as Directors of the Company.

## DIRECTORS (CONTINUED)

The biographical details of the Directors as at the date of this report are set out below:

**Miss Orasa Livasiri**, Independent Non-Executive Director and Chairman of the Company, aged 66, was appointed to the Board as an Independent Non-Executive Director in 1994, and 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 58, 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 74, 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 76, was appointed as an Independent Non-Executive Director of the Company 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, and 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. Benjamin Loh Gek Lim**, Non-Executive Director, aged 58, was appointed as a Non-Executive Director of the Company on 19 May 2020. He is the Chief Executive Officer, President and Chairman of the Management Board of ASM International N.V. ("**ASM International**"). Mr. Loh has a proven background in the high tech industry. From the late nineties until 2005, he worked for Oerlikon Corporation, lastly as Senior Vice President responsible for Asia. After that, he joined Veeco Instruments Inc. where his last position was the Executive Vice President responsible for Global Field Operations. He then moved to FEI Company in 2007 where he held various executive positions and ultimately became its Chief Operating Officer. In 2015, he joined the Swiss-based VAT Vacuum Valves company where, as Group Management Board member, he was responsible for worldwide sales and marketing until late 2017.

## DIRECTORS (CONTINUED)

**Mr. Paulus Antonius Henricus Verhagen** (also known as "Mr. Paul Verhagen"), Non-Executive Director, aged 56, was appointed as a Non-Executive Director of the Company on 18 May 2021. He has been a member of the Management Board of ASM International and its Chief Financial Officer with effect from 1 June 2021. He has a proven track record and background in Dutch listed companies and the electronics industry. He had an extensive career within Royal Philips starting in the early nineties and fulfilled numerous executive positions in the Netherlands, the USA, Hong Kong and China until 2013. His last two assignments at Royal Philips from 2007 until 2013 were as Executive Vice President and Chief Financial Officer of Philips Consumer Lifestyle, and Executive Vice President and Chief Financial Officer of Philips Lighting. Since 2014, he has been the Chief Financial Officer and a member of the Management Board of the Dutch stock market listed company Fugro N.V. until he stepped down at the end of the annual general meeting of Fugro N.V. on 22 April 2021. Mr. Verhagen is a Dutch national and holds a master in Business Administration and a post graduate degree as Chartered Controller.

**Mr. Robin Gerard Ng Cher Tat**, Executive Director, aged 58, was appointed the Chief Executive Officer of the Group on 12 May 2020. He has been on the Board as an Executive Director since 28 April 2011. He was the Group Chief Financial Officer from 1 February 2010 until his appointment as the Group Chief Executive Officer. 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.

**Mr. Guenter Walter Lauber**, Executive Director, aged 60, was appointed as an Executive Director of the Company on 12 May 2020. He is also an Executive Vice President, Chief Strategy Officer and Chief Digitalisation Officer 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.

## SENIOR MANAGEMENT

As at the date of this report, the Group's senior management team includes, other than the Executive Directors, the following persons. Their biographical details are as follows:

**Mr. Tsui Ching Man, Stanley**, aged 65, is Executive Vice President and Group Chief Operating Officer, and Chief Executive Officer of the Semiconductor Solutions Segment. He was an Executive Director of the Company from 9 May 2017 to 12 May 2020. Mr. Tsui joined the Group in 1987 and has over 35 years of work experience in the semiconductor industry. Before joining the Group, 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. Wong Yam Mo**, aged 62, is an Executive Vice President and Chief Technical Officer of the Group. He joined the Group in 1983. Mr. Wong has a Bachelor of Science degree in Mechanical Engineering and a Master's degree in Industrial Engineering, both from the University of Hong Kong. He also holds a Master's degree in Precision Engineering from the Nanyang Technological University, Singapore.

**Mr. Chow Chuen, James**, aged 65, is Executive Vice President, Business Excellence of the Group. He joined the Group in 1982, and was an Executive Director and the Group Chief Operating Officer from 1 January 2007 until 30 April 2016. On 1 May 2016, Mr. Chow stepped down from his role as Group Chief Operating Officer and passed the baton to Mr. Stanley Tsui, before taking up his current role. On 9 May 2017, he retired as an Executive Director of the Company. 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. He has over 35 years of experience in the electronics and semiconductor industry.

**Mr. Lim Choon Khoon**, aged 62, is a Senior Vice President of the Group and Chief Executive Officer of the Group's ICD & CIS Business Unit in the Semiconductor Solutions Segment. Mr. Lim started his career with US semiconductor companies in engineering roles before joining the Group in Malaysia and was posted to Hong Kong and Singapore where he spend most of his career with the Group. He left the Group for a short spell to pursue regional and global functional roles in Philips. Mr. Lim re-joined the Group in July 2006 with increased responsibilities in product marketing and sales, key account management, advanced packaging and leading NEXX following its acquisition from October 2018 onwards, which culminated in his current role as the CEO of a business unit since mid-2019. He holds a Bachelor of Science (Honours) in Production Engineering and Production Management from the University of Nottingham, UK.

**Mr. Joseph Poh Tson Cheong**, aged 54, is a Senior Vice President of the Group and Chief Executive Officer of the Group's Opto & Display Business Unit in the Semiconductor Solutions Segment. He joined the Group in 1991 as a Service Engineer and was promoted to the Senior Vice President position in January 2016. Mr. Poh graduated from The University of Sydney, Australia in 1989 with a Degree in Mechanical Engineering. He received a Master's Degree in Engineering Business Management from the University of Warwick, England in 1999. For the past 30 years that he has been with the Group, he has held various positions in its 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 of market needs and an ability to provide solutions that satisfy customers' current and future requirements.

**Mr. Kong Choon, Jupiter**, aged 53, is Group General Counsel and Company Secretary of the Company. In particular, he oversees the Group's legal, company secretarial, intellectual property and compliance functions, and is also the company secretary of the Company's subsidiaries in Singapore and certain other countries. He joined the Group in August 2001. Mr. Kong graduated from the University of London with a bachelor of laws degree and qualified as a Barrister-at-Law (Middle Temple) of England and Wales. He is an Advocate and Solicitor of the Supreme Court of Singapore, an associate member of the Singapore Association of the Institute of Chartered Secretaries and Administrators, as well as a registered Singapore Patent Agent. Prior to joining the Group, Mr. Kong was in legal practice at a leading Singapore law firm.

## EMPLOYEE SHARE INCENTIVE SCHEME

The Company has adopted the Scheme for the benefit of the Group's employees and members of management. The specific objectives of the Scheme are (i) to recognise the contributions by certain employees and to provide them with incentives in order to retain them for the continual operation and development of the Group; and (ii) to attract suitable personnel for further development of the Group.

The Scheme was approved by the shareholders of the Company at the Company's annual general meeting held on 7 May 2019 (the "**2019 AGM**"), and adopted by the Company on 24 March 2020 (the "**Adoption Date**"). Under the Scheme, the shares of the Company may be allocated or awarded to employees or directors of the Group as selected by the Board. The Scheme will be valid and effective for a period of ten years commencing from the Adoption Date.

Pursuant to the Scheme, the Board may from time to time cause the Trustee to be paid certain amounts for (i) subscription of new shares of the Company for selected employees who are not connected persons of the Company and/or (ii) purchase of existing shares of the Company at the prevailing market price for selected employees who are connected persons of the Company, and the Trustee will hold the shares on trust for award to the selected employees under the Scheme upon vesting. The Trustee shall not exercise the voting rights in respect of any shares held under the trust of the Scheme.

The Board shall have absolute discretion to determine any vesting conditions as it sees fit, and to specify the date on which the shares shall vest in selected employees. On the vesting date, if the vesting conditions are fulfilled, the Trustee shall vest the relevant shares in the selected employees. Any shares not vested on the vesting date shall become returned shares for the purposes of the Scheme.

The Company may issue and allot new shares from time to time to selected employees who are not connected persons of the Company during the term of the Scheme, up to a total of 40,667,133 shares (being 10% of the number of shares in issue as at the date of approval of the scheme mandate at the 2019 AGM), provided that no more than 2% of the number of shares in issue at the commencement of a calendar year may be subscribed for pursuant to the Scheme in each calendar year.

During the year ended 31 December 2021, (i) 1,909,200 new shares were issued for the selected employees who were not connected persons of the Company, and (ii) 275,100 existing shares of the Company were purchased at the prevailing market price for the selected employees who were connected persons of the Company, including the three Executive Directors of the Company as at 31 December 2021, namely, Mr. Robin Gerard Ng Cher Tat, Mr. Guenter Walter Lauber and Ms. Patricia Chou Pei-Fen.

In connection with the year ending 31 December 2022, the total number of shares in issue on 1 January 2022 was 412,705,333 shares, the maximum aggregate number of shares that may be subscribed for by the Trustee pursuant to the Scheme for the aforesaid year (being 2% of the total number of shares in issue at the commencement of the financial year) is therefore 8,254,106 shares. Assuming that the said 8,254,106 shares are subscribed in full and granted to selected employees on the date of this report, there will be a dilution effect on the shareholdings of the shareholders of 2%.

Assuming that the expected dividends during the year ending 31 December 2022 are the same as the dividends during the year ended 31 December 2021, employee costs estimated to be up to HK$647,121,910 (being the fair value of the shares issued, i.e. the closing price of the shares on the date of grant (assuming the closing price to be as at the date of this report) less expected dividends during the vesting periods multiplied by the maximum number of shares that may be issued) will be incurred for the year ending 31 December 2022.

Further details of the Scheme are set out in note 38 to the consolidated financial statements.

## 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 2021 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 |
|---|---|---|---|
| Robin Gerard Ng Cher Tat | Beneficial owner | 324,300 | 0.08% |
| Guenter Walter Lauber | Beneficial owner | 76,200 | 0.02% |
| Patricia Chou Pei-Fen *(Note)* | Beneficial owner | 10,000 | 0.0024% |

*Note:* Ms. Patricia Chou Pei-Fen ceased to be a Director of the Company with effect from 1 January 2022.

Save as disclosed above, as at 31 December 2021, 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", 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 2021, 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(L) *(Note 2)* | 24.96%(L) |
| ASM Pacific Holding B.V. | Beneficial owner | 103,003,000(L) *(Note 2)* | 24.96%(L) |
| Schroders Plc | Investment manager | 36,751,200(L) *(Note 3)* | 8.90%(L) |
| Brown Brothers Harriman & Co. | Agent | 24,831,540(L)<br>24,831,540(P) *(Note 4)* | 6.02%(L)<br>6.02%(P) |
| FIL Limited | Interest of controlled corporations | 24,703,900(L) *(Note 5)* | 5.99%(L) |
| Pandanus Associates Inc. | Interest of a controlled corporation | 24,703,900(L) *(Note 5)* | 5.99%(L) |
| Pandanus Partners L.P. | Interest of a controlled corporation | 24,703,900(L) *(Note 5)* | 5.99%(L) |

*Notes:*

1. (L) - Long Position, (P) - Lending Pool

2. 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.

3. The long position of 36,751,200 shares held by Schroders Plc included derivative interests in 210,200 underlying shares of the Company derived from unlisted and cash settled derivatives.

4. Based on the Disclosure of the Interest of Corporate Substantial Shareholder Notice filed by Brown Brothers Harriman & Co. on 30 November 2021, Brown Brothers Harriman & Co. was deemed to be interested in 24,831,540 shares (L) and 24,831,540 shares (P).

5. Pandanus Associates Inc. is a general partner of Pandanus Partners L.P., which in turn holds as to 37.01% shareholding interest in FIL Limited. FIL Limited was deemed to be interested in these 24,703,900 shares of the Company through a series of subsidiaries. Accordingly, Pandanus Associates Inc., Pandanus Partners L.P. and FIL Limited were deemed to be interested in these shares pursuant to the SFO.

Save as disclosed above, as at 31 December 2021, 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 Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**")) has been entered into by the Group during the year. None of the related party transactions as disclosed in note 50 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 38 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$1,831,000.

## CONFIRMATION OF INDEPENDENCE

The Company has received from each of the Independent Non-Executive Directors an annual confirmation of his/her 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, the Company has maintained a sufficient public float as at the date of this report.

## AUDITOR

A resolution will be submitted to the 2022 AGM to re-appoint Messrs. Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board
**Robin Gerard Ng Cher Tat**
*Director*

22 February 2022

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 2021.

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 2021, the Company has nine Directors, two of whom are 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 comprised nationals from Singapore, Hong Kong, Taiwan, Thailand, Germany 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 composition of the Company as at 31 December 2021 is set out below:

| Board Committee / Director | Audit Committee | Nomination Committee | Remuneration Committee |
|---|---|---|---|
| ***Independent Non-Executive Directors*** | | | |
| Orasa Livasiri (Chairman of the Board) | M | C | M |
| Lok Kam Chong, John | C | M | M |
| Wong Hon Yee | — | M | C |
| Tang Koon Hung, Eric | M | M | M |
| ***Non-Executive Directors*** | | | |
| Benjamin Loh Gek Lim | — | M | M |
| Paulus Antonius Henricus Verhagen | M | — | — |
| ***Executive Directors*** | | | |
| Robin Gerard Ng Cher Tat (Chief Executive Officer) | — | — | — |
| Guenter Walter Lauber | — | — | — |
| Patricia Chou Pei-Fen (Chief Financial Officer) *(Ms. Chou ceased to be a Director with effect from 1 January 2022)* | — | — | — |

*Notes:*

C — Chairman of the relevant Board committees
M — Member of the relevant Board committees

## THE BOARD (CONTINUED)

### Board Composition (Continued)

During the year ended 31 December 2021 and up to the date of this report, the changes to the composition of the Board were as follows:

- Mr. Petrus Antonius Maria van Bommel resigned as a Non-Executive Director and a member of the Audit Committee with effect from 18 May 2021.
- Mr. Paulus Antonius Henricus Verhagen was appointed as a Non-Executive Director and a member of the Audit Committee with effect from 18 May 2021.
- Ms. Patricia Chou Pei-Fen resigned as the Chief Financial Officer of the Group and an Executive Director with effect from 1 January 2022.

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

During the year ended 31 December 2021, the 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 Independent Non-Executive Directors on the Board meeting the said requirements who are also members of the Board's Audit Committee. The Company has complied with and in fact exceeded the Listing Rules requirement of the 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, including Miss Orasa Livasiri, Mr. Lok Kam Chong, John and Wong Hon Yee (the "**Long-serving Directors**") who have served as Independent Non-Executive Directors for more than nine years as of 31 December 2021. Their respective lengths of tenure up to the date of this report are set out below:

| | **Date of Appointment as an Independent Non-Executive Director** | **Length of Tenure** |
|---|---:|---:|
| Orasa Livasiri *(Chairman)* | 20 April 1994 | 27 years |
| Lok Kam Chong, John | 9 March 2007 | 14 years |
| Wong Hon Yee | 27 December 2012 | 9 years |

All of the Long-serving Directors have not engaged in executive management of the Group. With their extensive experience and professional knowledge in their respective legal, technical, financial management and corporate controllership fields, they have expressed objective views and given independent guidance to the Company over the years, and continue to demonstrate a firm commitment to their roles. In view of above, the Directors consider that the long services of the Long-serving Directors would not affect their exercise of independent judgment and they remain independent. The Board is satisfied that all of them have the required character, integrity and experience to continue fulfilling the role of independent non-executive directors.

## THE BOARD (CONTINUED)

### Board Diversity Policy

The Board adopted a Board Diversity Policy in September 2013 setting out the approach to achieve diversity on the Board. The Company recognises 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 merit, and candidates will be considered against applicable 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 its corporate governance duties in accordance with its written terms of reference as set out below. It may delegate the responsibilities to one or more 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 determine the engagements of independent advisors to assist the Board in its activities.

During the year ended 31 December 2021, the Board has (i) reviewed the Company's policies and practices regularly to ensure compliance with legal and regulatory requirements; (ii) reviewed and monitored the training and continuous professional development of Directors; and (iii) reviewed compliance with the CG Code.

## THE BOARD (CONTINUED)

### Chairman and Chief Executive Officer

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority. During the year ended 31 December 2021, the position of Chairman was held by Miss Orasa Livasiri, while the position of Chief Executive Officer was held by Mr. Robin Gerard Ng Cher Tat. 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 Group's senior management, is responsible for managing the Group's business, including the implementation of objectives, policies and major strategies and initiatives adopted by the Board.

### Appointment and Re-election of Directors

In accordance with the Company's Articles of Association, 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. Any person appointed as a Director by the Board either to fill a casual vacancy on the Board or as an addition to the existing Board shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the existing Board), and shall then be eligible for re-election at such meeting.

As the 2022 AGM is the third annual general meeting following the last elections of Miss Orasa Livasiri, Mr. Wong Hon Yee and Mr. Tang Koon Hung, Eric, they are due to retire from the Board in accordance with the Company's Articles of Association. Mr. Paulus Antonius Henricus Verhagen, who was appointed as a Director of the Company after the 2021 AGM, is also due to retire from the Board. The retiring Directors, being eligible, will offer themselves for re-election as Directors of the Company at the 2022 AGM.

### Nomination Committee

As at 31 December 2021, the Nomination Committee comprises five members, four of whom are Independent Non-Executive Directors, namely, Miss Orasa Livasiri who is the Chairman of the Committee, Mr. Lok Kam Chong, John, Mr. Wong Hon Yee and Mr. Tang Koon Hung, Eric, and one Non-Executive Director, Mr. Benjamin Loh Gek Lim.

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; and (ii) ensuring that the Audit Committee, Nomination Committee and Remuneration Committee of the Board shall have the benefit of qualified and experienced Independent Non-Executive Directors.

## THE BOARD (CONTINUED)

### Nomination Committee (Continued)

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 2021 and the attendance record is set out under "Directors' attendance records" on page 40. The following is a summary of the tasks completed by the Nomination Committee during 2021:

- reviewed the structure, size and composition of the Board and its committees;

- identified potential candidates for directorship for recommendation to the Board;

- recommended the retiring Directors for re-election at the annual general meeting;

- reviewed and assessed the independence of the Independent Non-Executive Directors; and

- reviewed succession planning for Directors, in particular, for the Chairman and the Chief Executive Officer.

### 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.

## THE BOARD (CONTINUED)

### Nomination Policy (Continued)

**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 the 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.

For the 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.

## THE BOARD (CONTINUED)

### Induction and continuing development for Directors

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

The Directors are given updates on legal and regulatory developments, and business and market changes to facilitate the discharge of their responsibilities. Continuing briefings and professional development for 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 C.1.4 of the CG Code on Directors' training. All the 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 2021 to the Company.

The individual training received by each current Director during the year ended 31 December 2021 is summarised 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*** | | | |
| Benjamin Loh Gek Lim | ✓ | ✓ | ✓ |
| Paulus Antonius Henricus Verhagen | ✓ | ✓ | ✓ |
| ***Executive Directors*** | | | |
| Robin Gerard Ng Cher Tat | ✓ | ✓ | ✓ |
| Guenter Walter Lauber | ✓ | ✓ | ✓ |

## THE BOARD (CONTINUED)

### Board meetings

**Board practices and conduct of meetings**

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

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

Minutes of all Board meetings 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 the 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 interest 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 2021 AGM, during the year ended 31 December 2021 is set out below:

| | | Board Meetings | Audit Committee Meetings | Nomination Committee Meeting | Remuneration Committee Meeting | 2021 AGM |
|---|---|---|---|---|---|---|
| **Number of Meetings** | | 7 | 4 | 1 | 1 | 1 |
| **Total Duration (Approximate Number of Hours)** | | 33.5 | 10 | 0.5 | 2 | 0.5 |
| **Directors** | | **Attendance/Number of Meetings held during the tenure of directorship** | | | | |
| ***Independent Non-Executive Directors*** | | | | | | |
| Orasa Livasiri | | 7/7 | 4/4 | 1/1 | 1/1 | 1/1 |
| Lok Kam Chong, John | | 7/7 | 4/4 | 1/1 | 1/1 | 1/1 |
| Wong Hon Yee | | 7/7 | N/A | 1/1 | 1/1 | 1/1 |
| Tang Koon Hung, Eric | | 7/7 | 4/4 | 1/1 | 1/1 | 1/1 |
| ***Non-Executive Directors*** | | | | | | |
| Benjamin Loh Gek Lim | | 7/7 | N/A | 1/1 | 1/1 | 1/1 |
| Paulus Antonius Henricus Verhagen | (appointed as a Non-Executive Director and a member of Audit Committee on 18 May 2021) | 4/4 | 2/2 | N/A | N/A | 0/0 |
| Petrus Antonius Maria van Bommel | (resigned as a Non-Executive Director and a member of Audit Committee on 18 May 2021) | 3/3 | 2/2 | N/A | N/A | 1/1 |
| ***Executive Directors*** | | | | | | |
| Robin Gerard Ng Cher Tat | | 7/7 | N/A | N/A | N/A | 1/1 |
| Guenter Walter Lauber | | 6/7 | N/A | N/A | N/A | 1/1 |
| Patricia Chou Pei-Fen | (resigned as an Executive Director on 1 January 2022) | 7/7 | N/A | N/A | N/A | 1/1 |

*Note:* The Company's external and internal auditors participated in every Audit Committee Meeting during the year and the Company's external auditor also attended the 2021 AGM.

## 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 all of the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2021.

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 formalised and adopted 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 (save for the delegation of authority to the Company's management to deal with small merger and acquisition opportunities as disclosed hereinafter); disposal of business unit; major investment; annual financial budget in revenue, profitability and capital expenditure; review and approval of financial performance and announcements; and matters as required by laws and regulations.

All the 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 a request to the Board.

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

## DELEGATION OF MANAGEMENT FUNCTIONS (CONTINUED)

The Board has 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.

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 2021, the Board had three committees, namely, the Audit Committee, the Nomination Committee and the Remuneration 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.hkexnews.hk) and are available to shareholders upon request.

The Board's 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 the 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 2021 are set out on pages 109 to 110 in note 15 to the consolidated financial statements. With effect from 1 January 2022, the remuneration payable to the Independent Non-Executive Directors and Non-Executive Directors are as follows:

| **Fee payable to:** | **per annum** |
|---|---|
| Chairman of the Board | HK$375,000 |
| Non-Executive Director or Independent Non-Executive Director (other than the Chairman of the Board) | HK$250,000 |
| Chairman of the Audit Committee | HK$150,000 |
| Member of the Audit Committee (other than the Chairman of the Audit Committee) | HK$100,000 |
| Chairman of the Nomination Committee | HK$112,500 |
| Member of the Nomination Committee (other than the Chairman of the Nomination Committee) | HK$75,000 |
| Chairman of the Remuneration Committee | HK$112,500 |
| Member of the Remuneration Committee (other than the Chairman of the Remuneration Committee) | HK$75,000 |

| | **per meeting** |
|---|---|
| Meeting attendance fee | |
| – Board meeting and general meeting | HK$5,000 |
| – Committee meeting | HK$2,500 |
| Overseas Travel Allowance | |
| – Board meeting and general meeting | HK$5,000 |
| – Committee meeting | HK$2,500 |

## REMUNERATION OF DIRECTORS (CONTINUED)

### Remuneration Committee

The Remuneration Committee has five members as at 31 December 2021. Mr. Wong Hon Yee, an Independent Non-Executive Director, is the Chairman. A Non-Executive Director, Mr. Benjamin Loh Gek Lim, 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 function of the Remuneration Committee is to make 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.

The main duties of the 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 shares allocation.

- To review and approve the compensation payable to the Executive Directors and senior management for any loss of or 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 the 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.

## REMUNERATION OF DIRECTORS (CONTINUED)

### Remuneration Committee (Continued)

The Remuneration Committee held one meeting during the year ended 31 December 2021 and the attendance records are set out under "Directors' attendance records" on page 40. The following is a summary of the tasks completed by the Remuneration Committee during 2021:

- 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;
- 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; and
- considered and recommended to the Board the remuneration package of the newly appointed Non-Executive Director.

Details of the annual remuneration of members of the senior management (including Executive Directors) by band for the year ended 31 December 2021 are as follows:

| | **Number of employees** |
|---|---|
| HK$3,000,001 to HK$3,500,000 | 1 |
| HK$5,000,001 to HK$5,500,000 | 1 |
| HK$6,500,001 to HK$7,000,000 | 1 |
| HK$7,500,001 to HK$8,000,000 | 2 |
| HK$8,000,001 to HK$8,500,000 | 1 |
| HK$8,500,001 to HK$9,000,000 | 1 |
| HK$14,000,001 to HK$14,500,000 | 1 |

## AUDIT, INTERNAL CONTROL AND RISK MANAGEMENT

### Directors' responsibilities for financial reporting

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2021.

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 explanations and information to the Board that would enable the Board to make an informed assessment of the financial information and position of the Company put to the Board for approval.

## AUDIT, INTERNAL CONTROL AND RISK MANAGEMENT (CONTINUED)

### Internal controls

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

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks, and to safeguard the 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. 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. On a quarterly basis, the head of the Group Internal Audit Department reports to the Audit Committee her audit findings and her opinions on the system of internal controls. The Audit Committee was satisfied with the existing controls.

The Company has established a whistleblowing procedure and system for employees to raise concerns, in confidence, to the Audit Committee about possible improprieties, such as those relating to fraud, bribery and financial irregularities, concerning 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 2021. 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 a Non-Executive Director, Mr. Paulus Antonius Henricus Verhagen. None of the members of the Audit Committee are former partners of the Company's existing external auditor.

The main duties of the Audit Committee include the following:

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

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

## AUDIT, INTERNAL CONTROL AND RISK MANAGEMENT (CONTINUED)

### Audit Committee (Continued)

In 2021, a total of four meetings of Audit Committee were convened. The attendance record of the Audit Committee's members is shown on page 40. The following is a summary of the tasks completed by the Audit Committee during 2021:

- reviewed the Group's financial reports for the year ended 31 December 2020, for the six months ended 30 June 2021, and for the quarters ended 31 March 2021 and 30 September 2021;
- reviewed the financial reporting system;
- reviewed the effectiveness of the Group's internal control system;
- reviewed the Group's risk management system;
- reviewed the work plan for the 2021 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 56.

During the year under review, the remuneration paid to the Company's auditor, Messrs. Deloitte Touche Tohmatsu, amounted to HK$18,202,415 in respect of audit services; HK$1,686,489 in respect of assurance related services and HK$400,059 in respect of non-audit services (which includes review and consultancy services, services made at the request of regulators, and taxation 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

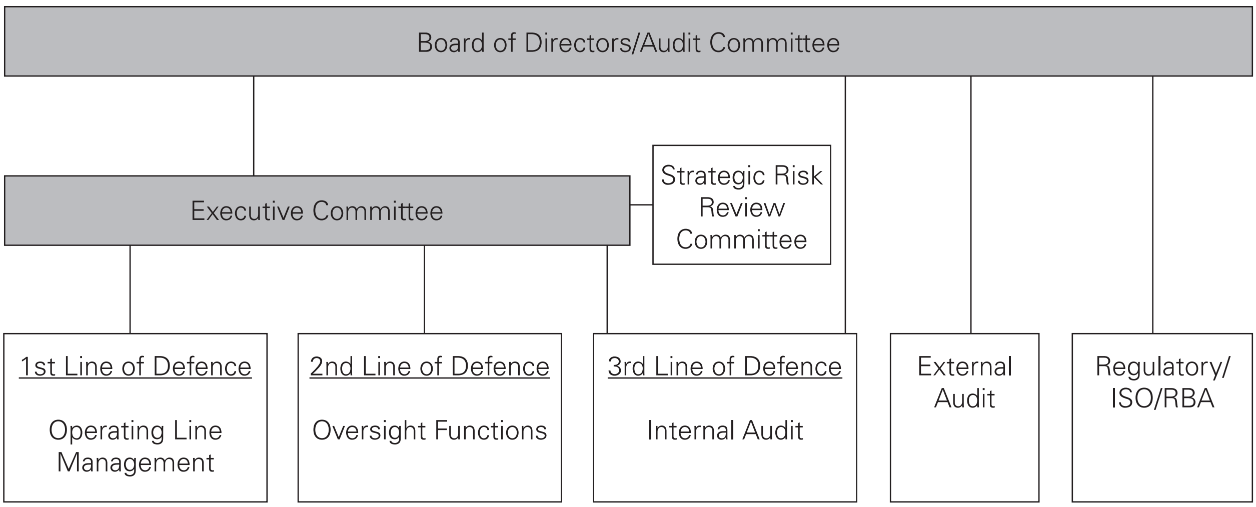
The Board of Directors acknowledges that it is responsible for the Group's risk management and for reviewing its effectiveness. The Board evaluates and determines the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives and ensures that the Group establishes and maintains an 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 the 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 enhances clarity at all levels of the Group. The Board and the 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 but not absolute assurance against material misstatement or loss.

**The Framework**




The Three Lines of Defence sets out clear responsibilities for overseeing and coordinating 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 the 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 the 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 relating 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 2021 was chaired by a Vice President of the Group and comprised management representatives from different Business Segments who were 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 action 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, including its processes for risk identification and assessment, risk management processes, as well as evaluating 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 the 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 in compliance with the aforesaid Ordinance and Rules.

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

The Company has included in its Code of Business Conduct a strict prohibition on the unauthorised 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 authorised to act as the Company's spokespersons and to respond to enquiries on specific areas and issues.

## COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

### 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.hkexnews.hk). In addition, to promote greater understanding and dialogue with the investment community, the Company holds earnings calls with the investment community in connection with the Company's annual, interim and quarterly results. Apart from these earnings calls, the Company also conducts post-results Non-Deal Roadshows (NDRs) on a quarterly basis (except for the first quarter). During these calls or interactions, the Company's Chief Executive Officer, in conjunction with the Chief Financial Officer, will make presentations on the Group's performance to the investment community. Moreover, 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 226 meetings/calls with analysts and fund managers were held in 2021.

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

### Dividend Policy

The Group has a proven track record of consistently paying dividends every year through the peaks and troughs of global economic and semiconductor cycles since its HKEX listing in 1989. This has delivered consistent returns to its shareholders.

The dividend policy of the Group is to continue a consistent annual dividend payout ratio of around 50%. This is comparable to the average dividend payout ratio of the Group from 2011–2020. The actual dividend payout ratio for each year will depend on various factors, including the Group's strategy and financial performance, its liquidity and financing needs and the prevailing market outlook. The Board will review this dividend policy from time to time, with reference to factors such as the Group's future prospects and capital requirements.

## COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS (CONTINUED)

### Shareholders' Meeting

The general meetings of the Company provide the best opportunity for communication between the Board and the shareholders. The Chairman of the Board as well as the respective chairman of the Audit Committee, the Nomination Committee and the Remuneration 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 its audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

The most recent shareholders' meeting was the 2021 AGM held on 11 May 2021 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. A live webcast was made available for pre-registered shareholders of the Company to view the proceedings of the 2021 AGM online. 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.hkexnews.hk).

The next annual general meeting will be held on Tuesday, 10 May 2022, the notice of which will be sent to shareholders at least 20 clear business days before the said meeting.

### Shareholder Rights

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

All votes of the shareholders at shareholders' meetings are taken by poll. Poll results are posted on the websites of the Company (www.asmpacific.com) and the Stock Exchange (www.hkexnews.hk) following the shareholders' meetings.

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

Pursuant to the Articles of Association, shareholders holding not less than one-tenth in amount of the issued capital of the Company (hereinafter referred 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 it should 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.

## COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS (CONTINUED)

### 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 the "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 dispatch 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).

### 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 follows:

**ASM Pacific Technology Limited**

*Singapore Office (Corporate Headquarters)*
2 Yishun Avenue 7
Singapore 768924
Republic of Singapore

*Hong Kong Office*
19/F, Gateway ts
8 Cheung Fai Road Tsing Yi,
New Territories Hong Kong
Attn.: Investor Relations Department

| | |
|---|---|
| Telephone: | (65) 6752 6311; (65) 6750 3172 (Singapore) |
| | (852) 2424 2021; (852) 2970 6329 (Hong Kong) |
| Fax: | (65) 6758 2287 (Singapore) |
| | (852) 2481 3367 (Hong Kong) |
| 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 2021.

On behalf of the Board
**Robin Gerard Ng Cher Tat**
*Director*

22 February 2022

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 57 to 171, which comprise the consolidated statement of financial position as at 31 December 2021, 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 2021, 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 the 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 assets with indefinite useful life*** | |
| We identified the impairment testing of goodwill and intangible assets with indefinite useful life as a key audit matter due to its complexity and significant judgment exercised by the Group's management on the impairment testing.<br><br>As detailed in note 24 to the consolidated financial statements, for the purposes of impairment testing, the carrying amounts of goodwill and intangible assets with indefinite useful life as at 31 December 2021 were HK$926,531,000 and HK$396,301,000 respectively. Determining the amount of impairment for goodwill and intangible assets with indefinite useful life requires an estimation of the recoverable amount, which is the value in use of the cash-generating units ("CGUs") to which goodwill and intangible assets 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 sales growth rates, gross profit margin rates, terminal growth rates and discount rates applied to the cash flow projection. These estimates and judgements may be affected by unexpected changes in future market or economic conditions or discount rates applied.<br><br>The management of the Group determines that there was an amount of HK$224,824,000 of impairment of goodwill in relation to a CGU of semiconductor solutions business and there was no impairment recognized with respect to the goodwill and intangible assets with indefinite useful life allocated to other CGUs of the semiconductor solutions business and surface mount technology solutions business during the year ended 31 December 2021. | Our procedures in relation to assessing the appropriateness of the impairment testing of goodwill and intangible assets with indefinite useful life included:<br><br>• Understanding the Group's impairment testing process, including the valuation model adopted, CGUs allocation and assumptions used;<br><br>• Evaluating the appropriateness of the model used to calculate the recoverable amount;<br><br>• 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;<br><br>• Evaluating the historical accuracy of the financial budgets prepared by management by comparing the historical financial budgets with the actual performance; and<br><br>• Engaging our valuation expert to evaluate the appropriateness of the discount rates and terminal growth rates used. |

## OTHER INFORMATION

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

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

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

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
22 February 2022

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the year ended 31 December 2021*

| | NOTES | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 5 | **21,947,637** | 14,700,250 |
| Cost of sales | 7 | **(13,040,030)** | (9,561,369) |
| Gross profit | | **8,907,607** | 5,138,881 |
| Other income | | **133,384** | 102,596 |
| Selling and distribution expenses | | **(1,802,229)** | (1,521,751) |
| General and administrative expenses | | **(1,009,395)** | (901,769) |
| Research and development expenses | 8 | **(1,954,394)** | (1,621,576) |
| Other gains and losses | 9 | **(43,006)** | (55,135) |
| Other expenses | 10 | **(158,805)** | (147,476) |
| Finance costs | 11 | **(118,422)** | (167,690) |
| Share of result of a joint venture | | **137,719** | – |
| Profit before taxation | | **4,092,459** | 826,080 |
| Income tax expense | 12 | **(917,279)** | (189,468) |
| Profit for the year from continuing operations | 14 | **3,175,180** | 636,612 |
| **Discontinued operation** | | | |
| Profit for the year from discontinued operation | 13 | **–** | 993,891 |
| Profit for the year | | **3,175,180** | 1,630,503 |
| Profit for the year, attributable to owners of the Company | | | |
| – from continuing operations | | **3,168,976** | 627,625 |
| – from discontinued operation | | **–** | 993,891 |
| | | **3,168,976** | 1,621,516 |
| Profit for the year, attributable to non-controlling interests | | | |
| – from continuing operations | | **6,204** | 8,987 |
| Profit for the year | | **3,175,180** | 1,630,503 |
| Earnings per share (from continuing and discontinued operations) | 18 | | |
| – Basic | | **HK$7.72** | HK$3.97 |
| – Diluted | | **HK$7.69** | HK$3.95 |
| Earnings per share (from continuing operations) | 18 | | |
| – Basic | | **HK$7.72** | HK$1.54 |
| – Diluted | | **HK$7.69** | HK$1.53 |

# *CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME*

*For the year ended 31 December 2021*

| | NOTES | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|---|
| Profit for the year | | **3,175,180** | 1,630,503 |
| Other comprehensive (expense) income | | | |
| *Items that will not be reclassified to profit or loss:* | | | |
| – remeasurement of defined benefit retirement plans, net of tax | *39* | **41,012** | (26,100) |
| – net fair value loss on investments in equity instruments at fair value through other comprehensive income | *25* | **(49,735)** | – |
| | | **(8,723)** | (26,100) |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| – exchange differences on translation of foreign operations | | | |
| – subsidiaries | | **(207,826)** | 460,908 |
| – a joint venture | | **8,484** | – |
| – reclassification of cumulative translation reserve upon deemed disposal of foreign operations | | **–** | (8,896) |
| – fair value gain (loss) on hedging instruments designated as cash flow hedges | | **37,011** | (55,804) |
| | | **(162,331)** | 396,208 |
| Other comprehensive (expense) income for the year, net of income tax | | **(171,054)** | 370,108 |
| Total comprehensive income for the year | | **3,004,126** | 2,000,611 |
| Total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | **2,997,603** | 1,979,329 |
| Non-controlling interests | | **6,523** | 21,282 |
| | | **3,004,126** | 2,000,611 |
| Total comprehensive income attributable to owners of the Company: | | | |
| – from continuing operations | | **2,997,603** | 985,438 |
| – from discontinued operation | | **–** | 993,891 |
| | | **2,997,603** | 1,979,329 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2021*

| | NOTES | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 19 | **2,337,048** | 2,407,335 |
| Right-of-use assets | 20 | **1,600,467** | 1,601,737 |
| Investment properties | 21 | **80,451** | 85,263 |
| Goodwill | 22 | **926,531** | 1,159,030 |
| Intangible assets | 23 | **1,034,999** | 1,139,436 |
| Other investments | 25 | **64,202** | 111,106 |
| Interest in a joint venture | 26 | **1,386,204** | 1,240,001 |
| Finance lease receivables | 27 | **–** | 4,363 |
| Other financial assets | 26 | **39,775** | – |
| Deposits paid for acquisition of property, plant and equipment | | **13,422** | 9,837 |
| Rental deposits paid | | **32,510** | 28,816 |
| Derivative financial instruments | 30 | **144,386** | – |
| Deferred tax assets | 40 | **565,883** | 569,129 |
| Other non-current assets | | **23,942** | 8,519 |
| | | **8,249,820** | 8,364,572 |
| **Current assets** | | | |
| Inventories | 28 | **7,455,775** | 5,773,007 |
| Finance lease receivables | 27 | **–** | 372 |
| Trade and other receivables | 29 | **5,875,862** | 4,305,431 |
| Amounts due from a joint venture and its affiliates | 26 | **11,328** | 326 |
| Derivative financial instruments | 30 | **1,482** | 45,564 |
| Income tax recoverable | | **23,638** | 213,781 |
| Pledged bank deposits | 31 | **1,223** | 594 |
| Bank deposits with original maturity of more than three months | 31 | **200,573** | 9,774 |
| Bank balances and cash | 31 | **4,681,090** | 4,450,564 |
| | | **18,250,971** | 14,799,413 |
| **Current liabilities** | | | |
| Trade liabilities and other payables | 32 | **3,608,392** | 2,784,858 |
| Advance payments from customers | 33 | **1,779,304** | 1,239,316 |
| Amounts due to a joint venture and its affiliate | 26 | **10,629** | 110,277 |
| Derivative financial instruments | 30 | **41,585** | – |
| Lease liabilities | 34 | **197,378** | 169,730 |
| Provisions | 35 | **351,944** | 308,722 |
| Income tax payable | | **451,489** | 175,743 |
| Bank borrowings | 36 | **448,588** | 547,210 |
| | | **6,889,309** | 5,335,856 |
| **Net current assets** | | **11,361,662** | 9,463,557 |
| | | **19,611,482** | 17,828,129 |

| | NOTES | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | 37 | **41,270** | 41,079 |
| Dividend reserve | | **1,073,034** | 821,592 |
| Other reserves | | **14,161,122** | 12,306,918 |
| **Equity attributable to owners of the Company** | | **15,275,426** | 13,169,589 |
| **Non-controlling interests** | | **136,263** | 24,658 |
| **Total equity** | | **15,411,689** | 13,194,247 |
| **Non-current liabilities** | | | |
| Bank borrowings | 36 | **2,250,000** | 2,500,476 |
| Lease liabilities | 34 | **1,348,989** | 1,352,476 |
| Retirement benefit obligations | 39 | **234,643** | 319,821 |
| Provisions | 35 | **53,005** | 51,345 |
| Derivative financial instruments | 30 | **18,793** | 55,804 |
| Deferred tax liabilities | 40 | **180,674** | 232,377 |
| Other liabilities and accruals | 41 | **113,689** | 121,583 |
| | | **4,199,793** | 4,633,882 |
| | | **19,611,482** | 17,828,129 |

The consolidated financial statements on pages 57 to 171 were approved and authorized for issue by the Board of Directors on 22 February 2022 and are signed on its behalf by:

**Robin Gerard Ng Cher Tat**
*DIRECTOR*

**Guenter Walter Lauber**
*DIRECTOR*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2021*

| | 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 38)* | Capital redemption reserve HK$'000 | Capital reserve HK$'000 | Fair value through other comprehensive income reserve HK$'000 | Other reserve HK$'000 *(Note)* | Hedging reserve HK$'000 | Translation reserve HK$'000 | Retained profits HK$'000 | Dividend reserve HK$'000 | Sub-total HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| At 1 January 2020 | 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 |
| Profit for the year | – | – | – | – | – | – | – | – | – | – | 1,621,516 | – | 1,621,516 | 8,987 | 1,630,503 |
| *Item that will not be reclassified to profit or loss* | | | | | | | | | | | | | | | |
| Remeasurement of defined benefit retirement plans, net of tax *(note 39)* | – | – | – | – | – | – | – | – | – | – | (26,100) | – | (26,100) | – | (26,100) |
| *Items that may be reclassified subsequently to profit or loss* | | | | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | – | – | – | – | – | – | – | – | – | 448,613 | – | – | 448,613 | 12,295 | 460,908 |
| Reclassification of cumulative translation reserve upon deemed disposal of foreign operations | – | – | – | – | – | – | – | – | – | (8,896) | – | – | (8,896) | – | (8,896) |
| Fair value loss on hedging instruments designated as cash flow hedges | – | – | – | – | – | – | – | – | (55,804) | – | – | – | (55,804) | – | (55,804) |
| Total comprehensive (expense) income for the year | – | – | – | – | – | – | – | – | (55,804) | 439,717 | 1,595,416 | – | 1,979,329 | 21,282 | 2,000,611 |
| Sub-total | 40,889 | 1,541,129 | – | (132) | 760 | 72,979 | 8,020 | (30,589) | (55,804) | (229,710) | 11,973,876 | 286,227 | 13,607,645 | 24,658 | 13,632,303 |
| Recognition of equity-settled share-based payments | – | – | 160,733 | – | – | – | – | – | – | – | – | – | 160,733 | – | 160,733 |
| Acquisition of business *(note 42)* | – | – | – | – | – | – | – | – | – | – | – | – | – | 43,792 | 43,792 |
| Gross obligation to acquire non-controlling interests | – | – | – | – | – | – | – | – | – | – | – | – | – | (43,792) | (43,792) |
| Purchase of shares under the Scheme *(as defined in note 38)* | – | – | – | (26,335) | – | – | – | – | – | – | – | – | (26,335) | – | (26,335) |
| Shares vested under the Scheme | – | – | (23,890) | 26,467 | – | – | – | – | – | – | (2,577) | – | – | – | – |
| Shares issued under the Scheme | 190 | 136,653 | (136,843) | – | – | – | – | – | – | – | – | – | – | – | – |
| 2019 final dividend paid | – | – | – | – | – | – | – | – | – | – | – | (286,227) | (286,227) | – | (286,227) |
| 2020 interim dividend paid | – | – | – | – | – | – | – | – | – | – | (286,227) | – | (286,227) | – | (286,227) |
| 2020 final dividend proposed | – | – | – | – | – | – | – | – | – | – | (821,592) | 821,592 | – | – | – |
| At 31 December 2020 | 41,079 | 1,677,782 | – | – | 760 | 72,979 | 8,020 | (30,589) | (55,804) | (229,710) | 10,863,480 | 821,592 | 13,169,589 | 24,658 | 13,194,247 |

*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 in 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 38)* | Capital redemption reserve HK$'000 | Capital reserve HK$'000 | Fair value through other comprehensive income reserve HK$'000 | Other reserve HK$'000 *(Note)* | Hedging reserve HK$'000 | Translation reserve HK$'000 | Retained profits HK$'000 | Dividend reserve HK$'000 | Sub-total HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| At 1 January 2021 | 41,079 | 1,677,782 | – | – | 760 | 72,979 | 8,020 | (30,589) | (55,804) | (229,710) | 10,863,480 | 821,592 | 13,169,589 | 24,658 | 13,194,247 |
| Profit for the year | – | – | – | – | – | – | – | – | – | – | 3,168,976 | – | 3,168,976 | 6,204 | 3,175,180 |
| *Items that will not be reclassified to profit or loss* | | | | | | | | | | | | | | | |
| Remeasurement of defined benefit retirement plans, net of tax *(note 39)* | – | – | – | – | – | – | – | – | – | – | 41,012 | – | 41,012 | – | 41,012 |
| Net fair value loss on investments in equity instruments at FVTOCI | – | – | – | – | – | – | (49,735) | – | – | – | – | – | (49,735) | – | (49,735) |
| *Items that may be reclassified subsequently to profit or loss* | | | | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | – | – | – | – | – | – | – | – | – | (199,661) | – | – | (199,661) | 319 | (199,342) |
| Fair value gain on hedging instruments designated as cash flow hedges | – | – | – | – | – | – | – | – | 37,011 | – | – | – | 37,011 | – | 37,011 |
| Total comprehensive (expense) income for the year | – | – | – | – | – | – | (49,735) | – | 37,011 | (199,661) | 3,209,988 | – | 2,997,603 | 6,523 | 3,004,126 |
| Sub-total | 41,079 | 1,677,782 | – | – | 760 | 72,979 | (41,715) | (30,589) | (18,793) | (429,371) | 14,073,468 | 821,592 | 16,167,192 | 31,181 | 16,198,373 |
| Recognition of equity-settled share-based payments | – | – | 210,255 | – | – | – | – | – | – | – | – | – | 210,255 | – | 210,255 |
| Arising on acquisition of additional interest in subsidiary | – | – | – | – | – | – | – | 25,361 | – | – | – | – | 25,361 | (25,361) | – |
| Arising on disposal/deemed disposal of a subsidiary | – | – | – | – | – | – | – | 254,954 | – | – | – | – | 254,954 | 130,443 | 385,397 |
| Purchase of shares under the Scheme *(as defined in note 38)* | – | – | – | (26,709) | – | – | – | – | – | – | – | – | (26,709) | – | (26,709) |
| Shares vested under the Scheme | – | – | (25,761) | 25,864 | – | – | – | – | – | – | (103) | – | – | – | – |
| Shares issued under the Scheme | 191 | 184,303 | (184,494) | – | – | – | – | – | – | – | – | – | – | – | – |
| 2020 final dividend paid | – | – | – | – | – | – | – | – | – | – | – | (821,592) | (821,592) | – | (821,592) |
| 2021 interim dividend paid | – | – | – | – | – | – | – | – | – | – | (534,035) | – | (534,035) | – | (534,035) |
| 2021 final dividend proposed | – | – | – | – | – | – | – | – | – | – | (1,073,034) | 1,073,034 | – | – | – |
| At 31 December 2021 | 41,270 | 1,862,085 | – | (845) | 760 | 72,979 | (41,715) | 249,726 | (18,793) | (429,371) | 12,466,296 | 1,073,034 | 15,275,426 | 136,263 | 15,411,689 |

Note of 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;

(ii) Acquiring the non-controlling interest of subsidiaries in 2019 and 2021; and

(iii) The partial disposal and deemed partial disposal of the subsidiary in 2021 through disposal of shares and issuing new shares to an investor which the investor holds 38.46% of the enlarged total issued shares of the subsidiary afterwards.

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 December 2021*

| | NOTES | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before taxation | | **4,092,459** | 1,856,552 |
| Adjustments for: | | | |
| Depreciation of investment properties | 21 | **5,273** | 1,744 |
| Depreciation of property, plant and equipment | 19 | **419,176** | 529,609 |
| Depreciation of right-of-use assets | 20 | **216,566** | 221,195 |
| Amortization of intangible assets | 23 | **101,768** | 108,612 |
| Loss (gain) on disposal/write-off of property, plant and equipment | | **9,423** | (8,438) |
| Gains on derecognition and modification of right-of-use assets | | **(109)** | (971) |
| Loss (gain) on fair value change of derivative financial instruments | | **88,683** | (45,880) |
| Gain on deemed disposal of subsidiaries | 43 | **–** | (859,042) |
| Gains on fair value change of gross obligations to acquire non-controlling interests | | **–** | (6,698) |
| Impairment loss recognized in respect of goodwill | 24 | **224,824** | – |
| Share of result of a joint venture | | **(137,719)** | – |
| Gain on fair value change of derivative relating to share adjustment on earn-out clause in a joint venture | 9 | **(144,386)** | – |
| Gain on fair value change of contingent consideration receivable from shareholders of a joint venture | 9 | **(39,775)** | – |
| Warranty provision expenses | | **246,553** | 177,812 |
| Restructuring costs | | **24,413** | 68,420 |
| Share-based payments under the Scheme | | **210,255** | 160,733 |
| Interest income | | **(12,355)** | (19,696) |
| Finance costs | | **118,422** | 170,009 |
| Effect of foreign exchange rate changes on inter-company balances | | **(68,535)** | 56,079 |
| Operating cash flows before movements in working capital | | **5,354,936** | 2,410,040 |
| Increase in pledged bank deposits | | **(612)** | (594) |
| (Increase) decrease in inventories | | **(1,750,014)** | 330,936 |
| Increase in trade and other receivables | | **(1,597,023)** | (104,896) |
| Increase in other non-current assets | | **(13,429)** | (2,102) |
| Increase in trade liabilities and other payables | | **916,713** | 443,089 |
| Increase in advance payments from customers | | **524,143** | 349,296 |
| Decrease in amounts due from/to a joint venture and its affiliates | | **(110,337)** | – |
| (Decrease) increase in other liabilities and accruals | | **(5,408)** | 1,103 |
| Increase in other provisions | | **22,336** | 2,237 |
| Utilization of warranty provision | | **(222,035)** | (171,798) |
| Utilization of restructuring provision | | **(22,993)** | (57,547) |
| Decrease in retirement benefit obligations | | **(1,724)** | (164) |
| Purchase of shares under the Scheme | | **(26,709)** | (26,335) |
| Cash generated from operations | | **3,067,844** | 3,173,265 |
| Income taxes paid | | **(575,701)** | (516,700) |
| Income taxes refunded | | **50,628** | 20,426 |
| **Net cash from operating activities** | | **2,542,771** | 2,676,991 |

| | NOTE | **2021 HK$'000** | 2020 HK$'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Interest received | | **12,355** | 19,696 |
| Proceeds on disposals of property, plant and equipment | | **20,635** | 87,722 |
| Purchase of property, plant and equipment | | **(337,165)** | (315,960) |
| Deposits paid for acquisition of property, plant and equipment and land use right | | **(13,422)** | (124,945) |
| Additions of intangible assets | | **(3,459)** | (5,089) |
| Net cash outflow arising on acquisitions of subsidiaries | | **–** | (91,035) |
| Proceeds on deemed disposal of subsidiaries | *43* | **–** | 758,772 |
| Refund of rental deposits | | **4,094** | – |
| Payments for rental deposits | | **(3,733)** | (806) |
| Additions of other investments | | **(10,179)** | (16,514) |
| Payment of bank deposits with original maturity of more than three months | | **(187,859)** | – |
| **Net cash (used in) from investing activities** | | **(518,733)** | 311,841 |
| **Financing activities** | | | |
| Bank borrowings raised | | **450,066** | 892,756 |
| Repayment of bank borrowings | | **(799,309)** | (916,601) |
| Repayment of lease liabilities | | **(191,569)** | (203,038) |
| Payment to non-controlling shareholders for additional shares | | **(86,303)** | – |
| Capital contribution from non-controlling shareholders | | **311,260** | – |
| Proceed on partial disposal of a subsidiary | | **74,137** | – |
| Dividends paid | | **(1,355,627)** | (572,454) |
| Payments for finance costs | | **(118,422)** | (170,009) |
| **Net cash used in financing activities** | | **(1,715,767)** | (969,346) |
| Net increase in cash and cash equivalents | | **308,271** | 2,019,486 |
| Cash and cash equivalents at beginning of the year | | **4,450,564** | 2,317,543 |
| Effect of foreign exchange rate changes | | **(77,745)** | 113,535 |
| Cash and cash equivalents at end of the year, represented by bank balances and cash | | **4,681,090** | 4,450,564 |

## 1. GENERAL INFORMATION

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 corporate headquarters of the Company is located at 2 Yishun Avenue 7, Singapore 768924, Republic of Singapore. The registered address of the Company is Whitehall House, 238 North Church Street, P.O. Box 1043, George Town, Grand Cayman KY1-1102, Cayman Islands, and the address of the principal place of business of the Company in Hong Kong (where its shares are listed) is 19/F, Gateway ts, 8 Cheung Fai Road, Tsing Yi, New Territories, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars, which is also 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 and tools used in semiconductor and electronics assembly industries. The Group was also engaged in the design, manufacture and marketing of materials which was discontinued in the year ended 31 December 2020 (see note 13). The principal subsidiaries and their activities are set out in note 51.

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

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

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

| | |
|---|---|
| Amendments to HKFRS 16 | COVID-19-Related Rent Concessions |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | Interest Rate Benchmark Reform – Phase 2 |

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realizable value of inventories.

Except as described below, the application of the amendments to HKFRSs in the current year 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. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

### Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

**Impacts on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 *"Interest Rate Benchmark Reform – Phase 2"***

The Group has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform, specific hedge accounting requirements and the related disclosure requirements applying HKFRS 7 *Financial Instruments: Disclosures* ("HKFRS 7").

The application of the amendments had no impact on the Group's consolidated financial statements as none of the relevant contracts has been transferred to the relevant replacement rates during the year ended 31 December 2021. The Group will apply the practical expedient in relation to the changes in contractual cash flow resulting from interest rate benchmark reform. The Group had no impact on the Group's designated hedged items/assessment of hedge effectiveness resulting from the reform on application of the amendments.

### New and amendments to HKFRSs in issue but not yet effective

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

| | |
|---|---|
| HKFRS 17 | Insurance Contracts and the related Amendments[3] |
| Amendments to HKFRS 3 | Reference to the Conceptual Framework[2] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| Amendment to HKFRS 16 | COVID-19-Related Rent Concessions beyond 30 June 2021[1] |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[3] |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies[3] |
| Amendment to HKAS 8 | Definition of Accounting Estimates[3] |
| Amendments to HKAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction[3] |
| Amendments to HKAS 16 | Property, Plant and Equipment - Proceeds before Intended Use[2] |
| Amendments to HKAS 37 | Onerous Contracts - Cost of Fulfilling a Contract[2] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2018 – 2020[2] |

1 Effective for annual periods beginning on or after 1 April 2021
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after 1 January 2023
4 Effective for annual periods beginning on or a date to be determined

Except for the amendments to HKFRSs and 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.

## 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)

**Amendments to HKAS 12 "*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*"**

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 "*Income Taxes*" so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

As disclosed in note 3 to the consolidated financial statements, for leasing transactions in which the tax deductions are attributable to the lease liabilities and for transactions in which provisions for restoration are recognized with the corresponding amounts recognized as part of the cost of the related assets, the Group applies HKAS 12 requirements to the relevant assets and liabilities as a whole. Temporary differences on initial recognition of the relevant assets and liabilities are recognized on a net basis.

Upon the application of the amendments, the Group will recognize a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. As at 31 December 2021, the carrying amounts of right-of-use assets and lease liabilities which are subject to the amendments amounted to HK$1,346,550,000 and HK$1,466,041,000 respectively. The Group is still in the process of assessing the full impact of the application of the amendments.

**Amendments to HKFRS 3 "*Reference to the Conceptual Framework*"**

The amendments:

- update a reference in HKFRS 3 "*Business Combinations*" so that it refers to the "*Conceptual Framework for Financial Reporting 2019*" issued in June 2019 (the "Conceptual Framework") instead of "*Framework for the Preparation and Presentation of Financial Statements*" (replaced by the "*Conceptual Framework for Financial Reporting 2010*" issued in October 2010);

- add a requirement that, for transactions and other events within the scope of HKAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*" or HK(IFRIC) Int – 21 "*Levies*", an acquirer applies HKAS 37 or HK(IFRIC) – Int 21 instead of Conceptual Framework to identify the liabilities it has assumed in a business combination; and

- add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

The Group will apply the amendments prospectively to business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.

## 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)

**Amendments to HKAS 1 "*Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)*"**

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognizes the option separately as an equity instrument applying HKAS 32 "*Financial Instruments: Presentation*".

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Group's outstanding liabilities as at 31 December 2021, the application of the amendments will not result in reclassification of the Group's liabilities.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance.

The directors of the Company have, at the time of approving the consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

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

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

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 "*Lease*" 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*".

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 to 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.

### Significant accounting policies

**Basis of consolidation**

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

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

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

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

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Significant accounting policies (Continued)

**Basis of consolidation (Continued)**

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

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

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

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.

*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.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognized. A gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 "*Financial Instruments*" or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Significant accounting policies (Continued)

**Business combinations**

*Optional concentration test*

The Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

*Business combinations*

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

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an assets and a liability in the *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting* issued in October 2010).

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;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date (see the accounting policy below);

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "*Non-current Assets Held for Sale and Discontinued Operations*" are measured in accordance with that standard; and

- lease liabilities are recognized and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognized and measured at the same amount as the relevant lease liabilities, adjusted to reflect favorable or unfavorable terms of the lease when compared with market terms.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Significant accounting policies (Continued)

**Business combinations (Continued)**

*Business combinations (Continued)*

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.

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.

**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).

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Significant accounting policies (Continued)

**Goodwill (Continued)**

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.

The Group's policy for goodwill arising on the acquisition of a joint venture is described below.

**Investments in joint ventures**

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the joint venture. Changes in net assets of the joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Significant accounting policies (Continued)

**Investments in joint ventures (Continued)**

When the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognized in profit or loss. When the Group retains an interest in the former joint venture and the retained interest is a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the joint venture and the fair value of any retained interest and any proceeds from disposing of the relevant interest in joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant joint venture.

When the Group reduces its ownership interest in a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognized in the consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

**Revenue from contracts with customers**

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 or 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 or 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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

*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 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).

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Significant accounting policies (Continued)

**Property, plant and equipment**

Property, plant and equipment are tangible assets that are held for use in the production of goods, or for administrative purposes (other than freehold land and property, plant and equipment under construction as described below). Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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 freehold land, leasehold improvements in progress and construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

*Property, plant and equipment under development for future owner-occupied purpose*

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 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. 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.

*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 is presented as "right-of-use assets" 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 properties**

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

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

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Significant accounting policies (Continued)

**Investment properties (Continued)**

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. A leased property which is recognized as a right-of-use asset 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.

*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.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Significant accounting policies (Continued)

**Intangible assets (Continued)**

*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.

**Impairment on property, plant and equipment, right-of-use assets 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 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 testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with carrying amount of the relevant cash generating units.

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. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. 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.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Significant accounting policies (Continued)

**Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) (Continued)**

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

**Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost of semiconductor solutions 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 represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

**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.

*Restoration provisions*

Provisions for the costs to restore leased assets to their original condition, as required by the terms and conditions of the lease, are recognized at the date of inception of the lease at the directors' best estimate of the expenditure that would be required to restore the assets. Estimates are regularly reviewed and adjusted as appropriate for new circumstances.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Significant accounting policies (Continued)

**Taxation**

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation 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 and interest in a joint venture, 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 and interest are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each 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.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognizes the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities and provision for decommissioning and restoration in which the tax deductions are attributable to ultimate costs incurred, the Group applies HKAS 12 requirements to the assets and the related liabilities as a whole. Temporary differences relating to the relevant assets and the related liabilities are assessed on a net basis. Excess of depreciation on the relevant assets over the lease payments for the liabilities, and the estimated cost for restoration results in net deductible temporary differences.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Significant accounting policies (Continued)

**Taxation (Continued)**

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 to the same taxable entity by the same taxation authority.

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*

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 on or after the date of initial application or arising from business combinations, 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. 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.

*The Group as a lessee*

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.

Non-lease components are separated from lease component and are accounted for by applying other applicable standards.

Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to leases 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.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Significant accounting policies (Continued)

**Leases (Continued)**

*The Group as a lessee (Continued)*

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.

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.

Refundable rental deposits
Refundable rental deposits paid are accounted under 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.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Significant accounting policies (Continued)

**Leases (Continued)**

*The Group as a lessee (Continued)*

Lease liabilities (Continued)

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.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

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, less any lease incentive receivable, 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.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Significant accounting policies (Continued)

**Leases (Continued)**

*The Group as a lessor*

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognized as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

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

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 "*Revenue from Contracts with Customers*" 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.

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.

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Lease modification

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modification, including lease incentives provided through forgiveness or reduction of rentals.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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 ("FVTPL")) 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 FVTPL 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.

*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 fair value through other comprehensive income ("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 FVTPL, except that at the 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 if that equity investment is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which HKFRS 3 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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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 (see below). 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 subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income 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 and other items subject to impairment assessment under HKFRS 9

The Group performs impairment assessment under expected credit losses ("ECL") model on financial assets (including trade and other receivables, amount due from an affiliate of a joint venture, rental deposits paid, pledged bank deposits, bank deposits with original maturity of more than three months and bank balances) and other item (finance lease receivables) which are subject to impairment assessment under HKFRS 9. 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 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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Significant accounting policies (Continued)

**Financial instruments (Continued)**

*Financial assets (Continued)*

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (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 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.

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.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Significant accounting policies (Continued)

**Financial instruments (Continued)**

*Financial assets (Continued)*

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (Continued)

(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 a financial asset 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.

(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; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

(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.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Significant accounting policies (Continued)

**Financial instruments (Continued)**

*Financial assets (Continued)*

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (Continued)

(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 and 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. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- 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.

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, the cumulative gain or loss previously accumulated in the FVTOCI revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Significant accounting policies (Continued)

**Financial instruments (Continued)**

*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.

Financial liabilities at amortized cost
The Group's other financial liabilities, including trade liabilities and other payables, amounts due to a joint venture and its affiliate, bank borrowings and other liabilities, are subsequently measured at amortized cost, 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 acquire the non-controlling interests from the non-controlling shareholders is recognized in profit or loss.

*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.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Significant accounting policies (Continued)

**Financial instruments (Continued)**

*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.

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.

**Hedge accounting**

The Group designates certain derivatives as hedging instruments for cash flow hedges.

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

For the purpose of determining whether a forecast transaction (or a component thereof) is highly probable, the Group assumes that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

*Assessment of hedging relationship and effectiveness*

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Significant accounting policies (Continued)

**Hedge accounting (Continued)**

*Assessment of hedging relationship and effectiveness (Continued)*

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

In assessing the economic relationship between the hedged item and the hedging instrument, the Group assumes that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

*Cash flow hedges*

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the 'other gains and losses' line item.

For the purpose of reclassifying the amount of gains and losses accumulated in the cash flow hedge reserve in order to determine whether the hedged future cash flows are expected to occur, the Group assumes the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognized hedged item.

*Discontinuation of hedge accounting*

The Group discontinues hedge accounting prospectively only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

For cash flow hedge, any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transactions is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Significant accounting policies (Continued)

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognized at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of translation reserve (attributable to non-controlling interests as appropriate).

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss.

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

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Significant accounting policies (Continued)

**Share-based payment arrangements**

*Equity-settled share-based payment transactions*

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

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting periods, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (employee share-based compensation reserve).

At the end of the reporting period, the Group revised its estimates of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the employee share-based compensation reserve.

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

*Award shares held under the Scheme (note 38) granted to members of the management of the Group for their services to the Group*

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

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

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

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

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

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Significant accounting policies (Continued)

**Government grants**

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

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income 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. Government grants relating to compensations of expenses are deducted from the related expenses, other government grants are presented under "other income".

**Employee benefits**

*Retirement benefit costs*

Payments to defined contribution retirement benefit plans/state-managed retirement benefit schemes/the Mandatory Provident Fund Scheme ("MPF 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).

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.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Significant accounting policies (Continued)

**Employee benefits (Continued)**

*Retirement benefit costs (Continued)*

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.

*Termination benefits*

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. CRITICAL ACCOUNTING JUDGEMENTS AND 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.

### Impairment of goodwill and intangible assets with indefinite useful life

Determining whether goodwill and intangible assets with indefinite useful life is impaired requires an estimation of the recoverable amount of the cash generating units to which goodwill and intangible assets with indefinite useful life has been allocated, which is the higher of the value in use or fair value less cost of disposal. The value-in-use is determined based on the cash flow projection for the group of cash generating units ("CGUs") discounted to its present value and requires the use of key assumptions, including sales growth rates, gross profit margin rates, terminal growth rates and discount rates applied to the cash flow projection. Where the actual future cash flows are less than expected, or changes in facts and circumstances which result in downward revision of the future cash flows or upward revision of the discount rate, a material impairment loss may arise.

The carrying amount of goodwill and intangible assets with indefinite useful life as at 31 December 2021 was HK$926,531,000 (2020: HK$1,159,030,000) and HK$396,301,000 (2020: HK$396,080,000), respectively. During the year ended 31 December 2021, impairment of HK$224,824,000 (2020: nil) was provided on goodwill allocated to a CGU of the semiconductor solutions business. No impairment was provided on intangible assets with indefinite useful life for both years ended 31 December 2021 and 2020. Details of the recoverable amount calculations are set out in note 24.

### 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 2021, the Group recognized provisions, including warranty provision, restructuring provision and obligation in relation to litigation amounting to HK$290,343,000 (2020: HK$270,096,000), HK$40,576,000 (2020: HK$37,900,000) and HK$39,029,000 (2020: HK$17,070,000) respectively (see note 35).

## 5. REVENUE

### Disaggregation of revenue from contracts with customers

| | **2021**<br>**HK$'000** | 2020<br>HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Sales of goods and services | | |
| Semiconductor solutions | **13,513,918** | 7,967,345 |
| Surface mount technology solutions | **8,433,719** | 6,732,905 |
| | **21,947,637** | 14,700,250 |

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

The revenue from semiconductor solutions 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 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 equipment 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. The Group fulfills the performance obligation by completing the maintenance services, provision of equipment installation services and training service for its customers. Revenue is recognized over time when relevant services are rendered.

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.

## 6. SEGMENT INFORMATION

The Group has two (2020: three) operating segments: development, production and sales of (1) semiconductor solutions and (2) surface mount technology solutions (2020: (1) semiconductor solutions, (2) surface mount technology solutions and (3) materials). They represent two (2020: 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 two (2020: three) major types of products manufactured by the Group. No operating segments have been aggregated in arriving at reportable segments of the Group. On 28 December 2020, the Group completed a deemed disposal of its materials business. As a result, the operating segment concerning the Group's materials business has been discontinued in 2020; this is described in more detail in note 13. The segment information reported in this note does not include any amounts for the discontinued operation of materials business.

### Segment revenues and results

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

| | **2021 HK$'000** | 2020 HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Segment revenue from external customers | | |
| Semiconductor solutions | **13,513,918** | 7,967,345 |
| Surface mount technology solutions | **8,433,719** | 6,732,905 |
| | **21,947,637** | 14,700,250 |
| Segment profit | | |
| Semiconductor solutions | **3,025,876** | 688,675 |
| Surface mount technology solutions | **1,377,284** | 657,229 |
| | **4,403,160** | 1,345,904 |
| Interest income | **12,355** | 19,111 |
| Finance costs | **(118,422)** | (167,690) |
| Share of result of a joint venture | **137,719** | – |
| Unallocated other income | **79,980** | 2,877 |
| Unallocated net foreign exchange gain (loss) and fair value change of foreign currency forward contracts | **37,912** | (71,372) |
| Unallocated general and administrative expenses | **(212,401)** | (161,972) |
| Unallocated adjustments on change of gross obligations to acquire non-controlling interests | **–** | 6,698 |
| Unallocated impairment loss recognized in respect of goodwill | **(224,824)** | – |
| Unallocated other gains and losses | **135,785** | – |
| Other expenses | **(158,805)** | (147,476) |
| Profit before taxation from continuing operations | **4,092,459** | 826,080 |

No analysis of the Group's assets and liabilities (except for additions to property, plant and equipment and intangible assets) by operating segments is disclosed as they are not regularly provided to the CODM for review.

## 6. SEGMENT INFORMATION (CONTINUED)

### Segment revenues and results (Continued)

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, share of result of a joint venture, unallocated other income, unallocated net foreign exchange gain (loss) and fair value change of foreign currency forward contracts, unallocated general and administrative expenses, unallocated adjustments on change of gross obligations to acquire non-controlling interests, unallocated impairment loss recognized in respect of goodwill, unallocated other gains and losses, and other expenses.

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

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

**2021**

| | Semiconductor solutions HK$'000 | Surface mount technology solutions HK$'000 | Unallocated general and administrative expenses/ restructuring costs HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Continuing operations** | | | | |
| Amounts regularly provided to CODM: | | | | |
| Additions of property, plant and equipment | 251,403 | 114,400 | – | 365,803 |
| Additions of intangible assets | – | 3,459 | – | 3,459 |
| Amounts included in the measure of segment profit: | | | | |
| Amortization for intangible assets | 41,687 | 60,081 | – | 101,768 |
| Depreciation for property, plant and equipment and right-of-use assets | 422,991 | 211,483 | 1,268 | 635,742 |
| Depreciation for investment properties | – | – | 5,273 | 5,273 |
| (Gains) losses on disposal/write-off of property, plant and equipment | (7,715) | (406) | 17,544 | 9,423 |
| Research and development expenses | 1,257,127 | 697,267 | – | 1,954,394 |
| Share-based payments | 160,987 | 21,196 | 28,072 | 210,255 |

### Other segment information (regularly provided to the CODM but not included in the measurement of segment profit or loss)

| | | | | |
|---|---|---|---|---|
| Impairment loss recognized in respect of goodwill (included in other gains and losses) | 224,824 | – | – | 224,824 |

## 6. SEGMENT INFORMATION (CONTINUED)

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

**2020**

| | Semiconductor solutions HK$'000 | Surface mount technology solutions HK$'000 | Unallocated general and administrative expenses/ restructuring costs HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Continuing operations** | | | | |
| Amounts regularly provided to CODM: | | | | |
| Additions of property, plant and equipment | 157,643 | 109,319 | – | 266,962 |
| Additions of intangible assets | – | 5,089 | – | 5,089 |
| Amounts included in the measure of segment profit: | | | | |
| Amortization for intangible assets | 45,375 | 63,237 | – | 108,612 |
| Depreciation for property, plant and equipment and right-of-use assets | 426,806 | 224,260 | 1,301 | 652,367 |
| Depreciation for investment properties | 1,744 | – | – | 1,744 |
| Impairment loss recognized in respect of property, plant and equipment (included in other expenses) | – | – | 18,050 | 18,050 |
| Gains on disposal/write-off of property, plant and equipment | (7,557) | (1,603) | – | (9,160) |
| Research and development expenses | 1,005,693 | 615,883 | – | 1,621,576 |
| Share-based payments | 111,387 | 14,892 | 26,273 | 152,552 |

### Geographical information

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

| | Non-current assets 2021 HK$'000 | Non-current assets 2020 HK$'000 |
|---|---|---|
| Mainland China | **1,455,226** | 1,397,999 |
| Europe | **1,014,187** | 1,107,185 |
| – Germany | **653,601** | 700,776 |
| – Portugal | **147,542** | 179,185 |
| – United Kingdom | **161,717** | 160,205 |
| – Others | **51,327** | 67,019 |
| Singapore | **913,088** | 936,807 |
| Hong Kong | **799,067** | 858,683 |
| Malaysia | **492,019** | 481,665 |
| Americas | **390,436** | 444,059 |
| – United States of America ("USA") | **386,588** | 439,221 |
| – Others | **3,848** | 4,838 |
| Taiwan | **28,197** | 21,722 |
| Korea | **16,464** | 19,813 |
| Others | **14,155** | 17,373 |
| | **5,122,839** | 5,285,306 |

*Note:* Non-current assets excluded goodwill, other investments, interest in a joint venture, other financial assets, derivative financial instruments 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 | |
|---|---|---|
| | **2021** | 2020 |
| | **HK$'000** | HK$'000 |
| **Continuing operations** | | |
| Mainland China | **10,495,049** | 6,567,318 |
| Europe | **2,710,008** | 2,041,325 |
| – Germany | **844,514** | 616,578 |
| – Romania | **277,142** | 171,279 |
| – Hungary | **230,216** | 139,997 |
| – France | **139,776** | 123,115 |
| – Poland | **110,802** | 122,541 |
| – Others | **1,107,558** | 867,815 |
| Taiwan | **1,661,671** | 1,188,760 |
| Americas | **1,652,601** | 1,224,208 |
| – USA | **1,062,917** | 895,644 |
| – Mexico | **172,689** | 115,313 |
| – Canada | **95,383** | 29,093 |
| – Others | **321,612** | 184,158 |
| Malaysia | **1,076,308** | 663,329 |
| Korea | **1,028,433** | 657,503 |
| Hong Kong | **962,350** | 842,809 |
| Thailand | **818,292** | 281,389 |
| Japan | **659,576** | 649,567 |
| Philippines | **274,049** | 125,583 |
| Vietnam | **249,995** | 186,516 |
| Singapore | **225,094** | 158,323 |
| India | **87,394** | 71,384 |
| Others | **46,817** | 42,236 |
| | **21,947,637** | 14,700,250 |

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

## 7. COST OF SALES

During the year ended 31 December 2020, the Group commissioned a comprehensive review with several key initiatives to enhance the Group's market position, operational efficiency and optimize its cost structure. One key initiative is to simplify the Group's product portfolio and this has resulted in a one-off provision for inventory totalling HK$199,337,000 being charged to cost of sales during the year ended 31 December 2020. No such one-off provision for inventory charged to cost of sales during the year ended 31 December 2021.

## 8. RESEARCH AND DEVELOPMENT EXPENSES

Included in research and development expenses arising from continuing operations are mainly depreciation for property, plant and equipment of HK$72,297,000 (2020: HK$65,804,000), and staff costs of HK$1,335,717,000 (2020: HK$1,082,894,000) for the year ended 31 December 2021.

## 9. OTHER GAINS AND LOSSES

| | **2021 HK$'000** | 2020 HK$'000 |
|---|---|---|
| The gains and losses comprise: | | |
| **Continuing operations** | | |
| Impairment loss recognized in respect of goodwill | **(224,824)** | – |
| Net foreign exchange gain (loss) | **115,206** | (145,962) |
| (Loss) gain on fair value change of foreign currency forward contracts | **(77,294)** | 74,590 |
| (Loss) gain on disposal/write-off of property, plant and equipment | **(9,423)** | 9,160 |
| Gain on fair value change of derivative relating to share adjustment on earn-out clause in a joint venture *(note 26)* | **144,386** | – |
| Gain on fair value change of contingent consideration receivable from shareholders of a joint venture *(note 26)* | **39,775** | – |
| Gain on change of gross obligations to acquire non-controlling interests | **–** | 6,698 |
| Others | **(30,832)** | 379 |
| | **(43,006)** | (55,135) |

## 10. OTHER EXPENSES

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Provision in relation to the litigation *(note 35)* | 21,717 | – |
| COVID-19 related expenses *(Note a)* | – | 91,526 |
| Restructuring costs *(Note b)* | 24,413 | 55,950 |
| Other expenses *(Note c)* | 112,675 | – |
| | 158,805 | 147,476 |

*Notes:*

(a) During the year ended 31 December 2020, some expenses amounting to HK$91,526,000 directly related and attributable to the COVID-19 event arising from continuing operations were classified as a separate line item under 'other expenses'. Of this amount, HK$40,711,000 was attributable to staff, space and depreciation expenses that the Group bore despite the affected facilities not being operational (in compliance with respective government mandated closures). Another HK$50,815,000 concerned incremental costs from miscellaneous measures including higher freight costs, and additional transport arrangements and procurement of personal protective equipment to ensure staff health and safety.

(b) During the year ended 31 December 2021, an impairment relating to property, plant and equipment of nil (2020: HK$18,050,000) and supplier contracts termination costs of HK$24,413,000 (2020: HK$37,900,000), was charged to restructuring costs resulted from the product portfolio simplification of the Group and more details are described in note 7.

(c) During the year ended 31 December 2021, consultancy costs of HK$90.6 million relating to the progressive implementation of several strategic initiatives across the Group were charged to other expenses. The key objective of these strategic initiatives is to drive the Group's long term organizational efficiency, along with strengthening its overall agility, resilience, and sustainability. As such, the Group is confident that these strategic initiatives will deliver long term value creation. These consultancy costs were assessed by the management as incurred outside of core operations of the Group and not related to other function of expenses in the consolidated statement of profit or loss.

## 11. FINANCE COSTS

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Interest on bank borrowings | 36,986 | 73,214 |
| Interest on lease liabilities | 53,179 | 52,692 |
| Others | 8,038 | 33,456 |
| | 98,203 | 159,362 |
| Fair value loss reclassified from equity to profit or loss on interest rate swaps designated as cash flow hedges | 20,219 | 8,328 |
| | 118,422 | 167,690 |

## 12. INCOME TAX EXPENSE

| | **2021 HK$'000** | 2020 HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| The charge (credit) comprises: | | |
| Current tax: | | |
| Hong Kong | **56,393** | 41,162 |
| People's Republic of China ("PRC") Enterprise Income Tax | **150,089** | 146,515 |
| Germany | **386,307** | 57,392 |
| Other jurisdictions | **215,556** | 64,060 |
| | **808,345** | 309,129 |
| (Over) under-provision in prior years: | | |
| Hong Kong | **(40)** | (4,185) |
| PRC Enterprise Income Tax | **142,004** | (1,862) |
| Germany | **15,841** | 60,690 |
| Other jurisdictions | **28,292** | 1,099 |
| | **186,097** | 55,742 |
| Deferred tax credit | **(77,163)** | (175,403) |
| | **917,279** | 189,468 |

(a) Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, 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%. 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 for the years ended 31 December 2020 and 2021.

(b) Under the Law of 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% (2020: 25%), except for ASM Technology China Limited ("ATC"). ATC obtained a new advanced technology service enterprise ("ATSE") Certificate in July 2018. According to the tax circular 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 fulfillment of recognition criteria as an ATSE.

## 12. INCOME TAX EXPENSE (CONTINUED)

(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 semiconductor solutions and materials 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 IHA is taxed at the prevailing corporate tax rate in Singapore of 17% (2020: 17%).

On 9 December 2020, the PC has been terminated with effect from 1 January 2020 across all product groups, the IHA has expired on 31 December 2020. Meanwhile, ATS is in the advanced stage of renewing the IHA with effect from 1 January 2021 and obtaining a new PC.

(d) The calculation of current tax of the Group's subsidiaries in Germany is based on a corporate income tax rate of 15.00% (2020: 15.00%) plus 5.50% (2020: 5.50%) solidarity surcharge on the corporate income tax for the assessable profit for the year, which derives at a tax rate of 15.825% (2020: 15.825%). In addition to corporate income tax, trade tax is levied on taxable income. The applicable German trade tax (local income tax) rates for the Group's subsidiaries in Germany vary from 14.123% to 17.150% (2020: 14.108% to 17.150%) according to the municipal in which the entity resides. Thus the aggregate tax rates are between 29.948% and 32.975% (2020: between 29.933% and 32.975%).

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

The tax charge for the year can be reconciled to the profit before taxation from continuing operations in the consolidated statement of profit or loss as follows:

| | **2021 HK$'000** | 2020 HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Profit before taxation | **4,092,459** | 826,080 |
| Tax at the domestic income tax rate of 16.5% (2020: 16.5%) *(Note)* | **675,256** | 136,303 |
| Tax effect of share of result of a joint venture | **(22,724)** | – |
| Tax effect of expenses not deductible in determining taxable profit | **135,151** | 46,989 |
| Tax effect of income not taxable in determining taxable profit | **(25,730)** | (10,956) |
| Tax effect of tax losses not recognized | **2,758** | 14,131 |
| Tax effect of utilization of tax losses previously not recognized | **(284)** | (192) |
| Tax effect of recognition of temporary difference previously not recognized | **(2,658)** | (50,489) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **186,716** | 71,627 |
| Effect of tax concessionary rates for ATC and ATS | **(189,575)** | (21,201) |
| Effect of other tax concessions | **(25,627)** | (56,225) |
| Under-provision in prior years | **186,097** | 55,742 |
| Others | **(2,101)** | 3,739 |
| Tax charge for the year | **917,279** | 189,468 |

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

## 13. DISCONTINUED OPERATION

On 28 July 2020, the Group entered into a subscription agreement (the "Subscription Agreement") with the independent third parties, pursuant to which Advanced Assembly Materials International Limited ("AAMI") (formerly known as ASM Materials Hong Kong Limited), which was then a wholly-owned subsidiary of the Company, shall issue new shares to the investors subject to the satisfaction of the closing conditions as set out in the Subscription Agreement which the investors shall then have 55.56% of AAMI's enlarged total issued shares (the "Transaction"). AAMI, together with its subsidiaries, carried out the Group's materials business.

The Transaction was completed on 28 December 2020, which was the last date that the Group executed control of AAMI. The Group's materials business was treated as discontinued operation.

AAMI became the Group's joint venture after 28 December 2020 upon completion of the Transaction.

The revenue and profit for the year from the discontinued materials business is set out below.

| | 2020<br>HK$'000 |
|---|---|
| Revenue of materials business for the year | 2,186,994 |
| Profit of materials business for the year | 134,849 |
| Gain on deemed disposal of materials business *(note 43)* | 859,042 |
| | 993,891 |

Profit for the year from the discontinued operation includes the followings:

| | 2020<br>HK$'000 |
|---|---|
| Loss on disposal of property, plant and equipment | 722 |
| Auditor's remuneration | 955 |

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.

During the year ended 31 December 2020, the materials business contributed approximately HK$231 million to the Group's net operating cash flows, paid approximately HK$228 million in respect of investing activities and paid approximately HK$27 million in respect of financing activities.

The carrying amounts of the assets and liabilities of AAMI at the date of deemed disposal are disclosed in note 43.

## 14. PROFIT FOR THE YEAR

| | **2021 HK$'000** | 2020 HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Profit for the year has been arrived at after charging (crediting): | | |
| Directors' remunerations *(note 15)* | **28,840** | 26,459 |
| Other staff | | |
| – Salaries, wages, bonus and other benefits | **5,020,548** | 4,019,540 |
| – Pension costs | **303,731** | 216,961 |
| – Share-based payments under the Scheme | **200,556** | 143,895 |
| Total staff costs | **5,553,675** | 4,406,855 |
| Auditors' remuneration | | |
| – Deloitte Touche Tohmatsu network member firms | **16,116** | 15,721 |
| – Other auditors | **614** | 430 |
| | **16,730** | 16,151 |
| Depreciation for property, plant and equipment | **419,176** | 446,013 |
| Depreciation for right-of-use assets | **216,566** | 206,354 |
| Depreciation for investment properties | **5,273** | 1,744 |
| Amortization for intangible assets | | |
| – Included in general and administrative expenses | **3,936** | 4,915 |
| – Included in research and development expenses | **2,404** | 4,470 |
| – Included in selling and distribution expenses | **41,225** | 45,002 |
| – Included in cost of sales | **54,203** | 54,225 |
| | **101,768** | 108,612 |
| Depreciation and amortization | **742,783** | 762,723 |
| Gross rental income from investment properties | **(19,820)** | (6,602) |
| Less: Direct operating expenses from investment properties that generate rental income | **13,431** | 982 |
| | **(6,389)** | (5,620) |
| Government grants *(Note)* | **(71,082)** | (206,388) |
| Interest income on bank deposits | **(12,355)** | (19,111) |

*Note:* Government grants for the year ended 31 December 2021 included amounts of HK$29,842,000 (2020: HK$126,471,000), nil (2020: HK$29,991,000), HK$18,003,000 (2020: HK$17,172,000), HK$2,401,000 (2020: HK$4,751,000) and HK$363,000 (2020: HK$3,128,000) which are government subsidies received from local authorities in Hong Kong, the PRC or Singapore relating to Employment Support Scheme, unemployment insurance premium refunds, import of high technology products, development support and support for stabilizing employment, respectively. Government grants are 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 that are recognized in profit or loss in the period in which they become receivable. They are presented at net basis and are deducted from related expenses in cost of sales, selling and distribution expenses, general and administrative expenses and research and development expenses in the consolidated statement of profit or loss, other government grants are presented under "other income" amounting to HK$36,247,000 (2020: HK$69,390,000).

## 15. 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 2021 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Executive Director and chief executive *(Note a)* | Executive Directors *(Note a)* | | Non-executive Directors *(Note k)* | | | Independent Non-executive Directors *(Note l)* | | | | |
| | Robin Gerard Ng Cher Tat HK$'000 *(Note c)* | Guenter Walter Lauber HK$'000 *(Note d)* | Patricia Chou Pei-Fen HK$'000 *(Note e)* | Petrus Antonius Maria van Bommel HK$'000 *(Note i)* | Paulus Antonius Henricus Verhagen HK$'000 *(Note j)* | Benjamin Loh Gek Lim HK$'000 *(Note f)* | Orasa Livasiri HK$'000 | Lok Kam Chong, John HK$'000 | Wong Hon Yee HK$'000 | Tang Koon Hung, Eric HK$'000 | Total HK$'000 |
| Fees | – | – | – | 114 | 186 | 350 | 500 | 450 | 400 | 400 | 2,400 |
| Other emoluments | | | | | | | | | | | |
| Salaries and other benefits | 11,433 | 6,032 | 3,388 | – | – | – | – | – | – | – | 20,853 |
| Contributions to retirement benefits schemes | 232 | 642 | – | – | – | – | – | – | – | – | 874 |
| Performance related incentive bonus payments *(Note m)* | 2,753 | 1,960 | – | – | – | – | – | – | – | – | 4,713 |
| Total emoluments | 14,418 | 8,634 | 3,388 | 114 | 186 | 350 | 500 | 450 | 400 | 400 | 28,840 |

| | Year ended 31 December 2020 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Executive Director and chief executive *(Note a)* | | Executive Directors *(Note a)* | | | Non-executive Directors *(Note k)* | | | Independent Non-executive Directors *(Note l)* | | | | |
| | Lee Wai Kwong HK$'000 *(Note b)* | Robin Gerard Ng Cher Tat HK$'000 *(Note c)* | Guenter Walter Lauber HK$'000 *(Note d)* | Patricia Chou Pei-Fen HK$'000 *(Note e)* | Tsui Ching Man, Stanley HK$'000 *(Note g)* | Charles Dean del Prado HK$'000 *(Note h)* | Petrus Antonius Maria van Bommel HK$'000 | Benjamin Loh Gek Lim HK$'000 *(Note f)* | Orasa Livasiri HK$'000 | Lok Kam Chong, John HK$'000 | Wong Hon Yee HK$'000 | Tang Koon Hung, Eric HK$'000 | Total HK$'000 |
| Fees | – | – | – | – | – | 134 | 300 | 216 | 500 | 450 | 400 | 400 | 2,400 |
| Other emoluments | | | | | | | | | | | | | |
| Salaries and other benefits | 5,195 | 7,098 | 4,549 | 2,137 | 1,825 | – | – | – | – | – | – | – | 20,804 |
| Contributions to retirement benefits schemes | 25 | 189 | 411 | – | 8 | – | – | – | – | – | – | – | 633 |
| Performance related incentive bonus payments *(Note m)* | 1,184 | 402 | 680 | – | 356 | – | – | – | – | – | – | – | 2,622 |
| Total emoluments | 6,404 | 7,689 | 5,640 | 2,137 | 2,189 | 134 | 300 | 216 | 500 | 450 | 400 | 400 | 26,459 |

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

*Notes:*

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

(b) Mr. Lee Wai Kwong is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive. Mr. Lee retired as chief executive and executive director of the Company on 12 May 2020.

(c) Mr. Robin Gerard Ng Cher Tat was appointed as chief executive of the Company on 12 May 2020 and his emoluments disclosed above include those for services rendered by him as the chief executive.

(d) Mr. Guenter Walter Lauber was appointed as an executive director of the Company on 12 May 2020.

(e) Ms. Patricia Chou Pei-Fen was appointed as an executive director of the Company on 19 May 2020 and resigned on 31 December 2021.

(f) Mr. Benjamin Loh Gek Lim was appointed as a non-executive director of the Company on 19 May 2020.

(g) Mr. Tsui Ching Man, Stanley retired as executive director of the Company on 12 May 2020.

(h) Mr. Charles Dean del Prado resigned as a non-executive director of the Company on 18 May 2020.

(i) Mr. Petrus Antonius Maria van Bommel resigned as a non-executive director of the Company on 18 May 2021.

(j) Mr. Paulus Antonius Henricus Verhagen was appointed as a non-executive director of the Company on 18 May 2021.

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

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

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

During the year ended 31 December 2021, 100,030 (2020: 210,600) Award Shares (as defined in note 38) were granted to certain executive directors in respect of their services to the Group under the Scheme (as defined in note 38). The Group recognized total expenses of HK$9,699,000 (2020: HK$8,657,000) in relation to the Scheme which was amortized to the consolidated statement of profit or loss during the year and included in salaries and other benefits above. The market value for these Award Shares as at their vesting date was amounted to HK$8,039,000 (2020: HK$20,249,000), which was calculated with reference to the closest trading price of the Company's share of HK$80.15 (2020: HK$96.15) per share. For details regarding the Award Shares, please refer to note 38.

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

## 16. FIVE HIGHEST PAID EMPLOYEES

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

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| Salaries and other benefits | 38,024 | 34,169 |
| Contributions to retirement benefits schemes | 995 | 757 |
| Performance related incentive bonus payments | 7,757 | 3,047 |
| | 46,776 | 37,973 |

For the year ended 31 December 2021, 215,200 (2020: 254,600) 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 38 to the Group's consolidated financial statements. The Group recognized expenses of these shares amounting to HK$20,810,000 (2020: HK$18,331,000) in relation to the Scheme (as defined in note 38) which was included in salaries and other benefits above for the year ended 31 December 2021.

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

| | Number of employees | |
|---|---|---|
| | 2021 | 2020 |
| HK$5,500,001 to HK$6,000,000 | – | 1 |
| HK$6,000,001 to HK$6,500,000 | – | 2 |
| HK$7,500,001 to HK$8,000,000 | 2 | 1 |
| HK$8,000,001 to HK$8,500,000 | 1 | – |
| HK$8,500,001 to HK$9,000,000 | 1 | – |
| HK$11,500,001 to HK$12,000,000 | – | 1 |
| HK$14,000,001 to HK$14,500,000 | 1 | – |

During the year ended 31 December 2021, the five highest paid employees of the Group included two (2020: two) directors. Details of the emoluments of the directors for services rendered by them as directors are set out in note 15.

## 17. DIVIDENDS

| | **2021 HK$'000** | 2020 HK$'000 |
|---|---|---|
| **Dividend recognized as distribution during the year** | | |
| Interim dividend for 2021 paid of HK$1.30 (2020: HK$0.70) per share on 410,796,133 (2020: 408,895,533) shares | **534,035** | 286,227 |
| Final dividend for 2020 paid of HK$2.00 (2020: final dividend for 2019 paid of HK$0.70) per share on 410,796,133 (2020: 408,895,533) shares | **821,592** | 286,227 |
| | **1,355,627** | 572,454 |

Subsequent to the end of the reporting period, a final dividend of HK$2.60 (2020: final dividend of HK$2.00) per share in respect of the year ended 31 December 2021 has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

| | **2021 HK$'000** | 2020 HK$'000 |
|---|---|---|
| **Dividend proposed subsequent to the end of the reporting period** | | |
| Proposed final dividend for 2021 of HK$2.60 (2020: HK$2.00) per share on 412,705,333 (2020: 410,796,133) shares | **1,073,034** | 821,592 |

## 18. EARNINGS PER SHARE

### From continuing operations

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

| | **2021 HK$'000** | 2020 HK$'000 |
|---|---|---|
| Profit for the year attributable to owners of the Company (from continuing and discontinued operations) | **3,168,976** | 1,621,516 |
| Less: Profit for the year from discontinued operation | **–** | (993,891) |
| Earnings for the purpose of calculating basic and diluted earnings per share from continuing operations | **3,168,976** | 627,625 |

| | **Number of shares (in thousands)** | |
|---|---|---|
| | **2021** | 2020 |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | **410,678** | 408,784 |
| Effect of dilutive potential shares: | | |
| – the Scheme | **1,656** | 1,634 |
| Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share | **412,334** | 410,418 |

### From discontinued operation

For the year ended 31 December 2020, basic earnings per share for the discontinued operation was HK$2.43 per share and diluted earnings per share for the discontinued operation was HK$2.42 per share, based on the profit for the year ended 31 December 2020 from the discontinued operation of approximately HK$993,891,000 and the denominators detailed above for both basic and diluted earnings per share.

## 19. 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$'000 | Machinery for leases HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **COST** | | | | | | | | |
| At 1 January 2020 | 15,789 | 1,333,373 | 1,055,797 | 4,632,806 | 98,835 | 48,007 | 46,903 | 7,231,510 |
| Currency realignment | 27 | 29,422 | 11,239 | 117,196 | 2,649 | 5,141 | 610 | 166,284 |
| Additions | – | 39,911 | 94,983 | 223,047 | 6,245 | – | 14,939 | 379,125 |
| Acquired on acquisition of a subsidiary | – | – | 1 | 124 | 50 | – | – | 175 |
| Transfer | – | 12,200 | 38,092 | – | 26 | – | (50,318) | – |
| Transfer from inventories | – | – | – | – | – | 36,901 | – | 36,901 |
| Transfer to inventories | – | – | – | – | – | (7,506) | – | (7,506) |
| Transfer to investment properties | – | (83,056) | – | – | – | – | – | (83,056) |
| Disposals | – | (395) | (45,587) | (212,525) | (723) | – | – | (259,230) |
| Write-off | – | (1,169) | (34,531) | (98,271) | (2,042) | – | – | (136,013) |
| Deemed disposal of subsidiaries | – | – | (337,992) | (905,885) | (3,949) | – | – | (1,247,826) |
| At 1 January 2021 | 15,816 | 1,330,286 | 782,002 | 3,756,492 | 101,091 | 82,543 | 12,134 | 6,080,364 |
| Currency realignment | 153 | 7,879 | 5,211 | (13,011) | (1,752) | 2,735 | – | 1,215 |
| Additions | – | – | 77,246 | 253,566 | 6,406 | – | 28,585 | 365,803 |
| Transfer from inventories | – | – | – | – | – | 14,986 | – | 14,986 |
| Transfer to inventories | – | – | – | – | – | (4,083) | – | (4,083) |
| Disposals | – | – | (4,725) | (143,357) | (475) | – | – | (148,557) |
| Write-off | – | – | (110,906) | (155,084) | (4,857) | – | – | (270,847) |
| At 31 December 2021 | 15,969 | 1,338,165 | 748,828 | 3,698,606 | 100,413 | 96,181 | 40,719 | 6,038,881 |
| **DEPRECIATION AND IMPAIRMENT** | | | | | | | | |
| At 1 January 2020 | – | 402,655 | 688,344 | 3,160,551 | 59,287 | 4,258 | – | 4,315,095 |
| Currency realignment | – | 3,861 | 9,001 | 72,211 | 1,587 | 425 | – | 87,085 |
| Provided for the year | – | 36,240 | 84,302 | 383,274 | 9,341 | 16,452 | – | 529,609 |
| Transfer to inventories | – | – | – | – | – | (582) | – | (582) |
| Transfer to investment properties | – | (60,063) | – | – | – | – | – | (60,063) |
| Eliminated on disposals | – | (181) | (11,399) | (190,648) | (709) | – | – | (202,937) |
| Eliminated on write-off | – | (204) | (22,379) | (88,505) | (1,934) | – | – | (113,022) |
| Impairment loss recognized in profit or loss | – | – | 1,949 | 16,101 | – | – | 12,134 | 30,184 |
| Eliminated on deemed disposal of subsidiaries | – | – | (243,439) | (666,286) | (2,615) | – | – | (912,340) |
| At 1 January 2021 | – | 382,308 | 506,379 | 2,686,698 | 64,957 | 20,553 | 12,134 | 3,673,029 |
| Currency realignment | – | 3,449 | 4,462 | (6,834) | (1,082) | 766 | – | 761 |
| Provided for the year | – | 28,619 | 65,288 | 292,876 | 8,997 | 23,396 | – | 419,176 |
| Transfer to inventories | – | – | – | – | – | (1,787) | – | (1,787) |
| Eliminated on disposals | – | – | (3,687) | (136,834) | (471) | – | – | (140,992) |
| Eliminated on write-off | – | – | (110,365) | (133,209) | (4,780) | – | – | (248,354) |
| At 31 December 2021 | – | 414,376 | 462,077 | 2,702,697 | 67,621 | 42,928 | 12,134 | 3,701,833 |
| **CARRYING VALUES** | | | | | | | | |
| At 31 December 2021 | 15,969 | 923,789 | 286,751 | 995,909 | 32,792 | 53,253 | 28,585 | 2,337,048 |
| At 31 December 2020 | 15,816 | 947,978 | 275,623 | 1,069,794 | 36,134 | 61,990 | – | 2,407,335 |

## 19. 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 after taking into account the residual values 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% |
| Machinery for leases | 25% |

As at 31 December 2020 and 2021, other than certain impairment of goodwill as disclosed in note 24 and the impairment loss resulted from product portfolio simplification and relocation of factory as disclosed in notes 10 and 20 respectively, the directors of the Company are of the opinion that there is no additional impairment should be provided in the property, plant and equipment nor impairment previously recorded should be reversed.

## 20. RIGHT-OF-USE ASSETS

| | Leasehold land HK$'000 | Land and buildings HK$'000 | Motor vehicles HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **As at 31 December 2020** | | | | | |
| Carrying amount | 258,988 | 1,309,500 | 21,438 | 11,811 | 1,601,737 |
| **As at 31 December 2021** | | | | | |
| Carrying amount | **253,917** | **1,315,306** | **13,771** | **17,473** | **1,600,467** |
| **For the year ended 31 December 2021** | | | | | |
| Depreciation charge | **7,781** | **190,834** | **12,138** | **5,813** | **216,566** |
| Expense relating to short-term leases | | | | | **10,968** |
| Expense relating to leases of low-value assets, excluding short-term leases of low-value assets | | | | | **5,043** |
| Total cash outflow for leases *(Note i)* | | | | | **260,759** |
| Additions to right-of-use assets | | | | | **244,233** |
| **For the year ended 31 December 2020** | | | | | |
| Depreciation charge | 8,425 | 197,032 | 13,789 | 1,949 | 221,195 |
| Impairment recognized *(Note ii)* | 14,855 | – | – | – | 14,855 |
| Expense relating to short-term leases | | | | | 13,849 |
| Expense relating to leases of low-value assets, excluding short-term leases of low-value assets | | | | | 4,269 |
| Total cash outflow for leases *(Note i)* | | | | | 337,844 |
| Additions to right-of-use assets | | | | | 221,523 |

## 20. RIGHT-OF-USE ASSETS (CONTINUED)

*Notes:*

(i) Amount includes payments of principal of lease liabilities, short-term leases and low-value assets of HK$207,580,000 (2020: HK$221,156,000) and interest portion of HK$53,179,000 (2020: HK$53,338,000) of lease liabilities and payment of leasehold land of nil (2020: HK$63,350,000). These amounts are presented in operating, investing or financing cash flows.

(ii) During the year ended 31 December 2020, pursuant to the deed of amendment entered with the investors of joint venture, the Group decided to relocate its materials business factory construction site to a new location and ceased its investment in the original location. Thus, leasehold land of HK$14,855,000 included in right-of-use assets and related design and development costs incurred of HK$12,134,000 included in property, plant and equipment were fully impaired during the year ended 31 December 2020 accordingly.

For both years, the Group leases leasehold lands, land and buildings, motor vehicles and others for its operations. Except for land leased from the Singapore Housing & Development Board for a period of 30 years (renewable upon mutual agreement on expiry for a further term of 30 years), other leases are negotiated for an average term of 16 months to 15 years. 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 presented separately only if the payments made can be allocated reliably.

The Group regularly entered into short-term leases for land and buildings, motor vehicle and equipment. As at 31 December 2021 and 2020, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

## 20. RIGHT-OF-USE ASSETS (CONTINUED)

### 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 2021 HK$'000 | Potential future lease payments not included in lease liabilities as at 31 December 2021 (undiscounted) HK$'000 | Lease liabilities recognized as at 31 December 2020 HK$'000 | Potential future lease payments not included in lease liabilities as at 31 December 2020 (undiscounted) HK$'000 |
|---|---|---|---|---|
| Premises | **854,892** | **27,812** | 820,951 | 23,481 |
| Motor vehicles | **2,584** | **373** | 5,284 | – |
| Others | **7,672** | **210** | 973 | 93 |

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 years ended 31 December 2020 and 2021, there is no such triggering event.

## 21. INVESTMENT PROPERTIES

| | HK$'000 |
|---|---|
| **COST** | |
| At 1 January 2020 | 64,283 |
| Transfers | 89,971 |
| Currency realignment | 4,140 |
| At 31 December 2020 | 158,394 |
| Currency realignment | (1,945) |
| At 31 December 2021 | 156,449 |
| **DEPRECIATION** | |
| At 1 January 2020 | 10,638 |
| Transfers | 60,063 |
| Currency realignment | 686 |
| Provided for the year | 1,744 |
| At 31 December 2020 | 73,131 |
| Currency realignment | (2,406) |
| Provided for the year | 5,273 |
| At 31 December 2021 | 75,998 |
| **CARRYING VALUES** | |
| At 31 December 2021 | 80,451 |
| At 31 December 2020 | 85,263 |

During the year ended 31 December 2020, part of the Group's manufacturing plant building located in Malaysia held under a medium term lease with a carrying amount of HK$29,908,000 was transferred from property, plant and equipment and right-to-use assets to investment properties.

The Group leases out various offices and manufacturing plants under operating leases with rental payable monthly.

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 properties.

The fair value of the Group's investment properties at 31 December 2021 were HK$232,057,000 (2020: HK$226,639,000). The fair value has been arrived at based on 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 valuations were 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 of the valuation technique used from the prior year.

## 21. INVESTMENT PROPERTIES (CONTINUED)

In estimating the fair value of the properties, the highest and best use of the properties is their current use. Details of the Group's investment properties and information about the fair value hierarchy as at the end of the reporting period are as follows:

| | Level 3<br>HK$'000 | Fair value as at<br>31.12.2021<br>HK$'000 |
|---|---|---|
| Research and development center located in the PRC | **114,115** | **114,115** |
| Manufacturing plant building located in Malaysia | **117,942** | **117,942** |
| | **232,057** | **232,057** |

| | Level 3<br>HK$'000 | Fair value as at<br>31.12.2020<br>HK$'000 |
|---|---|---|
| Research and development center located in the PRC | 105,156 | 105,156 |
| Manufacturing plant building located in Malaysia | 121,483 | 121,483 |
| | 226,639 | 226,639 |

Investment properties are depreciated over the lease terms of 48 years or 22 years (2020: 48 years or 22 years) on a straight-line basis.

## 22. GOODWILL

| | HK$'000 |
|---|---|
| **COST** | |
| At 1 January 2020 | 1,070,447 |
| Arising on acquisition of a subsidiary *(note 42)* | 89,706 |
| Currency realignment | 21,473 |
| At 31 December 2020 | 1,181,626 |
| Currency realignment | (7,675) |
| At 31 December 2021 | 1,173,951 |
| **IMPAIRMENT** | |
| At 1 January 2020, 31 December 2020 | 22,596 |
| Impairment loss recognized for the year *(note 24)* | 224,824 |
| At 31 December 2021 | 247,420 |
| **CARRYING VALUES** | |
| At 31 December 2021 | 926,531 |
| At 31 December 2020 | 1,159,030 |

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

## 23. INTANGIBLE ASSETS

| | Sales backlog HK$'000 | Trade name HK$'000 | Technology HK$'000 | Customer bases HK$'000 | Licenses and similar rights HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **COST** | | | | | | |
| At 1 January 2020 | 50,124 | 389,260 | 570,405 | 480,369 | 101,030 | 1,591,188 |
| Acquired on acquisition of a subsidiary *(note 42)* | 553 | 5,540 | 24,090 | 6,732 | – | 36,915 |
| Currency realignment | 349 | 1,280 | 9,769 | 5,624 | 8,870 | 25,892 |
| Additions | – | – | – | – | 5,089 | 5,089 |
| At 31 December 2020 | 51,026 | 396,080 | 604,264 | 492,725 | 114,989 | 1,659,084 |
| Currency realignment | (149) | 221 | (4,760) | (3,420) | (6,643) | (14,751) |
| Additions | – | – | – | – | 3,459 | 3,459 |
| Write-off | (50,877) | – | – | – | – | (50,877) |
| At 31 December 2021 | – | 396,301 | 599,504 | 489,305 | 111,805 | 1,596,915 |
| **AMORTIZATION** | | | | | | |
| At 1 January 2020 | 46,596 | – | 148,880 | 119,756 | 85,884 | 401,116 |
| Currency realignment | 317 | – | 1,597 | 496 | 7,510 | 9,920 |
| Charge for the year | 3,755 | – | 52,892 | 41,245 | 10,720 | 108,612 |
| At 31 December 2020 | 50,668 | – | 203,369 | 161,497 | 104,114 | 519,648 |
| Currency realignment | (162) | – | (1,823) | (609) | (6,029) | (8,623) |
| Charge for the year | 371 | – | 53,903 | 41,223 | 6,271 | 101,768 |
| Eliminated on write-off | (50,877) | – | – | – | – | (50,877) |
| At 31 December 2021 | – | – | 255,449 | 202,111 | 104,356 | 561,916 |
| **CARRYING VALUES** | | | | | | |
| At 31 December 2021 | – | 396,301 | 344,055 | 287,194 | 7,449 | 1,034,999 |
| At 31 December 2020 | 358 | 396,080 | 400,895 | 331,228 | 10,875 | 1,139,436 |

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 $33^1/_3$% |

## 24. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE

For the purposes of impairment testing, goodwill and trade name with indefinite useful life set out in notes 22 and 23, respectively, have been allocated to group of CGUs, comprising certain subsidiaries in the semiconductor solutions and surface mount technology ("SMT") solutions businesses. The carrying amounts of goodwill and trade name as at 31 December 2021 and 2020 allocated to these groups of CGUs are as follows:

| | Goodwill | | Trade name | |
|---|---|---|---|---|
| | **2021 HK$'000** | 2020 HK$'000 | **2021 HK$'000** | 2020 HK$'000 |
| Semiconductor solutions business | | | | |
| AMICRA (defined below) | **–** | 223,559 | **38,342** | 38,117 |
| NEXX (defined below) | **217,805** | 216,528 | **78,638** | 78,178 |
| | **217,805** | 440,087 | **116,980** | 116,295 |
| SMT solutions business | | | | |
| Placement and printing business | **407,885** | 404,695 | **246,139** | 244,697 |
| Manufacturing execution software business | | | | |
| Critical Manufacturing (defined below) | **200,624** | 216,890 | **26,994** | 29,076 |
| SKT (defined in note 42) | **100,217** | 97,358 | **6,188** | 6,012 |
| | **708,726** | 718,943 | **279,321** | 279,785 |
| | **926,531** | 1,159,030 | **396,301** | 396,080 |

In addition to goodwill and trade names above, property, plant and equipment, intangible assets and right-of-use assets (including allocation of corporate assets) that generate cash flows together with the related goodwill and trademark are also included in the respective CGU for the purpose of impairment assessment.

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

### Semiconductor Solutions Business

The recoverable amount of the CGUs 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 the pre-tax discount rate of 19.4% (2020: 19.0%) for ASM AMICRA Microtechnologies GmbH ("AMICRA") and 17.2% (2020: 17.9%) for ASM NEXX, Inc. ("NEXX"). The cash flows beyond the five-year period are extrapolated using a steady 3% (2020: 3%) growth rate for both AMICRA and NEXX. 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.

## 24. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE (CONTINUED)

### Semiconductor Solutions Business (Continued)

During the year ended 31 December 2021, the pace of AMICRA's business growth, along with cashflow projections, was assessed to be more gradual than originally anticipated. As such, the recoverable value of CGU of AMICRA of HK$323,089,000 was determined to be lower than the carrying amount of assets of AMICRA of HK$547,913,000. This drove the Company to recognize a non-cash impairment of HK$224,824,000 on goodwill of AMICRA included in the "other gains and losses" line item in profit or loss. No other write-down of the assets of AMICRA is considered necessary.

The effect of the reasonably possible change in key assumptions on the calculation of value in use of CGU of AMICRA which would cause the carrying amount exceed its recoverable amount is disclosed as below.

If the year sales growth rate decreased by 0.6% (2020: 0.9%) and all other variables were held constant, the carrying amount of the CGU of AMICRA would exceed its recoverable amount at 31 December 2021.

If the gross margins decreased by 2.6% (2020: 1.3%) and all other variables were held constant, the carrying amount of the CGU of AMICRA would exceed its recoverable amount at 31 December 2021.

If the pre-tax discount rate increased by 0.8% (2020: 0.8%) and all other variables were held constant, the carrying amount of the CGU of AMICRA would exceed its recoverable amount at 31 December 2021.

For NEXX business, 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 2021 and 2020.

### SMT Solutions Business

The recoverable amount of the CGUs 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 the pre-tax discount rate of 20.8% (2020: 20.2%). The cash flows beyond the five-year period are extrapolated using a steady 2.5% (2020: 2.5%) growth rate. For Critical Manufacturing, S.A. ("Critical Manufacturing") under manufacturing execution software business, that calculation uses cash flow projections based on financial budgets approved by the directors covering a five-year period, and the pre-tax discount rate of 21.9% (2020: 21.7%). The cash flows beyond the five-year period are extrapolated using a steady 3% (2020: 3%) growth rate. For SKT under manufacturing execution software business acquired by the Group during the year ended 31 December 2020 (note 42), that calculation uses cash flow projections based on financial budgets approved by the directors covering a five-year period, and the pre-tax discount rate of 18.4% (2020: 19.6%). The cash flows beyond the five-year period are extrapolated using a steady 3% (2020: 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.

For SMT solutions business, management of the Group determines that there are no impairments of its CGUs containing goodwill or trade name with indefinite useful life during the years ended 31 December 2021 and 2020.

Except for CGU of AMICRA, 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.

## 25. OTHER INVESTMENTS

| | **2021 HK$'000** | 2020 HK$'000 |
|---|---|---|
| Unlisted investments | | |
| – Equity securities | **64,202** | 111,106 |

The above unlisted equity investments represent 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.

During the year, net fair value loss of HK$49,735,000 (2020: nil) was recognized in other comprehensive income.

## 26. INTEREST IN A JOINT VENTURE/AMOUNTS DUE FROM (TO) A JOINT VENTURE AND ITS AFFILIATES

| | **2021 HK$'000** | 2020 HK$'000 |
|---|---|---|
| Cost of investment in a joint venture | **1,240,001** | 1,240,001 |
| Share of post-acquisition profit and other comprehensive income | **146,203** | – |
| | **1,386,204** | 1,240,001 |

As set out in note 13, AAMI became the Group's joint venture after 28 December 2020 upon completion of the Transaction on 28 December 2020 as detailed in note 13.

The amounts due from and to a joint venture and its affiliates are unsecured, non-interest bearing, and repayable on demand.

## 26. INTEREST IN A JOINT VENTURE/AMOUNTS DUE FROM (TO) A JOINT VENTURE AND ITS AFFILIATES (CONTINUED)

Details of the Group's joint venture at the end of the reporting period are as follows:

| Name of entity | Place of incorporation/ registration | Principal place of business | Proportion of ownership interest held by the Group | | Proportion of voting rights held by the Group | | Principal activity |
|---|---|---|---|---|---|---|---|
| | | | 2021 | 2020 | 2021 | 2020 | |
| AAMI | Hong Kong | Hong Kong | 44.44% | 44.44% | 44.44% | 44.44% | Investment holding and trading of materials |

During the year ended 31 December 2020, the Group has deemed disposed of 55.56% of AAMI and AAMI became a joint venture of the Group with goodwill of HK$53,880,000 recognized. The fair value of the cost of investment in a joint venture, AAMI was determined upon the deemed disposal of subsidiaries by the Group as disclosed in note 43.

The number of shares in AAMI held by the Group shall be adjusted in year 2024 based on whether AAMI meets certain performance targets with reference to the average adjusted earnings before interest, corporate income tax and certain items as set out in shareholders' agreement with the investors (the "Average Adjusted EBIT") of AAMI during 2021 to 2023. Depending on whether AAMI meets mutually-agreed Average Adjusted EBIT targets, the shareholding percentage of the Group in AAMI may be increased to a maximum of 49% or decreased to a minimum of 37.5% by AAMI's issuance of new shares. Additionally, an incentive fee of US$5,100,000 will be paid to the Group if AAMI achieves mutually-agreed Average Adjusted EBIT target. The management of the Group considered the fair value of these instruments was immaterial to be recognized as at 31 December 2020. As at 31 December 2021, the management of the Group assessed the fair value of the derivative arising from the share adjustment on the earn-out clause and the contingent consideration receivable amounted to HK$144,386,000 and HK$39,775,000, respectively. These instruments are presented as derivative financial instruments and other financial assets of HK$144,386,000 and HK$39,775,000 respectively on the face of the consolidated statement of financial position.

Pursuant to the relevant shareholders' agreement, the Group has the power to appoint two directors and the joint venture's partners have the power to appoint another three directors to form the board of directors of AAMI, and the decisions about the relevant activities of AAMI require the unanimous consent of both the Group and the joint venture partners.

## 26. INTEREST IN A JOINT VENTURE/AMOUNTS DUE FROM (TO) A JOINT VENTURE AND ITS AFFILIATES (CONTINUED)

### Summarized financial information of a material joint venture

Summarized financial information in respect of the joint venture is set out below. The summarized financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs. Share of post-acquisition profits and other comprehensive income is not significant for the year ended 31 December 2020.

The joint venture is accounted for using the equity method in these consolidated financial statements.

**AAMI**

| | **2021**<br>**HK$'000** | 2020<br>HK$'000 |
|---|---|---|
| Current assets | **2,207,123** | 1,936,201 |
| Non-current assets | **1,999,051** | 1,346,289 |
| Current liabilities | **(903,980)** | (448,206) |
| Non-current liabilities | **(304,165)** | (165,244) |
| The above amounts of assets and liabilities include the following: | | |
| Cash and cash equivalents | **881,110** | 791,508 |
| Current financial liabilities (excluding trade and other payables and provisions) | **(40,757)** | (27,873) |
| Non-current financial liabilities (excluding other payables and provisions) | **(171,040)** | (22,090) |

## 26. INTEREST IN A JOINT VENTURE/AMOUNTS DUE FROM (TO) A JOINT VENTURE AND ITS AFFILIATES (CONTINUED)

### Summarized financial information of a material joint venture (Continued)

**AAMI (Continued)**

| | **2021**<br>**HK$'000** |
|---|---|
| Revenue | **3,080,754** |
| Profit for the year | **309,899** |
| Other comprehensive income for the year | **19,090** |

| | **2021**<br>**HK$'000** |
|---|---|
| Depreciation and amortization | **(187,245)** |
| Interest income | **2,394** |
| Interest expense | **(2,546)** |
| Income tax expense | **(78,050)** |

Reconciliation of the above summarized financial information to the carrying amount of the interest in AAMI recognized in the consolidated financial statements:

| | **2021**<br>**HK$'000** | 2020<br>HK$'000 |
|---|---|---|
| Net assets of AAMI | **2,998,029** | 2,669,040 |
| Proportion of the Group's ownership interest in AAMI | **44.44%** | 44.44% |
| The Group's share of net assets of AAMI | **1,332,324** | 1,186,121 |
| Goodwill | **53,880** | 53,880 |
| Carrying amount of the Group's interest in AAMI | **1,386,204** | 1,240,001 |

## 27. FINANCE LEASE RECEIVABLES

During the year ended 31 December 2020, the Group entered into finance lease arrangement as an intermediate lessor in respect of a building for a term of twelve years. Interest rate inherent in the lease is fixed at the contract date over the lease term.

During the year ended 31 December 2021, the Group early terminated the finance lease arrangement with the lessee.

As at 31 December 2020, the finance lease receivables recognized was due to the Group's sub-lease arrangement.

| | Minimum lease payments 2020 HK$'000 | Present value of minimum lease payments 2020 HK$'000 |
|---|---|---|
| Finance lease receivables comprise: | | |
| Within one year | 432 | 372 |
| In the second year | 432 | 377 |
| In the third year | 432 | 382 |
| In the fourth year | 432 | 387 |
| In the fifth year | 432 | 392 |
| After five years | 2,952 | 2,825 |
| | 5,112 | 4,735 |
| Gross investment in the lease | 5,112 | N/A |
| Less: Unearned finance income | (377) | N/A |
| Present value of minimum lease payment receivables | 4,735 | 4,735 |
| Analyzed as: | | |
| Current | 372 | 372 |
| Non-current | 4,363 | 4,363 |
| | 4,735 | 4,735 |

As at 31 December 2020, interest rate implicit in the above finance lease is 1.32%.

The Group is not exposed to foreign currency risk as a result of the lease arrangement, as the lease is denominated in the respective functional currency of that entity.

## 28. INVENTORIES

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

| | **2021 HK$'000** | 2020 HK$'000 |
|---|---|---|
| Raw materials | **2,058,321** | 1,656,434 |
| Work in progress | **3,896,169** | 2,697,512 |
| Finished goods | **1,501,285** | 1,419,061 |
| | **7,455,775** | 5,773,007 |

## 29. TRADE AND OTHER RECEIVABLES

| | **2021 HK$'000** | 2020 HK$'000 |
|---|---|---|
| Trade receivables *(Note)* | **5,375,584** | 3,807,458 |
| Value-added tax recoverable | **324,017** | 295,100 |
| Other receivables, deposits and prepayments | **176,261** | 202,873 |
| | **5,875,862** | 4,305,431 |

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

| | **2021 HK$'000** | 2020 HK$'000 |
|---|---|---|
| Not yet due *(Note)* | **4,466,823** | 2,941,406 |
| Overdue within 30 days | **597,586** | 367,471 |
| Overdue 31 to 60 days | **174,483** | 227,410 |
| Overdue 61 to 90 days | **60,948** | 157,021 |
| Overdue over 90 days | **75,744** | 114,150 |
| | **5,375,584** | 3,807,458 |

*Note:* The amount included notes receivables amounting to HK$1,344,979,000 (2020: HK$470,572,000) are held by the Group for future settlement of trade receivables. All notes receivables received by the Group are with a maturity period of less than one year.

As at 1 January 2020, trade receivables from contracts with customers amounted to HK$4,324,297,000.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2021 are set out in note 48.

## 29. 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 longer.

As at 31 December 2021, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$908,761,000 (2020: HK$866,052,000) are past due as at the reporting date. Out of the past due balances, HK$75,744,000 (2020: HK$114,150,000) has been past due 90 days or more, and they are not considered as in default. The Group considers the information developed internally or obtained from external sources and considered that the debtors are likely to pay its creditors.

## 30. DERIVATIVE FINANCIAL INSTRUMENTS

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **Assets HK$'000** | **Liabilities HK$'000** | Assets HK$'000 | Liabilities HK$'000 |
| Shown as current | | | | |
| Foreign currency forward contracts | **1,482** | **41,585** | 45,564 | – |
| Shown as non-current | | | | |
| Interest rate swaps | **–** | **18,793** | – | 55,804 |
| Share adjustment on earn-out clause in a joint venture *(note 26)* | **144,386** | **–** | – | – |
| | **144,386** | **18,793** | – | 55,804 |
| | **145,868** | **60,378** | 45,564 | 55,804 |

During the year ended 31 December 2020, the Group entered into interest rate swap contracts with a commercial bank to minimize its exposure to cash flow changes of its floating-rate Hong Kong dollars bank loans from bank by swapping floating interest rates to fixed interest rates. The terms of these contracts were negotiated to match with those of the hedged bank loans with the same notional amounts to principal amounts of bank loans, currency and interest rate index. The directors consider that the interest rate swap contracts are highly effective hedging instruments and have designated them as cash flow hedging instruments for hedge accounting purpose.

The hedges were highly effective in hedging cash flow exposure to interest rate movements. Fair value change on hedging instruments in cash flow hedge of gain of HK$37,011,000 for the year ended 31 December 2021 (2020: loss of HK$55,804,000) have been recognized in other comprehensive income and accumulated in equity. The directors expected the accumulated sum is to be released to profit or loss at various dates upon settlements of interests in the coming maturity periods after the reporting period.

## 30. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Included in borrowings as disclosed in note 36 were bank loans of HK$1,750,000,000 (2020: HK$1,750,000,000) which were under cash flow hedges and the major terms of the interest rate swap contracts under cash flow hedges at the end of the reporting period are as follows:

**31 December 2021**

| Notional amount | Maturity | Receive floating | Pay fixed |
|---|---|---|---|
| HK$1,250,000,000 | 21 March 2024 | 1-month Hong Kong Interbank Offered Rate ("HIBOR") plus 1.1% | 2.38% |
| HK$500,000,000 | 21 March 2024 | 1-month HIBOR plus 1.1% | 2.315% |

The foreign currency forward contracts as at 31 December 2021 were mainly related to the purchase of Euro and the sale of US dollar at contract rates ranging from US$1.12784 to US$1.23046 (2020: US$1.0931 to US$1.2322) per one Euro with future maturity dates ranging from 20 January 2022 to 21 December 2022 (2020: 20 January 2021 to 15 December 2021) at an aggregate notional amount of US$154,000,000, equivalent to approximately HK$1,201,061,000 (2020: US$118,500,000, equivalent to approximately HK$918,778,000).

## 31. PLEDGED BANK DEPOSITS, BANK DEPOSITS WITH ORIGINAL MATURITY OF MORE THAN THREE MONTHS AND BANK BALANCES AND CASH

The pledged bank deposits as at 31 December 2021 and 2020 represent bank deposits pledged to a bank as security for issuance of guarantee relating to business operations.

Bank balances and bank deposits with original maturity of more than three months as at 31 December 2021 carry interest at market rates which range from 0% to 3.65% (2020: 0% to 4.5%) per annum.

## 32. TRADE LIABILITIES AND OTHER PAYABLES

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| Trade payables | **2,019,439** | 1,454,939 |
| Deferred income *(Note a)* | **155,719** | 118,925 |
| Accrued salaries and wages | **296,063** | 278,667 |
| Other accrued charges | **813,977** | 562,727 |
| Payables arising from acquisition of property, plant and equipment | **80,931** | 62,759 |
| Gross obligation to acquire non-controlling interest *(note 41)* | **–** | 88,815 |
| Other payables *(Note b)* | **242,263** | 218,026 |
| | **3,608,392** | 2,784,858 |

*Notes:*

(a) 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.

As at 1 January 2020, deferred income amounted to HK$104,991,000. The deferred income as at 1 January 2020 and 1 January 2021 were fully recognized as revenue during the years ended 31 December 2020 and 31 December 2021, respectively.

(b) The amounts mainly represent the value-added tax payable and sundry payables.

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

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| Not yet due | **1,701,316** | 1,155,582 |
| Overdue within 30 days | **203,178** | 210,998 |
| Overdue 31 to 60 days | **83,762** | 49,278 |
| Overdue 61 to 90 days | **10,214** | 13,994 |
| Overdue over 90 days | **20,969** | 25,087 |
| | **2,019,439** | 1,454,939 |

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.

## 33. 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 2020 and 2021, 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 is recognized on the relevant contract. The Group typically receives a certain percentage of deposit on acceptance of purchase orders.

As at 1 January 2020, advance payments from customers amounted to HK$718,794,000. The advance payments from customers as at 1 January 2020 and 1 January 2021 were fully recognized as revenue during the years ended 31 December 2020 and 31 December 2021, respectively.

## 34. LEASE LIABILITIES

| | **2021 HK$'000** | 2020 HK$'000 |
|---|---|---|
| **Lease liabilities payable:** | | |
| Within one year | **197,378** | 169,730 |
| Within a period of more than one year but not more than two years | **168,687** | 156,817 |
| Within a period of more than two years but not more than five years | **455,137** | 381,198 |
| Within a period of more than five years | **725,165** | 814,461 |
| | **1,546,367** | 1,522,206 |
| Less: Amount due for settlement within 12 months shown under current liabilities | **(197,378)** | (169,730) |
| Amount due for settlement after 12 months shown under non-current liabilities | **1,348,989** | 1,352,476 |

The weighted average incremental borrowing rates applied to lease liabilities is 3.35% (2020: 3.49%).

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 2021 | **273,566** | **80,857** | **11,430** | **13,640** |
| As at 31 December 2020 | 283,578 | 85,190 | 14,173 | 13,538 |

## 35. PROVISIONS

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

| | **2021 HK$'000** | 2020 HK$'000 |
|---|---|---|
| Current | **351,944** | 308,722 |
| Non-current | **53,005** | 51,345 |
| | **404,949** | 360,067 |

The Group's provisions mainly comprise warranty provision of HK$290,343,000 (2020: HK$270,096,000). The movement of the warranty provision and restructuring provision are as follows:

| | **Warranty provision HK$'000** | **Restructuring provision HK$'000** |
|---|---|---|
| At 1 January 2020 | 251,366 | 35,258 |
| Currency realignment | 12,716 | 2,322 |
| Additions | 177,812 | 68,420 |
| Utilization | (171,798) | (57,547) |
| Deemed disposal of subsidiaries | – | (10,553) |
| At 31 December 2020 | 270,096 | 37,900 |
| Currency realignment | (4,271) | 1,256 |
| Additions | 246,553 | 24,413 |
| Utilization | (222,035) | (22,993) |
| At 31 December 2021 | 290,343 | 40,576 |

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 semiconductor solutions 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. The first tranche of court hearing for the assessment of damages was held in March 2021. The second tranche of court hearings is tentatively scheduled in October 2022.

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. On 22 January 2021, the subsidiary's consultant provided its report which disagreed with the calculations made by the third party's consultant.

Based on the subsidiary's consultant's report and the directors' estimate of the expenditure required to settle the Group's obligations in relation to the litigation, a provision of approximately HK$39,029,000 (31 December 2020: HK$17,070,000) was made.

The remaining is mainly provision for restoration of right-of-use assets.

## 36. BANK BORROWINGS

| | **2021 HK$'000** | 2020 HK$'000 |
|---|---|---|
| The carrying amount of the bank borrowings are repayable: | | |
| Within one year | **448,588** | 547,210 |
| Within a period of more than one year but not exceeding two years | **250,000** | 250,476 |
| Within a period of more than two years but not exceeding five years | **2,000,000** | 2,250,000 |
| | **2,698,588** | 3,047,686 |
| Less: Amounts due within one year shown under current liabilities | **(448,588)** | (547,210) |
| Amounts shown under non-current liabilities | **2,250,000** | 2,500,476 |
| Fixed-rate borrowings | **442** | 194,327 |
| Variable-rate borrowings *(Note)* | **2,698,146** | 2,853,359 |
| | **2,698,588** | 3,047,686 |

*Note:* Included in variable-rate borrowings were bank loans of HK$1,750,000,000 (2020: HK$1,750,000,000) which were under cash flow hedges and the major terms of the interest rate swap contracts under cash flow hedges at the end of the reporting period as disclosed in note 30.

The Group's bank borrowings are unsecured and unguaranteed.

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

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

| | **2021** | 2020 |
|---|---|---|
| Effective interest rates: | | |
| Fixed-rate bank borrowings | **2.75%** | 2.10% to 2.75% |
| Variable-rate bank borrowings | **1.47% to 2.04%** | 1.20% to 2.07% |

## 37. SHARE CAPITAL OF THE COMPANY

| | Number of shares | | Share capital | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **'000** | '000 | **HK$'000** | HK$'000 |
| Issued and fully paid: | | | | |
| At 1 January | **410,796** | 408,895 | **41,079** | 40,889 |
| Shares issued under the Scheme | **1,909** | 1,901 | **191** | 190 |
| At 31 December | **412,705** | 410,796 | **41,270** | 41,079 |

The authorized share capital of the Company is HK$50 million, comprising 500 million shares of HK$0.10 each, at 31 December 2021 and 2020 and 1 January 2020.

During the year, 1,909,200 (2020: 1,900,600) shares were issued at par to eligible employees and members of management under the Scheme.

## 38. EMPLOYEE SHARE INCENTIVE SCHEME

At the annual general meeting of the Company held on 7 May 2019, the shareholders approved the adoption of an Employee Share Incentive Scheme (the "Scheme") on 24 March 2020 (the "Adoption Date"), under which shares of the Company (the "Awarded Shares") may be allocated or awarded to employees or directors of the Company and its certain subsidiaries as determined by the Board (the "Selected Employees"). Unless otherwise cancelled or amended, the Scheme will remain valid and effective for a period of ten years commencing from the Adoption Date. Details of the Scheme were set out in the Company's circular to shareholders dated 1 April 2019.

During the year ended 31 December 2020, the directors resolved to contribute HK$183 million to the Scheme, pursuant to which an independent professional trustee appointed by the Board under the Scheme (the "Trustee") to subscribe or purchase 2,258,300 shares in the Company for the benefits of certain employees and members of the management of the Group who shall remain in employment within the Group upon the expiration of vesting period on 15 December 2020 (the "2020 Vesting Date"). The Trustee (i) purchased a total of 330,300 shares in the Company on the Stock Exchange, and (ii) subscribed 1,639,700 shares in the Company, prior to the 2020 Vesting Date. On the 2020 Vesting Date, the Trustee transferred 331,800 shares purchased on the Stock Exchange and 1,639,400 subscribed shares to certain Selected Employees who are connected persons and not connected persons of the Company respectively. On the same day, the Company also issued and allotted 260,900 new shares to certain Selected Employees who are not connected persons of the Company. 26,200 share entitlements were forfeited and unallocated by the Company, among which 300 shares subscribed by the Trustee shall continue to be held on trust by the Trustee as returned shares pursuant to the rules and trust deed of the Scheme.

## 38. EMPLOYEE SHARE INCENTIVE SCHEME (CONTINUED)

During the year ended 31 December 2021, the directors resolved to contribute HK$215 million to the Scheme, pursuant to which the Trustee to subscribe or purchase 2,251,100 shares in the Company for the benefits of certain employees and members of the management of the Group who shall remain in employment within the Group upon the expiration of vesting period on 15 December 2021 (the "2021 Vesting Date"). The Trustee (i) purchased a total of 275,100 shares in the Company on the Stock Exchange, and (ii) subscribed 1,852,900 shares in the Company, prior to the 2021 Vesting Date. On the 2021 Vesting Date, the Trustee transferred 266,400 shares purchased on the Stock Exchange and 1,851,600 subscribed shares to certain Selected Employees who are connected persons and not connected persons of the Company respectively. On the same day, the Company also issued and allotted 56,300 new shares to certain Selected Employees who are not connected persons of the Company. During the year ended 31 December 2021, 76,800 share entitlements were forfeited and unallocated by the Company, which comprised 8,700 shares entitlements and 68,100 share entitlements previously awarded to Selected Employees who are connected persons and not connected persons of the Company respectively during the year.

1,300 shares which were subscribed by the Trustee during the year whereas their share entitlements were forfeited shall continue to be held on trust by the Trustee as returned shares pursuant to the rules and trust deed of the Scheme.

### Share-based payments

The fair values of the shares granted pursuant to the Scheme in 2020 and 2021 were determined with reference to market value of the shares at the award date taking into account the exclusion of the expected dividends as the employees were not entitled to receive dividends paid during the vesting periods of the shares.

The Group recognized share-based payments amounting to HK$210,255,000 for the year ended 31 December 2021 (2020: HK$160,732,800) in relation to the shares awarded pursuant to the Scheme by the Company, such an amount being determined by the fair values of the shares awarded at the award dates.

Movements of the shares awarded to Selected Employees under the Scheme during the year ended 31 December 2021 are as follows:

| | | Number of shares | | | | | |
|---|---|---|---|---|---|---|---|
| Date of award | Vesting period | At 1 January 2021 | Awarded on 22 March 2021 | Allocated as Awarded Shares during the year | Shares issued and vested during the year | Share entitlements forfeited on 15 December 2021 | At 31 December 2021 |
| 22 March 2021 | 22 March 2021 to 15 December 2021 | – | 2,251,100 | (275,100) | (1,907,900) | (68,100) | – |

## 38. EMPLOYEE SHARE INCENTIVE SCHEME (CONTINUED)

Movements of the shares awarded to Selected Employees under the Scheme during the year ended 31 December 2020 are as follows:

| | | Number of shares | | | | | |
|---|---|---|---|---|---|---|---|
| Date of award | Vesting period | At 1 January 2020 | Awarded on 25 March 2020 | Allocated as Awarded Shares during the year | Shares issued and vested on 15 December 2020 | Share entitlements forfeited on 15 December 2020 | At 31 December 2020 |
| 25 March 2020 | 25 March 2020 to 15 December 2020 | – | 2,258,300 | (331,800) | (1,900,300) | (26,200) | – |

Movements of Awarded Shares purchased are as follows:

| | **Number of shares purchased '000** | **Cost of purchase HK$'000** |
|---|---|---|
| At 1 January 2020 | 1 | 132 |
| Shares purchased from the market during the year | 330 | 26,335 |
| Awarded Shares vested | (331) | (26,467) |
| At 31 December 2020 and 1 January 2021 | – | – |
| Shares purchased from the market during the year | 275 | 26,709 |
| Awarded Shares vested | (266) | (25,864) |
| At 31 December 2021 | 9 | 845 |

## 39. 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 MPF Scheme established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The assets of the schemes are held separately from those of the Group in funds under the control of trustees.

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

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the MPF Scheme subject only to the maximum level of payroll costs of HK$30,000 per employee per month, which contribution is matched by the employees.

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

The amount charged to profit or loss of HK$252,130,000 (2020: HK$199,659,000) 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 2021 and 2020, there were no forfeitures arising from employees leaving the Group prior to completion of qualifying service period.

At 31 December 2021 and 2020, 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.

## 39. RETIREMENT BENEFIT PLANS (CONTINUED)

### 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. |

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 2021 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.

## 39. RETIREMENT BENEFIT PLANS (CONTINUED)

### Defined benefit plans (Continued)

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

| | 31 December | |
|---|---|---|
| | **2021** | 2020 |
| Discount rate | **0.90%** | 0.50% |
| Average longevity at retirement age | **63 years** | 63 years |
| Expected rate of compensation increase | **2.25%** | 2.25% |
| Expected rate of pension progression | **1.60%** | 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:

| | **2021**<br>**HK$'000** | 2020<br>HK$'000 |
|---|---|---|
| Principal pension benefit plans *(Note a)* | **213,854** | 295,709 |
| Other post-employment benefit plans *(Note b)* | **18,550** | 21,953 |
| Other retirement benefit obligations *(Note c)* | **2,239** | 2,159 |
| | **234,643** | 319,821 |

## 39. 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 2021 and 2020 are as follows:

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| Fair value of plan assets | 618,311 | 605,889 |
| Total present value of DBO | | |
| Defined benefit obligation (funded) | (826,359) | (894,674) |
| Defined benefit obligation (unfunded) | (5,806) | (6,924) |
| Net liability arising from defined benefit obligation | (213,854) | (295,709) |

The actuarial valuation showed that market value of the plan assets was HK$618,311,000 (2020: HK$605,889,000) and that the actuarial value of these represented 75% (2020: 68%) 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:

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| At 1 January | 605,889 | 515,564 |
| Currency realignment | (43,330) | 45,154 |
| Interest income | 2,802 | 5,295 |
| Return on plan assets (excluding amounts included in net interest expenses) | 22,259 | 12,225 |
| Benefits paid | (1,440) | (2,683) |
| Employer contribution | 32,131 | 30,334 |
| At 31 December | 618,311 | 605,889 |

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

| **Asset class** | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| Fixed income and corporate bonds | 343,311 | 318,653 |
| Equity securities | 190,223 | 204,569 |
| Cash and other assets | 84,777 | 82,667 |
| | 618,311 | 605,889 |

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 2021 was a net gain of HK$25,061,000 (2020: HK$17,520,000).

# 39. 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:

| | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|
| At 1 January | **901,598** | 750,777 |
| Currency realignment | **(64,183)** | 64,527 |
| Current service cost | **35,056** | 36,040 |
| Past service cost | **–** | 109 |
| Interest cost | **4,757** | 7,933 |
| Remeasurement (gains) losses | | |
| Actuarial (gain) loss arising from changes in financial assumptions | **(39,378)** | 52,567 |
| Actuarial loss (gain) arising from experience adjustments | **3,298** | (2,856) |
| Actuarial (gain) loss arising from changes in demographic assumptions | **(2,024)** | 131 |
| Benefits paid | **(6,959)** | (6,834) |
| Deemed disposal of subsidiaries | **–** | (796) |
| At 31 December | **832,165** | 901,598 |

**(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:

| | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|
| Defined benefit obligation | **18,550** | 21,953 |

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

| | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|
| At 1 January | **21,953** | 20,482 |
| Currency realignment | **(1,572)** | 1,797 |
| Current service cost | **502** | 596 |
| Interest cost | **95** | 192 |
| Remeasurement (gains) losses | | |
| Actuarial (gain) loss arising from changes in financial assumptions | **(262)** | 348 |
| Actuarial (gain) loss arising from experience adjustments | **(424)** | 838 |
| Benefits paid | **(1,742)** | (2,300) |
| At 31 December | **18,550** | 21,953 |

## 39. RETIREMENT BENEFIT PLANS (CONTINUED)

### Defined benefit plans (Continued)

*Notes: (Continued)*

**(c) Other retirement benefit obligations**

As at 31 December 2021, 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 amounting to HK$2,239,000 (2020: HK$2,159,000).

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$52,454,000 (increase by HK$60,500,000) (2020: decrease by HK$63,561,000 (increase by HK$74,942,000)).

- If the expected rate of pension progression increases (decreases) by 50 basis points, the defined benefit obligation would increase by HK$41,163,000 (decrease by HK$37,043,000) (2020: increase by HK$48,126,000 (decrease by HK$43,241,000)).

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 2021 is 13.62 years (2020: 15.33 years).

The Group expects to make a contribution of HK$33,057,000 (2020: HK$34,112,000) to the defined benefit plans during the next financial year.

## 39. 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 2021**

| | Principal pension benefit plans HK$'000 | Other post-employment benefit plans HK$'000 | Total HK$'000 |
|---|---|---|---|
| Remeasurement gains | 60,363 | 686 | 61,049 |
| Income tax effect | (19,812) | (225) | (20,037) |
| | 40,551 | 461 | 41,012 |

**For the year ended 31 December 2020**

| | Principal pension benefit plans HK$'000 | Other post-employment benefit plans HK$'000 | Total HK$'000 |
|---|---|---|---|
| Remeasurement losses | (37,617) | (1,186) | (38,803) |
| Income tax effect | 12,314 | 389 | 12,703 |
| | (25,303) | (797) | (26,100) |

## 39. 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 2021**

| | Principal pension benefit plans HK$'000 | Other post-employment benefit plans HK$'000 | Total HK$'000 |
|---|---|---|---|
| Service cost: | | | |
| Current service cost | 35,056 | 502 | 35,558 |
| Net interest expense | 1,955 | 95 | 2,050 |
| Components of defined benefit costs recognized in profit or loss | 37,011 | 597 | 37,608 |
| Remeasurement (gains) losses: | | | |
| Return on plan assets (excluding amounts included in net interest expense) | (22,259) | – | (22,259) |
| Actuarial gains arising from changes in financial assumptions | (39,378) | (262) | (39,640) |
| Actuarial losses (gain) arising from experience adjustments | 3,298 | (424) | 2,874 |
| Actuarial gain arising from change in demographic assumptions | (2,024) | – | (2,024) |
| Components of defined benefit costs recognized in other comprehensive expense | (60,363) | (686) | (61,049) |
| Total | (23,352) | (89) | (23,441) |

## 39. 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 2020**

| | Principal pension benefit plans HK$'000 | Other post-employment benefit plans HK$'000 | Total HK$'000 |
|---|---|---|---|
| Service cost: | | | |
| Current service cost | 36,040 | 596 | 36,636 |
| Past service cost | 109 | – | 109 |
| Net interest expense | 2,638 | 192 | 2,830 |
| Components of defined benefit costs recognized in profit or loss | 38,787 | 788 | 39,575 |
| Remeasurement (gains) losses: | | | |
| Return on plan assets (excluding amounts included in net interest expense) | (12,225) | – | (12,225) |
| Actuarial loss arising from changes in financial assumptions | 52,567 | 348 | 52,915 |
| Actuarial (gain) loss arising from experience adjustments | (2,856) | 838 | (2,018) |
| Actuarial losses arising from change in demographic assumptions | 131 | – | 131 |
| Components of defined benefit costs recognized in other comprehensive expense | 37,617 | 1,186 | 38,803 |
| Total | 76,404 | 1,974 | 78,378 |

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.

## 40. 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 2020 | (243,597) | 21,815 | 139,417 | 136,828 | 42,240 | 39,067 | 15,066 | 150,836 |
| (Charge) credit to profit or loss for the year | (6,845) | 97,598 | (1,729) | 66,391 | (21,977) | (6,305) | 44,947 | 172,080 |
| Credit to other comprehensive income for the year | – | – | 12,703 | – | – | – | – | 12,703 |
| Acquisition of subsidiary | (5,537) | 795 | – | – | – | – | – | (4,742) |
| Deemed disposal of subsidiaries | (2,097) | (4,947) | (143) | 2,565 | (197) | – | (2,941) | (7,760) |
| Currency realignment | (565) | 1,255 | 11,904 | 872 | 561 | 1,459 | (1,851) | 13,635 |
| At 1 January 2021 | (258,641) | 116,516 | 162,152 | 206,656 | 20,627 | 34,221 | 55,221 | 336,752 |
| Credit (charge) to profit or loss for the year | 34,433 | (88,155) | 4,630 | 63,584 | 11,971 | 17,301 | 33,399 | 77,163 |
| Charge to other comprehensive income for the year | – | – | (20,037) | – | – | – | – | (20,037) |
| Currency realignment | 1,365 | (1,817) | (11,462) | 998 | 1,093 | 436 | 718 | (8,669) |
| At 31 December 2021 | (222,843) | 26,544 | 135,283 | 271,238 | 33,691 | 51,958 | 89,338 | 385,209 |

*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 utilization of the related provisions.

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

## 40. 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:

| | **2021**<br>**HK$'000** | 2020<br>HK$'000 |
|---|---|---|
| Deferred tax assets | **565,883** | 569,129 |
| Deferred tax liabilities | **(180,674)** | (232,377) |
| | **385,209** | 336,752 |

At 31 December 2021, the Group had unused tax losses of HK$669,885,000 (2020: HK$1,157,381,000), subject to the approval by the relevant tax authorities, available to offset future taxable profits. At 31 December 2021, a deferred tax asset amounting to HK$26,544,000 (2020: HK$116,516,000) was recognized for tax losses amounting to HK$102,973,000 (2020: HK$621,195,000) and no deferred tax was recognized in respect of the remaining tax losses of HK$566,912,000 (2020: HK$536,186,000) due to the unpredictability of future profit streams. At 31 December 2021, included in the unrecognized tax losses are losses of HK$17,450,000 that would expire during 2025 to 2028 (2020: HK$23,906,000 that will expire during 2023 to 2025). 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 entities from 1 January 2008 onwards. For certain entities 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$5,031,368,000 (2020: HK$4,345,525,000) and accumulated profits of a joint venture attributable to the Group amounting to HK$456,262,000 (2020: HK$298,028,000) 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.

## 41. OTHER LIABILITIES AND ACCRUALS

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| Gross obligation to acquire non-controlling interests *(Note)* | **48,924** | 136,343 |
| Other payables and accruals | **64,765** | 74,055 |
| | **113,689** | 210,398 |
| Less: Gross obligation to acquire non-controlling interest due within one year included in trade liabilities and other payables *(note 32)* | **–** | (88,815) |
| Amounts shown under non-current liabilities | **113,689** | 121,583 |

*Note:* On 18 June 2020, the Group entered into a purchase agreement with a call and put option ("Options") for acquiring the remaining shares of SKT (defined in note 42) in which the Group is obliged to acquire the remaining 40% non-controlling interests of SKT from the management shareholders (the "SKT Holders") within six months after the end of third anniversary of the acquisition if the options are exercised.

The consideration payable to the SKT Holders is ranging from RMB40,000,000 (equivalent to approximately HK$48,924,000) to RMB190,000,000 (equivalent to approximately HK$225,758,000) which will be calculated by reference to the accumulated operating performance of SKT (i.e. average revenue and average earnings before interest, taxes, depreciation and amortization ("EBITDA")) during the three years ending 31 July 2023. At initial recognition, the expected consideration payable to the SKT Holders arising from the put option to acquire non-controlling interests represents the obligation to deliver the shares to the Group on 6 July 2020 amounting to RMB40,000,000 (equivalent to approximately HK$43,792,000, HK$47,528,000 and HK$48,924,000 on 6 July 2020, 31 December 2020 and 31 December 2021 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.

On 26 July 2018, the Group entered into a promissory agreement for acquiring the remaining shares of Critical Manufacturing 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.

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. 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 and HK$87,965,000 on 1 August 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. The gross obligation of Critical Manufacturing at 31 December 2020 is adjusted to EUR9,335,000 (equivalent to approximately HK$88,815,000) by reference to the accumulated operating performance of Critical Manufacturing during the three years ended 31 December 2020 and change of the gross obligation has been recognized in profit or loss for the year ended 31 December 2020.

The gross obligation of HK$88,815,000 expected to be settled within twelve months from the reporting period is included in "trade liabilities and other payables" as at 31 December 2020. Such amount has been settled during the year ended 31 December 2021.

## 42. ACQUISITION OF BUSINESS

On 18 June 2020, the Group entered into a purchase agreement to acquire 60% equity interest in Shenzhen Shen Ke Te Information Technology Co., Ltd. ("SKT"), a company based in the China, at a consideration of RMB60,000,000 (equivalent to approximately HK$65,688,000) ("SKT Acquisition"). SKT engages in the development, marketing and sales of Manufacturing Execution Systems Software Solutions with optional implementation services. The SKT Acquisition was completed on 6 July 2020 and has been accounted for using the acquisition method.

Acquisition-related costs amounting to HK$1,387,000 had been excluded from the cost of SKT 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 | 175 |
| Right-of-use assets | 655 |
| Intangible assets | 36,915 |
| Inventories | 8 |
| Trade and other receivables | 3,088 |
| Bank balances and cash | 4,142 |
| Trade liabilities and other payables | (2,157) |
| Advance payments from customers | (1,342) |
| Lease liabilities | (655) |
| Bank borrowings | (1,752) |
| Other liabilities and accruals | (14,561) |
| Deferred tax liabilities | (4,742) |
| | 19,774 |
| Net cash outflow arising on acquisition: | |
| Purchase consideration | 65,688 |
| Less: Cash and cash equivalents balances acquired | (4,142) |
| | 61,546 |
| Goodwill arising on acquisition: | |
| Purchase consideration | 65,688 |
| Plus: Non-controlling interest (40% in SKT) | 43,792 |
| Less: Fair value of identified net assets acquired | (19,774) |
| | 89,706 |

## 42. ACQUISITION OF BUSINESS (CONTINUED)

The fair value of intangible assets acquired from the SKT Acquisition of HK$36,915,000 representing sales backlog, trade name, technology and customer bases which were determined by the management of the Company with reference to the valuation report, based on the multi-period excess earnings method, prepared by independent professional valuers. That calculation uses cash flow projections based on financial budgets approved by management covering the useful lives of the patents at a discount rate of 17%. Other key assumptions of the value in use calculations relating to the estimation of cash inflow/outflows include budgeted sales and gross margin. Such estimation is based on past performance and management's expectations for the market development.

The non-controlling interests (40%) recognized at the acquisition date was measured by reference to the fair value of the non-controlling interests and amounted to HK$43,792,000. 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 17% and assumed long-term sustainable growth rate of 3%.

The trade receivables acquired with a fair value of HK$2,462,000 at the date of acquisition had a gross contractual amounts of HK$2,972,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to HK$510,000.

Goodwill arose in SKT 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 SKT. 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 acquisition on the results of the Group

Included in the profit for the year ended 31 December 2020 was profit of HK$912,000 attributable to SKT which included purchase price allocation effect on SKT. Revenue for the year ended 31 December 2020 includes HK$20,046,000 attributable to SKT.

Had the acquisition of SKT been completed on 1 January 2020, the total amount of revenue of the Group for the year ended 31 December 2020 would have been HK$16,892,932,000 and the amount of the profit for the year ended 31 December 2020 would have been HK$1,629,534,000. 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 SKT 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 at the date of acquisition.

## 43. DEEMED DISPOSAL OF SUBSIDIARIES

As referred to in note 13, on 28 December 2020, the Group discontinued its materials business. The net assets of materials business at the date of disposal were as follows:

| | 28 December 2020 HK$'000 |
|---|---|
| **Analysis of assets and liabilities over which control was lost:** | |
| Property, plant and equipment | 335,486 |
| Right-of-use assets | 10,564 |
| Deposits paid for acquisition of property, plant and equipment | 8,809 |
| Rental deposits paid | 232 |
| Deferred tax assets | 7,760 |
| Inventories | 382,596 |
| Trade and other receivables | 667,214 |
| Bank balances and cash | 16,368 |
| Amounts due from group companies | 110,277 |
| Amount due to group company | (326) |
| Trade and other payables | (400,692) |
| Advance payment from customers | (11,179) |
| Lease liabilities | (11,056) |
| Provisions | (10,553) |
| Income tax payable | (5,748) |
| Retirement benefit obligations | (796) |
| Other liabilities and accruals | (6,767) |
| | 1,092,189 |
| **Gain on deemed disposal of subsidiaries:** | |
| Consideration received | 775,140 |
| Net assets disposed of | (1,092,189) |
| Interest in a joint venture | 1,240,001 |
| Reclassification of cumulative translation reserve upon deemed disposal of AAMI to profit or loss | 8,896 |
| Written off costs incurred *(note 20(ii))* | (26,989) |
| Transaction costs | (45,817) |
| Gain on deemed disposal | 859,042 |
| **Net cash inflow arising on deemed disposal:** | |
| Cash consideration | 775,140 |
| Less: Bank balances and cash disposed of | (16,368) |
| | 758,772 |

The impact of materials business on the Group's results and cash flows in prior period is disclosed in note 13.

## 44. CONTINGENT LIABILITIES

As at 31 December 2021, the Group has provided guarantees amounting to HK$1,532,000 (2020: HK$2,112,000) to the Singapore government for work permits of foreign workers in Singapore.

## 45. CAPITAL COMMITMENTS

| | **2021**<br>**HK$'000** | 2020<br>HK$'000 |
|---|---|---|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | **235,009** | 96,161 |

## 46. OPERATING LEASING ARRANGEMENTS

### 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 14.

Equipment leasing income earned during the year was HK$43,941,000 (2020: HK$40,017,000). Certain of the Group's machinery held for rental purposes, with a carrying amount of HK$53,253,000 (2020: HK$61,990,000).

Minimum lease payments receivable on leases are as follows:

| | **2021**<br>**HK$'000** | 2020<br>HK$'000 |
|---|---|---|
| Within one year | **55,951** | 62,719 |
| In the second year | **32,425** | 39,674 |
| In the third year | **17,277** | 17,427 |
| In the fourth year | **6,357** | 7,195 |
| In the fifth year | **6,213** | 6,608 |
| After five years | **–** | 6,828 |
| | **118,223** | 140,451 |

## 47. 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, lease liabilities 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.

## 48. FINANCIAL INSTRUMENTS

### Categories of financial instruments

| | **2021**<br>**HK$'000** | 2020<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Financial assets at amortized cost | **10,359,470** | 8,380,342 |
| Finance lease receivables | **–** | 4,735 |
| Other investments - equity instruments at FVTOCI | **64,202** | 111,106 |
| Derivative financial instruments | **145,868** | 45,564 |
| Other financial assets | **39,775** | – |
| **Financial liabilities** | | |
| Amortized cost | **5,517,036** | 5,359,162 |
| Derivative financial instruments | **60,378** | 55,804 |
| Gross obligation to acquire non-controlling interests | **48,924** | 136,343 |
| Lease liabilities | **1,546,367** | 1,522,206 |

### Financial risk management objectives and policies

The Group's major financial instruments include other investments, other financial assets, other non-current assets, finance lease receivables, rental deposits paid, pledged bank deposits, bank deposits with original maturity of more than three months, bank balances and cash, trade and other receivables, amounts due from a joint venture and its affiliates, derivative financial instruments, trade liabilities and other payables, other liabilities, amounts due to a joint venture and its affiliate, lease liabilities, gross obligation to acquire non-controlling interests, 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 46% and 39% 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.

## 48. FINANCIAL INSTRUMENTS (CONTINUED)

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

**Market risk (Continued)**

*Foreign currency risk management (Continued)*

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

| | Currency | Assets 2021 HK$'000 | Assets 2020 HK$'000 | Liabilities 2021 HK$'000 | Liabilities 2020 HK$'000 |
|---|---|---|---|---|---|
| **The Group** | | | | | |
| US dollar *(Note a)* | US$ | **3,455,449** | 2,754,395 | **136,521** | 112,975 |
| Euro | EUR | **126,067** | 61,352 | **92,517** | 77,891 |
| Renminbi | RMB | **458,104** | 229,511 | **662,210** | 555,786 |
| Singapore dollar | S$ | **69,980** | 59,431 | **229,536** | 210,244 |
| Japanese Yen | JPY | **5,055** | 654 | **107,125** | 70,863 |
| British Pound | GBP | **111,617** | 40,419 | **6,140** | 7,701 |
| Others | | **61,701** | 48,508 | **235,764** | 160,498 |
| Inter-company balances | | | | | |
| US dollar *(Note b)* | US$ | **3,414,533** | 3,418,817 | **1,163,964** | 494,644 |
| Euro | EUR | **96,296** | 99,112 | **42,503** | 94,227 |
| Renminbi | RMB | **365,023** | 397,983 | **30** | 108 |
| Singapore dollar | S$ | **57** | 1,146 | **56** | 1,145 |
| Japanese Yen | JPY | **293,957** | 155,441 | **–** | – |
| British Pound | GBP | **–** | – | **111,396** | 83,879 |
| Others | | **56,103** | 55,626 | **123,995** | 207,651 |
| Loan to foreign operations that form parts of a net investment | | | | | |
| US dollar *(Note c)* | US$ | **793,607** | 831,698 | **793,607** | 831,698 |
| Euro | EUR | **59,183** | – | **–** | – |
| British Pound | GBP | **101,128** | 381,060 | **–** | – |

*Notes:*

(a) Included in the balances are US dollar financial assets and financial liabilities of HK$1,532,059,000 and HK$128,323,000 (2020: HK$945,818,000 and HK$92,541,000), respectively where Hong Kong dollars is not the functional currency of the relevant group entities.

(b) Included in the balances are US dollar financial assets and financial liabilities of HK$1,624,463,000 and HK$543,732,000 (2020: HK$1,181,316,000 and HK$282,381,000), 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$793,607,000 (2020: HK$831,698,000) 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 pegged to 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.

## 48. FINANCIAL INSTRUMENTS (CONTINUED)

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

**Market risk (Continued)**

*Foreign currency risk management (Continued)*

Foreign currency sensitivity analysis

The Group is mainly exposed currency risk related to Euro, US dollar, Renminbi, Japanese Yen, 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 30).

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 foreign currency and a positive and negative number below indicates an increase and a decrease in profit and exchange reserve respectively. For a 5% weakening of the functional currency of the relevant group entities against the relevant foreign currency, there would be an equal and opposite impact on the profit and exchange reserve.

| | Euro impact (i) | | US dollar impact (ii) | | Renminbi impact (iii) | | Japanese Yen impact (iv) | | Singapore dollar impact (v) | | British Pound impact (vi) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2021 HK$'000** | 2020 HK$'000 | **2021 HK$'000** | 2020 HK$'000 | **2021 HK$'000** | 2020 HK$'000 | **2021 HK$'000** | 2020 HK$'000 | **2021 HK$'000** | 2020 HK$'000 | **2021 HK$'000** | 2020 HK$'000 |
| (Decrease) increase in post-tax profit | **(2,659)** | 756 | **(95,745)** | (66,677) | **(11,591)** | (7,688) | **(9,095)** | (4,072) | **7,400** | 6,990 | **247** | 2,134 |
| (Decrease) increase in exchange reserve | **(2,397)** | – | **29,363** | 30,816 | **–** | – | **–** | – | **–** | – | **(4,222)** | (15,909) |

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

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

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

## 48. FINANCIAL INSTRUMENTS (CONTINUED)

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

**Market risk (Continued)**

*Interest rate risk management*

The Group is exposed to fair value interest rate risk in relation to pledged bank deposits (see note 31), fixed-rate bank borrowings (see note 36), finance lease receivables (see note 27) and lease liabilities (see note 34). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank deposits/balances and bank borrowings. In order to keep the Group's bank loans at fixed rates, the Group entered into interest rate swaps to hedge against its exposures to changes in cash flows of certain bank loans. The critical terms of these interest rate swaps are the same to those of hedged bank loans. Interest rate swaps are designated as effective hedging instruments and hedge accounting is used (see note 30 for details).

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 non-derivative variable-rate instruments at the end of the reporting period. For interest bearing bank deposits and bank borrowings, the analysis is prepared assuming the amount of assets and liabilities outstanding at the end of the reporting period were outstanding for the whole period. A 5 basis points (2020: 5 basis points) increase is used for bank deposits and 50 basis points (2020: 50 basis points) increase and decrease is used 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 (excluding bank loans under cash flow hedges of HK$1,750,000,000 (2020: HK$1,750,000,000)), respectively, or 50 basis points lower for bank borrowings (excluding bank loans under cash flow hedge of HK$1,750,000,000 (2020: HK$1,750,000,000)) and all of other variables were held constant, post-tax profit for the year ended 31 December 2021 would decrease/increase by approximately HK$3,529,000 (2020: HK$3,971,000) and HK$3,945,000 (2020: HK$4,865,000) respectively. This is mainly attributable to the Group's exposure to interest rates on its certain bank balances and variable-rate borrowings which are not hedged against their exposures to cash flow interest rate risk at the end of the reporting period.

**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 2021 primarily attributable to trade and other receivable, bank deposits with original maturity of more than three months and bank balances 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.

*Bank deposits with maturity of more than three months and bank balances*

No allowance for impairment was made since the directors of the Company consider that the probability of default is negligible as such amounts are receivable from or placed in banks with good reputation.

*Other receivables*

No allowance for impairment was made since the directors of the Company consider that the probability of default is minimal after assessing the counterparties' financial background and creditability.

## 48. FINANCIAL INSTRUMENTS (CONTINUED)

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

**Credit risk management and impairment assessment (Continued)**

*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 and credit-impaired individually and/or collectively. 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 collectively as at 31 December 2021 and 31 December 2020 within lifetime ECL.

**Carrying amount**

| Credit rating | 2021 Average loss rate % | 2021 Trade receivables HK$'000 | 2020 Average loss rate % | 2020 Trade receivables HK$'000 |
|---|---|---|---|---|
| Strong* | **0.03** | **1,561,867** | 0.07 | 951,261 |
| Good | **0.56** | **2,837,779** | 0.55 | 2,305,199 |
| Satisfactory | **1.60** | **415,170** | 1.42 | 202,664 |
| Watch list | **2.59** | **11,281** | 2.94 | 6,889 |
| | | **4,826,097** | | 3,466,013 |

* Included notes receivables amounting to HK$1,344,979,000 (2020: HK$470,572,000).

## 48. 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 2021 and 31 December 2020 within lifetime ECL.

**Carrying amount**

| Credit rating | 2021 Average loss rate % | 2021 Trade receivables HK$'000 | 2020 Average loss rate % | 2020 Trade receivables HK$'000 |
|---|---|---|---|---|
| Strong | 0.11 | 190,153 | 0.14 | 113,309 |
| Good | 0.93 | 350,652 | 0.74 | 221,210 |
| Satisfactory | 2.44 | 224 | 2.92 | 2,867 |
| Watch list | 7.77 | 8,458 | 12.34 | 4,059 |
| | | 549,487 | | 341,445 |

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.

## 48. FINANCIAL INSTRUMENTS (CONTINUED)

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

**Liquidity risk management**

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

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The table includes both 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 settlement dates as the management consider that the contractual settlement dates are essential for an understanding of the timing of the cash flows of derivatives.

**At 31 December 2021**

| | 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 | – | 318,123 | 2,462,644 | – | 2,780,767 | 2,780,767 |
| Other non-current liabilities | – | – | – | 27,052 | 27,052 | 27,052 |
| Lease liabilities | 3.35 | – | 245,752 | 1,582,262 | 1,828,014 | 1,546,367 |
| Bank borrowings | 2.00 | – | 497,439 | 2,306,470 | 2,803,909 | 2,698,588 |
| Amounts due to joint venture and its affiliate | – | 10,629 | – | – | 10,629 | 10,629 |
| Gross obligation to acquire non-controlling interests | – | – | – | 48,924 | 48,924 | 48,924 |
| | | 328,752 | 3,205,835 | 3,964,708 | 7,499,295 | 7,112,327 |
| Derivatives - net settlement | | | | | | |
| Foreign currency forward contracts | – | – | 41,585 | – | 41,585 | 41,585 |
| Interest rate swaps | – | – | 16,120 | 2,720 | 18,840 | 18,793 |
| | | – | 57,705 | 2,720 | 60,425 | 60,378 |

## 48. FINANCIAL INSTRUMENTS (CONTINUED)

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

**Liquidity risk management (Continued)**

**At 31 December 2020**

| | 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 | – | 299,357 | 1,874,062 | – | 2,173,419 | 2,173,419 |
| Other non-current liabilities | – | – | – | 27,780 | 27,780 | 27,780 |
| Lease liabilities | 3.49 | – | 219,768 | 1,623,559 | 1,843,327 | 1,522,206 |
| Bank borrowings | 1.98 | – | 604,229 | 2,606,321 | 3,210,550 | 3,047,686 |
| Amounts due to joint venture and its affiliate | – | 110,277 | – | – | 110,277 | 110,277 |
| Gross obligation to acquire non-controlling interests | – | – | 88,815 | 47,528 | 136,343 | 136,343 |
| | | 409,634 | 2,786,874 | 4,305,188 | 7,501,696 | 7,017,711 |
| Derivatives – net settlement | | | | | | |
| Interest rate swaps | – | – | 19,205 | 36,882 | 56,087 | 55,804 |

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

**Interest rate benchmark reform**

Several of the Group's LIBOR/HIBOR bank loans may be subject to the interest rate benchmark reform. The Group is closely monitoring the market and managing the transition to new benchmark interest rate, including announcements made by the relevant Inter-Bank Offered Rate ("IBOR") regulators.

*LIBOR*

The Financial Conduct Authority has confirmed all LIBOR settings will either cease to be provided by any administrator or no longer be representative:

- immediately after 31 December 2021, in the case of all British Pound, Euro, Swiss Franc and Japanese Yen settings, and the 1-week and 2-month US dollar setting; and
- immediately after 30 June 2023, in the case of the remaining US dollar setting.

*HIBOR*

While the Hong Kong Dollar Overnight Index Average ("HONIA") has been identified as an alternative to HIBOR, there is no plan to discontinue HIBOR. The multi-rate approach has been adopted in Hong Kong, whereby HIBOR and HONIA will co-exist.

## 48. FINANCIAL INSTRUMENTS (CONTINUED)

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

**Interest rate benchmark reform (Continued)**

*Risks arising from the interest rate benchmark reform*

The following are the key risks for the Group arising from the transition:

Interest rate related risks
For contracts which have not been transitioned to the relevant alternative benchmark rates and without detailed fallback clauses, if the bilateral negotiations with the Group's counterparties are not successfully concluded before the cessation of LIBORs, there are significant uncertainties with regard to the interest rate that would apply. This gives rise to additional interest rate risk that was not anticipated when the contracts were entered into.

There are fundamental differences between IBORs and the various alternative benchmark rates. IBORs are forward looking term rates published for a period (e.g. 3 months) at the beginning of that period and include an inter-bank credit spread, whereas alternative benchmark rates are typically risk-free overnight rates published at the end of the overnight period with no embedded credit spread. These differences will result in additional uncertainty regarding floating rate interest payments.

Liquidity risk
The additional uncertainty on various alternative rates which are typically published on overnight basis will require additional liquidity management. The Group's liquidity risk management policy has been updated to ensure sufficient liquid resources to accommodate unexpected increases in overnight rates.

Litigation risk
If no agreement is reached to implement the interest rate benchmark reform on contracts which have not been transitioned to the relevant alternative benchmark rates (e.g. arising from differing interpretation of existing fallback terms), there is a risk of prolonged disputes with counterparties which could give rise to additional legal and other costs. The Group is working closely with all counterparties to avoid this from occurring.

Interest rate basis risk
Interest rate basis risk may arise if a non-derivative instrument and the derivative instrument held to manage the interest risk on the non-derivative instrument transition to alternative benchmark rates at different times. This risk may also arise where back-to-back derivatives transition at different times. The Group will monitor this risk against its risk management policy which has been updated to allow for temporary mismatches of up to 12 months and transact additional basis interest rate swaps if required.

## 48. 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 2021 | 2020 | 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 30)* | **Asset – HK$1,482,000 Liability – HK$41,585,000** | Asset – HK$45,564,000 Liability – N/A | 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 |
| Interest rate swaps classified as derivative financial instruments on the consolidated statement of financial position *(note 30)* | **Liabilities (designated as for hedging) – HK$18,793,000** | Liabilities (designated as for hedging) – HK$55,804,000 | Level 2 | Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest 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 25)* | **Asset – HK$64,202,000** | Asset – HK$111,106,000 | Level 3 | Market approach is used by comparing the latest transaction prices. Considerations such as time and condition of sales 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. |
| Share adjustment on earn-out clause in a joint venture *(note 26)* | **Asset – HK$144,386,000** | N/A | Level 3 | Discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow into the group arising from the share adjustment in AAMI, based on an appropriate discount rate. | AAMI would meet the amount of earn-out clause by reference to the estimated sale performance and profit forecast of AAMI. | The higher the amount of profit and enterprise value of AAMI, the higher the fair value. |
| Contingent consideration receivable in other financial assets *(note 26)* | **Asset – HK$39,775,000** | N/A | Level 3 | EBIT of AAMI in 2021 and forecast EBIT of AAMI during 2022 and 2023. | Forecast EBIT of AAMI during 2022 and 2023 to achieve the EBIT target in shareholders' agreement with the shareholder of AAMI. | Forecast EBIT of AAMI during 2022 and 2023. |

There were no transfers between Level 1, 2 and 3 in both years.

## 48. FINANCIAL INSTRUMENTS (CONTINUED)

### Reconciliation of Level 3 fair value measurements

**Financial assets (liabilities)**

| | Contingent consideration receivable in other financial assets HK$'000 | Share adjustment on earn-out clause in a joint venture HK$'000 | Other investments-equity instruments at FVTOCI HK$'000 | Contingent consideration for acquisitions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2020 | – | – | 93,471 | (29,489) | 63,982 |
| Purchase | – | – | 16,459 | – | 16,459 |
| Payment | – | – | – | 31,142 | 31,142 |
| Total (loss) gain: | | | | | |
| – in profit or loss | – | – | – | (1,653) | (1,653) |
| – currency realignment | – | – | 1,176 | – | 1,176 |
| At 1 January 2021 | – | – | 111,106 | – | 111,106 |
| Purchase | – | – | 5,125 | – | 5,125 |
| Total gain (loss): | | | | | |
| – in profit or loss | 39,775 | 144,386 | – | – | 184,161 |
| – in other comprehensive income | – | – | (49,735) | – | (49,735) |
| – currency realignment | – | – | (2,294) | – | (2,294) |
| At 31 December 2021 | 39,775 | 144,386 | 64,202 | – | 248,363 |

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 42).

Included in other comprehensive income is an amount of HK$49,735,000 net loss (2020: nil) relating to other investments classified as equity instruments at FVTOCI held at 31 December 2021 and was reported as changes of "fair value through other comprehensive income reserve".

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

The fair values of the financial assets and liabilities recognized at amortized cost 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.

## 49. 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$'000 | Interest payables HK$'000 | Lease liabilities HK$'000 | Bank borrowings HK$'000 *(note 36)* | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2020 | – | – | 1,550,802 | 3,043,482 | 4,594,284 |
| Financing cash flows | (572,454) | (116,671) | (256,376) | (23,845) | (969,346) |
| Currency realignment | – | – | 62,356 | 26,297 | 88,653 |
| New lease entered/lease modified | – | – | 122,487 | – | 122,487 |
| Finance costs | – | 116,671 | 53,338 | – | 170,009 |
| Dividend declared | 572,454 | – | – | – | 572,454 |
| Acquisition of a subsidiary *(note 42)* | – | – | 655 | 1,752 | 2,407 |
| Deemed disposal of subsidiaries *(note 43)* | – | – | (11,056) | – | (11,056) |
| At 1 January 2021 | – | – | 1,522,206 | 3,047,686 | 4,569,892 |
| Financing cash flows | (1,355,627) | (65,243) | (244,748) | (349,243) | (2,014,861) |
| Currency realignment | – | – | (23,765) | 145 | (23,620) |
| New lease entered/lease modified *(note)* | – | – | 239,495 | – | 239,495 |
| Finance costs | – | 65,243 | 53,179 | – | 118,422 |
| Dividend declared | 1,355,627 | – | – | – | 1,355,627 |
| At 31 December 2021 | – | – | 1,546,367 | 2,698,588 | 4,244,955 |

*Note:* During the year, the Group entered into new lease agreements/renewed lease agreements for the use of leased properties, motor vehicles and office equipment range from 13 to 60 months. On the lease commencement/modification, the Group recognized right-of-use assets and lease liabilities of HK$239,604,000 and HK$239,495,000 respectively.

## 50. RELATED PARTY TRANSACTIONS

### Compensation of key management personnel

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

| | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|
| Short-term benefits | **35,833** | 30,141 |
| Post-employment benefits | **1,328** | 1,119 |
| Share-based payments | **25,055** | 18,697 |
| | **62,216** | 49,957 |

Certain shares of the Company were awarded to key management under the Scheme (see note 38 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 awarded to key management during the year ended 31 December 2021 and 31 December 2020 vested within one year.

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

Other than as disclosed elsewhere in these consolidated financial statements, the Group has following balances with related parties:

| **Relationships** | **Nature of balances** | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|---|
| Joint venture | Amount due from a joint venture | **4,074** | – |
| Subsidiaries of joint venture | Amounts due from affiliates of joint venture | **7,254** | 326 |
| | Amounts due from a joint venture and its affiliates | **11,328** | 326 |
| Joint venture | Amounts due to a joint venture | **9,475** | 105,648 |
| Subsidiary of joint venture | Amount due to an affiliate of joint venture | **1,154** | 4,629 |
| | Amounts due to a joint venture and its affiliate | **10,629** | 110,277 |

### Service income and sales to a joint venture and its affiliates

During the year, there are finance and accounting support service and marketing service of HK$14,265,000, rental services of HK$12,815,000 and sales of spare parts to a joint venture and its affiliates of HK$16,967,000.

## 51. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the principal subsidiaries at 31 December 2021 and 2020 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 AMICRA Microtechnologies GmbH | Germany | EUR24,229,771 (2020: EUR229,771) | – | 100% | 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 |
| 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$154,653,979 (2020: S$105,101,731) | 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 |

## 51. 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 NEXX, Inc. | United States of America | US$0.01 | – | 100% | Trading and manufacture of semiconductor equipment |
| ASM Pacific Assembly Products, Inc. | United States of America | US$60,000 | – | 100% | Trading of semiconductor equipment |
| ASM Pacific (Holding) Limited | Hong Kong | HK$1,000,000 | 100% | – | Trading of semiconductor equipment in Taiwan |
| ASM Pacific (Hong Kong) Limited | Hong Kong | HK$500,000 | 100% | – | Trading of semiconductor equipment and surface mount technology equipment in Hong Kong and marketing service in Korea |
| ASM Technology Asia Limited | Hong Kong | HK$1,900,000,002 | 100% | – | Investment holding and agency services and provision of logistics and purchasing services to group companies |
| 先進科技(中國)有限公司 (ASM Technology (China) Co., Ltd. formerly known as ASM Technology China Limited)* | PRC | US$26,000,000 | – | 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 | – | 100% | Manufacture of semiconductor equipment and surface mount technology equipment |
| ASM Technology (M) Sdn. Bhd. | Malaysia | MYR281,413,000 | 100% | – | Manufacture of semiconductor equipment and surface mount technology equipment |

## 51. 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 Singapore Pte Ltd. | Singapore | S$53,000,000 | 100% | – | Manufacture and sale of semiconductor equipment |
| Critical Manufacturing, S.A. | Portugal | EUR496,065 | – | 100% *(Note)* | Development, marketing and sales of manufacturing execution systems software solutions |
| 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 |

*Note:* As at 31 December 2020, the equity interest in Critical Manufacturing, S.A. held by the Group was 77.92% while the voting power held by the Group was 77.78% as the Group held 660 non-voting preferred shares issued by Critical Manufacturing, S.A. The Group acquired the remaining 22.08% shareholding in Critical Manufacturing, S.A. in 2021 at a consideration of EUR9,335,000. As a result, Critical Manufacturing, S.A. became a 100%-owned subsidiary as at 31 December 2021.

* 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.

## 52. 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:

| | **2021 HK$'000** | 2020 HK$'000 |
|---|---|---|
| Non-current assets | | |
| Unlisted investments in subsidiaries | **4,683,914** | 4,401,058 |
| Loans to subsidiaries | **894,735** | 1,212,759 |
| Right-of-use assets | **13,780** | 15,397 |
| | **5,592,429** | 5,629,214 |
| Current assets | | |
| Other receivables and prepayments | **2,110** | 1,094 |
| Amounts due from subsidiaries | **1,072,330** | 1,195,165 |
| Bank balances and cash | **419,890** | 147,194 |
| | **1,494,330** | 1,343,453 |
| Current liabilities | | |
| Other payables | **20,143** | 19,667 |
| Lease liabilities | **1,161** | 1,143 |
| Amounts due to subsidiaries | **9,310** | 7,610 |
| Loan from a subsidiary | **–** | 35,692 |
| Bank borrowings | **250,000** | 218,400 |
| | **280,614** | 282,512 |
| Net current assets | **1,213,716** | 1,060,941 |
| | **6,806,145** | 6,690,155 |
| Capital and reserves | | |
| Share capital *(note 37)* | **41,270** | 41,079 |
| Reserves *(Note)* | **4,482,091** | 4,077,801 |
| | **4,523,361** | 4,118,880 |
| Non-current liabilities | | |
| Lease liabilities | **13,991** | 15,471 |
| Derivative financial instruments | **18,793** | 55,804 |
| Bank borrowings | **2,250,000** | 2,500,000 |
| | **2,282,784** | 2,571,275 |
| | **6,806,145** | 6,690,155 |

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

*Note:* Movement in reserves

| | Share premium HK$'000 | Employee share-based compensation reserve HK$'000 | Shares held for share award scheme HK$'000 | Hedging reserve HK$'000 | Capital redemption reserve HK$'000 | Capital reserve HK$'000 | Retained profits HK$'000 | Dividend reserve HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2020 | 1,541,129 | – | (132) | – | 760 | 56,143 | 2,144,674 | 286,227 | 4,028,801 |
| Profit for the year | – | – | – | – | – | – | 543,050 | – | 543,050 |
| Fair value loss on hedging instruments designated as cash flow hedges | – | – | – | (55,804) | – | – | – | – | (55,804) |
| Total comprehensive (expense) income for the year | – | – | – | (55,804) | – | – | 543,050 | – | 487,246 |
| Sub-total | 1,541,129 | – | (132) | (55,804) | 760 | 56,143 | 2,687,724 | 286,227 | 4,516,047 |
| Recognition of equity-settled share-based payments | – | 160,733 | – | – | – | – | – | – | 160,733 |
| Purchase of shares under the Scheme | – | – | (26,335) | – | – | – | – | – | (26,335) |
| Shares vested under the Scheme | – | (23,890) | 26,467 | – | – | – | (2,577) | – | – |
| Shares issued under the Scheme | 136,653 | (136,843) | – | – | – | – | – | – | (190) |
| 2019 final dividend paid | – | – | – | – | – | – | – | (286,227) | (286,227) |
| 2020 interim dividend paid | – | – | – | – | – | – | (286,227) | – | (286,227) |
| 2020 final dividend proposed | – | – | – | – | – | – | (821,592) | 821,592 | – |
| At 1 January 2021 | 1,677,782 | – | – | (55,804) | 760 | 56,143 | 1,577,328 | 821,592 | 4,077,801 |
| Profit for the year | – | – | – | – | – | – | 1,539,551 | – | 1,539,551 |
| Fair value gain on hedging instruments designated as cash flow hedges | – | – | – | 37,011 | – | – | – | – | 37,011 |
| Total comprehensive income for the year | – | – | – | 37,011 | – | – | 1,539,551 | – | 1,576,562 |
| Sub-total | 1,677,782 | – | – | (18,793) | 760 | 56,143 | 3,116,879 | 821,592 | 5,654,363 |
| Recognition of equity-settled share-based payments | – | 210,255 | – | – | – | – | – | – | 210,255 |
| Purchase of shares under the Scheme | – | – | (26,709) | – | – | – | – | – | (26,709) |
| Shares vested under the Scheme | – | (25,761) | 25,864 | – | – | – | (103) | – | – |
| Shares issued under the Scheme | 184,303 | (184,494) | – | – | – | – | – | – | (191) |
| 2020 final dividend paid | – | – | – | – | – | – | – | (821,592) | (821,592) |
| 2021 interim dividend paid | – | – | – | – | – | – | (534,035) | – | (534,035) |
| 2021 final dividend proposed | – | – | – | – | – | – | (1,073,034) | 1,073,034 | – |
| At 31 December 2021 | 1,862,085 | – | (845) | (18,793) | 760 | 56,143 | 1,509,707 | 1,073,034 | 4,482,091 |

# *FIVE-YEAR FINANCIAL SUMMARY*

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2021** | 2020 | 2019 | 2018 | 2017 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| | | | (restated) | | |
| | | *(Note a)* | *(Note a)* | *(Note b)* | *(Note b)* |
| **Results** | | | | | |
| Revenue | | | | | |
| – Continuing operations | **21,947,637** | 14,700,250 | 14,030,169 | 19,550,590 | 17,522,713 |
| – Discontinued operation | **–** | 2,186,994 | 1,852,873 | – | – |
| | **21,947,637** | 16,887,244 | 15,883,042 | 19,550,590 | 17,522,713 |
| Profit before taxation from continuing operations | **4,092,459** | 826,080 | 1,028,997 | 2,973,156 | 3,274,280 |
| Income tax expense from continuing operations | **(917,279)** | (189,468) | (331,710) | (761,428) | (478,578) |
| Profit (Loss) for the year from discontinued operation | **–** | 993,891 | (74,909) | – | – |
| Profit for the year | **3,175,180** | 1,630,503 | 622,378 | 2,211,728 | 2,795,702 |
| (Profit) Loss attributable to non-controlling interests | **(6,204)** | (8,987) | (3,129) | 4,334 | 19,771 |
| Profit attributable to owners of the Company | **3,168,976** | 1,621,516 | 619,249 | 2,216,062 | 2,815,473 |

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2021** | 2020 | 2019 | 2018 | 2017 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Assets and Liabilities** | | | | | |
| Non-current assets | **8,249,820** | 8,364,572 | 7,464,459 | 5,907,439 | 4,028,660 |
| Current assets | **18,250,971** | 14,799,413 | 13,381,128 | 15,167,963 | 14,571,546 |
| Current liabilities | **(6,889,309)** | (5,335,856) | (4,432,299) | (7,792,586) | (4,784,132) |
| Net current assets | **11,361,662** | 9,463,557 | 8,948,829 | 7,375,377 | 9,787,414 |
| Non-current liabilities | **(4,199,793)** | (4,633,882) | (4,781,596) | (1,122,161) | (2,438,598) |
| Total equity | **15,411,689** | 13,194,247 | 11,631,692 | 12,160,655 | 11,377,476 |
| Non-controlling interests | **(136,263)** | (24,658) | (3,376) | 6,893 | 149 |
| Equity attributable to owners of the Company | **15,275,426** | 13,169,589 | 11,628,316 | 12,167,548 | 11,377,625 |

*Notes:*

(a) The Group discontinued its materials business after the deemed disposal of the subsidiaries of Material business on 28 December 2020. The financial figures were extracted from the 2020 annual report.

(b) The financial figures were extracted from the 2019 annual report. No separate disclosures of continuing operations and discontinued operation were made on the financial figures for the year ended 31 December 2017 to 2018.

ENABLING THE DIGITAL WORLD

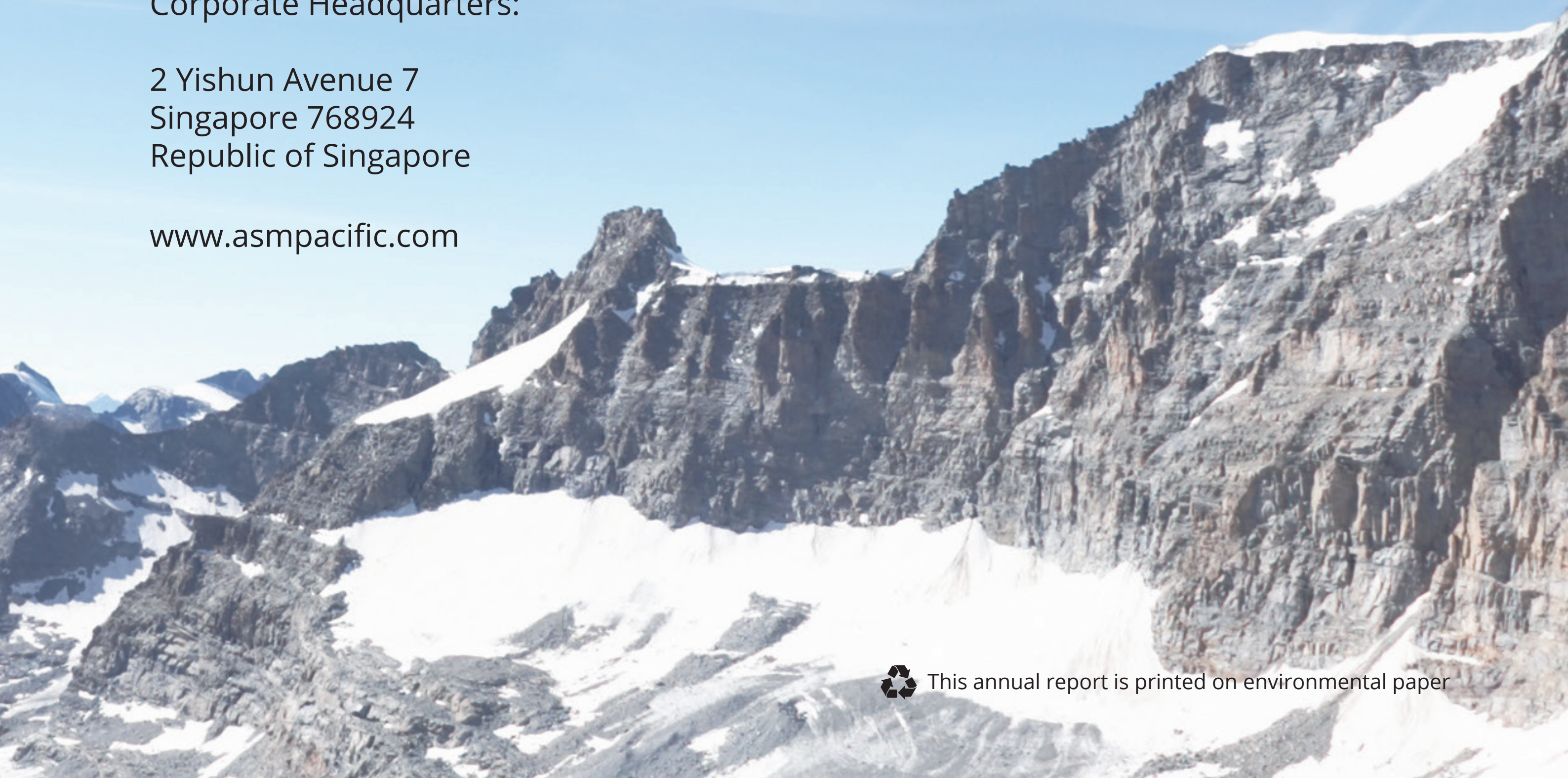
ASM Pacific Technology

# ASM Pacific Technology Limited

Corporate Headquarters:

2 Yishun Avenue 7
Singapore 768924
Republic of Singapore

www.asmpacific.com



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