ASM Pacific Technology

ASM Pacific Technology Limited

ENABLING THE DIGITAL WORLD

ANNUAL REPORT 2018 年報

STOCK CODE 股份代號: 0522

Welcome to ASM Pacific Technology Limited's 2018 Annual Report. As in previous years, our annual report has been the primary channel for us to provide a comprehensive view of our strategy, plans and performance covering financial, market, environmental, social and corporate governance to our stakeholders.

For the 2018 Annual Report, we have chosen a cover that shows how we at ASM Pacific Technology see our mission today – Enabling the Digital World. We aspire to use our resources and the talent and energy of our over 16,000 people, to help connect people and processes through digital technologies to share information and knowledge, to exchange ideas and opinions - thus creating a world of new opportunities. Learn more at www.asmpacific.com.

歡迎閱覽ASM Pacific Technology Limited二零一八年年報。一如以往年度，年報是ASMPT為集團的持份者提供其在財務、市場、環境、社會及企業管治各方面的策略、計劃及表現等全面資訊的主要渠道。

二零一八年年報的封面帶出集團「開拓數碼世界」的使命。集團致力善用自身的資源及逾16,000位員工的才能及力量，透過數碼技術協助連繫人群及流程，以分享資訊及知識，並交流想法及意見，從而創造一個充滿新機遇的世界。詳情請瀏覽www.asmpacific.com。

ABOUT ASM PACIFIC TECHNOLOGY LIMITED

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

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

關於ASM PACIFIC TECHNOLOGY LIMITED

作為全球科技及市場領導者，ASM Pacific Technology Limited (ASMPT) (香港聯交所股份代號: 0522) 致力透過後工序設備、物料、表面貼裝技術及智能工廠技術，為半導體裝嵌及封裝行業研發及提供尖端的硬件及軟件解決方案。

ASMPT自一九八九年起於香港聯交所上市。目前，ASMPT已獲納入為恒生綜合市值指數下之恒生綜合中型股指數、恒生綜合行業指數下之恒生綜合資訊科技業指數、恒生香港35指數及恒生環球綜合指數的成份股。

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Corporate Information

DIRECTORS

Independent Non-Executive Directors:

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

Non-Executive Directors:

Charles Dean del Prado
Petrus Antonius Maria van Bommel

Executive Directors:

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

SECRETARY

So Sau Ming

AUDITOR

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

PRINCIPAL BANKERS

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

REGISTERED OFFICE

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Grand Cayman KY1-1102
Cayman Islands

PRINCIPAL PLACE OF BUSINESS

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Hong Kong

SHARE REGISTRARS AND BRANCH REGISTER OFFICE

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183 Queen’s Road East
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COMPANY WEBSITE AND CONTACT

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Financial Highlights

	Year ended 31 December	
	2018 HK$'000	2017 HK$'000
Revenue	**19,550,590**	17,522,713
Cost of sales	**(12,113,813)**	(10,471,339)
Gross profit	**7,436,777**	7,051,374
Other income	**96,126**	88,410
Selling and distribution expenses	**(1,660,893)**	(1,497,944)
General and administrative expenses	**(1,013,345)**	(937,624)
Research and development expenses	**(1,610,225)**	(1,436,191)
Other gains and losses	**(78,455)**	(33,360)
Restructuring costs	**(19,067)**	—
Adjustment of liability component of convertible bonds	**—**	202,104
Finance costs	**(177,762)**	(162,489)
Profit before taxation	**2,973,156**	3,274,280
Income tax expense	**(761,428)**	(478,578)
Profit for the year	**2,211,728**	2,795,702
Profit (loss) for the year attributable to:		
Owners of the Company	**2,216,062**	2,815,473
Non-controlling interests	**(4,334)**	(19,771)
	2,211,728	2,795,702
Earnings per share		
— Basic	**HK$5.47**	HK$6.90
— Diluted	**HK$5.44**	HK$6.35

ASMPT ACHIEVED ANOTHER RECORD YEAR IN 2018

- **Record Group revenue of US$2.49 billion, representing an increase of 11.6% over the preceding year**
- **Net profit of HK$2.21 billion, representing a decrease of 20.9% over the preceding year and a decrease of 14.7% when the non-cash gain of HK$202.1 million in 2017 was excluded**
- **Earnings per share of HK$5.47**
- **Record Back-end Equipment revenue of US$1.18 billion, representing an increase of 7.3% over 2017**
- **Record Materials revenue of US$287.8 million, representing an increase of 5.2% over 2017**
- **Record SMT Solutions revenue of US$1.03 billion, representing an increase of 19.1% over 2017**
- **Record new order bookings of US$2.57 billion, representing an increase of 10.0% over 2017**
- **Book to bill ratio was 1.03**
- **Cash and bank deposits of HK$2.25 billion at the end of December 2018**

Chairman's Statement

"Such strong results reflected the success of the Group's new strategy, implemented since 2011, of pursuing growth through the dual engines of organic growth and strategic mergers and acquisitions (M&A)."

Orasa Livasiri
Chairman

Dear Shareholders and Stakeholders,

I am pleased to report that ASM Pacific Technology achieved yet another solid set of results in 2018, continuing the trajectory of growth of the past few years.

PERFORMANCE

In the year, both Group booking and billing broke new records and Group revenue grew 11.6% from 2017 to US$2.49 billion and set new records three years in a row. All three business segments broke new revenue records in both 2017 and 2018 while the Group's billing more than tripled over the past 10 years.

Such strong results reflected the success of the Group's new strategy, implemented since 2011, of pursuing growth through the dual engines of organic growth and strategic mergers and acquisitions (M&A).

The acquisitions made in the past few years in the form of SMT Solutions and ALSI delivered outstanding results, expanded our TAM (Total Available Market), and lifted our company image and reputation. Revenue from the SMT Solutions Segment exceeded US$1 billion in 2018 while ALSI achieved a new revenue record that is almost five times of what it had generated when we acquired them in 2014.

However, the Group's achievements in 2018 were more than financial.

We continued to receive awards and accolades from within the industry and from other prestigious organisations in recognition of our efforts in four key areas: technology, quality and customer satisfaction, corporate governance, and corporate social responsibility.

In addition to the 2018 Thomson Reuters "Top 100 Global Technology Leaders" award and the VLSIresearch "triple crown", the whole Board received the "Directors of the Year Award" in 2017 and the same accolade was conferred on our Executive Director and CEO, Mr. WK Lee, last year. These are very strong endorsements of our corporate governance and continuous efforts to serve our shareholders and to contribute to the public.

During the year, our Singapore Back-end operations received the Singapore Quality Class certification from Enterprise Singapore. This was no mean feat as the certification examined a very comprehensive set of management standards for business excellence: from people and leadership to customers, business strategy and our processes and results.

Our SMT business topped 2018 off by winning the *2018 Factory of the Year/Global Excellence in Operations (GEO) Award in the Excellent Production Network by Produktion* magazine and consultancy A.T. Kearney.

And, 2019 was off to a good start with our Hong Kong operations winning the "Best Corporate Social Responsibility Gold Award" and the "Best Office Facilities Champion Award" from "Career Times", the top recruitment site in Hong Kong.

BUSINESS DEVELOPMENTS

As we look to 2019, many are saying that it would be a challenging year but we also see many opportunities for growth on the horizon.

We are entering a high growth potential period largely driven by the arrival of the Data Era, a world that is increasingly data-centric due to technological changes brought about by Artificial Intelligence (AI), Big Data Analytics, Industry 4.0, Internet of Things, Industry Internet of Things, self-driving cars, and 5G. ASMPT is very much at the forefront of this digital transformation as an enabler of most of the technologies.

BUSINESS DEVELOPMENTS (CONTINUED)

AI and data analytics will drive up the demand for data intensive high performance computing and the migration to more advanced packaging, which will see more value-add shifting from the front-end to the back-end of the semiconductor industry. The Group's investment in Advanced Packaging in the past few years is bearing fruit. ASMPT has become the "Go-to" partner for many of our customers who are developing Advanced Packaging technologies. The acquisition of NEXX and AMICRA last year further strengthened ASMPT's position in capturing the growth opportunities in Advanced Packaging and data explosion.

Industry 4.0 will have implications for us in two ways: externally, it is a new market opportunity as our customers aim to set up smart factories; and internally, ASMPT has to transform into a smart digital enterprise. Today, ASMPT is more a hardware machinery supplier. Our vision is to transform ASMPT into a hardware and software solution provider in the Industry 4.0 era. Investing in ADAMOS and Critical Manufacturing were the initial steps that have put the Group on the path to attaining the goal.

Coupled with these technology developments, we will also leverage on the huge opportunity as China pushes ahead to build its own semiconductor industry.

PEOPLE

During the year, the Group, through an external consultancy, conducted a brand survey among employees, customers, partners and media to benchmark and evaluate the ASMPT brand and image perception, and to gauge how well the "Enabling the Digital World" vision that was launched in 2016 and the **POWER** (Passion, Ownership, Win, Excellence, Respect) values that we use to cultivate "inside pride" and motivation have gained traction. Over 200 participants from Asia, Europe and USA took the online survey.

On the perceived brand values of the Group, both employees and the external stakeholders felt that the Group has the following attributes: "strong, global, experienced, forward looking and future". On "Enabling the Digital World" vision statement, over 85% of both internal and external respondents indicated "high awareness" of the vision and felt that it was "positive" and over 85% of the employees felt that it was highly relevant to their job and area of work. Finally, on the **POWER** values, a majority (97%) of the employees has "high awareness and knowledge" of them.

The results and findings are indeed encouraging. We shall continue to leverage the "Enabling the Digital World" and **POWER** positioning to strengthen the ASMPT brand and market share, and enhance our status as "Employer of Choice" to build self pride and win the war for talent.

ENVIRONMENT, SOCIAL, GOVERNANCE AND COMMUNITY

In 2018, we also continued our commitment and unceasing efforts to improve operating efficiency and stewardship of resources as we strive to build a sustainable future that will create long-lasting value for our business, stakeholders, the community and the environment.

The Group's sustainability framework is built on four pillars: supporting our communities, managing environmental impact, creating value through innovation, and nurturing our employees. We believe that these four pillars will not only enable us to retain our leadership position, but also empower us to contribute effectively to the communities in which we operate. Additionally, sustaining good governance is an important part of our business and our Code of Business Conduct applies to all employees and suppliers, where applicable.

Environment

Throughout the year, various changes and upgrades were continuously made on the Group's factories and facilities to ensure operational and energy efficiency. Key actions included the overhauling of air-conditioning systems, air compressors, chiller and heater systems in Singapore and Hong Kong to create energy savings ranging from 30% to 90% at systems level.

ENVIRONMENT, SOCIAL, GOVERNANCE AND COMMUNITY (CONTINUED)

Social

As of 31 December 2018, the Group had a global workforce of approximately 16,300 employees, out of which about 24% were female and 31% were aged 30 and below, 58% were aged between 30 and 50 and 11% were above 50.

Community

We believe in active contribution to the communities in which we operate, as active employee volunteerism not only helps the community but also contributes to the holistic development of our people in terms of empathy, perspective and character building. Our community initiatives are focused on community well-being, empowering youth through education and encouraging eco-friendly initiatives.

In 2018, the Group participated, sponsored and/or donated to 180 activities and approximately 23,700 hours of volunteer service to the communities where we operate. The Group continued its support for the local universities and technical institutes in the Asia Pacific region through internship programmes and scholarship opportunities that benefitted 386 students in 2018. Into its fourth year, the ASM Technology Award in Hong Kong awards university students with outstanding Final Year Projects. For the first time ever, the Award included a trip to Germany for the six student winners and their supervising professors to learn more about the technologies and business development of the Group and some other high-tech companies in Germany.

I wish to thank all my fellow Directors for their wise counsel and active involvement and the Management team for their resolute diligence and determination that culminated in the successes of the past year.

On behalf of the Board and Management team, I would also like to express our appreciation to our customers, suppliers and business partners for their unwavering support. Last but not least, I would thank each and every one of our employees around the world for their hard work and dedication. It is with teamwork that we have made ASMPT a truly great place to work, a great business partner and a great company built to last.

Orasa Livasiri
Chairman
Hong Kong, 21 February 2019

Management Discussion and Analysis

“So far, ASMPT has demonstrated a successful track record of taking on the challenges of market downturns and emerging strongly each time.

Externally, we believe demand for semiconductor devices will be strong with the arrival of the Data Era. Internally, ASMPT has prepared well for the market opportunities for Advanced Packaging and invested to grasp the potential of Smart Manufacturing brought about by Industry 4.0. ASMPT has entered into a high growth potential.”

Lee Wai Kwong
Director

RESULTS

ASM Pacific Technology Limited and its subsidiaries (the "Group" or "ASMPT") achieved a revenue of **HK$19.55 billion (US$2.49 billion)** in the fiscal year ended 31 December 2018, which was 11.6% higher than the revenue of HK$17.52 billion (US$2.25 billion) in the previous year. The Group's consolidated profit after taxation for the year was **HK$2.21 billion**, which was a decrease of 20.9% from the previous year's net profit of HK$2.80 billion. Excluded the non-cash gain of HK$202.1 million in 2017, the Group's net profit decreased by 14.7%. Basic earnings per share (EPS) for the year amounted to **HK$5.47** (2017: HK$6.90).

DIVIDEND

We continue to believe in returning excess cash to our shareholders as dividends. After considering the Group's short term needs and our cash on hand, the Board of Directors has resolved to recommend to shareholders the payment of a final dividend of **HK$1.40** (2017: final dividend of HK$1.30) per share. Together with the interim dividend of HK$1.30 (2017: HK$1.20) per share paid in August 2018, the total dividend payment for year 2018 will be **HK$2.70** (2017: HK$2.50) per share.

REVIEW

Building on the momentum and achievements of the past two years, 2018 was yet another solid year for the Group. Both Group booking and billing attained new records. Group revenue grew 11.6% year-on-year to US$2.49 billion. Group revenue has in fact consecutively set new records over the past three years.

The strong performance of the Group was largely driven by the strong demand of IC/Discrete equipment, lead frames and SMT solutions. All the three business segments achieved new revenue records in both 2017 and 2018.

The Group also saw good progress from businesses that it had acquired over the past few years as the SMT Solutions Segment and ALSI continued to deliver outstanding results. The SMT Solutions Segment saw its revenue exceeded US$1 billion in 2018, with a record segment profit of HK$1.27 billion. ALSI, the laser business that was acquired in 2014, achieved a new record in revenue in 2018 that was around fivefold that of 2014.

Group bookings grew 10.0% year-on-year to US$2.57 billion in 2018, setting a new record. Book-to-bill ratio was 1.03. Backlog as of end of the year was US$654.9 million, which was a growth of 21.6% year-on-year. Booking of both the Back-end Equipment Segment and the SMT Solutions Segment achieved year-on-year double-digit growth rates with booking of the SMT Solutions Segment having attained a new record. However, booking of the Materials Segment contracted 17.7%.

Booking of the Materials Segment has notably served as a leading indicator of the market in the past. Coupled with the weak demand that the Group has experienced in the last quarter of 2018, it is fair to say that the industry will most likely face challenges in 2019.

On the bright side, Advanced Packaging, boosted by the newly acquired ASM NEXX from Tokyo Electron Limited in the fourth quarter, contributed to over 10% of the revenue of the Back-end Equipment Segment in 2018. The Group's investment in Advanced Packaging over the past few years is bearing fruit. We strongly believe the Group is in a good position to capture future growth opportunities and differentiate itself in the market during the anticipated low cycle of the industry for the year ahead.

Geographically, China (inclusive of Hong Kong), Europe, Malaysia, the Americas and Taiwan were the top five markets for the Group in 2018.

REVIEW (CONTINUED)

By application market, the Mobility, Communication and IT segment was still the largest application market contributing to the Group's revenue in 2018. However, its contribution had come down, reflecting the slowdown in shipment of smartphones last year and the rising demand for semiconductor devices and electronics modules in other application markets. Automotive segment took the second spot, followed by the Optoelectronics segment. The Industrial electronics segment overtook the Power Management segment to become the fourth largest application market for the Group.

In 2018, net profit for the Group amounted to HK$2.21 billion, representing a reduction of 20.9% over the preceding year. Gross margin of the Group was 38.0% which was a 2.2% (220bps) reduction compared with the previous year. Group operating profit in 2018 amounted to HK$3.15 billion, comparable to the HK$3.18 billion in 2017.

Group revenue for the fourth quarter amounted to US$608.9 million, which was a historical high for the last quarter of any year. This represented a growth of 12.8% against the same period in 2017 but a decline of 7.7% from the preceding quarter. SMT Solutions Segment achieved a new revenue record during the fourth quarter.

Group booking for the fourth quarter was US$474.3 million, which were reductions of 4.5% year-on-year and 23.3% quarter-on-quarter.

Group revenue for the second half of 2018 amounted to US$1.27 billion, setting a new half-year record. This represented growths of 6.4% and 3.3% against the second half of 2017 and the preceding six months respectively. In fact, this was the sixth consecutive growth of Group revenue on half-year basis. Group booking for the same period amounted to US$1.09 billion, representing a year-on-year growth of 2.1% but a contraction of 26.3% from the first half of 2018.

We continued to build our business on a diversified customer base. In 2018, there was no customer who would account for over 10% of the Group's revenue. Our top five customers combined contributed 18.0% of the Group's revenue and 80% of the Group's revenue came from 166 customers.

The Group's top 20 customers came from different market segments including the world's leading IDMs (Integrated Device Manufacturers), Tier-1 OSATs (Outsourced Semiconductor Assembly and Test companies), major OSATs in China, key LED (Light Emitting Diode) players, top EMS (Electronics and Manufacturing Services) providers and automotive components suppliers. Among them, four were for the SMT Solutions business and five were key customers for both the Back-end and SMT Solutions businesses.

Q4 Group gross margin was negatively impacted by a few factors:

- Approximately 1.6% was due to the one-time impairment of inventory due to discontinuation of the Solar business
- Higher revenue contribution from the SMT Solutions segment
- Lower margin for SMT equipment due to penetrations in the China brand smartphones market
- Product mix and PPA (purchase price allocation) expenses due to new acquisitions
- High inventory reductions leading to lower production capacity utilization

REVIEW (CONTINUED)

Group	FY 2018	2H 2018		Q4 2018	
	YoY	HoH	YoY	QoQ	YoY
Bookings	+10.0%	-26.3%	+2.1%	-23.3%	-4.5%
Revenue	+11.6%	+3.3%	+6.4%	-7.7%	+12.8%
Gross Margin	-220bps	-520bps	-453bps	-485bps	-629bps
Net Profits	-14.7%*	-41.7%	-38.1%	-64.8%	-53.2%

* Excluded the non-cash gain arising from the adjustment of the liability component of convertible bonds that amounted to HK$202.1 million for the year ended 31 December 2017.

Back-end Equipment Segment

Our Back-end Equipment Segment attained consecutive new billing records in 2017 and 2018.

In 2018, revenue of our Back-end equipment business grew 7.3% to US$1.18 billion, contributing 47.4% of the Group's total revenue. The segment continued to retain the No. 1 position in the global market, a position it first attained in 2002. In fact, over the past 17 years, the Group had lost the No. 1 position only once — in 2012. It further widened the revenue gap with its closest rival.

The IC/discrete market led the growth of our Back-end equipment business in the year. It was the largest market by revenue for the segment and delivered a year-on-year growth of over 24% in 2018. Automotive, IoT (Internet of Things), power management, radio frequency (RF) filters and Advanced Packaging were the drivers of growth in this market segment.

Revenue of our Optoelectronics business in 2018 was comparable to 2017. It achieved a strong year-on-year growth during the first half of the year but suffered from a weak market demand during the second half. On a full year basis, revenue of our Optoelectronics business increased slightly by 1.7%.

Revenue of our CIS (CMOS Imaging Sensor) business experienced a contraction of 18.0% as compared with 2017 mainly due to customers delaying the delivery of some equipment to 2019. The business performed quite well during the first half of 2018; in fact, it attained a new billing record in the second quarter. However, business was affected by the notable slowdown of smartphone shipment during the second half of the year when we started receiving customers' requests to push back delivery.

On the upside, Artificial intelligence (AI) is widely expected to experience fast growth and will boost the semiconductor industry and the world GDP. Heterogeneous integration (HI) and Advanced Packaging will be the key enablers to boost the performance of the data intensive HPC (high performance computing) chips needed by various AI applications.

The Group's TCB (Thermo-Compression Bonding) solution is now widely adopted by many customers for their development and production of advanced logic chips. We are also working with customers to develop the next-generation production process for HBM (high bandwidth memory).

The Group continued to deliver its Nucleus, a pick and place machine, for wafer level (WLFO) and panel level fan-out (PLFO) applications. Although customers took longer than expected for the development of PLFO process, Nucleus is now enjoying a very high market share. The Group remains confident that PLFO will take off and become a significant growth driver for the company. Customers have also selected Nucleus for other applications such as embedded dies and silicon bridges.

REVIEW (CONTINUED)

Back-end Equipment Segment (Continued)

The acquisition of the ASM NEXX business in the fourth quarter further strengthened the Group's position in Advanced Packaging as evident in its significant contribution to the booking of our Back-end Equipment Segment in the last quarter of 2018.

Our laser die separation and grooving business under ALSI has been enjoying good demand. Revenue in 2018 doubled that of 2017 to a new record.

However, the highest growth rate was from Sunbird, the pick, test and pack machine, for wafer level packages. Customers chose it for their SAW (Surface Acoustic Wave) filter production. With the arrival of 5G, demand for filters is expected to grow significantly.

We are confident that our investment in Advanced Packaging over the past few years has put ASMPT well ahead of its peers. Today, ASMPT has become the "Go-to" partner of many of our customers who are developing Advanced Packaging solutions. Advanced Packaging contributed to more than 10% of the revenue of the Back-end Equipment Segment in 2018 even before counting in the one-quarter contribution from the newly acquired ASM NEXX business. We anticipate that contribution from Advanced Packaging will further increase in 2019. Advanced Packaging has become a key growth driver for our Back-end Equipment Segment. It will not only allow the Group to capture the future growth opportunities of the industry but will also help the Group to sail through industry low cycles like the one that has been expected for 2019 by many industry analysts and participants.

The Group continued to enjoy a dominant position in the power management market. Our clip-bonding line is enjoying over 90% market share. In 2018, the Group developed solutions for the silver sintering process, which is required by automotive customers. Orders for the equipment developed for this new solution were already coming in during the year. Power management market is slated to become another pillar of our Back-end Equipment business in time.

Cameras have become the key differentiator among smartphones, and those equipped with multiple cameras are becoming the trend. All major smartphone makers have adopted the active alignment (AA) process for the cameras they use. Smartphones equipped with AI and multiple cameras will bring to consumers a brand new experience of photography. Every user will indeed become a "professional" photographer.

As such, multi-cameras and 3D sensing will continue to be the growth propellers of our CIS business. The Group has become the partner of choice for customers in CIS and customers who are developing new applications for 3D sensing, AR (Augmented Reality) and VR (Virtual Reality). The Back-end Equipment Segment is also working on solutions for TOF (time of flight) for 3D sensing. Besides the smartphone market, the Group is also working with customers to develop solutions for CIS applications in automotive and security monitoring. Although the Group experienced a revenue contraction for the CIS equipment business in 2018, we remain confident in the long-term growth of this market.

In Optoelectronics, LED general lighting and display panels will continue to drive the growth of our business. The Group continued to work with leading customers to develop solutions for both mini-LED and micro-LED displays.

During the year, the Group also started delivering bonders to our customers for them to produce prototype samples of micro-LED display. The bonder developed by the Group is capable of bonding thousands of micro-LEDs at one go. It not only improves productivity but also offers excellent co-planarity that other bonding solutions cannot match.

REVIEW (CONTINUED)

Back-end Equipment Segment (Continued)

In early 2018, the Group acquired AMICRA, a leader in the silicon photonics market, which is based in Regensburg, Germany. We believe that with the arrival of the Data Era there will be strong growth in data centers, which will in turn translate into a surge in demand for silicon photonic chips to enable superfast data transfer within and between data centers.

In the second half of the year, Back-end Equipment revenue amounted to US$536.2 million, representing reductions of 0.2% and 16.9% against the second half of 2017 and the preceding six months, respectively. Back-end Equipment revenue for the fourth quarter last year contracted 6.6% year-on-year and 23.0% quarter-on-quarter to US$233.6 million.

New order bookings for Back-end Equipment in 2018 grew by 11.9% as compared with 2017. New order bookings for the second half grew 5.0% as compared with the second half of 2017 but contracted 34.8% against the first half of 2018. New order bookings for the fourth quarter grew 4.0% year-on-year but contracted 11.9% from the preceding quarter, respectively.

Booking for Advanced Packaging equipment contributed strongly to the segment in the last quarter, especially booking from the newly acquired ASM NEXX business. However, booking for the rest of the Back-end equipment was weak towards year-end. The trade war between the two largest economic powers in the world had probably affected the investment confidence of our customers.

Gross margin of this segment was 45.9% last year, a reduction of 2.1% (208bps) as compared with the previous year. Reduction in gross margin was mainly related to product mix and the slowdown of the Segment's production run rate during the second half of last year in anticipation of a possible market slowdown in 2019. ASP (average selling price) and costs of our products were relatively stable. Profit of the Back-end Equipment Segment declined 7.3% compared with 2017, partly pulled down by the PPA relating to the two acquisitions (AMICRA and NEXX) made last year. Segment profit margin of the Back-end Equipment was 21.7% in 2018.

Business generated from the traditional die and wire bonders for the assembly of semiconductor and LED devices contributed to less than 43% of the Back-end Equipment business. The rest was mainly contributed by packaging related equipment, test handlers, clip bonders for power management applications, CIS assembly equipment, and advanced packaging equipment.

In summary, we believe that we have put in place a right product and technology portfolio to take advantage of the continuous technology transition and to capture the new growth opportunities for this segment.

Back-end Equipment Segment	**FY 2018**	**2H 2018**		**Q4 2018**	
	YoY	**HoH**	**YoY**	**QoQ**	**YoY**
Bookings	+11.9%	- 34.8%	+5.0%	- 11.9%	+4.0%
Revenue	+7.3%	- 16.9%	- 0.2%	- 23.0%	- 6.6%
Gross Margin	- 208bps	- 463bps	- 522bps	- 47bps	- 583bps
Segment Profit	- 7.3%	- 52.6%	- 36.5%	- 65.8%	- 61.0%
Segment Profit Margin	- 342bps	- 1,159bps	- 880bps	- 1,127bps	- 1,257bps

REVIEW (CONTINUED)

Materials Segment

ASMPT's Materials Segment continued to set new billing records in 2018. Both revenue for the year and revenue for the first half of the year attained new records. Revenue of the segment amounted to US$287.8 million, representing a growth of 5.2% from the previous year. The Materials business contributed 11.5% of the Group's total revenue in 2018.

During the second half of 2018, revenue of our Materials Segment amounted to US$136.8 million, representing reductions of 1.5% and 9.3% against the second half of 2017 and the preceding six months.

After consecutively breaking new records over the first three quarters in 2018, revenue of the segment in the fourth quarter contracted 22.3% and 7.8% from the preceding quarter and the same period a year ago. This contraction reflected that the global semiconductor industry is entering into a period of correction, after the long super cycle over the past few years.

New order bookings for the Materials Segment dipped 17.7% as compared with 2017. New order bookings for the second half of 2018 contracted 30.0% and 37.8% as compared with the same period in 2017 and against the first half of the year, respectively. New order bookings for the Materials Segment in the fourth quarter contracted 39.5% and 26.0% as compared with the same period in 2017 and the preceding quarter, respectively.

Gross margin of the Materials Segment in 2018 was 11.5%, which was a reduction of 2.1% (211bps) year-on-year. It achieved a segment result margin of 5.0%, reflecting a drop of 1.0% (95bps) over 2017.

Materials Business Segment	**FY 2018**	**2H 2018**		**Q4 2018**	
	YoY	**HoH**	**YoY**	**QoQ**	**YoY**
Bookings	- 17.7%	- 37.8%	- 30.0%	- 26.0%	- 39.5%
Revenue	+5.2%	- 9.3%	- 1.5%	- 22.3%	- 7.8%
Gross Margin	- 211bps	- 368bps	- 402bps	- 330bps	- 461bps
Segment Profit	- 11.4%	- 64.8%	- 44.9%	- 87.3%	- 55.9%
Segment Profit Margin	- 95bps	- 435bps	- 218bps	- 365bps	- 78bps

SMT Solutions Segment

In 2018, the SMT Solutions Segment did exceptionally well. The segment achieved new records in billing, booking and segment profit consecutively for the past two years. In 2018, its revenue grew 19.1% to US$1.03 billion, contributing 41.1% to the Group's revenue.

During the second half of the year, revenue of our SMT Solutions Segment amounted to US$594.3 million, representing growths of 15.3% and 37.9% compared with the same period in 2017 and the preceding six months, respectively. This is a new record.

In the fourth quarter, the Segment set yet another new revenue record with an amount of US$315.5 million, representing growths of 40.3% and 12.9% against the same period of the previous year and the preceding quarter, respectively.

Booking of the SMT Solutions Segment grew 16.7% in 2018 to US$1.07 billion, attaining yet another new record. Booking of the second half grew 8.4% compared with the same period in 2017 but declined 11.8% against the preceding six months. In the fourth quarter, booking contracted 2.5% year-on-year and 32.9% quarter-on-quarter.

REVIEW (CONTINUED)

SMT Solutions Segment (Continued)

Tremendous demand for automotive electronics, industrial and IoT contributed to the strong growth of the Group's SMT Solutions business. The Group also expanded its market share in the supply chain for China branded smartphones and made a significant penetration into the India market.

Industry 4.0 is yet another huge business growth opportunity for our SMT Solutions Segment as customers are looking for smart factory solutions. In 2017, the Group invested in a software joint venture company, ADAMOS, together with other leading machinery suppliers in Germany to develop Industry 4.0 solutions. Additionally, the Group also made a strategic investment in a MES (Manufacturing Execution System) software company based in Porto, Portugal, to further strengthen our initiative to develop and offer customers hardware and software integrated Industry 4.0 solutions.

The Group decided to discontinue the solar equipment business in the fourth quarter. While the Group had made significant progress in delivering innovative solutions over the years, the solar equipment market has been negatively impacted by several factors including the challenges of obtaining capital financing by customers, the elimination of subsidies for solar plants in China and the cost competitive pressures of the solar market in general. Accordingly, we booked a total of HK$93.9 million of charges relating to the solar business, which comprised largely inventory charges, employee severance and fixed assets impairment charges. Going forward, it will have a positive impact on the Segment's gross margin and profitability.

Gross margin of the SMT Solutions Segment in 2018 was 36.5%, which was a reduction of 2.4% (238 bps) year-on-year. It achieved a segment result margin of 15.9%, reflecting a drop of 0.2% (20bps) over 2017.

SMT Solutions Segment	FY 2018	2H 2018		Q4 2018	
	YoY	HoH	YoY	QoQ	YoY
Bookings	+16.7%	-11.8%	+8.4%	-32.9%	-2.5%
Revenue	+19.1%	+37.9%	+15.3%	+12.9%	+40.3%
Gross Margin	-238bps	-503bps	-386bps	-873bps	-603bps
Segment Profit	+17.6%	+36.0%	+7.2%	-31.5%	+65.7%
Segment Profit Margin	-20bps	-23bps	-119bps	-782bps	+186bps

LIQUIDITY AND FINANCIAL RESOURCES

Cash and bank deposits as of 31 December 2018 decreased by 26.4% to HK$2.25 billion (2017: HK$3.06 billion). During 2018, HK$1.05 billion was paid as dividends (2017: HK$939.0 million). Capital addition during the period amounted to HK$813.3 million (2017: HK$638.9 million), which was partially funded by the year's depreciation and amortization of HK$575.4 million (2017: HK$477.7 million). Day sales outstanding decreased to 102.6 days (2017: 108.6 days).

As of 31 December 2018, the current ratio was 1.95, with a debt-equity ratio of 28.7% (debts include all bank borrowings and convertible bonds). The Group had available banking facilities of HK$1.71 billion (US$218.0 million) in the form of bank loans and overdraft facilities. As of 31 December 2018, the Group had bank borrowings of HK$1.26 billion (US$160.9 million), part of which was utilization of committed facilities. The bank borrowings were repayable up to 2022 and an insignificant portion is fixed-rate borrowings. The Group's shareholders' funds increased to HK$12.2 billion as at 31 December 2018.

LIQUIDITY AND FINANCIAL RESOURCES (CONTINUED)

Bank borrowings, which are mainly arranged to support day-to-day operations and capital expenditure, are denominated in Hong Kong dollars, US dollars and Euros. As of 31 December 2018, cash holdings of the Group were mainly in US dollars, Euros, Chinese renminbi, Singapore dollars, British pounds and Hong Kong dollars. The Group's SMT Solutions Business segment entered into US dollars and Euros hedging contracts to mitigate the foreign currency risks as a significant portion of the production of SMT equipment and its suppliers are located in Europe while a substantial part of the Group's revenue for SMT equipment was denominated in US dollars.

In 2018, the Group launched a share buyback program. During the year ended 31 December 2018, the Group repurchased 2,810,600 shares of the Company on The Stock Exchange of Hong Kong Limited for a total consideration of HK$305.5 million.

The Group has convertible bonds with a principal amount of HK$2.25 billion with an annual coupon rate of 2% that will become due on 28 March 2019. They represent a potential cash outlay of the Group should bondholders elect to redeem their bonds then. The Group has sufficient resources to repay bondholders in the event the bondholders elect to redeem the convertible bond. However, if the Company's share price stays above the conversion price (the prevailing conversion price: HK$93.18), it is unlikely that bondholders would seek redemption of their bonds.

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

We continue to believe in returning excess cash to our shareholders. The Group has adopted a dividend policy of paying out sustainable and gradually increasing dividends. After considering our mid-to-short term needs and cash on hand, the Board recommends a final dividend of HK$1.40 (2017: final dividend of HK$1.30) per share. The total dividend payout for 2018 is HK$2.70 per share (2017: HK$2.50 per share).

HUMAN RESOURCES

Our people remain the pillar of our success. At ASMPT, we strive to nurture and retain our talented employees through a holistic approach of competitive remuneration packages that are in line with the market, a comprehensive program of long term development training, and an inclusive and positive working environment. Salary reviews are conducted annually. Employees also receive a range of other benefits including medical, training subsidies, provident funds schemes, and team bonding activities that promote camaraderie and strengthen the relationships at work. Discretionary bonus and incentives shares are also granted to eligible employees based on the Group's financial performance and individual staff performance.

Continuing its search for the next-generation of leaders, the Group has put in place a succession plan to identify and develop a strong and cohesive leadership team that will lead the Group in a sustainable manner. These earmarked high potential executives must undergo job rotation, mentoring and training programs that will prepare them to take over the helm at the right time.

The Group collaborated closely with local universities and technical institutions in the region through internship programs and scholarship opportunities to create and sustain students' interest in technology innovation. We hope to develop an industry-ready pipeline of talent in the market through inspiring the students to begin a career with ASMPT. Four years ago, the ASM Technology Award was launched in Hong Kong to recognize and award students with outstanding Final Year Projects. In December 2018, for the first time ever, ASMPT invited the six student winners and their supervising professors to Germany to learn more about the company, its technology and customers.

HUMAN RESOURCES (CONTINUED)

As we grow our business and expand our global footprint, we also encourage employees to proactively give back to the communities in which we operate, through voluntary work and donations. In 2018, the Group devoted about 23,700 hours on volunteer work.

As of 31 December 2018, the total headcount for the Group was approximately 16,300, which included 1,500 temporary or short-term contract employees and outsourced workers. Of the total workforce, around 1,300 were based in Hong Kong, 8,700 in Mainland China, 1,600 in Singapore, 1,400 in Germany, 1,600 in Malaysia, 500 in United Kingdom, 200 in the United States, with the rest being based in other parts of the world.

The total manpower cost for the Group in 2018 was HK$5.00 billion, as compared with HK$4.60 billion in 2017.

PROSPECTS

While the first three quarters of 2018 had been strong, the Group ended the year with some uncertainties ahead. Both indicators, booking of lead frames and Group booking in the fourth quarter, pointed to a possible slowdown of the market in 2019. This could be attributed to multiple market and economic forces: market cyclical behavior after a super cycle that lasted for three years, a slowdown of innovation rate in smartphones and the tension between the two largest economic powers in the world, the United States and China.

However, fundamental drivers for the long-term growth of the global semiconductor industry remain unchanged. Many new technologies and applications such as AI, Big Data Analytics, HPC, data centres, 5G communications, IoT, Industry 4.0, ADAS, VR and AR, to name a few, are driving demand for semiconductor devices. Furthermore, HI and Advanced Packaging are pushing the shift of value-added from the front-end to the back-end of the semiconductor industry. ASMPT is prepared to take advantage of all these new developments as it has created an unparalleled product and solution portfolio through internal development and acquisitions over the past few years. Advanced Packaging contributed to over 10% of the revenue of our Back-end Equipment Segment in 2018 and is expected to increase further over time.

Nevertheless, we expect 2019 to be a challenging year for the industry, not only for ASMPT. Group revenue is likely to register a year-on-year drop in 2019, although we forecast it to be small at this moment as demand for Advanced Packaging equipment is expected to offset part of the weakness in demand for other capacity related equipment.

With the soft booking received in the last quarter of 2018, we anticipate Group revenue for the first quarter of 2019 to be in the range of US$460 million to US$510 million, representing reductions both quarter-on-quarter and year-on-year. We also anticipate first quarter revenue of 2019 for our Back-end Equipment Segment to be flat or a small dip as compared with the previous quarter and revenue for the SMT Solutions Segment to come down from its peak in the last quarter but likely to register a year-on-year growth. Group booking in the first quarter is likely to be flat or rebound slightly from fourth quarter of 2018.

So far, ASMPT has demonstrated a successful track record of taking on the challenges of market downturns and emerging strongly each time. We are confident about repeating the success. In fact, we believe we are in a much better position than before. Externally, we believe demand for semiconductor devices will be very strong with the arrival of the Data Era. Internally, ASMPT has prepared well for the market opportunities for Advanced Packaging and invested to grasp the potential of Smart Manufacturing brought about by Industry 4.0. ASMPT has entered into a high growth period.


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THE NEXT WAVE

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 2018.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Its principal subsidiaries are engaged in the design, manufacture and marketing of machines, tools and materials used in the semiconductor and electronic assembly industries.

RESULTS AND APPROPRIATIONS

The Directors recommend the payment of a final dividend of HK$1.40 (2017: Final dividend of HK$1.30) per share which, together with the interim dividend of HK$1.30 (2017: Interim dividend of HK$1.20) per share paid during the year, makes a total dividend for the year of HK$2.70 (2017: HK$2.50) per share.

Details of the results and the financial position of the Group are set out in the consolidated financial statements on pages 54 to 163.

BUSINESS REVIEW

A review of the business of the Group during the year, an analysis of the Group's performance during the year using financial key performance indicators, a discussion on the Group's future business development, and a description of possible risks and uncertainties that the Group may be facing are provided in the Chairman's Statement and Management Discussion and Analysis on pages 4 to 7 and pages 8 to 17 of the annual report respectively. The financial risk management objectives and policies of the Group can be found in note 45 to the consolidated financial statements. In addition, discussions on the Group's environmental policies, relationships with its key stakeholders, and compliance with relevant laws and regulations which have a significant impact on the Group are contained in the Sustainability Report on pages 45 to 46 of the annual report.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 164 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

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

SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2018 are set out in note 48 to the consolidated financial statements.

SHARE CAPITAL

On 14 December 2018, 2,245,900 shares were issued at par to certain employees pursuant to their entitlements under the Company's Employee Share Incentive Scheme. During the year ended 31 December 2018, the Company purchased 2,810,600 shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Details of the movements in the share capital of the Company during the year are set out in note 35 to the consolidated financial statements.

CONVERTIBLE BONDS

Details of the convertible bonds are set out in note 33 to the consolidated financial statements.

BANK BORROWINGS

Particulars of bank borrowings of the Group as at 31 December 2018 are set out in note 34 to the consolidated financial statements.

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

The Company was authorized at its 2018 AGM to repurchase its own ordinary shares not exceeding 5% of the total number of its issued shares as at the date of the passing of the resolution.

During the year, the Company repurchased an aggregate of 2,810,600 ordinary shares for a total consideration of approximately HK$305.5 million (excluding relevant trading costs directly attributable to share repurchase) on the Stock Exchange. All the shares repurchased were subsequently cancelled. As at 31 December 2018, the total number of shares of the Company in issue was 406,671,333. Details of the share repurchase are as follows:

Month of repurchase in 2018	Number of shares repurchased	Consideration per share		Aggregate consideration paid
		Highest (HK$)	Lowest (HK$)	(HK$'000)
January 2018	947,900	110.00	107.90	104,124
April 2018	1,362,700	110.00	109.50	149,872
May 2018	500,000	103.20	102.50	51,500
	2,810,600			305,496

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

During the year ended 31 December 2018, an independent professional trustee appointed by the Board under the Employee Share Incentive Scheme, pursuant to the terms of the rules and trust deed of the Employee Share Incentive Scheme, purchased on the Stock Exchange a total of 354,600 shares in the Company. The cost of purchase of these shares amounted to HK$40.5 million.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders amounted to HK$1,743,923,000 (2017: HK$1,150,118,000) as at 31 December 2018. In accordance with the Company's Articles of Association, dividends can only be distributed out of profits of the Company.

DIRECTORS

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

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

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

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

In accordance with Article 113 and 114 of the Company's Articles of Association, Mr. Charles Dean del Prado, Mr. Petrus Antonius Maria van Bommel, Miss Orasa Livasiri, Mr. Wong Hon Yee and Mr. Tang Koon Hung, Eric will retire from office as Directors at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

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

Miss Orasa Livasiri, Independent Non-Executive Director and Chairman of the Company, aged 63, was appointed to the Board as an Independent Non-Executive Director in 1994, became acting Chairman of the Company on 9 May 2016. She was appointed as Chairman of the Company on 2 March 2017. She was a practising solicitor for more than 30 years and retired from the profession in 2012.

Mr. Lok Kam Chong, John, Independent Non-Executive Director, aged 55, 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.

DIRECTORS (CONTINUED)

Mr. Wong Hon Yee, Independent Non-Executive Director, aged 71, 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 73, was appointed as an Independent Non-Executive Director on 26 April 2013. He was formerly an Independent Non-Executive Director of the Company for the period from 6 September 2004 to 31 January 2007, an Executive Director and the Chief Financial Officer of the Company for the period from 1 February 2007 to 1 February 2010. Mr. Tang was also appointed as an Independent Non-Executive Director of EGL Holdings Company Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 06882) on 13 November 2014. Mr. Tang qualified as a Chartered Accountant in Canada and is a member of the Hong Kong Institute of Certified Public Accountants. He has worked in the fields of manufacturing, banking, and public utilities with some major corporations both in Canada and in Hong Kong. Mr. Tang graduated from the University of Toronto, Canada. He holds a Bachelor degree in Industrial Engineering and a Master degree in Business Administration.

Mr. Charles Dean del Prado (He is also known as "Mr. Chuck del Prado"), aged 57, was appointed as a Non-Executive Director of the Company on 29 April 2010. He is a member of the Management Board of ASM International N.V. ("ASM International") since 2006. He assumed the position of Chief Executive Officer ("CEO") of ASM International on 1 March 2008. As CEO, Mr. Charles Dean del Prado oversees the operations of the worldwide organization from the company headquarters in Almere, the Netherlands. During his thirty-year career, Mr. Charles Dean del Prado has had worldwide experience in sales, marketing, manufacturing, and customer service of high technology computer and semiconductor products. From 2003 to 2007, he served as President and General Manager of ASM America, responsible for the R&D, sales, manufacturing, and service of the Epitaxy and Thermal ALD product lines. He also directed sales and service of ASM International's Front-end product lines to all US customers. Previously, Mr. Charles Dean del Prado served as Director of Marketing, Sales & Service of ASM Europe. Prior to joining ASM International in 2001, Mr. Charles Dean del Prado spent five years at ASM Lithography Holding N.V. (ASML) in Taiwan and the Netherlands managing wafer stepper manufacturing and customer program management. From 1989 to 1996, Mr. Charles Dean del Prado had assignments in sales and global account management at IBM Nederland N.V.. Mr. Charles Dean del Prado has a Master of Science degree in Industrial Engineering and Technology Management from the University of Twente in the Netherlands.

Mr. Petrus Antonius Maria van Bommel (He is also known as "Mr. Peter van Bommel"), aged 62, was appointed as a Non-Executive Director of the Company on 29 October 2010. He is the Chief Financial Officer of ASM International. He was appointed as a member of the Management Board of ASM International in May 2010 for a period of 4 years and he was reappointed again in May 2018 for a period of 4 years. He holds a Master's degree in economics from the Erasmus University, Rotterdam, the Netherlands. He has more than thirty years of experience in the electronics and semiconductor industry. He spent most of his career at Philips, which he joined in 1979. From the mid-1990s until 2005, Mr. Petrus Antonius Maria van Bommel acted as Chief Financial Officer of several business units of the Philips group. Between 2006 and 2008, he was Chief Financial Officer at NXP (formerly Philips Semiconductors) and was Chief Financial Officer of Odersun AG, a manufacturer of thin-film solar cells and modules, from January 2009 until 31 August 2010. In April 2016, Mr. van Bommel was reappointed as a member of the Supervisory Board of the Royal KPN N.V., and also became Chairman of its Audit Committee. In April 2015, Mr. van Bommel was appointed as a member of the Supervisory Board of Neways Electronics International N.V. (a company listed on Euronext Amsterdam, stock code: NEWAY). From May 2017, Mr. Petrus Antonius Maria van Bommel is also an Executive Director of Stichting Bernhoven.

DIRECTORS (CONTINUED)

Mr. Lee Wai Kwong, aged 64, was appointed to the Board as an Executive Director and the Chief Executive Officer of the Group on 1 January 2007. He has a Bachelor of Science degree and a Master of Philosophy degree from The Chinese University of Hong Kong, Hong Kong; both degrees are in Electronics. He also has a Masters degree in Business Administration from the National University of Singapore, Singapore. Mr. Lee joined the Group in 1980. He has over 30 years of working experience in the semiconductor industry. Mr. Lee currently serves as the Chairman of the Advisory Committee of the Department of Electronic Engineering of The Chinese University of Hong Kong, Hong Kong.

Mr. Tsui Ching Man, Stanley, aged 62, was appointed to the Board as an Executive Director on 9 May 2017. He was also appointed as the Chief Operating Officer of the Group on 1 May 2016. He is also an Executive Vice President of the Group, Chief Executive Officer of the Group's Material Business Segment Group. Mr. Tsui has over 35 years of working experience in the semiconductor industry. Before joining the Group in 1987, he had worked for several major semiconductor companies in Hong Kong and Singapore. Mr. Tsui graduated from the National Taiwan University with a Bachelor of Science degree in Mechanical Engineering. He also holds three Master degrees in Manufacturing Technology, Information System, and Business Administration, respectively.

Mr. Robin Gerard Ng Cher Tat, aged 55, was appointed to the Board as an Executive Director on 28 April 2011. He was also appointed Chief Financial Officer of the Group on 1 February 2010. Mr. Ng holds a Bachelor of Accountancy from the National University of Singapore and a Master of Laws (Commercial Law) from the University of Derby, the United Kingdom. Mr. Ng has more than 30 years of experience in finance, audit and accounting. He is a Fellow Chartered Accountant of Singapore with the Institute of Singapore Chartered Accountants.

SENIOR MANAGEMENT

For the year ended 31 December 2018, the Group's senior management team includes, other than the Executive Directors, the following persons. Their biographical information is as follows:

Mr. Chow Chuen, James, aged 62, was appointed to the Board as an Executive Director on 1 January 2007 and retired on 9 May 2017. He was appointed as Chief Operating Officer of the Group on 1 January 2007 and stepped down from that position effective from 1 May 2016. Thereafter, he assumes the position of Executive Vice President, Business Excellence and remains as a member of the Group's senior management team. He has a Bachelor of Science degree in Electrical Engineering from the University of Hong Kong and a Master of Science degree in Manufacturing System Engineering from the University of Warwick, England. Mr. Chow joined the Group in 1982. He has over 30 years of working experience in the electronics and semiconductor industry.

Mr. Wong Yam Mo, aged 59, is an Executive Vice President and Chief Technical Officer of the Group. He has a Bachelor of Science degree in Mechanical Engineering and a Master degree in Industrial Engineering, both from the University of Hong Kong. He also holds a Master degree in Precision Engineering from the Nanyang Technological University, Singapore. Mr. Wong joined the Group in 1983.

Mr. Chan Hung, Lawrence, aged 64, is an Executive Vice President of the Group and Chief Executive Officer of the Group's Back-end Equipment Segment (IC, Discrete & CIS). He holds a Diploma in Company Secretaryship & Administration from the Hong Kong Polytechnic, which was later renamed the Hong Kong Polytechnic University, Hong Kong. Mr. Chan joined the Group in 1978.

SENIOR MANAGEMENT (CONTINUED)

Mr. Guenter Walter Lauber, aged 57, is an Executive Vice President of the Group and Chief Executive Officer of the Group's SMT Solutions Segment. Mr. Lauber has over 20 years of working experience in the SMT equipment industry. In 2007, Mr. Lauber took charge of the SMT business that was subsequently acquired by the Group in 2011. He joined the Group following the acquisition. He has a degree in Electrical Engineering (Dipl-Ing. FH) from the Fachhochschule Augsburg (Augsburg University of Applied Sciences), Germany.

Mr. Lim Tia Song, Patrick, aged 65, is an Executive Vice President (Corporate Operations) of the Group. Mr. Lim joined the Group in 1995. He has a Bachelor of Science (Honours) degree in Production Management and Mechanical Technology and a Master of Science degree in Operational Research, both from the University of Strathclyde, the United Kingdom.

Mr. Joseph Poh Tson Cheong, aged 51, is a Senior Vice President of the Group and Chief Executive Officer of the Group's Back-end Equipment Segment (Opto, COB & Display). He graduated from The University of Sydney, Australia in 1989 with a Degree in Mechanical Engineering. He received a Master Degree in Engineering Business Management from the University of Warwick, England in 1999. Mr. Poh joined the Group in 1991 as a Service Engineer and was promoted to the Senior Vice President position in January 2016. For the past 27 years that he has been with the Group, he has held various positions in IC, CIS, SMT Solutions and Opto Business Units. His wide exposure to the electronics supply chain has given him ample opportunities to develop extensive customer contacts, a good understanding on market needs and an ability to provide solutions that satisfy customers' current and future requirements.

EMPLOYEE SHARE INCENTIVE SCHEME

The Group has an Employee Share Incentive Scheme (the "Scheme") for the benefit of the Group's employees and members of management. The Scheme has a life of 10 years starting from March 1990. On 25 June 1999, at an extraordinary general meeting of the Company, the shareholders approved to extend the period of the Scheme for a further term of 10 years up to 23 March 2010 and allow up to 5% of the issued share capital of the Company from time to time, excluding any shares of the Company subscribed for or purchased pursuant to the Scheme since 23 March 1990, to be subscribed for or purchased pursuant to the Scheme during the extended period.

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

On 23 March 2018, the Directors resolved that the Company should contribute HK$42.9 million to the Scheme, enabling the trustees of the Scheme to subscribe or purchase a total of 2,623,200 shares in the Company for the benefit of employees and members of the management of the Group in respect of their services for the year ended 31 December 2017, such shares to vest upon expiration of the respective defined qualification periods, of which 2,145,300 shares relate to the qualification period expiring on 14 December 2018 ("2018 qualification period") and 477,900 shares relate to the qualification period expiring on 16 December 2019. Out of the 2,623,200 shares in the Company to be subscribed or purchased, 354,600 shares ("Award Shares") were allocated to be purchased at market price as soon as practicable on the Stock Exchange.

The Board also resolved to instruct an independent professional trustee appointed by the Board under the Scheme to purchase the Award Shares. These Award Shares represented the aggregate number of shares to which the three Executive Directors, namely, Mr. Lee Wai Kwong, Mr. Tsui Ching Man, Stanley and Mr. Robin Gerard Ng Cher Tat, and other connected persons of the Company as defined under the Listing Rules would be eligible to receive pursuant to the Scheme, and subject to the 2018 qualification period, the Award Shares would be held on trust for them.

EMPLOYEE SHARE INCENTIVE SCHEME (CONTINUED)

In March 2018, the independent trustee purchased a total of 354,600 Award Shares, which represented approximately 0.087% of total issued share capital of the Company at the date of purchase, at total consideration of HK$40.5 million on the Stock Exchange. The 354,600 Award Shares purchased by the independent trustee on the Stock Exchange were transferred to the said Executive Directors and the connected persons at no cost upon the expiration of 2018 qualification period.

DIRECTORS' INTERESTS IN SHARES

Details of the interests of the Directors and chief executives of the Company and their associates in the share capital of the Company and its associated corporations as at 31 December 2018 as recorded in the register by the Company pursuant to Section 352 of the Securities and Future Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Long positions

Shares of HK$0.10 each of the Company:

		Long positions	
Name of director	**Capacity**	**Number of shares held**	**Percentage of shareholding in the Company**
Lee Wai Kwong *(Note 1)*	Beneficial Owner	1,665,100	0.41%
Tsui Ching Man, Stanley *(Note 2)*	Beneficial Owner & interest of spouse	260,800	0.06%
Robin Gerard Ng Cher Tat *(Note 3)*	Beneficial Owner	200,000	0.05%

Notes:

1. Pursuant to the Scheme, on 23 March 2018, the Board of Directors resolved to allocate shares to the management and employees of the Company in respect of their service with respective vesting periods expiring on 14 December 2018 and 16 December 2019. The Company agreed on 23 March 2018 to allocate to Mr. Lee a total of 128,000 shares in respect of his service, such shares to vest at the end of the respective vesting periods expiring on 14 December 2018 (42,700 shares) and 16 December 2019 (85,300 shares) respectively. Pursuant to the Scheme, no subscription price is payable by Mr. Lee in relation to this allocation. 121,400 shares (included 78,700 shares granted on 17 March 2017 and 42,700 shares granted on 23 March 2018 pursuant to the Scheme) vested on 14 December 2018. His interest of 1,665,100 shares includes 124,600 shares to vest upon the expiration of the vesting period in 2019.

2. Mr. Tsui was the beneficial owner of 256,800 shares and he was deemed to be interested in 4,000 shares through the interests of his spouse, Soh Lay Hoon. Pursuant to the Scheme, on 23 March 2018, the Company agreed to allocate to Mr. Tsui and his spouse, who is employed as an accounting manager of a subsidiary of the Group, a total of 37,000 shares in respect of their service, such shares to vest at the end of the respective vesting periods expiring on 14 December 2018 (13,700 shares) and 16 December 2019 (23,300 shares) respectively. Pursuant to the Scheme, no subscription price is payable by Mr. Tsui and his spouse in relation to this allocation. 37,000 shares (included 23,300 shares granted on 17 March 2017 and 13,700 shares granted on 23 March 2018 pursuant to the Scheme) vested on 14 December 2018. His interest of 260,800 shares includes 35,000 shares to vest upon the expiration of the vesting period in 2019.

3. Pursuant to the Scheme, on 23 March 2018, the Company agreed to allocate to Mr. Ng a total of 40,000 shares in respect of his service, such shares to vest at the end of the respective vesting periods expiring on 14 December 2018 (13,300 shares) and 16 December 2019 (26,700 shares) respectively. Pursuant to the Scheme, no subscription price is payable by Mr. Ng in relation to this allocation. 40,000 shares (included 26,700 shares granted on 17 March 2017 and 13,300 shares granted on 23 March 2018 pursuant to the Scheme) vested on 14 December 2018. His interest of 200,000 shares includes 40,000 shares to vest upon the expiration of the vesting period in 2019.

DIRECTORS' INTERESTS IN SHARES (CONTINUED)

Save as disclosed above and other than certain nominee shares in subsidiaries held by the Directors in trust for the Company or its subsidiaries, as at 31 December 2018, none of the Directors or chief executives of the Company nor their associates had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, 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. *(Note 1)*	Interest of a controlled corporation	103,003,000	25.33%
ASM Pacific Holding B.V.	Beneficial owner	103,003,000	25.33%
Commonwealth Bank of Australia *(Note 2)*	Interest of a controlled corporation	32,645,500	8.03%
Schroders Plc	Investment manager	28,872,200 *(Note 3)*	7.10%

Notes:

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

2. Commonwealth Bank of Australia is deemed interested in 32,645,500 shares, through the shares held by its wholly owned subsidiaries, including ASB Holdings Limited, Colonial Holding Company Limited, ASB Bank Limited, Commonwealth Insurance Holdings Limited, ASB Group Investments Limited, Capital 121 Pty Limited, Colonial First State Group Ltd, Colonial First State Investments Limited, Colonial First State Asset Management (Australia) Limited, First State Investment Managers (Asia) Limited, First State Investments (UK Holdings) Limited, FSIB Limited, Realindex Investments Pty Limited, First State Investments (Hong Kong) Ltd, SI Holdings Limited, First State Investment Management (UK) Limited, First State Investments International Limited, First State Investments Holdings (Singapore) Limited and First State Investments (Singapore).

3. The long position of 28,872,200 shares held by Schroders Plc includes derivative interests in 22,300 underlying shares of the Company which are derived from unlisted and cash settled derivatives.

Save as disclosed above, as at 31 December 2018, according to the register of interests required to be kept by the Company under Section 336 of the SFO, there was no other person who had any interest or short position in the shares or underlying shares of the Company.

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

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

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

DIRECTORS' SERVICE CONTRACTS

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

EMOLUMENT POLICY

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

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

The Company currently has an Employee Share Incentive Scheme as an incentive to Directors and eligible employees, details of which are set out in note 36 to the consolidated financial statements.

PERMITTED INDEMNITY

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

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

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

DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK$827,000.

CONFIRMATION OF INDEPENDENCE

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2018.

AUDITOR

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

On behalf of the Board
Lee Wai Kwong
DIRECTOR

21 February 2019

Corporate Governance Report

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

CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 of the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") throughout the year ended 31 December 2018.

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 2018, the Company has nine directors, one of whom is female. The majority of Board members are non-executive directors. They bring to the Board a wide range of professional experience in areas of business, financial, legal, technical and industrial, which contribute to the effective direction of the Group. Members of the Board comprise nationals from Hong Kong, Singapore, Thailand and the Netherlands. The Board considers its current composition to have achieved good diversity in terms of gender, cultural, educational background and professional experience.

The Board of the Company comprises the following directors during the year ended 31 December 2018:

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

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

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

THE BOARD (CONTINUED)

Board composition (Continued)

During the year ended 31 December 2018, the Company's Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise. Currently, there are two such directors on the Board and they are also members of the Board's Audit Committee. The Company has complied with the Listing Rules requirement of independent non-executive directors representing at least one-third of the Board.

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

Board Diversity Policy

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

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

Corporate Governance Functions

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

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

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

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

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

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

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

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

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

THE BOARD (CONTINUED)

Chairman and Chief Executive Officer

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority. The position of the Chairman is held by Miss Orasa Livasiri, while the position of Chief Executive Officer is held by Mr. Lee Wai Kwong during the year ended 31 December 2018. Their respective responsibilities are clearly defined and set out in writing.

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

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

Appointment and re-election of directors

In accordance with the Company's Articles of Association (the "Articles"), each Director elected by the Company at general meetings shall retire at the third annual general meeting following his election. The Director retiring shall be eligible for re-election at, and shall retain office until the close of, the general meeting at which he retires.

Mr. Charles Dean del Prado, Mr. Petrus Antonius Maria van Bommel, Miss Orasa Livasiri, Mr. Wong Hon Yee and Mr. Tang Koon Hung, Eric shall retire from office as Directors in accordance with Articles 113 and 114 of the Company's Articles and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Nomination Committee

As at 31 December 2018, the Nomination Committee comprises five members, 4 of whom are independent non-executive directors, namely, Miss Orasa Livasiri who is the Committee Chairman, Mr. Lok Kam Chong, John, Mr. Wong Hon Yee and Mr. Tang Koon Hung, Eric, and one non-executive director, Mr. Charles Dean del Prado.

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

THE 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 2018 and the attendance record is set out under "Directors' attendance records" on page 34.

Induction and continuing development for directors

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

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

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

The Directors are committed to complying with Code Provision A.6.5 of the CG Code on Directors' training. All Directors have participated in continuous professional development to develop and refresh their knowledge and skills and have provided a record of training they received for the year ended 31 December 2018 to the Company.

THE BOARD (CONTINUED)

Induction and continuing development for directors (Continued)

The individual training record of each Director received for the year ended 31 December 2018 is summarized as below:

Participation in Continuous Professional Development Programme in 2018

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

Board meetings

Board practices and conduct of meetings

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

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

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

THE BOARD (CONTINUED)

Board meetings (Continued)

Board practices and conduct of meetings (Continued)

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

Directors' attendance records

Nine Board meetings were held during the year.

The individual attendance (either in person or through other electronic means of communication) record of each director at the meetings of the Board, the Audit Committee, the Nomination Committee and the Remuneration Committee and the 2018 Annual General Meeting, during the year ended 31 December 2018 is set out below:

		Attendance/Number of Meetings held during the tenure of directorship				
Directors		**Board Meetings**	**Audit Committee Meetings**	**Nomination Committee Meetings**	**Remuneration Committee Meetings**	**2018 Annual General Meeting**
Independent Non-Executive Directors						
Orasa Livasiri	(Chairman of the Board and Nomination Committee)	9/9	4/4	1/1	3/3	1/1
Lok Kam Chong, John	(Chairman of Audit Committee)	9/9	4/4	1/1	3/3	1/1
Wong Hon Yee	(Chairman of Remuneration Committee)	9/9	N/A	1/1	3/3	1/1
Tang Koon Hung, Eric	(appointed as Member of Nomination Committee on 1 February 2018)	9/9	4/4	0/0	3/3	1/1
Non-Executive Directors						
Charles Dean del Prado		8/9	N/A	1/1	3/3	1/1
Petrus Antonius Maria van Bommel		8/9	3/4	N/A	N/A	1/1
Executive Directors						
Lee Wai Kwong		9/9	N/A	N/A	N/A	1/1
Tsui Ching Man, Stanley		9/9	N/A	N/A	N/A	1/1
Robin Gerard Ng Cher Tat		9/9	N/A	N/A	N/A	1/1

THE BOARD (CONTINUED)

Model code for securities transactions

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

Specific enquiry has been made to all directors and they have confirmed that they have complied with the Model Code throughout the year ended 31 December 2018.

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

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

Company Secretary

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

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

DELEGATION OF MANAGEMENT FUNCTIONS

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

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

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

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

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.

DELEGATION OF MANAGEMENT FUNCTIONS (CONTINUED)

During the year ended 31 December 2018, the Board has three committees, namely, the Remuneration Committee, the Audit Committee and the Nomination Committee, to oversee particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are posted on the website of the Company (www.asmpacific.com) and the Stock Exchange (www.hkex.com.hk) and are available to shareholders upon request.

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

REMUNERATION OF DIRECTORS

The Company has established a formal and transparent procedure for formulating policies on remuneration of the executive directors of the Company. Details of the remuneration of each of the directors of the Company for the year ended 31 December 2018 are set out on pages 106 to 107 in note 14 to the consolidated financial statements.

Remuneration Committee

The Remuneration Committee has five members as at 31 December 2018. Mr. Wong Hon Yee, independent non-executive director, is the Chairman. One non-executive director, Mr. Charles Dean del Prado, and three independent non-executive directors, Miss Orasa Livasiri, Mr. Lok Kam Chong, John and Mr. Tang Koon Hung, Eric, are the other four members of the Remuneration Committee.

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

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

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

The main duties of Remuneration Committee are as follow:

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

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

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

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

REMUNERATION OF DIRECTORS (CONTINUED)

Remuneration Committee (Continued)

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

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

The Remuneration Committee held three meetings during the year ended 31 December 2018 and the attendance records are set out under "Directors' attendance records" on page 34.

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

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

Details of the remuneration of each director for the year ended 31 December 2018 are set out in note 14 to the consolidated financial statements.

Details of the annual remuneration of members of the senior management (including Executive Directors) by band for the year ended 31 December 2018 is as follows:

	Number of employees
HK$4,500,001 to HK$5,000,000	1
HK$5,000,001 to HK$5,500,000	1
HK$6,000,001 to HK$6,500,000	1
HK$7,000,001 to HK$7,500,000	1
HK$7,500,001 to HK$8,000,000	1
HK$8,500,001 to HK$9,000,000	1
HK$9,000,001 to HK$9,500,000	1
HK$10,000,001 to HK$10,500,000	1
HK$23,000,001 to HK$23,500,000	1

ACCOUNTABILITY AND AUDIT

Directors' responsibilities for financial reporting

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2018.

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

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

ACCOUNTABILITY AND AUDIT (CONTINUED)

Internal controls

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

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

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

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

Audit Committee

The Audit Committee comprises three independent non-executive directors (including two independent non-executive directors who possess the appropriate professional qualifications or accounting or related financial management expertise) and one non-executive director as at 31 December 2018. Mr. Lok Kam Chong, John, independent non-executive director, is the Chairman of the Audit Committee. Other members are two independent non-executive directors, Miss Orasa Livasiri and Mr. Tang Koon Hung, Eric and one non-executive director, Mr. Petrus Antonius Maria van Bommel. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

The main duties of the Audit Committee include the following:

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

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

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

ACCOUNTABILITY AND AUDIT (CONTINUED)

Audit Committee (Continued)

In 2018, a total of four meetings of Audit Committee were convened. The attendance record of the Audit Committee's members is shown on page 34. The following is a summary of the tasks completed by the Audit Committee during 2018:

- reviewed the Group's financial reports for the year ended 31 December 2017, for the six months ended 30 June 2018, and for the quarters ended 31 March 2018 and 30 September 2018;
- reviewed the financial reporting system;
- reviewed the effectiveness of internal controls system;
- reviewed risk management system;
- reviewed work plan for 2018 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 47 to 53.

During the year under review, the remuneration paid to the Company's auditor, Messrs. Deloitte Touche Tohmatsu, amounted to HK$16,119,000 in respect of audit services; HK$1,632,000 in respect of assurance related services and HK$3,774,000 in respect of non-audit services, all of which were reviewed and approved by the Audit Committee.

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

RISK MANAGEMENT

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

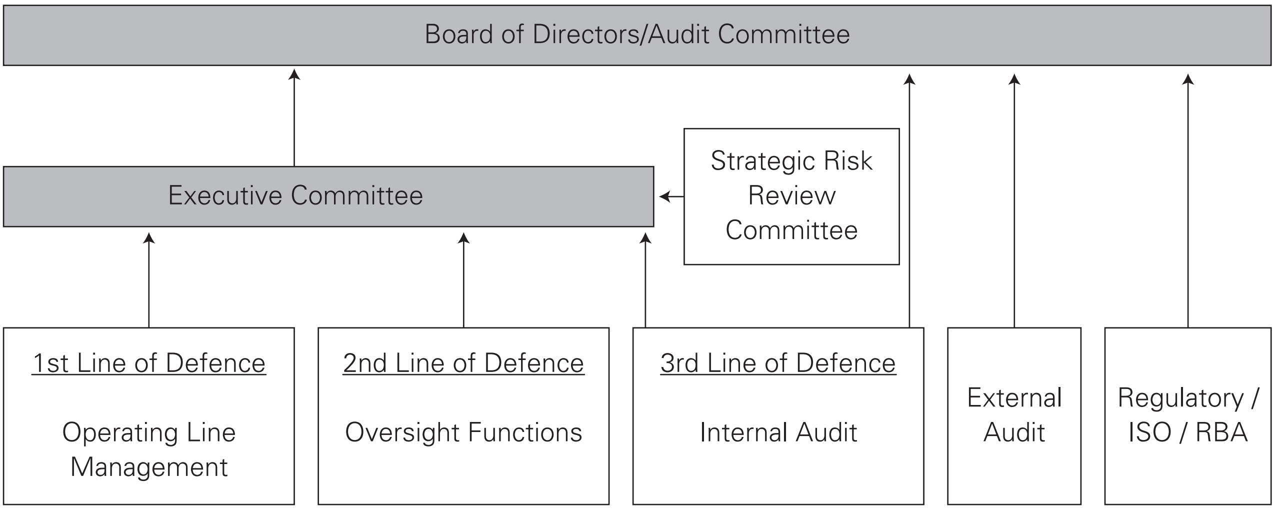
Management is delegated by the Board to advise the Board on the Group's risk-related matters. Management is also responsible for assessing the effectiveness of the Group's risk control/management system.

RISK MANAGEMENT (CONTINUED)

Risk Management and Control System

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

The Framework



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

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

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

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

RISK MANAGEMENT (CONTINUED)

Risk Management and Control System (Continued)

The Framework (Continued)

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

As a complement to the Three Lines of Defence, the Strategic Risk Review Committee reports directly to the Group's Executive Committee, which comprises the Group CEO and other senior management members of the Group. The Strategic Risk Review Committee for the year 2018 was chaired by a Senior Vice President of the Group and comprised management representatives from different Business Segments who are responsible for various key functions within the Group. The Strategic Risk Review Committee is tasked with identifying and assessing risks that would hinder the Group from achieving its objectives, and analysing and recommending how risks are to be managed. This will enhance risk management in order that all material risks faced by the Group are identified, reviewed and appropriately managed. The Strategic Risk Review Committee reports the key risks to the Executive Committee on a regular basis and to the Board on an annual basis. Task forces have been formed and assigned to study in detail the key risks identified and recommend appropriate courses of actions to manage identified risks.

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

INSIDE INFORMATION

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

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

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

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

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

Shareholders Communication Policy

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

All announcements and notices are published on the Stock Exchange's website as well as the Company's own website. In addition, to promote greater understanding and dialogue with the investment community, the Company holds conference calls or investor luncheon meetings with the investment community in connection with the Company's annual, interim and quarterly results. During these conference calls or investor luncheon meetings, the Company's Chief Executive Officer or his delegate will make presentations on the Group's performance to the investment community. The conference calls are also broadcast live via webcast. Apart from this, designated senior executives maintain regular dialogue with institutional investors to keep them abreast of the Group's development, subject to compliance with applicable laws and regulations. Including the four results announcements, approximately 480 meetings with analysts and fund managers were held in 2018.

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

Shareholders' Meeting

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

The most recent shareholders' meeting was the 2018 annual general meeting held on 8 May 2018 at Room 3 – 5, United Conference Centre, 10/F United Centre, 95 Queensway, Hong Kong. All the resolutions proposed at that meeting were approved by the shareholders by poll voting. Details of poll results are available under the investor relations section of the Company's website at www.asmpacific.com.

The next annual general meeting will be held on Tuesday, 7 May 2019, the notice of which will be sent to shareholders at least 20 clear business days before the said meeting.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS (CONTINUED)

Shareholder Rights

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

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

Procedure for shareholders to convene an extraordinary general meeting

Pursuant to the Articles of Association of the Company, shareholder(s) holding not less than one-tenth in amount of the issued capital of the Company (hereinafter refer to as "the requisitionists") may request for an extraordinary general meeting of the Company to be convened. The requisition must be in writing and signed by the requisitionists, stating the objective of the meeting, and be deposited at the Company's registered office at Cayman Islands or its principal place of business in Hong Kong at 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 proceed duly to convene a meeting, the requisitionists or any of them representing more than one-half of total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said dates.

Procedures for putting forward proposals at shareholders' meetings

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

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

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

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS (CONTINUED)

Procedures for putting enquiries to the Board

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

ASM Pacific Technology Limited
19/F, Gateway ts,
8 Cheung Fai Road,
Tsing Yi, New Territories,
Hong Kong

Attn: Investor Relationship Department
Telephone: (852) 2424 2021; (852) 2619 2529
Fax: (852) 2481 3367
Email: investor.relation@asmpt.com

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

Articles of Association of the Company

There was no change in the Articles of Association of the Company for the year ended 31 December 2018.

On behalf of the Board
Lee Wai Kwong
DIRECTOR

21 February 2019

Sustainability Report

At ASMPT, sustainability is an integral part of our business planning, development and growth. In 2018, we continued our commitment to integrate sustainable practices into the Group's key areas of focus including Corporate Governance, Risk Management, Environmental Protection, People Development, Workplace Safety and Products & Services. We actively engaged with the different groups of stakeholders through open and transparent communications channels to keep them informed of latest developments in a timely manner.

ENVIRONMENT

Environmental care, pollution prevention and continuous improvements of the environmental performance in all our activities, products and services is a charter of ASMPT. We remained compliant with all relevant international and national environmental laws and regulations and pledge to make the earth cleaner and safer.

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

During the year, the Group had diligently worked to improve energy efficiency and reduce energy consumption. Various changes and upgrades were continuously conducted on the Group's factories and facilities to ensure operational and energy efficiency. Key actions included the overhauling of air-conditioning systems, air compressors, chiller and heater systems in Singapore and Hong Kong to create energy savings ranging from 30% to 90% at systems level.

SOCIAL

Employees

Employees remain the cornerstone of our success. As of 31 December 2018, the Group had a global workforce of approximately 16,300 employees, out of which about 24% were female and 31% were aged 30 and below, 58% were aged between 30 and 50, and 11% were above 50.

The Group recognises that having an inclusive, engaged and skilled workforce is crucial. To nurture talent and help them to reach their full potential, we provide an array of training and development opportunities. We uphold fair employment practices and endeavor to create a work culture that motivates and empowers each employee to be innovative and creative, and be able to work independently as well as in teams.

As a global company with a presence across over 30 countries, the Company embraces the diversity of people and implements fair employment practices in our operations worldwide, with equal opportunities for employment, advancement and promotion, regardless of gender, race, age, religious beliefs, ethnicity, nationality, marital status, disabilities, and sexual orientation et cetera. Employees can make significant contributions base on their respective expertise, experience and dedication. Additionally, the Group does not tolerate any form of sexual harassment in the workplace and does not condone such unlawful conduct. No incidence of such harassment was reported in 2018.

The Group believes that a motivated and dedicated workforce should be fairly rewarded. As such, our compensation packages are pegged competitively to match individual qualifications, work experience and performance. We have in place a structured and open annual performance appraisal system. Discretionary bonuses and incentive shares may be granted to eligible staff based on the Group's financial results and individual's performance. Other employee benefits include contributions to mandatory provident fund schemes, medical and training subsidies.

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

SOCIAL (CONTINUED)

Customers

While employees are the cornerstone, customers are the Company's greatest assets, because without customers there is no company. At ASMPT our mission is to deliver the highest value and most innovative solutions to our customers through our products, solutions and services. We take an active role in ensuring that what we produce and provide to our customers are environmentally-friendly, production efficient and cost-effective.

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

Suppliers

In working with our suppliers, we believe that long-term, trusting business relationships are built on honesty, integrity and good business ethics. We are committed to ensuring our procurement process encourages fair competition and to applying a high level of objectivity and impartiality in supplier selection. Suppliers are selected based on their price, service, quality, technology, capability, cost effectiveness, business integrity, sustainability, growth potential and management system. Together with our worldwide regular partners and suppliers, we constantly look into improving our supply chain management processes to bring about a sustainable experience for our customers.

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

Community

The Group believes in the active contribution and participation within the community in which we operate. In doing this, we are focused in three main areas: community well-being, youth empowerment through education and, promotion of eco-friendly initiatives. For years, we have supported charities as well as non-profit organisations through donations and staff volunteerism. In 2018, the Group participated, sponsored and donated to 180 CSR-related activities and spent approximately 23,700 hours of volunteer service to the communities where we operate.

The Group believes in the power of education to positively impact the lives of individuals. In order to work towards the Group's vision of "Enabling the Digital World", we create opportunities to nurture young engineering talent. As such, we have been collaborating closely with local universities and technical institutes in the Asia Pacific region through internship programmes and scholarship opportunities that benefitted 386 students in 2018. Into its fourth year, the ASM Technology Award in Hong Kong awards university students with outstanding Final Year Projects. For the first time ever, the Award included a trip to Germany for the six student winners and their supervising professors to learn more about the technologies and business development of the Group and some other high-tech companies in Germany.

More details of the Group's Sustainability and Corporate Social Responsibility programmes will be available in the Environmental, Social and Governance (ESG) Report that will be published on our official website (www.asmpacific.com) in May 2019.

Independent Auditor's Report

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of ASM Pacific Technology Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 54 to 163, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment testing of goodwill and intangible asset with indefinite useful life	
We identified the impairment testing of goodwill and intangible asset as a key audit matter due to its complexity and significant judgment exercised by the Group's management on the impairment testing. As detailed in note 22 to the consolidated financial statements, for the purposes of impairment testing, the carrying amounts of goodwill and intangible asset with indefinite useful life as at 31 December 2018 were HK$1,057,816,000 and HK$392,051,000 respectively. Determining the amount of impairment for goodwill and intangible asset requires an estimation of the recoverable amount, which is the value in use of the cash-generating units ("CGUs") to which goodwill and intangible asset have been allocated. The value in use is determined based on the cash flow projection for the group of CGUs discounted to its present value and requires the use of key assumptions, including the discount rate, terminal growth rate, budgeted sales and gross margin, taking into account the economic outlook, relevant industry growth forecasts and financial budgets approved by the directors covering a five-year period from the unit's past performance and management's expectations for the market development. The management of the Group determines that there was no impairment recognized with respect to the goodwill and intangible asset with indefinite useful life allocated to back-end equipment business and surface mount technology solutions business during the year ended 31 December 2018.	Our procedures in relation to assessing the appropriateness of the impairment testing of goodwill and intangible asset with indefinite useful life included: • Understanding the Group's impairment testing process, including the valuation model adopted, CGUs allocation and assumptions used; • Evaluating the appropriateness of the model used to calculate the recoverable amount; • Evaluating the reasonableness of the budgeted sales and gross margin by considering the approved financial budgets, the management's business plan, the available industry and market data; • Evaluating the historical accuracy of the financial budgets prepared by management by comparing the historical financial budgets with the actual performance; and • Engaging our valuation expert to evaluate the appropriateness of the discount rate and terminal growth rate used.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Provision for taxation in relation to Tax Affairs	
We identified the provision for taxation in relation to the Tax Affairs (as defined below) as a key audit matter due to critical judgment exercised by the management to assess the tax provision. As detailed in note 12 to the consolidated financial statements, the Group continued to receive letters from the Hong Kong Inland Revenue Department (the "HKIRD") during 31 December 2018 seeking information relating to Hong Kong Profits Tax and other tax affairs of certain subsidiaries of the Company (the "Tax Affairs"). The enquiries might lead to significant additional tax being charged on profits from some overseas subsidiaries in respect of source of income as concerned that have not previously been included in the scope of charge for Hong Kong Profits Tax; or significant tax adjustments to companies currently subject to Hong Kong Profits Tax. As at 31 December 2018, the Group has purchased tax reserve certificates amounting to HK$381,166,000. Based on legal and other professional advice that the Company has sought, the directors of the Company are of the opinion that sufficient provision for taxation and tax-related expenses have been made in the consolidated financial statements.	Our procedures in relation to evaluating the appropriateness of the provision for taxation in relation to Tax Affairs included: • Engaging our tax expert to assess the appropriateness of the basis of provision for taxation of the Tax Affairs by considering the recent similar tax cases in Hong Kong, correspondences of the Group with the HKIRD and the legal and other professional advice sought by the Company; • Ascertaining the adequacy of the income tax provision based on the basis of provision for taxation of the Tax Affairs estimated by the Company; and • Considering the adequacy of the disclosures in the consolidated financial statements in respect of the Tax Affairs.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Allowance for inventories	
We identified allowance for inventories as a key audit matter due to the critical judgment exercised by the Group's management in identifying the slow-moving and obsolete inventories and assessing the amount of allowance for inventories. As disclosed in note 4 to the consolidated financial statements, the nature of inventories is subject to technology changes. The Group's management identifies obsolete inventories as a result of technology change, and then applied allowances on those obsolete inventories by considering the recoverable amount. The Group's management also reviews the inventory age listing to identify slow-moving and obsolete inventories and then estimates the amount of allowance based on the projected excessive quantity of those inventories considering the production plan and expected future market demand as a result of changes in current market conditions and technology, and the latest invoice prices. As at 31 December 2018, the carrying amount of inventories, net of allowance, was HK$6,541,939,000.	Our procedures in relation to evaluating the appropriateness of the allowance of inventories included: • Understanding of how the Group's management identifies the slow-moving and obsolete inventories and assesses the amount of allowance for inventories; • Understanding and evaluating the appropriateness of the basis of identification of the obsolete inventories and the projected excessive quantity of inventories estimated by the Group's management; • Testing the accuracy of the aging analysis of inventories, on a sample basis; • Evaluating the historical accuracy of allowance of inventories assessed by management by comparing the actual loss to historical allowance recognized, on a sample basis; and • Assessing the accuracy of the net realizable value, on a sample basis.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
21 February 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

	Notes	**2018 HK$'000**	2017 HK$'000
Revenue	*5, 6*	**19,550,590**	17,522,713
Cost of sales		**(12,113,813)**	(10,471,339)
Gross profit		**7,436,777**	7,051,374
Other income		**96,126**	88,410
Selling and distribution expenses		**(1,660,893)**	(1,497,944)
General and administrative expenses		**(1,013,345)**	(937,624)
Research and development expenses	*7*	**(1,610,225)**	(1,436,191)
Other gains and losses	*8*	**(78,455)**	(33,360)
Restructuring costs	*9*	**(19,067)**	—
Adjustment of liability component of convertible bonds	*10*	**—**	202,104
Finance costs	*11*	**(177,762)**	(162,489)
Profit before taxation		**2,973,156**	3,274,280
Income tax expense	*12*	**(761,428)**	(478,578)
Profit for the year	*13*	**2,211,728**	2,795,702
Profit (loss) for the year attributable to:			
Owners of the Company		**2,216,062**	2,815,473
Non-controlling interests		**(4,334)**	(19,771)
		2,211,728	2,795,702
Earnings per share	*17*		
— Basic		**HK$5.47**	HK$6.90
— Diluted		**HK$5.44**	HK$6.35

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Note	**2018 HK$'000**	2017 HK$'000
Profit for the year		**2,211,728**	2,795,702
Other comprehensive (expense) income			
— exchange differences on translation of foreign operations, which may be reclassified subsequently to profit or loss		**(273,227)**	575,484
— remeasurement of defined benefit retirement plans, net of tax, which will not be reclassified to profit or loss	*37*	**3,400**	3,023
Other comprehensive (expense) income for the year		**(269,827)**	578,507
Total comprehensive income for the year		**1,941,901**	3,374,209
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**1,948,645**	3,393,984
Non-controlling interests		**(6,744)**	(19,775)
		1,941,901	3,374,209

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	18	**2,850,450**	2,426,005
Investment property	19	**56,206**	60,340
Goodwill	20	**1,057,816**	408,696
Intangible assets	21	**1,305,622**	542,101
Prepaid lease payments	23	**126,732**	115,046
Other investments	24	**56,355**	18,502
Pledged bank deposits	28	**—**	2,153
Deposits paid for acquisition of property, plant and equipment		**40,672**	33,263
Rental deposits paid		**42,033**	36,120
Deferred tax assets	38	**355,210**	361,673
Other non-current assets		**16,343**	24,761
		5,907,439	4,028,660
Current assets			
Inventories	25	**6,541,939**	5,368,889
Trade and other receivables	26	**6,324,901**	6,058,686
Prepaid lease payments	23	**3,863**	3,849
Derivative financial instruments	27	**1,852**	13,289
Income tax recoverable		**44,134**	66,553
Pledged bank deposits	28	**2,054**	3,351
Bank deposits with original maturity of more than three months	28	**9,198**	691,018
Bank balances and cash	28	**2,240,022**	2,365,911
		15,167,963	14,571,546
Current liabilities			
Trade liabilities and other payables	29	**3,165,478**	3,378,260
Advance payments from customers	30	**718,694**	642,595
Derivative financial instruments	27	**32,697**	234
Obligations under finance leases	31	**410**	—
Provisions	32	**330,933**	295,825
Income tax payable		**533,701**	349,999
Convertible bonds	33	**2,224,652**	—
Bank borrowings	34	**786,021**	117,219
		7,792,586	4,784,132
Net current assets		**7,375,377**	9,787,414
		13,282,816	13,816,074

Consolidated Statement of Financial Position *(continued)*
At 31 December 2018

	Notes	**2018 HK$'000**	2017 HK$'000
Capital and reserves			
Share capital	*35*	**40,667**	40,908
Dividend reserve		**569,340**	528,175
Other reserves		**11,557,541**	10,808,542
Equity attributable to owners of the Company		**12,167,548**	11,377,625
Non-controlling interests		**(6,893)**	(149)
Total equity		**12,160,655**	11,377,476
Non-current liabilities			
Convertible bonds	*33*	**—**	2,121,830
Obligations under finance leases	*31*	**736**	—
Retirement benefit obligations	*37*	**171,515**	183,277
Provisions	*32*	**48,528**	50,242
Bank borrowings	*34*	**473,740**	—
Deferred tax liabilities	*38*	**250,783**	39,996
Other liabilities and accruals	*39*	**176,859**	43,253
		1,122,161	2,438,598
		13,282,816	13,816,074

The consolidated financial statements on pages 54 to 163 were approved and authorized for issue by the Board of Directors on 21 February 2019 and are signed on its behalf by:

Lee Wai Kwong
DIRECTOR

Robin Gerard Ng Cher Tat
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	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 36)*	Treasury share reserve HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Other reserve HK$'000 *(Note)*	Convertible bonds equity reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Dividend reserve HK$'000	Sub-total HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
At 1 January 2017	40,824	1,522,726	–	(198)	–	155	72,979	–	250,249	(854,761)	7,541,165	449,068	9,022,207	4,056	9,026,263
Profit for the year	–	–	–	–	–	–	–	–	–	–	2,815,473	–	2,815,473	(19,771)	2,795,702
Exchange differences on translation of foreign operations, which may be reclassified subsequently to profit or loss	–	–	–	–	–	–	–	–	–	575,488	–	–	575,488	(4)	575,484
Remeasurement of defined benefit retirement plans, net of tax *(note 37)*, which will not be reclassified to profit or loss	–	–	–	–	–	–	–	–	–	–	3,023	–	3,023	–	3,023
Total comprehensive income (expense) for the year	–	–	–	–	–	–	–	–	–	575,488	2,818,496	–	3,393,984	(19,775)	3,374,209
Sub-total	40,824	1,522,726	–	(198)	–	155	72,979	–	250,249	(279,273)	10,359,661	449,068	12,416,191	(15,719)	12,400,472
Recognition of equity-settled share-based payments	–	–	303,223	–	–	–	–	–	–	–	–	–	303,223	–	303,223
Purchase of shares under the Scheme	–	–	–	(34,064)	–	–	–	–	–	–	–	–	(34,064)	–	(34,064)
Shares vested under the Scheme	–	–	(34,165)	34,262	–	–	–	–	–	–	(97)	–	–	–	–
Shares issued under the Scheme	224	234,329	(234,553)	–	–	–	–	–	–	–	–	–	–	–	–
Cancellation of the grant under the Scheme	–	–	(4,628)	–	–	–	–	–	–	–	–	–	(4,628)	–	(4,628)
Arising on additional interest in a subsidiary	–	–	–	–	–	–	–	(15,570)	–	–	–	–	(15,570)	15,570	–
Shares repurchased and cancelled	(140)	(149,435)	–	–	–	140	–	–	–	–	(140)	–	(149,575)	–	(149,575)
Shares repurchased but not yet cancelled	–	–	–	–	(198,992)	–	–	–	–	–	–	–	(198,992)	–	(198,992)
2016 final dividend paid	–	–	–	–	–	–	–	–	–	–	–	(449,068)	(449,068)	–	(449,068)
2017 interim dividend paid	–	–	–	–	–	–	–	–	–	–	(489,892)	–	(489,892)	–	(489,892)
2017 final dividend proposed	–	–	–	–	–	–	–	–	–	–	(528,175)	528,175	–	–	–
At 31 December 2017	40,908	1,607,620	29,877	–	(198,992)	295	72,979	(15,570)	250,249	(279,273)	9,341,357	528,175	11,377,625	(149)	11,377,476
Adjustments due to adopting new standards	–	–	–	–	–	–	–	–	–	–	(50,279)	–	(50,279)	–	(50,279)
At 1 January 2018 (restated)	40,908	1,607,620	29,877	–	(198,992)	295	72,979	(15,570)	250,249	(279,273)	9,291,078	528,175	11,327,346	(149)	11,327,197
Profit for the year	–	–	–	–	–	–	–	–	–	–	2,216,062	–	2,216,062	(4,334)	2,211,728
Exchange differences on translation of foreign operations, which may be reclassified subsequently to profit or loss	–	–	–	–	–	–	–	–	–	(270,817)	–	–	(270,817)	(2,410)	(273,227)
Remeasurement of defined benefit retirement plans, net of tax *(note 37)*, which will not be reclassified to profit or loss	–	–	–	–	–	–	–	–	–	–	3,400	–	3,400	–	3,400
Total comprehensive (expense) income for the year	–	–	–	–	–	–	–	–	–	(270,817)	2,219,462	–	1,948,645	(6,744)	1,941,901
Sub-total	40,908	1,607,620	29,877	–	(198,992)	295	72,979	(15,570)	250,249	(550,090)	11,510,540	528,175	13,275,991	(6,893)	13,269,098
Acquisition of business	–	–	–	–	–	–	–	–	–	–	–	–	–	92,644	92,644
Recognition of equity-settled share-based payments	–	–	289,031	–	–	–	–	–	–	–	–	–	289,031	–	289,031
Gross obligation to acquire non-controlling interests *(note 39)*	–	–	–	–	–	–	–	–	–	–	–	–	–	(92,644)	(92,644)
Purchase of shares under the Scheme	–	–	–	(40,473)	–	–	–	–	–	–	–	–	(40,473)	–	(40,473)
Shares vested under the Scheme	–	–	(37,150)	40,473	–	–	–	–	–	–	(3,323)	–	–	–	–
Shares issued under the Scheme	224	242,745	(242,969)	–	–	–	–	–	–	–	–	–	–	–	–
Shares repurchased and cancelled	(465)	(504,022)	–	–	198,992	465	–	–	–	–	(465)	–	(305,495)	–	(305,495)
2017 final dividend paid	–	–	–	–	–	–	–	–	–	–	–	(525,753)	(525,753)	–	(525,753)
2018 interim dividend paid	–	–	–	–	–	–	–	–	–	–	(523,331)	(2,422)	(525,753)	–	(525,753)
2018 final dividend proposed	–	–	–	–	–	–	–	–	–	–	(569,340)	569,340	–	–	–
At 31 December 2018	40,667	1,346,343	38,789	–	–	760	72,979	(15,570)	250,249	(550,090)	10,414,081	569,340	12,167,548	(6,893)	12,160,655

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Operating activities		
Profit before taxation	**2,973,156**	3,274,280
Adjustments for:		
Depreciation	**462,063**	421,502
Release of prepaid lease payments	**3,863**	1,388
Amortization of intangible assets	**109,479**	52,279
Release of land license fee	**—**	2,497
Impairment loss recognized in respect of goodwill	**—**	22,596
Gains on disposal/write-off of property, plant and equipment	**(9,154)**	(6,766)
Loss (gain) on fair value change of derivative financial instruments	**47,192**	(32,842)
Warranty provision expenses	**210,145**	195,723
Adjustment of liability component of convertible bonds	**—**	(202,104)
Restructuring costs	**19,067**	—
Share-based payments under the Scheme	**289,031**	298,595
Interest income	**(31,003)**	(31,041)
Interest expense	**177,762**	162,489
Effect of foreign exchange rate changes on inter-company balances	**(34,191)**	52,347
Operating cash flows before movements in working capital	**4,217,410**	4,210,943
Decrease (increase) in pledged bank deposits	**3,196**	(5,504)
Increase in inventories	**(961,940)**	(899,436)
Increase in trade and other receivables	**(171,603)**	(1,466,974)
Decrease (increase) in other non-current assets	**914**	(2,316)
(Decrease) increase in trade liabilities and other payables	**(330,051)**	236,289
(Decrease) increase in advance payments from customers	**(4,914)**	343,641
Increase in other liabilities and accruals	**3,916**	4,063
Increase (decrease) in provisions	**2,774**	(13)
Utilization of warranty provision	**(206,314)**	(168,252)
Utilization of restructuring provision	**(15,158)**	(28,904)
Increase in retirement benefit obligations	**1,037**	3,648
Purchase of shares under the Scheme	**(40,473)**	(34,064)
Cash generated from operations	**2,498,794**	2,193,121
Income taxes paid	**(594,968)**	(578,468)
Income taxes refunded	**38,513**	6,432
Net cash from operating activities	**1,942,339**	1,621,085

Consolidated Statement of Cash Flows *(continued)*
For the year ended 31 December 2018

	Note	**2018 HK$'000**	2017 HK$'000
Investing activities			
Interest received		**31,003**	31,041
Proceeds on disposals of property, plant and equipment		**37,200**	27,347
Purchase of property, plant and equipment		**(762,686)**	(558,894)
Deposits paid for acquisition of property, plant and equipment		**(40,324)**	(33,263)
Additions of intangible assets		**(15,312)**	(16,146)
Net cash outflow arising on acquisitions of subsidiaries	*40*	**(1,546,061)**	—
Placement of bank deposits with original maturity of more than three months		**(33,023)**	(798,072)
Withdrawal of bank deposits with original maturity of more than three months		**705,935**	1,239,019
Payment for other non-current assets		**—**	(11,081)
Addition of other investments		**(39,224)**	(18,502)
Net cash used in investing activities		**(1,662,492)**	(138,551)
Financing activities			
Payment for repurchase of shares		**(305,495)**	(322,656)
Bank borrowings raised		**1,854,330**	77,579
Repayment of bank borrowings		**(767,917)**	(156,045)
Repayment of obligations under finance leases		**(264)**	—
Dividends paid		**(1,051,506)**	(938,960)
Interest paid		**(72,981)**	(63,418)
Net cash used in financing activities		**(343,833)**	(1,403,500)
Net (decrease) increase in cash and cash equivalents		**(63,986)**	79,034
Cash and cash equivalents at beginning of the year		**2,365,911**	2,138,886
Effect of foreign exchange rate changes		**(61,903)**	147,991
Cash and cash equivalents at end of the year, represented by bank balances and cash		**2,240,022**	2,365,911

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

1. GENERAL

ASM Pacific Technology Limited (the "Company") is an exempted company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited ("The Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

The consolidated financial statements are presented in Hong Kong dollars which is the functional currency of the Company.

The Company acts as an investment holding company. The principal activities of the Company and its subsidiaries (the "Group") are engaged in the design, manufacture and marketing of machines, tools and materials used in semiconductor and electronic assembly industries. The principal subsidiaries and their activities are set out in note 48.

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

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

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) — Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 "Financial Instruments" with HKFRS 4 "Insurance Contracts"
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

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

2.1 HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognized in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations.

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

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

The Group recognizes revenue from the following major sources which arise from contracts with customers:

- Sales of back-end equipment
- Sales of surface mount technology equipment
- Sales of materials

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

Summary of effects arising from initial application of HKFRS 15

The following table summarizes the impacts of transition to HKFRS 15 on retained profits at 1 January 2018.

	Notes	**HK$'000 (Decrease) increase**
Retained profits		
Installation of equipment and training services which have not been provided (included in back-end equipment)	*a*	(7,203)
Deferral of recognition of sales of new or highly customized products upon customer acceptance (included in back-end equipment)	*b*	(35,245)
Tax effects	*c*	4,857
Impacts at 1 January 2018		(37,591)

The following adjustments were made to the amounts recognized in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

Impacts on assets, (liabilities) and (reserve) as at 1 January 2018

	Notes	**Carrying amounts previously reported at 31 December 2017 HK$'000**	**Impacts of adopting HKFRS 15 HK$'000**	**Carrying amounts under HKFRS 15 at 1 January 2018* HK$'000** (Restated)
Deferred tax assets	*c*	361,673	4,857	366,530
Inventories	*d*	5,368,889	20,032	5,388,921
Trade and other receivables	*e*	6,058,686	(32,248)	6,026,438
Advance payments from customers	*f*	(642,595)	(30,232)	(672,827)
Retained profits		(9,341,357)	37,591	(9,303,766)

* The amounts in this column are before the adjustments from the application of HKFRS 9.

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

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

Summary of effects arising from initial application of HKFRS 15 (Continued)

The following tables summarize the impacts of applying HKFRS 15 on the Group's consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flow for the year ended 31 December 2018, and its consolidated statement of financial position as at 31 December 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impacts on consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018

		Year ended 31 December 2018		
	Notes	**As reported HK$'000**	**Adjustments HK$'000**	**Amounts without application of HKFRS 15 HK$'000**
Revenue	*a, b*	19,550,590	45,594	19,596,184
Cost of sales		(12,113,813)	(29,327)	(12,143,140)
Income tax expense		(761,428)	(6,362)	(767,790)
Profit for the year		2,211,728	9,905	2,221,633
Total comprehensive income for the year		1,941,901	9,905	1,951,806

Impacts on the consolidated statement of financial position as at 31 December 2018

	As reported HK$'000	**Adjustments HK$'000**	**Amounts without application of HKFRS 15 HK$'000**
Deferred tax assets	355,210	(11,219)	343,991
Inventories	6,541,939	(49,358)	6,492,581
Trade and other receivables	6,324,901	51,554	6,376,455
Advance payments from customers	(718,694)	56,519	(662,175)
Retained profits	(10,414,081)	(47,496)	(10,461,577)

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

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

Summary of effects arising from initial application of HKFRS 15 (Continued)

Impacts on the consolidated statement of cash flows for the year ended 31 December 2018

	As reported HK$'000	Adjustments HK$'000	Amounts without application of HKFRS 15 HK$'000
Operating activities			
Profit before taxation	2,973,156	16,267	2,989,423
Operating cash flows before movements in working capital	4,217,410	16,267	4,233,677
Increase in inventories	(961,940)	29,326	(932,614)
Increase in trade and other receivables	(171,603)	(19,306)	(190,909)
Decrease in advance payments from customers	(4,914)	(26,287)	(31,201)

Notes:

(a) For contracts of equipment sales that have multiple deliverables (including installation of equipment and training services) which represent separate performance obligations from sales of equipment, revenue is recognized for each of these performance obligations when control over the corresponding goods and services is transferred to the customers. According to HKFRS 15, the transaction price is allocated to the different performance obligations on a relative stand-alone selling price basis. The revenue relating to the undelivered elements of the arrangements is deferred until delivery of these elements. In relation to this change, a decrease of HK$7,203,000 in revenue for the previous year has been adjusted from opening retained profits as at 1 January 2018. The impacts of adopting of HKFRS 15 to revenue in relation to installation of equipment and training services for the year ended 31 December 2018 amounted to HK$3,356,000 (decrease).

(b) Under HKAS 18, the Group recognized revenue from sales of back-end equipment when the goods are delivered and titles have passed to the customer and the significant risks and rewards of ownership of the equipment have been transferred to the customer. Upon the application of HKFRS 15, revenue from sales of new or highly customized products is generally recognized when customer acceptance has been obtained, which is a point in time when the customer has the ability to direct the use of the equipment and obtain substantially all of the remaining benefits of the equipment. This change in accounting policies resulted in deferral of revenue recognition from sales of new or highly customized equipment since it is recognized upon customer acceptance instead of goods delivery. In relation to this change, a decrease of HK$35,245,000 in revenue for the previous year has been adjusted from opening retained profits. The impacts of adopting of HKFRS 15 to revenue related to sales of new or highly customized products for the year ended 31 December 2018 amounted to HK$42,238,000 (decrease).

(c) The net tax effect arising from the initial application of HKFRS 15 with an adjustment to retained profits amounted to HK$4,857,000 (increase).

(d) Due to the deferral of recognition of sales of new or highly customized products upon customer acceptance, a decrease in related cost of sales of HK$20,032,000 has been adjusted to inventories at the date of initial application of HKFRS 15.

(e) At the date of initial application of HKFRS 15, included in trade and other receivables was an amount of HK$32,248,000 relating to trade receivables from (i) installation of equipment and training services yet to be provided and (ii) customer acceptance of the sales of new or highly customized products yet to be obtained. The amount has been adjusted from trade and other receivables.

(f) Due to the deferral of recognition of sales of new or highly customized products upon customer acceptance, HK$30,232,000 has been adjusted to advance payments from customers, i.e. contract liabilities, at the date of initial application of HKFRS 15.

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

2.2 HKFRS 9 "Financial Instruments"

In the current year, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognized as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognized in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of HKFRS 9

Below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

(a) Reclassification from available-for-sale ("AFS") equity investment to equity instrument at fair value through other comprehensive income ("FVTOCI")

The Group elected to present in OCI the fair value changes of all its equity investment previously classified as available-for-sale. This investment is not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK$18,502,000 was reclassified from available-for-sale investment to equity instrument at FVTOCI, of which HK$18,502,000 related to unquoted equity investment previously measured at cost less impairment under HKAS 39. No fair value adjustment relating to this unquoted equity investment previously carried at cost less impairment was adjusted to equity instrument at FVTOCI and FVTOCI reserve as at 1 January 2018 because the carrying value under HKAS 39 was materially equal to the fair value as at 1 January 2018.

(b) Impairment under ECL model

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

The Group applies the HKFRS 9 simplified approach to measure ECL using a lifetime ECL for all trade receivables that are within the scope of HKFRS 15. To measure the ECL, trade receivables have been assessed individually and/or grouped based on shared credit risk characteristics.

Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortized cost, including other receivables, rental deposits paid, pledged bank deposits, bank deposits with original maturity of more than three months and bank balances are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, additional credit loss allowance of HK$15,483,000 has been recognized against retained profits. The additional loss allowance is charged against the trade receivables.

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

2.2 HKFRS 9 "Financial Instruments" (Continued)

Summary of effects arising from initial application of HKFRS 9 (Continued)

(b) Impairment under ECL model (Continued)

The loss allowances for trade receivables and the related deferred tax impact, and the reclassification of AFS equity investment as at 31 December 2017 reconcile to the opening balances of trade receivables, deferred tax assets and other investment at FVTOCI as at 1 January 2018 are as follows:

	Trade receivables HK$'000	Deferred tax assets HK$'000	Other investment — AFS HK$'000	Other investment at FVTOCI HK$'000
At 31 December 2017 — HKAS 39	5,212,686	361,673	18,502	N/A
Reclassification	—	—	(18,502)	18,502
Amounts remeasured through opening retained profits	(15,483)	2,795	—	—
At 1 January 2018 (restated)	5,197,203	364,468	—	18,502

2.3 HK(IFRIC) — Int 22 Foreign Currency Transactions and Advance Consideration

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

On initial application, the Group applied the interpretation prospectively to all foreign currency assets, expenses and income in the scope of the interpretation initially recognized on or after the beginning of the current year, i.e. 1 January 2018.

For foreign currency denominated advance considerations paid by the Group in relation to acquisition of property, plant and equipment/purchases of inventories amounting to HK$19,167,000 and HK$11,022,000, the Group recorded these advances by applying the spot exchange rate on initial recognition between the functional currency of the relevant group entity and the foreign currency. Accordingly, the application of this interpretation has had no significant impact on the amounts reported and/or disclosures set out in these consolidated financial statements.

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

2.4 Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognized for each individual line item. Line items that were not affected by the changes have not been included.

	31 December 2017 HK$'000	HKFRS 15 HK$'000	HKFRS 9 HK$'000	1 January 2018 HK$'000 (Restated)
Deferred tax assets	361,673	4,857	2,795	369,325
Inventories	5,368,889	20,032	—	5,388,921
Trade and other receivables	6,058,686	(32,248)	(15,483)	6,010,955
Advance payments from customers	(642,595)	(30,232)	—	(672,827)
Retained profits	(9,341,357)	37,591	12,688	(9,291,078)

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital affected by the changes in the Group's accounting policies have been computed based on opening statement of financial position as at 1 January 2018 as disclosed above.

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) — Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after a date to be determined.
3 Effective for annual periods beginning on or after 1 January 2021.
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
5 Effective for annual periods beginning on or after 1 January 2020.

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

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

HKFRS 16 "Leases"

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees, except for short-term leases and leases of low value assets.

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

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

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$1,982,665,000 as disclosed in note 43. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$51,492,000 and refundable rental deposits received of HK$1,226,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amount of such deposits may be adjusted to amortized cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

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

HKFRS 16 "Leases" (Continued)

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) — Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRS) — Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognize the cumulative effect of initial application to opening retained profits without restating comparative information.

HK(IFRIC) — Int 23 "Uncertainty over Income Tax Treatments"

HK(IFRIC) — Int 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group; and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings.

The application of this interpretation may result in additional disclosures of the Group's estimates and judgements in determining taxable profit.

Amendments to HKAS 19 "Plan Amendment, Curtailment or Settlement"

The amendments clarify that the past service cost (or the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). The change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is recognized in other comprehensive income.

In addition, an entity is required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under paragraph 99 of HKAS 19 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

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

Amendments to HKFRSs Annual Improvements to HKFRSs 2015–2017 Cycle

The directors of the Company anticipate that the amendments to HKAS 12 "Income Taxes" may have impact to the consolidated financial statements.

The amendments clarify that an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

The application of these amendments may result in changes in measurement, presentation and disclosure indicated above.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for the derivative financial instruments, other investments (classified as equity instruments at FVTOCI upon application of HKFRS 9) and certain financial liabilities which are measured at fair value at the end of each reporting period, as explained in the accounting policies set out below.

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

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

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is 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 equals the transaction price.

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

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

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

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

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

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

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

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

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combination

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

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

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

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

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

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

Under HKFRS 15, the Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) (Continued)

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) (Continued)

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 "Provisions, Contingent Liabilities and Contingent Assets" unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications (i.e. service-type warranties).

Revenue recognition (prior to 1 January 2018)

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (prior to 1 January 2018) (Continued)

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

Property, plant and equipment

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

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

Freehold land is not depreciated.

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

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

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

Buildings under development for future owner-occupied purpose

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment property

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

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. 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. 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 tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount of tangible 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. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Research and development expenditure

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

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of back-end equipment and lead frame is calculated using the first-in, first-out method. Cost of surface mount technology equipment is calculated using either on a first-in, first-out or weighted average method, depending on the type of inventory. Net realizable value represent the estimated selling price for inventories less all estimate costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Restructurings

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

Warranties

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

Taxation

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

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

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

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

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

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

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

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

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

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

Operating lease payments, including the cost of acquiring land held under operating leases, are recognized as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing (Continued)

The Group as lessee (Continued)

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

Leasehold land and buildings

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

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as 'prepaid lease payments' in the consolidated statement of financial position and is amortized over the lease term on a straight-line basis. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

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 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

The effective interest method is a method of calculating the amortized cost of a financial assets 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 assets or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

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

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

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

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

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

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

(i) Amortized cost and interest income

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)

(ii) Equity instruments designated as at FVTOCI

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

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

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2)

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

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

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

For all other instruments, the Group measures the loss allowance equal to 12m 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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (Continued)

(i) Significant increase in credit risk (Continued)

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

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

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

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

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

(ii) Definition of default

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (Continued)

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (Continued)

(v) Measurement and recognition of ECL (Continued)

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.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified into the following specified categories: financial assets at FVTPL, available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including certain other non-current assets, pledged bank deposits, trade and other receivables, bank deposits with original maturity of more than three months, and bank balances and cash) are measured at amortized cost using the effective interest method, less any identified impairment (see accounting policy on impairment of financial assets below).

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

(ii) Available-for-sale financial asset

Available-for-sale financial asset is non-derivatives that is either designated as available-for-sale or is not classified as financial asset at FVTPL, loans and receivables or held-to-maturity investment.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

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

For all other financial assets, objective evidence of impairment could include:

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

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days to 60 days and observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

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

Derecognition of financial assets

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Derecognition of financial assets (Continued)

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

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

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

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

Financial liabilities

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

Financial liabilities at FVTPL

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

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

Prior to application of HKFRS 9 on 1 January 2018, financial liabilities designated at FVTPL are stated at fair value, with any gains or losses arising on changes in fair value recognized in profit or loss. The net gain or loss recognized in profit or loss excludes any interest paid on the financial liability and is included in the "other gains and losses" line item.

Financial liabilities at amortized cost

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Convertible bonds

The components parts of the convertible bonds issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component (including any embedded non-equity derivative features) is estimated by measuring the fair value of similar liability that does not have an associated equity component. This amount is recorded as a liability on an amortized cost basis using the effective interest method.

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

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

Obligation arising from a contract to acquire non-controlling interests

The gross financial liability arising from contract to acquire non-controlling interests is recognized when contractual obligation to purchase 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 purchase price with the corresponding debit to the non-controlling interests. Subsequent to initial recognition, the remeasurement of the present value of the estimated gross obligation under the forward contract to the non-controlling shareholders is recognized in profit or loss.

Derivative financial instruments

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

Embedded derivatives (under HKFRS 9 since 1 January 2018)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial guarantee contracts

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

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with HKFRS 9 (since 1 January 2018), HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" (before application of HKFRS 9 on 1 January 2018); and
- the amount initially recognized less, where appropriate, cumulative amortization recognized over the guarantee period.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Foreign currencies

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (Continued)

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

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

Share-based payment arrangements

Equity-settled share-based payment transactions

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

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

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

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

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

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

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

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

Government grants

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

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

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

Retirement benefit costs and termination benefits

Payments to defined contribution retirement benefit plans/state-managed retirement benefit schemes/the Mandatory Provident Fund Scheme are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained profits and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Defined benefit costs are categorized as follows:

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefit costs and termination benefits (Continued)

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

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

Short-term and other long-term employee benefits

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value. Where the future cash flows are less than expected, or changes in facts and circumstances which result in downward revision of the discounted cash flows, a material impairment loss may arise.

The carrying amount of goodwill as at 31 December 2018 was HK$1,057,816,000 (2017: HK$408,696,000). Details of the recoverable amount calculations are set out in note 22.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Impairment of intangible assets

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

If cash flows do not materialize as estimated, there is a risk that further impairment charges may be necessary in future. The carrying amount of intangible assets as at 31 December 2018 was HK$1,305,622,000 (2017: HK$542,101,000). Details of the impairment testing on intangible assets with indefinite useful lives are set out in note 22.

Income taxes

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

The Group has to determine tax positions under respective local tax laws and tax authorities' views which can be complex and subject to different interpretations of taxpayers and local tax authorities. Deferred tax assets are recognized if sufficient future taxable profit is available, including income from forecasted operating earnings, the reversal of existing taxable temporary differences and established tax planning opportunities. As of each year-end, management evaluates the recoverability of deferred tax assets, based on projected future taxable profits. As future development are uncertain and partly beyond management's control, assumptions are necessary to estimate future taxable profits as well as the period in which deferred tax assets will be recovered. Estimates are revised in the period in which there is sufficient evidence to revise the assumption. If management considers it probable that all or a portion of a deferred tax asset cannot be realized, a reversal of deferred tax assets may arise which would be recognized in profit or loss for the period in which such reversal takes place. As at 31 December 2018, the deferred tax assets recognized is HK$355,210,000 (2017: HK$361,673,000) (see note 38).

Inventories

A significant portion of the Group's working capital is devoted to inventories and the nature of inventories is subject to technological changes. As at 31 December 2018, the carrying amount of inventories, net of allowance, was HK$6,541,939,000 (2017: HK$5,368,889,000). The management reviews the inventory age listing on a periodic basis to identify slow-moving and obsolete inventories. The management estimates the amount of allowance based on the projected excessive quantity of those inventories considering the production plan and expected future market demand, the net realizable value for such inventories based primarily on the latest invoice prices and current market conditions. The amount of allowance would be changed as a result of changes in current market conditions and technology subsequently.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Provision of ECL for trade receivables

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

The provision of ECL is sensitive to changes in estimation of future cash flows. The information about the ECL and the Group's trade receivables are disclosed in note 45.

Retirement benefit obligations

Obligations for retirement benefit and related net periodic pension costs are determined in accordance with actuarial valuations. These valuations rely on key assumptions including discount rates, expected rate of compensation increase and pension progression and mortality rates. The discount rates assumptions are determined by reference to yields on high-quality corporate bonds of appropriate duration and currency at the end of the reporting period. In case such yields are not available, discount rates are based on government bonds yields. Due to changing market and economic conditions, the underlying key assumptions may differ from actual developments and may lead to significant changes in retirement benefit obligations. During the year ended 31 December 2018, net remeasurement gains before tax effect amounting to HK$5,176,000 (2017: HK$4,577,000) are recognized directly in equity in the period in which they occur (see note 37).

Provisions

Significant estimates are involved in the determination of provision related to warranty costs and legal proceedings. Accordingly, management exercises considerable judgment in determining whether there is a present obligation as a result of a past event at the reporting date, whether it is more likely than not that such warranty service will result an outflow of resources and whether the amount of the obligation can be reliably estimated with reference to the relevant correspondences and contracts with customers. The management estimates the cost for rectification work with regard to the Group's experience in addressing such matters. As at 31 December 2018, the Group recognized a warranty provision amounting to HK$329,783,000 (2017: HK$327,048,000) (see note 32).

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. For fair values determined based on unobserved inputs using valuation techniques, judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs.

Notes 19 and 45 provide detailed information about the valuation techniques, inputs and key assumption used in the determination of the fair value of various assets and liabilities.

5. REVENUE

Disaggregation of revenue from contracts with customers

	2018 HK$'000	2017 HK$'000
Sales of goods and services		
Back-end equipment	**9,259,791**	8,629,922
Surface mount technology solutions	**8,035,577**	6,749,007
Materials	**2,255,222**	2,143,784
	19,550,590	17,522,713

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

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

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

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

The revenue from sales of new or highly customized products is recognized when customer acceptance has been obtained, which is the point of time when the customer has the ability to direct the use of the equipment and obtain substantially all of the remaining benefits of the equipment.

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

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

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

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

6. SEGMENT INFORMATION

The Group has three (2017: three) operating segments: development, production and sales of (1) back-end equipment, (2) surface mount technology solutions and (3) materials. They represent three major types of products manufactured by the Group. The operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by Company's Chief Executive Officer, the chief operating decision maker ("CODM"), for the purpose of allocating resources to segments and assessing their performance. The Group is organized and managed around the three (2017: three) major types of products manufactured by the Group. No operating segments have been aggregated in arriving at reportable segments of the Group.

Segment revenues and results

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

	2018 HK$'000	2017 HK$'000
Segment revenue from external customers		
Back-end equipment	**9,259,791**	8,629,922
Surface mount technology solutions	**8,035,577**	6,749,007
Materials	**2,255,222**	2,143,784
	19,550,590	17,522,713
Segment profit		
Back-end equipment	**2,010,791**	2,168,988
Surface mount technology solutions	**1,274,552**	1,084,235
Materials	**113,745**	128,392
	3,399,088	3,381,615
Interest income	**31,003**	31,041
Adjustment of liability component of convertible bonds	**—**	202,104
Finance costs	**(177,762)**	(162,489)
Unallocated other expenses	**(557)**	(3,023)
Unallocated net foreign exchange losses and fair value change of foreign currency forward contracts	**(86,142)**	(13,554)
Unallocated general and administrative expenses	**(173,407)**	(161,414)
Restructuring costs	**(19,067)**	—
Profit before taxation	**2,973,156**	3,274,280

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment results represent the profit before taxation earned by each segment without allocation of interest income, adjustment of liability component of convertible bonds, finance costs, unallocated other expenses, unallocated net foreign exchange losses and fair value change of foreign currency forward contracts, unallocated general and administrative expenses and restructuring costs.

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

Notes to the Consolidated Financial Statements *(continued)*
For the year ended 31 December 2018

6. SEGMENT INFORMATION (CONTINUED)

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

2018

	Back-end equipment HK$'000	Surface mount technology solutions HK$'000	Materials HK$'000	Unallocated general and administrative expenses HK$'000	Consolidated HK$'000
Amounts regularly provided to CODM:					
Additions of property, plant and equipment					
— Additions during the year	536,266	149,270	142,441	–	827,977
— Arising from acquisitions of subsidiaries	121,685	3,252	–	–	124,937
Additions of intangible assets					
— Additions during the year	484	14,828	–	–	15,312
— Arising from acquisitions of subsidiaries	657,664	207,034	–	–	864,698
Amounts included in the measure of segment profit:					
Amortization for intangible assets	55,623	53,856	–	–	109,479
Depreciation for property, plant and equipment	257,908	112,828	89,967	–	460,703
Depreciation for investment property	1,360	–	–	–	1,360
Release of prepaid lease payments	2,685	370	808	–	3,863
(Gains) losses on disposal/write-off of property, plant and equipment	(10,891)	94	1,643	–	(9,154)
Research and development expenses	979,681	622,242	8,302	–	1,610,225
Share-based payments	201,582	24,190	18,542	44,717	289,031

2017

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

6. SEGMENT INFORMATION (CONTINUED)

Geographical information

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

	Non-current assets	
	2018	2017
	HK$'000	HK$'000
Mainland China	**1,319,513**	1,316,008
Singapore	**1,040,409**	1,047,599
Europe	**864,511**	398,595
— Germany	**475,830**	188,039
— Portugal	**188,645**	—
— United Kingdom	**173,268**	184,003
— Others	**26,768**	26,553
Americas	**446,354**	8,242
— United States of America ("USA")	**442,573**	5,208
— Others	**3,781**	3,034
Malaysia	**433,780**	276,991
Hong Kong	**312,251**	175,861
Taiwan	**10,462**	6,226
Korea	**4,667**	6,314
Others	**6,111**	1,800
	4,438,058	3,237,636

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

6. SEGMENT INFORMATION (CONTINUED)

Geographical information (Continued)

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

	Revenue from external customers	
	2018 HK$'000	2017 HK$'000
Mainland China	**8,021,217**	7,468,942
Europe	**3,082,821**	2,664,991
— Germany	**1,154,340**	906,062
— Hungary	**265,605**	281,915
— France	**239,718**	178,978
— Romania	**179,981**	192,925
— Poland	**106,512**	136,396
— Others	**1,136,665**	968,715
Hong Kong	**1,493,132**	1,159,685
Malaysia	**1,469,408**	1,246,681
Americas	**1,409,523**	1,041,569
— USA	**914,301**	630,980
— Mexico	**307,607**	212,108
— Others	**187,615**	198,481
Taiwan	**855,496**	1,005,291
Thailand	**739,305**	709,755
India	**538,257**	121,630
Korea	**530,725**	691,421
Vietnam	**463,056**	232,453
Japan	**375,111**	441,943
Philippines	**364,868**	498,675
Singapore	**160,943**	194,320
Others	**46,728**	45,357
	19,550,590	17,522,713

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

7. RESEARCH AND DEVELOPMENT EXPENSES

Included in research and development expenses are depreciation for property, plant and equipment of HK$57,990,000 (2017: HK$39,865,000), rental of land and buildings under operating leases of HK$51,625,000 (2017: HK$28,134,000) and staff costs of HK$1,108,789,000 (2017: HK$988,538,000) for the year ended 31 December 2018.

8. OTHER GAINS AND LOSSES

	2018 HK$'000	2017 HK$'000
The gains and losses comprise:		
Net foreign exchange losses	**(21,020)**	(96,271)
(Loss) gain on fair value change of foreign currency forward contracts	**(65,122)**	82,717
Gains on disposal/write-off of property, plant and equipment	**9,154**	6,766
Impairment loss recognized in respect of goodwill *(note 22)*	**—**	(22,596)
Others	**(1,467)**	(3,976)
	(78,455)	(33,360)

9. RESTRUCTURING COSTS

During the year ended 31 December 2018, the Group incurred a restructuring cost of HK$19,067,000 related to discontinuing the solar business which was a part of surface mount technology solutions business. The restructuring costs are mainly related to estimated compensation to employees of HK$8,400,000 and written off of property, plant and equipment of HK$8,000,000.

10. ADJUSTMENT OF LIABILITY COMPONENT OF CONVERTIBLE BONDS

On 28 March 2014, the Company issued convertible bonds due 2019 in an aggregate principal amount of HK$2,400,000,000. The Company would, at the option ("Put Option") of the bond holder, redeem all or some of the convertible bonds on 28 March 2017 at their principal amount together with interest accrued to such date but unpaid. The Put Option lapsed on 28 March 2017. The estimated date of payment in relation to the convertible bonds was revised from 28 March 2017 to 28 March 2019. Accordingly, the carrying amount of the liability component of the convertible bonds is adjusted from HK$2,250,000,000 to HK$2,047,896,000 on 28 March 2017 to reflect the revised estimated cash outflows that is recalculated by computing the present value of estimated future cash flows at its original effective interest rate of 6.786% per annum. The adjustment of the carrying value of the liability component of the convertible bonds amounting to HK$202,104,000 was recognized in profit or loss for the year ended 31 December 2017.

11. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on convertible bonds *(note 33)*	**147,822**	144,039
Interest on bank borrowings	**25,792**	4,508
Interest on discounted bills without recourse	**—**	13,590
Others	**4,148**	352
	177,762	162,489

12. INCOME TAX EXPENSE

	2018 HK$'000	2017 HK$'000
The charge (credit) comprises:		
Current tax:		
Hong Kong	**76,874**	53,128
PRC Enterprise Income Tax	**119,420**	122,184
Other jurisdictions	**481,327**	364,321
	677,621	539,633
Under(over) provision in prior years:		
Hong Kong	**105,552**	459
PRC Enterprise Income Tax	**1,853**	2,194
Other jurisdictions	**(885)**	(9,777)
	106,520	(7,124)
Deferred tax credit *(note 38)*	**(22,713)**	(53,931)
	761,428	478,578

12. INCOME TAX EXPENSE (CONTINUED)

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

(b) Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC is 25% (2017: 25%), except for ASM Technology China Limited ("ATC"). On 28 October 2015, ATC was recognized as an advanced technology service enterprise ("ATSE") by the Chengdu Science and Technology Bureau for a period of 3 years, i.e. from 2015 to 2017. ATC passed the ATSE re-assessment launched by Sichuan Science and Technology Bureau in May 2018 and obtained a new ATSE Certificate in July 2018. According to the tax circular Caishui [2017] No. 79 (for the year ended 31 December 2017: Caishui [2014] No. 59), ATC, as an ATSE, is subject to Enterprise Income Tax at a reduced income tax rate of 15%. The renewed ATSE recognition has no expiry date while ATC shall keep proper records for its fulfilment of recognition criteria as an ATSE.

(c) On 12 July 2010, the Singapore Economic Development Board ("EDB") granted a Pioneer Certificate ("PC") to ASM Technology Singapore Pte Ltd. ("ATS"), a principal subsidiary of the Company, to the effect that profits arising from certain new back-end equipment and lead frame products are exempted from tax for a period of 10 years effective from the dates commenced between 1 June 2010 and 1 January 2012 across specified products, subject to fulfillment of certain criteria during the relevant periods.

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

Income of ATS arising from activities not covered under the abovementioned incentives is taxed at the prevailing corporate tax rate in Singapore of 17% (2017: 17%).

(d) The calculation of current tax of the Group's subsidiaries in Germany is based on a corporate income tax rate of 15.00% (2017: 15.00%) plus 5.50% (2017: 5.50%) solidarity surcharge thereon for the assessable profit for the year. In addition to corporate income tax, trade tax is levied on taxable income. The applicable German trade tax (local income tax) rates for the Group's subsidiaries in Germany vary from 14.380% to 17.150% (2017: 14.800% to 17.015%) according to the municipal in which the entity resides. Thus the aggregate tax rates were between 30.210% to 32.975% (2017: 30.625% and 32.840%).

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

12. INCOME TAX EXPENSE (CONTINUED)

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

	2018 HK$'000	2017 HK$'000
Profit before taxation	**2,973,156**	3,274,280
Tax at the domestic income tax rate of 16.5% (2017: 16.5%) *(Note)*	**490,571**	540,256
Tax effect of expenses not deductible in determining taxable profit	**99,843**	68,615
Tax effect of income not taxable in determining taxable profit	**(12,074)**	(18,342)
Tax effect of tax losses not recognized	**18,724**	16,522
Tax effect of utilization of tax losses previously not recognized	**(3,964)**	(10,622)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**227,311**	188,008
Effect of tax exemption and concessions for ATC under ATSE and ATS under PC and IHA granted by EDB	**(156,069)**	(212,814)
Effect of other tax concessions	**(17,437)**	(27,783)
Under(over) provision in prior years	**106,520**	(7,124)
Tax effect of adjustment of liability component of convertible bonds	**—**	(33,347)
Others	**8,003**	(24,791)
Tax charge for the year	**761,428**	478,578

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

The Group continued to receive letters from the Hong Kong Inland Revenue Department (the "HKIRD") during the year ended 31 December 2018 seeking information relating to Hong Kong Profits Tax and other tax affairs of certain subsidiaries of the Company. The enquiries might lead to significant additional tax being charged on profits from some overseas subsidiaries in respect of source of income as concerned that have not previously been included in the scope of charge for Hong Kong Profits Tax or significant tax adjustments to companies currently subject to Hong Kong Profits Tax. As at 31 December 2018, the Group purchased tax reserve certificates amounting to HK$381,166,000 (2017: HK$371,113,000), as disclosed in note 26.

Based on legal and other professional advice that the Company has sought, the directors continued to be of the opinion that sufficient provision for taxation has been made in the consolidated financial statements.

13. PROFIT FOR THE YEAR

	2018 HK$'000	2017 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Minimum lease payments under operating leases		
— Land and buildings	**258,740**	200,817
— Motor vehicles and others	**14,962**	15,248
	273,702	216,065
Directors' remunerations *(note 14)*	**42,125**	45,146
Other staff		
— Salaries, wages, bonus and other benefits	**4,403,426**	4,054,041
— Pension costs	**287,486**	226,019
— Share-based payments under the Scheme	**265,659**	274,393
Total staff costs	**4,998,696**	4,599,599
Auditors' remuneration		
— Deloitte Touche Tohmatsu network member firms	**16,119**	11,938
— Other auditors	**631**	312
	16,750	12,250
Depreciation for property, plant and equipment	**460,703**	420,077
Depreciation for investment property	**1,360**	1,425
Amortization for intangible assets		
— Included in general and administrative expenses	**79**	—
— Included in research and development expenses	**5,702**	10,746
— Included in selling and distribution expenses	**66,291**	15,635
— Included in cost of sales	**37,407**	25,898
Release of prepaid lease payments	**3,863**	1,388
Release of land license fee	**—**	2,497
	575,405	477,666
Gross rental income from investment property	**(6,741)**	(5,811)
Less: Direct operating expenses from investment property that generate rental income	**1,139**	1,356
	(5,602)	(4,455)
Government grants *(Note)*	**(56,327)**	(43,614)
Interest income on bank deposits	**(31,003)**	(31,041)

Note: Government grants for the year ended 31 December 2018 included amounts of HK$34,250,000 (2017: HK$29,521,000), HK$6,335,000 (2017: nil) and HK$1,485,000 (2017: HK$1,265,000) which are government subsidies received from local authorities in the PRC relating to import of high technology products, power consumption cost reduction and support for stabilizing employment, respectively.

14. 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 2018									
	Executive Director and chief executive *(Note a)*	Executive Directors *(Note a)*		Non-executive Directors *(Note f)*		Independent Non-executive Directors *(Note g)*				
	Lee Wai Kwong HK$'000 *(Note b)*	Robin Gerard Ng Cher Tat HK$'000	Tsui Ching Man, Stanley HK$'000	Charles Dean del Prado HK$'000	Petrus Antonius Maria van Bommel HK$'000	Orasa Livasiri HK$'000	Lok Kam Chong, John HK$'000	Wong Hon Yee HK$'000	Tang Koon Hung, Eric HK$'000	Total HK$'000
Fees	–	–	–	350	300	500	450	400	396	2,396
Other emoluments										
Salaries and other benefits	20,128	7,448	6,805	–	–	–	–	–	–	34,381
Contributions to retirement benefits schemes	87	170	18	–	–	–	–	–	–	275
Performance related incentive bonus payments *(Note h)*	3,111	1,059	903	–	–	–	–	–	–	5,073
Total emoluments	23,326	8,677	7,726	350	300	500	450	400	396	42,125

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

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

Notes:

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

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

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

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

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

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

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

(h) 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 2018, 203,000 (2017: 506,000) Award Shares (as defined in note 36) were granted to certain executive directors in respect of their services to the Group under the Scheme. The Group recognized total expenses of HK$23,372,000 (2017: HK$28,830,000) in relation to the Share Award Scheme (as defined in note 36) which amortized to the consolidated statement of profit or loss during the year, was included in salaries and other benefits above. The market value for these Award Shares as at their vesting date was amounted to HK$15,192,000 (2017: HK$26,919,000), which was calculated with reference to the closest trading price of the Company's share of HK$77.35 (2017: HK$106.40) per share. For details regarding the Award Shares, please refer to note 36.

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

15. FIVE HIGHEST PAID EMPLOYEES

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

	2018 HK$'000	2017 HK$'000
Salaries and other benefits	**52,168**	59,549
Contributions to retirement benefits schemes	**459**	448
Performance related incentive bonus payments	**6,774**	4,305
	59,401	64,302

For the year ended 31 December 2018, 296,000 (2017: 596,000) shares of the Company were granted to five highest paid employees in respect of their services to the Group under the Scheme. Details of the Scheme are set out in note 36 to the Group's consolidated financial statements. The Group recognized expenses of these shares amounting to HK$34,897,000 (2017: HK$43,391,000) in relation to the Share Award Scheme (as defined in note 36) which was included in salaries and other benefits above for the year ended 31 December 2018.

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

	Number of employees	
	2018	2017
HK$7,500,001 to HK$8,000,000	**1**	1
HK$8,500,001 to HK$9,000,000	**1**	1
HK$9,000,001 to HK$9,500,000	**1**	—
HK$10,000,001 to HK$10,500,000	**1**	1
HK$12,500,001 to HK$13,000,000	**—**	1
HK$23,000,001 to HK$23,500,000	**1**	—
HK$24,500,001 to HK$25,000,000	**—**	1

During the year ended 31 December 2018, the five highest paid employees of the Group included three (2017: four directors, including two executive directors who have not served as directors throughout the year ended 31 December 2017) directors. Details of the emoluments of the directors for services rendered by them as director are set out in note 14.

16. DIVIDENDS

	2018 HK$'000	2017 HK$'000
Dividend recognized as distribution during the year		
Interim dividend for 2018 paid of HK$1.30 (2017: HK$1.20) per share on 404,425,433 (2017: 408,243,733) shares	**525,753**	489,892
Final dividend for 2017 paid of HK$1.30 (2017: final dividend for 2016 paid of HK$1.10) per share on 404,425,433 (2017: 408,243,733) shares	**525,753**	449,068
	1,051,506	938,960

Subsequent to the end of the reporting period, a final dividend of HK$1.40 (2017: final dividend of HK$1.30) per share in respect of the year ended 31 December 2018 has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

	2018 HK$'000	2017 HK$'000
Dividend proposed subsequent to the end of the reporting period		
Proposed final dividend for 2018 of HK$1.40 (2017: HK$1.30) per share on 406,671,333 (2017: 406,288,133) shares	**569,340**	528,175

17. EARNINGS PER SHARE

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

	2018 HK$'000	2017 HK$'000
Earnings for the purpose of calculating basic earnings per share (Profit for the year attributable to owners of the Company)	**2,216,062**	2,815,473
Less: Adjustment of liability component of convertible bonds *(Note)*	—	(202,104)
Add: Interest expenses on convertible bonds *(Note)*	—	144,039
Earnings for the purpose of calculating diluted earnings per share	**2,216,062**	2,757,408

	Number of shares (in thousands)	
	2018	2017
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**404,900**	407,964
Effect of dilutive potential shares:		
— The Scheme	**2,310**	2,227
— Convertible bonds *(Note)*	—	23,712
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**407,210**	433,903

Note: The calculation of diluted earnings per share for the year ended 31 December 2018 did not assume the conversion of the Company's outstanding convertible bonds because the assumed conversion would result in an increase in diluted earnings per share.

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

18. PROPERTY, PLANT AND EQUIPMENT

	Freehold land outside Hong Kong HK$'000	Buildings outside Hong Kong HK$'000	Leasehold improvements/ Leasehold improvements in progress HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Leased machinery HK$'000	Construction in progress HK$'000	Total HK$'000
COST								
At 1 January 2017	15,539	1,065,719	755,318	3,758,510	58,405	–	–	5,653,491
Currency realignment	374	37,602	13,008	124,666	2,202	–	–	177,852
Additions	–	–	197,005	388,275	15,045	–	22,405	622,730
Disposals	–	–	(2,267)	(104,149)	(691)	–	–	(107,107)
Write-off	–	–	(59,718)	(23,957)	(1,817)	–	–	(85,492)
At 31 December 2017	15,913	1,103,321	903,346	4,143,345	73,144	–	22,405	6,261,474
Currency realignment	(117)	(21,292)	(9,582)	(53,083)	(3,464)	–	(414)	(87,952)
Acquired on acquisitions of subsidiaries *(note 40)*	–	–	1,368	120,479	3,090	–	–	124,937
Additions	–	345	196,481	474,429	17,184	–	139,538	827,977
Transfer from inventories	–	–	–	–	–	8,505	–	8,505
Disposals	–	–	(907)	(244,609)	(721)	–	–	(246,237)
Write-off	–	–	(63,045)	(56,607)	(3,064)	–	–	(122,716)
At 31 December 2018	15,796	1,082,374	1,027,661	4,383,954	86,169	8,505	161,529	6,765,988
DEPRECIATION AND IMPAIRMENT								
At 1 January 2017	–	292,963	583,729	2,576,888	41,946	–	–	3,495,526
Currency realignment	–	8,313	8,963	72,838	1,770	–	–	91,884
Provided for the year	–	35,635	66,256	311,791	6,395	–	–	420,077
Eliminated on disposals	–	–	(2,266)	(88,109)	(640)	–	–	(91,015)
Eliminated on write-off	–	–	(58,242)	(21,160)	(1,601)	–	–	(81,003)
At 31 December 2017	–	336,911	598,440	2,852,248	47,870	–	–	3,835,469
Currency realignment	–	(2,904)	(4,838)	(30,690)	(1,295)	–	–	(39,727)
Provided for the year	–	34,933	85,314	331,435	8,998	23	–	460,703
Eliminated on disposals	–	–	(907)	(225,877)	(585)	–	–	(227,369)
Eliminated on write-off	–	–	(62,315)	(48,435)	(2,788)	–	–	(113,538)
At 31 December 2018	–	368,940	615,694	2,878,681	52,200	23	–	3,915,538
CARRYING VALUES								
At 31 December 2018	15,796	713,434	411,967	1,505,273	33,969	8,482	161,529	2,850,450
At 31 December 2017	15,913	766,410	304,906	1,291,097	25,274	–	22,405	2,426,005

18. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

Buildings	2% to 4.5% or over the lease terms if shorter
Leasehold improvements	10% to $33^1/_3$% or over the lease terms if shorter
Plant and machinery	10% to $33^1/_3$%
Furniture, fixtures and equipment	10% to 20%
Leased machinery	25%

As at 31 December 2017 and 2018, the directors of the Company are of the opinion that there is neither any indicator of additional impairment nor any indicator that impairment previously recorded should be reversed.

The net book value of property, plant and equipment includes an amount of HK$634,000 (2017: nil) in respect of assets held under finance leases.

19. INVESTMENT PROPERTY

	HK$'000
COST	
At 1 January 2017	64,376
Currency realignment	4,514
At 31 December 2017	68,890
Currency realignment	(3,167)
At 31 December 2018	65,723
DEPRECIATION	
At 1 January 2017	6,658
Currency realignment	467
Provided for the year	1,425
At 31 December 2017	8,550
Currency realignment	(393)
Provided for the year	1,360
At 31 December 2018	9,517
CARRYING VALUES	
At 31 December 2018	56,206
At 31 December 2017	60,340

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

19. INVESTMENT PROPERTY (CONTINUED)

The fair value of the Group's investment property at 31 December 2018 was HK$100,320,000 (2017: HK$101,087,000). The fair value has been arrived at based on a valuation carried out by Cushman & Wakefield Limited, an independent firm of qualified professional valuers not connected with the Group with appropriate qualifications and recent experiences in the valuation of similar properties in the relevant location. The valuation was arrived at using income capitalization approach. The income capitalization approach is calculated by capitalizing the rental income derived from the existing tenancies with due provision for any reversionary income potential. There has been no change from the valuation technique used in the prior year.

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

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

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

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

20. GOODWILL

	HK$'000
COST	
At 1 January 2017	428,052
Currency realignment	3,240
At 31 December 2017	431,292
Currency realignment	(4,961)
Arising on acquisitions of subsidiaries *(note 40)*	654,081
At 31 December 2018	1,080,412
IMPAIRMENT	
At 1 January 2017	—
Impairment loss recognized for the year	22,596
At 31 December 2017 and 2018	22,596
CARRYING VALUES	
At 31 December 2018	1,057,816
At 31 December 2017	408,696

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

21. INTANGIBLE ASSETS

	Sales backlog HK$'000	Trade name HK$'000	Technology HK$'000	Customer bases HK$'000	Licenses and similar rights HK$'000	Total HK$'000
COST						
At 1 January 2017	—	244,766	177,682	217,234	62,244	701,926
Currency realignment	—	1,862	1,304	1,653	9,070	13,889
Additions	—	—	—	—	16,146	16,146
At 31 December 2017	—	246,628	178,986	218,887	87,460	731,961
Currency realignment	(77)	(207)	(4,030)	(1,648)	(3,795)	(9,757)
Acquired on acquisitions of subsidiaries *(note 40)*	50,622	145,630	400,742	267,428	276	864,698
Additions	—	—	97	—	15,215	15,312
At 31 December 2018	50,545	392,051	575,795	484,667	99,156	1,602,214
AMORTIZATION						
At 1 January 2017	—	—	46,577	38,794	45,027	130,398
Currency realignment	—	—	326	295	6,562	7,183
Charge for the year	—	—	18,548	15,635	18,096	52,279
At 31 December 2017	—	—	65,451	54,724	69,685	189,860
Currency realignment	6	—	134	121	(3,008)	(2,747)
Charge for the year	41,269	—	34,013	25,022	9,175	109,479
At 31 December 2018	41,275	—	99,598	79,867	75,852	296,592
CARRYING VALUES						
At 31 December 2018	9,270	392,051	476,197	404,800	23,304	1,305,622
At 31 December 2017	—	246,628	113,535	164,163	17,775	542,101

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

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

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

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

For the purposes of impairment testing, goodwill and trade name with indefinite useful life set out in notes 20 and 21, respectively, have been allocated to group of cash generating units ("CGUs"), comprising certain subsidiaries in the back-end equipment, surface mount technology solutions ("SMT") and materials segments. The carrying amounts of goodwill and trade name as at 31 December 2018 and 2017 allocated to these groups of CGUs are as follows:

	Goodwill		Trade name	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Back-end Equipment Business				
AMICRA (defined in note 40)	**225,822**	—	**38,503**	—
NEXX (defined in note 40)	**218,721**	—	**78,969**	—
	444,543	—	**117,472**	—
SMT Solutions Business				
Placement and printing business	**409,601**	408,696	**247,175**	246,628
Manufacturing execution software business	**203,672**	—	**27,404**	—
	613,273	408,696	**274,579**	246,628
Materials				
Molded interconnect substrates business ("MIS Business")	**—**	—	**—**	—

For back-end equipment and SMT solutions businesses, management of the Group determines that there are no impairments of its CGUs containing goodwill or trade name with indefinite useful life during the years ended 31 December 2018 and 2017.

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

Back-end Equipment Business

The recoverable amount of these units have been determined based on a value in use calculation. These calculations use cash flow projections based on financial budgets approved by the directors covering a five-year period, and discount rate of 14% (2017: N/A) for AMICRA and 14.5% (2017: N/A) for NEXX. The cash flows beyond the five-year period are extrapolated using a steady 3% (2017: N/A) growth rate. These growth rates are based on the relevant industry growth forecasts. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

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

SMT Solutions Business

The recoverable amount of these units have been determined based on a value in use calculation. For placement and printing business, that calculation uses cash flow projections based on financial budgets approved by the directors covering a five-year period, and discount rate of 15% (2017: 15%). The cash flows beyond the five-year period are extrapolated using a steady 2.5% (2017: 2.5%) growth rate. For manufacturing execution software business, that calculation uses cash flow projections based on financial budgets approved by the directors covering a five-year period, and discount rate of 18% (2017: N/A). The cash flows beyond the five-year period are extrapolated using a steady 3% (2017: N/A) 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.

MIS Business

The recoverable amount of this unit at 31 December 2017 had been determined based on a value in use calculation. That calculation use cash flow projections based on financial budgets approved by the directors covering a five-year period, and discount rate of 15%. The cash flows beyond the five-year period have extrapolated using a steady growth rate of 3%. This growth rate was based on the relevant industry growth forecasts. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which included budgeted sales and gross margin, such estimation was based on the unit's past performance and management's expectations for the market development.

As it had taken longer than expected to grow the MIS business, the cash flow projections and valuations assumptions were adjusted to reflect a softer near term outlook of this business. Hence the recoverable amount was determined to be lower than its carrying amount of the assets allocated to the MIS Business and an impairment loss of HK$22,596,000 was recognized and was allocated fully to the goodwill during the year ended 31 December 2017. No other write-down of the assets of MIS Business is considered necessary in both years.

23. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represent property interests in leasehold land outside Hong Kong.

Analyzed for reporting purposes as:

	2018 HK$'000	2017 HK$'000
Current	**3,863**	3,849
Non-current	**126,732**	115,046
	130,595	118,895

24. OTHER INVESTMENTS

	2018 HK$'000	2017 HK$'000
Unlisted investments		
— Equity securities	**56,355**	18,502

The above unlisted equity investments represents investment in unlisted equity investments issued by private entities incorporated in Germany and USA which are denominated in Euro and US dollar respectively. At 31 December 2017, the investment was measured at cost less impairment at the end of the reporting period because it is not quoted in an active market and the directors of the Company are of the opinion that its fair value cannot be measured reliably. Upon the application of HKFRS 9, the directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as the Group intends to hold these unlisted equity investments for long term strategic purposes.

25. INVENTORIES

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

	2018 HK$'000	2017 HK$'000
Raw materials	**1,664,719**	1,196,525
Work in progress	**3,271,055**	2,631,108
Finished goods	**1,606,165**	1,541,256
	6,541,939	5,368,889

26. TRADE AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables *(Note)*	**5,497,113**	5,212,686
Value added tax recoverable	**277,198**	292,344
Tax reserve certificate recoverable	**381,166**	371,113
Other receivables, deposits and prepayments	**169,424**	182,543
	6,324,901	6,058,686

26. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	2018 HK$'000	2017 HK$'000
Not yet due *(Note)*	**4,028,545**	3,863,809
Overdue within 30 days	**658,525**	449,604
Overdue within 31 to 60 days	**327,609**	389,295
Overdue within 61 to 90 days	**147,338**	113,655
Overdue over 90 days	**335,096**	396,323
	5,497,113	5,212,686

Note: The amount included notes receivables amounting to HK$1,250,430,000 (2017: HK$777,905,000) are held by the Group for future settlement of trade receivables. All bills received by the Group are with a maturity period of less than one year.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in note 45.

Credit policy:

Before accepting any new customer, the Group assesses the potential customer's credit quality and pre-sets maximum credit limit for each customer. Limits and credit quality attributed to customers are reviewed regularly. Payment terms with customers are mainly on credit together with deposits received in advance. Invoices are normally payable within 30 days to 60 days of issuance, except for certain well established customers, where the terms are extended to 3 to 4 months or more.

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

As at 31 December 2017, included in the Group's trade receivables are amounts totalling HK$1,348,877,000 which are past due at the reporting date for which the Group has not provided for impairment loss. Based on the historical experiences of the Group, those trade receivables that are past due but not impaired are generally recoverable. The trade and other receivables that are neither past due nor impaired are of good credit quality because of satisfactory repayment history.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	2018		2017	
	Assets HK$'000	**Liabilities HK$'000**	Assets HK$'000	Liabilities HK$'000
Foreign currency forward contracts	**1,852**	**32,697**	13,289	234

The foreign currency forward contracts were mainly related to the purchase of Euro and the sale of US dollar at contract rates ranging from US$1.1452 to US$1.2663 (2017: US$1.0785 to US$1.2162) per one Euro with future maturity dates ranging from 23 January 2019 to 20 November 2019 (2017: 17 January 2018 to 19 December 2018) at an aggregate notional amount of US$168,300,000, equivalent to approximately HK$1,318,109,000 (2017: US$83,500,000, equivalent to approximately HK$652,519,000).

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

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

Bank balances, current and fixed deposits carry interest at market rates which ranges from 0% to 8.75% (2017: 0% to 14.6%) per annum during the year ended 31 December 2018.

29. TRADE LIABILITIES AND OTHER PAYABLES

	2018 HK$'000	2017 HK$'000
Trade payables	**1,329,947**	1,579,912
Deferred income *(Note i)*	**130,944**	121,450
Accrued salaries and wages	**332,172**	298,040
Other accrued charges	**758,990**	804,375
Accrual for tax-related expense *(Note ii)*	**168,400**	168,400
Payables arising from acquisition of property, plant and equipment	**151,978**	150,395
Payable in relation to repurchase of shares	**—**	25,911
Consideration payable for acquisition *(note 40)*	**28,330**	—
Contingent consideration for acquisitions *(note 40)*	**20,036**	—
Other payables	**244,681**	229,777
	3,165,478	3,378,260

Notes:

(i) 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.

(ii) As detailed in note 12, the Group continued to receive letters from the HKIRD during the year ended 31 December 2018 seeking information relating to Hong Kong Profits Tax and other tax affairs of certain subsidiaries of the Company. The enquiries might lead to additional tax-related expenses and accrual has been provided accordingly.

29. TRADE LIABILITIES AND OTHER PAYABLES (CONTINUED)

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

	2018 HK$'000	2017 HK$'000
Not yet due	**954,686**	1,168,803
Overdue within 30 days	**194,825**	201,374
Overdue within 31 to 60 days	**100,480**	88,887
Overdue within 61 to 90 days	**47,032**	56,314
Overdue over 90 days	**32,924**	64,534
	1,329,947	1,579,912

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

30. ADVANCE PAYMENTS FROM CUSTOMERS

The amounts represent advance payment received from customers in relation to their purchase orders of equipment placed with the Group. At 31 December 2018, the advance payments from customers are contract liabilities and the Group does not expect to refund any of the advance payments. The Group applied the limited retrospective method of transition to HKFRS 15 with comparative figure not restated and hence the advance payments from customers as at 31 December 2017, which was of the same nature, are not restated but are presented in the same line item. The amount of advance payments from customers as at 1 January 2018 after the adjustments from the application of HKFRS 15 is disclosed in note 2.

Revenue recognized in current year of HK$587,038,000 was included in the contract liabilities balance at the beginning of the year.

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

31. OBLIGATIONS UNDER FINANCE LEASES

	2018 HK$'000	2017 HK$'000
Analyzed for reporting purposes as:		
Current liabilities	**410**	—
Non-current liabilities	**736**	—
	1,146	—

(a) A newly acquired subsidiary leased certain of its fixtures and equipment under finance leases. The average lease term is 4.5 years (2017: N/A). Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 3.30% to 6.78% (2017: N/A) per annum. These leases have purchase options at the end of the lease terms.

(b)

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

32. PROVISIONS

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

	2018 HK$'000	2017 HK$'000
Current	**330,933**	295,825
Non-current	**48,528**	50,242
	379,461	346,067

The Group's provisions mainly comprise warranty provision of HK$329,783,000 (2017: HK$327,048,000). The movement of the warranty provision and restructuring provision are as follows:

	Warranty provision HK$'000	**Restructuring provision HK$'000**
At 1 January 2017	276,402	28,550
Currency realignment	23,143	354
Additions	195,755	—
Utilization	(168,252)	(28,904)
At 31 December 2017	327,048	—
Currency realignment	(13,050)	—
Arising from acquisitions of subsidiaries *(note 40)*	11,236	—
Additions	210,863	19,067
Utilization	(206,314)	(15,158)
At 31 December 2018	329,783	3,909

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

A subsidiary of the Group was involved in a litigation with a third party for which the High Court ruled in favor of the third party. During the year ended 31 December 2017, the subsidiary filed an appeal to the Court of Appeal against the judgment of the High Court. In January 2018, the Court of Appeal released its judgement dismissing the appeal and specifying that the subsidiary's liability for either damages or an account of profits at the option of the counterparty. In August 2018, the counterparty made an election to pursue damages instead of an account of profits. A provision for the expected cost to be awarded for the High Court trial and the claim are recognized at the directors' best estimate of the expenditure required to settle the Group's obligation and the amount is included in the remaining provisions.

33. CONVERTIBLE BONDS

On 28 March 2014, the Company issued convertible bonds due 2019 in an aggregate principal amount of HK$2,400,000,000. Interest of 2.00% per annum will be paid semi-annually in September and March, respectively.

The convertible bonds may be converted into ordinary shares of the Company, at the option of the holder thereof, at any time on and after 8 May 2014 up to the close of business on the day falling ten days prior to 28 March 2019 (the "Maturity Date") (both days inclusive) or if such convertible bonds shall have been called for redemption before the Maturity Date, then up to and including the close of business on a date no later than seven days prior to the date fixed for redemption thereof, at an initial conversion price (subject to adjustment for among other things, consolidation and subdivision of shares, capitalization of profits or reserves, right issues, distributions and certain other dilutive events) of HK$98.21 per share. The conversion price was adjusted to HK$96.54 per share with effect from 20 May 2015 as a result of the aggregate distributions of HK$2.10 per share made by the Company to the shareholders for the year ended 31 December 2014. The conversion price was further adjusted to HK$95.23 per share with effect from 18 May 2016 as a result of aggregate distributions of HK$1.40 per share made by the Company to the shareholders for the year ended 31 December 2015. In addition, the conversion price was further adjusted to HK$94.33 per share with effect from 17 August 2017 as a result of aggregate distributions of HK$1.90 per share made by the Company to the shareholders for the year ended 31 December 2016 and an interim dividend of HK$1.20 per share made by the Company to the shareholders for the year ended 31 December 2017. Furthermore, the conversion price was further adjusted to HK$93.18 per share with effect from 16 May 2018 as a result of distributions of final dividend of HK$1.30 per share made by the Company to the shareholders for the year ended 31 December 2017. Details of the adjustments to conversion price of the convertible bonds were set out in the Company's announcements dated 13 May 2015, 11 May 2016, 17 August 2017 and 14 May 2018.

To the extent not converted, the Company will redeem the convertible bonds on the Maturity Date at their principal amount outstanding together with accrued and unpaid interest thereon.

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

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

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

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

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

33. CONVERTIBLE BONDS (CONTINUED)

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

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

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

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

None of the convertible bonds was redeemed or converted during the years ended 31 December 2017 and 2018.

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

	Liability component HK$'000	Equity component HK$'000	Total HK$'000
At 1 January 2017	2,236,792	250,249	2,487,041
Adjustment of liability component of convertible bonds *(note 10)*	(202,104)	—	(202,104)
Interest charge during the year *(note 11)*	144,039	—	144,039
Interest paid	(45,000)	—	(45,000)
At 31 December 2017 and 1 January 2018	2,133,727	250,249	2,383,976
Interest charge during the year *(note 11)*	147,822	—	147,822
Interest paid	(45,000)	—	(45,000)
At 31 December 2018	2,236,549	250,249	2,486,798

33. CONVERTIBLE BONDS (CONTINUED)

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

	2018 HK$'000	2017 HK$'000
Current liabilities		
Interest payable on convertible bonds (included in trade liabilities and other payables)	**11,897**	11,897
Convertible bonds	**2,224,652**	—
Non-current liability		
Convertible bonds	**—**	2,121,830
	2,236,549	2,133,727

34. BANK BORROWINGS

	2018 HK$'000	2017 HK$'000
The carrying amount of the bank borrowings are repayable:		
Within one year	**786,021**	117,219
Within a period of more than one year but not exceeding two years	**469,929**	—
Within a period of more than two years but not exceeding five years	**3,811**	—
	1,259,761	117,219
Less: Amounts due within one year shown under current liabilities	**(786,021)**	(117,219)
Amounts shown under non-current liabilities	**473,740**	—

	2018 HK$'000	2017 HK$'000
Fixed-rate borrowings	**15,469**	—
Variable-rate borrowings	**1,244,292**	117,219
	1,259,761	117,219

The Group's bank borrowings are unsecured.

34. BANK BORROWINGS (CONTINUED)

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

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

	2018	2017
Effective interest rate:		
Fixed-rate bank borrowings	**2.35% to 2.75%**	N/A
Variable-rate bank borrowings	**0.80% to 3.81%**	2.50% to 2.63%

35. SHARE CAPITAL OF THE COMPANY

	Number of shares		**Share capital**	
	2018 '000	2017 '000	**2018 HK$'000**	2017 HK$'000
Issued and fully paid:				
At 1 January	**409,083**	408,244	**40,908**	40,824
Share repurchased and cancelled	**(4,658)**	(1,399)	**(465)**	(140)
Shares issued under the Scheme	**2,246**	2,238	**224**	224
At 31 December	**406,671**	409,083	**40,667**	40,908

The authorized share capital of the Company is HK$50 million, comprising 500 million shares of HK$0.10 each, at 31 December 2018 and 2017 and 1 January 2017.

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

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

35. SHARE CAPITAL OF THE COMPANY (CONTINUED)

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

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

During the year, 4,657,600 (2017: 1,398,800) shares of the Company repurchased were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium payable on repurchase was charged against the share premium. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to the capital redemption reserve.

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

During the year, 2,245,900 (2017: 2,238,100) shares were issued at par to eligible employees and members of management under the Scheme.

36. EMPLOYEE SHARE INCENTIVE SCHEME

The Scheme is for the benefit of the Group's employees and members of management and has a life of 10 years starting from March 1990. On 25 June 1999, at an extraordinary general meeting of the Company, the shareholders approved to extend the period of the Scheme for a further term of 10 years up to 23 March 2010 and allow up to 5% of the issued share capital of the Company from time to time, excluding any shares of the Company subscribed for or purchased pursuant to the Scheme since 23 March 1990, to be subscribed for or purchased pursuant to the Scheme during the extended period.

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

36. EMPLOYEE SHARE INCENTIVE SCHEME (CONTINUED)

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

On 17 March 2017, the directors resolved to grant and the Company granted 3,363,300 shares in the Company to certain employees and members of the management of the Group who shall remain employment within the Group upon expiration of the respective defined qualification periods, wherein 2,631,200 shares relate to the qualification period expiring on 15 December 2017, 488,200 shares relate to the qualification period expiring on 14 December 2018 and 243,900 shares relate to qualification period expiring on 16 December 2019. The respective vesting period of such grant, that is, the qualification period, was from 17 March 2017 to 15 December 2017, 14 December 2018 and 16 December 2019 respectively. The directors also resolved to allocate 369,500 shares out of the 3,363,300 shares granted pursuant to the Scheme, in which 366,500 shares to be purchased by the Trustee under the Share Award Scheme as Award Shares.

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

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

On 23 March 2018, the directors resolved to grant and the Company granted 2,623,200 shares in the Company to certain employees and members of the management of the Group who shall remain employment within the Group upon expiration of the respective defined qualification periods, wherein 2,145,300 shares relate to qualification period expiring on 14 December 2018 and 477,900 shares relate to qualification period expiring on 16 December 2019. The respective vesting period of such grant, that is, the qualification period, was from 23 March 2018 to 14 December 2018 and 16 December 2019 respectively. The directors also resolved to allocate 354,600 shares granted pursuant to the Scheme, to be purchased by the Trustee under the Share Award Scheme as Award Shares.

On 14 December 2018, out of the 2,145,300 and 488,200 shares related to qualification period expiring on 14 December 2018 which were granted on 23 March 2018 and 17 March 2017 pursuant to the Scheme respectively, 2,245,900 shares were issued and 33,000 shares were forfeited and unallocated by the Company. 354,600 Award Shares vested on the same date.

The fair value of the shares granted pursuant to the Scheme in 2017 and 2018 was determined with reference to market value of the shares at the grant date taking into account the exclusion of the expected dividends as the employees are not entitled to receive dividends paid during the vesting periods.

The Group recognized share-based payments amounting to HK$289,031,000 (2017: HK$303,223,000) for the year ended 31 December 2018 in relation to the shares granted pursuant to the Scheme in 2018 and 2017 by the Company, such an amount being determined by the fair value of the shares granted at the grant date.

36. EMPLOYEE SHARE INCENTIVE SCHEME (CONTINUED)

Movement of the shares granted to employees and members of the management of the Group under the Scheme during the year ended 31 December 2018 are as follows:

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

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

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

Movement of Award Shares purchased is as follows:

	Number of shares purchased '000	Cost of purchase HK$'000
At 1 January 2017	3	198
Shares purchased from the market during the year	323	34,064
Award Shares vested	(326)	(34,262)
At 31 December 2017 and 1 January 2018	—	—
Shares purchased from the market during the year	355	40,473
Award Shares vested	(355)	(40,473)
At 31 December 2018	—	—

37. RETIREMENT BENEFIT PLANS

Defined contribution plans

The Group has retirement plans covering a substantial portion of its employees. The principal plans are defined contribution plans.

The plans for employees in Hong Kong are registered under the Occupational Retirement Schemes Ordinance ("ORSO Scheme") and a Mandatory Provident Fund Scheme ("MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The assets of the schemes are held separately from those of the Group in funds under the control of trustees.

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

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

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

The amount charged to profit or loss of HK$250,637,000 (2017: HK$198,426,000) 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 2018 and 2017, there were no forfeitures arising from employees leaving the Group prior to completion of qualifying service period.

At 31 December 2018 and 2017, there were no forfeited contributions which arose upon employees leaving the retirement plans and which are available to reduce the contributions payable in the future years.

Defined benefit plans

Certain group entities operate funded defined benefits pension scheme for all their qualified employees.

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

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

37. RETIREMENT BENEFIT PLANS (CONTINUED)

Defined benefit plans (Continued)

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 2018 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.

37. RETIREMENT BENEFIT PLANS (CONTINUED)

Defined benefit plans (Continued)

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

	31 December	
	2018	2017
Discount rate	**2.00%**	1.80%
Average longevity at retirement age	**63 years**	63 years
Expected rate of compensation increase	**2.25%**	2.25%
Expected rate of pension progression	**1.50%**	1.50%

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

	2018 HK$'000	2017 HK$'000
Principal pension benefit plans *(Note a)*	**145,834**	154,817
Other post-employment benefit plans *(Note b)*	**20,873**	22,151
Other retirement benefit obligations *(Note c)*	**4,808**	6,309
	171,515	183,277

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 2018 and 2017 are as follows:

	2018 HK$'000	2017 HK$'000
Fair value of plan assets	**452,408**	459,069
Total present value of DBO		
Defined benefit obligation (funded)	**(593,157)**	(609,368)
Defined benefit obligation (unfunded)	**(5,085)**	(4,518)
Net liability arising from defined benefit obligation	**(145,834)**	(154,817)

The actuarial valuation showed that market value of the plan assets was HK$452,408,000 (2017: HK$459,069,000) and that the actuarial value of these represented 76% (2017: 75%) of the benefits that had accrued to members.

37. RETIREMENT BENEFIT PLANS (CONTINUED)

Defined benefit plans (Continued)

Notes: (Continued)

(a) Principal pension benefit plans (Continued)

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

	2018 HK$'000	2017 HK$'000
At 1 January	**459,069**	351,077
Currency realignment	**(19,842)**	51,417
Interest income	**8,252**	7,998
(Loss) return on plan assets (excluding amounts included in net interest expenses)	**(21,484)**	23,728
Benefits paid	**—**	(81)
Employer contribution	**26,413**	24,930
At 31 December	**452,408**	459,069

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

Asset class

	2018 HK$'000	2017 HK$'000
Fixed income and corporate bonds	**276,557**	251,111
Equity securities	**121,245**	138,180
Cash and other assets	**54,606**	69,778
	452,408	459,069

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

The actual loss on defined benefit plan assets for the year ended 31 December 2018 was a net loss of HK$13,232,000 (2017: net gain of HK$31,726,000).

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

	2018 HK$'000	2017 HK$'000
At 1 January	**613,886**	488,235
Currency realignment	**(26,400)**	71,224
Current service cost	**29,283**	28,111
Past service cost	**—**	(848)
Interest cost	**10,731**	10,721
Remeasurement (gains) losses		
Actuarial (gain) loss arising from changes in financial assumptions	**(17,174)**	9,057
Actuarial (gain) loss arising from experience adjustments	**(10,516)**	9,621
Actuarial loss arising from changes in demographic assumptions	**2,519**	—
Benefits paid	**(4,087)**	(2,235)
At 31 December	**598,242**	613,886

37. RETIREMENT BENEFIT PLANS (CONTINUED)

Defined benefit plans (Continued)

Notes: (Continued)

(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:

	2018 HK$'000	2017 HK$'000
Defined benefit obligation (unfunded)	**20,873**	22,151

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

	2018 HK$'000	2017 HK$'000
At 1 January	**22,151**	18,211
Currency realignment	**(958)**	2,667
Current service cost	**620**	629
Past service cost	**183**	—
Interest cost	**366**	381
Remeasurement (gains) losses		
Actuarial (gain) loss arising from changes in financial assumptions	**(202)**	118
Actuarial (gain) loss arising from experience adjustments	**(1,145)**	355
Actuarial gain arising from changes in demographic assumptions	**(142)**	—
Benefits paid	**—**	(210)
At 31 December	**20,873**	22,151

(c) Other retirement benefit obligations

As at 31 December 2018, the consolidated statement of financial position also includes liabilities for other retirement benefit obligations consisting of liabilities for severance payments in Austria and national pension fund in Korea and United Kingdom amounting to HK$4,808,000 (2017: HK$6,309,000).

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$39,346,000 (increase by HK$45,361,000) (2017: decrease by HK$42,586,000 (increase by HK$49,309,000)).
- If the expected rate of pension progression increases (decreases) by 50 basis points, the defined benefit obligation would increase by HK$28,324,000 (decrease by HK$25,573,000) (2017: increase by HK$29,705,000 (decrease by HK$26,794,000)).

37. RETIREMENT BENEFIT PLANS (CONTINUED)

Defined benefit plans (Continued)

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

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the 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 2018 is 14.00 years (2017: 14.74 years).

The Group expects to make a contribution of HK$28,661,000 (2017: HK$27,605,000) to the defined benefit plans during the next financial year.

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

For the year ended 31 December 2018

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

37. RETIREMENT BENEFIT PLANS (CONTINUED)

Defined benefit plans (Continued)

For the year ended 31 December 2017

	Principal pension benefit plans HK$'000	Other post-employment benefit plans HK$'000	Other retirement benefit obligations HK$'000	Total HK$'000
Remeasurement gains (losses)	5,050	(473)	—	4,577
Income tax effect	(1,648)	155	(61)	(1,554)
	3,402	(318)	(61)	3,023

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

For the year ended 31 December 2018

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

37. RETIREMENT BENEFIT PLANS (CONTINUED)

Defined benefit plans (Continued)

For the year ended 31 December 2017

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

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.

38. 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 2017	(47,112)	21,155	89,179	134,232	8,524	40,715	4,597	251,290
Credit (charge) to profit or loss for the year	17,966	(3,355)	8,821	8,223	10,247	(6,731)	18,760	53,931
Charge to other comprehensive income for the year	—	—	(1,554)	—	—	—	—	(1,554)
Currency realignment	(646)	1,289	12,644	2,283	742	3,136	(1,438)	18,010
At 31 December 2017	(29,792)	19,089	109,090	144,738	19,513	37,120	21,919	321,677
Adjustments due to adopting new standards *(note 2)*	—	—	—	4,857	2,795	—	—	7,652
At 1 January 2018 (restated)	(29,792)	19,089	109,090	149,595	22,308	37,120	21,919	329,329
Acquisitions of subsidiaries *(note 40)*	(235,791)	5,948	—	(6,298)	(12,349)	2,486	8,259	(237,745)
Credit (charge) to profit or loss for the year	8,702	(12,973)	617	9,494	10,882	5,521	470	22,713
Charge to other comprehensive income for the year	—	—	(1,776)	—	—	—	—	(1,776)
Currency realignment	1,490	(1,397)	(4,653)	(1,572)	(352)	(1,611)	1	(8,094)
At 31 December 2018	(255,391)	10,667	103,278	151,219	20,489	43,516	30,649	104,427

Notes:

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

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

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

38. 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:

	2018 HK$'000	2017 HK$'000
Deferred tax assets	**355,210**	361,673
Deferred tax liabilities	**(250,783)**	(39,996)
	104,427	321,677

At 31 December 2018, the Group had unused tax losses of HK$444,096,000 (2017: HK$446,990,000), subject to the approval by the relevant tax authorities, available to offset future taxable profits. At 31 December 2018, a deferred tax asset amounting to HK$10,667,000 (2017: HK$19,089,000) was recognized for tax losses amounting to HK$47,543,000 (2017: HK$97,867,000) and no deferred tax was recognized in respect of the remaining tax losses of HK$396,553,000 (2017: HK$349,123,000) due to the unpredictability of future profit streams. At 31 December 2018, included in the unrecognized tax losses are losses of HK$11,798,000 that would expire during 2020 to 2023 (2017: HK$27,386,000 that will expire during 2020 to 2024). Other losses may be carried forward indefinitely.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. For certain subsidiaries located in other jurisdictions, withholding tax is also imposed on dividend. Deferred taxation has not been provided in the consolidated financial statements in respect of temporary difference attributable to accumulated profits of these subsidiaries amounting to HK$3,746,816,000 (2017: HK$4,204,684,000) 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.

39. OTHER LIABILITIES AND ACCRUALS

	2018 HK$'000	2017 HK$'000
Gross obligation to acquire non-controlling interests *(Note)*	**90,179**	—
Contingent consideration for acquisitions *(note 40)*	**33,027**	—
Other payables and accruals	**53,653**	43,253
	176,859	43,253

Note:

On 26 July 2018, the Group entered into a promissory agreement for acquiring the remaining shares of Critical Manufacturing (defined in note 40) 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.

39. OTHER LIABILITIES AND ACCRUALS (CONTINUED)

Note:(Continued)

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

At initial recognition, the consideration payable to the Holders arising from a forward contract to acquire non-controlling interests represents the present value of the obligation to deliver the shares to the Group with discount rate of 1.4% on 1 August 2018 amounting to EUR10,056,000 (equivalent to approximately HK$92,644,000 on 1 August 2018 and HK$90,179,000 on 31 December 2018). This amount was initially recognized in the consolidated statement of financial position as a gross obligation with a corresponding debit to the non-controlling interests. Thereafter, subsequent re-measurement of the financial liability for the present value of the obligation is recognized in the profit or loss.

40. ACQUISITIONS OF BUSINESSES

Acquisition of AMICRA Microtechnologies GmbH ("AMICRA")

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

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

40. ACQUISITIONS OF BUSINESSES (CONTINUED)

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

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

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

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

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

40. ACQUISITIONS OF BUSINESSES (CONTINUED)

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

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

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

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

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

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

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

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

40. ACQUISITIONS OF BUSINESSES (CONTINUED)

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

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

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

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

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

Acquisition of TEL NEXX Business

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

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

40. ACQUISITIONS OF BUSINESSES (CONTINUED)

Acquisition of TEL NEXX Business (Continued)

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

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

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

40. ACQUISITIONS OF BUSINESSES (CONTINUED)

Acquisition of TEL NEXX Business (Continued)

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

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

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

Impact of acquisitions on the results of the Group

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

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

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

41. CONTINGENT LIABILITIES

As at 31 December 2018, the Group has provided guarantees amounting to HK$2,905,000 (2017: HK$2,837,000) to the Singapore government for work permits of foreign workers in Singapore.

42. CAPITAL COMMITMENTS

	2018 HK$'000	2017 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**327,531**	470,891

43. OPERATING LEASE COMMITMENTS

The Group as lessee

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

	2018			**2017**		
	Land and buildings HK$'000	**Motor vehicles and others HK$'000**	**Total HK$'000**	Land and buildings HK$'000	Motor vehicles and others HK$'000	Total HK$'000
Within one year	**234,250**	**14,410**	**248,660**	210,654	12,722	223,376
In the second to fifth years inclusive	**676,001**	**16,317**	**692,318**	567,463	8,584	576,047
Over five years	**1,041,687**	**–**	**1,041,687**	738,615	–	738,615
	1,951,938	**30,727**	**1,982,665**	1,516,732	21,306	1,538,038

Operating lease payments represent rentals payable by the Group for certain of its manufacturing plants, office properties, quarters and motor vehicles. Except for land leased from the Singapore Housing & Development Board for a period of 30 years (renewable upon expiry for a further term of 30 years), other leases are negotiated for an average term of two to fifteen years (2017: two to fifteen years).

The Group as lessor

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

Rental income earned by the Group from its investment property for the year are set out in note 13.

Equipment leasing income earned during the year was HK$59,000 (2017: nil). Certain of the Group's equipment held for rental purposes, with a carrying amount of HK$8,482,000.

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

	2018 HK$'000	2017 HK$'000
Within one year	**15,012**	5,610
In second to fifth years inclusive	**45,469**	23,501
Over five years	**17,408**	23,960
	77,889	53,071

44. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of bank borrowings, convertible bonds and equity attributable to owners of the Company, comprising issued share capital and reserves including retained profits.

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

45. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2018 HK$'000	2017 HK$'000
Financial assets		
Financial assets at amortized cost	**7,881,080**	—
Loans and receivables (including cash and cash equivalents)	**—**	8,413,338
Available-for-sale financial assets	**—**	18,502
Other investments — equity instruments at FVTOCI	**56,355**	—
Derivative financial instruments	**1,852**	13,289
Financial liabilities		
Amortized cost	**5,790,460**	4,765,859
Derivative financial instruments	**32,697**	234
Gross obligation to acquire non-controlling interests	**90,179**	—
Obligations under finance leases	**1,146**	—
Contingent consideration for acquisitions	**53,063**	—

Financial risk management objectives and policies

The Group's financial instruments include other investments, other non-current assets, pledged bank deposits, bank deposits with original maturity of more than three months, bank balances and cash, trade and other receivables, derivative financial instruments, trade liabilities and other payables, other liabilities, contingent consideration for acquisitions and gross obligation to acquire non-controlling interests, obligations under finance leases, convertible bonds and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure that appropriate measures are implemented on a timely and effective manner.

45. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

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 40% and 43% of the Group's sales and purchases respectively are denominated in currencies other than the functional currency of the group entities making the sales and the purchases.

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

		Assets		Liabilities	
	Currency	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
The Group					
US dollar *(Note a)*	US$	**2,605,396**	3,074,016	**700,789**	92,744
Euro	EUR	**126,541**	143,657	**164,997**	56,699
Renminbi	RMB	**155,076**	778,187	**399,880**	597,960
Singapore dollar	S$	**61,946**	76,172	**118,320**	146,319
Japanese Yen	JPY	**4,406**	9,952	**131,092**	159,214
Others		**98,309**	51,793	**114,030**	157,806
Inter-company balances					
US dollar *(Note b)*	US$	**3,966,800**	3,396,187	**1,687,915**	2,099,710
Euro	EUR	**203,203**	56,568	**6,008**	25,390
Renminbi	RMB	**1,536,318**	1,256,659	**2,208**	2,746
Singapore dollar	S$	**548**	64	**547**	6,784
Japanese Yen	JPY	**429**	41,316	**1,335**	—
Others		**37,234**	37,094	**198,683**	62,796
Loan to foreign operations that form parts of a net investment					
US dollar *(Note c)*	US$	**821,391**	52,495	**821,391**	52,495
Euro	EUR	**100,557**	156,911	**66,657**	69,104
British Pound	GBP	**337,515**	342,300	**—**	—

Notes:

(a) Included in the balances are US dollar financial assets and financial liabilities of HK$835,074,000 and HK$65,522,000 (2017: HK$1,127,446,000 and HK$74,229,000), 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$828,959,000 and HK$1,039,031,000 (2017: HK$1,585,822,000 and HK$967,029,000), 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$821,391,000 (2017: HK$52,495,000) where Hong Kong dollars is not the functional currency of the relevant group entities.

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45. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Foreign currency risk management (Continued)

The majority of the Group's foreign currency financial assets and financial liabilities are denominated in US dollar. The Hong Kong dollars is linked up with US dollar where Hong Kong dollars is the functional currency of the relevant group entities. For other group entities having significant US dollar financial assets and financial liabilities where Hong Kong dollars is not the functional currency, they have exposure to the foreign currency exchange risk. The management conducts periodic review of the exposure and requirements of various currencies, and will consider hedging significant foreign currency exposures should the need arise.

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 27).

The following table details the Group's sensitivity to a 5% increase and decrease in the functional currency of the group entities against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis also include intra-group balances and loans to foreign operations that form part of a net investment where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. The analysis illustrates the impact for a 5% strengthening of the functional currency of the relevant group entities against the relevant currency and a positive and negative number below indicates an increase and a decrease in profit respectively. For a 5% weakening of the functional currency of the relevant group entities against the relevant currency, there would be an equal and opposite impact on the profit.

	Euro impact (i)		US dollar impact (ii)		Renminbi impact (iii)		Japanese Yen impact (iv)		Singapore dollar impact (v)		British Pound impact (vi)	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
(Decrease) increase in post-tax profit	**(5,947)**	(4,241)	**(24,419)**	(55,503)	**(64,005)**	(69,022)	**5,962**	5,055	**2,650**	3,471	**–**	–
(Decrease) increase in exchange reserve	**(1,693)**	(4,392)	**30,447**	2,625	**–**	–	**–**	–	**–**	–	**(14,091)**	(17,115)

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

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

45. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Foreign currency risk management (Continued)

Foreign currency sensitivity analysis (Continued)

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

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

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

Interest rate risk management

The Group is exposed to fair value interest rate risk in relation to pledged bank deposits, bank borrowings and convertible bonds (see note 33). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank deposits/balances (see note 28) and bank borrowings (see note 34). Management will monitor interest rate risk exposure closely. By management's discretion, the Group keeps its borrowings at floating rates and may enter into interest rate swaps to balance the fair value interest rate risk and cash flow interest rate risk exposure of the Group.

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

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate instruments at the end of the reporting period. The analyses are prepared assuming the financial instruments outstanding at the end of the reporting period was outstanding for the whole year. A 5 basis points increase is used for bank deposits and 50 basis points increase and decrease for bank borrowings when reporting interest rate risk internally to key management personnel. If interest rates had been 5 basis points and 50 basis points higher for bank deposits and bank borrowings, respectively, or 50 basis points lower for bank borrowings and all other variables were held constant, post-tax profit for the year ended 31 December 2018 would decrease/increase by HK$4,379,000 (2017: HK$93,000) and HK$4,895,000 (2017: HK$486,000) respectively. This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings and certain bank balances.

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 2018 in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancement to cover its credit risks associated with its financial assets.

45. 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 upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Collective assessments

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

Carrying amount

Credit rating	Average loss rate	Trade receivables HK$'000
Strong*	0.01%	1,768,324
Good	0.71%	3,102,564
Satisfactory	1.75%	159,537
Watch list	2.59%	38,744
		5,069,169

* Included notes receivables amounting to HK$1,250,430,000.

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 2018 within lifetime ECL.

Credit rating	Average loss rate	Trade receivables HK$'000
Strong	0.14%	110,263
Good	0.67%	277,449
Satisfactory	1.56%	33,104
Watch list	8.79%	7,128
		427,944

45. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Credit risk management and impairment assessment (Continued)

Quality classification definitions:

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

"Good": The counterparty has low default risk.

"Satisfactory": The counterparty has moderate default risk.

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

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

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies and authorized banks in Mainland China with high credit-ratings.

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

Liquidity risk management

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

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.

45. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Liquidity risk management (Continued)

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

At 31 December 2018

	Weighted average effective interest rate* %	On demand HK$'000	Within one year HK$'000	More than one year HK$'000	Total contractual undiscounted cash flows HK$'000	Total carrying amount HK$'000
Non-derivative financial liabilities						
Trade liabilities and other payables	–	375,261	1,919,903	–	2,295,164	2,295,164
Other non-current liabilities	10.208	–	–	57,362	57,362	52,049
Obligations under finance leases	4.643	–	453	773	1,226	1,146
Bank borrowings	3.321	–	810,683	488,654	1,299,337	1,259,761
Convertible bonds	6.786	–	2,272,500	–	2,272,500	2,236,549
Gross obligation to acquire non-controlling interests	–	–	–	90,179	90,179	90,179
		375,261	5,003,539	636,968	6,015,768	5,934,848
Derivatives — net settlement						
Foreign exchange forward contracts	–	–	32,697	–	32,697	32,697

At 31 December 2017

	Weighted average effective interest rate* %	On demand HK$'000	Within one year HK$'000	More than one year HK$'000	Total contractual undiscounted cash flows HK$'000	Total carrying amount HK$'000
Non-derivative financial liabilities						
Trade liabilities and other payables	–	411,109	2,083,129	–	2,494,238	2,494,238
Other non-current liabilities	–	–	–	20,674	20,674	20,674
Bank borrowings	2.540	–	118,594	–	118,594	117,219
Convertible bonds	6.786	–	45,000	2,272,500	2,317,500	2,133,727
		411,109	2,246,723	2,293,174	4,951,006	4,765,858
Derivatives — net settlement						
Foreign exchange forward contracts	–	–	234	–	234	234

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

45. 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 2018	Fair value as at 2017	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Foreign currency forward contracts classified as derivative instruments on the consolidated statement of financial position *(note 27)*	**Asset — HK$1,852,000 and liability — HK$32,697,000**	Asset — HK$13,289,000 and liability — HK$234,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
Other investments (classified as equity instruments at FVTOCI) *(note 24)*	**Asset — HK$56,355,000**	N/A	Level 3	Market approach is used by comparing the consideration for share transfer of business ownership interest in similar equity investment interest. Considerations such as time and condition of sale and terms of agreements are analyzed and adjustments are made, where appropriate, to arrive at an estimation of fair value.	The considerations may vary significantly due to difference in timing, condition of sale and terms of agreements, size and nature of similar business to derive the estimated fair value.	The higher the value of similar transactions, the higher the estimation of fair value derived from it, and vice versa.
Contingent considerations for AMICRA Acquisition and NEXX Acquisition *(note 40)*	**Liability — HK$53,063,000**	N/A	Level 3	Discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Group arising from the contingent consideration, based on an appropriate discount rate.	AMICRA and NEXX (note 40) would meet the amount of revenue and EBITDA target by reference to the estimated sales performance and profit forecast of AMICRA and NEXX respectively that could achieve.	The higher the amount of revenue and EBITDA, the higher the fair value *(Note)*.

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

45. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

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

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

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

Reconciliation of Level 3 fair value measurements

Financial assets (liabilities)

	Other investments-equity instruments at FVTOCI HK$'000	Contingent consideration for AMICRA Acquisition and NEXX Acquisition HK$'000	Total HK$'000
At 31 December 2017	—	—	—
Reclassification due to initial application of HKFRS 9 *(note 2)*	18,502	—	18,502
At 1 January 2018	18,502	—	18,502
Purchase	39,224	—	39,224
Arising on acquisitions of subsidiaries	—	(51,617)	(51,617)
Total gains (losses):			
— in profit or loss	—	(2,220)	(2,220)
— Currency realignment	(1,371)	774	(597)
At 31 December 2018	56,355	(53,063)	3,292

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 40). Other than HK$2,220,000 fair value loss due to adjustment on contingent consideration for acquisitions, no other gain or loss for the current year relating to the other investments has been recognized in profit or loss.

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

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

46. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Dividend payable HK$'000	Payables in relation to repurchase of shares HK$'000	Interest payables HK$'000	Obligations under finance leases HK$'000	Bank borrowings HK$'000 *(note 34)*	Convertible bonds HK$'000 *(note 33)*	Total HK$'000
At 1 January 2017	—	—	11,897	—	193,890	2,224,895	2,430,682
Financing cash flows	(938,960)	(322,656)	(18,418)	—	(78,466)	(45,000)	(1,403,500)
Currency realignment	—	—	—	—	1,795	—	1,795
Interest expenses	—	—	18,450	—	—	144,039	162,489
Adjustment of liability component of convertible bonds *(note 10)*	—	—	—	—	—	(202,104)	(202,104)
Share repurchased	—	348,567	—	—	—	—	348,567
Dividend declared	938,960	—	—	—	—	—	938,960
Others	—	—	(32)	—	—	—	(32)
At 31 December 2017 and 1 January 2018	—	25,911	11,897	—	117,219	2,121,830	2,276,857
Financing cash flows	(1,051,506)	(305,495)	(27,981)	(264)	1,086,413	(45,000)	(343,833)
Acquisitions of subsidiaries	—	—	—	1,515	63,781	—	65,296
Currency realignment	—	—	—	(105)	(7,652)	—	(7,757)
Interest expenses	—	—	29,940	—	—	147,822	177,762
Share repurchased	—	279,584	—	—	—	—	279,584
Dividend declared	1,051,506	—	—	—	—	—	1,051,506
Others	—	—	(1,959)	—	—	—	(1,959)
At 31 December 2018	—	—	11,897	1,146	1,259,761	2,224,652	3,497,456

47. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

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

	2018 HK$'000	2017 HK$'000
Short-term benefits	**37,224**	32,767
Post-employment benefits	**1,306**	1,219
Share-based payments	**43,804**	54,556
	82,334	88,542

47. RELATED PARTY TRANSACTIONS (CONTINUED)

Compensation of key management personnel (Continued)

Certain shares of the Company were issued to key management under the Scheme (see note 36 for details of the Scheme). The estimated fair value of such shares has been included in share-based payments for both years. The vesting periods of the shares granted to key management during the year ended 31 December 2018 span multiple years with such vesting periods expiring on 14 December 2018 and 16 December 2019, respectively. The vesting period for the shares granted during the year ended 31 December 2017 span multiple years with such vesting periods expiring on 15 December 2017, 14 December 2018 and 16 December 2019, respectively.

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

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the principal subsidiaries at 31 December 2018 and 2017 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued capital	Proportion of nominal value of issued ordinary share/registered capital held by the Company		Principal activities
		Ordinary shares/ registered capital	Directly	Indirectly	
ASM Advanced Packaging Materials Pte. Ltd.	Singapore	US$20,832,840	—	86% *(Note a)*	Manufacturing of materials
ASM Assembly Equipment Bangkok Limited	Thailand	Baht7,000,000	—	100%	Marketing service
ASM AMICRA Microtechnologies GmbH	Germany	EUR229,771	—	100% *(Note b)*	Trading and manufacture of semiconductor equipment
ASM Assembly Equipment (M) Sdn. Bhd.	Malaysia	MYR10,000	—	100%	Marketing service
ASM Assembly Systems GmbH & Co. KG	Germany	EUR20,200,000	—	100%	Manufacture and sale of surface mount technology equipment and trading of semiconductor equipment
ASM Assembly Systems Austria GmbH	Austria	EUR35,000	—	100%	Trading of surface mount technology equipment
ASM Assembly Systems, LLC	Delaware, United States	—	—	100%	Trading of surface mount technology equipment
先進裝配系統有限公司 (ASM Assembly Systems Ltd.)*	PRC	EUR5,400,000	—	100%	Trading of surface mount technology equipment
ASM Assembly Systems Singapore Pte. Ltd.	Singapore	S$33,000,001	100%	—	Manufacture and sale of surface mount technology equipment

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

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued capital	Proportion of nominal value of issued ordinary share/registered capital held by the Company		Principal activities
		Ordinary shares/ registered capital	Directly	Indirectly	
ASM Assembly Systems Weymouth Limited	United Kingdom	GBP1,680,000	—	100%	Trading and manufacture of surface mount technology equipment
ASM Assembly Technology Co., Ltd.	Japan	JPY10,000,000	100%	—	Trading of semiconductor equipment and surface mount technology equipment
ASM Laser Separation International (ALSI) B.V.	Netherlands	EUR100	—	100%	Research and development, manufacture and sale of semiconductor equipment
先域微電子技術服務(上海)有限公司 (ASM Microelectronic Technical Services (Shanghai) Co., Limited)*	PRC	US$400,000	—	100%	Trading of semiconductor equipment
ASM NEXX, Inc.	United States of America	US$0.0001	—	100% *(Note b)*	Trading and manufacture of semiconductor equipment
ASM Pacific Assembly Products, Inc.	United States of America	US$60,000	—	100%	Trading of semiconductor equipment and materials
ASM Pacific (Holding) Limited	Hong Kong	HK$1,000,000	100%	—	Trading of semiconductor equipment and materials in Taiwan
ASM Pacific (Hong Kong) Limited	Hong Kong	HK$500,000	100%	—	Trading of semiconductor equipment, surface mount technology equipment and materials in Hong Kong and marketing service in Korea
先進半導體材料(深圳)有限公司 (ASM Materials China Limited)*	PRC	US$86,393,184 (2017: US$45,170,000)	—	100%	Manufacture of semiconductor equipment and materials
ASM Technology Asia Limited	Hong Kong	HK$1,900,000,002	100%	—	Investment holding and agency services and also provision of logistics and purchasing services to group companies

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

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued capital	Proportion of nominal value of issued ordinary share/registered capital held by the Company		Principal activities
		Ordinary shares/ registered capital	Directly	Indirectly	
先進科技(中國)有限公司 (ASM Technology China Limited)*	PRC	US$26,058,159	–	100%	Research and development of semiconductor equipment and property investment
ASM Technology Hong Kong Limited	Hong Kong	HK$10,000,000	100%	–	Manufacture of semiconductor equipment and provision of research and development services
先進科技(惠州)有限公司 (ASM Technology (Huizhou) Co., Ltd.)*	PRC	US$108,606,872	–	100%	Manufacture of semiconductor equipment and surface mount technology equipment
ASM Technology (M) Sdn. Bhd.	Malaysia	MYR74,000,000	100%	–	Manufacture of semiconductor equipment, materials and surface mount technology equipment
ASM Technology Singapore Pte Ltd.	Singapore	S$53,000,000	100%	–	Manufacture and sale of semiconductor equipment and materials
Critical Manufacturing, S.A.	Portugal	EUR496,065	–	77.78% *(Notes b and c)*	Development, marketing and sales of manufacturing execution systems software solutions
進峰貿易(深圳)有限公司 (Edgeward Trading (Shenzhen) Company Limited)*	PRC	US$300,000	–	100%	Trading of semiconductor equipment and materials
深圳先進微電子科技有限公司 (Shenzhen ASM Micro Electronic Technology Co., Ltd.)*	PRC	HK$718,300,000	–	100%	Manufacture of semiconductor equipment and surface mount technology equipment

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

Notes:

(a) ASM Advanced Packaging Materials Pte. Ltd. ("AAPM") issued 20,000,000 ordinary shares to the Group at an aggregate subscription price of US$10,000,000 by capitalization of loans from its immediate holding company during the year ended 31 December 2017. The equity interest increased from 61% to 86% upon the issuance of the shares.

(b) These entities have been acquired during the year ended 31 December 2018 through acquisitions (see note 40).

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

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

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

No debt security has been issued by any of the subsidiaries at any time during the year or is outstanding at the end of the year.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other insignificant subsidiaries which are mainly inactive or engaged in investment holding would, in the opinion of the directors, result in particulars of excessive length.

49. EVENT AFTER THE REPORTING PERIOD

Subsequent to 31 December 2018, the non-controlling shareholder of AAPM has transferred all of its shares of AAPM to the Group at a consideration of US$739,000 (equivalent to approximately HK$5,790,000) on 31 January 2019. AAPM became a wholly owned subsidiary of the Group effective from 31 January 2019.

50. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

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

	2018 HK$'000	2017 HK$'000
Non-current assets		
Unlisted investments in subsidiaries	**3,581,337**	3,590,990
Loans to subsidiaries	**1,225,608**	550,435
	4,806,945	4,141,425
Current assets		
Other receivables and prepayments	**2,626**	10,222
Amounts due from subsidiaries	**2,002,215**	644,285
Bank deposits with original maturity of more than three months	**—**	632,710
Bank balances and cash	**575,065**	444,243
	2,579,906	1,731,460
Current liabilities		
Other payables	**62,583**	75,730
Amounts due to subsidiaries	**450,190**	423,562
Loan from a subsidiary	**—**	315,545
Convertible bonds	**2,224,652**	—
Bank borrowings	**708,452**	—
	3,445,877	814,837
Net current (liabilities) assets	**(865,971)**	916,623
	3,940,974	5,058,048
Capital and reserves		
Share capital *(note 35)*	**40,667**	40,908
Reserves *(Note)*	**3,436,207**	2,895,310
	3,476,874	2,936,218
Non-current liabilities		
Convertible bonds	**—**	2,121,830
Bank borrowings	**464,100**	—
	464,100	2,121,830
	3,940,974	5,058,048

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

Note:

Movement in reserves

	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Shares held for share award scheme HK$'000	Treasury share reserve HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Convertible bonds equity reserve HK$'000	Retained profits HK$'000	Dividend reserve HK$'000	Total HK$'000
At 1 January 2017	1,522,726	–	(198)	–	155	56,143	250,249	813,573	449,068	3,091,716
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	826,674	–	826,674
Sub-total	1,522,726	–	(198)	–	155	56,143	250,249	1,640,247	449,068	3,918,390
Recognition of equity-settled share-based payments	–	303,223	–	–	–	–	–	–	–	303,223
Purchase of shares under the Scheme	–	–	(34,064)	–	–	–	–	–	–	(34,064)
Shares vested under the Scheme	–	(34,165)	34,262	–	–	–	–	(97)	–	–
Shares issued under the Scheme	234,329	(234,553)	–	–	–	–	–	–	–	(224)
Cancellation of the grant under the Scheme	–	(4,628)	–	–	–	–	–	–	–	(4,628)
Shares repurchased and cancelled	(149,435)	–	–	–	140	–	–	(140)	–	(149,435)
Shares repurchased but not yet cancelled	–	–	–	(198,992)	–	–	–	–	–	(198,992)
2016 final dividend paid	–	–	–	–	–	–	–	–	(449,068)	(449,068)
2017 interim dividend paid	–	–	–	–	–	–	–	(489,892)	–	(489,892)
2017 final dividend proposed	–	–	–	–	–	–	–	(528,175)	528,175	–
At 31 December 2017	1,607,620	29,877	–	(198,992)	295	56,143	250,249	621,943	528,175	2,895,310
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	1,649,099	–	1,649,099
Sub-total	1,607,620	29,877	–	(198,992)	295	56,143	250,249	2,271,042	528,175	4,544,409
Recognition of equity-settled share-based payments	–	289,031	–	–	–	–	–	–	–	289,031
Purchase of shares under the Scheme	–	–	(40,473)	–	–	–	–	–	–	(40,473)
Shares vested under the Scheme	–	(37,150)	40,473	–	–	–	–	(3,323)	–	–
Shares issued under the Scheme	242,745	(242,969)	–	–	–	–	–	–	–	(224)
Shares repurchased and cancelled	(504,022)	–	–	198,992	465	–	–	(465)	–	(305,030)
2017 final dividend paid	–	–	–	–	–	–	–	–	(525,753)	(525,753)
2018 interim dividend paid	–	–	–	–	–	–	–	(523,331)	(2,422)	(525,753)
2018 final dividend proposed	–	–	–	–	–	–	–	(569,340)	569,340	–
At 31 December 2018	1,346,343	38,789	–	–	760	56,143	250,249	1,174,583	569,340	3,436,207

Five-Year Financial Summary

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue	**19,550,590**	17,522,713	14,249,093	12,977,289	14,229,177
Profit before taxation	**2,973,156**	3,274,280	1,792,949	1,363,376	2,028,463
Income tax expense	**(761,428)**	(478,578)	(354,567)	(410,462)	(428,509)
Profit for the year	**2,211,728**	2,795,702	1,438,382	952,914	1,599,954
Loss attributable to non-controlling interests	**4,334**	19,771	25,482	3,277	—
Profit attributable to owners of the Company	**2,216,062**	2,815,473	1,463,864	956,191	1,599,954

	At 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and Liabilities					
Non-current assets	**5,907,439**	4,028,660	3,721,076	3,773,749	3,656,279
Current assets	**15,167,963**	14,571,546	11,917,876	10,093,894	10,839,979
Current liabilities	**(7,792,586)**	(4,784,132)	(6,237,113)	(3,132,775)	(3,758,619)
Net current assets	**7,375,377**	9,787,414	5,680,763	6,961,119	7,081,360
Non-current liabilities	**(1,122,161)**	(2,438,598)	(375,576)	(2,698,883)	(2,532,445)
Total equity	**12,160,655**	11,377,476	9,026,263	8,035,985	8,205,194
Non-controlling interests	**6,893**	149	(4,056)	(29,466)	—
Equity attributable to owners of the Company	**12,167,548**	11,377,625	9,022,207	8,006,519	8,205,194

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