

ENABLING THE DIGITAL WORLD

ASM Pacific Technology Limited

(Incorporated in the Cayman Islands with limited liability) (於開曼群島註冊成立之有限公司)



Pacific Technology

(STOCK CODE 股份代號: 0522)

ENDLESS OPPORTUNITIES
IN THE DIGITAL WORLD

開拓數碼世界 Interim Report 中期報告

迎來無盡機遇 2019



CONTENTS

| | |
|---|----|
| Corporate Information | 2 |
| Financial Highlights | 3 |
| Chairman’s Statement | 5 |
| Report on Review of Condensed Consolidated Financial Statements | 13 |
| Condensed Consolidated Statement of Profit or Loss | 14 |
| Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income | 15 |
| Condensed Consolidated Statement of Financial Position | 16 |
| Condensed Consolidated Statement of Changes in Equity | 18 |
| Condensed Consolidated Statement of Cash Flows | 20 |
| Notes to the Condensed Consolidated Financial Statements | 21 |
| Other Information | 50 |





CORPORATE INFORMATION

DIRECTORS

Independent Non-Executive Directors

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

Non-Executive Directors

Charles Dean del Prado
Petrus Antonius Maria van Bommel

Executive Directors

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

COMPANY SECRETARY

Kong Choon, Jupiter

AUDITOR

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

PRINCIPAL BANKERS

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

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS

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

SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Secretaries Limited
Level 54, Hopewell Centre
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COMPANY WEBSITE AND CONTACT

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FINANCIAL HIGHLIGHTS

BOOKINGS AND SEGMENT PROFIT MARGINS IMPROVED QoQ

First Half of 2019

- Group revenue of US\$927.3 million decreased 24.4% and 26.8% over the first and second six-month periods of last year, respectively
- Net profit of HK\$178.3 million decreased 87.2% and 78.1% as compared with the first six-month period of the last year and the second six-month period of the last year, respectively
- Earnings per share of HK\$0.44 for the first half of 2019
- Back-end equipment revenue of US\$402.0 million decreased 37.6% and 25.0% over the first and second six-month periods of last year, respectively
- Materials revenue of US\$107.6 million decreased 28.6% and 21.3% over the first and second six-month periods of last year, respectively
- SMT Solutions revenue of US\$417.7 million decreased 3.0% and 29.7% over the first six-month period and the second six-month period of last year, respectively
- New order bookings of US\$1.06 billion decreased 28.3% and 2.8% over the first and second six-month periods of last year, respectively
- Order backlog of US\$795.2 million as of 30 June 2019

Second Quarter of 2019

- Group revenue of US\$460.7 million decreased 1.2% and 31.4% over the preceding quarter and the same period last year, respectively
- Net profit of HK\$70.0 million decreased 35.3% and 91.0% over the preceding quarter and the same period last year, respectively
- Earnings per share of HK\$0.17 for the second quarter 2019
- Group operating profits of HK\$253.3 million increased 5.8% over the preceding quarter and decreased 78.5% over the same period last year
- Back-end equipment revenue of US\$206.1 million increased 5.2% over the preceding quarter and decreased 43.2% over the same period last year
- Materials revenue of US\$57.1 million increased 13.2% over the preceding quarter and decreased 25.0% over the same period last year
- SMT Solutions revenue of US\$197.5 million decreased 10.3% and 15.1% over the preceding quarter and the same period last year, respectively
- New order bookings of US\$601.9 million increased 30.8% over the preceding quarter and decreased 17.3% over the same period last year
- Cash and bank deposits of HK\$2.51 billion as of 30 June 2019

FINANCIAL HIGHLIGHTS (CONTINUED)

| | Three months ended 30 June | | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | 2019 (Unaudited) HK\$'000 | 2018 (Unaudited) HK\$'000 | 2019 (Unaudited) HK\$'000 | 2018 (Unaudited) HK\$'000 |
| Revenue | 3,614,774 | 5,270,477 | 7,274,789 | 9,616,377 |
| Cost of sales | <u>(2,322,896)</u> | <u>(2,991,270)</u> | <u>(4,742,687)</u> | <u>(5,704,254)</u> |
| Gross profit | 1,291,878 | 2,279,207 | 2,532,102 | 3,912,123 |
| Other income | 15,106 | 14,841 | 29,194 | 35,334 |
| Selling and distribution expenses | (385,694) | (417,579) | (754,115) | (769,415) |
| General and administrative expenses | (232,978) | (273,114) | (456,436) | (506,010) |
| Research and development expenses | (419,946) | (409,037) | (829,002) | (763,695) |
| Other gains and losses | (41,515) | (23,499) | (25,307) | 7,449 |
| Finance costs | <u>(41,018)</u> | <u>(44,322)</u> | <u>(127,825)</u> | <u>(81,002)</u> |
| Profit before taxation | 185,833 | 1,126,497 | 368,611 | 1,834,784 |
| Income tax expense | <u>(115,801)</u> | <u>(344,673)</u> | <u>(190,342)</u> | <u>(437,336)</u> |
| Profit for the period | <u>70,032</u> | <u>781,824</u> | <u>178,269</u> | <u>1,397,448</u> |
| Profit (loss) for the period, attributable to: | | | | |
| Owners of the Company | 69,429 | 783,758 | 179,487 | 1,401,538 |
| Non-controlling interests | <u>603</u> | <u>(1,934)</u> | <u>(1,218)</u> | <u>(4,090)</u> |
| | <u>70,032</u> | <u>781,824</u> | <u>178,269</u> | <u>1,397,448</u> |
| Earnings per share | | | | |
| — Basic | <u>HK\$0.17</u> | <u>HK\$1.94</u> | <u>HK\$0.44</u> | <u>HK\$3.46</u> |
| — Diluted | <u>HK\$0.17</u> | <u>HK\$1.91</u> | <u>HK\$0.44</u> | <u>HK\$3.42</u> |



CHAIRMAN'S STATEMENT

RESULTS

ASM Pacific Technology Limited and its subsidiaries (the "Group" or "ASMPT") achieved a revenue of HK\$7.27 billion (US\$927.3 million) in the six months ended 30 June 2019, representing a decrease of 24.4% as compared with HK\$9.62 billion (US\$1.23 billion) for the first six months of 2018 and a decrease of 26.8% over the preceding six months. The Group's consolidated profit after taxation for the first six months of 2019 was HK\$178.3 million as compared with a profit of HK\$1.40 billion in the corresponding period in 2018 and a profit of HK\$814.3 million in the preceding six months. Basic earnings per share (EPS) for the first six months of 2019 amounted to HK\$0.44 (first six months of 2018: HK\$3.46, second six months of 2018: HK\$2.01).

DIVIDEND

The Board of Directors of ASM Pacific Technology Limited (the "Company") is pleased to declare an interim dividend of HK\$1.30 (2018: HK\$1.30) per share, payable to shareholders whose names appear on the Register of Members of the Company on 21 August 2019.

REVIEW

Group

Q2 was a mixed quarter for the Group. On one hand, Group revenue experienced a small quarter-on-quarter (QoQ) decline of 1.2% and on the other hand, Group bookings increased 30.8% QoQ to US\$601.9 million. The Group ended the quarter with strong backlog of US\$795.2 million, slightly lower than the record backlog of US\$808.9 million as of Q2 2018.

All the three business segments increased bookings in the quarter with the SMT Solutions Segment registering the highest increase at 54.4% QoQ. The Materials Segment's bookings, which increased 28.5% QoQ, continued its run of consecutive growth over the last two quarters. In addition, bookings of the Back-end Equipment Segment increased by 10.9% QoQ, largely driven by its CIS equipment business. Gross margin and segment profit margin for all the three business segments improved QoQ.

In line with our policy of rewarding shareholders with sustainable and increasing dividend over time, the Group is proposing to pay an interim dividend of HK\$1.30 per share (2018: HK\$1.30 per share) which is 2.95 times of the earnings-per-share for the first half of 2019.

1H 2019

Revenue for the Group over the first six months of the year amounted to US\$927.3 million, which was a reduction of 24.4% year-on-year (YoY).

Group bookings for the first half of the year amounted to US\$1.06 billion, representing a slight reduction of 2.8% compared with the second half of last year (HoH).

**CHAIRMAN'S STATEMENT (CONTINUED)****REVIEW (Continued)****Group (Continued)****1H 2019 (Continued)**

The book-to-bill ratio for the first six months of this year was 1.15.

| | 1H 2019 Bookings | | | 1H 2019 Billings | | |
|----------------------------|-------------------|--------|--------|-------------------|--------|--------|
| | Amount (US\$m) | YoY | HoH | Amount (US\$m) | YoY | HoH |
| Group | 1,062.2 | -28.3% | -2.8% | 927.3 | -24.4% | -26.8% |
| Back-end Equipment Segment | 469.8 | -38.3% | -5.4% | 402.0 | -37.6% | -25.0% |
| Materials Segment | 105.0 | -30.4% | +12.0% | 107.6 | -28.6% | -21.3% |
| SMT Solutions Segment | 487.4 | -14.5% | -3.0% | 417.7 | -3.0% | -29.7% |

Q2 2019

The Group achieved billings of US\$460.7 million during the second quarter, representing reduction of 1.2% QoQ, due to the 10.3% QoQ reduction in billings of the SMT Solutions Segment. Compared with Q1 this year, billings of the Materials and Back-end Equipment Segments rebounded 13.2% and 5.2% respectively.

Group bookings in Q2 amounted to US\$601.9 million, representing an increase of 30.8% QoQ and a reduction of 17.3% YoY.

| | Q2 2019 Bookings | | | Q2 2019 Billings | | |
|----------------------------|-------------------|--------|--------|-------------------|--------|--------|
| | Amount (US\$m) | YoY | QoQ | Amount (US\$m) | YoY | QoQ |
| Group | 601.9 | -17.3% | +30.8% | 460.7 | -31.4% | -1.2% |
| Back-end Equipment Segment | 247.0 | -30.3% | +10.9% | 206.1 | -43.2% | +5.2% |
| Materials Segment | 59.1 | -23.7% | +28.5% | 57.1 | -25.0% | +13.2% |
| SMT Solutions Segment | 295.8 | -0.1% | +54.4% | 197.5 | -15.1% | -10.3% |

By geographical distribution, China (inclusive of Hong Kong) (44.8%), Europe (18.3%), the Americas (8.0%), Malaysia (6.4%), and Vietnam (6.1%), were the top five markets for ASMPT during the first half of this year. Our top five customers collectively accounted for 14.9% of the Group's revenue; 80% of the Group's revenue was attributable to 162 customers.

Gross margin for the Group improved by 185 bps QoQ to 35.7% on the back of QoQ increase in gross margin for all the three business segments. Group net profit was HK\$70.0 million in the second quarter of this year and HK\$178.3 million for the first half of this year.



CHAIRMAN'S STATEMENT (CONTINUED)

REVIEW (Continued)

Group (Continued)

Q2 2019 (Continued)

The Group net profit would have increased by 10.3% QoQ if the under-provision of tax of HK\$49.3 million relating to tax affairs with Hong Kong Inland Revenue Department booked in Q2 2019 was excluded.

| Group | Q2 2019 | | | 1H 2019 | | |
|--------------------|---------|----------|----------|---------|----------|---------|
| | | YoY | QoQ | YoY | HoH | |
| Revenue (HK\$m) | 3,614.8 | -31.4% | -1.2% | 7,274.8 | -24.4% | -26.8% |
| Gross Margin | 35.7% | -751 bps | +185 bps | 34.8% | -588 bps | -67 bps |
| EBIT (HK\$m) | 220.6 | -81.0% | -16.3% | 484.3 | -74.5% | -60.4% |
| Net Profit (HK\$m) | 70.0 | -91.0% | -35.3% | 178.3 | -87.2% | -78.1% |

Back-end Equipment Segment

During the second quarter of this year, billings of the Back-end Equipment Segment amounted to US\$206.1 million, representing an increase of 5.2% over Q1 this year and a decrease of 43.2% over the same period a year ago. The Back-end Equipment Segment contributed 44.7% to the Group's billings during the second quarter. Billings of the Back-end Equipment Segment for the first six months of this year were US\$402.0 million, representing decreases of 37.6% and 25.0% against the same period a year ago and the preceding six months, respectively.

New order bookings of the Back-end Equipment Segment in the second quarter decreased by 30.3% YoY but improved 10.9% against the first quarter. For the first six months, bookings of the Back-end Equipment Segment dropped 5.4% from the preceding six-month period to US\$469.8 million. It declined 38.3% as compared with the same period in 2018.

CIS billings continued its momentum into the second quarter. However, IC/Discrete and Opto billings had yet to show signs of recovery since the second half of 2018. During the second quarter, CIS bookings surged QoQ but IC/Discrete and Opto bookings were adversely impacted by the weak market condition. We see increasing adoption of our Active Alignment equipment with major camera modules assembly customers driven by innovations in folded lenses, multiple cameras and 3D sensing.

The trade war between China and the USA continues to affect the global semiconductor industry, especially when it further intensified since May this year. We noticed that customers continued to hold back their capacity expansion plan, which resulted in low demand for traditional die and wire bonders.

With our proven strategy of serving multiple application markets and investment in Advanced Packaging, the Group managed to mitigate the negative market impact partially. Nucleus, a high precision pick and place equipment for advanced packaging applications – wafer level and panel level fan out – gained traction in the first half of 2019. Billings of our automatic inspection equipment for the first half of 2019 more than doubled the billings in 2018. The equipment is deployed for the detection of particles and bonding quality in camera modules and automotive devices.

CHAIRMAN'S STATEMENT (CONTINUED)

REVIEW (Continued)

Back-end Equipment Segment (Continued)

Strong demand for ASM NEXX's advanced packaging deposition tools for RDL (redistribution layer) and copper build-up applications continued from Q4 2018 into the first half of 2019. A significant portion of this order backlog is expected to be realised as revenue in the second half of 2019. Advanced Packaging contributed close to 20% of the billings for the Back-end Equipment Segment in the first half of this year.

We believed that our diversified application market strategy and investment in Advanced Packaging have once again enabled ASMPT to outperform its peers during these challenging market conditions.

Our Back-end Equipment Segment achieved gross margins of 40.8% and 40.0% during the second quarter and the first half of this year, respectively, which represented an improvement of 153 bps QoQ and a decline of 331 bps HoH. This segment achieved a segment profit of HK\$66.6 million in the second quarter of this year, an increase of 25.9% QoQ, and HK\$119.4 million for the first half of this year.

| Back-end Equipment Segment | Q2 2019 | | | 1H 2019 | | |
|----------------------------|---------|------------|----------|---------|------------|------------|
| | | YoY | QoQ | | YoY | HoH |
| Revenue (HK\$m) | 1,616.8 | -43.2% | +5.2% | 3,154.0 | -37.6% | -25.0% |
| Gross Margin | 40.8% | -1,003 bps | +153 bps | 40.0% | -794 bps | -331 bps |
| Segment Profit (HK\$m) | 66.6 | -92.3% | +25.9% | 119.4 | -91.2% | -81.5% |
| Segment Profit Margin | 4.1% | -2,616 bps | +68 bps | 3.8% | -2,319 bps | -1,160 bps |

Materials Segment

The Materials Segment is continuing on its path of recovery as bookings increased consecutively over the past two quarters.

In the second quarter, billings of our Materials Segment amounted to US\$57.1 million, representing a QoQ improvement of 13.2%, but a YoY decline of 25.0%. The Materials Segment contributed 12.4% to the Group's billings during the second quarter.

Billings of the Materials Segment for the six-month period amounted to US\$107.6 million, representing decreases of 21.3% and 28.6% against the preceding six months and the same period a year ago, respectively.

During the second quarter, new order bookings of our Materials Segment grew 28.5% QoQ but decreased by 23.7% YoY. Over the first six months of this year, bookings of the Materials Segment amounted to US\$105.0 million. This was an improvement of 12.0% against the preceding six months period, but was a decline of 30.4% from the corresponding period of last year.

CHAIRMAN'S STATEMENT (CONTINUED)

REVIEW (Continued)

Materials Segment (Continued)

The Materials Segment achieved gross margins of 11.4% and 11.0% during the second quarter and the first half of this year, respectively, representing improvements of 103 bps QoQ and 144 bps HoH. This segment achieved a segment profit of HK\$19.8 million in the second quarter, an increase of 88.9% QoQ, and HK\$30.2 million in the first half of this year respectively.

| Materials Segment | Q2 2019 | | | 1H 2019 | | |
|------------------------|---------|----------|----------|---------|----------|----------|
| | | YoY | QoQ | | YoY | HoH |
| Revenue (HK\$m) | 448.3 | -25.0% | +13.2% | 844.2 | -28.6% | -21.3% |
| Gross Margin | 11.4% | -182 bps | +103 bps | 11.0% | -224 bps | +144 bps |
| Segment Profit (HK\$m) | 19.8 | -55.9% | +88.9% | 30.2 | -64.0% | +2.1% |
| Segment Profit Margin | 4.4% | -310 bps | +177 bps | 3.6% | -353 bps | +82 bps |

SMT Solutions Segment

Billings of our SMT Solutions Segment amounted to US\$197.5 million in the second quarter, representing decreases of 10.3% compared with the first quarter of this year, and 15.1% against the same period a year ago. The SMT Solutions Segment contributed 42.9% to the Group's billings in the second quarter of this year. During the six-month period, billings of our SMT Solutions Segment were US\$417.7 million, representing decreases of 3.0% YoY and 29.7% HoH.

New order bookings for the SMT Solutions Segment in the second quarter improved by 54.4% QoQ but decreased by 0.1% YoY. Bookings in Q2 were at US\$295.8 million, which was very close to the record quarterly bookings set in Q3 2018. New order bookings for the first six-month period of this year amounted to US\$487.4 million, which represented decreases of 3.0% and 14.5% as compared with the preceding six months and with the corresponding period of last year, respectively.

Bookings of SMT Solutions Segment were driven by automotive, industrial, consumer applications and 5G infrastructure demand. We benefitted from the 5G and data centre infrastructure investments in China in the first half of 2019 and we are optimistic that we would capture more opportunities in the future.

The SMT Solutions Segment achieved gross margins of 37.5% and 35.9% during the second quarter and the first half of this year, respectively, representing improvements of 301 bps on QoQ basis and 156 bps on HoH basis. The segment profit margin for Q2 this year improved by 112 bps to 13.5% on QoQ basis. The segment profit margin for the first six months this year declined by 288 bps to 12.9% on HoH basis.

| SMT Solutions Segment | Q2 2019 | | | 1H 2019 | | |
|------------------------|---------|----------|----------|---------|----------|----------|
| | | YoY | QoQ | | YoY | HoH |
| Revenue (HK\$m) | 1,549.7 | -15.1% | -10.3% | 3,276.6 | -3.0% | -29.7% |
| Gross Margin | 37.5% | -376 bps | +301 bps | 35.9% | -347 bps | +156 bps |
| Segment Profit (HK\$m) | 208.8 | -38.5% | -2.1% | 422.2 | -21.8% | -42.5% |
| Segment Profit Margin | 13.5% | -512 bps | +112 bps | 12.9% | -311 bps | -288 bps |

CHAIRMAN'S STATEMENT (CONTINUED)

RESEARCH AND DEVELOPMENT

ASMPT has an unwavering belief in investing in research and development with the objective of remaining at the forefront of technological innovations.

Our strategy reinforces our ability to deliver the best innovative products with differentiated value propositions to our customers. During the past six months, we invested 12.9% of our equipment revenue in R&D. Customers have benefitted from ASMPT's depth and breadth of enabling technologies, strong financial resources and excellent infrastructure support.

Research and development expenses for the year-to-date were HK\$829.0 million and the Group has obtained more than 1,000 patents on leading-edge technologies.

As of 30 June 2019, the Group operates 10 research and development centres worldwide, namely, in Taoyuan, Hong Kong and Chengdu (China), Singapore, Regensburg and Munich (Germany), Weymouth (United Kingdom), Beuningen (The Netherlands), Porto (Portugal) and Billerica (the United States), with a total of over 2,000 R&D employees.

LIQUIDITY AND FINANCIAL RESOURCES

Return on sales was 5.9% for the six-month period of this year (1H 2018: 19.7%). Annualized return on capital employed and on invested capital for the past six months were 6.0% and 4.5% respectively (1H 2018: 27.3% and 29.9%, respectively).

Inventory balance as of 30 June 2019 was HK\$6.86 billion, as compared with HK\$6.54 billion as of 31 December 2018. Our annualized inventory turn was 2.17 times (1H 2018: 3.15 times).

Cash and bank deposits as of 30 June 2019 were HK\$2.51 billion, which was HK\$259.5 million higher than 31 December 2018. Capital expenditure during the period amounted to HK\$367.1 million (1H 2018: HK\$390.2 million), which was partially funded by the depreciation and amortization of HK\$308.7 million (1H 2018: HK\$249.2 million), excluding the depreciation of right-of-use assets of HK\$105.6 million due to application of HKFRS 16 in the current period. Day sales outstanding decreased to 99.0 days from 112.1 days in the 1H 2018.

As of 30 June 2019, the current ratio of the Group was 2.79 (31 December 2018: 1.95), with a debt-equity ratio of 28.7% (debts included all bank borrowings and obligations under finance leases) (31 December 2018: 28.7% with debts that included all bank borrowings, convertible bonds and obligations under finance leases). The Group had available banking facilities of HK\$2.09 billion as at 30 June 2019 (31 December 2018: HK\$1.71 billion) in the form of bank loans and overdraft facilities.

As of 30 June 2019, the Group had bank borrowings of HK\$3.37 billion (31 December 2018: HK\$1.26 billion). The bank borrowings are mainly repayable by instalments pursuant to the relevant repayment schedules up to 2024 and an insignificant portion is fixed-rate borrowings. The Group shareholders' funds were HK\$11.7 billion as at 30 June 2019 (31 December 2018: HK\$12.2 billion).

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. The Company has fully redeemed all the outstanding convertible bonds with the principal amount of HK\$2.25 billion (which were denominated in Hong Kong dollars, raised in year 2014 with an annual coupon of 2.00%) upon maturity on 28 March 2019. A syndicated loan of HK\$2.5 billion was arranged to finance the redemption of the convertible bonds.



CHAIRMAN'S STATEMENT (CONTINUED)

LIQUIDITY AND FINANCIAL RESOURCES (Continued)

As of 30 June 2019, cash holdings of the Group were mainly in US dollars, Euros, Chinese renminbi, Malaysia ringgit, Singapore dollars, 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 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 dollars, 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 has declared an interim dividend of HK\$1.30 per share (interim dividend of 2018: HK\$1.30 per share).

HUMAN RESOURCES

As of 30 June 2019, the total headcount for the Group globally was approximately 15,100 employees, which included 1,400 temporary, short-term contracted and outsourced employees. Our employees, being our greatest assets, form the bedrock of the Group and it is important to nurture and retain the right talents through various schemes and motivations to help our employees build and strengthen their competencies.

Besides offering competitive remuneration packages and other benefits such as contributions to provident fund schemes and medical benefits, the Group is committed to providing regular and extensive training programs to equip our employees to be future-ready. Discretionary bonuses and incentive shares were also granted to eligible employees based on the Group's financial results and individual performance.

The total manpower cost of the Group for the first six months of 2019 was HK\$2.28 billion, as compared with HK\$2.45 billion during the same period of 2018.

This year, the Board granted a total of 1,946,900 incentive shares to around 1,500 employees. The vesting period of these incentive shares will end on 16 December 2019.

PROSPECTS

Looking ahead, the semiconductor industry is anticipating strong headwinds due to the trade tensions and economic uncertainties. However, ASMPT remains vigilant for any first sign of recovery in demand as we look ahead to the next six months and toward 2020.

This would not be the first time that ASMPT has faced such challenges. So far, ASMPT has demonstrated a successful track record of tackling market downturns and emerged stronger each time.

While we remain cautious of the short-term trajectory of the semiconductor industry, we are optimistic of its long-term future. Accordingly, we remain steadfast in our R&D commitment and are focused on new developments that are geared towards meeting the needs of our customers in areas like advanced packaging, CMOS image sensors, 5G enabled devices, IoT, automotive, silicon photonics and mini/micro LED displays to name a few.

CHAIRMAN'S STATEMENT (CONTINUED)

PROSPECTS (Continued)

Furthermore, as we enter the Data-centric Era, we see more opportunities ahead as our customers and partners as well as ourselves, aspire to transform into Smart Digital Enterprises. We have already begun developing and testing Smart Factory solutions with key customers. We believe that the winners of the future are those organisations who have successfully executed on their digitalization strategy.

OUTLOOK

Against the above backdrop, we are anticipating that revenue in Q3 2019 to be in the region of US\$550 million to US\$600 million, subject to actual timing of revenue recognition. All the three business segments are anticipated to deliver QoQ revenue growth.

With the uncertainties in the global economy and the semiconductor market, we do not expect the near record bookings achieved by our SMT Solutions Segment in Q2 this year can be repeated in Q3. We anticipate Group bookings in Q3 to come down from the level of Q2, due to seasonality. Bookings for Back-end Equipment and Materials Segments are likely to continue to show QoQ improvement. Due to the geographical mix of SMT Solutions revenue in the next three months, we only expect Q3 Group gross margin to improve slightly despite higher Q3 revenue.

Orasa Livasiri

Chairman

23 July 2019

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.**德勤**

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

INTRODUCTION

We have reviewed the condensed consolidated financial statements of ASM Pacific Technology Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 14 to 49, which comprise the condensed consolidated statement of financial position as of 30 June 2019 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and the Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23 July 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

| | Notes | Six months ended 30 June | |
|--|-------|---------------------------------|---------------------------------|
| | | 2019 HK\$'000 (Unaudited) | 2018 HK\$'000 (Unaudited) |
| Revenue | 3 | 7,274,789 | 9,616,377 |
| Cost of sales | | <u>(4,742,687)</u> | <u>(5,704,254)</u> |
| Gross profit | | 2,532,102 | 3,912,123 |
| Other income | | 29,194 | 35,334 |
| Selling and distribution expenses | | (754,115) | (769,415) |
| General and administrative expenses | | (456,436) | (506,010) |
| Research and development expenses | | (829,002) | (763,695) |
| Other gains and losses | 5 | (25,307) | 7,449 |
| Finance costs | 6 | <u>(127,825)</u> | <u>(81,002)</u> |
| Profit before taxation | | 368,611 | 1,834,784 |
| Income tax expense | 7 | <u>(190,342)</u> | <u>(437,336)</u> |
| Profit for the period | | <u>178,269</u> | <u>1,397,448</u> |
| Profit (loss) for the period, attributable to: | | | |
| Owners of the Company | | 179,487 | 1,401,538 |
| Non-controlling interests | | <u>(1,218)</u> | <u>(4,090)</u> |
| | | <u>178,269</u> | <u>1,397,448</u> |
| Earnings per share | 9 | | |
| – Basic | | <u>HK\$0.44</u> | <u>HK\$3.46</u> |
| – Diluted | | <u>HK\$0.44</u> | <u>HK\$3.42</u> |

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2019

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2019 HK\$'000 (Unaudited) | 2018 HK\$'000 (Unaudited) |
| Profit for the period | 178,269 | 1,397,448 |
| Other comprehensive expense | | |
| Exchange differences on translation of foreign operations, which may be reclassified subsequently to profit or loss | <u>(51,387)</u> | <u>(110,889)</u> |
| Total comprehensive income for the period | <u>126,882</u> | <u>1,286,559</u> |
| Total comprehensive income (expense) for the period attributable to: | | |
| Owners of the Company | 128,992 | 1,290,656 |
| Non-controlling interests | <u>(2,110)</u> | <u>(4,097)</u> |
| | <u>126,882</u> | <u>1,286,559</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

| | <i>Notes</i> | At 30 June 2019 HK\$'000 (Unaudited) | At 31 December 2018 HK\$'000 (Audited) |
|--|--------------|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 10 | 2,904,121 | 2,850,450 |
| Right-of-use assets | 10 | 1,711,426 | – |
| Investment property | | 55,307 | 56,206 |
| Goodwill | | 1,053,468 | 1,057,816 |
| Intangible assets | | 1,243,795 | 1,305,622 |
| Prepaid lease payments | | – | 126,732 |
| Other investments | | 55,760 | 56,355 |
| Deposits paid for acquisition of property, plant and equipment | | 33,224 | 40,672 |
| Rental deposits paid | | 33,166 | 42,033 |
| Deferred tax assets | | 393,320 | 355,210 |
| Other non-current assets | | 16,420 | 16,343 |
| | | <u>7,500,007</u> | <u>5,907,439</u> |
| Current assets | | | |
| Inventories | | 6,857,165 | 6,541,939 |
| Trade and other receivables | 11 | 4,778,449 | 6,324,901 |
| Prepaid lease payments | | – | 3,863 |
| Derivative financial instruments | | 919 | 1,852 |
| Income tax recoverable | | 42,324 | 44,134 |
| Pledged bank deposits | | 2,046 | 2,054 |
| Bank deposits with original maturity of more than three months | | 9,106 | 9,198 |
| Bank balances and cash | | 2,499,615 | 2,240,022 |
| | | <u>14,189,624</u> | <u>15,167,963</u> |
| Current liabilities | | | |
| Trade liabilities and other payables | 12 | 2,684,851 | 3,165,478 |
| Advance payments from customers | | 866,964 | 718,694 |
| Derivative financial instruments | | 15,654 | 32,697 |
| Lease liabilities/obligations under finance leases | | 191,823 | 410 |
| Provisions | 13 | 286,698 | 330,933 |
| Income tax payable | | 529,271 | 533,701 |
| Convertible bonds | 14 | – | 2,224,652 |
| Bank borrowings | 15 | 503,680 | 786,021 |
| | | <u>5,078,941</u> | <u>7,792,586</u> |
| Net current assets | | <u>9,110,683</u> | <u>7,375,377</u> |
| | | <u>16,610,690</u> | <u>13,282,816</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2019

| | <i>Notes</i> | At 30 June 2019 HK\$'000 (Unaudited) | At 31 December 2018 HK\$'000 (Audited) |
|---|--------------|---|---|
| Capital and reserves | | | |
| Share capital | 16 | 40,667 | 40,667 |
| Dividend reserve | | 528,673 | 569,340 |
| Other reserves | | 11,147,186 | 11,557,541 |
| Equity attributable to owners of the Company | | 11,716,526 | 12,167,548 |
| Non-controlling interests | | 215 | (6,893) |
| Total equity | | 11,716,741 | 12,160,655 |
| Non-current liabilities | | | |
| Lease liabilities/obligations under finance leases | | 1,428,518 | 736 |
| Retirement benefit obligations | | 184,874 | 171,515 |
| Provisions | 13 | 56,723 | 48,528 |
| Bank borrowings | 15 | 2,861,565 | 473,740 |
| Deferred tax liabilities | | 217,687 | 250,783 |
| Other liabilities and accruals | | 144,582 | 176,859 |
| | | 4,893,949 | 1,122,161 |
| | | 16,610,690 | 13,282,816 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

| | Equity attributable to owners of the Company | | | | | | | | | | | | | | Total HK\$'000 |
|---|--|---------------------------|--|---|------------------------------------|--|-----------------------------|-------------------------------------|--|---------------------------------|------------------------------|------------------------------|-----------------------|---|-------------------|
| | Share capital HK\$'000 | Share premium HK\$'000 | Employee share-based compensation reserve HK\$'000 (note 17) | Shares held for share award scheme HK\$'000 (note 17) | 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 | |
| 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, which will not be reclassified to profit or loss | - | - | - | - | - | - | - | - | - | - | 3,400 | - | 3,400 | - | 3,400 |
| Total comprehensive 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 | - | - | - | - | - | - | - | - | - | - | - | - | - | (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 (audited) | 40,667 | 1,346,343 | 38,789 | - | - | 760 | 72,979 | (15,570) | 250,249 | (550,090) | 10,414,081 | 569,340 | 12,167,548 | (6,893) | 12,160,655 |
| Adjustments due to adopting of new standards (note 2) | - | - | - | - | - | - | - | - | - | - | (40,210) | - | (40,210) | - | (40,210) |
| At 1 January 2019 (restated) | 40,667 | 1,346,343 | 38,789 | - | - | 760 | 72,979 | (15,570) | 250,249 | (550,090) | 10,373,871 | 569,340 | 12,127,338 | (6,893) | 12,120,445 |
| Profit for the period | - | - | - | - | - | - | - | - | - | - | 179,487 | - | 179,487 | (1,218) | 178,269 |
| Exchange differences on translation of foreign operations, which may be reclassified subsequently to profit or loss | - | - | - | - | - | - | - | - | - | (50,495) | - | - | (50,495) | (892) | (51,387) |
| Total comprehensive income for the period | - | - | - | - | - | - | - | - | - | (50,495) | 179,487 | - | 128,992 | (2,110) | 126,882 |
| Sub-total | 40,667 | 1,346,343 | 38,789 | - | - | 760 | 72,979 | (15,570) | 250,249 | (600,585) | 10,553,358 | 569,340 | 12,256,330 | (9,003) | 12,247,327 |
| Recognition of equity-settled share-based payments | - | - | 78,600 | - | - | - | - | - | - | - | - | - | 78,600 | - | 78,600 |
| Purchase of shares under the Scheme | - | - | - | (34,045) | - | - | - | - | - | - | - | - | (34,045) | - | (34,045) |
| Arising on acquisition of additional interest in a subsidiary | - | - | - | - | - | - | - | (15,019) | - | - | - | - | (15,019) | 9,218 | (5,801) |
| Redemption of convertible bonds | - | - | - | - | - | - | - | - | (250,249) | - | 250,249 | - | - | - | - |
| 2018 final dividend paid | - | - | - | - | - | - | - | - | - | - | - | (569,340) | (569,340) | - | (569,340) |
| 2019 interim dividend declared after end of interim period | - | - | - | - | - | - | - | - | - | - | (528,673) | 528,673 | - | - | - |
| At 30 June 2019 (unaudited) | 40,667 | 1,346,343 | 117,389 | (34,045) | - | 760 | 72,979 | (30,589) | - | (600,585) | 10,274,934 | 528,673 | 11,716,526 | 215 | 11,716,741 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2019

| | Equity attributable to owners of the Company | | | | | | | | | | | | | | |
|---|--|---------------------------|---|--|------------------------------------|--|-----------------------------|--|--|---------------------------------|------------------------------|------------------------------|-----------------------|---|-------------------|
| | Share capital HK\$'000 | Share premium HK\$'000 | Employee share-based compensation reserve HK\$'000 <i>(note 17)</i> | Shares held for share award scheme HK\$'000 <i>(note 17)</i> | Treasury share reserve HK\$'000 | Capital redemption reserve HK\$'000 | Capital reserve HK\$'000 | Other reserve HK\$'000 <i>(Note)</i> | Convertible bonds equity reserve HK\$'000 | Translation reserve HK\$'000 | Retained profits HK\$'000 | Dividend reserve HK\$'000 | Sub-total HK\$'000 | Attributable to non-controlling interests HK\$'000 | Total HK\$'000 |
| At 1 January 2018 (restated) | 40,908 | 1,607,620 | 29,877 | - | (198,992) | 295 | 72,979 | (15,570) | 250,249 | (279,273) | 9,291,078 | 528,175 | 11,327,346 | (149) | 11,327,197 |
| Profit for the period | - | - | - | - | - | - | - | - | - | - | 1,401,538 | - | 1,401,538 | (4,090) | 1,397,448 |
| Exchange differences on translation of foreign operations, which may be reclassified subsequently to profit or loss | - | - | - | - | - | - | - | - | - | (110,882) | - | - | (110,882) | (7) | (110,889) |
| Total comprehensive income for the period | - | - | - | - | - | - | - | - | - | (110,882) | 1,401,538 | - | 1,290,656 | (4,097) | 1,286,559 |
| Sub-total | 40,908 | 1,607,620 | 29,877 | - | (198,992) | 295 | 72,979 | (15,570) | 250,249 | (390,155) | 10,692,616 | 528,175 | 12,618,002 | (4,246) | 12,613,756 |
| Recognition of equity-settled share-based payments | - | - | 114,513 | - | - | - | - | - | - | - | - | - | 114,513 | - | 114,513 |
| Purchase of shares under the Scheme | - | - | - | (40,473) | - | - | - | - | - | - | - | - | (40,473) | - | (40,473) |
| 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 declared after end of interim period | - | - | - | - | - | - | - | - | - | - | (523,331) | 523,331 | - | - | - |
| At 30 June 2018 (unaudited) | <u>40,443</u> | <u>1,103,598</u> | <u>144,390</u> | <u>(40,473)</u> | <u>-</u> | <u>760</u> | <u>72,979</u> | <u>(15,570)</u> | <u>250,249</u> | <u>(390,155)</u> | <u>10,168,820</u> | <u>525,753</u> | <u>11,860,794</u> | <u>(4,246)</u> | <u>11,856,548</u> |

Note: Other reserve represents (i) the change in the non-controlling interest in a subsidiary arising from issuing of new shares to the Group upon the capitalization of loans to the subsidiary in 2017 and (ii) acquiring non-controlling interest in a subsidiary during the period.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

| | Notes | Six months ended 30 June | |
|---|-------|---------------------------------|---------------------------------|
| | | 2019 HK\$'000 (Unaudited) | 2018 HK\$'000 (Unaudited) |
| Cash generated from operations | | 1,791,501 | 1,141,345 |
| Income taxes paid | | (253,153) | (230,047) |
| Net cash from operating activities | | <u>1,538,348</u> | <u>911,298</u> |
| Net cash used in investing activities | | | |
| Purchase of property, plant and equipment | | (325,269) | (369,241) |
| Net cash outflow arising on acquisition of subsidiaries | | (28,302) | (484,280) |
| Deposits paid for acquisition of property, plant and equipment | | (33,224) | (43,408) |
| Placement of bank deposits with original maturity of more than three months | | – | (33,023) |
| Withdrawal of bank deposits with original maturity of more than three months | | – | 245,914 |
| Other investing cash flows | | 32,636 | 41,622 |
| | | <u>(354,159)</u> | <u>(642,416)</u> |
| Net cash used in financing activities | | | |
| Dividends paid | | (569,340) | (525,753) |
| Bank borrowings raised | | 2,500,000 | 1,090,334 |
| Repayment of bank borrowings | 15 | (393,935) | (367,194) |
| Payment on redemption of convertible bonds | 14 | (2,250,000) | – |
| Payment of lease liabilities | | (90,722) | – |
| Payment on repurchase of shares | | – | (305,495) |
| Other financing cash flows | | (112,316) | (31,115) |
| | | <u>(916,313)</u> | <u>(139,223)</u> |
| Net increase in cash and cash equivalents | | 267,876 | 129,659 |
| Cash and cash equivalents at beginning of the period | | 2,240,022 | 2,365,911 |
| Effect of foreign exchange rate changes | | (8,283) | (25,351) |
| Cash and cash equivalents at end of the period, represented by bank balances and cash | | <u>2,499,615</u> | <u>2,470,219</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The condensed consolidated financial statements do not include all the information required for a complete set of Hong Kong Financial Reporting Standards financial statements and should be read in conjunction with the Group’s annual consolidated financial statements as at 31 December 2018.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for the derivative financial instruments, other investments (classified as equity instruments at fair value through other comprehensive income) and certain financial liabilities which are measured at fair value at the end of reporting period.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs and Hong Kong Accounting Standards (“HKASs”) issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group’s condensed consolidated financial statements:

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (Continued)**2.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases”**

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 “Leases”, and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

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

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

*As a lessee**Allocation of consideration to components of a contract*

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

Short-term leases and leases of low-value assets

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (Continued)**2.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases” (Continued)****2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)***As a lessee (Continued)*

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognizes right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

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

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

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

Leasehold land and building

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

Refundable rental deposits

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (Continued)**2.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases” (Continued)****2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)***As a lessee (Continued)*

Lease liabilities

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

The lease payments include:

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

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (Continued)**2.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases” (Continued)****2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)***As a lessee (Continued)*

Lease modifications

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

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

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

Taxation

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 “Income Taxes” requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

As a lessor

Allocation of consideration to components of a contract

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

Refundable rental deposits

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (Continued)**2.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases” (Continued)****2.1.2 Transition and summary of effects arising from initial application of HKFRS 16***Definition of a lease*

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

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

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognized at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognized in the opening retained profits and comparative information has not been restated.

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (Continued)
2.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases” (Continued)
2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)
As a lessee (Continued)

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognized lease liabilities of HK\$1,653,143,000 and right-of-use assets of HK\$1,757,053,000 at 1 January 2019.

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

| | At 1 January 2019 HK\$’000 |
|---|----------------------------------|
| Operating lease commitments disclosed as at 31 December 2018 | 1,982,665 |
| Lease liabilities discounted at relevant incremental borrowing rates | 1,515,515 |
| Add: Extension options reasonably certain to be exercised | 159,672 |
| Less: Recognition exemption – short-term leases | (13,352) |
| Recognition exemption – low-value assets | (8,692) |
| | <u>1,653,143</u> |
| Lease liabilities relating to operating leases recognized upon application of HKFRS 16 and lease liabilities as at 1 January 2019 | <u>1,653,143</u> |
| Analysed as | |
| Current | 172,923 |
| Non-current | <u>1,480,220</u> |
| | <u>1,653,143</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases” (Continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee (Continued)

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

| | <i>Notes</i> | Right-of-use assets HK\$'000 |
|--|--------------|---------------------------------|
| Right-of-use assets relating to operating leases recognized upon application of HKFRS 16 | | 1,587,266 |
| Reclassified from prepaid lease payments | <i>(a)</i> | 130,595 |
| Adjustment included in property, plant and equipment under HKAS 17 | | |
| – Restoration and reinstatement costs | <i>(b)</i> | 27,652 |
| Adjustment on rental deposits at 1 January 2019 | <i>(c)</i> | 11,540 |
| | | <u>1,757,053</u> |
| By class: | | |
| Leasehold lands | | 135,781 |
| Land and buildings | | 1,602,849 |
| Office equipment | | 1,881 |
| Motor vehicles | | <u>16,542</u> |
| | | <u>1,757,053</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (Continued)
2.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases” (Continued)
2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)
Summary of effects arising from initial application of HKFRS 16

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases” (Continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

Summary of effects arising from initial application of HKFRS 16 (Continued)

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

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

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

For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (Continued)**2.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases” (Continued)****2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)***Summary of effects arising from initial application of HKFRS 16 (Continued)*

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

Notes:

- (a) Upfront payments for leasehold lands were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the non-current and current portions of prepaid lease payments amounting to HK\$126,732,000 and HK\$3,863,000 respectively were reclassified to right-of-use assets.
- (b) In relation to the leases of offices that the Group acts as lessee, the carrying amount of the estimated costs of reinstating the rented premises previously included in property, plant and equipment amounting to HK\$27,652,000 as at 1 January 2019 were included as right-of-use assets.
- (c) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, HK\$11,540,000, HK\$35,000 and HK\$11,575,000 were adjusted to right-of-use assets, retained profits and refundable rental deposits paid, respectively.
- (d) Prepayments for rent

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

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

2.2 Impacts and changes in accounting policies of application of other new and amendments to HKFRSs***Impacts and changes in accounting policies of application on 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 the Group 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 individual group entities in their respective income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

The uncertain tax position in respective of tax affairs based on the most likely amount, for details please refer to note 7.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (Continued)**2.3 Significant changes in significant judgements and key sources of estimation uncertainty***Determination on lease term of contracts with renewal options*

The Group applies judgement to determine the lease term for lease contracts in which it is a lessee that include renewal option. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

Provisions

As set out in note 13, significant judgment is required in determining the sufficiency of the provision for the potential damages in relation to the litigation which may be awarded by the High Court. The Group has recognized the provision of HK\$14,600,000 as at 30 June 2019, which is the best estimate of the management on the outcome of the claims and legal proceedings, taking into account the risks and uncertainties surrounding the legal cases based on the current situation and advices from the lawyer and financial consultant appointed by the Group on the litigation. Where the final damages of this litigation is different from the amounts that were recorded, such differences may significantly impact the provision currently made.

The Group has not early applied the following new HKFRSs, amendments to HKASs and HKFRSs and a new interpretation (“new and revised standards”) that have been issued but are not yet effective.

| | |
|------------------------------------|--|
| HKFRS 17 | Insurance Contracts ¹ |
| Amendments to HKFRS 3 | Definition of a Business ² |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³ |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material ⁴ |

¹ Effective for annual periods beginning on or after 1 January 2021.

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

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 January 2020.

The directors of the Company do not anticipate that the application of the new and revised standards issued but not yet effective will have a material impact on the results and financial position of the Group.

3. SEGMENT INFORMATION

The Group has three (2018: three) operating segments: development, production and sales of (1) back-end equipment, (2) surface mount technology solutions and (3) materials. They represent three major types of products manufactured by the Group. The operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Company’s Chief Executive Officer, the chief operating decision maker (“CODM”), for the purpose of allocating resources to segments and assessing their performance. The Group is organized and managed around the three (2018: three) major types of products manufactured by the Group. No operating segments have been aggregated in arriving at reportable segments of the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

3. SEGMENT INFORMATION (Continued)

Segment results represent the profit before taxation earned by each segment without allocation of interest income, finance costs, unallocated other income, unallocated net foreign exchange (loss) gain and fair value change of foreign currency forward contracts, unallocated general and administrative expenses and unallocated adjustment on contingent consideration for an acquisition.

Segment revenue and results

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

| | Six months ended 30 June | |
|---|---------------------------------|---------------------------------|
| | 2019 HK\$'000 (Unaudited) | 2018 HK\$'000 (Unaudited) |
| Segment revenue from external customers | | |
| Back-end equipment | 3,154,010 | 5,056,555 |
| Surface mount technology solutions | 3,276,591 | 3,377,027 |
| Materials | 844,188 | 1,182,795 |
| | <u>7,274,789</u> | <u>9,616,377</u> |
| Segment profit | | |
| Back-end equipment | 119,433 | 1,363,996 |
| Surface mount technology solutions | 422,223 | 540,178 |
| Materials | 30,249 | 84,116 |
| | <u>571,905</u> | <u>1,988,290</u> |
| Interest income | 12,144 | 18,714 |
| Finance costs | (127,825) | (81,002) |
| Unallocated other income | 954 | 453 |
| Unallocated net foreign exchange (loss) gain and fair value change of foreign currency forward contracts | (40,772) | 1,539 |
| Unallocated general and administrative expenses | (60,728) | (93,210) |
| Unallocated adjustment on contingent consideration for an acquisition | 12,933 | - |
| | <u>368,611</u> | <u>1,834,784</u> |
| Profit before taxation | | |

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

3. SEGMENT INFORMATION (Continued)

Geographical analysis of revenue by location of customers

| | Revenue from external customers Six months ended 30 June | |
|----------------------------|---|---------------------------------|
| | 2019 HK\$'000 (Unaudited) | 2018 HK\$'000 (Unaudited) |
| Mainland China | 2,925,505 | 3,766,277 |
| Europe | 1,329,508 | 1,651,744 |
| – Germany | 477,702 | 584,737 |
| – Hungary | 112,550 | 147,485 |
| – Austria | 75,836 | 56,175 |
| – France | 72,667 | 151,223 |
| – Romania | 63,363 | 127,049 |
| – Others | 527,390 | 585,075 |
| Americas | 581,724 | 604,750 |
| – United States of America | 401,003 | 406,787 |
| – Mexico | 89,737 | 111,205 |
| – Canada | 45,696 | 41,914 |
| – Others | 45,288 | 44,844 |
| Malaysia | 467,535 | 663,988 |
| Vietnam | 441,036 | 262,859 |
| Taiwan | 338,567 | 453,927 |
| Hong Kong | 337,029 | 863,448 |
| Thailand | 211,967 | 336,327 |
| Korea | 208,539 | 345,174 |
| Philippines | 189,052 | 202,680 |
| Japan | 86,050 | 280,309 |
| Singapore | 81,884 | 48,598 |
| Others | 76,393 | 136,296 |
| | <u>7,274,789</u> | <u>9,616,377</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

4. PROFIT BEFORE TAXATION

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2019 HK\$'000 (Unaudited) | 2018 HK\$'000 (Unaudited) |
| Profit before taxation has been arrived at after charging: | | |
| Depreciation for property, plant and equipment | 248,195 | 219,942 |
| Depreciation for right-of-use assets | 107,485 | – |
| Depreciation for investment property | 677 | 707 |
| Amortization for intangible assets | 57,584 | 26,554 |
| Release of prepaid lease payments | – | 1,948 |
| | <u> </u> | <u> </u> |

5. OTHER GAINS AND LOSSES

During the period, included in other gains and losses are mainly net gain on disposal/write-off of property, plant and equipment of HK\$2.6 million (for the six months ended 30 June 2018: HK\$5.9 million), net foreign exchange loss of HK\$40.8 million (for the six months ended 30 June 2018: net foreign exchange gain of HK\$1.5 million) and adjustment on contingent consideration for an acquisition of HK\$12.9 million (for the six months ended 30 June 2018: nil).

6. FINANCE COSTS

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2019 HK\$'000 (Unaudited) | 2018 HK\$'000 (Unaudited) |
| Interest on bank borrowings | 36,276 | 6,754 |
| Interest on convertible bonds (<i>note 14</i>) | 35,951 | 72,435 |
| Interest on lease liabilities | 28,731 | – |
| Others | 26,867 | 1,813 |
| | <u> </u> | <u> </u> |
| | <u>127,825</u> | <u>81,002</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

7. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|--------------------------------|---------------------------------|---------------------------------|
| | 2019 HK\$'000 (Unaudited) | 2018 HK\$'000 (Unaudited) |
| The charge (credit) comprises: | | |
| Current tax: | | |
| Hong Kong | 22,318 | 28,340 |
| PRC Enterprise Income Tax | 14,673 | 74,081 |
| Other jurisdictions | 154,188 | 276,848 |
| | 191,179 | 379,269 |
| Underprovision in prior years | 59,116 | 87,154 |
| | 250,295 | 466,423 |
| Deferred tax credit | (59,953) | (29,087) |
| | 190,342 | 437,336 |

Current tax:

- (a) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces 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 tax rates regime, the first HK\$2 million of profits of qualifying corporation will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. For the period ended 30 June 2019, Hong Kong Profits Tax of the qualified entity is calculated in accordance with the two-tiered profits tax rates regime. The profits of other 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%.

For the period ended 30 June 2018 and 30 June 2019, Hong Kong Profits Tax was calculated at a 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% for the six months ended 30 June 2019 (for the six months ended 30 June 2018: 25%), except for ASM Technology China Limited ("ATC"). On 28 October 2015, ATC was recognized as an advanced technology service enterprise ("ATSE") by the Chengdu Science and Technology Bureau for a period of 3 years, i.e. from 2015 to 2017. ATC passed the ATSE re-assessment launched by Sichuan Science and Technology Bureau in May 2018 and obtained a new ATSE certificate in July 2018. According to the tax circular Caishui [2017] No. 79 (for the six months ended 30 June 2018: Caishui [2017] No. 79), ATC, as an ATSE, is subject to Enterprise Income Tax at a reduced income tax rate of 15%. The renewed ATSE recognition has no expiry date while ATC shall keep proper records for its fulfilment of recognition criteria as an ATSE.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

7. INCOME TAX EXPENSE (Continued)

- (c) On 12 July 2010, the Singapore Economic Development Board (“EDB”) granted a Pioneer Certificate 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 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% (for the six months ended 30 June 2018: 17%).

- (d) The calculation of current tax of the Group’s subsidiaries in Germany is based on a corporate income tax rate of 15.00% (for the six months ended 30 June 2018: 15.00%) plus 5.50% (for the six months ended 30 June 2018: 5.50%) solidarity surcharge thereon for the assessable profit for the period. 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% (for the six months ended 30 June 2018: 14.800% to 17.015%) according to the municipal in which the entity resides. Thus the aggregate tax rates were between 30.210% and 32.975% (for the six months ended 30 June 2018: between 30.625% and 32.840%).
- (e) Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The deferred tax credit is mainly related to the tax effect of temporary difference between the tax base of certain assets and liabilities and the carrying value of the assets and liabilities. The balance mainly includes deductible temporary differences arising from retirement benefit obligations, provisions, inventories, trade receivables, right-of-use assets and lease liabilities.

The Group continued to receive letters from the Hong Kong Inland Revenue Department (the “HKIRD”) during the six months ended 30 June 2019 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 30 June 2019, the Group purchased tax reserve certificates amounting to HK\$401.4 million (31 December 2018: HK\$381.2 million), as disclosed in note 11.

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 condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

8. DIVIDENDS

| | Six months ended 30 June | |
|---|---------------------------------|---------------------------------|
| | 2019 HK\$'000 (Unaudited) | 2018 HK\$'000 (Unaudited) |
| Dividend recognized as distribution during the period | | |
| Final dividend for 2018 paid of HK\$1.40 (2018: final dividend for 2017 paid of HK\$1.30) per share on 406,671,333 (2018: 404,425,433) shares | <u>569,340</u> | <u>525,753</u> |
| Dividend declared after the end of the interim reporting period | | |
| Interim dividend for 2019 of HK\$1.30 (2018: HK\$1.30) per share on 406,671,333 (2018: 404,425,433) shares | <u>528,673</u> | <u>525,753</u> |

The dividend declared after 30 June 2019 will be paid to the shareholders of the Company whose names appear on the Register of Members on 21 August 2019.

9. EARNINGS PER SHARE

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

| | Six months ended 30 June | |
|---|---------------------------------|---------------------------------|
| | 2019 HK\$'000 (Unaudited) | 2018 HK\$'000 (Unaudited) |
| Earnings for the purpose of calculating basic earnings per share (Profit for the period attributable to owners of the Company) | 179,487 | 1,401,538 |
| Add: Interest expense on convertible bonds (<i>Note</i>) | <u>–</u> | <u>72,435</u> |
| Earnings for the purpose of calculating diluted earnings per share | <u>179,487</u> | <u>1,473,973</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

9. EARNINGS PER SHARE (Continued)

| | Number of shares (in thousands) | |
|--|------------------------------------|---------------------|
| | Six months ended 30 June | |
| | 2019 (Unaudited) | 2018 (Unaudited) |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | 406,554 | 405,484 |
| Effect of dilutive potential shares: | | |
| – Employee Share Incentive Scheme | 883 | 949 |
| – Convertible bonds (<i>Note</i>) | – | 23,927 |
| | <u>407,437</u> | <u>430,360</u> |

Note: The calculation of diluted earnings per share for the six months ended 30 June 2019 did not assume the conversion of the Company's outstanding convertible bonds because the assumed conversion would result in an increase in diluted earnings per share.

In the calculation of the diluted earnings per share for the six months ended 30 June 2018, the Company's outstanding convertible bonds were assumed to have been fully converted into ordinary shares and the profit for the period attributable to owners of the Company was adjusted to exclude the interest expense relating to the convertible bonds.

10. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT/RIGHT-OF-USE ASSETS

During the period, the Group incurred HK\$365.8 million (for the six months ended 30 June 2018: HK\$419.6 million) and HK\$67.1 million (for the six months ended 30 June 2018: nil) on the acquisition of property, plant and equipment and the addition of right-of-use assets, respectively.

11. TRADE AND OTHER RECEIVABLES

| | At 30 June 2019 HK\$'000 (Unaudited) | At 31 December 2018 HK\$'000 (Audited) |
|---|---|---|
| Trade receivables (<i>Note</i>) | 3,979,206 | 5,497,113 |
| Value added tax recoverable | 201,272 | 277,198 |
| Tax reserve certificate recoverable | 401,430 | 381,166 |
| Other receivables, deposits and prepayments | 196,541 | 169,424 |
| | <u>4,778,449</u> | <u>6,324,901</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

11. 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:

| | At 30 June 2019 HK\$'000 (Unaudited) | At 31 December 2018 HK\$'000 (Audited) |
|------------------------------|---|---|
| Not yet due (<i>Note</i>) | 2,672,694 | 4,028,545 |
| Overdue within 30 days | 473,845 | 658,525 |
| Overdue within 31 to 60 days | 189,182 | 327,609 |
| Overdue within 61 to 90 days | 112,488 | 147,338 |
| Overdue over 90 days | 530,997 | 335,096 |
| | <u>3,979,206</u> | <u>5,497,113</u> |

Note: The amount included notes receivables amounting to HK\$654,827,000 (31 December 2018: HK\$1,250,430,000).

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.

12. TRADE LIABILITIES AND OTHER PAYABLES

| | At 30 June 2019 HK\$'000 (Unaudited) | At 31 December 2018 HK\$'000 (Audited) |
|--|---|---|
| Trade payables | 1,242,633 | 1,329,947 |
| Deferred income (<i>Note i</i>) | 131,864 | 130,944 |
| Accrued salaries and wages | 296,149 | 332,172 |
| Other accrued charges | 460,265 | 758,990 |
| Accrual for tax-related expense (<i>Note ii</i>) | 168,400 | 168,400 |
| Payables arising from acquisition of property, plant and equipment | 151,584 | 151,978 |
| Consideration payable for acquisition | – | 28,330 |
| Contingent consideration for acquisitions | 42,119 | 20,036 |
| Other payables | 191,837 | 244,681 |
| | <u>2,684,851</u> | <u>3,165,478</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

12. TRADE LIABILITIES AND OTHER PAYABLES (Continued)*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 7, the Group continued to receive letters from the HKIRD during the period ended 30 June 2019 seeking information relating to Hong Kong Profits Tax and other tax affairs of certain subsidiaries of the Company. The enquiries might lead to additional tax-related expenses and accrual has been provided accordingly.

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

| | At 30 June 2019 HK\$'000 (Unaudited) | At 31 December 2018 HK\$'000 (Audited) |
|------------------------------|---|---|
| Not yet due | 824,441 | 954,686 |
| Overdue within 30 days | 310,013 | 194,825 |
| Overdue within 31 to 60 days | 61,183 | 100,480 |
| Overdue within 61 to 90 days | 24,146 | 47,032 |
| Overdue over 90 days | 22,850 | 32,924 |
| | <u>1,242,633</u> | <u>1,329,947</u> |

The average credit period on purchases of goods ranges from 30 to 90 days.

13. PROVISIONS

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

| | At 30 June 2019 HK\$'000 (Unaudited) | At 31 December 2018 HK\$'000 (Audited) |
|-------------|---|---|
| Current | 286,698 | 330,933 |
| Non-current | 56,723 | 48,528 |
| | <u>343,421</u> | <u>379,461</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

13. PROVISIONS (Continued)

The Group's provisions mainly comprise warranty provision of HK\$292,300,000 (31 December 2018: HK\$329,783,000). The movements of the warranty provision and restructuring provision are as follows:

| | Warranty provision HK\$'000 | Restructuring provision HK\$'000 |
|--|-----------------------------------|--|
| At 1 January 2018 (audited) | 327,048 | – |
| Currency realignment | (13,050) | – |
| Arising from acquisition of subsidiaries | 11,236 | – |
| Additions | 210,863 | 19,067 |
| Utilization | <u>(206,314)</u> | <u>(15,158)</u> |
| At 31 December 2018 (audited) | 329,783 | 3,909 |
| Currency realignment | (2,214) | 87 |
| Additions | 66,543 | – |
| Utilization | <u>(101,812)</u> | <u>(3,598)</u> |
| At 30 June 2019 (unaudited) | <u><u>292,300</u></u> | <u><u>398</u></u> |

A subsidiary of the Group was involved in a litigation with a third party in relation to the infringement of a patent for which the High Court ruled in favour of the third party. During the year ended 31 December 2017, the subsidiary filed an appeal to the Court of Appeal against the judgment of the High Court, which was unsuccessful. A hearing for the assessment of damages has been scheduled in the High Court for the second half of May 2020, after which a decision would be given by the High Court in respect of damages.

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

14. 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 was paid semi-annually in September and March, respectively.

The convertible bonds may be converted into ordinary shares of the Company, at the option of the holder thereof, at any time on and after 8 May 2014 up to the close of business on the day falling ten days prior to 28 March 2019 (the "Maturity Date") (both days inclusive) or if such convertible bonds shall have been called for redemption before the Maturity Date, then up to and including the close of business on a date no later than seven days prior to the date fixed for redemption thereof, at an initial conversion price of HK\$98.21 per share (subject to adjustment for among other things, consolidation and subdivision of shares, capitalization of profits or reserves, right issues, distributions and certain other dilutive events). Details of the adjustments to conversion price of the convertible bonds were set out in the Company's announcements dated 13 May 2015, 11 May 2016, 17 August 2017 and 14 May 2018.

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

- (i) at any time after 28 March 2017 and prior to the Maturity Date, the closing price of an ordinary share of the Company, for 20 out of the 30 consecutive trading days immediately prior to the date upon which the Redemption Notice is given was at least 130% of the conversion price, or
- (ii) at any time, prior to the date the Redemption Notice is given, at least 90% in principal amount of the convertible bonds has already been converted, redeemed or purchased and cancelled.

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

14. CONVERTIBLE BONDS (Continued)

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

| | Liability component HK\$'000 | Equity component HK\$'000 | Total HK\$'000 |
|---|------------------------------------|---------------------------------|-------------------|
| At 1 January 2018 (audited) | 2,133,727 | 250,249 | 2,383,976 |
| Interest charge during the year | 147,822 | – | 147,822 |
| Interest paid | (45,000) | – | (45,000) |
| At 31 December 2018 and 1 January 2019 (audited) | 2,236,549 | 250,249 | 2,486,798 |
| Interest charge during the period (<i>note 6</i>) | 35,951 | – | 35,951 |
| Interest paid | (22,500) | – | (22,500) |
| Redemption on 28 March 2019 | (2,250,000) | (250,249) | (2,500,249) |
| At 30 June 2019 (unaudited) | – | – | – |

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

| | At 30 June 2019 HK\$'000 (Unaudited) | At 31 December 2018 HK\$'000 (Audited) |
|---|---|---|
| Current liabilities | | |
| Interest payable on convertible bonds (included in trade liabilities and other payables) | – | 11,897 |
| Convertible bonds | – | 2,224,652 |
| | – | 2,236,549 |

15. BANK BORROWINGS

At 30 June 2019, the bank borrowings bear fixed-rate interest or interest at London Interbank Offered Rate or Hong Kong Interbank Offered Rate plus a margin per annum, at an effective interest rate from 0.80% to 3.63% (31 December 2018: from 0.80% to 3.81%) per annum. During the six months ended 30 June 2019, the Group obtained new bank borrowings amounting to HK\$2,500,000,000 (for six months ended 30 June 2018: HK\$1,090,334,000) and repaid bank borrowings of HK\$393,935,000 (for six months ended 30 June 2018: HK\$367,194,000). The bank borrowings raised during the six months ended 30 June 2019 was used to finance the redemption of convertible bonds.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

16. SHARE CAPITAL OF THE COMPANY

| | Number of shares '000 | Amount HK\$'000 |
|---|-----------------------------|----------------------|
| Issued and fully paid: | | |
| Shares of HK\$0.10 each | | |
| At 1 January 2018 | 409,083 | 40,908 |
| Shares repurchased and cancelled | (4,658) | (465) |
| Shares issued under the Employee Share Incentive Scheme | <u>2,246</u> | <u>224</u> |
| At 31 December 2018 and 30 June 2019 | <u><u>406,671</u></u> | <u><u>40,667</u></u> |

All shares issued in prior years rank pari passu with the then existing shares in issue in all respects.

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

17. SHARE-BASED PAYMENTS

The Employee Share Incentive Scheme (the "Scheme") is for the benefit of the Group's employees and members of management and had an initial life of 10 years starting from March 1990. The Scheme was extended for a further term of 10 years up to 23 March 2010 pursuant to an extraordinary general meeting of the Company on 25 June 1999. The Scheme was further extended for another term of 10 years up to 23 March 2020 pursuant to an annual general meeting of the Company on 24 April 2009.

At the annual general meeting of the Company held on 7 May 2019, the shareholders approved the adoption of a new employee share incentive scheme for the benefit of the Group's employees and members of management. The new Scheme has a life of 10 years up to 23 March 2030, and shall replace and supersede the existing Scheme on 24 March 2020. The maximum aggregate number of shares which may be subscribed for or purchased by the trustee pursuant to the Scheme shall not exceed 10% of the number of shares in issue from time to time (excluding any shares subscribed for or purchased pursuant to the Scheme), provided that not more than 2% of the number of shares in issue at the commencement of a calendar year (excluding any shares subscribed for or purchased then under the Scheme) may be subscribed for or purchased pursuant to the Scheme in that year.

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 remain in employment within the Group upon expiration of respective defined qualification periods. 2,145,300 shares related to the qualification period commencing on 23 March 2018 and expiring on 14 December 2018, and 477,900 shares related to the qualification period commencing on 23 March 2018 and expiring on 16 December 2019. The directors also resolved to allocate 354,600 shares pursuant to the Scheme that were to be purchased by the trustee ("Award Shares").

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

17. SHARE-BASED PAYMENTS (Continued)

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

On 27 March 2019, the directors resolved to grant and the Company granted 1,946,900 shares in the Company to certain employees and members of the management of the Group who remain in employment within the Group upon expiration of the defined qualification period. The qualification period was from 27 March 2019 to 16 December 2019. In respect of the said qualification period, the directors also resolved to allocate 386,400 shares pursuant to the Scheme that were to be purchased by the trustee.

The fair value of shares granted pursuant to the Scheme in 2018 and 2019 was determined with reference to the market value of the shares at the grant date excluding dividends, as employees are not entitled to receive dividends paid during the qualification periods.

The Group recognized share-based payments for the six months ended 30 June 2019 amounting to HK\$78,600,000 (for the six months ended 30 June 2018: HK\$114,513,000) in relation to the shares granted pursuant to the Scheme in 2017, 2018 and 2019 by the Company, such amount being determined by the fair value of the shares granted at the grant date.

Movement of the shares granted to employees and members of the management of the Group under the Scheme during the period ended 30 June 2019 are as follows:

| Date of grant | Vesting period | Number of shares | | | |
|---------------|-----------------------------------|-----------------------------------|--------------------------------|--|-----------------------------------|
| | | At 1 January 2019 (Audited) | Granted on 27 March 2019 | Allocated as Award Shares during the period | At 30 June 2019 (Unaudited) |
| 17 March 2017 | 17 March 2017 to 16 December 2019 | 243,900 | - | (120,700) | 123,200 |
| 23 March 2018 | 23 March 2018 to 16 December 2019 | 477,900 | - | (249,400) | 228,500 |
| 27 March 2019 | 27 March 2019 to 16 December 2019 | - | 1,946,900 | (16,300) | 1,930,600 |
| | | <u>721,800</u> | <u>1,946,900</u> | <u>(386,400)</u> | <u>2,282,300</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

17. SHARE-BASED PAYMENTS (Continued)

Movement of the shares granted to employees and members of the management of the Group under the Scheme during the year ended 31 December 2018 are as follows:

| Date of grant | Vesting period | Number of shares | | | | | At 31 December 2018 (Audited) |
|---------------|-----------------------------------|-----------------------------|--------------------------|---|-----------------------------------|--|-------------------------------|
| | | At 1 January 2018 (Audited) | Granted on 23 March 2018 | Allocated as Award Shares during the year | Shares issued on 14 December 2018 | Shares entitlement forfeited on 14 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 |
| | | <u>732,100</u> | <u>2,623,200</u> | <u>(354,600)</u> | <u>(2,245,900)</u> | <u>(33,000)</u> | <u>721,800</u> |

Note: Movement of Award Shares purchased is as follows:

| | Number of shares purchased '000 | Cost of purchase HK\$'000 |
|--|---------------------------------|---------------------------|
| At 1 January 2018 (audited) | - | - |
| Shares purchased from the market during the year | 355 | 40,473 |
| Award Shares vested | (355) | (40,473) |
| At 31 December 2018 and 1 January 2019 (audited) | - | - |
| Shares purchased from the market during the period | 386 | 34,045 |
| At 30 June 2019 (unaudited) | <u>386</u> | <u>34,045</u> |

18. ACQUISITION OF BUSINESSES

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

On 3 April 2018, the Group entered into a purchase agreement with Tokyo Electron U.S. Holdings, Inc. 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.

For details regarding the AMICRA and NEXX Acquisition, please refer to 2018 Annual Report.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

19. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

During the period, the emoluments of directors and other members of key management were HK\$32,672,000 (for the six months ended 30 June 2018: HK\$42,969,000).

Certain shares of the Company were granted to the key management under the Scheme (see note 17 for details of the Scheme). The estimated fair value of such shares included in the emoluments above amounted to HK\$9,833,000 (for the six months ended 30 June 2018: HK\$18,724,000) for the six months ended 30 June 2019. The vesting period of the shares granted to key management during the six months ended 30 June 2019 with vesting period expiring on 16 December 2019. The vesting periods for the shares granted during the six months ended 30 June 2018 span multiple years with such vesting periods expiring on 14 December 2018 and 16 December 2019 respectively.

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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 financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

| Financial assets and financial liabilities | Fair value as at | | Fair value hierarchy | Valuation techniques and key inputs | Significant unobservable inputs | Relationship of unobservable inputs to fair value |
|---|---|---|----------------------|---|---|--|
| | 30 June 2019 | 31 December 2018 | | | | |
| Foreign currency forward contracts classified as derivative financial instruments on the condensed consolidated statement of financial position | Asset – HK\$919,000 Liability – HK\$15,654,000 | Asset – HK\$1,852,000 Liability – HK\$32,697,000 | Level 2 | Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties. | N/A | N/A |
| Other investments (classified as equity instrument at FVTOCI) | Asset – HK\$55,760,000 | Asset – HK\$56,355,000 | Level 3 | Market approach is used by comparing the consideration for share transfer of business ownership interest in similar equity investment interest. Considerations such as time and condition of sale and terms of agreements are analyzed and adjustments are made, where appropriate, to arrive at an estimation of fair value. | The considerations may vary significantly due to difference in timing, condition of sale and terms of agreements, size and nature of similar business to derive the estimated fair value. | The higher the value of similar transactions, the higher the estimation of fair value derived from it, and vice versa. |
| Contingent consideration for AMICRA Acquisition and NEXX Acquisition (as defined in note 18) | Liability – HK\$42,119,000 | Liability – HK\$53,063,000 | Level 3 | Discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Group arising from the contingent consideration, based on an approximate discount rate. | AMICRA and NEXX (note 18) would meet the amount of revenue and EBITDA target by reference to the estimated sales performance and profit forecast of AMICRA and NEXX 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 consideration, and vice versa.

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

21. CONTINGENT LIABILITIES

As at 30 June 2019, the Group has provided guarantees amounting to HK\$2,338,000 (31 December 2018: HK\$2,905,000) to the Singapore government for work permits of foreign workers in Singapore.

22. CAPITAL COMMITMENTS

| | At 30 June 2019 HK\$'000 (Unaudited) | At 31 December 2018 HK\$'000 (Audited) |
|---|---|---|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements | <u>131,860</u> | <u>327,531</u> |

OTHER INFORMATION

DIRECTORS' INTERESTS IN SHARES

Details of the interests of the directors and chief executives of the Company and their associates in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as at 30 June 2019 as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions

Shares of HK\$0.10 each of the Company:

| Name of director | Capacity | Number of shares held | Percentage of shareholding in the Company |
|--------------------------|--|---------------------------|---|
| Lee Wai Kwong | Beneficial owner | 1,665,100 <i>(Note 1)</i> | 0.41% |
| Tsui Ching Man, Stanley | Beneficial owner & interests of spouse | 263,100 <i>(Note 2)</i> | 0.06% |
| Robin Gerard Ng Cher Tat | Beneficial owner | 200,000 <i>(Note 3)</i> | 0.05% |

Notes:

1. The 1,665,100 shares included 124,600 incentive shares allocated to Mr. Lee by the Company pursuant to the Scheme in previous years which will vest upon the expiration of the vesting period on 16 December 2019.
2. Mr. Tsui was the beneficial owner of 256,800 shares, which included 35,000 incentive shares allocated to him by the Company pursuant to the Scheme in previous years. Such 35,000 incentive shares will vest upon the expiration of the vesting period on 16 December 2019. Mr. Tsui was also deemed to be interested in 6,300 shares through the interests of his spouse, Ms. Soh Lay Hoon, who is an accounting manager of a subsidiary of the Group. Such 6,300 shares held by Ms. Soh included 2,300 incentive shares allocated to her by the Company pursuant to the Scheme on 27 March 2019 which will vest upon the expiration of the vesting period on 16 December 2019.
3. The 200,000 shares included 40,000 incentive shares allocated to Mr. Ng by the Company pursuant to the Scheme in previous years, which will vest upon the expiration of the vesting period on 16 December 2019.

Save as disclosed above, as at 30 June 2019, none of the directors, chief executives of the Company nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations.

OTHER INFORMATION (CONTINUED)**SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES**

As at 30 June 2019, the following persons (other than the interests disclosed above in respect of directors or chief executives of the Company) had interests or short positions in the share capital of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

| Name of shareholder | Capacity | Long positions | |
|--------------------------------|---------------------------------------|-----------------------------|---|
| | | Number of shares held | Percentage of shareholding in the Company |
| ASM International N.V. | Interests of a controlled corporation | 103,003,000 <i>(Note 1)</i> | 25.33% |
| ASM Pacific Holding B.V. | Beneficial owner | 103,003,000 <i>(Note 1)</i> | 25.33% |
| Schroders Plc | Investment manager | 40,672,400 <i>(Note 2)</i> | 10.00% |
| Commonwealth Bank of Australia | Interests of a controlled corporation | 32,311,181 <i>(Note 3)</i> | 7.95% |

Notes:

1. ASM International N.V. was deemed to be interested in 103,003,000 shares, through the shares held by its wholly-owned subsidiary, ASM Pacific Holding B.V. Thus, their respective shareholdings represented the same block of shares.
2. The long position of 40,672,400 shares held by Schroders Plc included derivative interests in 77,100 underlying shares of the Company derived from unlisted and cash settled derivatives.
3. Commonwealth Bank of Australia was deemed to be interested in 32,311,181 shares, through the shares held by its wholly-owned subsidiaries, including Colonial Holding Company Limited, ASB Holdings Limited, ASB Bank Limited, Commonwealth Insurance Holdings Limited, ASB Group Investments Limited, Colonial First State Group Ltd, Capital 121 Pty Limited, Colonial First State Investments Limited, First State Investment Managers (Asia) Limited, First State Investments (UK Holdings) Limited, Colonial First State Asset Management (Australia) Limited, Realindex Investments Pty Limited, FSIB Limited, First State Investments (Hong Kong) Ltd, SI Holdings Limited, First State Investments Holdings (Singapore) Limited, First State Investment Management (UK) Limited, First State Investments International Limited and First State Investments (Singapore).

Save as disclosed above, as at 30 June 2019, according to the register 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.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2019.

The Company reviews its corporate governance practices regularly to ensure compliance with the CG Code.

The Company has adopted the Model Code as its own code of conduct regarding directors' securities transactions. Specific enquiry has been made to all the directors of the Company, and all of the directors have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2019.

OTHER INFORMATION (CONTINUED)

AUDIT COMMITTEE

The Audit Committee of the Company (the “Audit Committee”) comprises three Independent Non-Executive Directors and one Non-Executive Director who together have substantial experience in fields of auditing, legal matters, business, accounting, corporate internal control and regulatory affairs.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed the Group’s unaudited condensed consolidated financial statements for the six months ended 30 June 2019 in conjunction with the Company’s external auditor.

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

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities except that an independent professional trustee appointed by the Board under the Scheme, pursuant to the terms of the rules and trust deed of the Scheme, purchased on the Stock Exchange a total of 386,400 shares in the Company at a total consideration of approximately HK\$33.9 million (excluding ancillary trading fees, costs and expenses directly attributable to the purchase).

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders’ entitlement to the interim dividend, the Register of Members of the Company will be closed from 19 August 2019 to 21 August 2019, both days inclusive, during which period no share transfers can be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates, must be lodged with the Company’s Share Registrar in Hong Kong, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not later than 4:00 p.m. on 16 August 2019. The interim dividend will be paid on or about 30 August 2019.

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