ASM

2008
Annual Report
and Accounts

ASM Pacific Technology Limited

(Stock Code：0522)

Forging Ahead Through Challenges

ASM's Performance in Year 2008

- Group turnover of US$675 million, a reduction of 2.5% over the previous year
- Profit of HK$974 million and earnings per share of HK$2.49, a reduction of 23.3% over the previous year
- Equipment turnover of US$527 million, a decline of 4.7% year on year
- Record lead frame turnover, achieving 6.5% revenue growth and US$148 million sales
- Retained the world's No. 1 position in the assembly and packaging equipment industry held since 2002
- With zero debt and cash on hand of HK$846 million at the end of December 2008

Contents

Corporate Information

Directors

Executive Directors:
Arthur H. del Prado, Chairman
Lo Tsan Yin, Peter, Vice Chairman
Lee Wai Kwong
Chow Chuen, James
Tang Koon Hung, Eric

Non-executive Director:
Arnold J.M. van der Ven

Independent Non-executive Directors:
Orasa Livasiri
Lee Shiu Hung, Robert
Lok Kam Chong, John

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited
Citibank, N.A.
The Bank of Tokyo-Mitsubishi UFJ, Ltd

Auditor

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

Secretary

So Sau Ming

Registered Office

Caledonian House
George Town
Grand Cayman
Cayman Islands

Principal Place of Business

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

Share Registrars and Branch Register Office

Tricor Secretaries Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

Company Website and Contact

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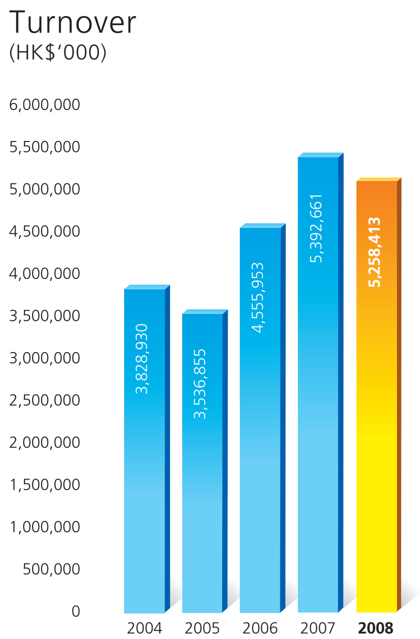
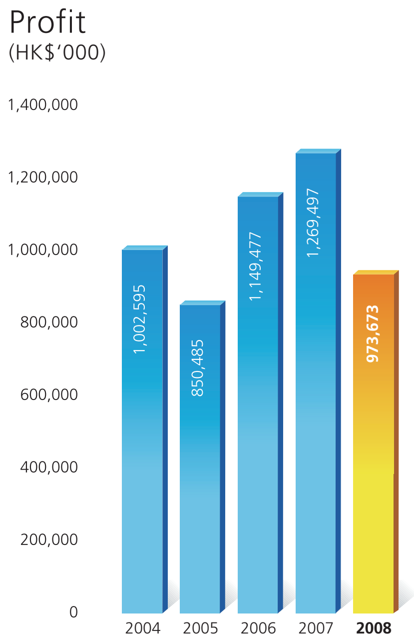
Financial Highlights

	Year ended 31 December	
	2008	2007
	HK$'000	HK$'000
Turnover	**5,258,413**	5,392,661
Cost of sales	**(3,163,227)**	(3,039,251)
Gross profit	**2,095,186**	2,353,410
Other income	**28,374**	36,316
Selling expenses	**(465,509)**	(440,043)
General and administrative expenses	**(195,751)**	(180,961)
Research and development expenses	**(358,734)**	(318,525)
Finance costs	**(2)**	(72)
Profit before taxation	**1,103,564**	1,450,125
Income tax expense	**(129,891)**	(180,628)
Profit for the year	**973,673**	1,269,497
Earnings per share		
— Basic	**HK$2.49**	HK$3.26
— Diluted	**HK$2.48**	HK$3.25





Chairman's Statement

Results

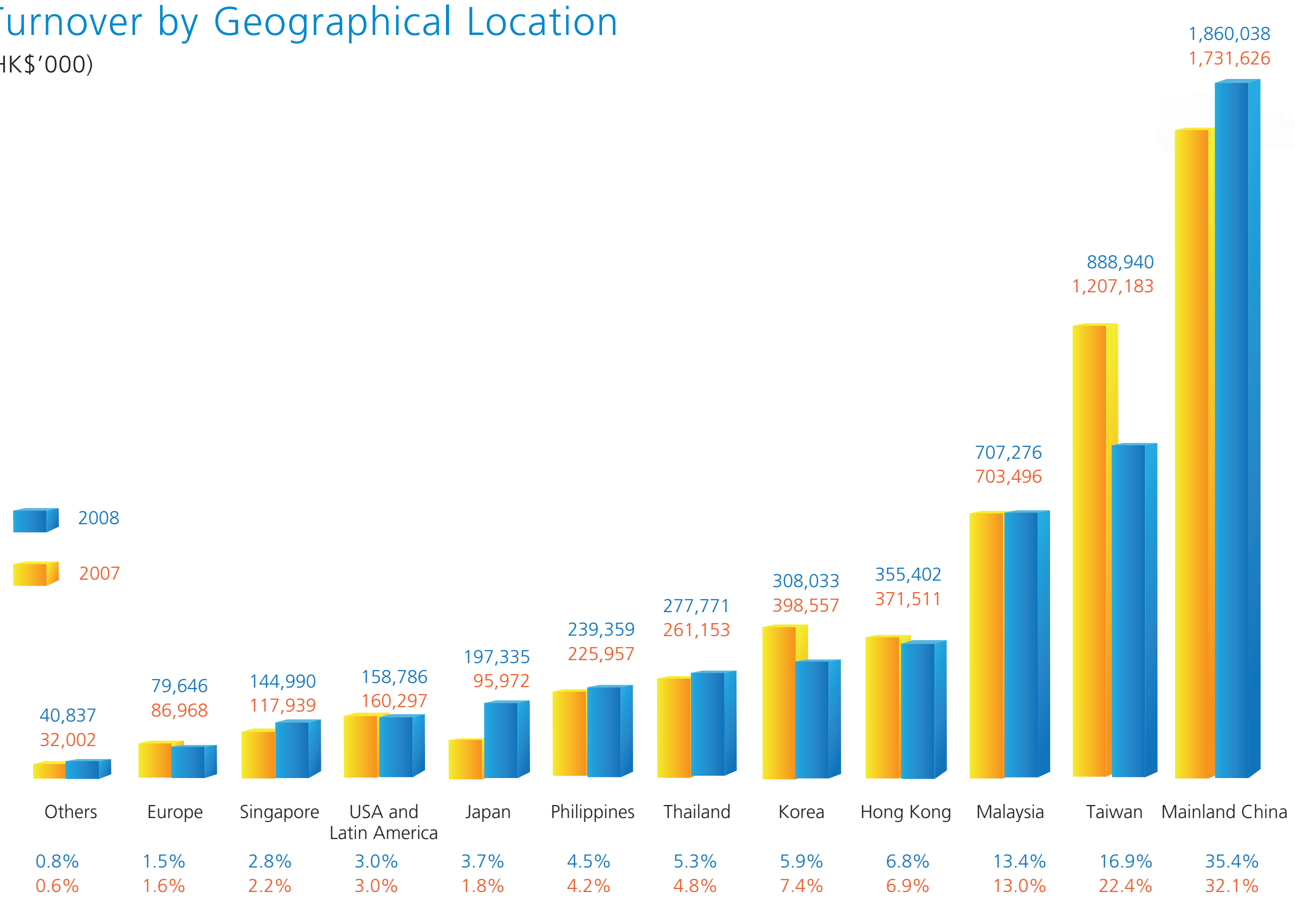
We are pleased to report that ASM Pacific Technology Limited and its subsidiaries (the "Group" or "ASM") achieved a turnover amounting to **HK$5,258 million** in the fiscal year ended 31 December 2008, representing a decrease of 2.5% as compared with HK$5,393 million for the previous year. The Group's consolidated profit for the year is **HK$974 million**, which is 23.3% lower than the previous year's consolidated profit of HK$1,269 million. Basic earnings per share for the year amounted to **HK$2.49** (2007: HK$3.26).

Dividend

In view of the Company's continuing strong liquidity and equity base, the Board of Directors has decided to recommend a final dividend of **HK$0.50** (2007: final dividend of HK$1.10 and second special dividend of HK$0.40) per share. Together with the interim dividend of HK$0.90 (2007: HK$0.70) and first special dividend of HK$0.50 (2007: HK$0.60) per share paid in August 2008, the total dividend payment for year 2008 will be **HK$1.90** (2007: HK$2.80) per share.

Turnover by Geographical Location

(HK$'000)



Chairman's Statement (Continued)

Dividend continued

Having established its leadership position in the microelectronics market over the years, ASM intends to further its organic growth path in the near term not only by enlarging market share with its high-performance, diversified products but also by moving into untapped market space that provides the opportunity for highly profitable growth. The Group has consistently managed to generate significant positive cash flows from operations and there is no short term need for major cash outlay.

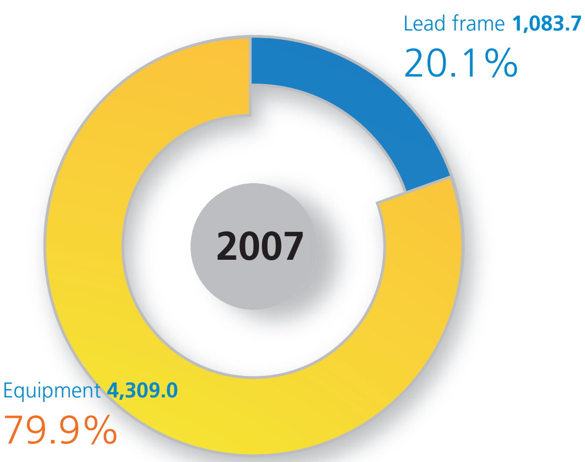
Review

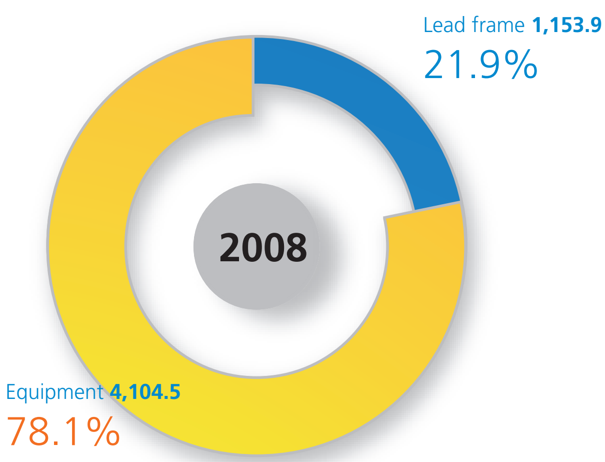
The past financial year has effectively been a year of two halves. During the first six months of 2008, the company's performance was impressive, ultimately achieving record equipment and lead frame turnover during the second quarter. Despite the warning signs of an emerging downturn appearing on the horizon last year, ASM was successful in grasping the opportunities which were then available. However, the global economic conditions started to seriously deteriorate during the third quarter. The semiconductor industry (including ASM) is not immune from the problems spilling over from other major sectors of the economy.

Over the past few years, ASM has consistently outperformed its industry peers. Last year, we achieved a Group turnover of US$675 million and net profit of HK$974 million. This represents 2.5% and 23.3% contraction respectively over the previous year, although one should bear in mind that 2007 was an unprecedented year in which record turnover and profits were attained. The contraction was mainly attributable to the latter part of the year, during which almost all our products were affected by the growing economic malaise, although the performance for the year was boosted by the strong first half showing. Return on capital employed and on sales were 38.5% and 20.8%, which continues to reflect ASM's industry leadership and the consistently growing acceptance of our products and services.

Turnover by Products

(HK$'Million)





Chairman's Statement (Continued)

Review continued

We again saw strong demand from IDMs and the smaller subcontractors, accounting for far more orders as compared to the world's largest subcontractors. Our geographical and product diversification continues to be well spread out. On a geographical basis, China, Taiwan and Malaysia are still the greatest contributors to our sales. China remains our largest market, with Taiwan coming in second. The gap between China and Taiwan had increased from 43.4% in 2007 to 109.2% in 2008. In 2007, our top 5 customers accounted for only 19.4% of the Group's revenue, whereas in 2008, our top 5 customers accounted for even less of the Group's revenue, at 15.5%, demonstrating the growing acceptance of the Group's products by a larger pool of customers.

Last year, our equipment revenue was US$527 million, representing 78.1% of the Group's turnover and a decline of 4.7% over the previous year. ASM was again the top player in its industry, keeping the premier position we have held since 2002. We have again widened the gap between ourselves and our closest rival from US$187 million in 2007 to US$303 million in 2008, representing a lead of over 135.0%. Significantly, this was achieved through our conservative path of organic growth whereas some of our peers have sought to grow through mergers and acquisitions. Our lead frame business continues to grow and our lead frames revenue in 2008 was a record US$148 million, growing by 6.5%, largely as a result of a strong gain in market share. This highlights the success of our efforts to further enhance our market position in the lead frames business.

Our BEP business unit has demonstrated solid progress. It achieved double-digit growth over 2007. This again validates the investments which we have made in our BEP business unit, and we see it as an important driver of future growth for the company.

New order bookings for 2008 amounted to US$578 million, which is a decrease of 21.7% as compared to the previous year. Book-to-bill ratio, representing net bookings over billings, was 0.86.

Notwithstanding the strong overall results for the year, we could not avoid the effects of the industry downturn which gathered pace towards the end of the year. The financial tsunami triggered by the sub-prime mortgage crisis in the United States and its aftershocks have spread worldwide faster than anyone could have anticipated. Many countries in the world are either officially in recession, or have experienced sharp falls in economic growth. In this uncertain environment, it is not surprising that companies would cut back on capital expenditure and even lay-off their staff, and the situation is further aggravated by the current credit crunch which makes it more difficult for companies to invest in capital expansion.

Our strategy to pursue multiple application markets had proven to be very successful for ASM in the past, particularly in coping with industry downturns. However, this time, due to the simultaneous contraction of all the application markets that we serve, ASM suffered its biggest quarterly drop in both billing and booking in the fourth quarter of 2008. Admittedly, since the fourth quarter is usually a seasonally low period, that would also have contributed to the decline.

During the fourth quarter of 2008, Equipment revenue decreased by 46.8% to US$79 million from the same period a year ago and decreased by 48.7% from the preceding quarter. Lead frame revenue decreased by 35.9% from the same quarter last year to US$26 million and decreased by 37.0% from the preceding quarter. Lead frame revenue contributed to 25.3% of the Group's turnover.

Structural Cost Reduction Initiative

Expanding automation in our manufacturing has been identified as one of the means to achieve our goal of permanent lower cost structure.

Chairman's Statement (Continued)

Review continued

As a result of the widespread falls in demand, our bookings have been declining faster than billings, and our backlog has markedly deteriorated in the fourth quarter. New order bookings for the fourth quarter of 2008 amounted to US$35 million, which is a sharp fall of 78.4% as compared to the preceding three months and a decrease of 83.4% from same period last year. Our order backlog which was at US$150 million at the beginning of the year has now shrunk to US$53 million as of 31 December 2008. Our overall book-to-bill ratio for the previous quarter dropped to only 0.33.

Notwithstanding the reduction in our gross margin, it is notable that our successful cost reduction has so far allowed us to remain profitable in the fourth quarter in spite of deteriorating market conditions. We achieved our target of 10% cost reduction by the end of 2008 as compared to the preceding quarter. We are making progress towards further cost reductions in 2009. Our focus is on streamlining our business and manufacturing processes, adopting automation in our manufacturing and achieving significant reduction of our product costs. The benefits of such cost reduction efforts will continue to be reflected in subsequent quarters and it will considerably improve our gross margin when the market recovers.

Liquidity and Financial Resources

We recognize that liquidity is the key to survive this once-in-a-century financial crisis. We are of the opinion that we are still in a healthy financial position. Due to our aggressive working capital management through reduction of inventory and aggressive collection efforts, our year-ending cash position is similar to that of a year ago although sales in the fourth quarter were significantly lower. As we continue to convert our working capital into cash, we expect our strong cash position to be maintained in the near future.

Cash on hand as of 31 December 2008 was HK$846 million (2007: HK$778 million). During the twelve-month period, HK$1,133 million was paid as dividends and HK$241 million was spent in capital investments. A good portion of the capital investments was funded by the year's depreciation of HK$219 million. Accounts receivable have been tightly monitored during the year and with our aggressive collection efforts together with lower sales during the fourth quarter, accounts receivable have been reduced to 59.5 days sales outstanding (2007: 81.2 days).

There was no bank borrowing as of 31 December 2008. Current ratio was 2.99, with a debt-equity ratio of 32.2%. As there were no long term borrowings, gearing of the Group was zero, the same as for the past nine years. The Group's shareholders' funds decreased slightly to HK$2,864 million as at 31 December 2008 (2007: HK$2,950 million).

The Group has moderate currency exposure as the majority of all sales were denominated in U.S. dollars. On the other hand, the disbursements were mainly in U.S. dollars, Hong Kong dollars, Singapore dollars, Malaysian Ringgit and Renminbi. The limited yen-based receivables were offset by some accounts payable in yen to Japanese vendors.

After consideration of our cash flow needs for the next few quarters and in anticipation of ongoing positive cash flow from organic growth operations, ASM management is of the view that the cash on hand available permits us to continue to recommend returning part of the Group's excessive cash holdings to shareholders in the form of dividends. However, in view of the potential challenges ahead, we have decided to adopt a more conservative approach in dividend payout. We will continue to seek ways to reward our shareholders while maximizing the utilization of our resources. We will also closely monitor the further development of the macroeconomic conditions and make necessary adjustments.

Strategic Investment on R&D

ASM's commitment in R&D has become one of its competitive advantages. The setting up of our 3rd R&D centre in Chengdu, Sichuan, China last year will significantly enhance our R&D capability and capacity and will enable ASM to lower its R&D costs in the long run.

Chairman's Statement (Continued)

Human Resources

ASM recognizes human resources as one of the Company's most important assets. Recruiting and retaining high calibre employees is always of high priority in ASM. Besides offering competitive remuneration packages ASM also commits to specialized yet demanding staff development and training programs. In general, salary review is conducted annually. In addition to salary payments, other benefits include contributions to provident fund schemes, medical and training subsidies. Discretionary bonus and incentive shares may be granted to eligible staff based on the Group's financial results and individual performance.

In order to control costs, recruitment has been frozen since October 2008. As of 31 December 2008, the total headcount of the Group worldwide was 10,063 people. It represents a reduction of 4.8% as compared to the end of the third quarter last year, mainly through natural attrition in ASM's production facilities in China and Malaysia. However, we recognize that it is still about 1% higher than a year ago. It is likely that in the absence of any major change to the current economic conditions, we shall allow further attrition to occur to a level which optimizes the company's long-term competitiveness.

Prospects

We do not expect a fast recovery of the semiconductor industry from its current malaise. In our view, unless there is a drastic about-turn in the world economy, our performance in 2009 will be worse than in 2008. The current downturn may be more severe than the one in 2001. The 2001 downturn was related more to excess supply rather than what appears to be today's problem of weak demand, which is potentially more worrisome. In the case of weak demand, recovery may take more time. Still, following the stimulus packages which have been announced by the governments in all the major markets that we operate in, it is hopeful that the tide will turn soon with improved consumer sentiment and demand.

Based upon seasonal demand patterns, the first quarter of 2009 may see further decline as compared to the fourth quarter of 2008. Many of our customers have shut down production for the Christmas, New Year and Chinese Lunar New Year holidays. As a result, there is little impetus for production expansion during this period. Some people believe that there may have been an overreaction to the current economic situation, but only time will tell.

Some analysts have predicted that, after a dismal 2009, a recovery in semiconductor capital expenditure will materialize only in 2010 and 2011, with the second quarter of 2009 being the first quarter of a possible initial recovery. In all, some people forecast that semiconductor revenue will be down in excess of 20% in 2009, with liquidity and capital constraints being major impediments on the semiconductor industry as a whole. Nevertheless, it is arguable that there is not enough visibility at present to give accurate forecasts given the signs of panic in the market.

Although the macroeconomic situation is not within our control, we can implement measures to put our own house in order to better ride through the downturn. Cost reduction and liquidity can be used as a means to reshape and refocus our business. In order to prepare for the rebound in the world economy, we are particularly looking into innovative efforts to improve our long-term cost advantages. For the purpose of achieving the cost reduction targets which we have set for ourselves by the end of this year and to attain a lower permanent cost structure, we intend to focus on streamlining our business and manufacturing processes, driving down the costs of our products, reducing our time to market and driving automation in our manufacturing.

The global economic slowdown is expected to cause a major change in consumer spending patterns. When the economy normalizes once again, it is expected that consumer demand will increasingly shift towards lower-priced products. It is thus likely that a lot of semiconductor production capacity may either be installed or converted to meet this shift. ASM's R&D strategy will also be re-aligned accordingly. In the next 12 months, more R&D resources and effort will be devoted to introducing new generations of products that will address the need for cost-competitive products.

During the past two years, ASM has been developing a new platform called the NuMotion platform, which benefits from the multi-core computational power of the state-of-the-art processors used in our equipment for increasing processing speed, coupled with the adoption of optical fibre technology to replace traditional copper wires. When implemented, a single optical fibre cable may serve to replace multiple copper cables. This approach is expected to significantly bring down both the electronic hardware and system assembly costs of our equipment while simultaneously delivering improved performance. It is one of the pillars that ASM will build upon for its new generation of cost-competitive equipment.

Solid Progress in Back End Products

Our Back End Products business unit has demonstrated solid progress. It achieved double-digit growth over 2007. This again validates the investments which we have made in back end products, and we see it as an important driver of future growth for the Company.

Chairman's Statement (Continued)

Prospects continued

We believe that the recovery of the world economy will very likely be an unsynchronized one with the emerging economies, such as China, leading the recovery. If this scenario is to happen, ASM will be in a prime position to benefit from it.

Since there is no need to increase our production capacity at this time due to the weak market conditions, our capital expenditure in 2009 is likely to be lower than in 2008, and such capital expenditure is likely to be fully funded by depreciation. There are no plans at present to increase any factory space to bolster our production capacity. On the other hand, we continue to invest in R&D, and our new R&D centre in Chengdu, Sichuan, China is progressing at the projected pace. The main utilization of our capital expenditure this year will be for R&D activities to improving our competitive edge, the strengthening of our management information system (MIS), as well as for increasing the scope of automation of our production. In the present fast-changing market conditions, it is probably unrealistic to adhere to a rigid plan for the current year. Instead, we will have to be flexible and modify our plan as necessary according to the changing conditions.

ASM's management team has always sought to adopt a long-term business strategy that would enable the company both to ride on the crest of the good times and maintain its competitiveness and profitability even in the face of a slowdown. We will continue to adhere to our guiding philosophy of adopting long-term business strategies to strengthen our investments. These include offering multiple products serving diversified application markets, customer-centric focusing on customer value creation, vertical integration strategy and strategic choice of low-cost manufacturing locations, and providing customers with innovative, total packaging solutions based on ASM's equipment and lead frames to meet their ever-expanding new product requirements.

Management is confident that ASM's strong financial background, advanced in-house developed enabling technologies, extensive marketing network and dedicated employees will help the company to surmount the current challenges and to emerge stronger. Semiconductor technology has become a key enabling technology for our modern lifestyles. After the downturn and when the robust growth of emerging economies like China, India and other Asian countries continues unabated, we are confident that the future demand for semiconductor devices will again grow at a healthy pace.

Appreciation

The semiconductor industry is presently going through a tumultuous period. The management recognizes and is grateful for the efforts of all of our staff, many of whom have had to make sacrifices during this time to maintain the competitiveness of the Company. We also wish to place on record our appreciation to all our employees, customers, suppliers and stakeholders for their continued support and contributions to the success of the Company.

Arthur H. del Prado
Chairman
25 February 2009

Innovative Solutions

We have made significant advancement in compression molding technology which is applicable in areas such as wafer level packages, high brightness LED and other optical devices.

Management Discussion and Analysis

Overview

Given the prevailing economic downturn, we have actually done quite well in 2008. Whereas our results in 2007 set various new records – in terms of turnover, profitability and earnings-per-share – and were the best in our corporate history, we were largely able to maintain our high levels of performance in 2008. ASM has again demonstrated its resilience, seamless execution of its winning strategies and continuously increasing momentum in the marketplace.

In 2008, amidst a worldwide recession, our Lead frame business was nevertheless able to set a new billing record. The 4.7% contraction of our Equipment revenue was also far better than the industry average when compared to the performance of our peers. We managed to widen the gap between ASM's Equipment revenue and that of our closest rival from US$187 million in 2007 to US$303 million in 2008. It clearly indicates that ASM managed to gain further market share in both its Lead frame and Equipment businesses despite the recession.

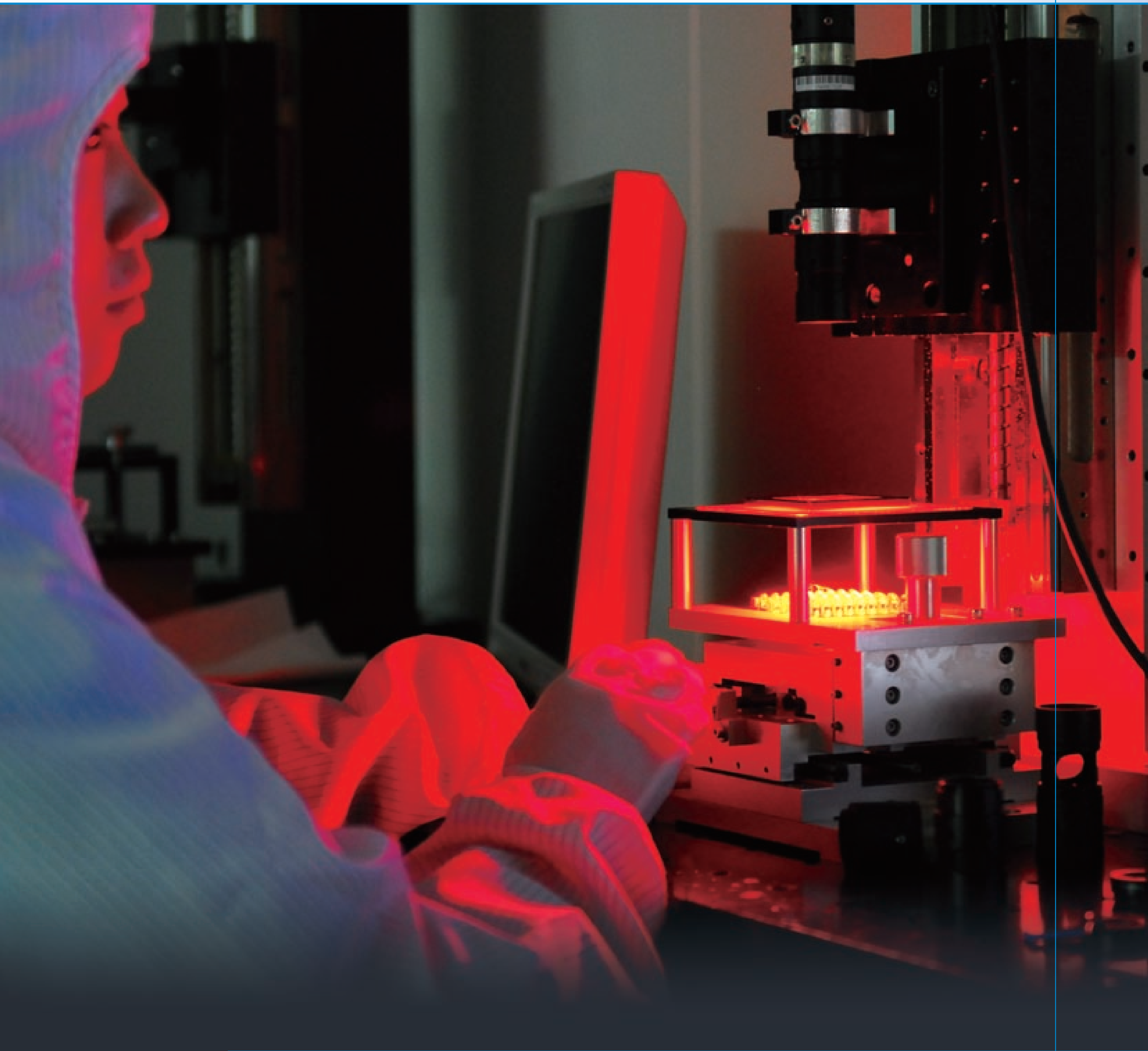
In the first nine months of 2008 we had successfully balanced our concern of a potential downturn in our industry caused by the financial crisis and the market opportunities which were then available to us. We set a quarterly billing record of over US$200 million in the second quarter and set a 6-month billing record of over US$400 million for the six months up to September 2008. During the last quarter, we successfully made a quick about-turn in our strategy to switch from pursuing revenue growth to aggressive cost cutting and improving profitability. Despite the sharp drop in revenue in the fourth quarter last year, our aggressive cost reduction efforts enabled ASM to stay profitable, probably the only major company which managed to do so in the semiconductor assembly and packaging equipment sector.

The challenges we are facing can be appreciated in the context of the overall economic meltdown, wherein many previously profitable companies are now reporting unprecedented losses. Spending on consumer electronic products continues to be an important driver of growth for the semiconductor industry. As we had feared, consumer confidence and spending appear to have been affected by the economic turmoil. The perceived contraction in consumer demand has led to companies cutting back on their production very quickly and very deeply.

What we achieved in 2008 was not a simple task. If we had been too pessimistic in the first half of last year, we probably would have missed the opportunity to attain new billing records. On the other hand, if we had not been aggressive enough in our cost cutting measures during the last quarter, we might also have failed to stay profitable.

During the last quarter we managed to cut our Selling, General & Administration and R&D expenses by 14.9% compared to the third quarter last year. This is also lower than the expenses a year ago by 7.2%. Thus, if our revenue in the fourth quarter had continued at the same level as in the preceding three months, our gross margin in the last quarter would have shown significant improvement.

The current downturn seems to be much worse than the previous one in 2001. We do not expect the recovery to the semiconductor industry to happen soon. Our strategy now is to survive the downturn, to emerge stronger and to prepare for the next upturn. In the past ten years, we have demonstrated our ability to turn crises into opportunities. After the Asian financial crisis, we attained the number three position in the semiconductor assembly and packaging equipment industry in 1999 and moved on to the second position a year later. Emerging from the dot.com bubble, we reached the top position in our industry in 2002 and continued to hold on to it for the past seven years. We are aiming to once again turn the current crisis into another opportunity to scale new heights.



Multiple Products Serving Diversified Application Markets

We will continue to adhere to our guiding philosophy of adopting long-term business strategies to strengthen our investments which include offering multiple products serving diversified application markets.

Management Discussion and Analysis (Continued)

Overview continued

We will make full use of the advantage of our high liquidity and cost reduction capability to reshape and refocus our business. Our cost reduction strategy comprises an offensive approach instead of a defensive one. Our target is to achieve structural change in our cost structure. We will prepare ourselves with a new generation of equipment with significant lower cost by the beginning of next year. We intend to increase the level of automation in our manufacturing to improve productivity. We are also aiming at streamlining our business and manufacturing process to improve efficiency.

Our wide product portfolio which is tailored for supporting diversified market segments and our broad customer base once again supported ASM to deliver a solid performance which is much better than our industry peers. In 2008, there was strong demand from IDMs and the smaller subcontractors, which surpassed that of the world's largest subcontractors. Our highly diversified customer base allowed us to soften the impact of weakened demand from the largest subcontractors. In 2004, our top 5 customers accounted for about 28% of the Group's revenue, whereas in 2008, our top 5 customers accounted for only 15.5%, despite the significant growth of almost US$200 million in our revenue during the said period. The growing acceptance of the Group's products by a larger pool of customers has helped to build a more stable revenue base. Such diversity demands a good sales and support network and accompanying infrastructure to provide a high level of service to customers, and ASM is proud to have consistently excelled in this area.

In addition to the broad customer base, our strength also lies in our geographical diversification and wide product range. Geographically, China, Taiwan and Malaysia are still the greatest contributors to our revenue. In particular, the growth experienced in the China market has been outstanding and it has further cemented its position as our largest market by far, whereas Taiwan is in second position. The gap between China and Taiwan more than doubled from 43.4% in 2007 to 109.2% in 2008.

Increasingly, China has demonstrated that it is a major player in the world economy. There are many people who believe that China will be the first to emerge from the current economic slowdown. We are glad that we already have a strong foothold in such an important economy. Unavoidably, China poses its own challenges, such as its territorial size and the tendency for customer locations to be spread out widely amongst various cities throughout the country. ASM's strength in customer service, extensive sales and support network and robust infrastructure puts it in prime position to take advantage when China, together with other emerging Asian economies, return to robust growth.

Market and Product Development

Equipment Division

In 2008, ASM once again outperformed its competitors. Although our equipment revenue decreased by 4.7% to US$527 million, the decrease was to a far lesser degree than our competitors during the same period, reinforcing our position as the top equipment supplier in the industry with the most stable revenue stream. Equipment revenue represented 78.1% of the Group's turnover. We again retained the number one position in the assembly and packaging equipment industry that we have held since 2002. We have also widened the revenue gap between us and our closest rival from US$187 million in 2007 to US$303 million in 2008, representing a commanding lead of 135%.

Understanding Customers' Needs

Dreampak is an innovative packaging solution which combines ASM's expertise and know-how in lead frames, molding technology, package development, assembly process and even more importantly ASM's understanding of customers' needs.

Market and Product Development continued

Equipment Division continued

Our strategies of diversification in customer base, products as well as geographical spread have always been our strengths. However, when the industry downturn finally took its toll during the second half of 2008, the steep contraction in customer demand towards the end of 2008 meant we could not avoid the fallout from the simultaneous contraction of all our application markets.

We continue to be the world's top supplier of die bonders and die handling equipment. We have a wide range of die bonder models to address the diverse needs of our customers in many different applications such as IC, discrete, power and LED. Not only can we provide solutions for handling different die sizes, we also provide solutions for enhancing productivity and versatility in many different applications. The AD830 die bonder which was introduced in 2007 continued to make good contribution to our revenue in 2008. Combining our advanced in-house developed linear motor technology and our knowledge and expertise in handling small dies, the AD830 surpasses its competitors in both throughput and cost effectiveness.

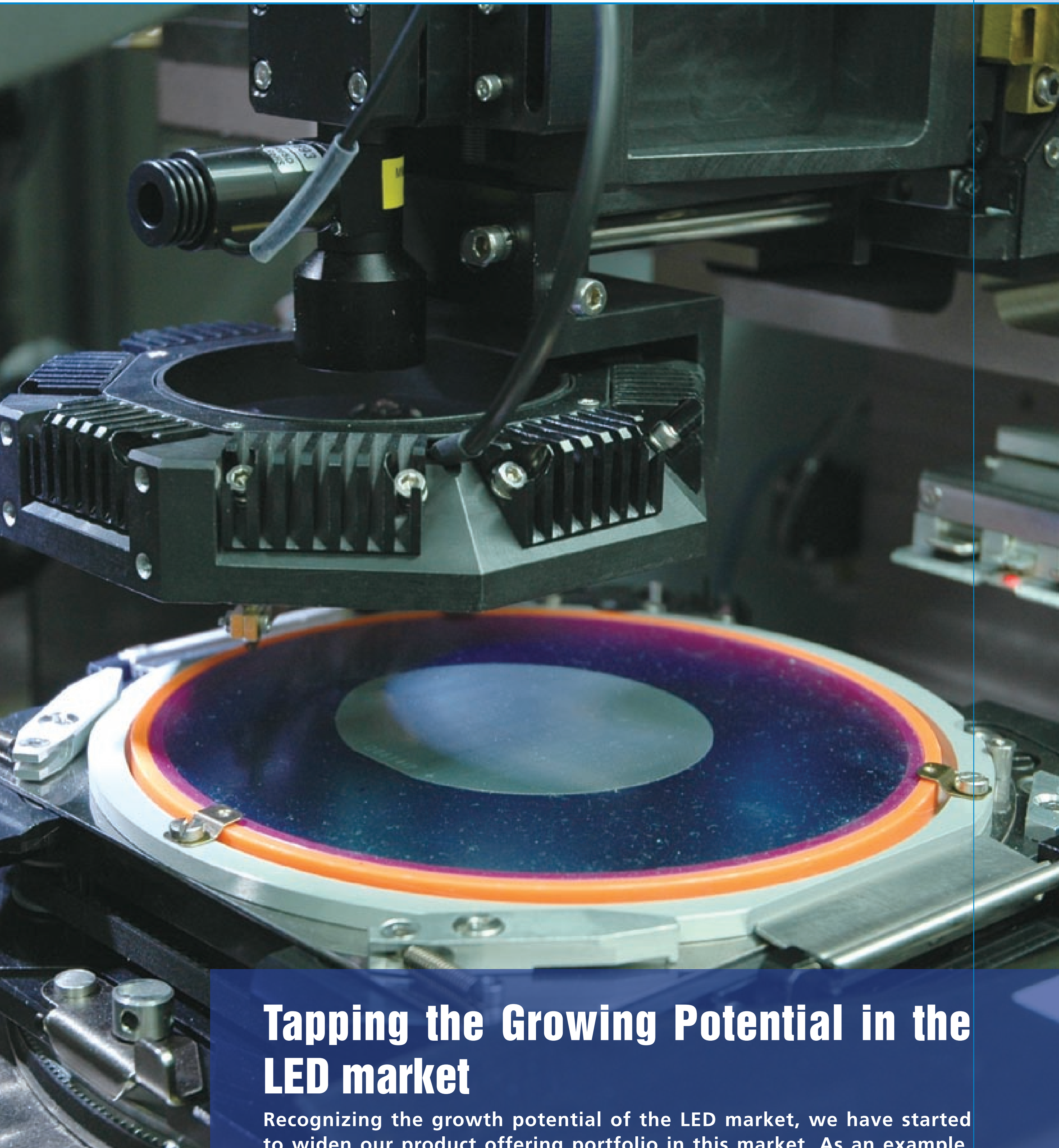
To address the flat-panel display market, we have introduced a Chip-on-Glass (COG) bonder. This year we will further enhance its capability to cater for the demand of netbook computers.

ASM has for many years been one of the leaders in wire bonding technology. Our new generation gold wire bonder, the Eagle Xtreme™, is capable of cutting-edge 30μm fine pitch bonding. This year we will introduce our new dual head gold wire bonder based on the Eagle Xtreme™ platform. Our dual head gold wire bonder is unique and unparalleled in its cost-effectiveness, and is an excellent example of the success of our Blue Ocean Strategy. We also hold a leadership position in copper wire bonding technology, an area where customers driven by the need to reduce cost and to enhance electrical performance for dies with very small line widths have increasingly been turning to us to provide them with suitable solutions.

Our aluminium wire bonders are equipped with high performance linear motors and have solidified ASM's two-decade leadership in the chip-on-board (COB) application market. Combining its high performance and fine pitch capability, we successfully widened our technology leadership over our competitors while avoiding competition based purely on price.

In 2008, our CSP (Chip-Scale Packaging) product segment continued to make good progress, with our flip chip bonder being one of the products in this segment making substantial revenue contributions.

Recognizing the growth potential of the LED market, we have started to widen our product offering portfolio in this market. For example, our newly launched LED Sorter has already received encouraging market acceptance.



Tapping the Growing Potential in the LED market

Recognizing the growth potential of the LED market, we have started to widen our product offering portfolio in this market. As an example, our newly launched LED sorter has already received encouraging market acceptance.

Market and Product Development continued

Equipment Division continued

In 2008, our Encapsulation Solutions Group (ESG) has seen further progress in spite of the tough market conditions. ASM is the choice of many key customers for its superior molding technology, such as the Pinnacle Gate System (PGS) and the Package-on-Package (PoP) molding, which are especially suitable for the development of advanced new packages. This advanced capability also helped ASM gain entry to a number of new accounts. In addition to making significant advancement in compression molding technology which is applicable in areas such as wafer level packages, high brightness LED and other optical devices, the group is also developing solutions for the packaging of high concentration solar cells, a cutting edge technology in solar cell manufacturing.

The Back End Product (BEP) business unit was formed in 2006 in order to streamline our existing encapsulation and post encapsulation product operations. This was primarily a merger of various back-end products including our encapsulation systems, ball placement, package singulation and test handler groups into a single business unit. So far the results have been very encouraging. Significantly, our BEP business unit experienced a double-digit growth in 2008. Our efforts in allocating greater resources to these products have been greatly rewarded. We are optimistic that the BEP business will continue to make further progress and become one of our key revenue sources in the coming years.

We believe that our offensive approach to introduce a new generation of equipment with significant cost reduction in preparing for the next upturn will enable ASM to capture further market share from our competitors, while our competitors are being further weakened by the current downturn.

Lead Frame Division

Our Lead frame revenue recorded a healthy 6.5% growth and contributed to 21.9% of the Group's total turnover in 2008. We are pleased with our good progress in strengthening the competitive position of our Lead frame business through strategic realignment. In fact for the period from 2001 to 2008, we registered a CAGR (compound annual growth rate) of 20.2% for our Lead frame business, far better than the industry average.

Our Lead frame factories in China and Malaysia are well located to serve our customers and are able to take advantage of the growth of the industry. Growth of our Lead frame business in China remains healthy.

ASM's high-density open-tool lead frame solutions continue to offer good value propositions to customers. Offering such open-tool lead frame solutions has not only helped the Company penetrate new accounts but has in turn created business opportunities for our related equipment.

We have been very successful in the development of MSL 1 (moisture sensitivity level 1) lead frames to meet the growing demand from customers for the product. Tests carried out both in-house and by our customers confirm that our brown oxide treatment solution offers the best results in the market. While we are offering our Micro-etching technology (ME1), being an excellent MSL 1 solution to our customers for pre-plated lead frames (PPF), we are in the process of developing an even more advanced ME2 technology. Initial tests carried out by customers are very encouraging.

Last year, ASM also introduced a new packaging concept, the DreamPak, to address customers' need for high I/O QFN. This solution combines ASM's expertise and know-how in lead frames, molding technology, package development and assembly process. Even more important is the fact that it demonstrates ASM's understanding of customers' needs and its innovative solutions to satisfy those needs. This cost-effective, high performance and flexible packaging concept immediately drew the interest of many customers since its official launch during Semicon Singapore in May last year.

Getting Ready for the Upturn

We believe our offensive approach to introduce a new generation of equipment with significant cost reduction in preparing for the next upturn will enable ASM to capture further market share from our competitors.

Market and Product Development continued

Lead Frame Division continued

While we continue to gain market share and set new billing records, the margin for our Lead frame business suffered seriously last year from high metal prices, particularly for copper, gold, silver and palladium. The sharp contraction in demand which we experienced during the fourth quarter last year was a double blow to our Lead frame cost. As a result, the return on our Lead frame business deteriorated badly towards the end of last year. Since metal prices have come down a lot recently, except for gold, the pressure on our Lead frame costs this year will be greatly reduced.

Financial

We have prudently managed our working capital by reducing excessive inventories and exercising aggressive collection efforts. Last year, we achieved an inventory turnover of 5.80 times (2007: 6.53 times), with an ending inventory of HK$901 million to deal with the much higher revenue in the first nine months of the year. We understand the importance of maintaining ample liquidity during this time. Although capital investments amounting to HK$241 million were made in 2008, our sound working capital management resulted in a free cash flow of HK$1,038.1 million (2007: HK$694.8 million) and a return on invested capital of 40.9% (2007: 69%). Receivables have been tightly monitored, resulting in 59.5 days sales outstanding as at year end. So far our bad debt exposure has been immaterial and is well-covered by provisions made in conformity with ASM's policy. We are fully aware of the potential challenges and risks we may face under the current financial and economic crisis and are putting in our best efforts to manage it. There was a cash conversion cycle of 126 days.

Cash on hand as of 31 December 2008 was HK$846 million (2007: HK$778 million). With no bank borrowing either for the short or long term, ASM had a zero bank debt to equity ratio and no gearing for the Group, essentially the same situation as for the past years. With rigorous control over our current assets and liabilities, the current ratio stood comfortably at 2.99. The Group's shareholders' funds decreased slightly by about 3% to HK$2,864 million as of 31 December 2008 (2007: HK$2,950 million).

ASM's strong financial position is the result of our consistently profitable and cash-generating business performance in past years, as well as our conservative fiscal policy, prudent investment planning and strict working capital management. With no short term need for major cash outlay while continuing our organic growth strategy, ASM management considers that the cash on hand available permits us to return part of the Group's excessive cash holdings to shareholders in the form of dividends. However, the latest dividend payout would have to be more conservative in order to maintain greater liquidity for the Company during this financial crisis. Going forward, we aim to continue to reward our shareholders while maximizing the utilization of our resources as allowed by the macroeconomic conditions. ASM remains committed to its consistent dividend policy of returning excessive cash to our shareholders.

Capacity and Plant Development

In anticipation of the weak market conditions which are likely to persist for the remainder of this year, our capital expenditure is likely to be lower than in 2008, and such capital expenditure is likely to be fully funded by depreciation. We have no plans at present to increase our factory space any further, as we consider our present production capacity in our production facilities in Singapore, Malaysia, Hong Kong and Shenzhen, China are adequate to serve the current demand levels.

The robust expansion that we started to undertake in 2006 by investing in infrastructure to increase our production capacity helped us to take advantage of the market opportunities which arose from in 2007. That has assisted us to significantly outperform the competition. We may now take the opportunity to improve the operations of the various factories and facilities to capitalize on the benefits of economies of scale, and to increase our productivity. To this end, we believe that productivity may be increased by driving automation in our manufacturing, replacing old production equipment with more advanced models and improving work procedures and efficiency. An automation group has been set up to drive this initiative forward.

Management Discussion and Analysis (Continued)

Capacity and Plant Development

continued

After the current downturn is over and demand for consumer electronic products normalizes, we expect the semiconductor industry to continue to grow as it has done over the past few years. We are gearing ourselves to gain additional market share, and we can do so by improving our long-term cost advantages and by enhancing our technological leadership.

This year, we have also allocated more resources to further upgrade our IT infrastructure, and fully expect this will contribute positively to improving our efficiency. More resources will also be put into continuing to enhance our R&D capability. Altogether, our capex (capital expenditure) budget for 2009 is HK$200 million, a level lower than that of 2008. It will be fully funded by our depreciation.

Research and Development

2008 is an important milestone in the Company's R&D history. Last year, we had established our third R&D center in Chengdu, Sichuan, China. This strategic move will significantly enhance our R&D capability and capacity and will also enable us to lower our R&D costs in the long run.

Our current research and development teams based in Hong Kong, Singapore and Chengdu consist of 726 people with close to 59% of them having a Master or PhD degree. Our R&D expenditure increased by 12.6% to HK$358.7 million (2007: HK$318.5 million), representing 8.7% of our equipment sales and in line with our R&D funding guidelines.

ASM's long term commitment in R&D has become one of our competitive advantages, especially during downturns like the current one. Without strong financial support, our competitors usually have to cut back on their R&D spending to achieve their short term cost-reduction needs. With our continuous investment in R&D, we will widen our technology leadership over our peers further and it will enable ASM to make further gains in the next upturn. We have demonstrated our success in turning crises into opportunities in 1999 and 2002, after the Asian Financial crisis and the bursting of the dot.com bubble respectively. We are confident of repeating our success again this time.

Whilst the focus in the semiconductor industry has perennially been to develop smaller and faster products, it is foreseeable that the current global economic conditions may cause a major change in consumer spending patterns. Instead of high-priced cutting-edge electronic products, the consumer will increasingly shift to purchasing lower-priced alternatives. In response to this growing demand, we anticipate that companies will increasingly install or convert production capacity for producing lower-priced products. We will therefore move towards introducing new generations of products that will address the need for cost-competitive products, and we intend to align our R&D strategy accordingly.

In our efforts to produce cost-competitive products, we still recognize the need to push the technology envelope to deliver innovative solutions to meet or even exceed the demands of customers. We are in an unending drive to help our customers achieve ever lower assembly and packaging costs, new package types like QFN, stacked die, stacked package, flip chip and system-in-package, and to develop ever more demanding machine and material specifications for fine pitch wire bonding, thin die attachment and ultra thin molded packages. All these necessitate innovative solutions and strong R&D commitments from us, and we have continually risen to the challenge with innovative and cost-effective solutions for our customers.

Directors' Report

The Directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2008.

Principal Activities

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

Results and Appropriations

The Directors recommend the payment of a final dividend of HK$0.50 (2007: Final dividend of HK$1.10 and a second special dividend of HK$0.40) per share which, together with the interim dividend of HK$0.90 (2007: HK$0.70) per share and a first special dividend of HK$0.50 (2007: HK$0.60) per share paid during the year, makes a total dividend for the year of HK$1.90 (2007: HK$2.80) per share, and the retention of the remaining profit for the year of HK$230,616,000.

Details of the results of the Group are set out in the consolidated income statement on page 41.

Property, Plant and Equipment

During the year, the Group continued to expand its manufacturing facilities. The Group acquired plant and machinery for approximately HK$202,667,000.

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

Subsidiaries

Details of the Company's principal subsidiaries at 31 December 2008 are set out in note 33 to the consolidated financial statements.

Share Capital

On 15 December 2008, 1,728,700 shares were issued at par to certain employees pursuant to their entitlements under the Company's Employee Share Incentive Scheme.

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Distributable Reserves of the Company

The Company's reserves available for distribution to shareholders, calculated in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, amounted to HK$1,250,630,000 (2007: HK$1,528,259,000). In accordance with the Company's Articles of Association, dividends can only be distributed out of profits of the Company.

Directors' Report (Continued)

Directors

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

Executive Directors:

Arthur H. del Prado, Chairman
Lo Tsan Yin, Peter, Vice Chairman
Lee Wai Kwong, Chief Executive Officer
Chow Chuen, James, Chief Operating Officer
Tang Koon Hung, Eric, Chief Financial Officer

Non-executive Director:

Arnold J.M. van der Ven

Independent Non-executive Directors:

Orasa Livasiri
Lee Shiu Hung, Robert
Lok Kam Chong, John

In accordance with Articles 113 and 114 of the Company's Articles of Association, Lee Wai Kwong, Chow Chuen, James and Lok Kam Chong, John will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

Arthur H. del Prado, aged 77, is the Chairman of the Company and founder of ASM International N.V. ("ASM International"), the ultimate holding company of the Company. Mr. del Prado currently serves on the Board of several companies, civic and non profit organizations, among which the MEDEA+ Board, the "Micro Electronics Development for European Applications" project. Arthur H. del Prado was formerly a member of the Board of Directors of: Océ van der Grinten Nederland N.V., Manufacturer of Copiers and Printers; G.T.I. Holding N.V., an Electronic Equipment and Installations company; Delft Instruments N.V., a Manufacturer of High-Technology Industrial and Defence Products; Breevast N.V., Project Development and Management; Dujat, Dutch & Japanese Trade Federation and ABN-AMRO Bank, Advisory Counsel.

Lo Tsan Yin, Peter, aged 60, was appointed to the Board as the Vice Chairman of the Company on 1 January 2007. He has a Bachelor of Science degree in Electronics Engineering from the University of Southampton, England. Mr. Lo joined the Group in 1980. He has over 30 years of experience in the computer and semiconductor industry.

Lee Wai Kwong, aged 54, was appointed to the Board as the Chief Executive Officer on 1 January 2007. He has a Bachelor of Science degree and a Master of Philosophy degree from The Chinese University of Hong Kong, Hong Kong; both degrees are in Electronics. He also has a Masters degree in Business Administration from the National University of Singapore, Singapore. Mr. Lee joined the Group in 1980. He has over 25 years of working experience in the semiconductor industry. Mr. Lee is also a member of the Management Board of ASM International since 1 January 2007.

Directors' Report (Continued)

Directors continued

Chow Chuen, James, aged 52, was appointed to the Board as the Chief Operating Officer of the Company on 1 January 2007. He has a Bachelor of Science degree in Electrical Engineering from the University of Hong Kong and a Master of Science degree in Manufacturing System Engineering from the University of Warwick, England. Mr. Chow joined the Group in 1982. He has over 25 years of working experience in the electronics and semiconductor industry.

Tang Koon Hung, Eric, aged 63, was re-designated as Executive Director and was appointed as the Chief Financial Officer of the Company on 1 February 2007. Mr. Tang qualified as a Chartered Accountant in Canada and he is also a member of the Hong Kong Institute of Certified Public Accountants. He has worked in the fields of manufacturing, banking, and public utilities with some major corporations both in Canada and in Hong Kong. Graduated from the University of Toronto, Canada, Mr. Tang holds a Bachelor degree in Industrial Engineering and a Masters degree in Business Administration.

Arnold J.M. van der Ven, aged 49, was appointed as the Non-executive Director of the Company on 14 March 2006. Mr. van der Ven is the Chief Financial Officer and member of the Management Board of ASM International. Mr. van der Ven has more than 16 years of experience in finance and management. He holds a MBA degree from the University of Chicago, the United States, and a law degree from the University of Leiden, the Netherlands. Mr. van der Ven started his career at McKinsey & Company in 1985. Mr. van der Ven was Chief Financial Officer of Axxicon Group N.V., the Netherlands from 1991 to 1997. He was also the Chief Financial Officer and Member of the Executive Board of Novamedia Holding B.V., the Netherlands from 2001 to 2004 and of Vedior N.V., the Netherlands from 1997 to 2000.

Orasa Livasiri, Independent Non-executive Director, aged 53, was appointed to the Board as an Independent Non-executive Director in 1994. She is a solicitor in private practice and is a partner of Messrs. Ng, Lie, Lai & Chan.

Lee Shiu Hung, Robert, Independent Non-executive Director, aged 76, was appointed to the Board on 23 December 2004. Mr. Lee is a Certified Public Accountant with over 40 years of practical experience in auditing, accounting and finance, taxation and general management. He was engaged in public accounting practice in the name of Robert S.H. Lee & Co., Certified Public Accountants since 1984 until his retirement in 2000. Mr. Lee previously held senior executive positions in multinational groups, including Jardine Matheson & Co. Limited and Hutchison International Limited. He was a President of the Society of Chinese Accountants & Auditors, Hong Kong in 1983/84 and a President of the Australian Society of Certified Practising Accountants (CPA Australia) Hong Kong Branch in 1986/87. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, CPA Australia; the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. He is a member of the Advisory Board of the Society of Chinese Accountants & Auditors, Hong Kong.

Lok Kam Chong, John, aged 46, was appointed to the Board as an Independent Non-executive Director on 9 March 2007. Mr. Lok is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has 20 years of experience in financial management and corporate controllership. Mr. Lok started his career as an auditor in an international accounting firm and then moved to work for some major financial information companies, including Moneyline Telerate (Hong Kong) Ltd. and Dow Jones Telerate. He is currently a director of Oriental Link CPA Limited. Mr. Lok holds Dual Degrees in Master in Business Administration and Master of Science in Information Technology from The Hong Kong University of Science and Technology.

Senior Management

The Group's senior management team includes, other than the executive directors, Mr. Wong Yam Mo, the Chief Technical Officer of the Group. His biographical information is as follows:

Wong Yam Mo, aged 49, is the Chief Technical Officer of the Group. He has a Bachelor of Science degree in Mechanical Engineering and a Master degree in Industrial Engineering, both from the University of Hong Kong, Hong Kong. He also holds a Master degree in Precision Engineering from Nanyang Technological University, Singapore. Mr. Wong joined the Group in 1983.

Employee Share Incentive Scheme

The Group has an Employee Share Incentive Scheme (the "Scheme") which is for the benefit of the Group's employees and members of management and has a life of 10 years starting from December 1989. On 25 June 1999, at an extraordinary general meeting of the Company, the shareholders approved to extend the period of the Scheme for a further term of 10 years up to 23 March 2010 and allow up to 5% of the issued share capital of the Company from time to time, excluding any shares of the Company subscribed for or purchased pursuant to the Scheme since 23 March 1990, to be subscribed for or purchased pursuant to the Scheme during the extended period.

On 27 February 2008, the Directors resolved that the Company should contribute HK$173,360 to the Scheme, enabling the trustees of the Scheme to subscribe for a total of 1,733,600 shares in the Company for the benefit of employees and members of the management of the Group in respect of their services for the year ended 31 December 2007 upon expiration of the defined qualification period. 334,000 of these shares entitlements were allocated to certain Directors of the Company.

Directors' Interests in Shares

Details of the interests of the Directors and chief executives of the Company and their associates in the share capital of the Company and its associated corporations as at 31 December 2008 as recorded in the register by the Company pursuant to Section 352 of the Securities and Future Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Long positions

(a) Shares of HK$0.10 each ("Shares") of the Company:

Name of director	Capacity	Number of shares held	Percentage of shareholding in the Company
Arthur H. del Prado *(Note 1)*	Beneficial Owner	207,427,500	52.87%
Lee Wai Kwong	Beneficial Owner	496,700	0.13%
Lo Tsan Yin, Peter *(Note 2)*	Beneficial Owner	252,000	0.06%
Chow Chuen, James	Beneficial Owner	186,000	0.05%
Tang Koon Hung, Eric	Beneficial Owner	100,000	0.03%

Directors' Report (Continued)

Directors' Interests in Shares continued

Long positions continued

(b) Share options of ASM International *(Note 3)*:

Name of director	Date of grant	Exercise period	Exercise price	At 1 January 2008 and at 31 December 2008
Arthur H.del Prado	19.5.2006	19.5.2009 – 19.5.2014	EURO14.08	100,856
	23.5.2007	23.5.2010 – 23.5.2015	EURO19.47	60,441
Arnold J.M. van der Ven	15.5.2005	15.5.2008 – 15.5.2013	EURO11.18	30,000
	2.1.2006	2.1.2009 – 2.1.2014	EURO14.13	20,000
	19.5.2006	19.5.2009 – 19.5.2014	EURO14.08	15,680
	23.5.2007	23.5.2010 – 23.5.2015	EURO19.47	21,917

Notes:

1. As at 31 December 2008, Arthur H. del Prado, a member of his immediate family and a foundation controlled by him together held about 15.05% shareholding which carry voting power (represented by 11,476,878 common shares) in the issued share capital in ASM International. ASM International is a controlling shareholder of the Company holding 207,427,500 Shares which is approximately 52.87% of the entire share capital of the Company through its wholly-owned subsidiary, namely, ASM Pacific Holding B.V., and he is accordingly deemed or taken to be so interested. ASM International also holds the fixed-rate participating shares of ASM Assembly Automation Limited, ASM Assembly Materials Limited and ASM Asia Limited which are wholly-owned subsidiaries of the Company. These shares carry no voting rights, no rights to participate in a distribution of profits, and very limited rights on a return of capital.

2. As at 31 December 2008, Lo Tsan Yin, Peter beneficially owned 2,500 shares of ASM International.

3. Details of the share option schemes of ASM International are set out in note 31 to the consolidated financial statements.

Save as disclosed above and other than certain nominee shares in subsidiaries held by the Directors in trust for the Company or its subsidiaries, as at 31 December 2008, none of the Directors or chief executives of the Company nor their associates had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations.

Directors' Rights to Acquire Shares or Debentures

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

Substantial Shareholders

As at 31 December 2008, the following persons (other than the interests disclosed above in respect of Directors or chief executives of the Company) had interests in the share capital of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

		Long positions		Lending pool	
Name of shareholder	Capacity	Number of shares held	Percentage of shareholding in the Company	Number of shares held	Percentage of shareholding in the Company
ASM International	Interest of a controlled corporation	207,427,500	52.87%	–	–
ASM Pacific Holding B.V.	Beneficial owner	207,427,500	52.87%	–	–
Aberdeen Asset Management Plc and its associates on behalf of accounts managed by Aberdeen Asset Management Plc and its associates	Investment manager	31,293,920	7.98%	–	–

Save as disclosed above, as at 31 December 2008, according to the register of interests required to be kept by the Company under Section 336 of the SFO, there was no other person who had any interests or short positions in the shares or underlying shares of the Company.

Directors' Interests in Contracts and Connected Transactions

During the year, the Group entered into certain transactions with the ASM International group of companies, details of which are set out in note 32 to the consolidated financial statements.

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

Directors' Interests in Contracts and Connected Transactions continued

Arthur H. del Prado and Lo Tsan Yin, Peter have an interest in ASM International as disclosed in the section headed "Directors' interests in shares" above.

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

Directors' Service Contracts

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

Emolument Policy

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

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

The Company currently has an Employee Share Incentive Scheme as an incentive to Directors and eligible employees, details of the scheme is set out in note 25 to the consolidated financial statements.

Pre-emptive Rights

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

Major Customers and Suppliers

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

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

Donations

During the year, the Group made charitable and other donations amounting to HK$2,044,000.

Appointment of Independent Non-executive Directors

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

Directors' Report (Continued)

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31 December 2008.

Auditor

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

On behalf of the Board
Lee Wai Kwong
Director
25 February 2009

Corporate Governance Report

The manner in which the principles and code provisions in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules") are applied and implemented are explained as follows:

Corporate Governance Practices

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company has complied with all the code provisions set out in the CG Code throughout the year ended 31 December 2008 except for the deviation from Code Provision A.4.1 as described in this report.

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

The Board

Board composition

The Board of the Company comprises the following directors during the year ended 31 December 2008:

Executive Directors

Arthur H. del Prado (Chairmen of the Board and Remuneration Committee)
Lo Tsan Yin, Peter (Vice Chairman of the Board)
Lee Wai Kwong (Chief Executive Officer)
Chow Chuen, James (Chief Operating Officer)
Tang Koon Hung, Eric (Chief Financial Officer)

Non-Executive Director

Arnold J.M. van der Ven (Member of Audit Committee)

Independent Non-Executive Directors

Orasa Livasiri (Chairman of Audit Committee and Member of Remuneration Committee)
Lok Kam Chong, John (Member of Audit Committee and Remuneration Committee)
Lee Shiu Hung, Robert (Member of Audit Committee and Remuneration Committee)

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

During the year ended 31 December 2008, the Company's Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

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

The Board continued

Chairman and Chief Executive Officer

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority. The position of the Chairman is held by Mr. Arthur H. del Prado while the position of Chief Executive Officer is held by Mr. Lee Wai Kwong during the year ended 31 December 2008. Their respective responsibilities are clearly defined and set out in writing.

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

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

Appointment and re-election of directors

In accordance with the Company's Articles of Association ("Articles"), all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself for re-election by shareholders at the first general meeting after appointment.

The Company has not yet adopted Code Provision A.4.1 which provides that non-executive directors should be appointed for a specific term, subject to re-election. All the non-executive directors of the Company are not appointed for a specific term but they are subject to retirement by rotation and re-election at the Company's annual general meetings at least once every three years pursuant to the Company's Articles. As such, the Company considers that such provisions in the Articles are sufficient to meet the underlying objective of the relevant provision of the CG Code.

The Board reviewed its own structure, size and composition regularly to ensure that there is a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The Company does not have written director nomination procedure.

The Chairman and the Chief Executive Officer are responsible for the selection and recommendation of candidates for directorship of the Company by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations.

Mr. Lee Wai Kwong, Mr. Chow Chuen, James and Mr. Lok Kam Chong, John shall retire by rotation in accordance with Articles 113 and 114 of the Company's Articles and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Board recommended the re-appointment of the directors standing for re-election at the 2009 annual general meeting of the Company.

The Company's circular dated 24 March 2009 contains detailed information of the directors standing for re-election.

The Board continued

Induction and continuing development for directors

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

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

Board meetings

Board practices and conduct of meetings

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

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

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

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

Corporate Governance Report (Continued)

The Board continued

Board meetings continued

Directors' attendance records

Seven Board meetings were held during the year.

The individual attendance (either in person or through other electronic means of communication) record of each director at the meetings of the Board, the Audit Committee and the Remuneration Committee during the year ended 31 December 2008 is set out below:

	Attendance/Number of Meetings held during the tenure of directorship		
Directors	Board	Audit Committee	Remuneration Committee
Executive Directors			
Arthur H. del Prado (Chairmen of the Board and Remuneration committee)	7/7	N/A	2/2
Tang Koon Hung, Eric	7/7	8/9	N/A
Lo Tsan Yin, Peter (Vice Chairman of the Board)	6/7	N/A	N/A
Lee Wai Kwong	7/7	N/A	N/A
Chow Chuen, James	7/7	N/A	N/A
Non-executive Director			
Arnold J.M. van der Ven	6/7	7/9	N/A
Independent Non-executive Directors			
Orasa Livasiri (Chairman of Audit Committee)	7/7	9/9	2/2
Lok Kam Chong, John	7/7	9/9	2/2
Lee Shiu Hung, Robert	7/7	9/9	2/2

Model code for securities transactions

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

Specific enquiry has been made to all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2008.

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

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

Delegation of Management Functions

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

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

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

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

The Board has established two committees, namely, the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are posted on the Company's website and are available to shareholders upon request.

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

Remuneration of Directors

The Company has established a formal and transparent procedure for formulating policies on remuneration of the executive directors of the Company. Details of the remuneration of each of the directors of the Company for the year ended 31 December 2008 are set out on page 62 in note 13 to the consolidated financial statements.

Remuneration Committee

The Remuneration Committee comprises four members during the year ended 31 December 2008. Mr. Arthur H. del Prado is the chairman while all other members are the independent non-executive directors.

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

The Remuneration Committee held two meetings during the year ended 31 December 2008 and the attendance records are set out under "Directors' attendance records" on page 35.

Corporate Governance Report (Continued)

Remuneration of Directors continued

Remuneration Committee continued

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

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

Accountability and Audit

Directors' responsibilities for financial reporting

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2008.

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

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

Internal controls

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

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

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

Corporate Governance Report (Continued)

Accountability and Audit continued

Audit Committee

The Audit Committee comprises the three independent non-executive directors (including two independent non-executive directors who possess the appropriate professional qualifications or accounting or related financial management expertise) and one Non-executive director during the year ended 31 December 2008. Miss Orasa Livasiri is the chairman of the committee. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

The main duties of the Audit Committee include the following:

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

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

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

In 2008, a total of nine meetings of Audit Committee were convened. The attendance record of the Audit Committee's members is shown on page 35. The following is a summary of the tasks completed by the Audit Committee during 2008:

- reviewed the Group's financial reports for the year ended 31 December 2007, for the six months ended 30 June 2008, and for the quarters ended 31 March 2008 and 30 September 2008;

- reviewed the financial reporting system;

- reviewed the effectiveness of internal controls system;

- reviewed risk management system;

- reviewed work plan for 2008 audit and fees budget of the auditor; and

- made recommendations on the re-appointment of the auditor.

There is no material uncertainty relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of the external auditor.

Accountability and Audit continued

Auditor's remuneration

The statement of the external auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on page 40.

During the year under review, the remuneration paid to the Company's auditor, Messrs. Deloitte Touche Tohmatsu, in respect of audit services amounted to HK$6,234,000 and non-audit services amounted to HK$9,370,000 which were reviewed and approved by the Audit Committee.

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

Communications with Shareholders and Investors

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

The general meetings of the Company provide the best opportunity for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Remuneration Committee and the Audit Committee or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, are available to answer questions at the shareholders' meetings.

All announcements and notices which have been published on the Stock Exchange's website are also available for viewing on the Company's own website.

Shareholder Rights

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

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Articles. Details of such rights to demand a poll were included in all circulars to shareholders and will be explained during the proceedings of meetings. This will ensure that shareholders are familiar with the detailed procedures for conducting a poll.

Poll results will be posted on the websites of the Company and of the Stock Exchange following the shareholders' meeting.

Independent Auditor's Report

To the Members of ASM Pacific Technology Limited

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of ASM Pacific Technology Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 41 to 75, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 February 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Turnover	7	**5,258,413**	5,392,661
Cost of sales		**(3,163,227)**	(3,039,251)
Gross profit		**2,095,186**	2,353,410
Other income		**28,374**	36,316
Selling expenses		**(465,509)**	(440,043)
General and administrative expenses		**(195,751)**	(180,961)
Research and development expenses	9	**(358,734)**	(318,525)
Finance costs	10	**(2)**	(72)
Profit before taxation		**1,103,564**	1,450,125
Income tax expense	11	**(129,891)**	(180,628)
Profit for the year	12	**973,673**	1,269,497
Dividend paid	16	**1,132,821**	972,098
Dividend proposed	16	**196,178**	585,942
Earnings per share	17		
– Basic		**HK$2.49**	HK$3.26
– Diluted		**HK$2.48**	HK$3.25

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	*18*	**1,004,105**	995,963
Prepaid lease payments	*19*	**8,321**	9,255
Deposits paid for acquisition of property, plant and equipment		**12,434**	31,401
Deferred tax assets	*26*	**9,993**	4,140
		1,034,853	1,040,759
Current assets			
Inventories	*20*	**900,958**	912,347
Trade and other receivables	*21*	**1,003,243**	1,328,748
Prepaid lease payments	*19*	**489**	514
Bank balances and cash	*22*	**845,521**	778,183
		2,750,211	3,019,792
Current liabilities			
Trade and other payables	*23*	**647,940**	921,580
Taxation		**271,112**	187,324
		919,052	1,108,904
Net current assets		**1,831,159**	1,910,888
		2,866,012	2,951,647
Capital and reserves			
Share capital	*24*	**39,236**	39,063
Dividend reserve		**196,178**	585,942
Other reserves		**2,628,686**	2,325,114
Equity attributable to equity holders of the Company		**2,864,100**	2,950,119
Non-current liabilities			
Deferred tax liabilities	*26*	**1,912**	1,528
		2,866,012	2,951,647

The consolidated financial statements on pages 41 to 75 were approved and authorised for issue by the Board of Directors on 25 February 2009 and are signed on its behalf by:

Arthur H. del Prado
Director

Lee Wai Kwong
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Attributable to equity holders of the Company								
	Share capital HK$'000	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Dividend reserve HK$'000	Total HK$'000
At 1 January 2007	38,884	211,886	–	155	72,979	(68,750)	1,840,313	466,607	2,562,074
Exchange differences on translation of foreign operations recognised directly in equity	–	–	–	–	–	8,352	–	–	8,352
Profit for the year	–	–	–	–	–	–	1,269,497	–	1,269,497
Total recognised income and expense for the year	–	–	–	–	–	8,352	1,269,497	–	1,277,849
Sub-total	38,884	211,886	–	155	72,979	(60,398)	3,109,810	466,607	3,839,923
Recognition of equity – settled share based payments	–	–	82,294	–	–	–	–	–	82,294
Shares issued under the Employee Share Incentive Scheme	179	82,115	(82,294)	–	–	–	–	–	–
Interim dividend declared	–	–	–	–	–	–	(272,188)	272,188	–
First special dividend declared	–	–	–	–	–	–	(233,303)	233,303	–
Second special dividend proposed	–	–	–	–	–	–	(156,251)	156,251	–
Final dividend proposed	–	–	–	–	–	–	(429,691)	429,691	–
Dividends paid	–	–	–	–	–	–	–	(972,098)	(972,098)
At 31 December 2007 and 1 January 2008	39,063	294,001	–	155	72,979	(60,398)	2,018,377	585,942	2,950,119
Exchange differences on translation of foreign operations recognised directly in equity	–	–	–	–	–	(13,825)	–	–	(13,825)
Profit for the year	–	–	–	–	–	–	973,673	–	973,673
Total recognised income and expense for the year	–	–	–	–	–	(13,825)	973,673	–	959,848
Sub-total	39,063	294,001	–	155	72,979	(74,223)	2,992,050	585,942	3,909,967
Recognition of equity – settled share based payments	–	–	86,954	–	–	–	–	–	86,954
Shares issued under the Employee Share Incentive Scheme	173	86,781	(86,954)	–	–	–	–	–	–
Interim dividend declared	–	–	–	–	–	–	(351,565)	351,565	–
First special dividend declared	–	–	–	–	–	–	(195,314)	195,314	–
Final dividend proposed	–	–	–	–	–	–	(196,178)	196,178	–
Dividends paid	–	–	–	–	–	–	–	(1,132,821)	(1,132,821)
At 31 December 2008	39,236	380,782	–	155	72,979	(74,223)	2,248,993	196,178	2,864,100

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 HK$'000	2007 HK$'000
Operating activities		
Profit before taxation	**1,103,564**	1,450,125
Adjustments for:		
Depreciation	**219,468**	197,453
(Gain) loss on disposal of property, plant and equipment	**(2,960)**	175
Amortisation of prepaid lease payments	**489**	514
Share-based payments under the Employee Share Incentive Scheme	**86,954**	82,294
Interest income	**(12,030)**	(26,739)
Interest expense	**2**	72
Operating cash flows before movements in working capital	**1,395,487**	1,703,894
Decrease (increase) in inventories	**16,713**	(168,634)
Decrease (increase) in trade and other receivables	**333,857**	(359,068)
(Decrease) increase in trade and other payables	**(270,591)**	152,930
Effect of foreign exchange rate changes on inter-company balances	**(19,867)**	(17,442)
Cash generated from operations	**1,455,599**	1,311,680
Income taxes paid	**(57,286)**	(147,037)
Income taxes refunded	**4,787**	–
Interest paid	**(2)**	(72)
Net cash from operating activities	**1,403,098**	1,164,571
Investing activities		
Interest received	**12,030**	26,739
Proceeds from disposal of property, plant and equipment	**5,016**	527
Purchase of property, plant and equipment	**(209,679)**	(320,971)
Deposits paid for acquisition of property, plant and equipment	**(12,434)**	(31,401)
Net cash used in investing activities	**(205,067)**	(325,106)
Financing activities		
Dividends paid	**(1,132,821)**	(972,098)
Redemption of notes payable to a bank	**–**	(7,774)
Cash used in financing activities	**(1,132,821)**	(979,872)
Net increase (decrease) in cash and cash equivalents	**65,210**	(140,407)
Cash and cash equivalents at beginning of the year	**778,183**	914,681
Effect of foreign exchange rate changes	**2,128**	3,909
Cash and cash equivalents at end of the year, represented by bank balances and cash	**845,521**	778,183

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

1. General

The Company is an exempted company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent company is ASM Pacific Holding B.V. and its ultimate holding company is ASM International N.V. ("ASM International"), companies incorporated in the Netherlands. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

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

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

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRS"s)

In the current year, the Group has applied, the following amendments of Hong Kong Accounting Standards ("HKAS"s) and interpretations ("INT"s) (hereinafter collectively referred to as "new HKFRS"s) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC)* – INT 11	HKFRS 2: Group and treasury share transactions
HK(IFRIC) – INT 12	Service concession arrangements
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRS"s) continued

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standard, amendments or interpretations will have no material impact on the results and the financial position of the Group.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of financial statements[2]
HKAS 23 (Revised)	Borrowing costs[2]
HKAS 27 (Revised)	Consolidated and separate financial statements[3]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate[2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations[2]
HKFRS 3 (Revised)	Business combinations[3]
HKFRS 8	Operating segments[2]
HK(IFRIC) – INT 13	Customer loyalty programmes[4]
HK(IFRIC) – INT 15	Agreements for the construction of real estate[2]
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation[5]
HK(IFRIC) – INT 17	Distribution of non-cash assets to owners[3]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.

2 Effective for annual periods beginning on or after 1 January 2009.

3 Effective for annual periods beginning on or after 1 July 2009.

4 Effective for annual periods beginning on or after 1 July 2008.

5 Effective for annual periods beginning on or after 1 October 2008.

* IFRIC represents the International Financial Reporting Interpretations Committee.

3. Significant Accounting Policies

The consolidated financial statements have been prepared under the historical cost basis.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Revenue recognition

Revenue is measured at the fair value of consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods is recognised when the goods are delivered and title has been passed.

Service income is recognised when services are provided.

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

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production of goods, or for administrative purposes are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

3. Significant Accounting Policies continued

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Research and development expenditure

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life and carried at cost less subsequent accumulated amortisation and any accumulated impairment loss.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Impairment loss on tangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

3. Significant Accounting Policies continued

Taxation continued

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. All other leases are classified as operating leases and rental payable are charged to profit or loss on a straight line basis over the term of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expenses over the lease terms on a straight line basis.

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

3. Significant Accounting Policies continued

Financial instruments continued

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at each balance sheet date. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Loans and receivables assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days and observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of loans and receivables is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a loan or receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

The Group's financial liabilities, including trade and other payables are subsequently measured at amortised cost, using the effective interest method. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. Significant Accounting Policies continued

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Share-based payment transactions

Equity-settled share-based payment transactions

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

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

Retirement benefit costs

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

4. Key Sources of Estimation Uncertainty

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

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

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

4. Key Sources of Estimation Uncertainty continued

Inventories

Note 3 describes that inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of selling expenses.

The Group has the operational procedures in place to monitor the risk of inventories as a significant portion of the working capital is devoted to inventories and the nature of inventories are subject to frequent technological changes. The management reviews an inventory age listing on a periodical basis to identify slow-moving inventories. This involves comparison of the carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether an allowance is required to be made in the consolidated financial statements for any obsolete and slow-moving items. In addition, physical counts on all inventories are carried out on a periodical basis in order to determine whether an allowance is needed to be made in respect of any obsolete and defective inventories identified. In this regard, the directors of the Company are satisfied that this risk is properly managed and adequate allowance for obsolete and slow-moving inventories has been made in the consolidated financial statements. As at 31 December 2008, the carrying amount of inventories amounted to HK$900,958,000.

Trade receivables

Note 3 describes that trade receivables are measured on initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

In making the estimate, management considers detailed procedures are in place to monitor this risk as a significant proportion of the Group's working capital is devoted to trade receivables. In determining whether an allowance for bad and doubtful debts is required, the Group takes into consideration the aging status and the likelihood of collection. Following the identification of doubtful debts, the respective sale personnel discuss with the relevant customers and reports on the recoverability. Specific allowance is only made for trade receivables that are unlikely to be collected. In this regard, the directors of the Company are satisfied that this risk is properly managed and adequate allowance for doubtful debts has been made in the consolidated financial statements in light of the historical records of the Group and the circumstances of the semiconductor manufacturing industry as a whole. As at 31 December 2008, the carrying amount of trade receivables amounted to HK$855,053,000.

5. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital and reserves including retained profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associate with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

6. Financial Instruments

Categories of financial instruments

	2008 HK$'000	2007 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**1,835,967**	2,106,931
Financial liabilities		
Amortised costs	**499,685**	921,580

Financial risk management objectives and policies

The Group's major financial instruments include bank balances and cash, trade and other receivables and trade and other payables. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 69% and 81% of the Group's sales and purchases respectively are denominated in currencies other than the functional currency of the group entity making the sale and the purchase.

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

		Assets		Liabilities	
	Currency	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
US dollars	US$	**1,145,623**	1,318,425	**162,700**	202,993
Renminbi	RMB	**96,175**	41,457	**50,507**	108,856
Japanese Yen	JPY	**67,029**	103,082	**60,539**	97,862
Singapore dollars	SG$	**28,574**	43,693	**56,071**	66,667
Others		**18,078**	19,670	**24,093**	38,383

The Group has minimal currency exposure as the majority of its foreign currency sales are denominated in US dollars which are linked up with the Hong Kong dollars. On the other hand, the disbursements were mainly in US dollars, Hong Kong dollars and Renminbi, which are the functional currencies of the relevant subsidiaries. The currency risk of some limited Japanese Yen-based receivables was eliminated against some Japanese Yen accounts payables. The management conducts periodic review of exposure and requirements of various currencies, and will consider hedging significant foreign currency exposures should the need arise.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

6. Financial Instruments continued

Financial risk management objectives and policies continued

Market risk continued

Currency risk continued

Sensitivity analysis

The Group is mainly exposed to the Japanese Yen, Singapore dollars and Renminbi.

The following table details the Group's sensitivity to a 5% increase and decrease in Hong Kong dollars against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The analysis illustrates the impact for a 5% strengthening of Hong Kong dollars against the relevant currency and a positive and negative number below indicates an increase and decrease in profit and loss respectively. For a 5% weakening of Hong Kong dollars against the relevant currency, there would be an equal and opposite impact on the profit.

	Japanese Yen impact			Renminbi impact			Singapore dollars impact		
	2008 HK$'000	2007 HK$'000		**2008 HK$'000**	2007 HK$'000		**2008 HK$'000**	2007 HK$'000	
(Decrease) increase on post tax profit	**(325)**	(261)	(i)	**(2,283)**	3,370	(ii)	**1,375**	1,148	(iii)

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

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

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

Interest rate risk

The cash flow interest rate risk relates primary to the Group's bank deposits (set out in note 22).

The interest income on the Group's current and fixed deposits is linked with the respective banking deposit rate of the banks located in Hong Kong and overseas countries.

The Group's sensitivity to interest rate risk has been determined based on the exposure to interest rates for the bank deposits at the balance sheet date, and the reasonably possible change taking place at the beginning of each year and held constant throughout the year.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

6. Financial Instruments continued

Financial risk management objectives and policies continued

Interest rate risk continued

The Group's sensitivity to interest rate risk at each balance sheet date while all other variables were held constant is as follows:

	2008 **HK$'000**	2007 HK$'000
Increase in profit for the year if interest rate had been 10 basis points higher for bank deposits	**795**	725
Decrease in profit for the year if interest rate had been 10 basis points lower for bank deposits	**795**	725

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2008 in relation to each class of recognised financial asset is the carrying amount of those assets as stated in the consolidated balance sheet. In order to manage the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers and across diverse geographical areas.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

7. Turnover

Turnover represents the amounts received and receivable for goods sold to customers during the year less returns.

8. Business and Geographical Segments

(A) Business segments

For management purposes, the Group is currently organised into two operating divisions – equipment and lead frame. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Equipment – manufacture and marketing of semiconductor machines and tools
Lead frame – manufacture and marketing of semiconductor materials

(i) Segment information about these businesses is presented below:

Consolidated income statement

	2008 **HK$'000**	2007 HK$'000
Turnover		
Equipment	**4,104,507**	4,309,020
Lead frame	**1,153,906**	1,083,641
	5,258,413	5,392,661
Result		
Equipment	**1,037,483**	1,329,550
Lead frame	**54,053**	93,908
	1,091,536	1,423,458
Interest income	**12,030**	26,739
Finance costs	**(2)**	(72)
Profit before taxation	**1,103,564**	1,450,125
Income tax expense	**(129,891)**	(180,628)
Profit for the year	**973,673**	1,269,497

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

8. Business and Geographical Segments continued

(A) Business segments continued

(i) Segment information about these businesses is presented below: continued

Consolidated balance sheet

	At 31.12.2008			At 31.12.2007		
	Equipment	**Lead frame**	**Consolidated**	Equipment	Lead frame	Consolidated
	HK$'000	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000
Assets						
Segment assets	**2,218,361**	**620,747**	**2,839,108**	2,475,751	720,735	3,196,486
Unallocated corporate assets			**945,956**			864,065
Consolidated total assets			**3,785,064**			4,060,551
Liabilities						
Segment liabilities	**487,621**	**159,145**	**646,766**	727,446	192,201	919,647
Unallocated corporate liabilities			**274,198**			190,785
Consolidated total liabilities			**920,964**			1,110,432

Other information

	2008			2007		
	Equipment	**Lead frame**	**Consolidated**	Equipment	Lead frame	Consolidated
	HK$'000	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000
Capital additions	**150,247**	**90,833**	**241,080**	241,264	79,707	320,971
Depreciation of property, plant and equipment	**149,183**	**70,285**	**219,468**	136,264	61,189	197,453
Amortisation of prepaid lease payments	**422**	**67**	**489**	128	386	514
(Gain) loss on disposal of property, plant and equipment	**(2,528)**	**(432)**	**(2,960)**	(46)	221	175

8. Business and Geographical Segments continued

(B) Geographical segments

The Group's operations are principally carried out in the People's Republic of China (the "PRC"), including Hong Kong and Mainland China, Singapore and Malaysia.

(i) An analysis of the Group's turnover and profit before taxation by location of operations is as follows:

	Turnover		Profit before taxation	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Location of operation				
The PRC	**3,413,663**	3,111,250	**852,036**	877,145
Singapore and Malaysia	**1,844,750**	2,281,411	**239,500**	546,313
	5,258,413	5,392,661	**1,091,536**	1,423,458
Interest income			**12,030**	26,739
Finance costs			**(2)**	(72)
Profit before taxation			**1,103,564**	1,450,125

(ii) A geographical breakdown of the Group's turnover by geographical market is as follows:

	Turnover	
	2008 HK$'000	2007 HK$'000
Location of market		
Mainland China	**1,860,038**	1,731,626
Taiwan	**888,940**	1,207,183
Malaysia	**707,276**	703,496
Hong Kong	**355,402**	371,511
Korea	**308,033**	398,557
Thailand	**277,771**	261,153
Philippines	**239,359**	225,957
Japan	**197,335**	95,972
United States of America and Latin America	**158,786**	160,297
Singapore	**144,990**	117,939
Europe	**79,646**	86,968
Others	**40,837**	32,002
	5,258,413	5,392,661

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

8. Business and Geographical Segments continued

(B) Geographical segments continued

(iii) The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
			Year ended	Year ended
	31.12.2008	31.12.2007	**31.12.2008**	31.12.2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**2,808,432**	3,024,190	**145,026**	272,290
Singapore and Malaysia	**966,639**	1,032,221	**96,054**	48,681
	3,775,071	4,056,411	**241,080**	320,971

9. Research and Development Expenses

Included in research and development expenses are depreciation on property, plant and equipment of HK$8,173,000 (2007: HK$6,713,000) and rental of land and buildings under operating leases of HK$6,406,000 (2007: HK$5,569,000).

10. Finance Costs

The amount represents interest on notes payable to a bank wholly repayable within five years.

11. Income Tax Expense

	2008	2007
	HK$'000	HK$'000
Current tax:		
Hong Kong	**117,380**	169,379
Other jurisdictions	**18,158**	15,177
	135,538	184,556
Under(over)provision in prior years:		
Hong Kong	**(32)**	–
Other jurisdictions	**133**	(484)
	101	(484)
Deferred tax credit *(note 26)*		
Current year	**(5,748)**	(3,444)
	129,891	180,628

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

11. Income Tax Expense continued

Hong Kong Profits Tax has been calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

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

The charge for the year can be reconciled to the profit before taxation in the consolidated income statement as follows:

	2008 HK$'000	2007 HK$'000
Profit before taxation	**1,103,564**	1,450,125
Tax at the domestic income tax rate of 16.5% (2007: 17.5%)	**182,088**	253,772
Tax effect of expenses that are not deductible in determining taxable profit	**2,308**	8,945
Tax effect of income that is not taxable in determining taxable profit	**(5,543)**	(11,328)
Tax effect of tax losses not recognised	**7,154**	17,792
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(25,628)**	1,106
Effect of tax exemption under the MH status	**(32,101)**	(85,661)
Effect of tax concession/exemption granted to PRC subsidiaries	**–**	(7,481)
Under(over)provision in prior years	**101**	(484)
Others	**1,512**	3,967
Tax charge for the year	**129,891**	180,628

Note: The domestic tax rate (which is Hong Kong Profits Tax rate) in the jurisdiction where the operation of the Group is substantially based is used.

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulations, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC was increased from 10% and 15% to 25% progressively from 1 January 2008 onwards. The relevant tax rates for the Group's subsidiaries in the PRC range from 18% to 25% (2007: 10% to 15%).

The Group's profit arising from the manufacture of semiconductor equipment and materials in Singapore is non-taxable under a tax incentive covering certain new products under the Manufacturing Headquarters ("MH") status granted by the Singapore tax authority. The tax exemption applies to profits arising for a period of 10 years from 1 January 2001, subject to the fulfilment of certain criteria during the period.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

11. Income Tax Expense continued

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries of the Group were exempted from PRC Income Taxes for two years starting from their first profit-making year, which is 2003, followed by a 50% reduction for the next three years.

The Company continued to receive letters from the Hong Kong Inland Revenue Department during the year ended 31 December 2008 seeking information relating to Profits Tax and other tax affairs of certain subsidiaries of the Company. The enquiry might lead to additional tax being charged on profits from some overseas subsidiaries that have not previously been included in the scope of charge for Hong Kong Profits Tax. The Group purchased tax reserve certificates amounting to HK$73,000,000 (2007: HK$47,000,000), as disclosed in note 21 to the consolidated financial statements.

Based on legal and other professional advice that the Company has sought, the directors are of the opinion that there would have a case to pursue. The directors also consider that sufficient provision for taxation has been made in the financial statements and the amounts paid under the tax reserve certificates are finally recoverable.

12. Profit for the Year

	2008 **HK$'000**	2007 HK$'000
Profit for the year has been arrived at after charging:		
Amortisation of prepaid lease payments	**489**	514
Auditor's remuneration	**6,586**	5,795
Depreciation	**219,468**	197,453
Employee benefits expense, including directors' emoluments	**1,194,646**	1,048,388
Loss on disposal of property, plant and equipment	**–**	175
Minimum lease payments for land and building under operating leases	**47,043**	42,606
Shipping and handling expenses (included in selling expenses)	**28,280**	23,279
and after crediting:		
Gain on disposal of property, plant and equipment	**2,960**	–
Interest income on bank deposits	**12,030**	26,739
Net foreign exchange gain	**13,581**	9,577

13. Directors' Emoluments

The emoluments paid or payable to each of the nine (2007: eleven) directors were as follows:

	Year ended 31 December 2008									
	Arthur H. del Prado HK$'000	Arnold J.M. van der Ven HK$'000	Lee Wai Kwong HK$'000	Lo Tsan Yin, Peter HK$'000	Chow Chuen, James HK$'000	Orasa Livasiri HK$'000	Tang Koon Hung, Eric HK$'000	Lee Shiu Hung, Robert HK$'000	Lok Kam Chong, John HK$'000	Total HK$'000
Fees	–	–	–	–	–	300	–	300	300	900
Other emoluments										
Salaries and other benefits	–	–	9,366	8,600	6,336	–	4,989	–	–	29,291
Contributions to retirement benefits schemes	–	–	216	295	280	–	12	–	–	803
Performance related incentive bonus payments *(Note)*	–	–	2,487	2,500	2,000	–	450	–	–	7,437
Total emoluments	–	–	12,069	11,395	8,616	300	5,451	300	300	38,431

	Year ended 31 December 2007											
	Arthur H. del Prado HK$'000	Arnold J.M. van der Ven HK$'000	Lam See Pong, Patrick HK$'000	Lee Wai Kwong HK$'000	Lo Tsan Yin, Peter HK$'000	Chow Chuen, James HK$'000	Fung Shu Kan, Alan HK$'000	Orasa Livasiri HK$'000	Tang Koon Hung, Eric HK$'000	Lee Shiu Hung, Robert HK$'000	Lok Kam Chong, John HK$'000	Total HK$'000
Fees	–	–	–	–	–	–	–	300	25	300	244	869
Other emoluments												
Salaries and other benefits	–	–	–	7,932	7,570	5,823	1,004	–	1,518	–	–	23,847
Contributions to retirement benefits schemes	–	–	–	194	371	262	44	–	11	–	–	882
Performance related incentive bonus payments *(Note)*	–	–	–	2,490	2,500	2,000	–	–	–	–	–	6,990
Total emoluments	–	–	–	10,616	10,441	8,085	1,048	300	1,554	300	244	32,588

Note: The performance related incentive bonus payment is determined with reference to the operating results, individual performance and comparable market statistics in both years.

For the year ended 31 December 2008, 334,000 shares (2007: 274,000 shares) of the Company were issued to certain executive directors under the Employee Share Incentive Scheme ("Scheme"), and the fair value of these shares at date of grant was included in salaries and other benefits above.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

14. Employees' Emoluments

The five highest paid individuals included four (2007: three) directors, details of whose emoluments are set out in note 13. The emoluments of the remaining one (2007: two) individual(s) were as follows:

	2008 **HK$'000**	2007 HK$'000
Salaries and other benefits	**4,385**	6,232
Performance related incentive bonus payments	**432**	685
Contributions to retirement benefits schemes	**125**	261
	4,942	7,178

For the year ended 31 December 2008, 45,000 shares (2007: 65,000 shares) of the Company were issued to the relevant highest-paid employees under the Scheme, and the fair value of these shares at the date of grant was included in salaries and other benefits above.

Their emoluments were within the following bands:

	Number of employees	
	2008	2007
HK$3,000,001 to HK$3,500,000	**–**	1
HK$4,000,001 to HK$4,500,000	**–**	1
HK$4,500,001 to HK$5,000,000	**1**	–

15. Retirement Benefits Plans

The Group has retirement plans covering a substantial portion of its employees. The principal plans are defined contribution plans. The plans for employees in Hong Kong are registered under the Occupational Retirement Schemes Ordinance ("ORSO Scheme") and a Mandatory Provident Fund Scheme ("MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group in funds under the control of trustees.

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

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the MPF Scheme subject only to the maximum level of payroll costs amounting to HK$20,000 per employee, which contribution is matched by the employees.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

15. Retirement Benefits Plans continued

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

The amount charged to the consolidated income statement of HK$65,914,000 (2007: HK$55,990,000) represents contributions paid and payable to the plans by the Group at rates specified in the rules of the plans less forfeitures of HK$280,000 (2007: HK$693,000) arising from employees leaving the Group prior to completion of qualifying service period.

For the year ended 31 December 2008, there was no forfeited contribution (2007: HK$53,000) which arose upon employees leaving the retirement plans and which are available to reduce the contributions payable in the future years.

16. Dividends

	2008 HK$'000	2007 HK$'000
Dividend paid		
Interim dividend paid for 2008 of HK$0.90 (2007: HK$0.70) per share on 390,628,000 (2007: 388,839,000) shares	**351,565**	272,188
First special dividend paid for 2008 of HK$0.50 (2007: HK$0.60) per share on 390,628,000 (2007: 388,839,000) shares	**195,314**	233,303
Final dividend for 2007 paid of HK$1.10 (2007: final dividend for 2006 paid of HK$1.00) per share on 390,628,000 (2007: 388,839,000) shares	**429,691**	388,839
Second special dividend for 2007 paid of HK$0.40 (2007: second special dividend for 2006 paid of HK$0.20) per share on 390,628,000 (2007: 388,839,000) shares	**156,251**	77,768
	1,132,821	972,098
Dividend proposed		
Proposed final dividend for 2008 of HK$0.50 (2007: HK$1.10) per share on 392,356,700 (2007: 390,628,000) shares	**196,178**	429,691
Proposed second special dividend for 2007 of HK$0.40 per share on 390,628,000 shares (2008: nil)	**–**	156,251
	196,178	585,942

The final dividend of HK$0.50 (2007: final dividend of HK$1.10 and second special dividend of HK$0.40) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

17. Earnings Per Share

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

	2008 HK$'000	2007 HK$'000
Earnings for the purposes of basic and diluted earnings per share	**973,673**	1,269,497

	Number of shares (in thousand)	
Weighted average number of shares for the purposes of basic earnings per share	**390,708**	388,927
Effect of dilutive potential shares from the Employee Share Incentive Scheme	**1,383**	1,384
Weighted average number of shares for the purposes of diluted earnings per share	**392,091**	390,311

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

18. Property, Plant and Equipment

	Buildings outside Hong Kong HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
COST					
At 1 January 2007	300,261	286,792	1,641,066	24,615	2,252,734
Exchange adjustment	8,722	253	9,072	399	18,446
Additions	–	62,487	255,524	2,960	320,971
Disposals	–	–	(24,393)	(64)	(24,457)
At 1 January 2008	308,983	349,532	1,881,269	27,910	2,567,694
Exchange adjustment	(7,220)	(35)	(10,857)	(197)	(18,309)
Additions	–	34,856	202,667	3,557	241,080
Disposals	–	(17,304)	(14,100)	(101)	(31,505)
At 31 December 2008	301,763	367,049	2,058,979	31,169	2,758,960
DEPRECIATION AND IMPAIRMENT					
At 1 January 2007	117,434	227,342	1,032,367	16,602	1,393,745
Exchange adjustment	1,026	187	2,941	134	4,288
Provided for the year	13,349	27,405	155,359	1,340	197,453
Eliminated on disposals	–	–	(23,734)	(21)	(23,755)
At 1 January 2008	131,809	254,934	1,166,933	18,055	1,571,731
Exchange adjustment	(1,527)	(188)	(5,081)	(99)	(6,895)
Provided for the year	13,025	37,934	167,001	1,508	219,468
Eliminated on disposals	–	(17,232)	(12,116)	(101)	(29,449)
At 31 December 2008	143,307	275,448	1,316,737	19,363	1,754,855
CARRYING VALUES					
At 31 December 2008	158,456	91,601	742,242	11,806	1,004,105
At 31 December 2007	177,174	94,598	714,336	9,855	995,963

The above items of property, plant and equipment are depreciated on a straight line basis at the following rates per annum:

Buildings	4.2% to 4.5%
Leasehold improvements	33$^{1}/_{3}$%
Plant and machinery	10% to 33$^{1}/_{3}$%
Furniture, fixtures and equipment	10% to 20%

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

19. Prepaid Lease Payments

The Group's prepaid lease payments represent property interests in leasehold land outside Hong Kong under medium-term leases.

Analysed for reporting purposes as:

	2008 HK$'000	2007 HK$'000
Current	**489**	514
Non-current	**8,321**	9,255
	8,810	9,769

20. Inventories

	2008 HK$'000	2007 HK$'000
Raw materials	**221,667**	245,876
Work in progress	**528,991**	491,314
Finished goods	**150,300**	175,157
	900,958	912,347

21. Trade and Other Receivables

	2008 HK$'000	2007 HK$'000
Trade receivables	**855,053**	1,199,619
Other receivables, deposits and prepayments	**75,190**	82,129
Tax reserve certificate recoverable	**73,000**	47,000
	1,003,243	1,328,748
An aging analysis of trade receivables is as follows:		
Not yet due	**546,857**	779,057
Overdue within 30 days	**121,404**	212,449
Overdue within 31 to 60 days	**76,278**	90,183
Overdue within 61 to 90 days	**57,678**	60,976
Overdue over 90 days	**52,836**	56,954
	855,053	1,199,619

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

21. Trade and Other Receivables continued

Credit policy: Payment terms with customers are mainly on credit together with deposits. 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. Each customer has a pre-set maximum credit limit.

Included in the Group's trade receivables are debtors with aggregate amount of HK$308,196,000 (2007: HK$420,562,000) which are past due at the reporting date for which the Group has not provided for impairment loss. Based on the historical experiences of the Group, trade receivables are past due but not impaired are generally recoverable.

22. Bank Balances and Cash

Bank balances

Bank balances carry interest at market rates which ranges from 0.01% to 4.8% (2007: 0.01% to 5.97%) per annum.

23. Trade and Other Payables

	2008 **HK$'000**	2007 HK$'000
Trade payables	**324,631**	564,210
Other payables and accrued charges	**323,124**	356,661
Amounts due to ASM International group companies – trade *(Note)*	**185**	709
	647,940	921,580

An aging analysis of trade payables is as follows:

	2008 **HK$'000**	2007 HK$'000
Not yet due	**74,635**	381,608
Overdue within 30 days	**107,776**	147,105
Overdue within 31 to 60 days	**84,774**	32,360
Overdue within 61 to 90 days	**36,480**	2,667
Overdue over 90 days	**20,966**	470
	324,631	564,210

Note: Amounts due to ASM International group companies are unsecured, non-interest bearing and repayable according to normal trade terms.

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

24. Share Capital of the Company

	Number of shares		Share capital	
	2008	2007	**2008**	2007
	'000	'000	**HK$'000**	HK$'000
Issued and fully paid:				
At 1 January	**390,628**	388,839	**39,063**	38,884
Shares issued under the Scheme	**1,729**	1,789	**173**	179
At 31 December	**392,357**	390,628	**39,236**	39,063

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

During the year, 1,728,700 shares were issued at par to eligible employees and members of management under the Scheme.

25. Employee Share Incentive Scheme

The Scheme is for the benefit of the Group's employees and members of management and has a life of 10 years starting from December 1989. On 25 June 1999, at an extraordinary general meeting of the Company, the shareholders approved to extend the period of the Scheme for a further term of 10 years up to 23 March 2010 and allow up to 5% of the issued share capital of the Company from time to time, excluding any shares of the Company subscribed for or purchased pursuant to the Scheme since 23 March 1990, to be subscribed for or purchased pursuant to the Scheme during the extended period.

On 27 February 2008, the directors resolved to contribute HK$173,360 to the Scheme, enabling the trustees of the Scheme to subscribe for a total of 1,733,600 shares in the Company for the benefit of employees and members of the management of the Group upon expiration of the defined qualification period as determined by the Board of Directors. The vesting period for the year was from 27 February 2008 to 15 December 2008. 1,728,700 of these shares entitlements were issued on 15 December 2008 and the estimated fair value of these shares at the date of grant amounted to approximately HK$86,954,000. 4,900 shares were unallotted by the Company on the same date. The fair value was determined with reference to market value of shares at the date of grant, and adjusted for the terms and conditions upon which the shares are granted.

26. Deferred Taxation

A summary of the major deferred tax liabilities and assets recognised and movements thereon during the current and prior reporting periods is as follows:

	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Others HK$'000	Total HK$'000
At 1 January 2007	6,919	(381)	(5,349)	1,189
Credit to income for the year	(1,850)	(1,356)	(238)	(3,444)
Exchange differences	4	(351)	(10)	(357)
At 31 December 2007 and 1 January 2008	5,073	(2,088)	(5,597)	(2,612)
Credit to income for the year	(4,956)	–	(737)	(5,693)
Effect of changes in tax rate	(295)	–	240	(55)
Exchange differences	(6)	282	3	279
At 31 December 2008	(184)	(1,806)	(6,091)	(8,081)

The following is the analysis of the deferred tax balances for balance sheet presentation purposes:

	2008 HK$'000	2007 HK$'000
Deferred tax liabilities	**1,912**	1,528
Deferred tax assets	**(9,993)**	(4,140)
	(8,081)	(2,612)

At 31 December 2008, the Group had unused tax losses of HK$281,789,000 (2007: HK$249,159,000) available to offset future taxable profits. At 31 December 2008, a deferred tax asset amounting to HK$1,806,000 (2007: HK$2,088,000) was recognised for such losses and no deferred tax asset was recognised in respect of the remaining tax losses of HK$276,629,000 (2007: HK$243,197,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$55,158,000 that will expire during the year 2009 to 2014 (2007: HK$52,465,000 that will expire during the year 2009 to 2014). Other losses may be carried forward indefinitely.

Under the New Law of PRC, withholding tax is imposed on dividends in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. No deferred taxation has been provided for in the consolidated financial statements as the amount is not significant.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

27. Major Non-Cash Transaction

During the year, additions of property, plant and equipment amounting to HK$31,401,000 were settled from deposits paid in prior year.

28. Contingent Liabilities

	2008 HK$'000	2007 HK$'000
Guarantees given to the Singapore government for work permits of foreign workers in Singapore	**431**	325

29. Capital Commitments

	2008 HK$'000	2007 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**15,299**	62,536
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	**61,187**	243,693
	76,486	306,229

30. Operating Lease Commitments

At 31 December 2008, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of property interests in land and buildings which fall due as follows:

	2008 HK$'000	2007 HK$'000
Within one year	**39,391**	43,289
In the second to fifth years inclusive	**30,623**	58,079
Over five years	**13,972**	16,698
	83,986	118,066

Operating lease payments represent rentals payable by the Group for certain of its manufacturing plants, office properties and quarters. Except for land leased from the Singapore Housing & Development Board for a period of 30 years (renewable upon expiry for a further term of 30 years), other leases are negotiated for an average term of two to five years.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

31. Share Option Schemes

ASM International has adopted various share option schemes for the primary purpose of providing incentives to the directors and eligible employees of ASM International and its subsidiaries. Under these schemes, key employees of ASM International and its subsidiaries may purchase a specific number of shares of ASM International. Options are priced at market value in Euros or US dollars on the date of grant, are generally vesting in equal parts over a period of five years and generally will expire after five or ten years from the date of grant.

A summary of the movements of share options of ASM International granted to the directors of the Company in respect of services provided to ASM International is as follows:

	Held by directors
At 1 January 2007	166,536
Granted during the year	82,358
At 31 December 2007 and 31 December 2008	248,894

The exercise prices of the above outstanding options are ranged from Euro11.18 to Euro19.47 (2007: Ranged from Euro11.18 to Euro19.47).

32. Connected and Related Party Transactions

(a) During the year, the Group paid a management fee of HK$750,000 (2007: HK$750,000) to ASM International under a consultancy agreement between ASM International and the Company. Pursuant to the original consultancy agreement, an annual management fee of HK$1.5 million is payable to ASM International which acts as a consultant, introduces new business and provides assistance in business development, general management support and services, international expertise and market information to the Group. The annual management fee was revised to HK$750,000 effective from 1 January 2006. The consultancy agreement, which commenced on 5 December 1988, was for an initial period of three years and is terminable thereafter by six months' notice in writing by either party.

(b) Compensation of key management personnel

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

	2008 HK$'000	2007 HK$'000
Short-term benefits	**26,215**	24,172
Share-based payments	**20,170**	15,594
	46,385	39,766

Certain shares of the Company were issued to the key management under the Scheme. The estimated fair value of such shares were included in share-based payments for both years.

The emoluments of directors and key executives are determined by the Remuneration Committee having regard to the performance of individuals and market trends.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

33. Particulars of Principal Subsidiaries of the Company

Details of the principal subsidiaries at 31 December 2008 and 2007 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued capital		Proportion of nominal value of issued ordinary share/ registered capital held by the Company		Principal activities
		Fixed-rate participating shares	Ordinary shares/ registered capital	Directly	Indirectly	
ASM Asia Limited	Hong Kong	HK$27,000	HK$1,000	100%	–	Providing purchasing services to group companies
ASM Assembly Automation Limited	Hong Kong	HK$100,000	HK$1,000	100%	–	Manufacture and sale of semiconductor equipment
ASM Assembly Equipment Bangkok Limited	Thailand	–	Baht7,000,000	–	100%	Agency and marketing service
ASM Assembly Equipment (M) Sdn. Bhd.	Malaysia	–	MYR10,000	–	100%	Agency and marketing service
ASM Semi-conductor Materials (Shenzhen) Co., Ltd.*	PRC	–	US$21,921,982	–	100%	Manufacture of semiconductor materials
ASM Assembly Equipment Trading (Shanghai) Co., Limited*	PRC	–	US$200,000	–	100%	Trading in semiconductor equipment
ASM Assembly Materials Limited	Hong Kong	HK$2,000,000	HK$10,000	100%	–	Trading of semiconductor materials
ASM Assembly Products B.V.	Netherlands	–	Euro18,151	100%	–	Trading in semiconductor equipment
ASM Assembly Technology Co., Limited	Japan	–	JPY10,000,000	100%	–	Trading in semiconductor equipment
ASM Microelectronic Technical Services (Shanghai) Co., Limited*	PRC	–	US$400,000	–	100%	Trading in semiconductor equipment
ASM Pacific (Bermuda) Limited	Bermuda	–	US$120,000	–	100%	Insurance services to group companies

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

33. Particulars of Principal Subsidiaries of the Company continued

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued capital		Proportion of nominal value of issued ordinary share/ registered capital held by the Company		Principal activities
		Fixed-rate participating shares	Ordinary shares/ registered capital	Directly	Indirectly	
ASM Pacific Investments Limited	Hong Kong	–	HK$2	100%	–	Investment holding and agency services
ASM Pacific KOR Limited	Hong Kong	–	HK$500,000	100%	–	Marketing services in Korea
ASM Technology Singapore Pte Limited	Singapore	–	S$53,000,000	100%	–	Manufacture and sale of semiconductor equipment and materials
ASM Pacific Assembly Products, Inc.	United States of America	–	US$60,000	–	100%	Trading in semiconductor equipment
ASM Technology (China) Co., Limited* (Incorporated during 2008)	PRC	–	US$1,800,000	–	100%	Research and development in semiconductor equipment
ASM Technology (M) Sdn. Bhd.	Malaysia	–	MYR74,000,000	100%	–	Manufacture of semiconductor equipment and materials
Edgeward Development Limited	Guernsey, Channel Islands	–	US$10,000	–	100%	Investment holding and provision of manufacturing and marketing infrastructure in Mainland China and Asia
Edgeward Trading (Shenzhen) Limited*	PRC	–	US$300,000	–	100%	Trading in semiconductor equipment and materials
Shenzhen ASM Micro Electronic Technology Co., Limited	PRC	–	*(Note)*	–	*(Note)*	Manufacture of semiconductor equipment

33. Particulars of Principal Subsidiaries of the Company continued

Note: Under a joint venture agreement, the Group has committed to contribute 100% of the registered capital of HK$497,300,000 in Shenzhen ASM Micro Electronic Technology Co., Limited ("MET"), a co-operative joint venture company established in the PRC with a term of 10 years commencing October 1994. On 23 February 2004, the term was approved to be extended for a further period of five years to October 2009. At 31 December 2008, the Group has paid up HK$497,300,000 as registered capital of MET. The Group has to bear the entire risk and liabilities of MET and, other than a fixed annual amount attributable to assets provided by the PRC joint venture partner, is entitled to the entire profit or loss of MET. On cessation of the joint venture company, the Group will be entitled to all assets other than those provided by the PRC joint venture partner and those irremovable building improvements. On 1 April 2004, the Group applied for the de-registration of Shenzhen ASM Precision Machinery Manufactory Limited ("PMM") and approval to merge the operations of PMM with MET. PMM was a subsidiary of the Company as at 31 December 2004. On 27 July 2005, the de-registration of PMM was approved and the operations of PMM were merged with MET from that date.

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

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

The fixed-rate participating shares of the subsidiaries are held by ASM International. These shares carry no voting rights, no rights to participate in a distribution of profits, and very limited rights on a return of capital.

No debt security has been issued by any of the subsidiaries at any time during the year or is outstanding at the end of the year.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Five Year Financial Summary

	For the year ended 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Turnover	**5,258,413**	5,392,661	4,555,953	3,536,855	3,828,930
Profit before taxation	**1,103,564**	1,450,125	1,278,774	903,924	1,062,382
Income tax expense	**(129,891)**	(180,628)	(129,297)	(53,439)	(59,787)
Profit for the year	**973,673**	1,269,497	1,149,477	850,485	1,002,595

	At 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and Liabilities					
Non-current assets	**1,034,853**	1,040,759	868,995	817,099	783,375
Current assets	**2,750,211**	3,019,792	2,617,736	2,230,975	1,960,858
Current liabilities	**(919,052)**	(1,108,904)	(922,590)	(651,583)	(564,383)
Net current assets	**1,831,159**	1,910,888	1,695,146	1,579,392	1,396,475
Non-current liabilities	**(1,912)**	(1,528)	(2,067)	(2,957)	(2,385)
Equity attributable to equity holders of the Company	**2,864,100**	2,950,119	2,562,074	2,393,534	2,177,465