ASM

ASM Pacific Technology Limited

(STOCK CODE 股份代號:0522)

ANNUAL REPORT 2012 年報

ASM *The Enabler for Mobility & Eco-friendliness*

助客戶實現夢想

ASM's Performance in Year 2012

- Group revenue of US$1.35 billion, a contraction of 19.0% over the preceding year
- Net profit of HK$689.0 million and earnings per share of HK$1.73, a contraction of 62.7% over the preceding year, excluding the one-time bargain purchase realized from the acquisition of the SEAS business from Siemens AG in 2011
- Record Lead frame revenue of US$212.3 million, achieving a growth of 8.8% over 2011
- Back-end equipment revenue of US$647.9 million, representing a decrease of 23.0% against 2011
- SMT equipment revenue of US$488.5 million, representing a decrease of 22.3% against 2011
- New order bookings of US$1,323 million, a slight decrease of 4.0% over 2011
- Cash on hand of HK$1.49 billion at the end of December 2012

ASM於二零一二年之業績表現

- 集團營業額為13.5億美元，較去年減少19.0%
- 盈利為港幣6.89億元，每股盈利為港幣1.73元，較去年（撇除於二零一一年從Siemens AG收購SEAS業務所實現的一次性議價收購收益）減少62.7%
- 引線框架業務營業額創新高達2.123億美元，較二零一一年增加8.8%
- 後工序設備業務營業額為6.479億美元，較二零一一年減少23.0%
- SMT設備業務營業額為4.885億美元，較二零一一年減少22.3%
- 集團新增訂單總額為13.23億美元，較二零一一年輕微減少4.0%
- 於二零一二年十二月底的現金結存為港幣14.9億元

Contents

CORPORATE INFORMATION

DIRECTORS

Executive Directors:

Arthur H. del Prado, Chairman
Lo Tsan Yin, Peter, Vice Chairman
Lee Wai Kwong
Chow Chuen, James
Robin Gerard Ng Cher Tat

Non-executive Directors:

Charles Dean del Prado
Petrus Antonius Maria van Bommel

Independent Non-executive Directors:

Orasa Livasiri
Lee Shiu Hung, Robert
Lok Kam Chong, John
Wong Hon Yee

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
Commerzbank AG

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

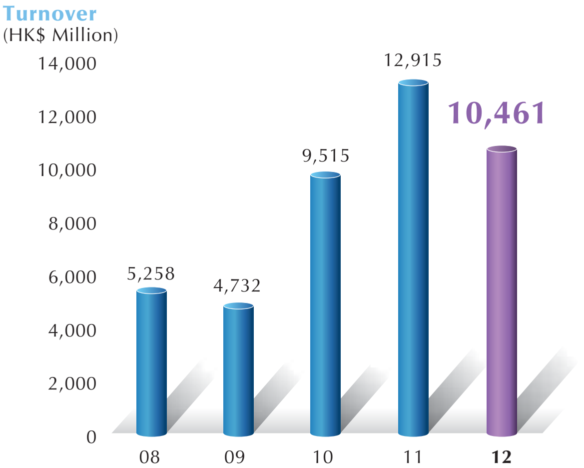
Tricor Secretaries Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

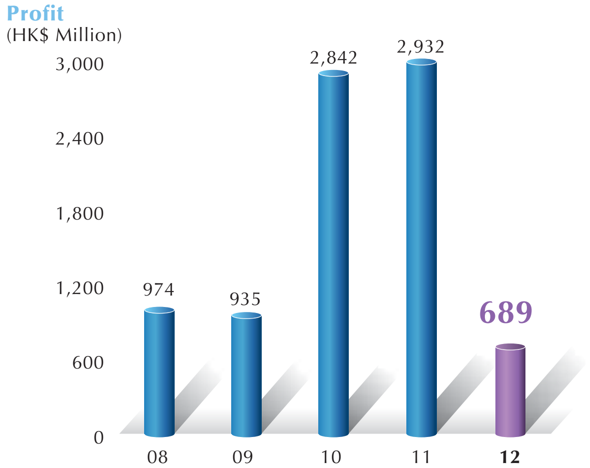
COMPANY WEBSITE AND CONTACT

Website	:	http://www.asmpacific.com
Telephone	:	(852) 2424 2021
Fax	:	(852) 2481 3367

FINANCIAL HIGHLIGHTS

	Year ended 31 December 2012 HK$'000	2011 HK$'000
Turnover	**10,460,558**	12,915,194
Cost of sales	**(7,298,182)**	(8,488,717)
Gross profit	**3,162,376**	4,426,477
Other income	**16,711**	33,140
Selling and distribution expenses	**(937,409)**	(867,422)
General and administrative expenses	**(451,618)**	(412,596)
Research and development expenses	**(905,115)**	(885,370)
Other gains and losses	**(7,493)**	(85,328)
Gain from a bargain purchase	**–**	1,084,427
Finance costs	**(8,774)**	(3,884)
Profit before taxation	**868,678**	3,289,444
Income tax expense	**(179,684)**	(357,464)
Profit for the year, attributable to owners of the Company	**688,994**	2,931,980
Other comprehensive income (expense)		
– exchange differences on translation of foreign operations	**42,617**	(43,760)
– actuarial (losses) gains on retirement benefit plans, net of tax	**(40,160)**	9,302
Other comprehensive income (expense) for the year	**2,457**	(34,458)
Total comprehensive income for the year, attributable to owners of the Company	**691,451**	2,897,522
Earnings per share		
– Basic	**HK$1.73**	HK$7.40
– Diluted	**HK$1.73**	HK$7.37





CHAIRMAN'S STATEMENT

RESULTS

ASM Pacific Technology Limited and its subsidiaries (the "Group" or "ASM") reported a turnover of **HK$10,461 million** in the fiscal year ended 31 December 2012, representing a contraction of 19.0% as compared with HK$12,915 million for the previous year. The Group's consolidated profit after taxation for the year is **HK$689 million** which is 76.5% lower than the previous year's net profit of HK$2,932 million, having been negatively impacted by challenging market and economic conditions. Basic earnings per share (EPS) for the year amounted to **HK$1.73** (2011: HK$7.40).

The ability of SIPLACE SX to handle very tiny components (01005) makes it an ideal solution for the assembly of smartphones

DIVIDEND

In view of the Company's continuing strong liquidity and equity base, the Board of Directors has resolved to recommend to shareholders the payment of a final dividend of **HK$0.30** (2011: final dividend of HK$0.80) per share. Together with the interim dividend of HK$0.61 (2011: HK$1.60) per share paid in August 2012, the total dividend payment for year 2012 will be **HK$0.91** (2011: HK$2.40) per share.

We continue to believe in returning excessive cash to our shareholders as dividends. After considering our short-term needs and on-going positive cash flow from our operations, our cash on hand permits ASM management to recommend a sustained high level of dividend to return excessive cash holdings to shareholders.

REVIEW

Although 2012 started promisingly enough, in retrospect, macroeconomic concerns again surfaced as the tide started to turn. During the first half of 2012, the semiconductor material and assembly equipment markets appeared to pick up quite strongly. The LED equipment market was on its way to recovery after a slump, albeit at a relatively slow pace.

However, the slow economic recovery in the USA, the debt crisis in Europe and the deceleration of economic growth in the emerging economies, in particular China, adversely affected the confidence of investors and consumers. This led to a global slowdown in consumer demand. As a result, the nascent recovery in the semiconductor market experienced in the first half of last year turned out to be a short-lived one.

As from the third quarter of last year, the semiconductor material and equipment markets contracted sharply as compared to the second quarter. The rate of market contraction during the second half of last year surprisingly deviated from normal seasonal patterns. In the past, such a significant contraction would only be observed during industry recessions. This contraction served, amongst other things, to disrupt the recovery momentum of the LED equipment market. Although the SMT equipment market was originally expected to recover by the middle of last year, the much-anticipated recovery did not finally materialize due to the weakened investor confidence and demand.

Active Alignment Bonder

Most of the CMOS Image Sensors for smartphones and tablet PC's are assembled by ASM equipment

Mobile devices, including smartphones and tablets, continue to be the

major drivers of our business

CHAIRMAN'S STATEMENT *(CONTINUED)*

REVIEW (Continued)

China has been the largest market for the Group for many years, and it still is. The slowdown in the China market probably had the greatest negative impact on the Group's performance last year.

Overall, Group revenue for 2012 was US$1,348.7 million, representing a contraction of 19.0% compared to 2011.

Despite the challenges that we faced last year, we successfully returned our Lead frame business to profitability, making it our star performer last year. This result was assisted by stable metal prices and our success in convincing our customers to accept either a floating price formula or price increases. Higher capacity utilization and our ongoing cost reduction efforts also contributed to the improvement in profitability of our Lead frame business.

With its strong performances in the second and third quarters of last year, the revenue of our Lead frame business attained another new record of US$212.3 million, representing a growth of 8.8% from the year before. Last year, our Lead frame revenue contributed to 15.8% of the Group's total revenue.

Our Back-end equipment business (formerly referred to as the Assembly and Packaging equipment business), which consists of the IC, discrete, CIS (CMOS image sensor) and LED equipment businesses, experienced a strong pick-up starting from the latter part of the first quarter of last year. Unfortunately, the unfavourable economic and market conditions served to stall the initial momentum during the second half of 2012, thereby halting the promising improvement and adversely impacting the profitability of our Back-end equipment business. In particular, gross margins for Back-end equipment were negatively affected by the product mix, lower capacity utilization and average selling prices.

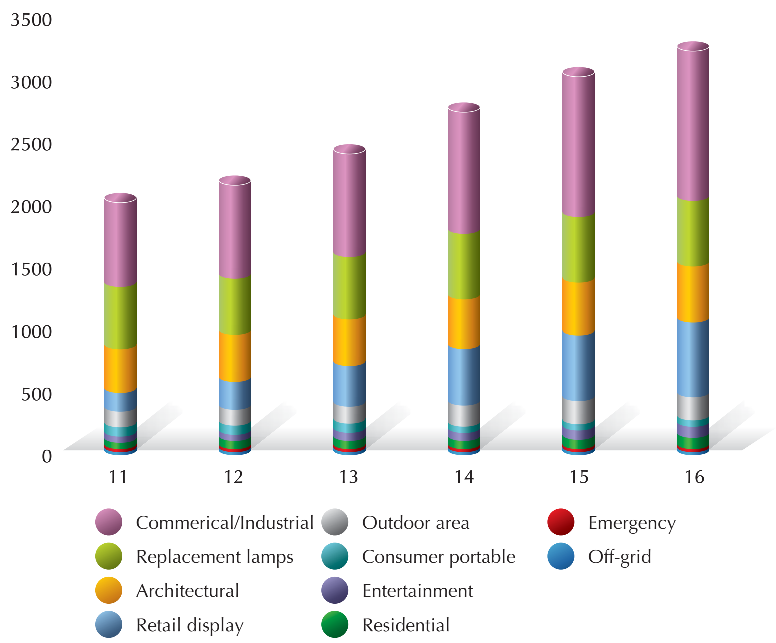
Revenue of our Back-end equipment business contracted by 23.0% last year to US$647.9 million, contributing 48.0% of the Group's total revenue.

Due to the prolonged market slowdown, the revenue of our SMT equipment business contracted by 22.3% from 2011 to US$488.5 million. The SMT equipment business contributed to 36.2% of the Group's total revenue.

Map Sorter for 6 inch LED Wafers

LED Lighting Markets

(US$ Million)



Source: LED Magazine, July 2012

Automated Optical Inspection
for LED Wafers

*ASM has the largest market share
in LED packaging equipment*

LED General Lighting is a significant future driver of growth

CHAIRMAN'S STATEMENT *(CONTINUED)*

REVIEW (Continued)

Although last year was a challenging year for our SMT equipment business, we are glad that it has demonstrated its strong resilience by successfully withstanding the challenges brought about by the deteriorating market and economic conditions. Despite significantly lower revenues, it maintained its profitability during every quarter of last year. In fact, its gross margins have even improved as compared to 2011. It was a commendable performance by the newest member of our Group.

Indeed, we are making good progress in our SMT equipment business. Last year, we successfully penetrated into many new accounts, including an important customer for the manufacturing of smart phones. Assisted by our Chip Assembly (CA) machines, we are moving into non-traditional SMT placement markets. We are confident that our SMT equipment business is on its way to achieve even better performances and to increasingly contribute to enhancing the financial performance of the Group.

As a result of the underlying negative macroeconomic factors, our overall profitability last year was unsatisfactory. We have thus put in place an aggressive cost reduction programme to drive the necessary improvement. The level of outsourcing will also be further increased during future market ramp-ups to improve our flexibility in controlling production costs.

New order bookings for 2012 was US$1.32 billion, a slight decline of 4.0% as compared to 2011. In fact, new order bookings in respect of our Lead frames and Back-end equipment businesses actually improved over 2011. Book to bill ratio was 0.98, and our backlog as of the end of last year was US$260.7 million.

One of ASM's traditional strengths is its broad customer base, which continues to be geographically well-diversified. By geographical distribution, China (including Hong Kong) (45.2%), Europe (17.0%), Malaysia (8.9%), the Americas (8.6%) and Taiwan (6.1%) were the top five markets for ASM in 2012. Led by the SMT equipment business, we continue to make steady progress in the Americas market. Due to the unfavourable economic conditions, the contributions from the markets in China and Europe to the Group have decreased, but these still remain as our largest markets.

We also continue to build our business on a wide mix and spread of customers. In 2012, our top 5 customers contributed to 16.4% of our total revenue. 80% of the Group revenue in 2012 came from 191 customers. Out of our top 20 customers, 6 were from the SMT equipment business, and of which 2 were key customers for both the Back-end equipment business and the SMT equipment business.

SIPLACE Team presented with "Global Excellence in Operations" Award

German engineering, quality, and operational excellence further enhance the Group's strengths

SIPLACE Smart Pin Support

The newly acquired SMT business is a **key growth driver** for ASM's revenue and profit

The SMT equipment business has maintained its profitability in every quarter since it joined the Group

CHAIRMAN'S STATEMENT *(CONTINUED)*

REVIEW (Continued)

The market contracted sharply during the second half of last year. As a result new order bookings for the second half of the year decreased by 37.2% as compared to the preceding six months. In fact, 61.4% of the Group's new order bookings last year was received in the first six months.

Nevertheless, due to a strong backlog situation, we were able to maintain billings for the second half of last year at a similar level to the first half of last year. Group billings for the second half of last year were at US$685.6 million, representing a slight increase of 3.3% over the first half year but 4.5% below the same period of 2011.

The SMT equipment business registered the largest growth of 28.0%. SMT equipment revenue for the last six months of 2012 was US$274.4 million, contributing to 40.0% of the Group revenue. SMT equipment revenue was 13.7% below the same period of 2011.

Lead frame revenue for the second half of last year was US$108 million, representing increases of 3.4% and 18.0% over the first half of 2012 and the second half of 2011 respectively. The Back-end equipment business suffered contractions of 12.1% and 1.7% over the first half of 2012 and the second half of 2011 respectively. This resulted in Back-end equipment revenues of US$303.2 million for the second half of last year.

The product mix and reduced Back-end equipment revenue negatively affected the Group's profitability in the second half of last year, despite increased revenues for both the Lead frame and SMT equipment businesses.

During the second half of last year, we did notice that capacity utilization of our LED customers experienced a reduction, although the magnitude was not severe. We believe that the challenging market conditions during the second half of last year only temporarily derailed the recovery of the LED market. We also noticed that the market was stabilizing towards the end of last year. Bookings for the Group in the fourth quarter of last year were at a similar level to that of the previous quarter, indicating that the market had stabilized.

Bookings were at US$250.3 million, representing an increase of 4.1% over the same period of the previous year and a decrease of 3.7% from the preceding quarter, respectively.

As we had predicted at the beginning of the fourth quarter of last year, bookings for our Lead frame business began to bounce back from the low levels which were experienced in the preceding third quarter. Lead frame bookings were also at a level just slightly below the level of the same period a year ago. While we consider that Lead frame bookings were still at a low level, the quarter-on-quarter growth rate nevertheless amounted to a strong double-digit improvement.

The fourth-quarter bookings for our SMT equipment improved slightly over the preceding quarter. It also registered a double-digit year-on-year growth. We are particularly pleased that there are signs that the SMT equipment market in China appears to be on its way to recovery.

GoCu wire bonder

Conversion to Cu wire bonding will continue

Technology transition will present major opportunities to ASM

Thermal Compression Bonder – Advanced Solution for Fine Pitch Flip Chip Bonding

Fine pitch flip chip bonding and 2.5D/3D packages will be driven by the popularity of mobile devices and new wafer node technology

CHAIRMAN'S STATEMENT *(CONTINUED)*

REVIEW (Continued)

The Back-end equipment business was the only business segment which registered a further decline in new order bookings during the fourth quarter of last year. Still, the quarterly rate of decline had reduced significantly, again a sign that the market is stabilizing. In fact, bookings were just slightly below the level of the same quarter a year ago.

During the fourth quarter of 2012, Group revenue was US$294.1 million, representing declines of 24.9% and 9.4% compared to the preceding quarter and the same period of last year, respectively.

Back-end equipment revenue was US$104.4 million, representing declines of 47.5% and 26.3% compared to the preceding quarter and the same quarter of last year, respectively. Back-end equipment revenue contributed to 35.5% of the Group's revenue. Lead frame revenue was US$43.3 million, representing a decline of 33.1% against the preceding quarter and an increase of 7.4% compared to the same quarter of last year. Lead frame revenue represented 14.7% of the Group's revenue in the fourth quarter. SMT equipment revenue was US$146.4 million, representing increases of 14.3% and 2.6% compared to the third quarter and to the same period in 2011, respectively. SMT equipment revenue contributed to 49.8% of the Group's revenue in the fourth quarter.

Due to the sharp contraction of the Back-end business, the Group suffered a loss in the fourth quarter, although both the SMT equipment and Lead frame businesses stayed profitable throughout this demanding period.

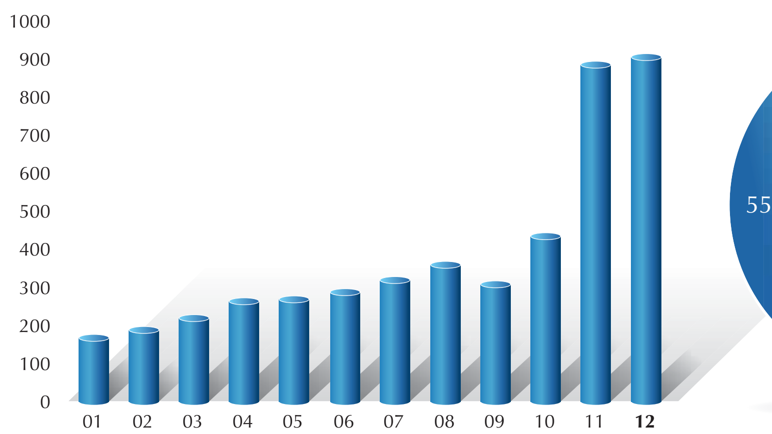
LIQUIDITY AND FINANCIAL RESOURCES

Cash on hand as of 31 December 2012 was HK$1,487 million (2011: HK$1,628 million). During the twelve-month period, HK$560.7 million was paid as dividends (2011: HK$1,901.4 million). Capital addition during the period amounted to HK$542.0 million (2011: HK$807.7 million), which was partially funded by the year's depreciation and amortization of HK$389.0 million (2011: HK$348.0 million). Accounts receivable have been tightly monitored during the year. With slower sales during the second half of 2012, accounts receivable increased to 79.4 days sales outstanding (2011: 59.3 days).

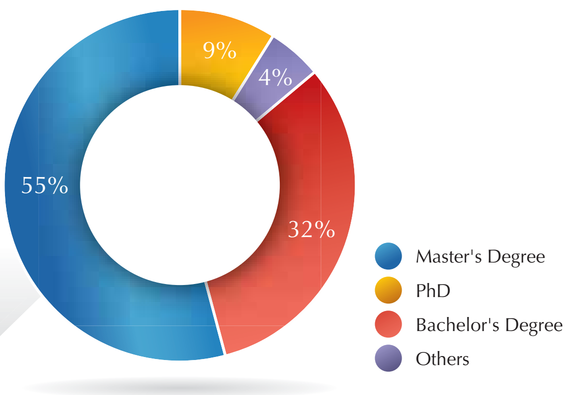
As of 31 December 2012, current ratio was 2.25, with a debt-equity ratio of 55.9%. The Group had available bank loans and overdraft facilities of US$344.4 million or its equivalent, out of which US$100.0 million or its equivalent were committed facilities. As of 31 December 2012, US$106.4 million of the Group's bank loan and overdraft facilities was drawn down, out of which utilization of committed facilities was US$25.0 million. The Group's shareholders' funds increased to HK$6,557 million as at 31 December 2012 (2011: HK$6,266 million).

R&D Expenditure 2001-2012

(HK$ Million)



Strong Academic Qualifications for Our 1200+ R&D Engineers Worldwide (as of December 31,2012)



IDEALmold™ 3G

ASM has become
the Technology
Partner of Choice
of our customers

ASM has a strong R&D team, comprehensive knowledge in the entire assembly process of semiconductor packaging and SMT placement, the broadest product portfolio and a strong financial background

CHAIRMAN'S STATEMENT *(CONTINUED)*

LIQUIDITY AND FINANCIAL RESOURCES (Continued)

The Group has moderate currency exposure. Majority of our sales were denominated in U.S. dollars, Euros and Chinese Renminbi. On the other hand, the disbursements were mainly in U.S. dollars, Euros, Hong Kong dollars, Singapore dollars, Malaysian Ringgit and Chinese Renminbi. Our limited yen-based receivables were offset by some accounts payable in yen to Japanese vendors. With the addition of the SMT equipment business, the Group's exposure to Euro had increased starting from 2011.

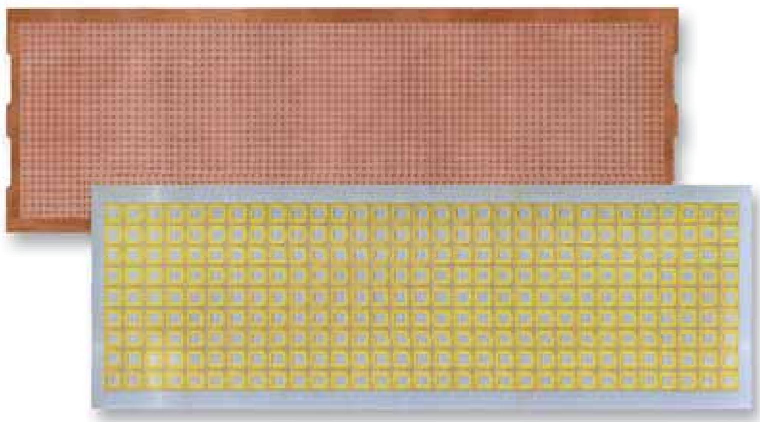
We continue to believe in returning excessive cash to our shareholders as dividends. Under the Sale and Purchase Agreement for the acquisition in January 2011 of the SMT Equipment business from Siemens AG, ASM had committed that it will not transfer assets, which include but are not limited to cash, from the German operations of the SMT Equipment business for a period of 3 years from the acquisition. After considering our short-term needs, the aforesaid commitment and our cash on hand, the Board recommends a final dividend of HK$0.30 per share. Excluding the earnings from the SMT equipment business, the dividend payout ratio for 2012 is 82.5%. With its promising growth potential in both revenue and earnings we believe our investment in the SMT equipment business will be able to deliver high returns in the future.

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.

As of 31 December 2012, total headcount of the Group worldwide was approximately 15,800 people, of whom 1,300 were based in Hong Kong and 14,500 were based in Mainland China and other locations overseas.

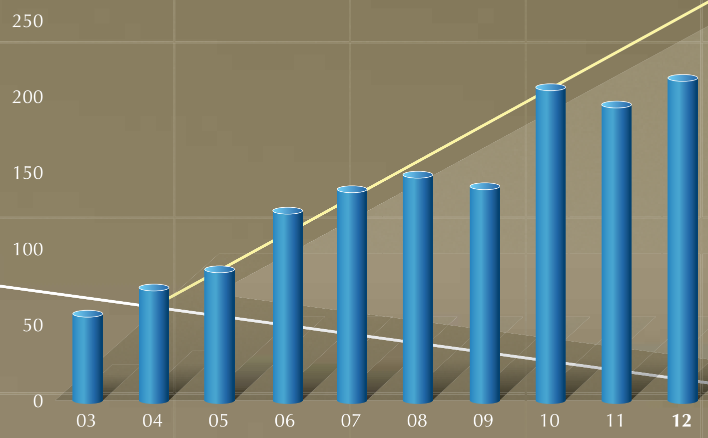
Total manpower costs for 2012 were HK$3,135 million, as compared with HK$3,046 million for 2011.



Our 100 mm x 300 mm Ultra High Density Lead frame solution sets a new standard in the industry

Lead frame Annual Billings 2003-2012

(US$ Million)



Lead frame business was our star performer last year

The Lead frame business attained another new record and reverted back to profitability

CHAIRMAN'S STATEMENT *(CONTINUED)*

PROSPECTS

There are signs that the market slowdown had stabilized towards the end of last year, indicating that we have probably come off the bottom of the current industry cycle. Although we cannot predict the rate of recovery at this moment, we are of the opinion that the market is gradually working its way upwards from the downturn. Some analysts have even forecasted that the semiconductor industry is on its way to sustainable multi-year growth.

Smart phones and tablet computers have become the most important drivers of the semiconductor market. Many observers have commented that we have already entered the era of personal mobile computing. The demand for such devices and gadgets is not likely to shrink in the near future. In fact, demand for low-price smart phones and tablet computers catering to the emerging markets can be expected to be an important driver of growth in the foreseeable future.

For instance, tablet computer shipments are expected to exceed notebook computer shipments by 2013 in many markets. With many players entering the market, we expect that the shifting market dynamics will create new opportunities in the form of the variety of devices, different price points and screen sizes, and innovative business models to drive the growth of tablet computers.

Improvements in LED technology and manufacturing, as well as continuous decrease in the pricing of LED components will benefit manufacturers of LED lighting. On the part of consumers, the growing awareness about the benefits of LED lighting, general satisfaction with the quality of products, and steady decrease in pricing of LED lighting will continue to fuel increasing market penetration, especially in the commercial segment (such as the retail and hospitality sectors) as economic growth recovers.

Ultimately, the prevailing macroeconomic conditions will have a major influence on the semiconductor market. The uncertainties surrounding the prospects for an upturn in global economic growth are the major retardants to consumer spending. This uncertainty has caused pessimistic business and consumer sentiments throughout the world. Much of this uncertainty appears to be nearing resolution, and as it does, the industry would be hopeful for investment to be reinvigorated, hastening a long-awaited acceleration of demand for capital equipment in 2013. Moreover, many industry participants predict that the current inventory correction cycle of the global semiconductor industry is coming to an end. These factors have the potential to spur a growth year ahead for the industry.

There are various indications that the world economy is gradually improving. The economy of the USA seems to be on a path to recovery, although the pace of the recovery is not as fast as many people would prefer. China seems to have avoided a hard landing to its economy despite a slowdown. Many analysts consider that China had successfully turned its economy towards greater internal consumption. While the external market for China-made goods may still be challenging, there is a general belief that the increased internal consumption will put the economic growth rate of China back into a state of expansion.

Therefore, there are encouraging signs that our industry is not far away from entering a period of growth, although no one is exactly sure when it will materialize. Many people in the industry believe that the likely timing will be the second half of this year or it may commence as early as the second quarter. In fact, we are expecting our Back-end equipment and Lead frame bookings in Q1 2013 to improve over the preceding quarter. However, until the market really picks up, market conditions will continue to be challenging.

We have put in place an **aggressive cost reduction programme** to drive improvement through **innovation and automation**

CHAIRMAN'S STATEMENT *(CONTINUED)*

PROSPECTS (Continued)

Besides growing alongside the anticipated recovery in the market, ASM aims to achieve growth by gaining market share and participating in new technologies addressing the future needs of the industry. With the popularity of smart phones and tablet computers, we expect demand for the so-called 2.5D and 3D packaging will accelerate. ASM has been investing aggressively in this area, developing technologies and solutions for both bonding and encapsulation. We expect our investment to bring meaningful returns in the foreseeable future.

The market has changed significantly in the past few years. Our customers are keen to aggressively develop new packaging solutions, and ASM has been selected by many of them as their technology partner. Unlike our peers, which are mainly players in specific product segments, ASM has a strong R&D team, comprehensive knowledge in the entire assembly process of semiconductor packaging and SMT placement, the broadest product portfolio and a strong financial background. We realize that when it comes to picking their technology development partner, many of our customers give significant weight to these factors.

We believe that our strategy of investing for the future, our potential for further market share gain in the SMT equipment business, the growing Lead frame and Back-end equipment businesses and our strong market position in the LED market are all strengths that enhance ASM's outlook for the future.

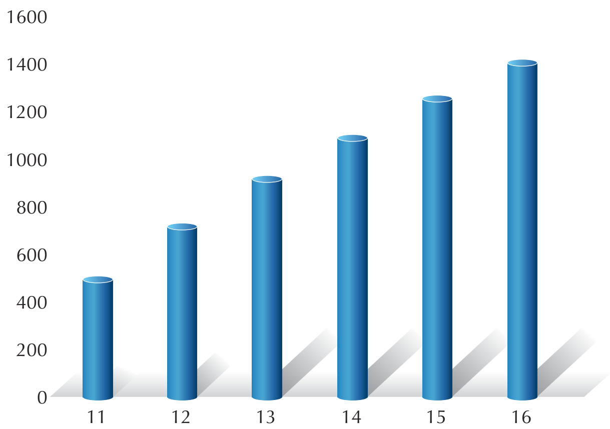
APPRECIATION

The Group is operating in a very competitive business environment and the semiconductor and electronics industry is facing many challenges. The Group's position as a leading supplier of both the Back-end and SMT Equipment markets is owed in no small measure to the tireless contributions of all our staff. We wish to take this opportunity to place on record our appreciation to our employees, customers, suppliers and stakeholders for their continued support and contributions to the success of the Company.

Arthur H. del Prado
Chairman
5 March 2013

Worldwide Smartphones Shipments

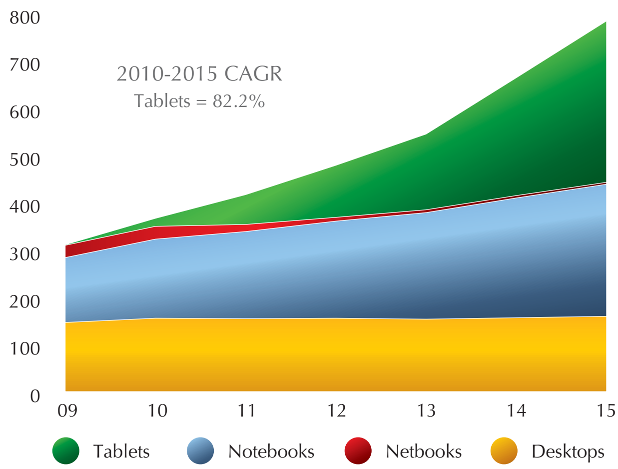
Millions of Units



Source: IDC, December 2012

Makeup of Personal Computer Market

Millions of Units



Source: IC Insights, May 2012

We are enhancing our **flexibility in manufacturing** to cater for the fast changing market conditions

We will supplement our internal manufacturing with increased level of outsourcing and flexible manufacturing workforce

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

ASM's technologically advanced and diverse product offerings make it a unique strategic partner for many customers in the electronics industry. ASM's enviable success across the different semiconductor industry cycles is a testimonial to its resilience, seamless execution of its winning strategies and ability to continuously increase its momentum in the marketplace. With the Group, including its SMT Equipment business unit, benefitting from new revenue streams and exciting new market opportunities, the Company is poised for dynamic growth once the macroeconomic situation improves.

In 2012, overall Group revenue was US$1,348.7 million, representing a decrease of 19.0% from the previous year's turnover. New order bookings amounted to US$1.32 billion, a drop of 4.0% as compared to the previous year. Our backlog as of 31 December 2012 was US$260.7 million. Net profits decreased by 76.5% from the previous year to HK$689.0 million.

During the first half of 2012, there was an initial pick-up in activity before the market met with headwinds. The promising performance was followed by a pronounced fall in demand during the second half of 2012, brought about by a number of adverse macroeconomic factors and falling consumer confidence.

Despite short-term economic fluctuations amid global uncertainties, we remain confident in the long-term demand for consumer electronic products in general, and in the excellent growth potential of the LED market in particular. An oversupply of LED products has given rise to weakness in the LED sector for a relatively long time. However, we expect that recovery is likely to resume, as new sources of demand materialize. In particular, we expect that demand for LED general lighting will serve to drive future growth of the market. We have noted that the previous decline of the level of demand in the LED has stabilized, and that a recovery in the LED market may be in sight.

The Group continues to benefit from a diversified customer base. In 2012, our top 5 customers accounted for only 16.4% of our total revenue. The Group's growing pool of customers for a wide variety of products has built a highly stable revenue base on which the Group has thrived. This is further complemented by our highly-diversified and wide product range, which enables us to offer a broad range of products and packaging solutions for the different groups of customers that we serve. To cope with such diversity, ASM has consistently excelled in delivering a good sales and support network and accompanying infrastructure to provide a high level of service to its customers.

Apart from our diversified customer base and wide product range, our strength also lies in our geographical diversification. China, Europe, Malaysia, the Americas and Taiwan are now the greatest contributors to our revenue. The addition of the SMT Equipment business into our portfolio has in particular raised the importance of the markets in Europe and the Americas. Overall, China remains our largest market, and is still expected to present further growth opportunities.

We are continuing to make strides in the SMT Equipment business, which we acquired from Siemens AG two years ago. We were able to seamlessly integrate the SMT Equipment business, and we are grateful for the level of cooperation and commitment from both sides to realize the synergistic effects of the acquisition. The SMT industry has proven to be a natural field of expansion for the Group. It is a product segment which allows us to achieve significant synergies since it has similar engineering, technical and production process characteristics as compared to the Back-end Equipment industry. Indeed, the SMT Equipment business was immediately able to contribute positively both to ASM's top and bottom lines, and it is continuing to do so in the past year. It was able to be profitable throughout the every quarter of 2012 despite challenging business conditions. We are confident that the SMT Equipment industry has very solid long-term growth prospects that can be further tapped.

OVERVIEW (Continued)

The acquisition of the SMT Equipment business was an attractive entry point into the SMT industry given its leading position, advanced research and development and technological capabilities, experienced management, brand awareness with customers and comprehensive global sales footprint. There are significant synergies from the enlarged Group that can be realized by adopting a variety of measures. For instance, we aim to achieve aggressive reduction of direct materials costs by leveraging on our larger purchasing power, by shifting the supplier base from Europe to Asia and by moving from outsourcing to in-sourcing from our manufacturing plants in China over time. The SMT Equipment business may further exploit revenue opportunities in the Asian region by drawing on the Group's deep knowledge and established position in the Asian markets. It can also increase its revenue base by horizontally expanding its product portfolio, and joint product development can be initiated to develop improved products drawing from the strengths of all parties.

The SMT Equipment business is expected to become an additional growth engine for ASM for the foreseeable future that will make a material and significant contribution to ASM's profitability.

Although the global semiconductor industry peaked in 2010, it has been going through a challenging phase in the past few years. In four out of the past five years, the market deteriorated significantly in the second half of the year, the exception being in 2009. ASM took proactive steps to organize itself to deal with the short term challenges, and at the same time, continued to invest for the future growth of the Company. The acquisition of the SMT Equipment business puts ASM in a unique position to take advantage of the potential market trend of convergence of the semiconductor assembly and SMT processes. In fact, last year we saw our chip Assembly (CA) machine from the SMT business group making in-roads into many different application areas, including SIP (system in package), WLFO (wafer level fan-out) and LED.

Recognizing the strong growth potential of our SMT equipment business, we have increased R&D spending in the development of SMT products, software and technologies since we acquired the business. We have increased R&D resources in Munich, Germany and have also established R&D capabilities in Singapore and Chengdu, China for the SMT business. We are confident that these investments will deliver good returns in future.

The semiconductor industry is on the verge of a technology transition brought about by new wafer node technology and the popularity of the personal mobile devices. Customers are aggressively looking for innovations in new packaging technologies. In so doing, customers are actively looking for technology partners. Unlikely many of our peers, who focus mainly on specific product segments, ASM has the broadest product portfolio, comprehensive knowledge of the assembly and SMT processes, advanced enabling technologies, a dynamic R&D team and strong financial resources. As a result, ASM has been the technology partner of choice for many of its customers.

As technologies are fast developing, capabilities and opportunities to co-develop new technologies with anchor customers is the key for future success. We believe that ASM is moving in the right direction.

Last year, the challenging economic and market conditions together with our determination to invest for the future has temporarily derailed ASM's proven track record of achieving excellent financial performance and the capability to reward shareholders with a high level of dividends. However, we are confident that we have laid solid foundations for the company to pursue sustainable long term growth and to achieve excellent profitability in future.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

MARKET AND PRODUCT DEVELOPMENT

Back-End Equipment Division

Last year, our Back-end Equipment revenue was US$647.9 million, representing 48.0% of the Group's turnover. Its revenue had decreased by 23.0% as compared to the previous year. We achieved quarterly billings of US$104.4 million for our Back-end Equipment during the last quarter of 2012, a decrease of 26.3% from a year ago and a decline of 47.5% as compared to the preceding quarter.

Various factors contributed to the deterioration of our gross margins, which suffered especially under the challenging macroeconomic market conditions. In order of increasing importance, production capacity utilization, product mix, selling price pressure and manufacturing costs were likely to be the contributing factors to the deterioration of gross margins.

Our response to the occurrence of large market fluctuations is to increase the flexibility of our manufacturing. We would like to build more flexibility in our manufacturing through various measures. One measure is to increase our out-sourcing level by up to 30%. Another measure is to use temporary and contract workers for non-core production activities during market ramp-ups. We are redesigning our production process and developing training programs such that new recruits can be trained in relatively short time-frames for non-core production activities. At the same time, we would be mindful of retaining a core work force with critical skill requirements.

Our equipment portfolio encompasses 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. We are recognized for providing solutions for handling different die sizes, and we are also known for the versatility of our die bonders. Our die bonders can be utilized for many different applications and they assist our customers tremendously to enhance their productivity. Our AD838 and AD8312 die bonders, which cater to 8-inch wafers and 12-inch wafers respectively, are market leaders. Both the AD838 and AD8312 have been very well-received by the market and clearly surpass their competitors in both throughput and cost effectiveness. Additionally, our 12-inch die bonder, the LINDA™, is recognized by our customers as the most accurate die bonder for stack die applications, and is ideal for producing flash memory devices.

ASM continues to be one of the leaders in wire bonding technology. Our gold wire bonder, the Eagle Xtreme™, is capable of cutting-edge 30 micron fine pitch bonding. Our dual head gold wire bonder based on the Eagle Xtreme™ platform is unique and unparalleled in its cost-effectiveness, and is an excellent example of the success of our Blue Ocean Strategy.

Our technologically-advanced copper wire bonder, the GoCu™ wire bonder has been well-received. This new product is meant to cater to customers driven by the need to reduce cost and to enhance electrical performance for dies with very small line widths. The GoCu™ wire bonder serves to close the throughput gap between gold wire bonding and copper wire bonding, while reducing costs for customers. It has been enthusiastically embraced by the market and has aroused the interest of many customers, including potential new customers for ASM.

Generally, the packaging industry estimates that 70-80% of wire bonding packages can be converted to copper wire bonding. The remainder will not be converted either because it is not cost-effective to convert products that were built on old wafer node technology, or that the customer for the end-product simply has no desire to make the conversion.

Tier-1 outsourced semiconductor assembly and test ("OSAT") companies have already converted a significant portion of their wire bonding capacity to be copper wire-ready. We expect them to slow down their rate of conversion shortly. On the other hand, other OSAT companies will continue with their copper wire bonding conversion processes since copper wire bonding has proven to be a reliable and very cost-effective alternative to gold wire bonding.

MARKET AND PRODUCT DEVELOPMENT (Continued)

Back-End Equipment Division (Continued)

Our heavy aluminum wire bonder for power electronic packages has been making further solid in-roads to the market in the past year. We expect that there will be a strong demand for such wire bonders in the production of power drivers and power management electronic devices due to the booming demand for electric cars and the drive for "green" products.

We have a wide range of LED products, including bonders, encapsulation systems, LED sorters and test handlers. There was an oversupply in the LED industry and, as a result, the LED industry entered into a prolonged downturn for the past two-and-a-half years. However, the oversupply situation led to drastic reduction in the prices of LED wafers. We believe that this will help to expedite new applications of LEDs, including in the area of LED general lighting. Despite demand for LED equipment being relatively low for the past two years; we continue to invest in new product development. In order to further tap into this potential growth market, we have started shipping LED lead frames to our customers. Moreover, we are developing laser saws for LED wafers. Amongst other benefits, our new technology will enable our customers to achieve better light emission efficiency.

Our Encapsulation Solutions Group ("ESG") has continued to make further advancements. ASM is now the choice of many key customers for its superior molding technology, such as Pinnacle Gating System ("PGS") for high density lead frame molding, Package-on-Package ("POP") molding and mold under-fill ("MUF") molding, which are especially suitable for the development of advanced new packages. These advanced capabilities have helped ASM gain entry to a number of new accounts, including the world's top semiconductor assembly and packaging companies. The ESG group has made significant progress in compression molding technology with the IDEALcompress™ which is applicable in areas such as wafer level packages, high brightness LED and other optical devices. Our latest IDEALmold 3G platform combines traditional transfer molding and the state-of-the-art compression molding technology in one system. Last year, the ESG group delivered molding solutions for 100mm x 300mm ultra-high density lead frames. The strong performance of our ESG group has been demonstrated by its growth and gain in market share during the past few years.

Our post-encapsulation equipment machines, such as our ball placement, package singulation and test handler equipment, have succeeded in further market penetration. Our FT2018 test handler is gaining good market acceptance, as have our singulation and pick-and-place machines for QFN devices. Despite a general slowdown in the Back-end Equipment market, our post-encapsulation equipment operation has continued to perform well last year, and has shown excellent potential to further contribute to our revenue streams.

The demand for smart phones and tablet computers will be the major driver for the semiconductor industry for the foreseeable future. We anticipate that flip chip packages and system-in-packages ("SIP") will be on a growing trend. Moreover, the adoption of technologically-advanced 2.5D and/or 3D packages will accelerate. In addition, the use of copper pillar flip chips utilizing thermal compression bonding is gaining momentum. It is a solution that is suitable for very-fine pitch flip chip packages, and offers superior package performance. ASM has been investing heavily in this area for the past few years. We expect it to deliver good returns soon.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

MARKET AND PRODUCT DEVELOPMENT (Continued)

Lead Frame Division

The Lead frame operations have successfully returned to profitability. Our revenue for Lead frames in 2012 experienced growth of 8.8% as compared to the preceding year to US$212.3 million. Based on the available market statistics, we believe that we have once again out-performed the market last year. In fact, our market position has been further strengthened. ASM is now among the top five lead frame suppliers in the world. Overall demand for Lead frames was fundamentally solid, as evidenced by a strong double-digit improvement experienced in Lead frame bookings in the fourth quarter of 2012. In order to satisfy both the current and future customer demand, we continue to expand our Lead frame production capacity. A new etching facility in Fuyong, China has been set up to capture the growing China market for Lead frames, especially QFN lead frames. We expect the newly installed etching facilities in China will help to boost our Lead frame revenue to even higher levels.

Lead frame revenue in the fourth quarter increased by 7.4% from the same quarter last year to US$43.3 million and decreased by 33.1% from the preceding quarter. Lead frame revenue contributed to about 14.7% of the Group's turnover in the fourth quarter. We are particularly pleased that our Lead frame Business remained profitable in the fourth quarter last year.

ASM continues to maintain its leadership position in the development of high-density lead frame solutions. ASM has aggressively promoted its 100mm x 300mm ultra high-density solutions, which offer very good value propositions to its customers. Offering such high-density lead frame solutions has not only helped the Group penetrate new accounts in the Lead frame business but has also created business opportunities for its related equipment. The ultra high-density lead frame will be a key enabler for cost reduction by our customers in the next few years. With its expertise in Lead frames and equipment, and process knowledge in various technical fields, ASM is in a unique position to assist its customers to realize the cost reduction potential offered by the latest technologies. ASM has also started shipping LED lead frames to its customers. We expect its contribution to our Lead frame revenue will continue to increase.

SMT Equipment Division

Our SMT Equipment business has its headquarters in Munich, Germany, and its R&D centres and manufacturing plants in Munich and Singapore. Our SMT Equipment is marketed under the "SIPLACE" brand name, which has been licensed from Siemens AG for 5 years. We are very pleased with the progress of the integration of this business into the Group so far. The acquisition has widened the Group's product portfolio, enlarged the Group's total addressable market ("TAM"), further enhanced the Group's technologies and added new talents with good skills and knowledge to the Group. Most importantly, we believe that it offers significant growth potential to the Group in terms of both revenue and net profits.

Last year, the SMT Equipment business performed very well. We have penetrated into many new accounts, including an important customer producing smart phones. The SMT Equipment business achieved US$488.5 million in revenue in 2012, which represented a contraction of 22.3% from 2011. It contributed 36.2% to the Group's revenue in 2012. We are particularly pleased that it has contributed positively to the Group's bottom line right from the outset. It achieved a gross margin of 30.1% and EBIT of 9.4% in 2012.

MARKET AND PRODUCT DEVELOPMENT (Continued)

SMT Equipment Division (Continued)

During the fourth quarter of 2012, SMT Equipment revenue was US$146.4 million, which represents increases of 14.3% over the third quarter, and contributing to 49.8% of the Group's revenue. Despite lower revenue, our SMT Equipment business remained profitable with a gross margin of 28.3% and EBIT of 9.4%. Bookings for SMT Equipment improved slightly in the fourth quarter last year over the preceding quarter. In particular, we are pleased that the SMT Equipment market in China now seems to be on its way to recovery.

The synergies which we had envisaged at the time the acquisition was mooted have been confirmed. The manufacturing capabilities and expertise of our team in Asia are well-appreciated by our engineers in Germany, while our engineers and other staff in Asia are correspondingly impressed by the advanced technologies developed in Germany. Engineers throughout the Group are now aggressively working on cost reduction and in-sourcing to fulfill the synergistic potential. By now, we have made preparations for a few hundred components, sub-assemblies and modules to be produced in our factory in China. When we successfully ramp up the production of these parts, we expect that there will be a significant boost to our aim of lowering the production costs of our SMT Equipment.

Synergy was also found in product development. We are seeing more and more cross-utilization of technologies from both sides. We are especially poised to benefit from the increasing signs of convergence of the Back-end and SMT Equipment markets. One example is the successful introduction of our chip-attach ("CA") machines to expand into non-traditional SMT placement markets.

Right from the start, we have increased our R&D spending in the SMT Equipment business. We have moderately increased our R&D resources in Munich and established R&D capabilities in Singapore and Chengdu for the SMT Equipment business. Furthermore, we have developed a new-generation placement machine with improved price-performance and lower cost. Other developments that are in the pipeline include a new placement machine addressing the lower-end market and adjacent products that will broaden our product portfolio in the SMT Equipment market. We aim to introduce these adjacent products to the market later this year.

The combined operation is making good progress in respect of its in-sourcing efforts, although we would like to put even greater efforts to further hasten the progress of the planned in-sourcing implementation. The linear motor is the most critical component used in our SMT equipment. It directly contributes to the high performance of the SMT placement machines, and is also one of the highest-value components. In the past two years, our team in Asia has successfully designed our own linear motors. Going forward, we expect most of the linear motors that we use in our SMT equipment will be in-sourced.

Due to the market slowdown in 2012 and certain production issues that we have to overcome, the actual contribution to gross margin improvement last year due to in-sourcing was not too large. However, we expect that its contribution will increase significantly this year.

The combined organization has also improved the Group's purchasing power. Suppliers from both Asia and Europe are eager to present attractive offers to the Group to take the opportunity to supply to both our Back-end Equipment and SMT Equipment businesses. Based on the progress so far, we are still confident that we will be able to bring the profitability of our SMT Equipment business to the similar level of the Back-end Business in the foreseeable future.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

FINANCIAL

We continue to streamline our working capital management to deal with a wide range of products and high fluctuation of production run rates. The acquisition of the SMT Equipment business has increased our inventories significantly as the revenue contribution from the new business is sizeable. Last year, the fast market ramp-up experienced in the second quarter and the subsequent abrupt stalling of market momentum caused our inventory to build up undesirably. Last year, inventory turnover was 3.86 times (2011: 6.19 times), with an ending inventory of HK$2,876 million. Receivables have been tightly monitored. With slower sales during the second half of 2012, accounts receivable increased to 79.4 days sales outstanding (2011: 59.3 days). So far our bad debt exposure, if any, is immaterial and well-covered by provisions made in conformity with ASM's policy. There was a cash conversion cycle of 176.4 days. The increased working capital and low profitability had resulted in a relatively low free cash flow of HK$89 million (2011: HK$986 million).

Capital investments amounting to HK$542 million were made in 2012, which was partially funded by last year's depreciation expenses. Return on invested capital was 13.3% (2011: 46.4%). Cash on hand as of 31 December 2012 was HK$1,487 million (2011: HK$1,628 million).

As of 31 December 2012, current ratio was 2.25, with a debt-equity ratio of 55.9%. The Group had available bank loans and overdraft facilities of US$344.4 million or its equivalent, out of which US$100 million or its equivalent were committed facilities. As of 31 December 2012, US$106.4 million of the Group's bank loan and overdraft facilities was drawn down, out of which utilization of committed facilities was US$25 million.

Bank borrowings are mainly arranged to support the day to day operations as well as to finance the second phase expansion of the Huizhou factory in China. These are denominated in Hong Kong dollars and US dollars.

As of 31 December 2012, cash holdings by the Group were mainly in Euro, US dollars, Chinese Yuan (RMB) and Hong Kong dollars. The SMT equipment business unit of the Group enters into US dollars and Euro hedging contracts to mitigate the foreign currency risks as the production of SMT equipment and its suppliers are mainly located in Europe while a substantial part of the Group's revenue for SMT equipment are denominated in US dollars.

The Group's shareholders' funds increased to HK$6,557 million as at 31 December 2012 (2011: HK$6,266 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 continual positive cash generation from our ongoing operations, we aim to maintain our policy of operating the Group with the optimum shareholder funds and returning any excessive cash holdings to our shareholders.

CAPACITY AND PLANT DEVELOPMENT

The acquisition of the SMT Equipment business has expanded our addressable market but also introduces increased challenges in dealing with a more diverse product mix, diverse geographical locations and an expanded supply chain. The establishment of our third manufacturing plant in Huizhou, China, is a key foundation to the company's long-term plans to pursue our growth strategy. The Huizhou manufacturing plant has been designated for the production of wire bonders as well as the in-sourcing of parts and modules for SMT Equipment, and the increased capacity is timely for supporting the production needs of the SMT Equipment business unit, which is set to grow together with the recovery of demand in China.

CAPACITY AND PLANT DEVELOPMENT (Continued)

We have completed the second phase of expansion of our Huizhou manufacturing plant. Its new casting center enables us to upgrade our casting technology and increase the portion of castings which are supplied internally. A new fabrication center provides room for the further expansion of both our Back-end and SMT Equipment businesses. Our current installed capacity puts us in a great position to take advantage of new emerging opportunities. In addition, we are in the process of adjusting our vertical integration business model by increasing the flexibility of our manufacturing in reaction to dynamic and fast-changing market conditions. We aim to develop sub-contracting partners to increase our out-sourcing level up to around 30%. We also plan to supplement our manufacturing workforce with temporary and contract workers to capture the market opportunities when the market is on an uptrend. In order to do that, we are carefully reviewing and redesigning our manufacturing work processes, and creating job functions that do not require critical skill training. We believe that outsourcing and the development of a flexible manufacturing workforce will significantly improve ASM's capability in coping with the difficult market periods and enable ASM to continue to deliver outstanding growth and returns to its shareholders.

This year, our capital expenditure budget will be HK$622 million, of which approximately 40% will be spent on production machineries either to upgrade our capabilities or to increase our capacities to address current production bottlenecks. We will also allocate more resources to further upgrade our IT infrastructure, and we expect that this will contribute positively to improving our efficiency. More resources will also be put into further enhancing our R&D capability to enhance our technological leadership and long-term cost advantages.

Additionally, we plan to expand our factory in Singapore so that we can integrate the facilities for our SMT Equipment business in Singapore under one roof.

RESEARCH AND DEVELOPMENT

ASM's long term commitment in R&D has become one of our competitive advantages, and will be a major factor to support the future growth of the company. With our continued investment in R&D, we will further widen our technology leadership over our peers. Despite the challenges brought about by the market slowdown and adverse macro-economic situation, we are determined to push ahead with our R&D investment. We believe in investing during dips in the market in preparation for the future.

Our R&D focus for the past few years has been in the areas of copper wire bonding, thin die handling, flip chip packaging, thermal compression bonding (TCB), encapsulation of advanced packages, die and package singulation, test handling as well as automatic optical inspection (AOI). Advanced packaging of LEDs with the aim of improving light emission efficiency is also one of our focuses. In the past two years, we have invested heavily in the development of TCB solutions, as we believe that the industry is on the verge of a technology transition. With its capability to address fine pitch flip chip bonding using copper pillars and potential applications for 2.5D and 3D packages, we believe that TCB is a promising technology for the future.

In the SMT Equipment area, our R&D focus has been in the areas of developing new generation placement machines which deliver better price performance at lower cost, software solutions to enhance the value of ASM products to customers, adjacent products for the SMT market and new placement machines addressing the low-end application market.

Advanced enabling technologies in the areas of linear motor, control systems and algorithm, computer vision, software and advanced materials are ASM's strengths. They enable ASM equipment to achieve state of the art performance at affordable cost.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

RESEARCH AND DEVELOPMENT (Continued)

We are satisfied with the progress made by our new R&D centre in Chengdu, China, which has strengthened our R&D capability. The new R&D centre in Chengdu is well-positioned to support all the different business units of the Group, including the SMT Equipment business unit.

A fourth R&D centre was added in Munich, Germany as a result of the acquisition of the SMT Equipment business. Both the R&D centres in Munich and Singapore for the SMT Equipment business have been expanded to develop solutions to address market segments that have not been addressed by us so far and to expand our product portfolio in the SMT Equipment market horizontally. We consider these to be important strategies to increase our market share and revenue.

We believe that with the aforesaid increase in R&D resources, ASM's long-term strategic positioning as the leader of the Back-end Equipment business, as well as a leading supplier of SMT Equipment, would be significantly strengthened. ASM will be in a unique position to capture the market trend of convergence of chip packaging and SMT processes.

ASM's strategy over the years has been to deliver the best value propositions to our customers. We believe in investing substantially in R&D to implement this strategy. Thus, we have maintained our long-standing policy of spending 10% of our equipment turnover on R&D while ignoring short-term sales fluctuations. This has been very important to enable us to widen our product portfolio to supply to diversified market segments.

Our current research and development teams based in Hong Kong, Singapore, Chengdu and Munich consist of about 1,200 people with close to 64% of them having a Master or PhD degree. Our net R&D expenditure increased by 2.3% to HK$905 million (2011: HK$885 million) representing 10.3% of our equipment (Back-end as well as SMT) sales and is in line with our R&D funding guidelines. Approximately 43.6% of our R&D expenditure last year was spent on the SMT Equipment business unit.

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.

As of 31 December 2012, the total headcount of the Group worldwide was approximately 15,800 people, of whom 1,300 were based in Hong Kong and 14,500 were based in mainland China and other locations overseas.

Total manpower costs for 2012 were HK$3,135 million, as compared with HK$3,046 million for 2011.

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 2012.

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 and surface mount technology placement machines.

RESULTS AND APPROPRIATIONS

The Directors recommend the payment of a final dividend of HK$0.30 (2011: Final dividend of HK$0.80) per share which, together with the interim dividend of HK$0.61 (2011: Interim dividend of HK$1.60) per share paid during the year, makes a total dividend for the year of HK$0.91 (2011: HK$2.40) per share.

Details of the results of the Group are set out in the consolidated statement of comprehensive income on page 53.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 120 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

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

SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2012 are set out in note 40 to the consolidated financial statements.

SHARE CAPITAL

On 15 December 2012, 1,607,400 shares were issued at par to certain employees pursuant to their entitlements under the Company's Employee Share Incentive Scheme.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that an independent professional trustee appointed by the Board under the Employee Share Incentive Scheme, pursuant to the terms of the rules and trust deed of the Employee Share Incentive Scheme, purchased on the Exchange a total of 328,000 shares in the Company. The cost of purchase of these shares amounted to HK$37 million.

DIRECTORS' REPORT *(CONTINUED)*

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, as at 31 December 2012 amounted to HK$1,988,546,000 (2011: HK$2,047,637,000). In accordance with the Company's Articles of Association, dividends can only be distributed out of profits of the Company.

DIRECTORS

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

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
Robin Gerard Ng Cher Tat, Chief Financial Officer

Non-executive Directors:

Charles Dean del Prado
Petrus Antonius Maria van Bommel

Independent Non-executive Directors:

Orasa Livasiri
Lee Shiu Hung, Robert
Lok Kam Chong, John
Wong Hon Yee (appointed on 27 December 2012)

In accordance with the articles 113, 114 and 117 of the Company's Articles of Association ("the Articles"), Mr. Lo Tsan Yin, Peter, Mr. Petrus Antonius Maria van Bommel, Mr. Charles Dean del Prado, Miss Orasa Livasiri, Mr. Lee Shiu Hung, Robert, and Mr. Wong Hon Yee will retire from office as Directors at the forthcoming annual general meeting. Mr. Lo Tsan Yin, Peter and Mr. Lee Shiu Hung, Robert had informed the Board of their intention not to seek re-election at the forthcoming annual general meeting. All the other aforesaid Directors, being eligible, will offer themselves for re-election.

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

Arthur H. del Prado, aged 81, 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 used to be a member of the Board of several companies, civic and non-profit making organisations, among which the MEDEA+ Board, the "Micro Electronics Development for European Applications" project. He was also 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. At present, Mr. Arthur H. del Prado serves on the board of several start-up companies in technology industries.

DIRECTORS (Continued)

Lo Tsan Yin, Peter, aged 64, 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 58, 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 30 years of working experience in the semiconductor industry.

Chow Chuen, James, aged 56, 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 30 years of working experience in the electronics and semiconductor industry.

Ng Cher Tat, Robin, aged 49, was appointed to the Board as an Executive Director on 28 April 2011. He was also appointed as the Chief Financial Officer of the Group on 1 February 2010. Mr. Ng holds an accountancy degree from the National University of Singapore and a Master of Laws (Commercial Law) from the University of Derby. Mr. Ng is also a Fellow Certified Public Accountant of Singapore who has acquired more than 25 years of working experience in finance, audit and accounting.

Charles Dean del Prado (He is also known as "Mr. Chuck del Prado"), aged 51, was appointed as the Non-executive Director of the Company on 29 April 2010. He is a member of the Management Board of ASM International since 2006. He assumed the position of Chief Executive Officer (CEO) of ASM International on 1 March 2008. As CEO, Mr. Charles Dean del Prado oversees the operations of the worldwide organization from the company headquarters in Almere, the Netherlands. Mr. Charles Dean del Prado is the son of Mr. Arthur H. del Prado, the Chairman of the Company. During his twenty-year career, Mr. Charles Dean del Prado has had worldwide experience in sales, marketing, manufacturing, and customer service of high technology computer and semiconductor products. From 2003 to 2008, he served as President and General Manager of ASM America, responsible for the R&D, sales, manufacturing, and service of the Epitaxy and TCP product lines, which include high-k and atomic layer CVD deposition. He also directed sales and service of ASM International's Front-end product lines to all US customers. Previously, Mr. Charles Dean del Prado served as Director of Marketing, Sales & Service of ASM Europe. Prior to joining ASM International in 2001, Mr. Charles Dean del Prado spent five years at ASM Lithography Holding N.V. (ASML) in Taiwan and the Netherlands managing wafer stepper manufacturing and customer program management. From 1988-1996, Mr. Charles Dean del Prado had assignments in sales and global account management at IBM Nederland N.V.. Mr. Charles Dean del Prado received a Master of Science degree in Industrial Engineering and Technology Management from the University of Twente in the Netherlands.

Petrus Antonius Maria van Bommel, aged 56, was appointed as the Non-executive Director of the Company on 29 October 2010. He is the Chief Financial Officer of ASM International. He was appointed as a member of the Management Board of ASM International in May 2010 for a period of 4 years. He holds a Master's degree in economics from the Erasmus University, Rotterdam, the Netherlands. He has more than twenty years of experience in the electronics and semiconductor industry. He spent most of his career at Philips, which he joined in 1979. From the mid-1990s until 2005, Mr. Petrus Antonius Maria van Bommel acted as Chief Financial Officer of several business units of the Philips group. Between 2006 and 2008, he was Chief Financial Officer at NXP (formerly Philips Semiconductors) and was Chief Financial Officer of Odersun AG, a manufacturer of thin-film solar cells and modules, from January 2009 until 31 August 2010. In April 2012 Mr. Van Bommel was appointed member of the Supervisory Board and member of the Audit Committee of the Royal KPN N.V..

DIRECTORS' REPORT *(CONTINUED)*

DIRECTORS (Continued)

Orasa Livasiri, Independent Non-executive Director, aged 57, was appointed to the Board as an Independent Non-executive Director in 1994. She was a solicitor in private practice and a partner of Messrs. Ng, Lie, Lai & Chan prior to her retirement in November 2012.

Lee Shiu Hung, Robert, Independent Non-executive Director, aged 80, 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 Practicing 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, Independent Non-executive Director, aged 50, 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.

Wong Hon Yee, Independent Non-executive Director, aged 65, was appointed to the Board as an Independent Non-executive Director on 27 December 2012. Mr. Wong is a chartered engineer and a fellow of the Hong Kong Institution of Engineers. Presently he is the Associate Vice President (Knowledge Transfer) at the City University of Hong Kong. Prior to joining City University of Hong Kong, he has been involved in high-tech product design and engineering management in industry for 25 years, over 20 of which were spent at Ampex Ferrotec Ltd., a subsidiary of Ampex Corporation in the USA. He received his Bachelor of Science in Electrical Engineering from the University of Hong Kong in 1969 and Master of Science in Electrical Engineering and Computer Science (EECS) from the University of California, Berkeley in 1971.

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 53, 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 March 1990. On 25 June 1999, at an extraordinary general meeting of the Company, the shareholders approved to extend the period of the Scheme for a further term of 10 years up to 23 March 2010 and allow up to 5% of the issued share capital of the Company from time to time, excluding any shares of the Company subscribed for or purchased pursuant to the Scheme since 23 March 1990, to be subscribed for or purchased pursuant to the Scheme during the extended period.

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

On 21 March 2012, the Directors resolved that the Company should contribute HK$162,230 to the Scheme, enabling the trustees of the Scheme to subscribe for a total of 1,622,300 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 2011 upon expiration of the defined qualification period.

The Board also resolved to instruct an independent professional trustee, appointed by the Board under the Employee Share Incentive Scheme, to purchase a total of 328,000 Shares at market price as soon as practicable on the Stock Exchange. These Shares represented the aggregate of shares to which the four Executive Directors, namely, Mr. Lee Wai Kwong, Mr. Chow Chuen, James, Mr. Lo Tsan Yin, Peter and Mr. Robin Gerard Ng Cher Tat, would be eligible to receive pursuant to the Scheme, and subject to the 2012 qualification period, the Shares would be held on trust for them.

In March 2012 the independent trustee purchased a total of 328,000 Shares, which represents approximately 0.08% of total issued share capital of the Company at the date of purchase, at total consideration of HK$37 million on the Stock Exchange. These 328,000 Shares were transferred to the said Directors at no cost upon the expiration of 2012 qualification period.

DIRECTORS' REPORT *(CONTINUED)*

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 2012 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 Issuers 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	Beneficial Owner	*(Note i)*	–
Charles Dean del Prado	Beneficial Owner	*(Note ii)*	–
Lee Wai Kwong	Beneficial Owner	846,700	0.21%
Lo Tsan Yin, Peter *(Note iii)*	Beneficial Owner	248,000	0.06%
Chow Chuen, James	Beneficial Owner	340,000	0.09%
Robin Gerard Ng Cher Tat	Beneficial Owner	37,000	0.01%

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

Name of director	Date of grant	Exercise period	Exercise price	At 1 January 2012	Granted during the year	At 31 December 2012
Arthur H. del Prado	23.5.2007	23.5.2010 – 23.5.2015	EUR 19.47	52,886	–	52,886
Charles Dean del Prado	1.2.2003	1.2.2008 – 1.2.2013	US$11.35	20,000	–	20,000
	23.5.2007	23.5.2010 – 23.5.2015	EUR 19.47	19,645	–	19,645
	1.3.2008	1.3.2011 – 1.3.2016	EUR 12.71	125,000	–	125,000
	30.11.2009	30.11.2012 – 30.11.2017	EUR 15.09	50,000	–	50,000
	31.12.2011	31.12.2014 – 31.12.2018	EUR 22.33	75,000	–	75,000
	31.12.2012	31.12.2015 – 31.12.2019	EUR 27.04	–	60,000	60,000
Petrus Antonius Maria van Bommel	23.12.2010	1.7.2013 – 1.7.2017	EUR 16.27	25,000	–	25,000
	31.12.2011	31.12.2014 – 31.12.2018	EUR 22.33	53,000	–	53,000
	31.12.2012	31.12.2015 – 31.12.2019	EUR 27.04	–	40,000	40,000

DIRECTORS' INTERESTS IN SHARES (Continued)

Long positions (Continued)

Notes:

(i) As at 31 December 2012, Arthur H. del Prado, as well as a Dutch private liability company and a foundation both controlled by him, altogether held about 17.98% of the share capital of ASM International, represented by 11,346,323 common shares. ASM International through its wholly-owned subsidiary, ASM Pacific Holding B.V., is a controlling shareholder of the Company, holding 207,427,500 shares which is approximately 51.96% of the entire share capital of the Company. 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.

(ii) Mr. Charles Dean del Prado and his spouse directly held 134,362 common shares in ASM International, together with his interest of 713,000 common shares in ASM International held through a foundation controlled by Mr. Arthur H. del Prado, he is deemed to be interested in an aggregate of 847,362 common shares in ASM International, representing 1.34% shareholding in the issued share capital in ASM International.

(iii) As at 31 December 2012, Mr. Lo beneficially owned 2,500 shares of ASM International (representing 0.0040% shareholding in the issued share capital in ASM International).

(iv) Details of the share option schemes of ASM International are set out in note 38 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 2012, 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 executive 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.

DIRECTORS' REPORT *(CONTINUED)*

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, 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	51.96%	–	–
ASM Pacific Holding B.V.	Beneficial owner	207,427,500	51.96%	–	–
Aberdeen Asset Management Plc and its associates on behalf of accounts managed by Aberdeen Asset Management Plc and its associates	Investment manager	52,004,720	13.03%	–	–
The Capital Group Companies, Inc	Investment manager	26,412,500	6.62%	–	–
Capital Research and Management Company	Investment manager	20,010,600	5.01%	–	–

Save as disclosed above, as at 31 December 2012, 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

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

Arthur H. del Prado, Charles Dean del Prado, Petrus Antonius Maria van Bommel 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 which are set out in note 31 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 approximately HK$582,000.

CONFIRMATION OF INDEPENDENCE

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.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2012.

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
5 March 2013

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE PRACTICES

On 1 April 2012, 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") was amended and renamed as Corporate Governance Code and Corporate Governance Report ("Revised CG Code").

The Company has complied with all the code provisions in the CG Code during the period from 1 January 2012 to 31 March 2012 and has complied with the Revised CG Code during the period from 1 April 2012 to 31 December 2012.

The manner in which the principles and code provisions in the CG Code and the Revised CG Code are applied and implemented are explained as follows:–

THE BOARD

Board composition

As at 31 December 2012, the Company has eleven directors, one of whom is female. The majority of Board members are non-executive directors. They bring to the Board a wide range of professional experience in areas of business, financial, legal, technical and industrial, which contribute to the effective direction of the Group. Members of the Board comprise nationals from Hong Kong, Singapore and the Netherlands. The Board considers its current composition to have achieved good diversity in terms of gender, cultural, educational background and professional experience.

The Board of the Company comprises the following directors during the year ended 31 December 2012:

Executive Directors

Arthur H. del Prado (Chairmen of the Board and Nomination Committee, Member of Remuneration Committee)
Lo Tsan Yin, Peter (Vice Chairman of the Board)
Lee Wai Kwong (Chief Executive Officer)
Chow Chuen, James (Chief Operating Officer)
Robin Gerard Ng Cher Tat (Chief Financial Officer)

Non-Executive Directors

Charles Dean del Prado * (Member of Remuneration Committee and Nomination Committee)
Petrus Antonius Maria van Bommel (Member of Audit Committee)

Independent Non-Executive Directors

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

* Mr. Charles Dean del Prado was appointed as Member of Remuneration Committee with effect from 1 February 2012.
** Mr. Wong Hon Yee was appointed as Independent Non-executive Director and Member of Nomination Committee with effect from 27 December 2012.

THE BOARD (Continued)

Board composition (Continued)

Mr. Charles Dean del Prado is the son of Mr. Arthur H. del Prado. This aside, none of the members of the Board is related to one another.

During the year ended 31 December 2012, the Company's Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise. Currently, there are two such directors on the Board and they are also members of the Board's Audit Committee. After the appointment of an additional independent non-executive director in December 2012, the Company has complied with the Revised Listing Rules requirement of independent non-executive directors representing at least one-third of the Board.

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

Corporate Governance Functions

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

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

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 2012. 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"), each Director elected by the Company at general meetings shall be elected for a term of not more than three years until the conclusion of the third annual general meeting following his or her appointment. The Directors whose term has expired are eligible for re-election at general meetings.

Mr. Lo Tsan Yin, Peter, Mr. Petrus Antonius Maria van Bommel, Mr. Charles Dean del Prado, Miss Orasa Livasiri and Mr. Lee Shiu Hung, Robert shall retire from office as Directors at the forthcoming annual general meeting in accordance with Articles 113 and 114 of the Company's Articles. Mr. Lo Tsan Yin, Peter and Mr. Lee Shiu Hung, Robert had informed the Board of their intention not to seek re-election at the forthcoming annual general meeting. All the other aforesaid Directors, being eligible, will offer themselves for re-election.

Mr. Wong Hon Yee, who was appointed as Independent Non-Executive Director by the Board with effect from 27 December 2012, shall retire and being eligible, shall offer himself for re-election at the forthcoming general meeting pursuant to Article 117 of the Company's Articles.

Nomination Committee

On 13 February 2012, the Board resolved to establish a Nomination Committee with effect from 1 April 2012 with specific terms of reference that deal clearly with its authority and duties. The Board has appointed Mr. Arthur H. del Prado as chairman of the Nomination Committee, Mr. Charles Dean del Prado, Miss Orasa Livasiri, Mr. Lee Shiu Hung, Robert and Mr. Lok Kam Chong, John as members of the Nomination Committee with effect from 1 April, 2012. The Board has also appointed Mr. Wong Hon Yee as member of Nomination Committee effective from 27 December 2012. After Mr. Wong's appointment, the Nomination Committee has six members, comprising one executive director, one non-executive director and four independent non-executive directors.

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

THE BOARD (Continued)

Nomination Committee (Continued)

The major duties of the Nomination Committee include the following:

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

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

- To assess the independence of independent non-executive directors.

- To make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular, the Chairman and the Chief Executive Officer, including making recommendations on the composition of the Board generally and the balance between executive and non-executive directors appointed to the Board.

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

The Nomination Committee held one meeting during the year ended 31 December 2012 and the attendance record is set out under "Directors' attendance records" on page 43.

During this meeting, the Nomination Committee discussed and resolved to recommend to the Board the appointment of Mr. Wong Hon Yee as an independent non-executive director and a member of the Nomination Committee.

On 27 February 2013, the Nomination Committee met to discuss a recommendation for the re-appointment of directors standing for re-election at the 2013 annual general meeting of the Company. The Nomination Committee resolved to recommend the re-appointment of Mr. Petrus Antonius Maria van Bommel, Mr. Charles Dean del Prado, Miss Orasa Livasiri and Mr. Wong Hon Yee, who are retiring and eligible for re-election at 2013 annual general meeting of the Company, as directors.

The Nomination Committee also discussed and resolved to recommend the appointment of Mr. Tang Koon Hung, Eric as an independent non-executive director at the 2013 annual general meeting. The biographical details of Mr. Tang Koon Hung and the directors standing for re-election are set out in the circular dated 19 March 2013.

On 5 March 2013, the Board considered the recommendation of the Nomination Committee and resolved to adopt the recommendations of the Nomination Committee on the re-appointment of the directors standing for re-election at the 2013 annual general meeting and the nomination of Mr. Tang Koon Hung to be appointed as an independent non-executive director of the Company.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

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.

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

The Directors are committed to complying with Code Provision A.6.5 of the Revised CG Code which came into effect on 1 April 2012 on Directors' training. All Directors have participated in continuous professional development to develop and refresh their knowledge and skills and provided a record of training they received for the year ended 31 December 2012 to the Company.

The individual training record of each Director received for the year ended 31 December 2012 is summarized as below:

Participation in Continuous Professional Development Programme in 2012

Directors	Reading Regulatory Updates	Attending briefings/seminars/ conferences relevant to the business	Attending training/briefing on regulatory development, directors' duties or other relevant topics
Executive Directors			
Arthur H. del Prado		√	√
Lo Tsan Yin, Peter		√	√
Lee Wai Kwong		√	√
Chow Chuen, James		√	√
Robin Gerard Ng Cher Tat	√	√	√
Non-executive Directors			
Charles Dean del Prado		√	√
Petrus Antonius Maria van Bommel		√	√
Independent Non-executive Directors			
Lok Kam Chong, John	√	√	√
Lee Shiu Hung, Robert	√	√	√
Orasa Livasiri			√
Wong Hon Yee			√

THE BOARD (Continued)

Board meetings

Board practices and conduct of meetings

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

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

Minutes of all Board meetings, Audit Committee meetings and Nomination Committee meetings are kept by the Company Secretary while minutes of Board meetings relating to the Employee Share Incentive Scheme and Remuneration Committee meetings are kept by the 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.

Directors' attendance records

Five Board meetings were held during the year.

The individual attendance (either in person or through other electronic means of communication) record of each director at the meetings of the Board, the Audit Committee, the Nomination Committee and the Remuneration Committee and the 2012 Annual General Meeting, during the year ended 31 December 2012 is set out below:

	Attendance/Number of Meetings held during the tenure of directorship				
Directors	Board Meetings	Audit Committee Meetings	Nomination Committee Meeting	Remuneration Committee Meeting	2012 Annual General Meeting
Executive Directors					
Arthur H. del Prado (Chairmen of the Board and Nomination Committee)	5/5	N/A	1/1	1/1	1/1
Lo Tsan Yin, Peter (Vice Chairman of the Board)	5/5	N/A	N/A	N/A	1/1
Lee Wai Kwong	5/5	N/A	N/A	N/A	1/1
Chow Chuen, James	5/5	N/A	N/A	N/A	1/1
Robin Gerard Ng Cher Tat	5/5	N/A	N/A	N/A	1/1
Non-executive Directors					
Charles Dean del Prado	5/5	N/A	1/1	1/1	0/1
Petrus Antonius Maria van Bommel	5/5	5/5	N/A	N/A	1/1
Independent Non-executive Directors					
Lok Kam Chong, John (Chairman of Audit Committee)	5/5	5/5	1/1	1/1	1/1
Lee Shiu Hung, Robert	5/5	5/5	1/1	1/1	1/1
Orasa Livasiri (Chairman of Remuneration Committee)	5/5	5/5	1/1	1/1	1/1
Wong Hon Yee (appointed on 27 December 2012)	0/0	N/A	N/A	N/A	0/0

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

THE BOARD (Continued)

Model code for securities transactions

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

Specific enquiry has been made to all directors and they have confirmed that they have complied with the Model Code throughout the year ended 31 December 2012.

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

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

Company Secretary

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

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

DELEGATION OF MANAGEMENT FUNCTIONS

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

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

DELEGATION OF MANAGEMENT FUNCTIONS (Continued)

The Management provides to all members of the Board monthly performance updates giving information on the Group's latest financial performance and financial position, the status of the Group's order book and the performance of individual operating segments and other relevant information. Directors can therefore have a balanced and understandable assessment of the Group's performance, position and prospects throughout the year.

During the year ended 31 December 2012, the Board has three committees, namely, the Remuneration Committee, the Audit Committee and the Nomination Committee, to oversee particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are posted on the website of the Company (www.asmpacific.com) and Hong Kong Stock Exchange (www.hkex.com.hk) and are available to shareholders upon request.

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

REMUNERATION OF DIRECTORS

The Company has established a formal and transparent procedure for formulating policies on remuneration of the executive directors of the Company. Details of the remuneration of each of the directors of the Company for the year ended 31 December 2012 are set out on page 87 in note 14 to the consolidated financial statements.

Remuneration Committee

The Remuneration Committee has five members, after the appointment of Mr. Charles Dean del Prado as additional member, effective from February 1, 2012. The Remuneration Committee now comprises one executive director, one non-executive director and three independent non-executive directors. The majority of members are independent non-executive directors.

Mr. Arthur H. del Prado, executive director, served as chairman during the period from 1 January to 31 March 2012. To comply with the revised Rule 3.25 of Hong Kong Listing Rules, which came into effect from 1 April 2012, requiring a remuneration committee to be chaired by an independent non-executive director, Miss Orasa Livasiri, an independent non-executive director, was appointed as chairman effective from 1 April 2012. Mr. Arthur H. del Prado continues to serve as member of Remuneration Committee from 1 April 2012 onwards.

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

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

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

REMUNERATION OF DIRECTORS (Continued)

Remuneration Committee (Continued)

The main duties of Remuneration Committee are as follow:

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

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

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

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

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

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

The Remuneration Committee held one meeting during the year ended 31 December 2012 and the attendance records are set out under "Directors' attendance records" on page 43.

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 2012.

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

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

ACCOUNTABILITY AND AUDIT (Continued)

Internal controls

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

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

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

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

Audit Committee

The Audit Committee comprises 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 2012. Miss Orasa Livasiri was chairman of the Committee until 31 March 2012. Mr. Lok Kam Chong, John was appointed as chairman of the Committee effective from 1 April 2012. 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.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

ACCOUNTABILITY AND AUDIT (Continued)

Audit Committee (Continued)

In 2012, a total of five meetings of Audit Committee were convened. The attendance record of the Audit Committee's members is shown on page 43. The following is a summary of the tasks completed by the Audit Committee during 2012:

- reviewed the Group's financial reports for the year ended 31 December 2011, for the six months ended 30 June 2012, and for the quarters ended 31 March 2012 and 30 September 2012;
- reviewed the financial reporting system;
- reviewed the effectiveness of internal controls system;
- reviewed risk management system;
- reviewed work plan for 2012 audit and fees budget of the auditor; and
- made recommendations on the re-appointment of the auditor.

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

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

Auditor's remuneration

The statement of the external auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on page 52.

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$8,525,000, assurance related services amounted to HK$942,000 and non-audit services amounted to HK$1,761,000 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.

Shareholders Communication Policy

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

All announcements and notices are published on the Stock Exchange's website as well as the Company's own website. In addition, to promote greater understanding and dialogue with the investment community, the Company holds conference calls or investor luncheon meetings with the investment community in connection with the Company's annual, interim and quarterly results. During these conference calls or investor luncheon meetings, the Company's Chief Executive Officer or his delegate will make presentations on the Group's performance to the investment community. The conference calls are also broadcast live via webcast. Apart from this, designated senior executives maintain regular dialogue with institutional investors to keep them abreast of the Group's development, subject to compliance with applicable laws and regulations. Including the four results announcements, over 400 meetings with analysts and fund managers were held in 2012.

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

Shareholders' Meeting

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

The most recent shareholders' meeting was the 2012 annual general meeting held on 27 April 2012 at The Focal Point, Worldwide Executive Centre, Level 10, World-Wide House, 19 Des Voeux Road Central, Hong Kong. Major items discussed included the amendments to the Article of Associations of the Company and adoption of the amended and restated Articles of Association. All the resolutions proposed at that meeting were approved by the shareholders by poll voting. Details of the poll results are available under the investor relations section of the Company's website at www.asmpacific.com.

The next annual general meeting will be held on Friday, 26 April 2013, the notice of which will be sent to shareholders at least 20 clear business days before the said meeting.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS (Continued)

Shareholder Rights

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

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

Procedure for shareholders to convene an extraordinary general meeting

Pursuant to the Articles of Association of the Company, shareholder(s) holding not less than one-tenth in amount of the issued capital of the Company (hereinafter refer to "the requisitionists") may request for an extraordinary general meeting of the Company to be convened. The requisition must be in writing and signed by the requisitionists, stating the objective of the meeting, and be deposited at the Company's registered office at Cayman Islands or its principal place of business in Hong Kong at 12/F, Watson Centre, 16-22 Kung Yip Street, Kwai Chung, New Territories, Hong Kong.

If the Directors do not within 21 days from the date of the requisition proceed duly to convene a meeting, the requisitionists or any of them representing more than one-half of total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

Procedures for putting forward proposals at shareholders' meetings

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

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

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

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS (Continued)

Procedures for putting enquiries to the Board

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

ASM Pacific Technology Limited
12/F Watson Centre,
16-22 Kung Yip Street,
Kwai Chung, Hong Kong
Attn: Investor Relationship Department

Telephone: 852-2424-2021; 852-2619-2529
Fax: 852-2481-3367
Email: investor.relation@asmpt.com

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

Articles of Association of the Company

At the 2012 annual general meeting held on 27 April 2012, proposed amendments to the Articles of Association of the Company were approved by the shareholders of the Company.

The amendments to the Articles mainly reflected the recent amendments made to the Listing Rules, and certain housekeeping amendments proposed by the Board and the adoption of the Amended and Restated Articles.

The major proposed amendments include the following: (a) the principal or branch register of members of the Company could be kept at such place as the Board shall determine from time to time; (b) no longer permit a Director to disregard 5% interests when considering whether the Director has a material interest which would prevent him from forming part of the quorum or voting at board meeting; (c) allow the chairman at a general meeting to exempt procedural and administrative matters from voting by poll; and (d) the term of appointment of each Director shall not be more than 3 years.

An updated version of the Memorandum and Articles of Association of the Company is available on the websites of the Company and Stock Exchange.

On behalf of the Board
Lee Wai Kwong
DIRECTOR
5 March 2013

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS 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 53 to 119, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. 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 about 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 of consolidated financial statements that give a true and fair view 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 2012 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
5 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Turnover	7	**10,460,558**	12,915,194
Cost of sales		**(7,298,182)**	(8,488,717)
Gross profit		**3,162,376**	4,426,477
Other income		**16,711**	33,140
Selling and distribution expenses		**(937,409)**	(867,422)
General and administrative expenses		**(451,618)**	(412,596)
Research and development expenses	9	**(905,115)**	(885,370)
Other gains and losses	10	**(7,493)**	(85,328)
Gain from a bargain purchase	34	**–**	1,084,427
Finance costs	11	**(8,774)**	(3,884)
Profit before taxation		**868,678**	3,289,444
Income tax expense	12	**(179,684)**	(357,464)
Profit for the year, attributable to owners of the Company	13	**688,994**	2,931,980
Other comprehensive income (expense)			
– exchange differences on translation of foreign operations		**42,617**	(43,760)
– actuarial (losses) gains on retirement benefit plans, net of tax	32	**(40,160)**	9,302
Other comprehensive income (expense) for the year		**2,457**	(34,458)
Total comprehensive income for the year, attributable to owners of the Company		**691,451**	2,897,522
Earnings per share	17		
– Basic		**HK$1.73**	HK$7.40
– Diluted		**HK$1.73**	HK$7.37

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	18	**2,105,615**	2,073,679
Investment property	19	**69,501**	–
Intangible assets	20	**15,213**	11,380
Prepaid lease payments	21	**27,794**	28,531
Pledged bank deposit	22	**204,520**	201,020
Deposits paid for acquisition of property, plant and equipment		**36,920**	49,972
Rental deposits paid	24	**13,549**	5,480
Deferred tax assets	33	**171,634**	98,223
Other non-current assets		**53,397**	2,367
		2,698,143	2,470,652
Current assets			
Inventories	23	**2,876,375**	2,545,601
Trade and other receivables	24	**3,155,458**	2,956,191
Prepaid lease payments	21	**997**	979
Derivative financial instruments	27	**1,479**	–
Income tax recoverable		**4,525**	8,611
Pledged bank deposit		**–**	2,010
Bank balances and cash	25	**1,487,003**	1,627,662
		7,525,837	7,141,054
Current liabilities			
Trade and other payables	26	**2,091,605**	2,031,739
Derivative financial instruments	27	**–**	17,733
Provisions	28	**320,638**	307,051
Income tax payable		**244,423**	470,622
Bank borrowings	29	**695,273**	331,144
		3,351,939	3,158,289
Net current assets		**4,173,898**	3,982,765
		6,872,041	6,453,417

	Notes	2012 HK$'000	2011 HK$'000
Capital and reserves			
Share capital	*30*	**39,925**	39,764
Dividend reserve		**119,773**	318,110
Other reserves		**6,396,976**	5,907,921
Equity attributable to owners of the Company		**6,556,674**	6,265,795
Non-current liabilities			
Retirement benefit obligations	*32*	**91,410**	26,845
Provisions	*28*	**54,181**	68,625
Bank borrowings	*29*	**129,175**	–
Deferred tax liabilities	*33*	**8,811**	38,468
Other liabilities and accruals	*26*	**31,790**	53,684
		315,367	187,622
		6,872,041	6,453,417

The consolidated financial statements on pages 53 to 119 were approved and authorised for issue by the Board of Directors on 5 March 2013 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 2012

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Shares held for share award scheme HK$'000 *(Note 31)*	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 2011	39,612	535,987	–	–	155	72,979	(37,580)	3,261,416	1,267,581	5,140,150
Profit for the year	–	–	–	–	–	–	–	2,931,980	–	2,931,980
Actuarial gains on retirement benefit plans, net of tax *(note 32)*	–	–	–	–	–	–	–	9,302	–	9,302
Exchange differences on translation of foreign operations	–	–	–	–	–	–	(43,760)	–	–	(43,760)
Total comprehensive income for the year	–	–	–	–	–	–	(43,760)	2,941,282	–	2,897,522
Sub-total	39,612	535,987	–	–	155	72,979	(81,340)	6,202,698	1,267,581	8,037,672
Recognition of equity-settled share-based payments	–	–	157,472	–	–	–	–	–	–	157,472
Shares issued under the Employee Share Incentive Scheme	152	129,342	(129,494)	–	–	–	–	–	–	–
Cancellation of the grant under the Employee Share Incentive Scheme	–	–	(27,978)	–	–	–	–	–	–	(27,978)
2010 final and special dividend paid	–	–	–	–	–	–	–	–	(1,267,581)	(1,267,581)
2011 interim dividend paid	–	–	–	–	–	–	–	(633,790)	–	(633,790)
2011 final dividend proposed	–	–	–	–	–	–	–	(318,110)	318,110	–
At 31 December 2011 and 1 January 2012	39,764	665,329	–	–	155	72,979	(81,340)	5,250,798	318,110	6,265,795
Profit for the year	–	–	–	–	–	–	–	688,994	–	688,994
Actuarial losses on retirement benefit plans, net of tax *(note 32)*	–	–	–	–	–	–	–	(40,160)	–	(40,160)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	42,617	–	–	42,617
Total comprehensive income for the year	–	–	–	–	–	–	42,617	648,834	–	691,451
Sub-total	39,764	665,329	–	–	155	72,979	(38,723)	5,899,632	318,110	6,957,246
Recognition of equity-settled share-based payments	–	–	197,132	–	–	–	–	–	–	197,132
Purchase of shares under the Employee Share Incentive Scheme	–	–	–	(37,035)	–	–	–	–	–	(37,035)
Shares vested under the Employee Share Incentive Scheme	–	–	(37,035)	37,035	–	–	–	–	–	–
Shares issued under the Employee Share Incentive Scheme	161	159,936	(160,097)	–	–	–	–	–	–	–
2011 final dividend paid	–	–	–	–	–	–	–	–	(318,110)	(318,110)
2012 interim dividend paid	–	–	–	–	–	–	–	(242,559)	–	(242,559)
2012 final dividend proposed	–	–	–	–	–	–	–	(119,773)	119,773	–
At 31 December 2012	39,925	825,265	–	–	155	72,979	(38,723)	5,537,300	119,773	6,556,674

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Operating activities		
Profit before taxation	**868,678**	3,289,444
Adjustments for:		
Depreciation	**373,842**	340,324
Release of prepaid lease payments	**997**	571
Impairment losses recognised in respect of property, plant and equipment	**–**	56,293
Amortisation of intangible assets	**13,681**	7,111
Release of land license fee	**512**	–
Gain from a bargain purchase	**–**	(1,084,427)
(Gain) loss on disposal/write-off of property, plant and equipment	**(576)**	984
(Gain) loss on fair value change of derivative financial instruments	**(18,369)**	22,653
Warranty provisions expenses	**204,301**	156,802
Share-based payments under the Employee Share Incentive Scheme not involving cash payment	**197,132**	129,494
Interest income	**(9,766)**	(21,032)
Interest expense	**8,774**	3,884
Effect of foreign exchange rate changes on inter-company balances	**18,377**	(106,449)
Operating cash flows before movements in working capital	**1,657,583**	2,795,652
(Increase) decrease in inventories	**(316,053)**	135,241
(Increase) decrease in trade and other receivables	**(197,786)**	704,089
(Increase) decrease in other non-current assets	**(733)**	2,596
Increase (decrease) in trade and other payables	**91,570**	(1,163,055)
(Decrease) increase in other liabilities and accruals	**(24,255)**	35,804
Decrease in provisions	**(5,747)**	(17,848)
Utilisation of warranty provisions	**(206,057)**	(160,177)
Increase in retirement benefit obligations	**4,438**	19,045
Purchase of shares under the Employee Share Incentive Scheme	**(37,035)**	–
Cash generated from operations	**965,925**	2,351,347
Income taxes paid	**(492,774)**	(655,658)
Income taxes refunded	**3,119**	554
Net cash from operating activities	**476,270**	1,696,243

CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Investing activities		
Net cash inflow arising on acquisition of subsidiaries	–	467,613
Withdrawal of bank deposits with original maturity of more than three months	–	76,798
Interest received	**9,766**	21,032
Proceeds on disposal of property, plant and equipment	**6,268**	2,322
Proceeds on disposal of intangible assets	–	523
Purchase of property, plant and equipment	**(459,426)**	(752,131)
Placement of pledged bank deposits	–	(203,030)
Withdrawal of pledged bank deposits	**2,051**	–
Deposits paid for acquisition of property, plant and equipment	**(36,920)**	(49,972)
Prepayment for land license fee	**(53,836)**	–
Additions of intangible assets	**(17,316)**	(3,511)
Additions to investment property	**(2,676)**	–
Net cash used in investing activities	**(552,089)**	(440,356)
Financing activities		
Bank borrowings raised	**887,901**	490,662
Dividends paid	**(560,669)**	(1,901,371)
Repayment of bank borrowings	**(393,966)**	(227,656)
Interest paid	**(12,232)**	(3,884)
Net cash used in financing activities	**(78,966)**	(1,642,249)
Net decrease in cash and cash equivalents	**(154,785)**	(386,362)
Cash and cash equivalents at beginning of the year	**1,627,662**	1,978,182
Effect of foreign exchange rate changes	**14,126**	35,842
Cash and cash equivalents at end of the year, represented by bank balances and cash	**1,487,003**	1,627,662

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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. 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 ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Asset; and
Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets

The application of the new and revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

1 Effective for annual periods beginning on or after 1 January 2013.
2 Effective for annual periods beginning on or after 1 January 2014.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 July 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Annual Improvements to HKFRSs 2009-2011 Cycle issued in June 2012

The Annual Improvements to HKFRSs 2009-2011 Cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include the amendments to HKAS 16 "Property, Plant and Equipment" and the amendments to HKAS 32 "Financial Instruments: Presentation".

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors do not anticipate that the application of the amendments will have a material effect on the Group's consolidated financial statements.

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 "Income Taxes". The directors do not anticipate that the amendments to HKAS 32 will have a material effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

HKFRS 9 "Financial instruments"

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors do not anticipate that the adoption of HKFRS 9 in the future will have material impact on amounts reported in respect of the Group's financial assets and financial liabilities.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income"

The amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income" introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

HKAS 19 (as revised in 2011) "Employee Benefits"

The amendments to HKAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of HKAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of HKAS 19 are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset.

The amendments to HKAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application.

Based on the directors' preliminary assessment, when the Group applies the amendments to HKAS 19 for the first time for the year ending 31 December 2013, profit for the year ended 31 December 2012 would be increased by HK$1,672,000 and the other comprehensive income for the said year would be increased by HK$55,000 (1 January 2012: increased in retained earnings of HK$2,375,000) with the corresponding adjustments being recognised in the retirement benefit obligation. This net effect reflects a number of adjustments: a) full recognition of actuarial gains through other comprehensive income and decrease in the net pension deficit; b) immediate recognition of past service costs in profit or loss and an increase in the net pension deficit and c) reversal of the difference between the gain arising from the expected rate of return on pension plan assets and the discount rate through other comprehensive income.

The directors of the Company anticipate that the application of the other new and revised Standards and Interpretations issued but not yet effective will have no material effect on amounts reported in the consolidated financial statements and/or disclosures set out in these consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for the derivative financial instruments which are measured at fair value, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

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.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income 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.

Business combinations

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

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

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

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. 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 on initial recognition.

Property, plant and equipment

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

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

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

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, the transfer does not change the carrying amount of the property transferred and it does not change the cost of that property for measurement or disclosure purpose.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Buildings under development for future owner-occupied purpose

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

Investment property

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

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

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognised.

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of back-end equipment (formerly known as assembly and packaging equipment) and lead frame is calculated using the first-in, first-out method. Cost of surface mount technology equipment is calculated using the weighted average method.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Provision for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs or returns, discounted to their present values as appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

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

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

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income 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 end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits 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 associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

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

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investments in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate on the Group's net investment outstanding in respect of the leases.

Rentals income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

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

Leasehold land and buildings

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

The Group's non-derivative financial assets are classified as loans and receivables.

The classification of non-derivative financial assets depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

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

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. 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.

Objective evidence of impairment could include:

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

For certain categories of financial assets, such as trade receivables, that are assessed not to be impaired individually are, in addition, 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 30 days to 60 days and observable changes in national or local economic conditions that correlate with default on receivables.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets (Continued)

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

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

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

Derivative financial instruments

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

Derecognition

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

On derecognition of a financial asset in its entirety, 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 in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

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 exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that 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 retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation.

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 Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of the reporting period. Income and expenses items 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 in other comprehensive income and accumulated in equity under the heading of translation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

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 end of the reporting period, the Group revised its estimates of the number of shares that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to employee share-based compensation reserve.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions (Continued)

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

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

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Grants related to expense items are recognised in the same period as those expenses are charged to profit or loss and are deducted in the reporting of the related expenses.

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

Retirement benefit costs

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

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of the reporting period. All actuarial gains and losses of defined benefit plans are recognised immediately in other comprehensive income in the period in which they occur. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs (Continued)

The retirement benefit obligation recognised in the consolidated statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Inventories

A significant portion of the Group's working capital is devoted to inventories and the nature of inventories is subject to frequent technological changes. As at 31 December 2012, the carrying amount of inventories was HK$2,876,375,000 (2011: HK$2,545,601,000). The management reviews the inventory age listing on a periodic basis to identify slow-moving, obsolete and defective inventories. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The amount of allowance would be changed as a result of changes in current market conditions and technology subsequently.

Impairment of trade receivables

On assessing any impairment of the Group's trade receivables, the management regularly reviews the recoverability, creditworthiness of customers and ages of the trade receivables. Impairment on trade receivables is made based on estimation of the future cash flows discounted at the original effective interest rates. If the financial condition of the customers of the Group deteriorates, resulting in an impairment of their ability to make payments, additional impairment may be required. As at 31 December 2012, the carrying amount of trade receivables was HK$2,269,154,000 (2011: HK$2,098,882,000).

Impairment of property, plant and equipment

The Group tested whether property, plant and equipment for the etched frame operation under lead frame segment have suffered any impairment in accordance with its accounting policy. The determination of the recoverable amount involves the use of estimates by management with respect to the discount rate and cash flows used in the discounted cash flow model. Those estimates and the methodology used, can have a material impact on the respective values and ultimately the amount of any impairment. During the year ended 31 December 2011, the Group recognised an impairment loss on property, plant and equipment amounting to HK$56,293,000 (2012: HK$nil) (see note 18).

Retirement benefit obligations

Obligations for retirement benefit and related net periodic pension costs are determined in accordance with actuarial valuations. These valuations rely on key assumptions including discount rates, expected return on plan assets, expected salary increases, mortality rates and health care trend rates. The discount rates assumptions are determined by reference to yields on high-quality corporate bonds of appropriate duration and currency at the end of the reporting period. In case such yields are not available, discount rates are based on government bonds yields. The expected returns on plan asset assumptions are determined on a uniform methodology, considering long-term historical returns and assets allocations. Due to changing market and economic conditions, the underlying key assumptions may differ from actual developments and may lead to significant changes in retirement benefit obligations. During the year ended 31 December 2012, actuarial losses before tax effect amounting to HK$59,594,000 (2011: actuarial gains before tax effect HK$13,009,000) are recognised directly in equity in the period in which they occur (see note 32).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Provisions

Significant estimates are involved in the determination of provision related to warranty costs and legal proceedings (see note 35). As a global operating business, the Group is exposed to numerous legal risks, particularly in the areas of product liability and tax assessments. Pending and future proceedings often involve complex legal issues and are subject to substantial uncertainties. The outcome of such proceedings cannot be predicted with certainty. Accordingly, management exercises considerable judgment in determining whether there is a present obligation as a result of a past event at the reporting date, whether it is more likely than not that such a proceeding will result an outflow of resources and whether the amount of the obligation can be reliably estimated. As at 31 December 2012, the Group recognised warranty provisions amounting to HK$362,349,000 (2011: HK$357,658,000) (see note 28).

Income taxes

The Group operates in various tax jurisdictions and therefore has to determine tax positions under respective local tax laws and tax authorities' views which can be complex and subject to different interpretations of taxpayers and local tax authorities. Deferred tax assets are recognised if sufficient future taxable profit is available, including income from forecasted operating earnings, the reversal of existing taxable temporary differences and established tax planning opportunities. As of each year-end, management evaluates the recoverability of deferred tax assets, based on projected future taxable profits. As future development are uncertain and partly beyond management's control, assumptions are necessary to estimate future taxable profits as well as the period in which deferred tax assets will recover. Estimates are revised in the period in which there is sufficient evidence to revise the assumption. If management considers it probable that all or a portion of a deferred tax asset cannot be realised, a reversal of deferred tax assets may arise which would be recognised in profit or loss for the period in which such reversal takes place. As at 31 December 2012, the deferred tax assets recognised is HK$171,634,000 (2011: HK$98,223,000) (see note 33).

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 net debt, which includes bank borrowings, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves including retained profits.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2012 HK$'000	2011 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**4,225,091**	4,226,708
Derivative financial instruments	**1,479**	–
Financial liabilities		
Amortised cost	**2,362,961**	1,794,419
Derivative financial instruments	**–**	17,733

Financial risk management objectives and policies

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

Market risk

There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risks.

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 41% and 46% of the Group's sales and purchases respectively are denominated in currencies other than the functional currency of the group entities making the sales and the purchases.

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

	Currency	Assets 2012 HK$'000	Assets 2011 HK$'000	Liabilities 2012 HK$'000	Liabilities 2011 HK$'000
US dollars *(Note)*	US$	**1,017,823**	1,241,980	**690,730**	130,713
Euro	EUR	**435,470**	483,701	**31,094**	21,014
Renminbi	RMB	**230,026**	83,763	**245,599**	213,171
Singapore dollars	S$	**17,513**	25,464	**94,450**	99,363
Japanese Yen	JPY	**8,403**	4,403	**108,307**	151,991
Others		**46,608**	24,639	**134,400**	86,999

Note: Included in the balances are US dollars financial assets and financial liabilities of HK$370,555,000 and HK$29,376,000 (2011: HK$430,186,000 and HK$31,436,000) respectively where Hong Kong dollars is not the functional currency of the relevant group entities.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Currency risk (Continued)

The majority of the Group's foreign currency financial assets and financial liabilities are denominated in US dollars. The US dollars are linked up with Hong Kong dollars where Hong Kong dollars is the functional currency of the relevant group entities. For other group entities having significant US dollars financial assets and financial liabilities where Hong Kong dollars is not the functional currency, they have exposure to the foreign currency exchange risk. The management conducts periodic review of the exposure and requirements of various currencies, and will consider hedging significant foreign currency exposures should the need arise.

Sensitivity analysis

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

The Group is also exposed to currency risk on its outstanding foreign currency forward contracts. If forward rates of US$ appreciate against Euro by 5%, while all other variables are held constant, the profit for the year would decrease by HK$7,087,000 (2011: HK$14,242,000). For a 5% depreciation of the US$ against Euro, there would be an equal and opposite impact on the profit of the Group.

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

	Euro impact (i)		US dollars impact (ii)		Renminbi impact (iii)		Japanese Yen impact (iv)		Singapore dollars impact (v)	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
(Decrease) increase in post tax profit	**(15,713)**	(18,390)	**(13,111)**	(15,250)	**(179)**	4,733	**4,134**	6,131	**3,173**	3,028

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposits (see note 22). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank deposits/balances and bank borrowings (set out in notes 25 and 29 for details). Management will monitor interest rate risk exposure closely. By management's discretion, the Group keeps its borrowings at floating rates and may enter into interest rate swaps to balance the fair value interest rate risk and cash flow interest rate risk exposure of the Group.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of London Interbank Offered Rate ("LIBOR") and Hong Kong Interbank Offered Rate ("HIBOR") arising from the Group's variable-rate bank borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate instruments at the end of the reporting period. The analyses are prepared assuming the financial instruments outstanding at the end of the reporting period was outstanding for the whole year. A 5 basis points increase is used for bank deposits and 50 basis points increase and decrease for bank borrowings when reporting interest rate risk internally to key management personnel. If interest rates had been 5 basis points and 50 basis points for bank deposits and bank borrowings higher or 50 basis points for bank borrowings lower and all other variables were held constant, post-tax profit for the year ended 31 December 2012 would decrease/increase by HK$3,170,000 (2011: HK$1,178,000) and HK$3,500,000 (2011: HK$1,383,000) respectively. This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

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 2012 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. 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 end of the reporting period 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 and authorised banks in Mainland China with high credit-ratings.

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

Liquidity risk

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

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The following table details the Group's remaining contractual maturity for its derivative and non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows.

At 31 December 2012

	Weighted average effective interest rate* %	On demand HK$'000	Within one year HK$'000	More than one year HK$'000	Total contractual undiscounted cash flows HK$'000	Total carrying amount HK$'000
Non-derivative financial liabilities						
Trade and other payables	–	389,781	1,134,107	–	1,523,888	1,523,888
Other non-current liabilities	–	–	–	14,625	14,625	14,625
Bank borrowings	1.89	630,686	69,096	132,864	832,646	824,448
		1,020,467	1,203,203	147,489	2,371,159	2,362,961

At 31 December 2011

	Weighted average effective interest rate* %	On demand HK$'000	Within one year HK$'000	More than one year HK$'000	Total contractual undiscounted cash flows HK$'000	Total carrying amount HK$'000
Non-derivative financial liabilities						
Trade and other payables	–	272,329	1,158,912	–	1,431,241	1,431,241
Other non-current liabilities	–	–	–	32,034	32,034	32,034
Bank borrowings	1.83	331,144	–	–	331,144	331,144
		603,473	1,158,912	32,034	1,794,419	1,794,419
Derivatives – net settlement						
Foreign exchange forward contracts	–	–	17,733	–	17,733	17,733
		603,473	1,176,645	32,034	1,812,152	1,812,152

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Bank loans with a repayment on demand clause are included in the "on demand" time band in the above maturity analysis. As at 31 December 2012, the aggregate undiscounted principal amounts of these bank loans amounted to HK$630,686,000 (2011: HK$331,144,000). Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that bank loans amounting to HK$383,272,000, HK$141,620,000 and HK$105,794,000 (2011: HK$137,144,000 and HK$194,000,000) will be fully repaid within approximately 1 month, 24 months and 28 months (2011: approximately 3 months and 3 years) after the reporting date, respectively, in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK$638,613,000 (2011: HK$339,403,000).

Fair value

The fair value of derivative instruments is calculated using quoted foreign exchange rate. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The financial assets and liabilities carried at amortised cost approximate to their respective fair values.

Fair value measurements recognised in the statement of financial position

Financial instruments are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The classification of the measure of the derivative financial instruments at 31 December 2012 and 2011 using the fair value hierarchy is Level 2.

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

7. TURNOVER

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

8. SEGMENT INFORMATION

The Group has three (2011: three) operating segments: development, production and sales of back-end equipment (formerly known as assembly and packaging equipment), surface mount technology equipment and lead frame. They represent three major types of products manufactured by the Group. The operations of surface mount technology equipment were introduced to the Group in the prior year upon completion of the Acquisition (see note 34), which resulted in the Group having a new operating segment in the prior year. This operating segment is engaged in the development, production and sales of surface mount technology placement machines. The operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by Company's Chief Executive Officer, the chief operating decision maker, for the purpose of allocating resources to segments and assessing their performance. The Group is organised and managed around the three (2011: three) major types of products manufactured by the Group.

Segment results represent the profit before taxation earned by each segment without allocation of interest income, finance costs, gain from a bargain purchase, unallocated other income (expenses), unallocated net foreign exchange loss and unallocated general and administrative expenses.

Segment revenues and results

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

	2012 HK$'000	2011 HK$'000
Segment revenue from external customers		
Back-end equipment	**5,024,111**	6,526,877
Surface mount technology equipment	**3,789,461**	4,875,100
Lead frame	**1,646,986**	1,513,217
	10,460,558	12,915,194
Segment profit (loss)		
Back-end equipment	**485,176**	1,938,081
Surface mount technology equipment	**370,794**	462,485
Lead frame	**87,456**	(119,512)
	943,426	2,281,054
Interest income	**9,766**	21,032
Finance costs	**(8,774)**	(3,884)
Gain from a bargain purchase	**–**	1,084,427
Unallocated other income (expenses)	**1,623**	(3)
Unallocated net foreign exchange loss	**(8,069)**	(28,051)
Unallocated general and administrative expenses	**(69,294)**	(65,131)
Profit before taxation	**868,678**	3,289,444

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

8. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. This is the measure reported to the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance.

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

Other segment information

2012

	Back-end equipment HK$'000	Surface mount technology equipment HK$'000	Lead frame HK$'000	Unallocated general and administrative expenditure HK$'000	Consolidated HK$'000
Amounts regularly provided to chief operating decision maker:					
Additions of property, plant and equipment	333,458	56,767	77,922	–	468,147
Additions to investment property	2,676	–	–	–	2,676
Additions of intangible assets	–	17,316	–	–	17,316
Amounts included in the measure of segment profit:					
Amortisation for intangible assets	–	13,681	–	–	13,681
Depreciation of property, plant and equipment	251,038	47,429	74,260	–	372,727
Depreciation of investment property	1,115	–	–	–	1,115
(Gain) loss on disposal/write-off of property, plant and equipment	(16)	(568)	8	–	(576)
Release of prepaid lease payments	569	–	428	–	997
Research and development expenses	503,974	394,932	6,209	–	905,115
Share-based payments	140,999	10,619	16,248	29,266	197,132

8. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

2011

	Back-end equipment HK$'000	Surface mount technology equipment HK$'000	Lead frame HK$'000	Unallocated general and administrative expenditure HK$'000	Consolidated HK$'000
Amounts regularly provided to chief operating decision maker:					
Additions of property, plant and equipment					
– Additions during the year	573,372	69,221	161,622	–	804,215
– Arising from acquisition of subsidiaries	–	135,814	–	–	135,814
	573,372	205,035	161,622	–	940,029
Additions of intangible assets					
– Additions during the year	–	3,511	–	–	3,511
– Arising from acquisition of subsidiaries	–	16,019	–	–	16,019
	–	19,530	–	–	19,530
Amounts included in the measure of segment profit (loss):					
Amortisation for intangible assets	–	7,111	–	–	7,111
Depreciation of property, plant and equipment	213,955	57,451	68,918	–	340,324
Impairment losses recognised in respect of property, plant and equipment	–	–	56,293	–	56,293
Loss on disposal/write-off of property, plant and equipment	564	396	24	–	984
Release of prepaid lease payments	157	–	414	–	571
Research and development expenses	466,630	410,712	8,028	–	885,370
Share-based payments	116,706	6,142	12,182	22,442	157,472

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

8. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

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

	Non-current assets	
	2012	2011
	HK$'000	HK$'000
Mainland China	**1,711,257**	1,647,535
Malaysia	**227,757**	225,401
Singapore	**193,010**	117,062
Europe	**131,848**	123,100
Hong Kong	**49,956**	50,244
Taiwan	**2,529**	2,649
Japan	**919**	941
Others	**4,713**	4,477
	2,321,989	2,171,409

Note: Non-current assets excluded deferred tax assets and pledged bank deposit.

Geographical information by location of customers

	Turnover	
	2012	2011
	HK$'000	HK$'000
Mainland China	**4,451,562**	5,782,834
Europe	**1,775,886**	2,523,410
Malaysia	**933,838**	921,050
Americas	**903,598**	635,138
Taiwan	**634,559**	788,598
Thailand	**425,922**	356,520
Korea	**361,608**	453,311
Hong Kong	**275,817**	292,348
Philippines	**252,077**	381,807
Japan	**187,286**	515,256
Singapore	**149,430**	183,284
Others	**108,975**	81,638
	10,460,558	12,915,194

The revenue from individual customers contribute less than 10% of the total sales of the Group of the respective year.

9. RESEARCH AND DEVELOPMENT EXPENSES

Included in research and development expenses are depreciation for property, plant and equipment of HK$28,539,000 (2011: HK$24,648,000), rental of land and buildings under operating leases of HK$19,654,000 (2011: HK$20,351,000) and staff costs of HK$605,140,000 (2011: HK$642,594,000) for the year ended 31 December 2012.

10. OTHER GAINS AND LOSSES

	2012 **HK$'000**	2011 HK$'000
The losses comprise:		
Net foreign exchange losses	**(24,540)**	(11,102)
Impairment losses recognised in respect of property, plant and equipment	**–**	(56,293)
Gain (loss) on disposal/write-off of property, plant and equipment	**576**	(984)
Gain (loss) on fair value change of derivative financial instruments	**16,471**	(16,949)
	(7,493)	(85,328)

11. FINANCE COSTS

	2012 **HK$'000**	2011 HK$'000
Interest on bank borrowings wholly repayable within five years	**(11,622)**	(3,884)
Discounting charges on bills	**(610)**	–
Others	**(1,472)**	–
Total borrowing costs	**(13,704)**	(3,884)
Less: amount capitalised	**4,930**	–
	(8,774)	(3,884)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

12. INCOME TAX EXPENSE

	2012 HK$'000	2011 HK$'000
The charge (credit) comprises:		
Current tax:		
Hong Kong	**37,900**	116,351
PRC Enterprise Income Tax	**64,298**	105,735
Other jurisdictions	**148,105**	396,925
	250,303	619,011
Under (over) provision in prior years:		
Hong Kong	**(375)**	(1,214)
PRC Enterprise Income Tax	**315**	1,919
Other jurisdictions	**11,532**	(67)
	11,472	638
Deferred tax credit *(note 33)*		
Current year	**(82,091)**	(262,185)
	179,684	357,464

(a) Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

(b) Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC was increased from 10% and 15% to 25% progressively from 1 January 2008 onwards. The relevant tax rate for the Group's subsidiaries in the PRC is 25% for the year ended 31 December 2012 (2011: ranged from 24% to 25%).

(c) On 12 July 2010, the Singapore Economic Development Board ("EDB") granted a Pioneer Certificate ("PC") to ASM Technology Singapore Pte Limited ("ATS"), a principal subsidiary of the Company, to the effect that profits arising from certain new back-end equipment and lead frame products are exempted from tax for a period of 10 years effective from the dates commenced or to be commenced between 1 June 2010 and 1 January 2012 across specified products, subject to fulfillment of certain criteria during the relevant periods. EDB also granted a 5-year Development and Expansion Incentive ("DEI") to ATS to the effect that profits arising from certain existing products are subject to tax at a concessionary tax rate of 10% for a period of 5 years from 1 January 2011, subject to the fulfillment of certain criteria during the relevant period.

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

Income of ATS arising from activities not covered under the abovementioned incentives is taxed at the prevailing corporate tax rate in Singapore of 17% (2011: 17%).

12. INCOME TAX EXPENSE (Continued)

(d) The calculation of current tax of the Group's subsidiaries in Germany is based on a corporate income tax rate of 15.00% plus 5.50% solidarity surcharge thereon for all distributed and retained earnings. In addition to corporate income tax, trade tax is levied on taxable income. The applicable German trade tax (local income tax) rate was 17.00%. Thus the aggregate tax rate amounts to 32.825% (2011: 32.825%).

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

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

	2012 HK$'000	2011 HK$'000
Profit before taxation	**868,678**	3,289,444
Tax at the domestic income tax rate of 16.5% (2011: 16.5%)	**143,332**	542,758
Tax effect of expenses not deductible in determining taxable profit	**38,034**	37,684
Tax effect of income not taxable in determining taxable profit	**(7,506)**	(187,278)
Tax effect of tax losses not recognised	**20,010**	25,238
Tax effect of utilisation of tax losses/temporary difference previously not recognised	**(31,761)**	(22,363)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**61,968**	104,551
Effect of tax exemption and concessions under PC, DEI and IHA granted by EDB	**(32,914)**	(108,422)
Underprovision in prior years	**11,472**	638
Others	**(22,951)**	(35,342)
Tax charge for the year	**179,684**	357,464

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

The Company continued to receive letters from the Hong Kong Inland Revenue Department during the year ended 31 December 2012 seeking information relating to Hong Kong Profits Tax and other tax affairs of certain subsidiaries of the Company. The enquiries might lead to additional tax being charged on profits from some overseas subsidiaries that have not previously been included in the scope of charge for Hong Kong Profits Tax or tax adjustments to companies currently subject to Hong Kong Profits Tax. As at 31 December 2012, the Group purchased tax reserve certificates amounting to HK$234,929,000 (2011: HK$184,329,000), as disclosed in note 24.

Based on legal and other professional advice that the Company has sought, the directors continued to be of the opinion that sufficient provision for taxation has been made in the consolidated financial statements and the amounts paid under the tax reserve certificates are fully recoverable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

13. PROFIT FOR THE YEAR

	2012 HK$'000	2011 HK$'000
Profit for the year has been arrived at after charging:		
Minimum lease payments under operating leases		
– Land and buildings	**177,658**	179,290
– Motor vehicles and others	**10,680**	6,648
	188,338	185,938
Directors' remunerations *(note 14)*	**61,280**	49,812
Salaries, wages, bonus and other benefits	**2,749,223**	2,706,110
Pension costs, excluding directors	**164,668**	160,848
Share-based payments under the Employee Share Incentive Scheme	**160,097**	129,494
Total staff costs	**3,135,268**	3,046,264
Amortisation for intangible assets (included in cost of sales)	**13,681**	7,111
Auditor's remuneration	**8,820**	13,315
Depreciation for property, plant and equipment	**372,727**	340,324
Depreciation for investment property	**1,115**	–
Release of prepaid lease payments	**997**	571
Release of land license fee	**512**	–
and after crediting:		
Government grants *(Note)*	**14,330**	19,489
Interest income on bank deposits	**9,766**	21,032

Note: Government grants for the year ended 31 December 2012 included an amount of HK$9,731,000 (2011: HK$6,835,000) which is related to a grant for a product development project under the Innovation Development Scheme in Singapore. The amount has been deducted in research and development expenses incurred for both years. Included in the remaining amount, being mainly government grants received from government authorities in Mainland China, is an amount of HK$3,754,000 (2011: HK$5,343,000) which is related to subsidies received relating to toll manufacturing activities in Mainland China.

14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the eleven (2011: eleven) directors and the chief executive were as follows:

	Year ended 31 December 2012											
	Directors										Director and chief executive	
	Arthur H. del Prado HK$'000	Charles Dean del Prado HK$'000	Petrus Antonius Maria van Bommel HK$'000	Lo Tsan Yin, Peter HK$'000	Chow Chuen, James HK$'000	Robin Gerard Ng Cher Tat HK$'000 *(Note b)*	Orasa Livasiri HK$'000	Lee Shiu Hung, Robert HK$'000	Lok Kam Chong, John HK$'000	Wong Hon Yee HK$'000 *(Note d)*	Lee Wai Kwong HK$'000 *(Note e)*	Total HK$'000
Fees	**450**	**333**	**300**	**–**	**–**	**–**	**438**	**388**	**425**	**–**	**–**	**2,334**
Other emoluments												
Salaries and other benefits	**–**	**–**	**–**	**14,808**	**11,388**	**4,657**	**–**	**–**	**–**	**–**	**19,279**	**50,132**
Contributions to retirement benefits schemes	**–**	**–**	**–**	**14**	**323**	**127**	**–**	**–**	**–**	**–**	**244**	**708**
Performance related incentive bonus payments *(Note a)*	**–**	**–**	**–**	**2,800**	**2,200**	**324**	**–**	**–**	**–**	**–**	**2,782**	**8,106**
Total emoluments	**450**	**333**	**300**	**17,622**	**13,911**	**5,108**	**438**	**388**	**425**	**–**	**22,305**	**61,280**

	Year ended 31 December 2011											
	Directors										Director and chief executive	
	Arthur H. del Prado HK$'000	Charles Dean del Prado HK$'000	Robert A. Ruijter HK$'000 *(Note c)*	Petrus Antonius Maria van Bommel HK$'000	Lo Tsan Yin, Peter HK$'000	Chow Chuen, James HK$'000	Robin Gerard Ng Cher Tat HK$'000 *(Note b)*	Orasa Livasiri HK$'000	Lee Shiu Hung, Robert HK$'000	Lok Kam Chong, John HK$'000	Lee Wai Kwong HK$'000 *(Note e)*	Total HK$'000
Fees	306	250	–	300	–	–	–	400	350	350	–	1,956
Other emoluments												
Salaries and other benefits	–	–	–	–	12,097	9,403	2,565	–	–	–	15,703	39,768
Contributions to retirement benefits schemes	–	–	–	–	12	310	52	–	–	–	226	600
Performance related incentive bonus payments *(Note a)*	–	–	–	–	2,700	2,100	–	–	–	–	2,688	7,488
Total emoluments	306	250	–	300	14,809	11,813	2,617	400	350	350	18,617	49,812

Notes:

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

(b) Appointed on 28 April 2011.

(c) Ceased to act as an alternate director to Petrus Antonius Maria van Bommel and Charles Dean del Prado on 11 February 2011.

(d) Appointed on 27 December 2012.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

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

During the year ended 31 December 2012, 328,000 Awarded Shares were granted to certain executive directors under the Employee Share Incentive Scheme (the "Scheme"). The fair value of these shares purchased during the year amounting to HK$37,035,000 was determined with reference to the cost of purchase from the market including transaction costs, was included in salaries and other benefit above. The market value for these Awarded Shares as at their vesting date was amounted to HK$28,782,000, which was calculated with reference to the closest trading price of the Company's share of HK$87.75 per share. For details regarding the Awarded Shares, please refer to note 31.

During the year ended 31 December 2011, 328,000 Incentive Shares were granted to certain executive directors under the Scheme. As announced by the Company on 12 December 2011, the grant of these Incentive Shares was cancelled and revoked and instead cash bonuses in lieu of the Incentive Shares were paid to the affected executive directors. The aggregate cash bonuses paid to the affected directors amounting to HK$28,398,000, which was determined with reference to the fair value of the shares measured at the cancellation date of 15 December 2011, was included in salaries and other benefits above.

No directors waived any emoluments in both years.

15. EMPLOYEES' EMOLUMENTS

The five highest paid individuals included three (2011: three) directors and the chief executive, details of whose emoluments are set out in note 14. The emoluments of the remaining two (2011: two) individuals were as follows:

	2012 **HK$'000**	2011 HK$'000
Salaries and other benefits	**12,514**	12,117
Contributions to retirement benefits schemes	**1,062**	1,356
Performance related incentive bonus payments	**609**	460
	14,185	13,933

For the year ended 31 December 2012, 62,000 shares (2011: 62,000 shares) of the Company were issued to the above two (2011: two) relevant highest-paid employees under the Scheme.

At 31 December 2012, the fair value of these shares amounting to HK$6,175,200 (2011: HK$5,289,000) at the grant date was included in salaries and other benefits above.

Their emoluments were within the following bands:

	Number of employees	
	2012	2011
HK$5,500,001 to HK$6,000,000	**1**	–
HK$6,500,001 to HK$7,000,000	**–**	1
HK$7,000,001 to HK$7,500,000	**–**	1
HK$8,000,001 to HK$8,500,000	**1**	–

16. DIVIDENDS

	2012 HK$'000	2011 HK$'000
Dividend recognised as distribution during the year		
Interim dividend paid for 2012 of HK$0.61 (2011: HK$1.60) per share on 397,637,100 (2011: 396,119,000) shares	**242,559**	633,790
Final dividend paid for 2011 of HK$0.80 (2011: final dividend paid for 2010 of HK$2.10) per share on 397,637,100 (2011: 396,119,000) shares	**318,110**	831,850
Special dividend paid for 2011 of HK$nil (2011: special dividend paid for 2010 of HK$1.10) per share on 397,637,100 (2011: 396,119,000) shares	**–**	435,731
	560,669	1,901,371
Dividend proposed after the year end		
Proposed final dividend for 2012 of HK$0.30 (2011: HK$0.80) per share on 399,244,500 (2011: 397,637,100) shares	**119,773**	318,110

No special dividend has been proposed by the directors for the year ended 31 December 2012 and 2011.

The final dividend of HK$0.30 (2011: final dividend of HK$0.80) per share in respect of the year ended 31 December 2012 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

17. EARNINGS PER SHARE

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

	2012 HK$'000	2011 HK$'000
Earnings for the purposes of basic and diluted earnings per share (Profit for the year)	**688,994**	2,931,980

	Number of shares (in thousands)	
Weighted average number of ordinary shares for the purpose of basic earnings per share	**397,478**	396,190
Effect of dilutive potential shares from the Scheme	**1,192**	1,419
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**398,670**	397,609

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

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	Construction in progress HK$'000	Total HK$'000
COST						
At 1 January 2011	318,074	501,523	2,758,065	38,663	69,574	3,685,899
Currency realignment	(4,850)	2,283	4,642	60	3,451	5,586
Acquisition of subsidiaries	–	3,403	132,411	–	–	135,814
Additions	–	129,936	390,540	4,467	279,272	804,215
Disposals	–	(392)	(16,516)	(78)	–	(16,986)
Write-off	–	(87,484)	(140,385)	(4,258)	–	(232,127)
Transfer	197,287	–	–	–	(197,287)	–
At 31 December 2011	510,511	549,269	3,128,757	38,854	155,010	4,382,401
Currency realignment	4,144	398	11,921	190	(25)	16,628
Additions	206	52,734	239,997	1,905	173,305	468,147
Disposals	–	(2,370)	(35,192)	(1,000)	–	(38,562)
Write-off	–	(221)	(22,043)	(678)	–	(22,942)
Transfer to investment property	(68,293)	–	–	–	–	(68,293)
Transfer	300,352	–	–	–	(300,352)	–
At 31 December 2012	746,920	599,810	3,323,440	39,271	27,938	4,737,379
DEPRECIATION AND IMPAIRMENT						
At 1 January 2011	174,013	358,680	1,601,251	23,457	–	2,157,401
Currency realignment	(1,369)	625	1,265	(10)	–	511
Provided for the year	13,518	65,524	258,614	2,668	–	340,324
Eliminated on disposals	–	(211)	(15,779)	(8)	–	(15,998)
Eliminated on write-off	–	(87,364)	(138,606)	(3,839)	–	(229,809)
Impairment loss recognised in profit or loss	–	14,784	40,907	602	–	56,293
At 31 December 2011	186,162	352,038	1,747,652	22,870	–	2,308,722
Currency realignment	1,138	355	4,927	60	–	6,480
Provided for the year	18,452	86,418	265,191	2,666	–	372,727
Eliminated on disposals	–	(2,214)	(33,359)	(753)	–	(36,326)
Eliminated on write-off	–	(13)	(19,194)	(279)	–	(19,486)
Transfer to investment property	(353)	–	–	–	–	(353)
At 31 December 2012	205,399	436,584	1,965,217	24,564	–	2,631,764
CARRYING VALUES						
At 31 December 2012	541,521	163,226	1,358,223	14,707	27,938	2,105,615
At 31 December 2011	324,349	197,231	1,381,105	15,984	155,010	2,073,679

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

Buildings	2.0% to 4.5%
Leasehold improvements	10% to $33^1/_3$%
Plant and machinery	10% to $33^1/_3$%
Furniture, fixtures and equipment	10% to 20%

In the opinion of the directors, certain of the Group's property, plant and equipment were impaired at 31 December 2011 as a result of excess production capacity in the etched frame operation in Singapore. The impairment loss of HK$56,293,000 was recognised based on the recoverable amount of the relevant assets.

The impairment loss recognised in 2011 is determined with reference to the recoverable amount of leasehold improvements, plant and machinery and equipment for the etched frame operation under the lead frame segment, which was estimated based on a value-in-use calculation and the calculation was based on the budgeted cash flows approved by the management at a discount rate of 10% covering a seven-year period which is the average remaining useful lives of the relevant plant and machinery. The management considered that stable cash flows would be generated throughout the remaining useful lives of these plant and machinery.

As at 31 December 2012, the directors are of the opinion that there is neither any indicator of additional impairment nor any indicator that impairment previously recorded should be reversed.

19. INVESTMENT PROPERTY

	HK$'000
COST	
At 1 January 2011 and 31 December 2011	–
Transfers	68,293
Additions	2,676
At 31 December 2012	70,969
DEPRECIATION	
At 1 January 2011 and 31 December 2011	–
Transfers	353
Provided for the year	1,115
At 31 December 2012	1,468
CARRYING VALUES	
At 31 December 2012	69,501
At 31 December 2011	–

During the year, part of the Group's research and development centre located in Chengdu held under a medium-term lease with a carrying value of HK$67,940,000 was transferred from property, plant and equipment to investment property.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

19. INVESTMENT PROPERTY (Continued)

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

The fair value of the Group's investment property at 31 December 2012 was HK$110,997,000. The fair value has been arrived at based on a valuation carried out by DTZ Debenham Tie Leung Limited, an independent firm of qualified professional valuers not connected with the Group with appropriate qualifications and recent experience in the valuation of similar properties in the relevant location. The valuation was arrived at by reference to market evidence of transaction prices for similar properties and by reference to net rental income allowing for reversionary income potential using the applicable market yields for the respective locations and types of properties as the discount rates.

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

20. INTANGIBLE ASSETS

	Licences and similar rights HK$'000
COST	
At 1 January 2011	–
Currency realignment	(516)
Acquisition of subsidiaries	16,019
Additions	3,511
Disposals	(523)
At 31 December 2011	18,491
Currency realignment	321
Additions	17,316
At 31 December 2012	36,128
AMORTISATION	
At 1 January 2011	–
Charge for the year	7,111
At 31 December 2011	7,111
Currency realignment	123
Charge for the year	13,681
At 31 December 2012	20,915
CARRYING VALUES	
At 31 December 2012	15,213
At 31 December 2011	11,380

The intangible assets represent licences and similar rights of softwares for machines used in production.

The licences and similar rights are amortised on a straight-line basis at rates ranging from 20% to $33\frac{1}{3}$% per annum.

21. 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:

	2012 HK$'000	2011 HK$'000
Current	**997**	979
Non-current	**27,794**	28,531
	28,791	29,510

22. PLEDGED BANK DEPOSIT

Pursuant to the Master Sale and Purchase Agreement of the Acquisition (see note 34) entered into between Siemens Aktiengesellschaft (the "Seller" or "Siemens AG") and the Company (the "MSP Agreement"), the Group provided a bank guarantee to Siemens AG upon completion of the Acquisition for the purpose of securing certain obligations of the Group in accordance with the MSP Agreement in an amount of EUR20,000,000. At 31 December 2012, a bank deposit amounting to EUR20,000,000 (equivalent to HK$204,520,000 (2011:HK$201,020,000)) is pledged for the purpose of securing the bank guarantee. The pledged bank deposit will be released on 7 January 2015.

The pledged bank deposit carried interest at a market rate of 0.1% (2011: 0.95%) per annum.

23. INVENTORIES

	2012 HK$'000	2011 HK$'000
Raw materials	**726,706**	811,819
Work in progress	**1,517,362**	1,275,456
Finished goods	**632,307**	458,326
	2,876,375	2,545,601

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

24. TRADE AND OTHER RECEIVABLES

	2012 HK$'000	2011 HK$'000
Trade receivables	**2,269,154**	2,098,882
Amount recoverable from Siemens AG *(Note)*	**208,179**	238,838
VAT recoverable	**329,755**	315,880
Tax reserve certificate recoverable	**234,929**	184,329
Other receivables, deposits and prepayments	**126,990**	123,742
	3,169,007	2,961,671
Less: Non-current rental deposits paid shown under non-current assets	**(13,549)**	(5,480)
	3,155,458	2,956,191
The following is an aging analysis of trade receivables presented based on the due date at the end of the reporting period:		
Not yet due	**1,721,565**	1,529,797
Overdue within 30 days	**218,882**	278,745
Overdue within 31 to 60 days	**111,407**	101,536
Overdue within 61 to 90 days	**57,453**	77,784
Overdue over 90 days	**159,847**	111,020
	2,269,154	2,098,882

Note: Pursuant to the MSP Agreement, Siemens AG undertakes to pay to the Group such amount as is necessary to indemnify ASM AS Entities (as defined in note 34) from and against any and all taxes imposed to ASM AS Entities relating to any taxable periods beginning before and ending before or after 7 January 2011 while Siemens AG was the beneficial owner. The amount recoverable from Siemens AG represents the aggregate amount of the tax liabilities of ASM AS Entities covered under the tax indemnity and is therefore recoverable from Siemens AG. It is due for settlement once the Group pays the related taxes and received the tax demand note from tax authorities. The related tax liabilities were partially settled in 2012 with the remaining to be settled in 2013.

Credit policy: Payment terms with customers are mainly on credit together with deposits received in advance. Invoices are normally payable within 30 days to 60 days of issuance, except for certain well established customers, where the terms are extended to 3 to 4 months or more. Each customer has a pre-set maximum credit limit.

Included in the Group's trade receivables are amounts totalling HK$547,589,000 (2011: HK$569,085,000) which are past due at the reporting date for which the Group has not provided for impairment loss. Based on the historical experiences of the Group, those trade receivables that are past due but not impaired are generally recoverable. The trade and other receivables that are neither past due nor impaired are of good credit quality because of satisfactory repayment history.

25. BANK BALANCES AND CASH

Bank balances, current and fixed deposits carry interest at market rates which ranges from 0.001% to 2.8% (2011: 0.001% to 2.9%) per annum.

26. TRADE AND OTHER PAYABLES

	2012 HK$'000	2011 HK$'000
Trade payables	**941,938**	802,358
Amounts due to subsidiaries of ASM International		
– trade *(Note)*	**–**	401
Accrued salaries and wages	**270,902**	254,235
Other accrued charges	**419,690**	507,590
Deposits received from customers	**288,092**	290,065
Payables arising from acquisition of property, plant and equipment	**143,437**	189,544
Other payables	**59,336**	41,230
	2,123,395	2,085,423
Less: Non-current other liabilities and accruals	**(31,790)**	(53,684)
	2,091,605	2,031,739
The following is an aging analysis of trade payables presented based on the due date at the end of the reporting period:		
Not yet due	**552,157**	530,029
Overdue within 30 days	**130,659**	106,723
Overdue within 31 to 60 days	**115,331**	52,845
Overdue within 61 to 90 days	**83,389**	27,960
Overdue over 90 days	**60,402**	84,801
	941,938	802,358

Note: Amounts due to subsidiaries of ASM International were unsecured, non-interest bearing and repayable according to normal trade terms.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

27. DERIVATIVE FINANCIAL INSTRUMENTS

	2012		2011	
	Assets	**Liabilities**	Assets	Liabilities
	HK$'000	**HK$'000**	HK$'000	HK$'000
Foreign currency forward contracts	**1,479**	**–**	–	17,733

The foreign currency forward contracts were mainly related to the purchase of Euros and the sale of US dollars at contract rates ranging from US$1.2914 to US$1.3186 (2011: US$1.2941 to US$1.2983) per EUR with future maturity dates ranging from 29 January 2013 to 28 May 2013 (2011: 30 January 2012 to 30 August 2012) amounting to an aggregate notional amount of US$27,100,000 (2011: US$56,975,000).

The above derivatives were measured at fair value at the end of the reporting period using the prevailing forward exchange rates.

28. PROVISIONS

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

	2012	2011
	HK$'000	HK$'000
Current	**320,638**	307,051
Non-current	**54,181**	68,625
	374,819	375,676

28. PROVISIONS (Continued)

The Group's provisions mainly comprise warranties provision of HK$362,349,000 (2011: HK$357,658,000). The movement of the warranties provision is as follows:

	Warranty provision HK$'000
At 1 January 2011	–
Currency realignment	(2,509)
Acquisition of subsidiaries	363,542
Additions	199,412
Utilisation	(160,177)
Reversal	(42,610)
At 31 December 2011	357,658
Currency realignment	4,975
Additions	251,391
Utilisation	(206,057)
Reversal	(45,618)
At 31 December 2012	362,349

The warranty provision represents management's best estimate of the Group's liability under 2-year warranty period for back-end equipment and surface mount technology equipment based on prior experience and industry averages for defective products.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

29. BANK BORROWINGS

	2012 HK$'000	2011 HK$'000
Carrying amount repayable:		
Within one year *(Note)*	**447,859**	137,144
More than one year, but not exceeding two years	**64,587**	–
More than two years, but not more than five years	**64,588**	–
	577,034	137,144
Carrying amount of bank loans that are not repayable within one year from the end of the reporting period that contains a repayment on demand clause (shown under current liabilities)	**247,414**	194,000
	824,448	331,144
Less: Amounts due within one year shown under current liabilities	**(695,273)**	(331,144)
Amounts shown under non-current liabilities	**129,175**	–

Note: The amount includes bank loans amounting HK$383,272,000 (2011: HK$137,144,000) that contains a repayment on demand clause.

At 31 December 2012, all bank borrowings bear interest at LIBOR plus a margin per annum or HIBOR plus a margin per annum, at a weighted average effective interest rate of 1.89% (2011: 1.83%) per annum.

The loans amounting HK$141,620,000 and HK$105,794,000 raise during the year ended 31 December 2011 and 2012, respectively, were borrowed to finance the construction of a property which was classified as construction in progress as at 31 December 2011. The construction of such property was completed during the year.

30. SHARE CAPITAL OF THE COMPANY

	Number of shares		Share capital	
	2012 '000	2011 '000	**2012 HK$'000**	2011 HK$'000
Issued and fully paid:				
At 1 January	**397,637**	396,119	**39,764**	39,612
Shares issued under the Scheme	**1,607**	1,518	**161**	152
At 31 December	**399,244**	397,637	**39,925**	39,764

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

During the year, 1,607,400 (2011: 1,518,100) shares were issued at par to eligible employees and members of management under the Scheme.

31. EMPLOYEE SHARE INCENTIVE SCHEME

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

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

On 11 March 2011, the directors resolved to grant a total of 1,874,400 new shares in the Company to employees and members of the management of the Group upon expiration of the defined qualification period as determined by the Board of Directors (the "First Resolution"). The vesting period of such grant was from 11 March 2011 to 15 December 2011. 1,518,100 of these shares entitlements were issued on 15 December 2011 and the estimated fair value of these shares at the grant date amounted to HK$129,494,000. The fair value was determined with reference to market value of shares at the grant date taking into account of the expected dividends as employee is not entitled to receive dividends paid during the vesting period.

Subsequent to the First Resolution, the Remuneration Committee of the Company considered that it would be of best interests to the Company to cancel and revoke the grant of 328,000 Incentive Shares to four executive directors, and to pay instead cash bonuses in lieu of the Incentive Shares to these four executive directors. The Board of Directors agreed with the Remuneration Committee's recommendations and resolved accordingly (the "Second Resolution"). Details of these are set out in an announcement of the Company dated 12 December 2011.

As a result of the First Resolution, the Second Resolution and the issue of new shares on 15 December 2011, 28,300 shares were forfeited and unallotted by the Company on the same date.

On 21 March 2012, the directors resolved to grant, and the Company granted, a total of 1,950,300 shares (the "2012 Incentive Shares") in the Company to certain employees and members of the management of the Group upon expiration of the defined qualification period. The vesting period of such grant, which is the qualification period, was from 21 March 2012 to 15 December 2012.

On 28 March 2012 (the "Adoption Date"), a Share Award Scheme was adopted by the Company to establish a trust to subscribe and purchase shares of the Company for the benefit of employees and members of the management of the Group under the Employee Share Incentive Scheme. The scheme is valid and effective for a period of 8 years commencing from the Adoption Date. Pursuant to the rules of the scheme, the Company has appointed a trustee, Law Debenture Trust (Asia) Limited, for purpose of administering the scheme and holding the awarded shares. As a result of such Share Award Scheme, 328,000 shares (the "2012 Awarded Share") was allocated from the 2012 Incentive Shares as the 2012 Awarded Shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

31. EMPLOYEE SHARE INCENTIVE SCHEME (Continued)

On 15 December 2012, 1,607,400 shares of the 2012 Incentive Shares were issued and 14,900 shares were forfeited and unallocated by the Company. 328,000 shares of the 2012 Awarded Shares were vested on the same date.

The fair value of the 2012 Incentive Shares granted was determined with reference to market value of the shares at the grant date taking into account of the expected dividends as the employees are not entitled to receive dividends paid during the vesting period, while for the 2012 Awarded Share, its fair value of HK$37,035,000 was determined with reference to the cost of purchase from the market including transaction costs, which is not significantly different from the fair value at the grant date. The total estimated fair value of the 2012 Incentive Shares and the 2012 Awarded Share at the grant date amounted HK$197,132,000 charged to profit and loss.

Movement of the shares granted to employees and members of the management of the Group under the Employee Share Incentive Scheme:

	Number of Shares '000
Outstanding as at 1 January 2011	–
Shares granted on 11 March 2011	1,874
Shares issued on 15 December 2011	(1,518)
Shares forfeited on 15 December 2011	(28)
Cancellation of the grant on 15 December 2011	(328)
Outstanding as at 31 December 2011 and 1 January 2012	–
Shares granted on 21 March 2012	1,950
Allocated as Awarded Shares on 28 March 2012 *(Note)*	(328)
Shares forfeited on 15 December 2012	(15)
Shares issued on 15 December 2012	(1,607)
Outstanding as at 31 December 2012	–

Note: Movement of Awarded Shares purchased is as follows:

	Number of shares purchased '000	Cost of purchase HK$'000
At 1 January 2011, 31 December 2011 and 1 January 2012	–	–
Shares purchased from the market during the year	328	37,035
Awarded Shares vested	(328)	(37,035)
At 31 December 2012	–	–

32. RETIREMENT BENEFIT PLANS

Defined contribution plans

The Group has retirement plans covering a substantial portion of its employees. The principal plans are defined contribution plans.

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

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

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the MPF Scheme subject only to the maximum level of payroll costs which has been increased to HK$25,000 with effective from 1 June 2012 (2011: HK$20,000) per employee, which contribution is matched by the employees.

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

The amount charged to profit or loss of HK$137,081,000 (2011: HK$129,590,000) represents contributions paid or payable to the plans by the Group at rates specified in the rules of the plans less forfeitures of HK$75,000 (2011: HK$82,000) arising from employees leaving the Group prior to completion of qualifying service period.

At 31 December 2011, there was forfeited contributions which arose upon employees leaving the retirement plans and which are available to reduce the contributions payable in the future years amounting to HK$29,000 (2012: HK$nil).

Defined benefit plans

Certain ASM AS Entities (see note 34) operate funded defined benefits pension scheme for all their qualified employees.

Pension benefits provided by ASM AS Entities are currently organised primarily through defined benefit pension plans which cover virtually all German employees and certain foreign employees of ASM AS Entities.

Furthermore, ASM AS Entities provide other post-employment benefits, which consist of transition payments and death benefits to German employees after retirement. These predominantly unfunded other post-employment benefit plans qualify as defined benefit plans under HKFRSs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

32. RETIREMENT BENEFIT PLANS (Continued)

Defined benefit plans (Continued)

Defined benefit plans determine the entitlements of their beneficiaries. An employee's final benefit entitlement at regular retirement age may be higher than the fixed benefits at the reporting date due to future compensation or benefit increases. The net present value of this ultimate future benefit entitlement for service already rendered is represented by the Defined Benefit Obligation ("DBO"), which is calculated with consideration of future compensation increases by actuaries. The DBO is calculated based on the projected unit credit method and reflects the net present value as of the reporting date of the accumulated pension entitlements of active employees, former employees with vested rights and of retirees and their surviving dependents with consideration of future compensation and pension increases. The most recent actuarial valuation of the DBO plan in Germany was carried out at 31 December 2012 by independent qualified actuaries, Aon Hewitt GmbH, a member of the International Actuarial Association.

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

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

	31 December	
	2012	2011
Discount rate	**3.50%**	5.25%
Expected return on plan assets	**4.00%**	4.00%
Expected rate of compensation increase	**2.25%**	2.26%
Expected rate of pension progression	**1.75%**	1.75%

The retirement benefit plans obligations comprise:

	2012	2011
	HK$'000	HK$'000
Principal pension benefit plans	**71,093**	9,438
Other post-employment benefit plans	**16,712**	14,216
Other retirement benefit obligations	**3,605**	3,191
	91,410	26,845

32. RETIREMENT BENEFIT PLANS (Continued)

Defined benefit plans (Continued)

Net amount recognised in other comprehensive income (net of tax) are as follows:

For the year ended 31 December 2012

	Principal pension benefit plans HK$'000	Other post-employment benefit plans HK$'000	Other retirement benefit obligations HK$'000	Total HK$'000
Actuarial (losses) gain	**(55,873)**	**(3,745)**	**24**	**(59,594)**
Income tax effect	**18,144**	**1,230**	**60**	**19,434**
	(37,729)	**(2,515)**	**84**	**(40,160)**

The cumulative actuarial losses recognised in other comprehensive income amounted to HK$30,858,000.

For the year ended 31 December 2011

	Principal pension benefit plans HK$'000	Other post-employment benefit plans HK$'000	Other retirement benefit obligations HK$'000	Total HK$'000
Actuarial gains	11,081	1,898	30	13,009
Income tax effect	(3,230)	(477)	–	(3,707)
	7,851	1,421	30	9,302

The cumulative actuarial gains recognised in other comprehensive income amounted to HK$9,302,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

32. RETIREMENT BENEFIT PLANS (Continued)

Defined benefit plans (Continued)

Principal pension benefit plans

A reconciliation of the funded status of the principal pension benefit plans to the amount recognised in the consolidated statement of financial position at 31 December 2012 and 2011 are as follows:

	2012 HK$'000	2011 HK$'000
Fair value of plan assets	**276,458**	214,740
Total present value of DBO		
Defined benefit obligation (funded)	**(343,209)**	(222,572)
Defined benefit obligation (unfunded)	**(4,342)**	(1,606)
	(71,093)	(9,438)

The actuarial valuation showed that market value of the plan assets was HK$276,458,000 (2011: HK$214,740,000) and that the actuarial value of these represented 80% (2011: 96%) of the benefits that had accrued to members.

The following table shows the change in the plan assets for the years ended:

	2012 HK$'000	2011 HK$'000
At 1 January	**214,740**	–
Fair value of plan assets at completion date of acquisition of subsidiaries	**–**	230,542
Currency realignment	**4,221**	(6,155)
Expected return on plan assets	**8,718**	7,349
Actuarial gain (loss) on plan assets	**29,999**	(17,965)
Contributions from plan participants	**2,268**	969
Employer Contribution	**16,512**	–
At 31 December	**276,458**	214,740

The pension asset allocation of the principal pension benefit plans are as follow:

	2012 %	2011 %
Asset class		
Fixed income and corporate bonds	**77**	82
Equity	**21**	16
Cash and other assets	**2**	2
	100	100

32. RETIREMENT BENEFIT PLANS (Continued)

Defined benefit plans (Continued)

Principal pension benefit plans (Continued)

The weighted average expected return of the plan assets at 31 December 2012 is 4% (2011: 4%) per annum. The expected return on plan assets is determined on an uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investments returns.

The actual return on defined benefit plan assets for the year ended 31 December 2012 was a gain of HK$38,717,000 (2011: a loss of HK$10,616,000).

The reconciliation of the changes in the DBO for the years ended are as follows:

	2012 HK$'000	2011 HK$'000
At 1 January	224,178	–
DBO assumed in the acquisition of subsidiaries	–	231,648
Currency realignment	5,367	(4,594)
Service cost	17,291	16,390
Interest cost	11,201	9,794
Past service cost	1,068	–
Actuarial loss (gain)	85,872	(29,046)
Transfer in (out)	870	(704)
Contributions from plan participants	2,268	969
Benefits paid	(564)	(279)
At 31 December	347,551	224,178

The experience adjustment arising on the principal pension benefit plans for the year ended 31 December 2012 was HK$10,070,000 (2011: HK$7,075,000).

Other post-employment benefit plans

Employees who joined ASM Assembly Systems GmbH & Co. KG ("ASM AS KG"), a subsidiary located in Germany, on or before 30 September 1983, are entitled to transition payments and death benefits. In respect of the transition payments for the first six months after retirement, participants receive the difference between their final compensation and the retirement benefits payable under the corporate pension plan.

The reconciliation of the funded status of the other post-employment benefit plans to the amount recognised in the consolidated statement of financial position are as follows:

	2012 HK$'000	2011 HK$'000
Defined benefit obligation (unfunded)	16,712	14,216

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

32. RETIREMENT BENEFIT PLANS (Continued)

Defined benefit plans (Continued)

Other post-employment benefit plans (Continued)

The reconciliation of the changes in the benefit obligation for the other post-employment benefits for the years ended are as follows:

	2012 HK$'000	2011 HK$'000
At 1 January	**14,216**	–
Defined benefit obligation assumed in the acquisition of subsidiaries	**–**	15,267
Currency realignment	**308**	(348)
Service cost	**457**	691
Interest cost	**705**	704
Transfer out	**(870)**	–
Actuarial loss (gain)	**3,745**	(1,898)
Benefits paid	**(1,849)**	(200)
At 31 December	**16,712**	14,216

The experience adjustment arising from the other post-employment benefit plans for the year ended 31 December 2012 was HK$1,633,000 (2011: HK$1,530,000).

The components of the principal pension benefit plans and the other post-employment benefit plans recognised in profit or loss in respect of these defined benefit plans and other post-employment benefits are as follows:

For the year ended 31 December 2012

	Principal pension benefit plans HK$'000	Other post-employment benefit plans HK$'000	Total HK$'000
Service cost	**(17,291)**	**(457)**	**(17,748)**
Interest cost	**(11,201)**	**(705)**	**(11,906)**
Expected return on plan assets	**8,718**	**–**	**8,718**
Past service cost	**(1,068)**	**–**	**(1,068)**
	(20,842)	**(1,162)**	**(22,004)**

32. RETIREMENT BENEFIT PLANS (Continued)

Defined benefit plans (Continued)

Other post-employment benefit plans (Continued)

For the year ended 31 December 2011

	Principal pension benefit plans HK$'000	Other post-employment benefit plans HK$'000	Total HK$'000
Service cost	(16,390)	(691)	(17,081)
Interest cost	(9,794)	(704)	(10,498)
Expected return on plan assets	7,349	–	7,349
	(18,835)	(1,395)	(20,230)

Service cost for pension is allocated among functional costs (cost of sale, selling and distribution expenses, general and administrative expenses, and research and development expenses). The net amount of interest cost and expected return on plan assets is included in general and administrative expenses in the consolidated statement of comprehensive income.

Other retirement benefit obligations

As at 31 December 2012, the consolidated statement of financial position also includes liabilities for other retirement benefit obligations consisting of liabilities for severance payments in Italy and Austria amounting to HK$3,605,000 (2011: HK$3,191,000). The obligations assumed in the acquisition of subsidiaries for the year ended 31 December 2011 was HK$3,061,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

33. DEFERRED TAXATION

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

	Depreciation HK$'000 *(Note a)*	Tax losses HK$'000	Retirement benefit obligations HK$'000 *(Note c)*	Inventories HK$'000 *(Note d)*	Trade receivables HK$'000 *(Note d)*	Provisions HK$'000 *(Note c)*	Others HK$'000	Total HK$'000
At 1 January 2011	9,238	–	–	–	–	–	13,647	22,885
Acquisition of subsidiaries *(Note b)*	(12,792)	77,458	18,268	(126,087)	(134,024)	5,455	(35,685)	(207,407)
Credit (charge) to profit or loss for the year	1,657	(80,419)	5,609	192,864	128,008	23,740	(9,274)	262,185
Charge to other comprehensive income for the year	–	–	(3,707)	–	–	–	–	(3,707)
Currency realignment	101	5,435	(1,079)	(7,163)	(9,733)	317	(2,079)	(14,201)
At 31 December 2011	(1,796)	2,474	19,091	59,614	(15,749)	29,512	(33,391)	59,755
Reclassification	(109)	–	14,987	(18,053)	20,619	(15,708)	(1,736)	–
Credit (charge) to profit or loss for the year	5,811	(71)	(4,035)	39,972	988	7,805	31,621	82,091
Credit to other comprehensive income for the year	–	–	19,434	–	–	–	–	19,434
Currency realignment	(82)	(60)	802	555	98	391	(161)	1,543
At 31 December 2012	3,824	2,343	50,279	82,088	5,956	22,000	(3,667)	162,823

Notes:

(a) The deferred tax arose from the temporary difference between the carrying amount of property, plant and equipment and their tax base. As at 31 December 2012, the tax depreciation was less than accounting depreciation. A deductible temporary difference arose, and resulted in a deferred tax asset.

(b) The amounts of net deferred tax liabilities were mainly related to acquisition of interest in certain ASM AS Entities (see note 34). From the respective local countries' tax point of view, the amounts of the tax base of the assets and liabilities of the acquiree equal the purchase consideration of the respective entity. The net carrying value of the assets and liabilities of the acquiree is higher than purchase consideration. The temporary difference between the tax base of each single asset and liability and the carrying value of the asset and liability resulted in deferred tax liabilities.

(c) The deductible temporary difference arising from retirement benefit obligations and provisions would be reversed upon the settlement of the related obligations and provisions.

(d) The deductible temporary difference mainly arising from allowances of inventories and trade receivables and unrealised profit of inventories would be reversed upon sales of inventories and write off of respective inventories and receivables.

33. DEFERRED TAXATION (Continued)

The following is the analysis of the deferred tax balances for the purpose of presentation in the consolidated statement of financial position:

	2012 HK$'000	2011 HK$'000
Deferred tax assets	**171,634**	98,223
Deferred tax liabilities	**(8,811)**	(38,468)
	162,823	59,755

At 31 December 2012, the Group had unused tax losses of HK$485,572,000 (2011: HK$449,966,000) available to offset future taxable profits. At 31 December 2012, a deferred tax asset amounting to HK$2,343,000 (2011: HK$2,474,000) was recognised for tax losses amounting to HK$7,603,000 (2011: HK$12,753,000) and no deferred tax was recognised in respect of the remaining tax losses of HK$477,969,000 (2011: HK$437,213,000) due to the unpredictability of future profit streams. At 31 December 2012, included in the unrecognised tax losses are losses of HK$3,737,000 that would expire in 2021 (2011: HK$6,988,000 that will expire during the years 2016 to 2019). Other losses may be carried forward indefinitely.

At 31 December 2011, the Group had deductible temporary differences, mainly arising from inventory, of HK$105,088,000, which were fully utilised during 2012. No deferred tax assets were recognised in relation to such deductible temporary differences in 2011 due to the unpredictability of future profit streams.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. For certain subsidiaries located in other jurisdictions, withholding tax is also imposed on dividend. Deferred taxation has not been provided in the consolidated financial statements in respect of temporary difference attributable to accumulated profits of these subsidiaries amounting to HK$844,630,000 (2011: HK$632,717,000) as the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

34. ACQUISITION OF SUBSIDIARIES

Acquisition in 2011

On 7 January 2011, the Group acquired the entire equity interest of 13 direct and indirect subsidiaries of Siemens AG ("ASM AS Entities") operating the surface mount technology equipment business in 11 countries, including Germany, the PRC, the United Kingdom, France, Austria, the United States of America, Mexico, Singapore, Sweden, Italy and Brazil (the "Acquisition"), for a cash consideration of EUR35,900,000 (approximately HK$372,841,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

34. ACQUISITION OF SUBSIDIARIES (Continued)

Acquisition in 2011 (Continued)

The principal activities of the ASM AS Entities are development, production, sale and service of surface mount technology placement machines. The ASM AS Entities were acquired so as to achieve significant synergies given they have similar engineering, technical and production process characteristics compared to the semiconductor equipment industry.

	HK$'000
Consideration transferred *(Note)*:	
– by cash	372,841
– service fee in respect of bank guarantee paid to a bank	1,558
– service fee in respect of bank guarantee payable to a bank	4,673
	379,072

Acquisition-related costs have been excluded from the cost of acquisition and recognised as an expense in the year when incurred within the "general and administrative expenses" line item in the consolidated statement of comprehensive income. Cumulative acquisition-related costs in respect of the Acquisition amounted to HK$53,460,000, of which HK$7,073,000 was charged to profit or loss in the year for 2011 with the remaining amount charged to profit and loss in previous years.

Note: Apart from the cash consideration paid by the Group, the Company undertook certain financial commitments to the ASM AS Entities and Siemens AG pursuant to the Master Sale and Purchase Agreement of the Acquisition entered into between Siemens AG and the Company (the "MSP Agreement") which are summarised as set out below.

The Company undertook to pay to ASM AS KG, one of the ASM AS Entities, an equity amount of EUR20.0 million (approximately HK$208.0 million) as capital injection to increase ASM AS KG's registered limited partnership interest, and to grant ASM AS KG a revolving loan facility of up to EUR20.0 million (approximately HK$204.5 million) for a period of at least three years from the completion of the Acquisition subject to the terms and conditions as set out in the MSP Agreement (the "Loan Commitment"). The Company shall not alter, rescind, rewind or in any other way contradict the letter of support granted to ASM AS KG up to an amount of EUR120.0 million (approximately HK$1,227.1 million) valid as for a duration of six years following the completion of the Acquisition. The letter of support is to procure that ASM AS KG will for a period of six years after the completion of the Acquisition be in position to fulfil its obligations towards its creditors when the obligations become due. The Company undertook to procure that ASM AS KG will not reduce or decrease the registered limited partnership interest of ASM AS KG for a period of three years following the completion of the Acquisition.

Further, the Company undertook to Siemens AG that for a period of three years from date of the completion of the Acquisition that the Company would not directly or indirectly, (i) make, resolve, initiate, enable or accept any withdrawals from ASM AS KG or any of its partial or entire successors conducting the business or parts thereof (the "Sustained Business"), (ii) make, resolve on, initiate, enable or accept dividend payments or loan repayments by the Sustained Business, (iii) encumber, induce or impose the encumbrance of any assets of ASM AS KG or any of its successors other than in the ordinary course for the regular operative business of ASM AS KG, (iv) accept other non-arm's length advantages from the Sustained Business, or (v) change, alter, rescind, rewind or in any other way contradict the equity commitment and loan commitment as set out in the MSP Agreement. In addition, the Company undertook to Siemens AG that certain employment protection clauses of ASM AS KG as included in the MSP Agreement, including the maintenance of existing site in Munich, Germany and Munich as the headquarters of the group comprising principally the ASM AS Entities, and compliance with certain collective labour agreements. The Company also undertook to pay Siemens AG liquidated damages in the amount up to EUR20.0 million (approximately HK$204.5 million) if the Group does not comply with its obligations in respect of the Sustained Business and employment protection as set out in the MSP Agreement and is not able to cure such non-compliance within a reasonable period of time. The Company agreed to provide Siemens AG with a bank guarantee which shall secure the obligations of the Group as set out above in an amount of not less than EUR20.0 million (approximately HK$204.5 million). The bank charges a service fee of 0.75% per annum on the guarantee amount, which is equivalent to EUR150,000 per annum. The guarantee is to cover a period of four years and the aggregate expense to the Company would be EUR600,000 (approximately HK$6,231,000), which represents part of the acquisition cost and is regarded as part of the consideration for the Acquisition.

34. ACQUISITION OF SUBSIDIARIES (Continued)

Acquisition in 2011 (Continued)

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

	2011 HK$'000
Non-current assets	
Property, plant and equipment	135,814
Intangible assets	16,019
Deferred tax assets	18,308
Other non-current assets	5,128
	175,269
Current assets	
Inventories	1,073,257
Trade and other receivables	1,365,364
Derivative financial instruments	2,586
Income tax recoverable	7,295
Bank balance and cash	842,012
	3,290,514
Current liabilities	
Trade and other payables	1,209,792
Provisions	329,950
Income tax payable	55,734
Bank borrowings	69,977
	1,665,453
Non-current liabilities	
Retirement benefit obligations	19,434
Provisions	73,207
Deferred tax liabilities	225,715
Other liabilities and accruals	18,475
	336,831
Net assets	1,463,499
Gain from a bargain purchase arising on acquisition:	
Consideration transferred	379,072
Less: Net assets acquired	1,463,499
Gain from a bargain purchase	1,084,427
Net cash inflow arising on acquisition:	
Consideration paid in cash	(372,841)
Service fee paid in respect of bank guarantee to a bank	(1,558)
Less: Cash and cash equivalents acquired	842,012
	467,613

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

34. ACQUISITION OF SUBSIDIARIES (Continued)

Acquisition in 2011 (Continued)

The receivables acquired (which principally comprised trade and other receivables) with a fair value of HK$1,365,364,000 and had gross contractual amounts of HK$1,397,056,000. The best estimate at acquisition date of the contractual cash flows of the receivables is expected to be collected.

Gain from a bargain purchase of HK$1,084,427,000 was recognised upon completion of the acquisition of the ASM AS Entities. The gain from a bargain purchase on acquisition was mainly attributable to depressed market value of the acquired business because of years of losses due to challenging economic environment and the bad global economic environment during the period of negotiation of the Acquisition. The fair value of certain contingent liabilities that might arise from the acquired business could not be measured reliably and such contingent liabilities were not recognised.

Included in the revenue and profit for the year ended 31 December 2011 of the Group were HK$4,875,100,000 and HK$335,417,000, respectively, which represent the revenue and profit of the ASM AS Entities for the year.

35. CONTINGENT LIABILITIES

	2012 HK$'000	2011 HK$'000
Guarantees given to the Singapore government for work permits of foreign workers in Singapore	**3,110**	2,898

In addition, a supplier raised a claim in 2009 against a group entity which was acquired by the Group in last year. The management estimated the expected financial effect to be an amount of EUR2,500,000 (equivalent to HK$25,565,000 (2011: HK$25,128,000)) and the amount was recognised as of 31 December 2012. The legal proceedings have not yet been finalised, however the management believes the accrued liabilities will be sufficient to meet the obligation under the claim. The Company is not aware of any other legal proceedings that would have an adverse or material impact on the Group's financial results.

36. CAPITAL AND OTHER COMMITMENTS

	2012 HK$'000	2011 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment:		
– authorised but not contracted for	**44,796**	158,881
– contracted for but not provided in the consolidated financial statements	**107,606**	174,567
Other commitment in respect of acquisition of land use right:		
– contracted for but not provided in the consolidated financial statements	**61,322**	–
	213,724	333,448

37. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2012 Land and buildings HK$'000	2012 Motor vehicles and others HK$'000	2012 Total HK$'000	2011 Land and buildings HK$'000	2011 Motor vehicles and others HK$'000	2011 Total HK$'000
Within one year	**168,641**	**5,903**	**174,544**	160,061	5,031	165,092
In the second to fifth years inclusive	**357,115**	**8,148**	**365,263**	348,476	3,121	351,597
Over five years	**20,488**	**–**	**20,488**	50,826	–	50,826
	546,244	**14,051**	**560,295**	559,363	8,152	567,515

Operating lease payments represent rentals payable by the Group for certain of its manufacturing plants, office properties, quarters and motor vehicles. Except for land leased from the Singapore Housing & Development Board for a period of 30 years (renewable upon expiry for a further term of 30 years), other leases are negotiated for an average term of two to five years (2011: two to six years).

38. 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 grant date, and are generally vest in equal parts over a period of five years and generally expire after five or ten years from the grant date.

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	Weighted average exercise price EUR
At 1 January 2011	267,531	14.99
Granted during the year	128,000	22.33
Performance related vesting adjustment	25,000	12.71
At 31 December 2011	420,531	17.11
Granted during the year	100,000	27.04
At 31 December 2012	520,531	19.01

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

39. CONNECTED AND RELATED PARTY TRANSACTIONS

(a) During the year ended 31 December 2011, the Group purchased property, plant and equipment from ASM Front End Manufacturing Singapore Pte. Limited, a subsidiary of ASM International, at a consideration HK$1,140,000 (2012: HK$ nil).

(b) Compensation of key management personnel

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

	2012 HK$'000	2011 HK$'000
Short-term benefits	**30,938**	55,705
Post-employment benefits	**1,316**	981
Share-based payments	**43,210**	6,056
	75,464	62,742

Certain shares of the Company were issued to key management under the Employee Share Incentive Scheme which has a term of 10 years starting from March 1990, the scheme was extended for a further term of 10 years up to 23 March 2010 pursuant to an extraordinary general meeting of the Company on 25 June 1999. The Scheme was further extended for another term of 10 years up to 23 March 2020 pursuant to an annual meeting of the Company on 24 April 2009. The estimated fair value of such shares were included in share-based payments for both years. Cash bonuses paid to certain executive directors in lieu of Incentive Shares when the grant of Incentive Shares was cancelled and revoked during the year ended 31 December 2011 (see notes 14 and 31) were included in short-term benefits.

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

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the principal subsidiaries at 31 December 2012 and 2011 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 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%	Marketing service
ASM Assembly Equipment (M) Sdn. Bhd.	Malaysia	–	MYR10,000	–	100%	Marketing service

40. 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 Assembly Materials Limited	Hong Kong	HK$2,000,000	HK$10,000	100%	–	Trading of semiconductor materials
ASM Assembly Systems GmbH & Co. KG *(Note a)*	Germany	–	EUR20,200,000	–	100% *(Note b)*	Manufacture and sale of surface mount technology equipment and trading semiconductor equipment
ASM Assembly Systems, LLC	Delaware, United States	–	–	–	100% *(Note b)*	Trading of surface mount technology equipment
先進裝配系統有限公司 (ASM Assembly Systems Ltd.)*	PRC	–	EUR5,400,000	–	100% *(Note b)*	Trading of surface mount technology equipment
ASM Assembly Systems Singapore Pte. Ltd.	Singapore	–	S$33,000,001	–	100% *(Note b)*	Manufacture and sale of surface mount technology equipment
ASM Assembly Technology Co., Limited	Japan	–	JPY10,000,000	100%	–	Trading of semiconductor equipment
先域微電子技術服務(上海)有限公司 (ASM Microelectronic Technical Services (Shanghai) Co., Limited)*	PRC	–	US$400,000	–	100%	Trading of semiconductor equipment
ASM Pacific Assembly Products, Inc.	United States of America	–	US$60,000	–	100%	Trading of semiconductor equipment and materials
ASM Pacific (Holding) Limited *(Note d)*	Hong Kong	–	HK$1,000,000	100%	–	Trading of semiconductor equipment and materials in Taiwan
ASM Pacific (Hong Kong) Limited	Hong Kong	–	HK$500,000	100%	–	Marketing service in Korea and also trading of semiconductor equipment, surface mount technology equipment and materials in Hong Kong
先進半導體材料(深圳)有限公司 (ASM Materials China Limited)* *(Note e)*	PRC	–	US$37,672,392 (2011: US$36,672,392)	–	100%	Manufacture of semiconductor equipment and materials

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

40. 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 Technology Asia Limited	Hong Kong	–	HK$2	100%	–	Investment holding and agency services and also provision of logistics and purchasing services to group companies
先進科技(中國)有限公司 (ASM Technology China Limited)*	PRC	–	US$26,058,159	–	100%	Research and development of semiconductor equipment
ASM Technology Hong Kong Limited *(Note d)*	Hong Kong	–	HK$10,000,000	100%	–	Manufacture of semiconductor equipment and provision of research and development services
先進科技(惠州)有限公司 (ASM Technology (Huizhou) Co., Ltd.)*	PRC	–	US$97,752,396 (2011: US$72,000,000)	–	100%	Manufacture of semiconductor equipment
ASM Technology (M) Sdn. Bhd.	Malaysia	–	MYR74,000,000	100%	–	Manufacture of semiconductor equipment and materials
ASM Technology Singapore Pte Limited	Singapore	–	S$53,000,000	100%	–	Manufacture and sale of semiconductor equipment and materials
進峰貿易(深圳)有限公司 (Edgeward Trading (Shenzhen) Limited)*	PRC	–	US$300,000	–	100%	Trading of semiconductor equipment and materials
深圳先進微電子科技有限公司 (Shenzhen ASM Micro Electronic Technology Co., Limited)	PRC	–	*(Note c)*	–	*(Note c)*	Manufacture of semiconductor equipment

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Notes:

(a) Pursuant to the MSP Agreement entered into with Siemens AG, the Company undertook for a period of three years from the date of completion of acquisition of the ASM AS Entities not to directly or indirectly make, resolve on, initiate, enable or accept dividend payments and loan repayments from ASM AS KG. As at 31 December 2012 and 2011, no loan was advanced to ASM AS KG and the accumulated gain of ASM AS KG amounted to EUR9,071,000 (approximately HK$92,760,000) (2011: accumulated loss of EUR14,800,000 (approximately HK$148,756,000)).

(b) Acquired on 7 January 2011 (see note 34).

(c) Under a joint venture agreement, the Group has committed to contribute 100% of the registered capital of HK$718,300,000 (2011: HK$718,300,000) in 深圳先進微電子科技有限公司 (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 period of five years to October 2009. On 23 June 2009, the term was approved to be extended for a further period of seven years to October 2016. At 31 December 2012, the Group has paid up HK$648,529,270 (2011: HK$648,529,270) as registered capital of MET. The Group has to bear the entire risk and liabilities of MET and, other than annual amount of HK$10,029,000 (2011: HK$9,307,000) 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. The annual amount paid to the PRC joint venture partner was included in the minimum lease payments during the year. The commitment for the future payments was included in the operating lease commitments as at 31 December 2012 and 2011 in note 37.

(d) Incorporated on 8 February 2011.

(e) Formerly known as ASM Semi-conductor Materials (Shenzhen) Co., Ltd.

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2012

41. INFORMATION ABOUT FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2012 HK$'000	2011 HK$'000
Assets		
Unlisted investments in subsidiaries	**464,199**	464,199
Loans to subsidiaries	**749,482**	708,998
Pledged bank deposit	**204,520**	201,020
Amounts due from subsidiaries	**2,288,302**	3,882,294
Other current assets	**83,892**	168,691
	3,790,395	5,425,202
Liabilities	**(880,361)**	(2,616,174)
	2,910,034	2,809,028
Capital and reserves		
Share capital *(see note 30)*	**39,925**	39,764
Reserves *(Note)*	**2,870,109**	2,769,264
	2,910,034	2,809,028

41. INFORMATION ABOUT FINANCIAL POSITION OF THE COMPANY (Continued)

Note: Movement in reserves

	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Shares held for share award scheme HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Dividend reserve HK$'000	Total HK$'000
At 1 January 2011	535,987	–	–	155	56,143	823,781	1,267,581	2,683,647
Profit and total comprehensive income for the year	–	–	–	–	–	1,857,646	–	1,857,646
Sub-total	535,987	–	–	155	56,143	2,681,427	1,267,581	4,541,293
Recognition of equity-settled share-based payments	–	157,472	–	–	–	–	–	157,472
Shares issued under the Employee Share Incentive Scheme	129,342	(129,494)	–	–	–	–	–	(152)
Cancellation of the grant under the Employee Share Incentive Scheme	–	(27,978)	–	–	–	–	–	(27,978)
2010 final and special dividend paid	–	–	–	–	–	–	(1,267,581)	(1,267,581)
2011 interim dividend paid	–	–	–	–	–	(633,790)	–	(633,790)
2011 final dividend proposed	–	–	–	–	–	(318,110)	318,110	–
At 31 December 2011 and 1 January 2012	665,329	–	–	155	56,143	1,729,527	318,110	2,769,264
Profit and total comprehensive income for the year	–	–	–	–	–	501,578	–	501,578
Sub-total	665,329	–	–	155	56,143	2,231,105	318,110	3,270,842
Recognition of equity-settled share-based payments	–	197,132	–	–	–	–	–	197,132
Purchase of shares under the Employee Share Incentive Scheme	–	–	(37,035)	–	–	–	–	(37,035)
Vesting of shares under the Employee Share Incentive Scheme	–	(37,035)	37,035	–	–	–	–	–
Shares issued under the Employee Share Incentive Scheme	159,936	(160,097)	–	–	–	–	–	(161)
2011 final dividend paid	–	–	–	–	–	–	(318,110)	(318,110)
2012 interim dividend paid	–	–	–	–	–	(242,559)	–	(242,559)
2012 final dividend proposed	–	–	–	–	–	(119,773)	119,773	–
At 31 December 2012	825,265	–	–	155	56,143	1,868,773	119,773	2,870,109

FIVE YEAR FINANCIAL SUMMARY

	For the year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Turnover	**10,460,558**	12,915,194	9,515,089	4,732,174	5,258,413
Profit before taxation	**868,678**	3,289,444	3,219,647	1,065,770	1,103,564
Income tax expense	**(179,684)**	(357,464)	(377,613)	(130,332)	(129,891)
Profit for the year	**688,994**	2,931,980	2,842,034	935,438	973,673

	At 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and Liabilities					
Non-current assets	**2,698,143**	2,470,652	1,656,547	938,753	1,034,853
Current assets	**7,525,837**	7,141,054	5,960,609	3,831,063	2,750,211
Current liabilities	**(3,351,939)**	(3,158,289)	(2,476,396)	(1,359,185)	(919,052)
Net current assets	**4,173,898**	3,982,765	3,484,213	2,471,878	1,831,159
Non-current liabilities	**(315,367)**	(187,622)	(610)	(555)	(1,912)
Equity attributable to owners of the Company	**6,556,674**	6,265,795	5,140,150	3,410,076	2,864,100

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