ENABLING THE DIGITAL WORLD
開拓數碼世界

ASM
Pacific Technology
(STOCK CODE 股份代號: 0522)

ASM Pacific Technology Limited

ANNUAL REPORT 2016 年報

FORGING AHEAD 邁步向前，迎接下一浪增長
with the NEXT GROWTH DRIVERS

ASMPT

Performance in Year 2016
二零一六年之業績表現

Record Group revenue of US$1.84 billion, representing an increase of 9.8% over the preceding year

集團收入創新高達18.4億美元，較前年增加9.8%

Net profit of HK$1.44 billion and earnings per share of HK$3.61, representing an increase of 50.9% over the preceding year

盈利為港幣14.4億元，每股盈利為港幣3.61元，較前年增加50.9%

Back-end equipment revenue of US$930.5 million, representing an increase of 23.0% over 2015

後工序設備業務收入為9.305億美元，較二零一五年增加23.0%

Materials revenue of US$241.2 million, representing an increase of 9.2% over 2015

物料業務收入為2.412億美元，較二零一五年增加9.2%

SMT solutions revenue of US$664.5 million, representing a decrease of 4.4% against 2015

SMT解決方案業務收入為6.645億美元，較二零一五年減少4.4%

New order bookings of US$1.88 billion, representing an increase of 9.1% over 2015

新增訂單總額為18.8億美元，較二零一五年增加9.1%

Cash and bank deposits of HK$3.21 billion at the end of December 2016

於二零一六年十二月底的現金及銀行存款結存為港幣32.1億元

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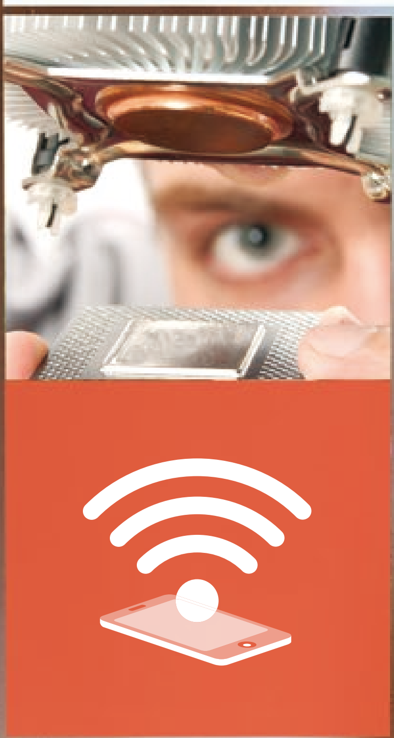

CORPORATE INFORMATION

DIRECTORS

Independent Non-Executive Directors:

Orasa Livasiri, Chairman
Lok Kam Chong, John
Wong Hon Yee
Tang Koon Hung, Eric
Patrick Shuang Kung

Non-Executive Directors:

Charles Dean del Prado
Petrus Antonius Maria van Bommel

Executive Directors:

Lee Wai Kwong
Chow Chuen, James
Robin Gerard Ng Cher Tat

AUDITOR

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

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

SECRETARY

So Sau Ming

REGISTERED OFFICE

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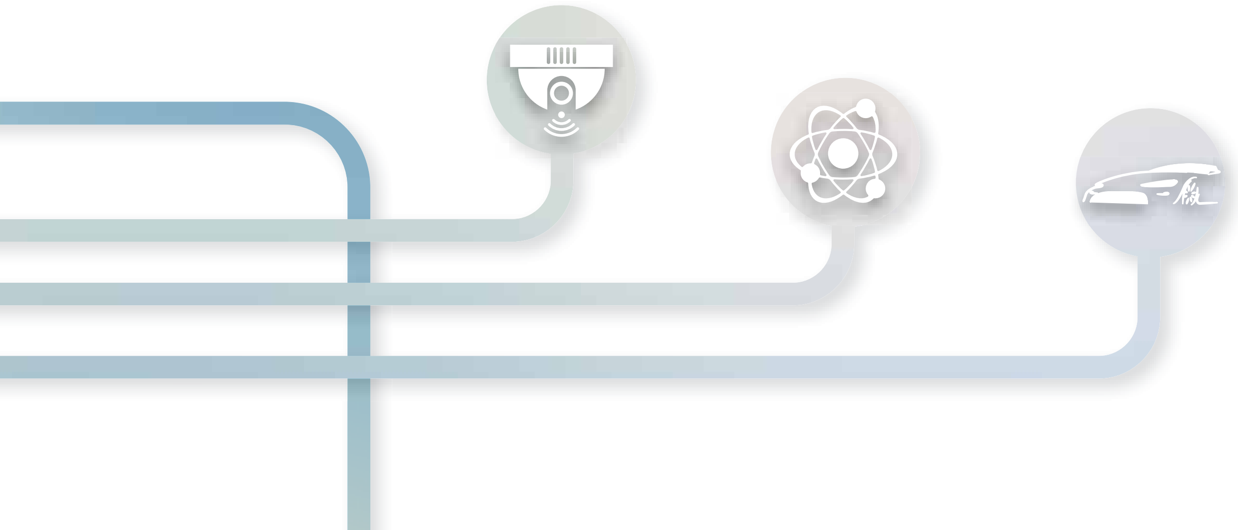
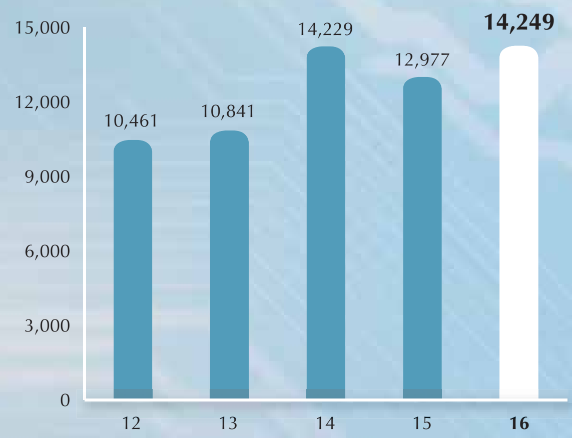


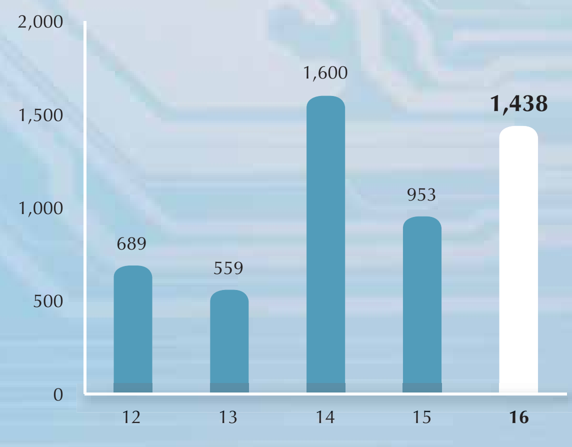
FINANCIAL HIGHLIGHTS

	Year ended 31 December	
	2016	2015
	HK$'000	HK$'000
Revenue	**14,249,093**	12,977,289
Cost of sales	**(8,891,618)**	(8,261,905)
Gross profit	**5,357,475**	4,715,384
Other income	**78,433**	42,623
Selling and distribution expenses	**(1,277,326)**	(1,275,844)
General and administrative expenses	**(785,079)**	(757,602)
Research and development expenses	**(1,242,775)**	(1,185,118)
Other gains and losses	**(51,348)**	30,394
Restructuring costs	**(97,899)**	(49,758)
Finance costs	**(188,532)**	(156,703)
Profit before taxation	**1,792,949**	1,363,376
Income tax expense	**(354,567)**	(410,462)
Profit for the year	**1,438,382**	952,914
Profit for the year attributable to:		
Owners of the Company	**1,463,864**	956,191
Non-controlling interests	**(25,482)**	(3,277)
	1,438,382	952,914
Earnings per share		
– Basic	**HK$3.61**	HK$2.38
– Diluted	**HK$3.60**	HK$2.37

Revenue
(HK$' Million)



Profit
(HK$' Million)



CHAIRMAN'S STATEMENT

RESULTS

ASM Pacific Technology Limited and its subsidiaries (the "Group" or "ASMPT") reported a revenue of **HK$14.25 billion (US$1.84 billion)** in the fiscal year ended 31 December 2016, which was 9.8% higher than the revenue of HK$12.98 billion (US$1.67 billion) in the previous year. The Group's consolidated profit after taxation for the year is **HK$1.44 billion** which is an increase of 50.9% from the previous year's net profit of HK$952.9 million. Basic earnings per share (EPS) for the year amounted to **HK$3.61** (2015: HK$2.38).

DIVIDEND

We continue to believe in returning excessive cash to our shareholders as dividends. After considering the Group's short term needs and our cash on hand, the Board of Directors has resolved to recommend to shareholders the payment of a final dividend of **HK$1.10** (2015: final dividend of HK$0.40) per share. Together with the interim dividend of HK$0.80 (2015: HK$1.00) per share paid in August 2016, the total dividend payment for year 2016 will be **HK$1.90** (2015: HK$1.40) per share.

A STELLAR PERFORMANCE FOR 2016

REVIEW

The Group has performed well in 2016. Despite the continued uncertainty and volatility in the global economies, Group revenue grew 9.8% year-on-year to US$1.84 billion, setting a new record in annual revenue. By business segments, both Back-end Equipment and Materials Segments achieved year-on-year revenue growth while SMT Solutions Segment suffered a small year-on-year revenue contraction.

The strong performance achieved by the Group was attributed primarily to the strong demand for CMOS Imaging Sensor (CIS) and LED equipment. Significant demand for CIS is driven mainly by the mobile phone suppliers who are now very focused in providing new-generation smartphones to the market that come equipped with better features and capabilities. Likewise, the LED general lighting and display panels are also generating a substantial impact on the LED market, thus making it as one of the leading growth drivers. Towards the second half of last year, we also witnessed the recovery of the semiconductor IC and Discrete market, as well as a higher demand for SMT equipment.

The Group ended the year on a high note with an unusual quarter-on-quarter booking growth. This upward movement in booking was beyond the Group's expectation at the beginning of the quarter. In fact, the Group's billing and booking for the fourth quarter in 2016 was the highest that the Group had ever achieved for the last quarter of a year.

During the fourth quarter of 2016, both Back-end Equipment and Materials Segment achieved double digit percentage quarter-on-quarter booking growth. Out of the three pillars of the Back-end Equipment business, namely IC & Discrete, Optoelectronics and CIS, the IC & Discrete market showed the strongest booking momentum during the last quarter. In fact, the strong booking momentum has been extended to 2017 with customers in the CIS market also making investment for the current year.

Net profit for the Group amounted to HK$1.44 billion in 2016, representing a surge of 50.9% over the preceding year. The gross margin of the Group made an improvement of 126 bps to 37.6%. This is the highest the Group has ever achieved for the past six years since the acquisition of the SMT business. Gross margin of the Back-end Equipment Segment continues to grow as it improved over the preceding year to a five year high. Our Materials Segment is the fourth largest global lead frames supplier. Excluding the Molded Interconnect Substrate (MIS) business that the Group acquired in Q4 of 2015, gross margin of the Materials Segment also showed a good year-on-year improvement. As the MIS business is still at its early stage of development, it has yet to make a positive contribution to the profitability of the Materials Segment.

Group revenue for the second half of last year amounted to US$995.1 million, representing growth of 25.3% and 18.2% against the second half of 2015 and the preceding six months, respectively. Group revenue for the fourth quarter of last year amounted to US$454.5 million, representing contractions of 16.1% compared to the preceding quarter and growth of 20.2% against the same period in 2015.

By geographical distribution, the top five markets for ASMPT in 2016 were China inclusive of Hong Kong (54.6%), Europe (15.7%), the Americas (7.7%), Malaysia (6.4%) and Taiwan (4.2%). We continue to build our business on a diversified customer base with no single customer accounted for more than 10% of the Group's revenue. The top 5 customers collectively contributed 18.8% of the Group's sales revenue. Out of 80% of the Group's revenue came from 158 customers. Out of the top 20 customers, 6 were from the SMT Solutions business and 3 were key customers for both the Back-end and the SMT Solutions businesses. The top 20 customers of the Group were from different market segments such as the world's leading Integrated Device Manufacturers (IDMs), Tier-1 Outsourced Assembly and Test (OSAT) companies, major OSATs in China, key LED players, top Electronics Manufacturing Services (EMS) providers and automotive components suppliers.

SERVING DIVERSIFIED APPLICATION MARKETS

REVIEW (Continued)

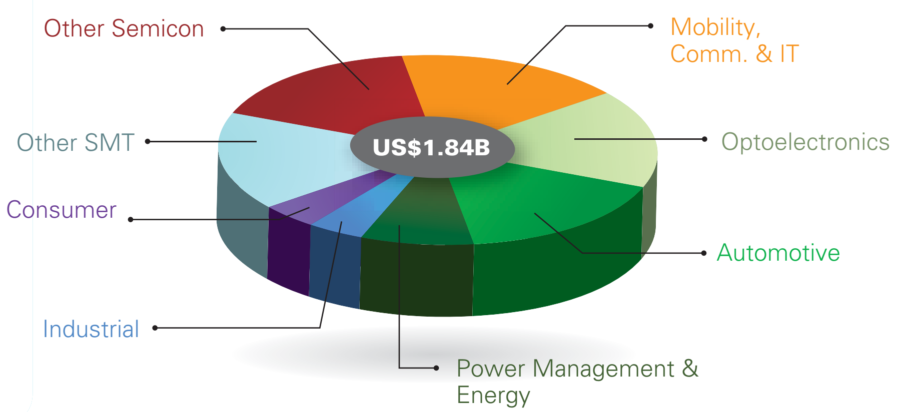
Last year's new order bookings amounted to US$1.88 billion, representing a growth of 9.1% as compared to 2015. The book-to-bill ratio was at 1.02. Backlog of the Group amounted to US$423.4 million at end of 2016, representing growth of 8.9% over the previous year.

New order booking for the Back-end Equipment and the Materials segment managed to achieve year-on-year growth as compared to the previous year, while booking for the SMT Solutions segment suffered a small contraction.

Group	FY 2016	2H 2016		Q4 2016	
	YoY	HoH	YoY	QoQ	YoY
Bookings	+9.1%	–6.6%	+19.1%	+8.0%	+23.7%
Revenue	+9.8%	+18.2%	+25.3%	–16.1%	+20.2%
Gross Margin	+126bps	+213bps	+315bps	–183bps	+48bps
EBIT	+29.1%	+72.1%	+150.8%	–36.3%	+131.9%
Net Profits	+50.9%	+98.2%	+315.6%	–34.6%	+658.7%

By application markets, Mobility, Communications and IT; Optoelectronics and Automotive are the largest market segments that the Group served. Its combined contributions to the Group's revenue has grown from around 44% in 2015 to around 50% in 2016. Power Management and Energy, Industrial, and Consumers are the other key market segments for the Group.

GROUP REVENUE BY APPLICATION MARKETS FOR THE YEAR 2016



STRATEGIC TRANSFORMATIONS DELIVER GOOD RESULTS

CHAIRMAN'S STATEMENT *(CONTINUED)*

REVIEW (Continued)

Back-end Equipment Segment

We believe once again we have outperformed the market. Revenue for the Back-end Equipment Segment grew 23.0% last year to US$930.5 million, contributing 50.7% of the Group's total revenue.

Our Back-end Equipment Segment continued to retain its number one position in the global market – a position that we have first attained in 2002. In fact, over the past fifteen years, the Group has only lost the number one ranking once in 2012. Due to aggressive competition in the mobile phone industry, more and more smartphone suppliers are differentiating among themselves with more sophisticated cameras on mobile phones. As demand for high resolution and dual cameras increased, this has led to increasing demand for CIS equipment. Industry analysts had also reported that the penetration rate for rear-side dual camera smartphone was only around 7% in 2016. Moving forward to the next few years, the penetration rate is expected to go up to around 30% by 2020. If such a projection is accurate, this will mean a continuous strong demand for CIS equipment in the next few years.

Furthermore, we also noticed that some customers are working on additional features to have dual cameras for both the front and the rear sides of the mobile phones. If this trend takes off which we believe it will, this means that the demand for CIS equipment will further escalate.

The Group believes that demand for CIS equipment will go beyond the smartphone market. More cameras have been deployed in automobiles not only to enhance user experience but also to support the Advanced Driver Assistance Systems (ADAS). 3D Sensing is another user for CIS technology. One of the applications for 3D Sensing is Augmented Reality (AR), which the Group anticipates will go beyond gaming and could penetrate into many other aspects of human life. The Group also believes that CIS will remain as one of the key pillars for the Group's Back-end Equipment Business for a long period of time.

The other key pillar of the Group's Back-end Equipment Business is the LED market. Driven by the growth in LED general lighting and display panels, we experienced strong demand for LED equipment in 2016.

Concurrently, the Group is making good progress in the Advanced Packaging Technology market. With our unparalleled product portfolio offered by both the Back-end Equipment and SMT Solutions Segments, the Group managed to engage many lead customers in the development of Wafer Level Fan-in (WLFI), Wafer Level Fan-Out (WLFO) and Panel Level Fan-Out (PLFO) packages. We expect contributions from this business to gradually grow, and to join IC & Discrete, LED and CIS to become the next pillar of our Back-end Equipment business.

The Group also made good progress in other smaller businesses in 2016. These include the Laser Dicing Equipment business, the Automatic Optical Inspection (AOI) business and the Solar Wafer Inspection business. Though their contributions to the Group's Back-end Equipment Business are still relatively small, they achieved impressive growth rate of close to or exceeding 100% as compared to the previous year.

Revenue of the Back-end Equipment Segment amounted to US$510.6 million and US$223.4 million for the second half and the fourth quarter of 2016, respectively. New bookings for the Back-end Equipment Segment last year grew by 19.2% as compared to 2015.

Back-end Equipment Segment	FY 2016	2H 2016		Q4 2016	
	YoY	HoH	YoY	QoQ	YoY
Bookings	+19.2%	–9.8%	+33.9%	+14.2%	+46.9%
Revenue	+23.0%	+21.5%	+49.8%	–22.3%	+45.8%
Gross Margin	+397bps	+170bps	+586bps	–252bps	+550bps
Segment Profit	+111.8%	+46.4%	+354.7%	–38.2%	+1,116.1%
Segment Profit Margin	+864bps	+380bps	+1,496bps	–502bps	+1,716bps

ALWAYS PLACE CUSTOMERS' NEEDS AS NO. 1

CHAIRMAN'S STATEMENT *(CONTINUED)*

REVIEW (Continued)

Back-end Equipment Segment (Continued)

Profitability of our Back-end Equipment Business continued to improve last year. Gross margin of this segment made an improvement to 43.4% last year, a five years' high since 2011. Profits of the Back-end Equipment Segment surged 111.8% as compared to the previous year.

The Group's strategies of building a more flexible workforce and increasing level of external manufacturing have helped to make impactful contribution to the improvement.

The relocation of the factory from Yantian, Shenzhen to Longgang, Shenzhen has been completed late last year with a total of 710 employees having left the company. Part of the vacancies will be filled up with new hires while the rest will be taken up by increasing the external manufacturing activities. The Group believes that this consolidation will help to improve the efficiency and logistics operation of the Group in Shenzhen.

Materials Segment

Last year, revenue of our Materials Segment amounted to US$241.2 million, representing 9.2% growth from the year before. Our etched lead frame business not only experienced strong revenue growth over the previous year, but also achieved a new revenue record. Materials Segment contributed 13.1% of the Group's total revenue in 2016.

Revenue of the Materials segment amounted to US$124.3 million and US$60.6 million for the second half and the fourth quarter of 2016, respectively. New bookings for Materials Segment last year grew by 16.3% as compared to 2015.

Materials Segment	FY 2016	2H 2016		Q4 2016	
	YoY	HoH	YoY	QoQ	YoY
Bookings	+16.3%	+11.5%	+21.6%	+15.8%	+29.5%
Revenue	+9.2%	+6.3%	+16.8%	–4.9%	+15.5%
Gross Margin	–20bps	–218bps	–142bps	+1bps	–109bps
Segment Profit	+20.6%	–10.8%	+36.4%	+9.9%	+75.0%
Segment Profit Margin	+86bps	–160bps	+119bps	+120bps	+304bps

With our continuous cost reduction effort and strong focus on offering higher-added value services and higher margin products to the market, profitability of our Materials Segment continued to improve last year. Profits of Materials Segment grew 20.6% over the previous year.

The Group has invested in the MIS business since the fourth quarter of 2015. As the business is still in an early stage of development, it has yet to make a positive contribution to the profitability of the Materials Segment. Excluding the MIS business, gross margin of the Materials Segment improved year-on-year and Segment profits would have achieved improvement of over 50%.

Despite the investment in MIS having temporarily brought down the financial performance of the Materials Segment, the Group remains committed to grow the MIS business. By combining MIS and the Group's equipment portfolio in Advanced Packaging, the Group is in a unique position to offer customers a total solution in their pursuit of advanced packaging technologies. Furthermore, the Group believes that the MIS business will significantly lift the gross margin of the Materials Segment to a much higher level once this business starts to turnaround.

PROVIDE HOLISTIC SUITE OF SOLUTIONS FOR THE INDUSTRY

REVIEW (Continued)

SMT Solutions Segment

Last year, revenue of our SMT Solutions Segment contracted slightly by 4.4% to US$664.5 million. The SMT Solutions Segment contributed 36.2% of the Group's revenue.

Revenue of the SMT Solutions Segment amounted to US$360.2 million and US$170.5 million for the second half and the fourth quarter of 2016, respectively. New bookings for the SMT Solutions Segment last year contracted 4.3% as compared to 2015.

SMT Solutions Segment	FY 2016	2H 2016		Q4 2016	
	YoY	HoH	YoY	QoQ	YoY
Bookings	–4.3%	–8.5%	+2.6%	–2.8%	–1.4%
Revenue	–4.4%	+18.2%	+3.8%	–10.5%	–1.1%
Gross Margin	–202bps	+321bps	+39bps	+13bps	–450bps
Segment Profit	–23.0%	+90.5%	+10.3%	–32.3%	–26.4%
Segment Profit Margin	–271bps	+515bps	+80bps	–375bps	–400bps

As compared to the preceding six months, gross margin of the SMT Solutions Segment made an improvement of 3.2% during the second half of last year. The SMT Solutions Segment achieved segment result margin of 11.2% last year.

Our SMT Solutions Segment continues to focus on offering to the market solutions of higher placement accuracy and speed. With the trend of integrating more advanced features into limited space, we notice that customers are adopting more tiny components such as 0402 (component size of 0.4 mm x 0.2 mm), PCBs with finer traces and more System in Packages (SiPs) in their design, which we believe work in the Group's favor. Over the past two years, the SMT Solutions Segment made good progress in addressing the Advanced Packages market. With the comprehensive suite of innovative solutions, we are able to positively engage various lead customers in the development of wafer level and panel level fan-out packages.

Last year, we have successfully combined the Printing and Placement divisions into one unit. By tapping on each other's competence, we are able to introduce new solutions to the market at a faster pace. Also, with the synergies formed, we expect operation costs to be further reduced. Our new facility in Singapore has been completed while the setup of Malaysia's new manufacturing facilities for the SMT Solutions products is progressing on track. Our goal is to fulfill deliveries for our customers in Asia from both the Singapore and Malaysia factories. We believe that it will not only further lower our production cost but also helps to reduce carbon emission as around 50% of our customers for SMT Solution Segment are located in Asia.

2016 marked a memorable year for the Group as the SMT Solutions Segment's factory in Munich was awarded the "Factory of the Year 2016" in recognition for its exceptional flexibility in production by the *Produktion* magazine, one of the most prestigious German publications, and Consultancy A.T. Kearney. Past winners include Siemens, Volkswagen, Robert Bosch, to name a few.

INSPIRE TALENTS AROUND THE WORLD TO DELIVER INNOVATIVE SOLUTIONS

LIQUIDITY AND FINANCIAL RESOURCES

Cash and bank deposits as of 31 December 2016 increased by 41.1% to HK$3.21 billion (2015: HK$2.28 billion). During 2016, HK$486.7 million was paid as dividends (2015: HK$925.8 million). Capital addition during the period amounted to HK$425.4 million (2015: HK$564.6 million), which was funded by the year's depreciation and amortization of HK$440.4 million (2015: HK$419.8 million). Accounts receivable have been tightly monitored during the year. Day sales outstanding has decreased to 91.0 days (2015: 102.1 days) as a result of improved collections.

As of 31 December 2016, the current ratio was 1.91, with a debt-equity ratio of 26.9% (debts include all bank borrowings and convertible bonds). The Group had available banking facilities of HK$1.68 billion (US$216.8 million) in the form of bank loans and overdraft facilities, out of which HK$310.2 million (US$40.0 million) was committed facilities. As of 31 December 2016, the Group had bank borrowings of HK$193.9 million (US$25.0 million), all of which was utilization of committed facilities. The Group's shareholders' funds increased to HK$9.02 billion as at 31 December 2016.

In terms of currency exposure, the majority of our sales were denominated in U.S. dollars, with the balance in Euros and Chinese renminbi. On the other hand, disbursements, in respect of operating expenses and purchases, were mainly in U.S. dollars, Euros, Hong Kong and Singapore dollars, Malaysia ringgit, Chinese renminbi, British pounds and Japanese yen.

We continue to believe in returning excess cash to our shareholders through the payout of dividends. After considering our mid-to-short term needs and cash on hand, the Board recommends a final dividend of HK$1.10 (2015: final dividend of HK$0.40) per share. The total dividend payout for 2016 is HK$1.90 per share (2015: HK$1.40), with a payout ratio of 52.9%. Going forward, the Group would like to pursue a dividend policy of paying out sustainable and gradually increasing dividends.

HUMAN RESOURCES

ASMPT recognizes human resources as one of the Group's most important assets. The Group strongly believes in hiring the right talents, nurturing and retaining them. Besides offering competitive remuneration packages, ASMPT placed great emphasis to provide extensive training programmes and a positive and dynamic working environment. Salary review is conducted on a yearly basis and in addition to salary payments, the Group also provides other form of benefits including contributions to provident funds schemes, medical and training subsidies etc. Discretionary bonus payout and incentives shares are also granted to eligible staff based on the Group's financial results and staff individual performances.

As of 31 December 2016, total headcount for the Group worldwide was approximately 14,400 people. Of the total workforce, around 1,300 were based in Hong Kong, 8,800 in mainland China, 1,400 in Singapore, 900 each in Germany and Malaysia, 400 in the United Kingdom while the remaining were based in other parts of the world. A total of 1,572 headcounts were flexible workers including temporary or short-term contract employees and outsourced workers.

ASMPT invests aggressively to build up its core competence and R&D capabilities. The series of successful acquisitions has helped ASMPT brought in the right talents around the globe with capabilities and expertise. Currently, ASMPT has six R&D centers located in Hong Kong and Chengdu (China), Singapore, Munich (Germany), Weymouth (United Kingdom) and Beuningen (the Netherlands).

The total manpower costs for the Group in 2016 were HK$3.96 billion, as compared with HK$3.86 billion in 2015.

INVEST AHEAD OF THE CURVE

PROSPECTS

The market sentiments looked positive during the fourth quarter of last year and this was evidenced by the billings and bookings that set new records for the fourth quarter of a year.

We believe this strong momentum will continue and 2017 is likely to be a year of growth for the Group. This is in line with the predictions from most industry analysts that both the semiconductor and the semiconductor packaging and assembly equipment (PAE) industries will experience growth this year. We expect our strong performance will be highly driven by demand from the CIS and the LED businesses, and recovery of the IC and Discrete market. Moreover, 2017 being the 10th anniversary of the smartphone industry, many people expect this will trigger off a new round of investment cycle for the smartphone market, which we believe will be beneficial to our SMT Solutions business.

With the strong booking received in Q4 as the confidence booster, we expect a strong year-on-year double digit percentage improvement in the Group's billing during the first quarter of this year. As there are less working days in Q1 due to the Chinese New Year holiday break, we expect Group billing for the first quarter to show only a small sequential improvement over the preceding quarter. For the Group booking in Q1, we expect it to improve sequentially and to demonstrate an even stronger double digit percentage growth on year-on-year basis. In fact, new order booking for the first two months of this year has already surpassed the booking in Q1 last year.

However, we are also mindful that there are still some levels of macro-economic instability that might affect the global semiconductor and electronics industries. United States being the engine of the world economy and the recent change in its political leadership have brought about a certain degree of reservation to the world economy. Likewise, the economic effect of Brexit may further challenge the situation and pose another uncertainty to the world market.

Nevertheless, we believe that there are still many bright spots in our industry and in particular, for ASMPT. In years to come, we expect automobiles, smart factories, smart cities, Industry 4.0, Internet of Things (IoT), healthcare, Artificial Intelligence (AI) and the desire for a greener environment will help to increase demand for semiconductor devices and electronics modules. Furthermore, the broad portfolio of new products that the Group has developed will put us in the forefront position to gain market shares.

APPRECIATION

To summarize, the 2016 results delivered by ASMPT have been encouraging. We have made good progress towards our strategic and financial goals. We believe in delivering the highest value and innovation solutions to our customers through products and solutions with advanced technologies and excellent quality. We stand ready to react swiftly to economic changes and technology demands by optimizing our manufacturing processes and enhancing our product portfolio. Looking ahead, while we are confident of our growth potential for 2017, there are still areas we need to work on to improve value for all our stakeholders. For the Group to continue to grow from strength to strength, we will continue to ***forge ahead with the next growth drivers***. On behalf of the Board, I would like to thank all our customers, employees, suppliers and other stakeholders for your tremendous support and contribution during the year.

Orasa Livasiri
Chairman
2 March 2017

SEIZE OPPORTUNITIES FOR THE FUTURE

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

ASMPT has put up a stellar performance in 2016 despite the challenging global environment. New records were achieved in 2016 in various areas including full year Group revenue, and Group billings and bookings for the last quarter of a year. Both gross margin of the Group and gross margin of the Back-end Equipment Segment were at the highest level of the past five years. Gross margin of the Materials Segment was 0.2% lower than the year before. However, after excluding the effect of the new investment by the Group in the Molded Interconnect Substrate (MIS) business, gross margin of our Materials Segment would also be at the highest level of the past five years.

In 2016, the Group's total billings amounted to US$1.84 billion, which was higher than the US$1.67 billion reported in 2015. New order bookings were US$1.88 billion, an improvement of 9.1% from 2015. Our backlogs as of 31 December 2016 stood at US$423.4 million, an improvement of 8.9% over the previous year.

The Group's three business segments namely Back-end Equipment Segment, Materials Segment and SMT Solutions Segment continue to gain market traction. The strong performance achieved by the Group was contributed mainly by the strong demand for CIS and LED equipment. As consumers' expectation for smartphones gets higher, more and more mobile phone suppliers are driven to provide new-generation mobile devices that come equipped with more functions and sophisticated features to cater to market needs. As the pace for digital adoption increases, LED general lightings and display panels also created a huge impact on the LED market, thus helped to propel LED as one of the leading growth driver for the Group.

Our Back-end Equipment Segment retains its number one position in the global semiconductor assembly and packaging equipment market. Likewise for Material Business, it achieved a new half year billing record during the second half of last year. Our SMT Solutions Business has also been making strides into the semiconductor advanced packaging market. Multiple customers were engaged in the area of Wafer Level Fan-Out (WLFO), Panel Level Fan-Out (PLFO) and System in Packages (SiPs) production and development.

Over the past few years, the Group has successfully gone through a journey of strategic transformations to better equip ASMPT for future technological, economical and market challenges. Today, advancements achieved by the Group is propelled by dual growth engines, namely the Back-end semiconductor and the SMT businesses; multiple application markets and a diversified customer base. With the changes made in its manufacturing strategies, the Group has successfully improved its cost structure. It is now much better equipped to weather through the volatile market cycles and economic storms. The Group also recognizes that the depth and breadth of ASMPT's enabling technologies is its biggest asset and competitive advantage. Together with its strong financial resources and excellent customer services provided, the Group has been making good progress in establishing strong partnership with lead customers in the market.

The Group continues to focus resources in market segments of high growth potential. Last year, the top three market segments for the Group's revenue were – Mobility, Communication & IT; Optoelectronics and Automotive. Their combined contribution to the Group's revenue had grown from around 44% in 2015 to around 50% last year. In particular, the Automotive market segment delivered the highest growth rate among all market segments last year. The other market segment that also demonstrated high growth rate last year was the Power Management & Energy market.

OVERVIEW (Continued)

The diversity in our customer base is best exemplified through the healthy growth in our annual report card. No single customer accounted for more than 10% of the Group's revenue. We are not dependable on any one customer or market for a significant portion of our sales. Collectively, our top five customers accounted for 18.8% of our total revenue. We also diverse our business geographically to lower our risk impact so that the Group can continue to grow even when certain markets are experiencing tough times. In 2016, our top five markets were China inclusive of Hong Kong (54.6%), Europe (15.7%), the Americas (7.7%), Malaysia (6.4%) and Taiwan (4.2%).

Recently, we have also launched the Center of Competence (CoC) in Singapore. This is our first center outside Germany and it showcases our latest suite of Back-end semiconductor equipment and SMT solutions that support our customers in their development of advanced packaging technologies, Industry 4.0 and smart factories. By setting up our second CoC in Singapore, it allows us to be closer and bring in more value-add to our customers in Asia.

Our strategies of establishing a deep customer reach and providing comprehensive total product solutions have also been delivering good results. While our strategies are sound, we periodically review what we have achieved and assess the areas we could do better by listening to the feedback of our customers. We remain vigilant and nimble to make changes and react swiftly according to situations.

Modern technology has revolutionized the way people around the world communicate and live. As everything moves quickly and with continuous technological advancements, we see more requests for better performance products with more innovative features at lower cost. ASMPT is set to embrace this digital economy with our core competencies, enabling technologies and our solid foundation on R&D.

MARKET AND PRODUCT DEVELOPMENT

Back-end Equipment Business Segment

In 2016, the revenue achieved by the Back-end Equipment Segment was US$930.5 million. It represented 50.7% of the Group's total revenue. When compared to 2015, billings grew by 23.0%, new order bookings increased by 19.2%; gross margin improved by 4.0% and segment profits surged by 111.8%.

With its outstanding results achieved, the Back-end Equipment Segment remains undefeated as it retains its number one position as the world leader in the supply of semiconductor assembly and packaging equipment.

Mobility and the increasing technological functionality of mobile devices continue to be one of the main driving forces for Back-end Equipment Segment. In addition, as the world is transiting towards "Smart living", the demand for equipment goes beyond application in the mobile devices. In the LED market, LED general lightings and display panels are set forth to be the other key pillar for our Back-end Equipment Segment. With this, the Group expects strong growth for 2017. While CIS and LED equipment were the key growth drivers for our Back-end Equipment Business last year, the Automotive market delivered the highest growth rate.

The Group is also making good progress in the Advanced Packaging Technology market by offering products from both the Back-end Equipment Segment and SMT Solutions Segment and has managed to successfully establish a high degree of engagement with our lead customers in the development of Wafer Level Fan-in (WLFI), Wafer Level Fan-Out (WLFO) and Panel Level Fan-Out (PLFO) packages. The extensive product portfolio has expanded ASMPT's serviceable available market in the Back-end Equipment and well positioned the Group to capture future growth opportunity.

MARKET AND PRODUCT DEVELOPMENT
(Continued)

Back-end Equipment Business Segment
(Continued)

The Group's wire bonder business achieved a new billing record last year, much to the surprise of the industry players who do not expect the wire bonder market to grow. The Group has developed an innovative wire bonder, known as the Aero Bonder which is able to deliver ultrasonic vibration in both the X and Y directions during bonding process. Unlike the traditional technology that is only able to deliver vibration in the Y direction, this breakthrough in technology offers significant value to the customers, such as higher productivity, larger process window and better capability in handling devices that are difficult to bond. We expect the Aero Bonder to help the Group to gain a significant market share for wire bonder in 2017 and beyond.

The Group also made good progress in other smaller businesses in 2016. These include the Laser Dicing Equipment business, the Automatic Optical Inspection (AOI) business and the Solar Wafer Inspection business. Though their contributions to the Group's Back-end Equipment Business are still relatively small, they achieved impressive growth rate of close to or exceeding 100% as compared to the previous year.

To further step up our efforts to drive improvement in gross margin for the Back-end Equipment Segment, measures have been implemented to achieve better utilization of production capacity, lower productions cost and bring down fixed production cost.

One of our counter measures includes the adjustment to our internal vertical integration business model. We exercised flexibility by increased the deployment of contract and part-time workers in our production operations. We placed emphasis on core workforce who have critical skillsets and put in place training programmes to train the new recruits for non-core activities in relatively short timeframes. During peak period, we deployed temporary and contracted workers for non-core activities to supplement our regular workforce.

The strategy of increasing the level of external manufacturing has yielded positive result. Gross margin of our Back-end Equipment Business last year was at the highest level of the past five years.

Materials Business Segment

Our Material Business Segment has been putting in consistently good performance. Our Materials Business Segment experienced growth of 9.2% in revenue, 16.3% in new order bookings and 20.6% in segment profits, respectively last year as compared to 2015. In fact we have been gaining market share steadily such that our Materials Business Segment is now the fourth largest lead frame supplier in the world. Our etched lead frame business not only experienced strong revenue growth over the previous year, but also achieved a new revenue record. This is one of the reasons that contributed to the higher gross margin achieved by the lead frame business last year as compared to 2015.

With the continued growth in revenue and conscious efforts to keep product cost down over the past few years, we have successfully developed a lean manufacturing structure for this business segment. Coupled with the price reduction for precious metal, it has helped to improve the profitability of the lead frame business.

We also recognize the potential impact on the lead frame business when market moves into advanced packaging technology. The set-up of ASM Advanced Packaging Materials Pte Ltd (AAPM) in 2015 helped us met the industry needs as we developed and manufactured MIS. MIS is a new technology serving as a cost-effective alternative to traditional lead frames and Ball Grid Array (BGA) substrates. MIS also allows for higher I/O counts in a small form factor due to its fine-pitch routable capability. Compatible with wire-bonding and flip chip bonding processes, MIS can support multi-chip packages in meeting the critical requirements for advanced packaging applications like System in Packages (SiPs), cost-effective alternative to Fan-Out Wafer Level Packaging (FOWLP) and devices for Internet of Things (IoT).

Currently the MIS business has yet to make a positive contribution to the Group, however we believe MIS will help to enhance the Group's competitiveness in the long run.

MARKET AND PRODUCT DEVELOPMENT

(Continued)

Materials Business Segment (Continued)

We have also developed a good customer profile with the top 10 customers for lead frame business. They are mainly the major Integrated Device Manufacturers (IDMs) and Tier-1 Outsourced Assembly and Test (OSAT) companies. At the same time, no single customer is a dominant contributor to our business. The Group has been widely acknowledged by customers as one of the most reliable lead frame suppliers. Together with other contributing factors such as our financial strength and good track record, ASMPT is able to reaffirm our good reputation in the market.

Even though the Group is mindful of other available substrates in the market, the risk of lead frames being replaced is relatively low due to its cost-effectiveness. Moreover, with the introduction of MIS business to the Group's Material Business Segment that provides an alternative option to our customers, it further reduces the risk exposure of our business.

SMT Solutions Segment

The Group's SMT Solution Business Segment has once again delivered credible results since it was integrated into ASMPT six years ago. Our market share is estimated to increase from the initial 11-12% in 2010 to the mid 20% in 2015. Hailed as the second growth engine, the SMT Solutions Segment has been making good progress in addressing the Advanced Packaging market.

When compared to 2015, our SMT Solutions Segment experienced contractions of 4.4% in revenue and 4.3% in new order bookings, respectively last year. In 2016, it accounted for 36.2% of the Group's total revenue. When comparing to the preceding six months, there is a revenue increase of 18.2%. The gross margin made an improvement of 3.2% while segment profits surged by 90.5% during the second half of last year.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

MARKET AND PRODUCT DEVELOPMENT (Continued)

SMT Solutions Segment (Continued)

When we first acquired the business, we set clear strategies to improve its profits and to expand its revenue. We strategized through in-sourcing from our China factory and subsequently by increasing activities from Asia supply base instead of relying supply from Europe. Today a significant portion of feeders, which is a major accessory of the SMT placement equipment, are being produced from our factory in Malaysia. Moving forward, the Malaysia factory will be further expanded to significantly increase the output for SMT Solutions Segment in Asia.

With the successful merging of SMT Placement business with DEK printing business last year, it will further enhance the Group's competitiveness in the market as well as to expand the total addressable market in the SMT business.

Impacted by new technologies and changing customers' demand, the Smart #1 SMT Factory concept was conceived. Comprising of highly flexible placements and printing platforms (SIPLACE TX, DEK NeoHorizons etc), new feeding solutions (SIPLACE Bulkfeeder), ASM ProcessExpert system and material logistics solutions (the SIPLACE Material Manager), the comprehensive suite of solutions will help customers deliver maximum quality with the highest level of efficiency and scalability. This Smart #1 Factory concept is expected to bring additional value to customers as well as to harness the revolution of Industry 4.0.

In 2016, 41.3% of the Group's R&D expenses were spent on the SMT Solutions Segment. The Group will continue to invest relentlessly in R&D to differentiate itself from its competitors.

FINANCIAL

Cash and bank deposits as of 31 December 2016 increased by 41.1% to HK$3.21 billion (2015: HK$2.28 billion). During 2016, HK$486.7 million was paid as dividends (2015: HK$925.8 million). Capital addition during the period amounted to HK$425.4 million (2015: HK$564.6 million), which was funded by the year's depreciation and amortization of HK$440.4 million (2015: HK$419.8 million). Accounts receivable have been tightly monitored during the year. Day sales outstanding has decreased to 91.0 days (2015: 102.1 days) as a result of improved collections.

As of 31 December 2016, the Group's current ratio was 1.91, with a debt-equity ratio of 26.9% (debts include all bank borrowings and convertible bonds). The Group had available banking facilities of HK$1.68 billion (US$216.8 million) in the form of bank loans and overdraft facilities, out of which HK$310.2 million (US$40.0 million) was committed facilities. As of 31 December 2016, the Group had bank borrowings of HK$193.9 million (US$25.0 million), all of which was utilization of committed facilities. Of the bank borrowings, 60% were repayable in 2017 and 40% were repayable in 2018. The Group's shareholders' funds increased to HK$9.02 billion as at 31 December 2016 (2015: HK$8.01 billion) .

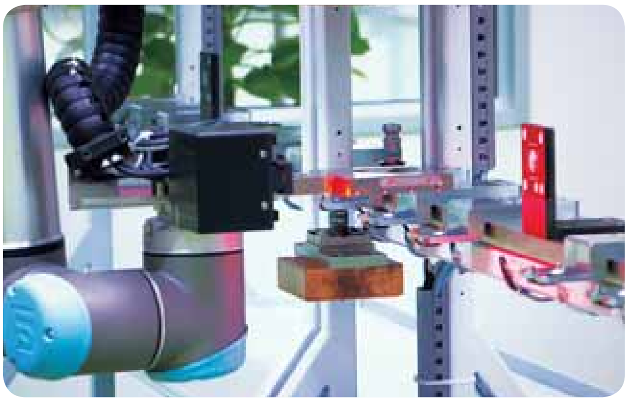
In terms of currency exposure, the majority of our sales were denominated in U.S. dollars, with the balance in Euros and Chinese renminbi. On the other hand disbursements, in respect of operating expenses and purchases, were mainly in U.S. dollars, Euros, Hong Kong and Singapore dollars, Malaysia ringgit, Chinese renminbi, British pounds and Japanese yen.

FINANCIAL (Continued)

Bank borrowings, which are mainly arranged to support day-to-day operations and capital expenditure, are denominated in U.S. dollars. As of 31 December 2016, cash holdings of the Group are mainly in U.S. dollars, Euros, Chinese renminbi and Hong Kong dollars. The Group's SMT Solutions Business segment mainly enters into U.S. dollar and Euro hedging contracts to mitigate the foreign currency risks as a significant portion of the production of SMT equipment and its suppliers are located in Europe while a substantial part of the Group's revenue for SMT equipment is denominated in U.S. dollars.

As of 31 December 2016, the Group had HK$2.24 billion convertible bonds (the "Bonds") (31 December 2015: HK$2.28 billion) with an annual coupon of 2.00% due in 2019. The Group used the net proceeds from the Bonds to fund the purchase consideration for the acquisition of the DEK business, and for general working capital purposes.

We continue to believe in returning excess cash to our shareholders through the payout of dividends. After considering our mid-to-short term needs and cash on hand, the Board recommends a final dividend of HK$1.10 (2015: final dividend of HK$0.40) per share. The total dividend payout for 2016 is HK$1.90 per share (2015: HK$1.40), with a payout ratio of 52.9%. Going forward, the Group would like to pursue a dividend policy of paying out sustainable and gradually increasing dividends.



RISK MANAGEMENT

Being a global organization, the Group faces risk at economic, geographical, industry and customer levels. This includes strategic, financial, operational, compliance and any other type of risks. Due to the nature of the semiconductor and electronics industry which is easily subjected to changes in the general economy, changes in customers' requirements, end-users demand and even buying patterns, it is imperative for the Group to have in place an adequate risk management policy and framework. ASMPT's risk policy has been designed to assess and evaluate the nature and extent of risks to undertake in order to achieve the Group's strategic objectives.

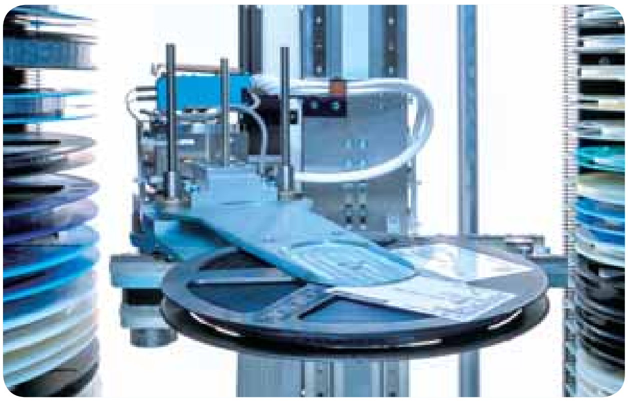
More information of the Group's Risk Management Framework can be found under Corporate Governance Report.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

CAPACITY AND PLANT DEVELOPMENT

In the past, the strategy of vertical integration in design and manufacturing process worked well for the Group. But as the market in recent years started to demonstrate higher degree of volatility, it became hard for us to react accordingly and as a result our profits were affected. To counter measure volatile market conditions, we made adjustment to our internal vertical integration business model. We fine-tuned our manufacturing processes to build a scalable manufacturing workforce that includes hiring of contract and outsourced workers, enabling us the flexibility to scale up or scale back on production operations. When market demand is strong, we leverage temporary and contract workers for non-core activities as a supplement to our regular workforce, and a significant portion of external manufacturing workforce during peak period. By doing so, it has helped us made improvement to our profit margin. Last year, slightly more than 10% of the Group's total workforce was flexible workers including temporary or short-term contract employees and outsourced workers.

Wages in China have gone up significantly over the last few years and are expected to increase further. On the other hand, Malaysia has become very competitive in operating costs. Therefore, the Group has decided to focus future capacity and plant expansion in Malaysia. A new building will be added to our existing factory compound in Malaysia and it is targeted to be operational by the second half of next year. The manufacturing facility for our SMT Printing products in Shenzhen, China was closed down at the end of 2015 and the productions have been channeled to Singapore and Malaysia. The new facility in Singapore is now in full operation and with the expansion plan for Malaysia's factory on track, we expect Singapore and Malaysia to take up about 50% of the output for our SMT Solutions Business. Coupled with the relocation of factory from Yantian, Shenzhen to Longgang, Shenzhen as well as the usage of robots and automation to optimize the production process, the consolidated efforts will help to largely reduce the Group's operation costs.



Over the last few years, the Group has been actively driving the direction to spend more capex in automation and capability upgrade. In fact we have already set up robotic automation in our China, Malaysia, Singapore and Munich factories to optimize some of our manufacturing processes. With automation in place, it has helped to increase our productivity and achieve consistency in our product quality.

In fact, with the strategy of pursuing higher level of external manufacturing, the need for further plant expansion has significantly reduced. Going forward, the Group will focus more on automation and productivity improvement.

RESEARCH AND DEVELOPMENT

ASMPT has always been committed to R&D as being one of its competitive edge which supports the growth of our organization. Our strategy lies in our ability to deliver the best innovative products with differentiated values to our customers. We adopted the long standing policy of investing up to 10% of our annual equipment revenue in R&D irrespective of short-term sales fluctuations.

Our R&D focus for the Back-end Equipment in the past few years has been in the areas of copper wire bonding, thin die handling, flip chip packaging, Thermo-compression bonding (TCB), encapsulation of advanced packages, die and package singulation, test handling and automatic optical inspection (AOI). We also focus on improving the light emission efficiency of the advanced packaging for LED. In the SMT Solutions Segment arena, much of our R&D focus has been in the development cutting-edge placement machines that are priced lower yet drive better performance.

Advanced enabling technologies in the areas of linear motor, control systems and algorithms, computer vision, software, laser, optics and advanced materials are ASMPT's core competencies. They enable our equipment to achieve state-of-the-art performance at affordable cost.

The Group also strongly believes in the cross-fertilization of knowledge and ideas across different units as well as different geographical regions. The cooperation of the different teams will lead to unexpected good results. For example, the core competence of SMT Solutions Business is speed while our Back-end Equipment Business is known for its precision and accuracy. By tapping on each other's competency and marrying the technologies together, we are able to develop comprehensive product portfolio to address the advanced packaging technologies markets. The end result of such collaboration is next-generation machines that deliver better performance at lower cost; software solutions that could enhance customer value proposition, and new machines and adjacent products for the diverse markets' demand.

In addition, the Group also worked closely with various research institutes and customers on joint projects to explore new technology and ideas. ASMPT also entered a consortium with industry leaders such as Huawei Technologies, Jianyin Changdian Advanced Packaging (JACP), The Indium Corporation of America (INDIUM), Rohm and Haas Electronic Materials (RHEM) and Unimicron Technology Corporation (UMTC) to develop a low-cost and high throughput manufactural process for Fan-out Wafer (FOW) and Panel Level Packaging (PLP). The Group expects through this collaboration, we are able to have a deeper understanding of the whole FOW/PLP processes that could further enhance the Advanced Packaging Technologies.

In 2016, our R&D expenditure increased by 4.9% to HK$1.24 billion (2015: HK$1.19 billion). This represented 10.0% of our equipment (comprising both Back-end and SMT) sales and is in line with our R&D funding guidelines. Today, we have around 1,700 R&D engineering professionals of which 54% hold a Master or Doctorate's degree.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

HUMAN RESOURCES

ASMPT recognizes human resources as one of the Group's most important assets. The Group strongly believes in hiring the right talents, nurturing and retaining them. Besides offering competitive remuneration packages, ASMPT placed great emphasis to provide extensive training programmes and a positive and dynamic working environment. Salary review is conducted on a yearly basis and in addition to salary payments, the Group also provides other form of benefits including contributions to provident funds schemes, medical and training subsidies etc. Discretionary bonus payout and incentives shares are also granted to eligible staff based on the Group's financial results and staff individual performances.

As of 31 December 2016, total headcount for the Group worldwide was approximately 14,400 people. Of the total workforce, around 1,300 were based in Hong Kong, 8,800 in mainland China, 1,400 in Singapore, 900 each in Germany and Malaysia, 400 in the United Kingdom while the remaining were based in other parts of the world. A total of 1,572 headcounts were flexible workers including temporary or short-term contract employees and outsourced workers.

ASMPT invests aggressively to build up its core competence and R&D capabilities. The series of successful acquisitions has helped ASMPT brought in the right talents around the globe with capabilities and expertise. Currently ASMPT has six R&D centers located in Hong Kong and Chengdu (China), Singapore, Munich (Germany), Weymouth (United Kingdom) and Beuningen (the Netherlands).

The total manpower costs for the Group in 2016 were HK$3.96 billion, as compared with HK$3.86 billion in 2015.

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 2016.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The Directors recommend the payment of a final dividend of HK$1.10 (2015: Final dividend of HK$0.40) per share which, together with the interim dividend of HK$0.80 (2015: Interim dividend of HK$1.00) per share paid during the year, makes a total dividend for the year of HK$1.90 (2015: HK$1.40) per share.

Details of the results and the financial position of the Group are set out in the consolidated financial statements on pages 70 to 155.

BUSINESS REVIEW

A review of the business of the Group during the year, an analysis of the Group's performance during the year using financial key performance indicators, a discussion on the Group's future business development, and a description of possible risks and uncertainties that the Group may be facing are provided in the Chairman's Statement and Management Discussion and Analysis on pages 4 to 18 and pages 20 to 28 of the annual report respectively. The financial risk management objectives and policies of the Group can be found in note 6 to the consolidated financial statements. In addition, discussions on the Group's environmental policies, relationships with its key stakeholders, and compliance with relevant laws and regulations which have a significant impact on the Group are contained in the Sustainability Report on pages 60 to 62 of the annual report.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 156 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

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

SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2016 are set out in note 43 to the consolidated financial statements.

SHARE CAPITAL

On 26 May 2016, 1,575,133 shares were issued to a bond holder upon the conversion of convertible bonds at conversion price of HK$95.23 per share. On 15 December 2016, 2,139,100 shares were issued at par to certain employees pursuant to their entitlements under the Company's Employee Share Incentive Scheme.

CONVERTIBLE BONDS

Details of the convertible bonds are set out in note 37 to the consolidated financial statements.

BANK BORROWINGS

Particulars of bank borrowings of the Group as at 31 December 2016 are set out in note 32 to the consolidated financial statements.

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 332,400 shares in the Company. The cost of purchase of these shares amounted to HK$21.8 million.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders amounted to HK$1,262,641,000 (2015: HK$2,003,621,000) as at 31 December 2016. In accordance with the Company's Articles of Association, dividends can only be distributed out of profits of the Company.

DIRECTORS

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

Independent Non-Executive Directors:

Miss Orasa Livasiri, Chairman	(appointed as acting Chairman of the Board on 9 May 2016 and as Chairman of the Board on 2 March 2017)
Mr. Lok Kam Chong, John	
Mr. Wong Hon Yee	
Mr. Tang Koon Hung, Eric	
Mr. Patrick Shuang Kung	(appointed as Independent Non-Executive Director on 11 May 2016)

Non-Executive Directors:

Mr. Arthur H. del Prado	(He stepped down as Chairman of the Board, ceased to be Executive Director and was re-designated as Non-Executive Director with effect from 9 May 2016. He was appointed as Emeritus Chairman of the Company on the same date and passed away on 9 September 2016)
Mr. Charles Dean del Prado	
Mr. Petrus Antonius Maria van Bommel	

Executive Directors:

Mr. Lee Wai Kwong, Chief Executive Officer
Mr. Chow Chuen, James, Executive Vice President, Business Excellence
Mr. Robin Gerard Ng Cher Tat, Chief Financial Officer

DIRECTORS (Continued)

In accordance with Article 113 of the Company's Articles of Association, the respective terms of office of Mr. Lee Wai Kwong, Mr. Chow Chuen, James, and Mr. Robin Gerard Ng Cher Tat will end on 24 April 2017, three years following their election as Directors at the 2014 Annual General Meeting held on 25 April 2014. As the annual general meeting is scheduled to be held on 9 May 2017 ("2017 AGM"), the Board of Directors has on 2 March 2017 and pursuant to Article 117 of the Company's Articles of Association resolved to appoint Mr. Lee Wai Kwong, Mr. Chow Chuen, James, and Mr. Robin Gerard Ng Cher Tat as additional Directors to hold office from 25 April 2017 (inclusive of that date) until the conclusion of the 2017 AGM.

Mr. Chow Chuen, James and Mr. Patrick Shuang Kung have informed the Board of their intention not to seek re-election as Directors at the 2017 AGM. Mr. Lee Wai Kwong and Mr. Robin Gerard Ng Cher Tat, being eligible, will offer themselves for re-election.

On 2 March 2017, the Board also resolved to recommend the election of Mr. Tsui Ching Man, Stanley as a Director of the Company at the 2017 AGM. If so elected, Mr. Tsui would serve as an Executive Director of the Company. The Nomination Committee and the Board have considered the biographical information of Mr. Tsui and are of the view that his extensive experience and knowledge in the industry will benefit the Group.

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

Miss Orasa Livasiri, Independent Non-Executive Director and Chairman of the Company, aged 61, was appointed to the Board as an Independent Non-Executive Director in 1994, became acting Chairman of the Company on 9 May 2016. She was appointed as Chairman of the Company on 2 March 2017. She was a practising solicitor for more than 30 years and retired from the profession in 2012.

Mr. Lok Kam Chong, John, Independent Non-Executive Director, aged 53, was appointed to the Board as an Independent Non-Executive Director on 9 March 2007. Mr. Lok is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has 20 years of experience in financial management and corporate controllership. Mr. Lok started his career as an auditor in an international accounting firm and then moved to work for some major financial information companies, including Moneyline Telerate (Hong Kong) Ltd. and Dow Jones Telerate. He is currently a Director of FHL & Partners CPA Limited. Mr. Lok holds Dual Degrees in Master in Business Administration and Master of Science in Information Technology from The Hong Kong University of Science and Technology.

Mr. Wong Hon Yee, Independent Non-Executive Director, aged 69, was appointed to the Board as an Independent Non-Executive Director on 27 December 2012. Mr. Wong is a chartered engineer and a fellow of the Hong Kong Institution of Engineers. He was the Associate Vice President (Knowledge Transfer) at the City University of Hong Kong prior to his retirement in 2014. Prior to joining City University of Hong Kong, he has been involved in high-tech product design and engineering management in industry for 25 years, over 20 of which were spent at Ampex Ferrotec Ltd., a subsidiary of Ampex Corporation in the USA. He received his Bachelor of Science in Electrical Engineering from the University of Hong Kong in 1969 and Master of Science in Electrical Engineering and Computer Science (EECS) from the University of California, Berkeley in 1971.

DIRECTORS (Continued)

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

Mr. Patrick Shuang Kung, Independent Non-Executive Director, aged 65, was appointed as an Independent Non-Executive Director on 11 May 2016. Mr. Kung has extensive knowledge and working experience in the electronics and high-tech industries. He began his career as an engineer at Motorola Inc. in 1980 in the United States of America and became the General Manager of one of Motorola's subsidiaries in China in 1996. Thereafter, Mr. Kung served in various senior positions in different regions managing Motorola's various businesses in China and Asia. From 2004 to 2007, he was Motorola's Corporate Vice President and General Manager, North Asia. Mr. Kung joined Royal Philips N.V. in 2008 as Executive Vice President and Chief Executive Officer, Greater China and was appointed a member of the Executive Committee of Royal Philips N.V. in 2011 and remained in that position until his retirement in 2015. Mr. Kung received his Bachelor degree in Electrical Engineering from Tatung Institute of Technology, Taiwan in 1974 and his Master's degree in Electrical Engineering from the Tennessee Technological University, United States of America in 1980.

Mr. Arthur H. del Prado, who passed away on 9 September 2016, was the founder and Emeritus Chairman of the Company and the founder of ASM International N.V. ("ASM International"), the latter being a major shareholder of the Company. Mr. Del Prado previously served on the board of directors of several companies, namely, Océ van der Grinten Nederland N.V., a 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 defense products; Breevast N.V., a project development and management company; Dujat, a Dutch & Japanese Trade Federation and ABN-AMRO Bank, (Advisory Counsel). He was also a member of a number of civic and non-profit making organizations, including the MEDEA+ Board, a "Micro Electronics Development for European Applications" project. Mr. Del Prado also served on the board of several start-up technology companies.

Mr. Charles Dean del Prado (He is also known as "Mr. Chuck del Prado"), aged 55, was appointed as a Non-Executive Director of the Company on 29 April 2010. He is a member of the Management Board of ASM International 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 former Emeritus Chairman of the Company. During his thirty-year career, Mr. Charles Dean del Prado has had worldwide experience in sales, marketing, manufacturing, and customer service of high technology computer and semiconductor products. From 2003 to 2007, he served as President and General Manager of ASM America, responsible for the R&D, sales, manufacturing, and service of the Epitaxy and Thermal ALD product lines. He also directed sales and service of ASM International's Front-end product lines to all US customers. Previously, Mr. Charles Dean del Prado served as Director of Marketing, Sales & Service of ASM Europe. Prior to joining ASM International in 2001, Mr. Charles Dean del Prado spent five years at ASM Lithography Holding N.V. (ASML) in Taiwan and the Netherlands managing wafer stepper manufacturing and customer program management. From 1989 to 1996, Mr. Charles Dean del Prado had assignments in sales and global account management at IBM Nederland N.V.. Mr. Charles Dean del Prado has a Master of Science degree in Industrial Engineering and Technology Management from the University of Twente in the Netherlands.

DIRECTORS (Continued)

Mr. Petrus Antonius Maria van Bommel (He is also known as "Mr. Peter van Bommel"), aged 60, was appointed as a Non-Executive Director of the Company on 29 October 2010. He is the Chief Financial Officer of ASM International. He was appointed as a member of the Management Board of ASM International in May 2010 for a period of 4 years and he was reappointed in May 2014 for a period of 4 years again. 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 as a member of the Supervisory Board and currently chairs the Audit Committee of the Royal KPN N.V.. In April 2015, Mr. van Bommel was appointed as a member of the Supervisory Board of Neways Electronics International N.V. (a company listed on Euronext Amsterdam, stock code: NEWAY).

Mr. Lee Wai Kwong, aged 62, was appointed to the Board as an Executive Director and the Chief Executive Officer of the Group on 1 January 2007. He has a Bachelor of Science degree and a Master of Philosophy degree from The Chinese University of Hong Kong, Hong Kong; both degrees are in Electronics. He also has a Masters degree in Business Administration from the National University of Singapore, Singapore. Mr. Lee joined the Group in 1980. He has over 30 years of working experience in the semiconductor industry. Mr. Lee currently serves as the Chairman of the Advisory Committee of the Department of Electronic Engineering of The Chinese University of Hong Kong, Hong Kong.

Mr. Chow Chuen, James, aged 60, was appointed to the Board as an Executive Director and the Chief Operating Officer of the Group on 1 January 2007. Mr. Chow has stepped down as Chief Operating Officer of the Group and re-designated to Executive Vice President, Business Excellence on 1 May 2016. He has a Bachelor of Science degree in Electrical Engineering from the University of Hong Kong and a Master of Science degree in Manufacturing System Engineering from the University of Warwick, England. Mr. Chow joined the Group in 1982. He has over 30 years of working experience in the electronics and semiconductor industry.

Mr. Ng Cher Tat, Robin, aged 53, was appointed to the Board as an Executive Director on 28 April 2011. He was also appointed Chief Financial Officer of the Group on 1 February 2010. Mr. Ng holds a Bachelor of Accountancy from the National University of Singapore and a Master of Laws (Commercial Law) from the University of Derby, the United Kingdom. Mr. Ng has more than 25 years of experience in finance, audit and accounting. He is a Fellow Chartered Accountant of Singapore with the Institute of Singapore Chartered Accountants.

SENIOR MANAGEMENT

For the year ended 31 December 2016, the Group's senior management team includes, other than the Executive Directors, the following persons; their biographical information is as follows:

Mr. Wong Yam Mo, aged 57, is an Executive Vice President and Chief Technical Officer of the Group. He has a Bachelor of Science degree in Mechanical Engineering and a Master degree in Industrial Engineering, both from the University of Hong Kong. He also holds a Master degree in Precision Engineering from the Nanyang Technological University, Singapore. Mr. Wong joined the Group in 1983.

SENIOR MANAGEMENT (Continued)

Mr. Tsui Ching Man, Stanley, aged 60, is Executive Vice President of the Group, Chief Executive Officer of the Group's Material Business Segment Group. He was also appointed as Chief Operating Officer effective from 1 May 2016. Mr. Tsui has over 35 years of working experience in the semiconductor industry. Before joining the Group in 1987, he had worked for several major semiconductor companies in Hong Kong and Singapore. Mr. Tsui graduated from the National Taiwan University with a Bachelor of Science degree in Mechanical Engineering. He also holds three Master degrees in Manufacturing Technology, Information System and Business Administration, respectively.

Mr. Chan Hung, Lawrence, aged 62, is an Executive Vice President of the Group and Chief Executive Officer of the Group's Back-end Equipment Segment (IC, Discrete & CIS). He holds a Diploma in Company Secretaryship & Administration from the Hong Kong Polytechnic, which was later renamed the Hong Kong Polytechnic University, Hong Kong. Mr. Chan joined the Group in 1978.

Mr. Tang Yui Kin, aged 63, is an Executive Vice President of the Group and Chief Executive Officer of the Group's Back-end Equipment Segment (Opto, COB & Display). He graduated from the Hong Kong Polytechnic, which was later re-named the Hong Kong Polytechnic University, Hong Kong. He joined the Group in 1978 as a product designer and held management positions in Manufacturing, Field Engineering, Sales and Marketing before heading the business segment of LED, COB and Display Equipment. He has a wealth of experience in the semiconductor industry, and has lectured at the Hong Kong Polytechnic University and at the Hong Kong University of Science and Technology (HKUST). He is currently a member of the Advisory Board in the Department of Electronics and Computer Engineering of HKUST for research in LED technology. He will retire from the Group on 4 July 2017 after serving the Group for 39 years.

Mr. Guenter Walter Lauber, aged 55, is an Executive Vice President of the Group and Chief Executive Officer of the Group's SMT Solutions Segment. Mr. Lauber has 20 years of working experience in the SMT equipment industry. In 2007, Mr. Lauber took charge of the SMT business that was subsequently acquired by the Group in 2011. He joined the Group following the acquisition. He has a degree in Electrical Engineering (Dipl-Ing. FH) from the Fachhochschule Augsburg (Augsburg University of Applied Sciences), Germany.

Mr. Lim Tia Song, Patrick, aged 63, is an Executive Vice President (Corporate Operations) of the Group. Mr. Lim joined the Group in 1995. He has a Bachelor of Science (Honours) degree in Production Management and Mechanical Technology and a Master of Science degree in Operational Research, both from the University of Strathclyde, the United Kingdom.

Effective 1 January 2017, Mr. Joseph Poh Tson Cheong was appointed a member of the Group's senior management team. He will succeed Mr. Tang Yui Kin as the Chief Executive Officer of the Group's Back-end Equipment Segment (Opto, COB & Display Business) upon the retirement of Mr. Tang Yui Kin on 4 July 2017.

Mr. Poh, aged 49, is a Senior Vice President of the Group. He graduated from The University of Sydney, Australia in 1989 with a Degree in Mechanical Engineering. He received a Master Degree in Engineering Business Management from the University of Warwick, England in 1999. Mr. Poh joined the Group in 1991 as a Service Engineer and was promoted to the Senior Vice President position in January 2016. For the past 25 years that he has been with the Group, he has held various positions in IC, CIS, SMT Solutions and Opto Business Units. His wide exposure to the electronics supply chain has given him ample opportunities to develop extensive customer contacts, a good understanding on market needs and an ability to provide solutions that satisfy customers' current and future requirements.

EMPLOYEE SHARE INCENTIVE SCHEME

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

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

On 21 March 2016, the Directors resolved that the Company should contribute HK$27.1 million to the Scheme, enabling the trustees of the Scheme to subscribe or purchase a total of 2,501,100 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 2015, such shares to be vested upon expiration of the defined qualification period. Out of the 2,501,100 shares in the Company to be subscribed or purchased, 332,400 shares ("Award Shares") were allocated to be purchased at market price as soon as practicable on The Stock Exchange of Hong Kong Ltd.

The Board also resolved to instruct an independent professional trustee appointed by the Board under the Scheme to purchase the Award Shares. These Award Shares represented the aggregate of shares to which the three Executive Directors, namely, Mr. Lee Wai Kwong, Mr. Chow Chuen, James and Mr. Robin Gerard Ng Cher Tat, and other connected persons of the Company as defined under the Listing Rules would be eligible to receive pursuant to the Scheme, and subject to the 2016 qualification period, the Award Shares would be held on trust for them.

In March 2016, the independent trustee purchased a total of 332,400 Award Shares, which represented approximately 0.082% of total issued share capital of the Company at the date of purchase, at total consideration of HK$21.8 million on the Stock Exchange. As one of the connected persons has left the Group before the expiration of 2016 qualification period, 3,000 Award Shares were unallocated and will be held for award to eligible Executive Directors and connected persons in future. Upon the expiration of 2016 qualification period, 329,400 Award Shares were transferred to the said Executive Directors and the connected persons at no cost.

On 2 March 2017, the Board resolved that the qualification periods of future incentive shares allotments may span for multiple years with multiple expiry dates. It is at the Board's discretion to decide the length of the qualification periods and expiry dates for every individual who has been allotted incentive shares. The Board believes that with this enhancement the Scheme will serve the purpose of long term retention of talents for the Group.

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 2016 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

Shares of HK$0.10 each of the Company:

		Long positions	
Name of director	**Capacity**	**Number of shares held**	**Percentage of shareholding in the Company**
Lee Wai Kwong	Beneficial Owner	1,301,100	0.32%
Chow Chuen, James	Beneficial Owner	608,500	0.15%
Robin Gerard Ng Cher Tat	Beneficial Owner	160,000	0.04%
Tang Koon Hung, Eric	Beneficial Owner	3,000	0.001%

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 2016, none of the Directors or chief executives of the Company nor their associates had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, the following persons (other than the interests disclosed above in respect of Directors or chief executives of the Company) had interests or short positions in the share capital of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

		Long positions		Short 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	Number of shares held	Percentage of shareholding in the Company
ASM International N.V. *(Note 1)*	Interest of a controlled corporation	160,003,000	39.19%	–	–	–	–
ASM Pacific Holding B.V.	Beneficial owner	160,003,000	39.19%	–	–	–	–
Commonwealth Bank of Australia *(Note 2)*	Interest of a controlled corporation	36,548,778	8.95%	–	–	–	–
JPMorgan Chase & Co.	*(Note 3)*	24,361,185	5.97%	17,000,552	4.16%	5,246,449	1.29%
Genesis Asset Managers, LLP	Investment manager	24,136,669	5.91%	–	–	–	–
The Capital Group Companies, Inc *(Note 4)*	Interest of a controlled corporation	23,817,200	5.83%	–	–	–	–

Notes:

1. ASM International N.V. is deemed interested in 160,003,000 shares, through the shares held by its wholly owned subsidiary, ASM Pacific Holding B.V..

2. The Commonwealth Bank of Australia is deemed interested in 36,548,778 shares, through the shares held by its wholly owned subsidiary, Colonial Holding Company Limited (which is deemed interested in the Company through the shares held by Commonwealth Insurance Holdings Limited, Colonial First State Group Ltd, Colonial First State Asset Management (Australia) Limited, First State Investment Managers (Asia) Ltd, First State Investments (UK Holdings) Ltd, First State Investments (Hong Kong) Ltd, SI Holdings Limited, First State Investment Management (UK) Limited, First State Investments International Limited, Capital 121 Pty Limited, Colonial First State Investments Limited, Realindex Investments Pty Limited, First State Investments (Bermuda) Limited, First State Investments Holdings (Singapore) Limited and First State Investments (Singapore), each a wholly owned subsidiary of Colonial Holding Company Limited).

3. The interests held by JPMorgan Chase & Co. were held in the following capacities:

Capacity	Number of shares (Long position)	Number of shares (Short position)	Number of shares (Lending pool)
Beneficial owner	17,650,343	17,000,552	–
Investment manager	1,464,393	–	–
Custodian corporation/approved lending agent	5,246,449	–	5,246,449

4. The Capital Group Companies, Inc. is deemed interested in 23,817,200 shares, through the shares held by its wholly owned subsidiary, Capital Research and Management Company (which is deemed interested in the Company through the shares held by Capital Group International, Inc., Capital International, Inc. and Capital International Limited, each a wholly owned subsidiary of Capital Research and Management Company).

SUBSTANTIAL SHAREHOLDERS (Continued)

Save as disclosed above, as at 31 December 2016, according to the register of interests required to be kept by the Company under Section 336 of the SFO, there was no other person who had any interest or short position in the shares or underlying shares of the Company.

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

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

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

DIRECTORS' SERVICE CONTRACTS

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

EMOLUMENT POLICY

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

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

The Company currently has an Employee Share Incentive Scheme as an incentive to Directors and eligible employees, details of which are set out in note 34 to the consolidated financial statements.

PERMITTED INDEMNITY

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

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

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

DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK$933,000.

CONFIRMATION OF INDEPENDENCE

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2016.

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
2 March 2017

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in the Corporate Governance Code and Corporate Governance Report ("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") throughout the year ended 31 December 2016.

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

THE BOARD

Board composition

As at 31 December 2016, the Company has ten directors, one of whom is female. The majority of Board members are non-executive directors. They bring to the Board a wide range of professional experience in areas of business, financial, legal, technical and industrial, which contribute to the effective direction of the Group. Members of the Board comprise nationals from Hong Kong, Singapore, Thailand, the United States of America 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 2016:

Independent Non-Executive Directors

Orasa Livasiri *	(Chairman of the Board, Chairman of Nomination Committee, Member of Audit Committee and Remuneration Committee)
Lok Kam Chong, John	(Chairman of Audit Committee, Member of Remuneration Committee and Nomination Committee)
Wong Hon Yee**	(Chairman of Remuneration Committee and Member of Nomination Committee)
Tang Koon Hung, Eric	(Member of Audit Committee and Remuneration Committee)
Patrick Shuang Kung***	(Member of Remuneration Committee and Nomination Committee)

Non-Executive Directors

Arthur H. del Prado****	(Emeritus Chairman of the Company, Member of Remuneration Committee and Nomination Committee)
Charles Dean del Prado	(Member of Remuneration Committee and Nomination Committee)
Petrus Antonius Maria van Bommel	(Member of Audit Committee)

Executive Directors

Lee Wai Kwong	(Chief Executive Officer)
Chow Chuen, James*****	(Executive Vice President, Business Excellence)
Robin Gerard Ng Cher Tat	(Chief Financial Officer)

THE BOARD (Continued)

Board composition (Continued)

* Miss Orasa Livasiri stepped down as Chairman and remained as Member of the Remuneration Committee with effect from 26 April 2016. She was appointed as acting Chairman of the Board and Chairman of the Nomination Committee with effect from 9 May 2016 and 10 May 2016 respectively, and as Chairman of the Board on 2 March 2017.

** Mr. Wong Hon Yee was appointed as Chairman of Remuneration Committee with effect from 10 May 2016.

*** Mr. Patrick Shuang Kung was appointed as Independent Non-Executive Director and Member of Remuneration Committee and Nomination Committee with effect from 11 May 2016.

**** Mr. Arthur H. del Prado stepped down as Chairman of Nomination Committee and remained as Member of the Nomination Committee with effect from 26 April 2016. He stepped down as Chairman of the Board on 9 May 2016 and was re-designated Non-Executive Director and appointed as Emeritus Chairman of the Company on the same date. He passed away on 9 September 2016.

***** Mr. Chow Chuen, James stepped down as Chief Operating Officer and was re-designated as Executive Vice President, Business Excellence with effect from 1 May 2016. Mr. Chow continues to serve as an Executive Director of the Company.

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 2016, the Company's Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise. Currently, there are two such directors on the Board and they are also members of the Board's Audit Committee. The Company has complied with the Listing Rules requirement of independent non-executive directors representing at least one-third of the Board.

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

THE BOARD (Continued)

Board Diversity Policy

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

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

Corporate Governance Functions

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

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

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

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

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

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

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

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

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

THE BOARD (Continued)

Chairman and Chief Executive Officer

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority. During the year ended 31 December 2016, Mr. Arthur H. del Prado was the Chairman of the Board before he stepped down on 9 May 2016 and Miss Orasa Livasiri was appointed acting Chairman, while the position of Chief Executive Officer is held by Mr. Lee Wai Kwong. 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 Article 113 of 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.

The respective terms of office of Mr. Lee Wai Kwong, Mr. Chow Chuen, James, and Mr. Robin Gerard Ng Cher Tat will end on 24 April 2017, three years following their election as Directors at the 2014 Annual General Meeting held on 25 April 2014. The Board of Directors has on 2 March 2017 and pursuant to Article 117 of the Company's Articles of Association resolved to appoint Mr. Lee Wai Kwong, Mr. Chow Chuen, James, and Mr. Robin Gerard Ng Cher Tat as additional Directors to hold office from 25 April 2017 (inclusive of that date) until the conclusion of the 2017 AGM.

Mr. Chow Chuen, James and Mr. Patrick Shuang Kung will not seek re-election at the 2017 AGM. Mr. Lee Wai Kwong and Mr. Robin Gerard Ng Cher Tat eligible, will offer themselves for re-election.

Nomination Committee

As at 31 December 2016, the Nomination Committee comprises five members, 4 of whom are independent non-executive directors, namely, Miss Orasa Livasiri who is the Committee chairman, Mr. Lok Kam Chong, John, Mr. Wong Hon Yee, and Mr. Patrick Shuang Kung, and one non-executive director, Mr. Charles Dean del Prado.

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

THE BOARD (Continued)

Nomination Committee (Continued)

The major duties of the Nomination Committee include the following:

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

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

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

- To make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular, the Chairman and the Chief Executive Officer, taking into account the Company's corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future, including making recommendations on the composition of the Board generally and the balance between executive and non-executive directors appointed to the Board.

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

The Nomination Committee held three meetings during the year ended 31 December 2016 and the attendance record is set out under "Directors' attendance records" on page 47.

Induction and continuing development for directors

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

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

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

The Directors are committed to complying with Code Provision A.6.5 of the CG Code on Directors' training. All Directors have participated in continuous professional development to develop and refresh their knowledge and skills and have provided a record of training they received for the year ended 31 December 2016 to the Company.

THE BOARD (Continued)

Induction and continuing development for directors (Continued)

The individual training record of each Director received for the year ended 31 December 2016 is summarized as below:

Participation in Continuous Professional Development Programme in 2016

Directors	Reading Regulatory Updates	Attending briefings/seminars/ conferences relevant to the business	Attending training/ briefing on regulatory development, directors' duties or other relevant topics
Independent Non-Executive Directors			
Orasa Livasiri	✓	✓	✓
Lok Kam Chong, John	✓	✓	✓
Wong Hon Yee	✓	✓	✓
Tang Koon Hung, Eric	✓	✓	✓
Patrick Shuang Kung	✓	✓	✓
Non-Executive Directors			
Arthur H. del Prado (deceased and ceased to be Non-Executive Director on 9 September 2016)	N/A	N/A	N/A
Charles Dean del Prado	✓	✓	✓
Petrus Antonius Maria van Bommel	✓	✓	✓
Executive Directors			
Lee Wai Kwong	✓	✓	
Chow Chuen, James	✓	✓	✓
Robin Gerard Ng Cher Tat	✓	✓	

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.

THE BOARD (Continued)

Board meetings (Continued)

Directors' attendance records

Six 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 2016 Annual General Meeting, during the year ended 31 December 2016 is set out below:

		Attendance/Number of Meetings held during the tenure of directorship				
Directors		**Board Meetings**	**Audit Committee Meetings**	**Nomination Committee Meetings**	**Remuneration Committee Meetings**	**2016 Annual General Meeting**
Independent Non-Executive Directors						
Orasa Livasiri	(appointed as acting Chairman of the Board on 9 May 2016, as Chairman of Nomination Committee on 10 May 2016, and as Chairman of the Board on 2 March 2017)	6/6	4/4	3/3	2/2	1/1
Lok Kam Chong, John	(Chairman of Audit Committee)	6/6	4/4	3/3	2/2	1/1
Wong Hon Yee	(appointed as Chairman of Remuneration Committee on 10 May 2016)	6/6	N/A	3/3	1/1	1/1
Tang Koon Hung, Eric		6/6	4/4	N/A	2/2	1/1
Patrick Shuang Kung	(appointed as Independent Non-Executive Director and Member of Remuneration Committee and Nomination Committee on 11 May 2016)	2/2	N/A	0/0	1/1	0/0
Non-Executive Directors						
Arthur H. del Prado	(deceased and ceased to be Non-Executive Director on 9 September 2016)	5/5	N/A	3/3	1/1	0/1
Charles Dean del Prado		6/6	N/A	3/3	2/2	1/1
Petrus Antonius Maria van Bommel		6/6	4/4	N/A	N/A	1/1
Executive Directors						
Lee Wai Kwong		6/6	N/A	N/A	N/A	1/1
Chow Chuen, James		6/6	N/A	N/A	N/A	1/1
Robin Gerard Ng Cher Tat		6/6	N/A	N/A	N/A	1/1

THE BOARD (Continued)

Model code for securities transactions

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

Specific enquiry has been made to all directors, and save as disclosed in 2016 Interim Report and hereinafter provided, the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2016.

On 18 and 24 March 2016 respectively, and in accordance with rule B.8 of the Model Code, Mr. Arthur H. del Prado ("Mr. Del Prado") notified Mr. Robin Gerard Ng Cher Tat, the director designated by the Board of Directors (the "Board") of the Company for the specific purpose (the "Designated Director"), of his intention to sell up to 6,550,000 shares and 2,231,000 shares of the Company. The requisite dated written acknowledgement of such notices and clearance to deal with such shares were duly obtained by Mr. Del Prado from the Designated Director. By a letter dated 12 May 2016 from Mr. Del Prado, the Board was informed by him that he did not manage to sell all 2,231,000 shares before the blackout period, that is, the period from the end of the first quarter of 2016 up to the publication date of the first quarter results, which period commenced on 1 April, 2016. The Board was further informed by Mr. Del Prado that as at 1 April 2016, he still had 1,369,000 shares out of the 2,231,000 shares remaining unsold, and that due to oversight, he sold the remaining 1,369,000 shares (the "Disposal") after the end of blackout period without further notifying and obtaining the requisite dated written acknowledgement and clearance to deal from the Designated Director as required by the Model Code. Mr. Del Prado has confirmed to the Board that he did not possess any inside information at the time of the Disposal.

The Board has looked into the matter. The Designated Director has confirmed that had Mr. Del Prado made the requisite notification in respect of the Disposal, clearance to deal would have been given. Given the circumstances as known to the Board at the material time, the Board believes that Mr. Del Prado did not possess any inside information at the time of the Disposal. All directors have been reminded to vigilantly observe their obligations under the Model Code to ensure strict compliance. The Company has also informed the Hong Kong Stock Exchange of the non-compliance of the Model Code as requested made by Mr. Del Prado. Having considered all the relevant circumstances, the Hong Kong Stock Exchange subsequently decided not to take any formal disciplinary action against Mr. Del Prado in respect of the non-compliance.

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.

THE BOARD (Continued)

Company Secretary

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

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

DELEGATION OF MANAGEMENT FUNCTIONS

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

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

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

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

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

During the year ended 31 December 2016, 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 2016 are set out on page 115 in note 15 to the consolidated financial statements.

Remuneration Committee

The Remuneration Committee has six members as at 31 December 2016. Mr. Wong Hon Yee, independent non-executive director, is the Chairman. One non-executive director, Mr. Charles Dean del Prado, and four independent non-executive directors, Miss Orasa Livasiri, Mr. Lok Kam Chong, John, Mr. Tang Koon Hung, Eric and Mr. Patrick Shuang Kung, are the other five members of the Remuneration Committee.

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

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

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

The main duties of Remuneration Committee are as follow:

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

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

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

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

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

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

REMUNERATION OF DIRECTORS (Continued)

Remuneration Committee (Continued)

The Remuneration Committee held two meetings during the year ended 31 December 2016 and the attendance records are set out under "Directors' attendance records" on page 47.

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

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

Details of the remuneration of each director for the year ended 31 December 2016 are set out in note 15 to the consolidated financial statements.

Details of the annual remuneration of members of the senior management (excluding Executive Directors) by band for the year ended 31 December 2016 is as follows:

	Number of employees
HK$3,000,001 to HK$3,500,000	2
HK$3,500,001 to HK$4,000,000	2
HK$4,500,001 to HK$5,000,000	1
HK$6,000,001 to HK$6,500,000	1

ACCOUNTABILITY AND AUDIT

Directors' responsibilities for financial reporting

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2016.

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

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

ACCOUNTABILITY AND AUDIT (Continued)

Internal controls

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

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

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

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

Audit Committee

The Audit Committee comprises three independent non-executive directors (including two independent non-executive directors who possess the appropriate professional qualifications or accounting or related financial management expertise) and one non-executive director as at 31 December 2016. Mr. Lok Kam Chong, John, independent non-executive director, is the chairman of the Audit Committee. Other members are two independent non-executive directors, Miss Orasa Livasiri and Mr. Tang Koon Hung, Eric and one non-executive director, Mr. Petrus Antonius Maria van Bommel. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

ACCOUNTABILITY AND AUDIT (Continued)

Audit Committee (Continued)

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function, internal auditor or external auditor before submission to the Board.
- To review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditor.
- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system, including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function and their training programmes and budget, and risk management system and associated procedures.

In 2016, a total of four meetings of Audit Committee were convened. The attendance record of the Audit Committee's members is shown on page 47. The following is a summary of the tasks completed by the Audit Committee during 2016:

- reviewed the Group's financial reports for the year ended 31 December 2015, for the six months ended 30 June 2016, and for the quarters ended 31 March 2016 and 30 September 2016;
- reviewed the financial reporting system;
- reviewed the effectiveness of internal controls system;
- reviewed risk management system;
- reviewed work plan for 2016 audit and fees budget of the auditor; and
- made recommendations on the re-appointment of the auditor.

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

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

ACCOUNTABILITY AND AUDIT (Continued)

Auditor's remuneration

The statement of the external auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 63 to 69.

During the year under review, the remuneration paid to the Company's auditor, Messrs. Deloitte Touche Tohmatsu, amounted to HK$12,499,000 in respect of audit services; HK$1,521,000 in respect of assurance related services and HK$3,398,000 in respect of non-audit services, all of which were reviewed and approved by the Audit Committee.

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

RISK MANAGEMENT

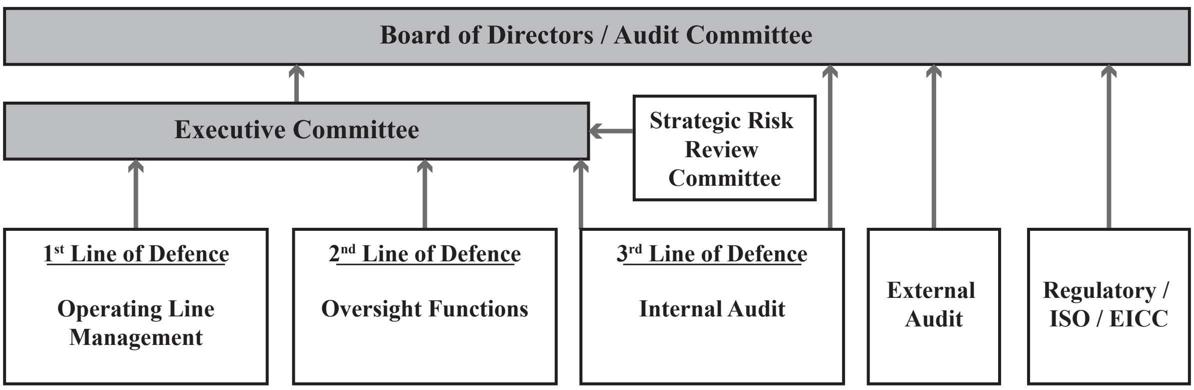
The Board of Directors acknowledges that it is responsible for the Group's risk management and for reviewing its effectiveness. The Board evaluates and determines the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives and ensures that the Group establishes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

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

Risk Management and Control System

In 2016, the Group put in place a risk management framework ("Framework"), which is based on the "Three Lines of Defence" model and includes a process of Strategic Risk Review. The Framework gives the Board and Management a clear overview of the effectiveness of internal controls and risk management. The Framework is a structured, systematic and effective risk and control system that manages the strategic, operational, financial, financial reporting and compliance risks and enhance clarity at all levels of the Group. The Board and Management are aware that the Framework is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Framework



RISK MANAGEMENT (Continued)

Risk Management and Control System (Continued)

The Framework (Continued)

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

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

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

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

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

As a complement to the Three Lines of Defence, a Strategic Risk Review Committee was set up to form part of the Framework and reports directly to the Group's Executive Committee, which comprises the Group CEO and other senior management members of the Group. The Strategic Risk Review Committee for the year 2016 was chaired by a Senior Vice President of the Group and comprised management representatives from different Business Segments who are responsible for various key functions within the Group. The Strategic Risk Review Committee is tasked with identifying and assessing risks that would hinder the Group from achieving its objectives, and analysing and recommending how risks are to be managed. This will enhance risk management in order that all material risks faced by the Group are identified, reviewed and appropriately managed. The Strategic Risk Review Committee reports the key risks to the Executive Committee on a regular basis and to the Board on an annual basis. Task forces have been formed and assigned to study in detail the key risks identified and recommend appropriate courses of actions to manage identified risks.

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

INSIDE INFORMATION

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

The Company makes reference to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in July 2012 in handling and dissemination of inside information. The Company has included in its Code of Business Conduct a strict prohibition on the unauthorized use of confidential or inside information.

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

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

Shareholders Communication Policy

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

All announcements and notices are published on the Stock Exchange's website as well as the Company's own website. In addition, to promote greater understanding and dialogue with the investment community, the Company holds conference calls or investor luncheon meetings with the investment community in connection with the Company's annual, interim and quarterly results. During these conference calls or investor luncheon meetings, the Company's Chief Executive Officer or his delegate will make presentations on the Group's performance to the investment community. The conference calls are also broadcast live via webcast. Apart from this, designated senior executives maintain regular dialogue with institutional investors to keep them abreast of the Group's development, subject to compliance with applicable laws and regulations. Including the four results announcements, over 480 meetings with analysts and fund managers were held in 2016.

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

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS (Continued)

Shareholders' Meeting

The general meetings of the Company provide the best opportunity for communication between the Board and the shareholders. The Chairman of the Board as well as the respective chairman of the 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 2016 annual general meeting held on 10 May 2016 at Room 3-5, United Conference Centre, 10/F United Centre, 95 Queensway, Hong Kong. All the resolutions proposed at that meeting were approved by the shareholders by poll voting. Details of poll results are available under the investor relations section of the Company's website at www.asmpacific.com.

The next annual general meeting will be held on Tuesday, 9 May 2017, the notice of which will be sent to shareholders at least 20 clear business days before the said meeting.

Shareholder Rights

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

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS (Continued)

Procedures for putting forward proposals at shareholders' meetings

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

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, New Territories,
Hong Kong
Attn: Investor Relationship Department

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

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

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS (Continued)

Articles of Association of the Company

There was no change in the Articles of Association of the Company for the year ended 31 December 2016.

The Board proposes to amend the Articles of Association of the Company to streamline the current provisions on appointment and retirement of directors and will seek shareholders' approval at the 2017 AGM.

The proposed amendments also include certain amendments to bring the Company's Articles of Association in line with the current requirements of the Listing Rules and the current provisions of Hong Kong Companies Ordinance, as well as some grammatical changes.

Further details of the amendments and adoption of the Amended and Restated Articles will be set out in the circular to shareholders to be sent together with this Annual Report and posted on the Company's website.

On behalf of the Board
Lee Wai Kwong
DIRECTOR
2 March 2017

SUSTAINABILITY REPORT

This report covers our 2016 fiscal year information and it demonstrates the Group's commitment to conduct its business in a manner that takes into account the impact on the environment, people, community, and contributes to their long-term well-being. The Group is also extensively engage with stakeholders throughout the year in an open and transparent manner. By doing so, we are able to derive a deeper understanding of their concerns in supporting their needs.

ENVIRONMENT

We are committed to complying fully with all applicable environmental laws and regulations. Our environment charter highlights our dedication to safeguarding the environment through energy efficient practices and technologies, resource conservation, recycling and pollution prevention.

The Group is ISO 14001 certified for our environmental management system at our main business locations in China, Hong Kong, Germany, Singapore and Malaysia.

As one of the many supporters for Corporate Social Responsibility, the Group takes the issue of global warming seriously and is actively working on increasing energy efficiency in our production process. A corporate-level committee has been set up to drive the energy efficiency programs in all facilities across China, Hong Kong, Malaysia and Singapore.

For the past few years, programmes such as use of heat recovery from air compressors; replacement of old chillers for efficiency upgrade; adoption of VSD Technology in chiller and condenser pumps, and cooling tower fans and diligent monitoring on machinery have been implemented. The efforts have been encouraging and we will continue to work on improving our energy consumption efficiency. At ASMPT, a large volume of water is needed in the manufacturing process of lead frames and precision machinery products. To prevent water pollution and effective usage of water, the Group has installed water treatment and recycling facilities in all the manufacturing plants in China, Malaysia and Singapore to process waste water.

Enhancement work has also been done to improve our water treatment such as introducing biological treatment and recycling facilities in order to achieve a higher recycle percentage. Our new building in Singapore, which was completed in 2016, has been awarded the Green Mark Gold Award status by the Singapore Building and Construction Authority (BCA). The eco-friendly building utilizes the latest Variable Speed Drive (VSD) technology for Chillers and Air Compression System as well as double-glazed low-energy transparent glass for energy saving purpose. It is also empowered with a highly intelligent Building Management system that monitors security, control access, fire zones, power consumption and compressed air system amongst others to help reduce carbon emission.

SOCIAL

Employees

People are the cornerstone of our business and the Group recognizes that having an inclusive, engaged and skilled workforce is critical to our success. By upholding fair employment practices and growing the capabilities of our workforce, we aim to create a work culture that motivates and empowers every employee to be innovative, creative and be able to fulfill their full potential.

ASMPT embraces workforce diversity and implement fair employment practices in our operations worldwide. Equal opportunities for employment, advancement and promotion are provided to all staff. The Group believes that, regardless of gender, race, age, religious beliefs, ethnicity or nationality, marital status, disabilities, sexual orientation and/or other aspects, employees can make a significant contribution based on their talent, expertise and experience.

The Group believes in rewarding our employees with competitive employment packages which include remuneration, benefits and discretionary bonus. We have a well-structured and open annual performance appraisal system. The remuneration of our employees is in line with the market rate and commensurate with individual qualifications and working experience. Salary review is conducted annually to reflect competitiveness.

Discretionary bonus and incentive shares may be granted to eligible staff based on the Group's financial results and individual performance. Other benefits to the employees include contributions to mandatory provident fund schemes, medical and training subsidies. All qualified full-time employees received an annual performance review in 2016.

Customers

We believe in delivering the highest value and innovation solutions to our customers through products and solutions with advanced technologies and excellent quality. We uphold customers' commitments through the ASMPT's strategies – Provide the widest products portfolio that serves the diverse applications markets; work closely with customers to develop the solutions they need; and maintain active engagement with them through open communications channels such as regular meetings, site visits, trade shows, and customers' trainings and support.

Our key focus of building a diversified customer base to avoid being dependent on a small number of customers or markets has been delivering good results. In 2016, no single customer accounted for more than 10% of the Group's revenue. Our top 5 customers collectively made up 18.8% of the Group's revenue.

Suppliers

We believe long-term, trusting business relationships are built on honesty, acting ethically and with integrity. Our procurement process encourages fairness and the application of a high level of objectivity and impartiality in supplier selection. Suppliers are selected based on their products, services, quality, technology, capability, cost effectiveness, business integrity, sustainability, growth potential and management system. Our periodic review of procurement activities confirms zero non-conformity in 2016.

Our Supplier Code of Conduct, which is based on the Electronic Industry Citizenship Coalition (EICC) Code of Conduct, sets out clear expectations that we have of our vendors in areas such as supplier relationships, child labour, forced labour, human rights, environment, health and safety, as well as high expectations on ethics including anti-bribery and anti-corruption, and responsible sourcing of minerals. We have zero tolerance on violations. The Code's contents were developed to be consistent with our culture, values and business practices, and are updated periodically to ensure relevancy.

SUSTAINABILITY REPORT *(CONTINUED)*

SOCIAL (Continued)

Community

The Group believes in active contribution to the communities in which we operate. We strive to create impact through collaboration, employee volunteerism and strategic giving. We encourage and facilitate active participation of our staff and their family members in our community engagement initiatives within their local communities as we believe that active employee volunteerism not only helps the community but contributes to the holistic development of our people in terms of empathy, perspective and character building.

Our community initiatives focus on community well-being, empowering youth through education and encouraging eco-friendly initiatives. In 2016, our staff actively participated in many meaningful activities like New Territories Walk for Millions 2016 (Hong Kong), Race against Cancer (Singapore), Blood Donation Drive (Malaysia) and Donation to Orphanage (China).

The Group also believes in the power of education to positively impact lives, and support initiatives that promote access to quality education and in particular ensure the future pipeline for the engineering industry as a whole. We support local universities and technical institutes in the regions in which we operate for example, Hong Kong, China, Singapore, Germany and the United Kingdom through internship programmes and scholarship opportunities.

Details of the Group's CSR report will be found in the Environmental, Social and Governance (ESG) Report that will be published in May 2017.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of ASM Pacific Technology Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 70 to 155, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment testing of goodwill and intangible asset with indefinite useful life allocated to surface mount technology solutions business	
We identified the impairment testing of goodwill and intangible asset allocated to surface mount technology solutions business as a key audit matter due to its complexity and significant judgement exercised by the Group's management on the impairment testing. As detailed in note 23 to the consolidated financial statements, for the purposes of impairment testing, the carrying amounts of goodwill and intangible asset with indefinite useful life allocated to surface mount technology solutions business as at 31 December 2016 were HK$405,610,000 and HK$244,766,000 respectively. Determining the amount of impairment for goodwill and intangible asset requires an estimation of the recoverable amount, which is the value in use of the cash-generating units ("CGUs") to which goodwill and intangible asset have been allocated and the Group engages an independent professional valuer to perform such valuation. The value in use is determined based on the cash flow projection for the group of CGUs discounted to its present value and requires the use of key assumptions, including the discount rate, terminal growth rate, budgeted sales and gross margin, taking into account the economic outlook, relevant industry growth forecasts and financial budgets approved by the directors covering a five-year period from the unit's past performance and management's expectations for the market development. The management of the Group determines that there was no impairment recognized with respect to the goodwill and intangible asset with indefinite useful life allocated to surface mount technology solutions business during the year ended 31 December 2016.	Our procedures in relation to assessing the appropriateness of the impairment testing of goodwill and intangible asset with indefinite useful life allocated to surface mount technology solutions business included: • Understanding the Group's impairment testing process, including the valuation model adopted, CGUs allocation, assumptions used and the involvement of independent valuer appointed by the Group; • Evaluating the appropriateness of the model used to calculate the recoverable amount; • Evaluating the reasonableness of the budgeted sales and gross margin by considering the approved financial budgets, the management's business plan, the available industry and market data; • Evaluating the historical accuracy of the financial budgets prepared by management by comparing the historical financial budgets with the actual performance; • Engaging our valuation expert to evaluate the appropriateness of the discount rate used and terminal growth rate; and • Assessing whether the disclosures of impairment testing in the consolidated financial statements are sufficient and appropriate.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Provision for taxation in relation to Tax Affairs	
We identified the provision for taxation in relation to the Tax Affairs (as defined below) as a key audit matter due to critical judgement exercised by the management to assess the tax provision. As detailed in note 13 to the consolidated financial statements, the Group continued to receive letters from the Hong Kong Inland Revenue Department (the "HKIRD") during 31 December 2016 seeking information relating to Hong Kong Profits Tax and other tax affairs of certain subsidiaries of the Company (the "Tax Affairs"). The enquiries might lead to significant additional tax being charged on profits from some overseas subsidiaries in respect of source of income as concerned that have not previously been included in the scope of charge for Hong Kong Profits Tax; or significant tax adjustments to companies currently subject to Hong Kong Profits Tax. As at 31 December 2016, the Group has purchased tax reserve certificates amounting to HK$370,049,000. Based on legal and other professional advice that the Company has sought, the directors of the Company are of the opinion that sufficient provision for taxation and tax-related expenses have been made in the consolidated financial statements.	Our procedures in relation to evaluate the appropriateness of the provision for taxation in relation to Tax Affairs included: • Engaging our tax expert to assess the appropriateness of the basis of provision for taxation of the Tax Affairs by considering the recent similar tax cases in Hong Kong, correspondences of the Group with the HKIRD and the legal and other professional advice sought by the Company; • Ascertaining the accuracy of the income tax provision based on the basis of provision for taxation of the Tax Affairs estimated by the Company; and • Considering the adequacy of the disclosures in the consolidated financial statements in respect of the Tax Affairs.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Warranty provision	
We identified warranty provision as a key audit matter due to the significant estimates involved by the Group's management in determining the provision related to the cost of rectification work under the warranty period, mainly for a period of maximum of 2 years for back-end equipment and surface mount technology equipment. As detailed in note 4 to the consolidated financial statements, 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 was more likely than not that such a warranty obligation would result in outflow of resources and whether the amount of the obligation could be reliably estimated. As at 31 December 2016, the Group recognized a warranty provision amounting to HK$276,402,000 relating to back-end equipment and surface mount technology equipment which is the best estimate of the Group's liability based on relevant correspondences and contracts with customers and estimated cost for rectification work from the Group's experience.	Our procedures in relation to evaluate the appropriateness of the warranty provision included: • Understanding how the Group's management estimate warranty provision; • Discussing with the Group's management and evaluating the management process to identify and assess the warranty provision with reference to the relevant correspondences and contracts with customers; • Interviewing management to understand its cost estimation basis for rectification work and evaluating the reasonableness of the cost estimates for rectification work with regard to the Group's experience in addressing such matters; • Evaluating the historical accuracy of the warranty provision assessed by management by comparing the actual loss and the historical warranty provision made; and • Assessing the adequacy of the disclosure of warranty provision made in the consolidated financial statements.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Allowance of inventories	
We identified allowance of inventories as a key audit matter due to the critical judgement exercised by the Group's management in identifying the slow-moving and obsolete inventories and assessing the amount of allowance for inventories. As disclosed in note 4 to the consolidated financial statements, the nature of inventories is subject to technology changes. The Group's management identifies obsolete inventories as a result of technology change, and then applied allowance on those obsolete inventories by considering the recoverable amount. The Group's management also reviews the inventory age listing to identify slow-moving and obsolete inventories and then estimates the amount of allowance based on the projected excessive quantity of those inventories considering the production plan and expected future market demand as a result of changes in current market conditions and technology, and the latest invoice prices. As at 31 December 2016, the carrying amount of inventories, net of allowance, was HK$4,254,541,000.	Our procedures in relation to evaluate the appropriateness of the allowance of inventories included: • Understanding of how the Group's management identifies the slow-moving and obsolete inventories and assesses the amount of allowance for inventories; • Understanding and evaluating the appropriateness of the basis of identification of the obsolete inventories and the projected excessive quantity of inventories estimated by the Group's management; • Testing the accuracy of the aging analysis of inventories, on a sample basis; • Evaluating the historical accuracy of allowance of inventories assessed by management by comparing the actual loss to historical allowance recognized, on a sample basis; and • Assessing the accuracy of the net realizable value, on a sample basis.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
2 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Revenue	7	**14,249,093**	12,977,289
Cost of sales		**(8,891,618)**	(8,261,905)
Gross profit		**5,357,475**	4,715,384
Other income		**78,433**	42,623
Selling and distribution expenses		**(1,277,326)**	(1,275,844)
General and administrative expenses		**(785,079)**	(757,602)
Research and development expenses	9	**(1,242,775)**	(1,185,118)
Other gains and losses	10	**(51,348)**	30,394
Restructuring costs	11	**(97,899)**	(49,758)
Finance costs	12	**(188,532)**	(156,703)
Profit before taxation		**1,792,949**	1,363,376
Income tax expense	13	**(354,567)**	(410,462)
Profit for the year	14	**1,438,382**	952,914
Profit for the year attributable to:			
Owners of the Company		**1,463,864**	956,191
Non-controlling interests		**(25,482)**	(3,277)
		1,438,382	952,914
Earnings per share	18		
– Basic		**HK$3.61**	HK$2.38
– Diluted		**HK$3.60**	HK$2.37

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	**2016 HK$'000**	2015 HK$'000
Profit for the year		**1,438,382**	952,914
Other comprehensive (expense) income			
– exchange differences on translation of foreign operations, which may be reclassified subsequently to profit or loss		**(213,983)**	(396,034)
– remeasurement of defined benefit retirement plans, net of tax, which will not be reclassified to profit or loss	*35*	**(23,634)**	11,689
Other comprehensive expense for the year		**(237,617)**	(384,345)
Total comprehensive income for the year		**1,200,765**	568,569
Total comprehensive income for the year attributable to:			
Owners of the Company		**1,226,175**	571,845
Non-controlling interests		**(25,410)**	(3,276)
		1,200,765	568,569

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment	*19*	**2,157,965**	2,218,161
Investment property	*20*	**57,718**	63,048
Goodwill	*21*	**428,052**	427,754
Intangible assets	*22*	**571,528**	604,888
Prepaid lease payments	*24*	**20,461**	22,573
Pledged bank deposits	*25*	**–**	2,562
Deposits paid for acquisition of property, plant and equipment		**32,198**	13,666
Rental deposits paid	*27*	**44,506**	24,755
Deferred tax assets	*36*	**307,015**	289,846
Other non-current assets		**101,633**	106,496
		3,721,076	3,773,749
Current assets			
Inventories	*26*	**4,254,541**	3,482,436
Trade and other receivables	*27*	**4,421,318**	4,304,398
Prepaid lease payments	*24*	**780**	822
Derivative financial instruments	*28*	**1,113**	2,108
Income tax recoverable		**29,830**	21,774
Pledged bank deposits	*25*	**–**	7,228
Bank deposits with original maturity of more than three months	*29*	**1,071,408**	254,983
Bank balances and cash	*29*	**2,138,886**	2,020,145
		11,917,876	10,093,894
Current liabilities			
Trade and other payables	*30*	**3,265,973**	2,389,798
Derivative financial instruments	*28*	**24,664**	9,057
Provisions	*31*	**272,513**	280,733
Income tax payable		**332,734**	415,728
Convertible bonds	*37*	**2,224,895**	–
Bank borrowings	*32*	**116,334**	37,459
		6,237,113	3,132,775
Net current assets		**5,680,763**	6,961,119
		9,401,839	10,734,868

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*

At 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Capital and reserves			
Share capital	*33*	**40,824**	40,453
Dividend reserve		**449,068**	161,812
Other reserves		**8,532,315**	7,804,254
Equity attributable to owners of the Company		**9,022,207**	8,006,519
Non-controlling interests		**4,056**	29,466
Total equity		**9,026,263**	8,035,985
Non-current liabilities			
Convertible bonds	*37*	**–**	2,264,775
Retirement benefit obligations	*35*	**161,249**	127,833
Provisions	*31*	**46,349**	65,459
Bank borrowings	*32*	**77,556**	141,441
Deferred tax liabilities	*36*	**55,725**	61,622
Other liabilities and accruals	*30*	**34,697**	37,753
		375,576	2,698,883
		9,401,839	10,734,868

The consolidated financial statements on pages 70 to 155 were approved and authorized for issue by the Board of Directors on 2 March 2017 and are signed on its behalf by:

Lee Wai Kwong
DIRECTOR

Robin Gerard Ng Cher Tat
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	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 34)*	Capital redemption reserve HK$'000	Capital reserve HK$'000	Convertible bonds equity reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Dividend reserve HK$'000	Sub-total HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
At 1 January 2015	40,252	1,074,976	–	–	155	72,979	266,932	(244,671)	6,471,297	523,274	8,205,194	–	8,205,194
Profit for the year	–	–	–	–	–	–	–	–	956,191	–	956,191	(3,277)	952,914
Exchange differences on translation of foreign operations, which may be reclassified subsequently to profit or loss	–	–	–	–	–	–	–	(396,035)	–	–	(396,035)	1	(396,034)
Remeasurement of defined benefit retirement plans, net of tax *(note 35)*, which will not be reclassified to profit or loss	–	–	–	–	–	–	–	–	11,689	–	11,689	–	11,689
Total comprehensive income for the year	–	–	–	–	–	–	–	(396,035)	967,880	–	571,845	(3,276)	568,569
Sub-total	40,252	1,074,976	–	–	155	72,979	266,932	(640,706)	7,439,177	523,274	8,777,039	(3,276)	8,773,763
Acquisition of business (note 38)	–	–	–	–	–	–	–	–	–	–	–	32,742	32,742
Recognition of equity-settled share-based payments	–	–	178,617	–	–	–	–	–	–	–	178,617	–	178,617
Purchase of shares under the Employee Share Incentive Scheme ("Scheme")	–	–	–	(23,344)	–	–	–	–	–	–	(23,344)	–	(23,344)
Shares vested under the Scheme	–	–	(24,674)	23,344	–	–	–	–	1,330	–	–	–	–
Shares issued under the Scheme	201	153,742	(153,943)	–	–	–	–	–	–	–	–	–	–
2014 final dividend paid	–	–	–	–	–	–	–	–	–	(523,274)	(523,274)	–	(523,274)
2015 interim dividend paid	–	–	–	–	–	–	–	–	(402,519)	–	(402,519)	–	(402,519)
2015 final dividend proposed	–	–	–	–	–	–	–	–	(161,812)	161,812	–	–	–
At 31 December 2015 and 1 January 2016	40,453	1,228,718	–	–	155	72,979	266,932	(640,706)	6,876,176	161,812	8,006,519	29,466	8,035,985
Profit for the year	–	–	–	–	–	–	–	–	1,463,864	–	1,463,864	(25,482)	1,438,382
Exchange differences on translation of foreign operations, which may be reclassified subsequently to profit or loss	–	–	–	–	–	–	–	(214,055)	–	–	(214,055)	72	(213,983)
Remeasurement of defined benefit retirement plans, net of tax *(note 35)*, which will not be reclassified to profit or loss	–	–	–	–	–	–	–	–	(23,634)	–	(23,634)	–	(23,634)
Total comprehensive income for the year	–	–	–	–	–	–	–	(214,055)	1,440,230	–	1,226,175	(25,410)	1,200,765
Sub-total	40,453	1,228,718	–	–	155	72,979	266,932	(854,761)	8,316,406	161,812	9,232,694	4,056	9,236,750
Conversion of convertible bonds	157	161,063	–	–	–	–	(16,683)	–	–	–	144,537	–	144,537
Recognition of equity-settled share-based payments	–	–	153,664	–	–	–	–	–	–	–	153,664	–	153,664
Purchase of shares under the Scheme	–	–	–	(21,992)	–	–	–	–	–	–	(21,992)	–	(21,992)
Shares vested under the Scheme	–	–	(20,505)	21,794	–	–	–	–	(1,289)	–	–	–	–
Shares issued under the Scheme	214	132,945	(133,159)	–	–	–	–	–	–	–	–	–	–
2015 final dividend paid	–	–	–	–	–	–	–	–	–	(161,812)	(161,812)	–	(161,812)
2016 interim dividend paid	–	–	–	–	–	–	–	–	(324,884)	–	(324,884)	–	(324,884)
2016 final dividend proposed	–	–	–	–	–	–	–	–	(449,068)	449,068	–	–	–
At 31 December 2016	40,824	1,522,726	–	(198)	155	72,979	250,249	(854,761)	7,541,165	449,068	9,022,207	4,056	9,026,263

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
Operating activities		
Profit before taxation	**1,792,949**	1,363,376
Adjustments for:		
Depreciation	**395,018**	378,634
Release of prepaid lease payments	**780**	822
Amortization of intangible assets	**41,911**	40,327
Release of land license fee	**2,725**	–
Gains on disposal/write-off of property, plant and equipment	**(6,084)**	(4,363)
Loss on fair value change of derivative financial instruments	**18,352**	915
Warranty provision expenses	**229,119**	227,161
Restructuring costs	**97,899**	49,758
Share-based payments under the Scheme	**153,664**	178,617
Interest income	**(26,410)**	(6,210)
Interest expense	**188,532**	156,703
Effect of foreign exchange rate changes on inter-company balances	**45,927**	(34,285)
Operating cash flows before movements in working capital	**2,934,382**	2,351,455
Decrease (increase) in pledged bank deposits	**9,826**	(6,321)
(Increase) decrease in inventories	**(839,404)**	253,651
Increase in trade and other receivables	**(243,987)**	(305,541)
Decrease (increase) in other non-current assets	**1,729**	(2,539)
Increase (decrease) in trade and other payables	**903,005**	(459,484)
Decrease in other liabilities and accruals	**(2,023)**	(3,012)
Increase (decrease) in provisions	**4,482**	(6,037)
Utilization of warranty provision	**(275,173)**	(259,799)
Payment for restructuring provision	**(69,959)**	(51,196)
Increase in retirement benefit obligations	**2,442**	10,629
Purchase of shares under the Scheme	**(21,992)**	(23,344)
Cash generated from operations	**2,403,328**	1,498,462
Income taxes paid	**(459,321)**	(319,841)
Income taxes refunded	**13,591**	7,755
Net cash from operating activities	**1,957,598**	1,186,376

CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
Investing activities		
Interest received	**26,410**	6,210
Proceeds on disposals of property, plant and equipment	**26,343**	14,138
Net cash outflow arising on acquisitions of subsidiaries or business	**–**	(55,041)
Purchase of property, plant and equipment	**(393,168)**	(528,723)
Deposits paid for acquisition of property, plant and equipment	**(32,198)**	(13,666)
Additions of intangible assets	**(8,681)**	(18,889)
Placement of bank deposits with original maturity of more than three months	**(1,497,152)**	(258,938)
Withdrawal of bank deposits with original maturity of more than three months	**635,332**	–
Structured deposits placed	**–**	(94,648)
Withdrawal of structured deposits	**–**	94,648
Withdrawal of pledged bank deposit	**–**	188,340
Net cash used in investing activities	**(1,243,114)**	(666,569)
Financing activities		
Bank borrowings raised	**70,033**	240,268
Repayment of bank borrowings	**(55,020)**	(228,791)
Dividends paid	**(486,696)**	(925,793)
Interest paid	**(84,430)**	(55,956)
Net cash used in financing activities	**(556,113)**	(970,272)
Net increase (decrease) in cash and cash equivalents	**158,371**	(450,465)
Cash and cash equivalents at beginning of the year	**2,020,145**	2,593,756
Effect of foreign exchange rate changes	**(39,630)**	(123,146)
Cash and cash equivalents at end of the year, represented by bank balances and cash	**2,138,886**	2,020,145

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL

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

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

The Company acts as an investment holding company. The principal activities of the Company and its subsidiaries (the "Group") are engaged in the design, manufacture and marketing of machines, tools and materials used in semiconductor and electronic assembly industries. The principal subsidiaries and their activities are set out in note 43.

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

Amendments to HKFRSs that are mandatory effective for the current year

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

Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortization
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle

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

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	"Revenue from Contracts with Customers" and the related amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Apply HKFRS 9 "Financial Instruments" with HKFRS 4 "Insurance Contracts"[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealized Losses[4]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2017.

HKFRS 9 "Financial Instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 are:

- All recognized financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortized 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 amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting 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 recognized in profit or loss.

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

HKFRS 9 "Financial Instruments" (Continued)

- 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 attributable to a financial liability's 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 is presented in profit or loss.

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

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Application of HKFRS 9 in the future may have an impact on the classification and measurement of the Group's financial assets. In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortized cost.

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "*Revenue*", HKAS 11 "*Construction Contracts*" and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

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

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

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

Under HKFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported as the timing of revenue recognition may be affected. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review. In addition, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements.

HKFRS 16 "Leases"

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees, except for short-term leases and leases of low value assets.

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

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

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

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

HKFRS 16 "Leases" (Continued)

As at 31 December 2016, the Group has non-cancellable operating lease commitments of HK$1,226,569,000 as disclosed in note 41. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

Amendments to HKAS 7 "Disclosure Initiative"

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

The directors of the Company do not anticipate that the application of the other new and amendments to HKFRSs will have a material impact on the results and financial positions of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

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

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

Business combination

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combination (Continued)

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

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

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

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

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

Goodwill

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

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

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

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

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

Freehold land is not depreciated.

Depreciation is recognized so as to write off the cost of 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.

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

Buildings under development for future owner-occupied purpose

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

Investment property

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful life are reported at costs less accumulated amortization and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequently accumulated impairment losses.

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Research and development expenditure

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

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development expenditure (Continued)

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

Impairment on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of each 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.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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

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

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

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. 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).

Restructurings

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

Warranties

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

Taxation

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

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

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

Leasing

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

The Group as lessor

Amounts due from lessees under finance leases are recognized 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 of return on the Group's net investment outstanding in respect of the leases.

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

The Group as lessee

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

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

Leasehold land and buildings

When 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

Leasehold land and buildings (Continued)

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 amortized 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.

Financial instruments

Financial assets and financial liabilities are recognized 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 recognized immediately in profit or loss.

Financial assets

Financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortized 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 recognized 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 other non-current assets, pledged bank deposits, trade and other receivables, bank deposits with original maturity of more than three months, and bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment (see accounting policy on impairment of financial assets below).

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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 when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

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

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

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

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

Financial liabilities and equity instruments

Debt 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 and the definitions of a financial liability and an equity instrument.

Equity instruments

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Other financial liabilities

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

Effective interest method

The effective interest method is a method of calculating the amortized 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 recognized on an effective interest basis.

Convertible bonds

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

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method.

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

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

Derivative financial instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial guarantee contracts

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

Financial guarantee contracts issued by the Group are initially measured at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with HKAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*"; and

- the amount initially recognized less, where appropriate, cumulative amortization recognized over the guarantee period.

Derecognition

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

The Group derecognizes 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 derecognized and the consideration paid and payable is recognized in profit or loss.

Foreign currencies

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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

On the disposal of a foreign operation (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 recognized in profit or loss.

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

Share-based payment arrangements

Equity-settled share-based payment transactions

Equity-settled share-based payments to employees are measured at the fair value of the shares at the grant date.

The fair value determined at the grant date of shares is expensed on a straight-line basis over the vesting period based on the Group's estimate of shares that will eventually vest, with a corresponding increase in equity (employee share-based compensation reserve).

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

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

Any payment made to the employee on the cancellation or settlement of the 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 recognized as an expense.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment arrangements (Continued)

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

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

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

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

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 capitalization.

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

Government grants

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

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

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

Retirement benefit costs and termination benefits

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

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs and termination benefits (Continued)

Defined benefit costs are categorized as follows:

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

The Group presented the first two components of defined benefit costs in profit or loss. Curtailment gains or losses are accounted for as past service costs. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained profits and will not be reclassified to profit or loss.

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

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

Short-term and other long-term employee benefits

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Impairment of goodwill

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

The carrying amount of goodwill as at 31 December 2016 was HK$428,052,000 (2015: HK$427,754,000). Details of the recoverable amount calculations are set out in note 23.

Impairment of intangible assets

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

If cash flows do not materialize as estimated, there is a risk that further impairment charges may be necessary in future. The carrying amount of intangible assets as at 31 December 2016 was HK$571,528,000 (2015: HK$604,888,000). Details of the impairment testing on intangible assets with indefinite useful lives are set out in note 23.

Income taxes

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

The Group has to determine tax positions under respective local tax laws and tax authorities' views which can be complex and subject to different interpretations of taxpayers and local tax authorities. Deferred tax assets are recognized if sufficient future taxable profit is available, including income from forecasted operating earnings, the reversal of existing taxable temporary differences and established tax planning opportunities. As of each year-end, management evaluates the recoverability of deferred tax assets, based on projected future taxable profits. As future development are uncertain and partly beyond management's control, assumptions are necessary to estimate future taxable profits as well as the period in which deferred tax assets will 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 realized, a reversal of deferred tax assets may arise which would be recognized in profit or loss for the period in which such reversal takes place. As at 31 December 2016, the deferred tax assets recognized is HK$307,015,000 (2015: HK$289,846,000) (see note 36).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Inventories

A significant portion of the Group's working capital is devoted to inventories and the nature of inventories is subject to technological changes. As at 31 December 2016, the carrying amount of inventories, net of allowance, was HK$4,254,541,000 (2015: HK$3,482,436,000). The management reviews the inventory age listing on a periodic basis to identify slow-moving and obsolete inventories. The management estimates the amount of allowance based on the projected excessive quantity of those inventories considering the production plan and expected future market demand, the net realizable value for such inventories based primarily on the latest invoice prices and current market conditions, and the recoverable amount. The amount of allowance would be changed as a result of changes in current market conditions and technology subsequently.

Estimated 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. When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. 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 2016, the carrying amount of trade receivables was HK$3,540,968,000 (2015: HK$3,628,676,000).

Retirement benefit obligations

Obligations for retirement benefit and related net periodic pension costs are determined in accordance with actuarial valuations. These valuations rely on key assumptions including discount rates, expected rate of compensation increase and pension progression and mortality rates. The discount rates assumptions are determined by reference to yields on high-quality corporate bonds of appropriate duration and currency at the end of the reporting period. In case such yields are not available, discount rates are based on government bonds yields. Due to changing market and economic conditions, the underlying key assumptions may differ from actual developments and may lead to significant changes in retirement benefit obligations. During the year ended 31 December 2016, net remeasurement losses before tax effect amounting to HK$35,085,000 (2015: net remeasurement gains before tax effect amounting to HK$17,324,000) are recognized directly in equity in the period in which they occur (see note 35).

Provisions

Significant estimates are involved in the determination of provision related to warranty costs and legal proceedings. Accordingly, management exercises considerable judgment in determining whether there is a present obligation as a result of a past event at the reporting date, whether it is more likely than not that such warranty service will result an outflow of resources and whether the amount of the obligation can be reliably estimated with reference to the relevant correspondences and contracts with customers. The management estimates the cost for rectification work with regard to the Group's experience in addressing such matters. As at 31 December 2016, the Group recognized a warranty provision amounting to HK$276,402,000 (2015: HK$333,292,000) (see note 31).

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The valuation committee works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Fair value measurements and valuation processes (Continued)

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 6 and 20 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

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 maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of bank borrowings, convertible bonds and equity attributable to owners of the Company, comprising issued share capital and reserves including retained profits.

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

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2016 **HK$'000**	2015 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**6,845,420**	5,992,527
Derivative financial instruments	**1,113**	2,108
Financial liabilities		
Amortized cost	**4,739,632**	3,959,506
Derivative financial instruments	**24,664**	9,057

Financial risk management objectives and policies

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

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk

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

Foreign currency risk management

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 41% and 48% of the Group's sales and purchases respectively are denominated in currencies other than the functional currency of the group entities making the sales and the purchases.

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

		Assets		Liabilities	
	Currency	**2016**	2015	**2016**	2015
		HK$'000	HK$'000	**HK$'000**	HK$'000
US dollar *(Note)*	US$	**2,234,208**	1,614,507	**71,689**	45,767
Euro	EUR	**170,585**	315,999	**47,279**	21,698
Renminbi	RMB	**774,076**	147,818	**568,792**	286,335
Singapore dollar	S$	**82,015**	80,608	**128,980**	104,615
Japanese Yen	JPY	**4,561**	1,482	**150,281**	82,775
Others		**57,104**	51,260	**209,229**	112,841

Note: Included in the balances are US dollar financial assets and financial liabilities of HK$747,863,000 and HK$67,398,000 (2015: HK$458,882,000 and HK$25,003,000), respectively where Hong Kong dollars is not the functional currency of the relevant group entities.

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

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Foreign currency risk management (Continued)

Foreign currency sensitivity analysis

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

A subsidiary of the Company entered into several foreign currency forward contracts to manage its exposure to exchange rate fluctuations of the US dollar denominated receivables and bank deposits against its functional currency, Euro (see note 28).

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 dollar impact (ii)		Renminbi impact (iii)		Japanese Yen impact (iv)		Singapore dollar impact (v)	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	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	**(4,692)**	(12,211)	**(24,007)**	(15,311)	**(10,700)**	5,247	**6,889**	3,814	**2,174**	973

(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 dollar at the year end.

(iii) This is mainly attributable to the exposure on outstanding bank balances, 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 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 dollar at the year end.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Interest rate risk management

The Group is exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposits (see note 25) and convertible bonds (see note 37). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank deposits/balances (see note 29) and bank borrowings (see note 32). 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") arising from the Group's variable-rate bank borrowings.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate instruments at the end of the reporting period. The analyses are prepared assuming the financial instruments outstanding at the end of the reporting period was outstanding for the whole year. A 5 basis points increase is used for bank deposits and 50 basis points increase and decrease for bank borrowings when reporting interest rate risk internally to key management personnel. If interest rates had been 5 basis points and 50 basis points higher for bank deposits and bank borrowings or 50 basis points lower for bank borrowings and all other variables were held constant, post-tax profit for the year ended 31 December 2016 would decrease/increase by HK$476,000 (2015: HK$296,000) and HK$805,000 (2015: HK$743,000) respectively. This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

Credit risk management

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2016 in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. 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 the 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 authorized banks in Mainland China with high credit-ratings.

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

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk management

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

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

At 31 December 2016

	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	–	493,102	1,801,742	–	2,294,844	2,294,844
Other non-current liabilities	–	–	–	14,106	14,106	14,106
Bank borrowings	2.058	–	119,587	78,315	197,902	193,890
Convertible bonds	6.786	–	2,272,500	–	2,272,500	2,236,792
		493,102	4,193,829	92,421	4,779,352	4,739,632
Derivatives – net settlement						
Foreign exchange forward contracts	–	–	24,664	–	24,664	24,664

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk management (Continued)

At 31 December 2015

	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	–	280,310	1,210,261	–	1,490,571	1,490,571
Other non-current liabilities	–	–	–	12,570	12,570	12,570
Bank borrowings	1.646	–	39,936	143,580	183,516	178,900
Convertible bonds	6.786	–	48,000	2,424,000	2,472,000	2,277,465
		280,310	1,298,197	2,580,150	4,158,657	3,959,506
Derivatives – net settlement						
Foreign exchange forward contracts	–	–	9,057	–	9,057	9,057

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

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets and financial liabilities	Fair value as at 2016	2015	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Foreign currency forward contracts classified as derivative instruments on the consolidated statement of financial position *(note 28)*	**Asset– HK$1,113,000 and liability – HK$24,664,000**	Asset– HK$2,108,000 and liability– HK$9,057,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A

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

The fair values of the financial assets and liabilities included in the level 2 category above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

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

7. REVENUE

Revenue represents the amounts received or receivable for goods sold to customers during the year, less returns, rebates, other similar allowances and sales related taxes.

8. SEGMENT INFORMATION

The Group has three (2015: three) operating segments: development, production and sales of (1) back-end equipment, (2) surface mount technology solutions and (3) materials. They represent three major types of products manufactured by the Group. The operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by Company's Chief Executive Officer, the chief operating decision maker ("CODM"), for the purpose of allocating resources to segments and assessing their performance. The Group is organized and managed around the three (2015: three) major types of products manufactured by the Group. No operating segments have been aggregated in arriving at reportable segments of the Group.

Segment revenues and results

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

	2016 **HK$'000**	2015 HK$'000
Segment revenue from external customers		
Back-end equipment	**7,219,722**	5,870,364
Surface mount technology solutions	**5,157,306**	5,392,167
Materials	**1,872,065**	1,714,758
	14,249,093	12,977,289
Segment profit		
Back-end equipment	**1,487,204**	702,098
Surface mount technology solutions	**578,454**	751,187
Materials	**170,410**	141,282
	2,236,068	1,594,567
Interest income	**26,410**	6,210
Finance costs	**(188,532)**	(156,703)
Unallocated other (expenses) income	**(1,171)**	215
Unallocated net foreign exchange (loss) gain	**(55,873)**	26,031
Unallocated general and administrative expenses	**(126,054)**	(57,186)
Restructuring costs	**(97,899)**	(49,758)
Profit before taxation	**1,792,949**	1,363,376

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 CODM for review.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment results represent the profit before taxation earned by each segment without allocation of interest income, finance costs, unallocated other (expenses) income, unallocated net foreign exchange (loss) gain, unallocated general and administrative expenses and restructuring costs.

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

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

2016

	Back-end equipment HK$'000	Surface mount technology solutions HK$'000	Materials HK$'000	Unallocated general and administrative expenses HK$'000	Consolidated HK$'000
Amounts regularly provided to CODM:					
Additions of property, plant and equipment	232,678	105,392	78,621	–	416,691
Additions of intangible assets	–	8,681	–	–	8,681
Amounts included in the measure of segment profit:					
Amortization for intangible assets	1,278	40,633	–	–	41,911
Depreciation of property, plant and equipment	225,446	89,797	78,443	–	393,686
Depreciation of investment property	1,332	–	–	–	1,332
(Gain) loss on disposal/write-off of property, plant and equipment	(5,844)	(437)	197	–	(6,084)
Release of prepaid lease payments	546	107	127	–	780
Release of land license fee	2,725	–	–	–	2,725
Research and development expenses	721,231	512,959	8,585	–	1,242,775
Share-based payments	108,942	12,541	10,014	22,167	153,664

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For the year ended 31 December 2016

8. SEGMENT INFORMATION (Continued)

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

2015

	Back-end equipment HK$'000	Surface mount technology solutions HK$'000	Materials HK$'000	Unallocated general and administrative expenses HK$'000	Consolidated HK$'000
Amounts regularly provided to CODM:					
Additions of property, plant and equipment					
– Additions during the year	310,816	96,382	138,497	–	545,695
– Arising from acquisition of business	–	–	85,471	–	85,471
Additions of intangible assets	–	18,889	–	–	18,889
Amounts included in the measure of segment profit:					
Amortization for intangible assets	1,278	39,049	–	–	40,327
Depreciation of property, plant and equipment	219,928	91,268	66,016	–	377,212
Depreciation of investment property	1,422	–	–	–	1,422
(Gain) loss on disposal/write-off of property, plant and equipment	(2,489)	(2,639)	765	–	(4,363)
Release of prepaid lease payments	598	–	224	–	822
Research and development expenses	681,599	495,308	8,211	–	1,185,118
Share-based payments	138,138	15,093	12,134	13,252	178,617

8. SEGMENT INFORMATION (Continued)

Geographical information

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

	Non-current assets	
	2016	2015
	HK$'000	HK$'000
Mainland China	**1,301,938**	1,382,376
Singapore	**1,061,932**	609,567
Europe	**356,268**	811,887
– United Kingdom	**189,700**	60,857
– Germany	**145,245**	150,486
– Switzerland	**–**	585,220
– Others	**21,323**	15,324
Malaysia	**182,675**	171,989
Hong Kong	**67,728**	61,416
Americas	**7,830**	7,187
– United States of America	**3,963**	5,587
– Others	**3,867**	1,600
Korea	**4,402**	6,660
Others	**3,236**	2,505
	2,986,009	3,053,587

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

8. SEGMENT INFORMATION (Continued)

Geographical information (Continued)

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

	Revenue from external customers	
	2016	2015
	HK$'000	HK$'000
Mainland China	**6,498,189**	5,163,129
Europe	**2,234,506**	2,250,910
– Germany	**724,874**	753,629
– Hungary	**193,572**	166,366
– France	**160,003**	120,699
– Romania	**154,299**	207,708
– United Kingdom	**67,876**	115,676
– Others	**933,882**	886,832
Hong Kong	**1,277,663**	1,087,989
Americas	**1,091,263**	930,027
– United States of America	**684,305**	638,503
– Mexico	**227,794**	139,552
– Others	**179,164**	151,972
Malaysia	**913,938**	887,723
Taiwan	**600,521**	546,099
Thailand	**464,201**	434,106
Philippines	**315,241**	382,035
Korea	**306,371**	396,849
Japan	**239,868**	555,991
Singapore	**121,288**	141,963
Others	**186,044**	200,468
	14,249,093	12,977,289

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

9. RESEARCH AND DEVELOPMENT EXPENSES

Included in research and development expenses are depreciation for property, plant and equipment of HK$40,220,000 (2015: HK$33,310,000), rental of land and buildings under operating leases of HK$27,959,000 (2015: HK$26,232,000) and staff costs of HK$855,492,000 (2015: HK$822,263,000) for the year ended 31 December 2016.

10. OTHER GAINS AND LOSSES

	2016 HK$'000	2015 HK$'000
The gains and losses comprise:		
Net foreign exchange (loss) gain	**(38,977)**	52,182
Gains on disposal/write-off of property, plant and equipment	**6,084**	4,363
Losses on fair value change of derivative financial instruments	**(16,896)**	(26,151)
Others	**(1,559)**	–
	(51,348)	30,394

11. RESTRUCTURING COSTS

During the year ended 31 December 2016, included in restructuring costs are mainly plant relocation costs for moving manufacturing facilities located in Yantian, Shenzhen, China to Longgang, Shenzhen, China. Due to the local authorities' redevelopment plans, part of the operation of a subsidiary of the Company, Shenzhen ASM Micro Electronic Technology Co., Ltd., was required to move out of its premises located in Yantian by the first half of 2017. In connection with this plant relocation, the Group recorded HK$92,851,000 restructuring costs for the year ended 31 December 2016, which primarily relates to estimated severance payments of HK$63,139,000 and incentive payments and other compensation of HK$22,323,000 to employees for relocation to new premises of the Group.

During the year ended 31 December 2015, the Group launched a voluntary separation incentive programme for its employees in the manufacturing plant in China for cost reduction and streamlining its manufacturing operations for the surface mount technology solutions business. Accordingly, severance payments of HK$49,758,000 were charged to profit or loss for the year ended 31 December 2015 and recorded as restructuring costs.

12. FINANCE COSTS

	2016 HK$'000	2015 HK$'000
Interest on convertible bonds *(note 37)*	**150,364**	148,571
Interest on bank borrowings	**4,020**	3,291
Interest on discounted bills without recourse	**31,551**	585
Others	**2,597**	4,256
Total finance costs	**188,532**	156,703

13. INCOME TAX EXPENSE

	2016 **HK$'000**	2015 HK$'000
The charge (credit) comprises:		
Current tax:		
Hong Kong	**50,783**	39,594
PRC Enterprise Income Tax	**87,531**	64,672
Other jurisdictions	**256,043**	339,192
	394,357	443,458
(Over)under provision in prior years:		
Hong Kong	**(208)**	362
PRC Enterprise Income Tax	**(7,355)**	78
Other jurisdictions	**(12,962)**	(5,998)
	(20,525)	(5,558)
Deferred tax credit *(note 36)*	**(19,265)**	(27,438)
	354,567	410,462

(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 is 25% (2015: 25%), except for ASM Technology China Limited ("ATC"). On 28 October 2015, ATC was recognized as an advanced technology service enterprise ("ATSE") by the Chengdu Science and Technology Bureau for a period of 3 years, i.e. from 2015 to 2017. According to the tax circular Caishui [2014] No. 59, ATC, as an ATSE, is subject to Enterprise Income Tax at a reduced income tax rate of 15% from 2015 to 2017, subject to fulfillment of recognition criteria for ATSE during the relevant period.

(c) On 12 July 2010, the Singapore Economic Development Board ("EDB") granted a Pioneer Certificate ("PC") to ASM Technology Singapore Pte Ltd. ("ATS"), a principal subsidiary of the Company, to the effect that profits arising from certain new back-end equipment and lead frame products are exempted from tax for a period of 10 years effective from the dates commenced between 1 June 2010 and 1 January 2012 across specified products, subject to fulfillment of certain criteria during the relevant periods. 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 to 31 December 2015, subject to the fulfillment of certain criteria during the relevant period. The DEI has expired on 31 December 2015 and ATS did not renew the incentive in current year.

13. INCOME TAX EXPENSE (Continued)

(c) (Continued)

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% (2015: 17%).

(d) The calculation of current tax of the Group's subsidiaries in Germany is based on a corporate income tax rate of 15.00% (2015: 15.00%) plus 5.50% (2015: 5.50%) solidarity surcharge thereon for the assessable profit for the year. In addition to corporate income tax, trade tax is levied on taxable income. The applicable German trade tax (local income tax) rates for the Group's subsidiaries in Germany vary from 12.495% to 17.015% (2015: 11.550% to 17.015%) according to the municipal in which the entity resides. Thus the aggregate tax rates were between 28.320% and 32.840% (2015: 27.375% to 32.840%).

(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 profit or loss as follows:

	2016 HK$'000	2015 HK$'000
Profit before taxation	**1,792,949**	1,363,376
Tax at the domestic income tax rate of 16.5% (2015: 16.5%)	**295,837**	224,957
Tax effect of expenses not deductible in determining taxable profit	**59,369**	60,374
Tax effect of income not taxable in determining taxable profit	**(8,702)**	(3,879)
Tax effect of tax losses not recognized	**18,075**	24,690
Tax effect of utilization of tax losses/temporary difference previously not recognized	**(24,443)**	(9,235)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**158,202**	172,354
Effect of tax exemption and concessions for ATC under ATSE and ATS under PC and IHA granted by EDB	**(125,860)**	(47,929)
Effect of other tax concessions	**8,291**	4,713
Overprovision in prior years	**(20,525)**	(5,558)
Others	**(5,677)**	(10,025)
Tax charge for the year	**354,567**	410,462

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

13. INCOME TAX EXPENSE (Continued)

The Group continued to receive letters from the Hong Kong Inland Revenue Department (the "HKIRD") during the year ended 31 December 2016 seeking information relating to Hong Kong Profits Tax and other tax affairs of certain subsidiaries of the Company. The enquiries might lead to significant additional tax being charged on profits from some overseas subsidiaries in respect of source of income as concerned that have not previously been included in the scope of charge for Hong Kong Profits Tax or significant tax adjustments to companies currently subject to Hong Kong Profits Tax. As at 31 December 2016, the Group purchased tax reserve certificates amounting to HK$370,049,000 (2015: HK$346,029,000), as disclosed in note 27.

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.

14. PROFIT FOR THE YEAR

	2016	2015
	HK$'000	HK$'000
Profit for the year has been arrived at after charging (crediting):		
Minimum lease payments under operating leases		
– Land and buildings	**191,419**	186,846
– Motor vehicles and others	**14,969**	19,746
	206,388	206,592
Directors' remunerations *(note 15)*	**29,821**	34,156
Salaries, wages, bonus and other benefits	**3,564,372**	3,442,523
Pension costs, excluding directors	**222,170**	220,691
Share-based payments under the Scheme	**139,552**	161,081
Total staff costs	**3,955,915**	3,858,451
Auditors' remuneration		
– Deloitte Touche Tohmatsu network member firms	**12,499**	12,092
– Other auditors	**409**	693
	12,908	12,785
Depreciation for property, plant and equipment	**393,686**	377,212
Depreciation for investment property	**1,332**	1,422
Amortization for intangible assets		
– Included in selling and distribution expenses	**15,519**	15,508
– Included in cost of sales	**26,392**	24,819
Release of prepaid lease payments	**780**	822
Release of land license fee	**2,725**	–
	440,434	419,783
Gross rental income from investment property	**(343)**	–
Less: Direct operating expenses from investment property that generate rental income	**112**	–
	(231)	–
Government grants *(Note)*	**(39,801)**	(32,433)
Interest income on bank deposits	**(26,410)**	(6,210)

14. PROFIT FOR THE YEAR (Continued)

Note: Government grants for the year ended 31 December 2016 included amounts of HK$24,339,000 (2015: HK$24,746,000) and HK$3,902,000 (2015: nil) which are government subsidies received from local authorities in the PRC relating to import of high technology products and support for stabilizing employment.

15. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and CO, is as follows:

	Year ended 31 December 2016											
	Executive Director and chief executive *(Note a)*	Executive Directors *(Note a)*		Non-Executive Directors *(Note e)*			Independent Non-executive Directors *(Note f)*					
	Lee Wai Kwong HK$'000 *(Note b)*	Chow Chuen, James HK$'000	Robin Gerard Ng Cher Tat HK$'000	Charles Dean del Prado HK$'000	Petrus Antonius Maria van Bommel HK$'000	Arthur H. del Prado HK$'000 *(Note c)*	Orasa Livasiri HK$'000	Lok Kam Chong, John HK$'000	Wong Hon Yee HK$'000	Tang Koon Hung, Eric HK$'000	Patrick Shuang Kung HK$'000 *(Note d)*	Total HK$'000
Fees	–	–	–	350	300	278	482	450	364	350	224	2,798
Other emoluments												
Salaries and other benefits	12,329	7,342	4,856	–	–	–	–	–	–	–	–	24,527
Contributions to retirement benefits schemes	85	240	156	–	–	–	–	–	–	–	–	481
Performance related incentive bonus payments *(Note g)*	1,053	600	362	–	–	–	–	–	–	–	–	2,015
Total emoluments	13,467	8,182	5,374	350	300	278	482	450	364	350	224	29,821

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

	Year ended 31 December 2015										
	Executive Director and chief executive *(Note a)*	Executive Directors *(Note a)*			Non-Executive Directors *(Note e)*		Independent Non-executive Directors *(Note f)*				
	Lee Wai Kwong HK$'000 *(Note b)*	Chow Chuen, James HK$'000	Robin Gerard Ng Cher Tat HK$'000	Arthur H. del Prado HK$'000 *(Note c)*	Charles Dean del Prado HK$'000	Petrus Antonius Maria van Bommel HK$'000	Orasa Livasiri HK$'000	Lok Kam Chong, John HK$'000	Wong Hon Yee HK$'000	Tang Koon Hung, Eric HK$'000	Total HK$'000
Fees	–	–	–	450	350	300	450	450	300	350	2,650
Other emoluments											
Salaries and other benefits	14,053	8,395	4,978	–	–	–	–	–	–	–	27,426
Contributions to retirement benefits schemes	71	342	131	–	–	–	–	–	–	–	544
Performance related incentive bonus payments *(Note g)*	1,733	1,200	603	–	–	–	–	–	–	–	3,536
Total emoluments	15,857	9,937	5,712	450	350	300	450	450	300	350	34,156

Notes:

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

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

(c) Mr. Arthur H. del Prado ceased to be an executive director and re-designated as a non-executive director of the Company on 9 May 2016. He passed away on 9 September 2016.

(d) Mr. Patrick Shuang Kung was appointed as an independent executive director of the Company on 11 May 2016.

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

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

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

During the year ended 31 December 2016, 226,700 (2015: 221,700) Award Shares (as defined in note 34) were granted to certain executive directors in respect of their services to the Group under the Scheme. The fair value of these shares granted during the year amounting to HK$14,112,000 (2015: HK$17,536,000) was determined with reference to the market value of the shares at the grant date, was included in salaries and other benefits above. The market value for these Award Shares as at their vesting date was amounted to HK$17,207,000 (2015: HK$12,659,000), which was calculated with reference to the closest trading price of the Company's share of HK$75.9 (2015: HK$57.1) per share. For details regarding the Award Shares, please refer to note 34.

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

16. FIVE HIGHEST PAID EMPLOYEES

During the year ended 31 December 2016, the five highest paid employees of the Group included three (2015: three) directors, details of whose emoluments are set out in note 15. The emoluments of the remaining two (2015: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2016 **HK$'000**	2015 HK$'000
Salaries and other benefits	**9,341**	9,715
Contributions to retirement benefits schemes	**584**	468
Performance related incentive bonus payments	**1,016**	1,577
	10,941	11,760

For the year ended 31 December 2016, 60,000 shares (2015: 60,000 shares) of the Company were granted and vested to the two (2015: two) relevant highest paid employees in respect of their services to the Group under the Scheme. Details of the Scheme are set out in note 34 to the Group's consolidated financial statements. The fair value of these shares amounting to HK$3,735,000 (2015: HK$4,707,000) at the grant date was included in salaries and other benefits above for the year ended 31 December 2016.

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	Number of employees	
	2016	2015
HK$4,500,001 to HK$5,000,000	**1**	–
HK$5,000,001 to HK$5,500,000	**–**	1
HK$6,000,001 to HK$6,500,000	**1**	–
HK$6,500,001 to HK$7,000,000	**–**	1

17. DIVIDENDS

	2016 **HK$'000**	2015 HK$'000
Dividend recognized as distribution during the year		
Interim dividend for 2016 paid of HK$0.80 (2015: HK$1.00) per share on 406,104,633 (2015: 402,518,700) shares	**324,884**	402,519
Final dividend for 2015 paid of HK$0.40 (2015: final dividend paid for 2014 of HK$1.30) per share on 404,529,500 (2015: 402,518,700) shares	**161,812**	523,274
	486,696	925,793

17. DIVIDENDS (Continued)

Subsequent to the end of the reporting period, a final dividend of HK$1.10 (2015: final dividend of HK$0.40) per share in respect of the year ended 31 December 2016 has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

	2016 HK$'000	2015 HK$'000
Dividend proposed subsequent to the end of the reporting period		
Proposed final dividend for 2016 of HK$1.10 (2015: HK$0.40) per share on 408,243,733 (2015: 404,529,500) shares	**449,068**	161,812

18. 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:

	2016 HK$'000	2015 HK$'000
Earnings for the purposes of basic and diluted earnings per share (Profit for the year attributable to owners of the Company)	**1,463,864**	956,191

	Number of shares (in thousands)	
Weighted average number of ordinary shares for the purpose of basic earnings per share	**405,357**	402,492
Effect of dilutive potential shares from the Scheme	**1,837**	1,646
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**407,194**	404,138

Note: The computation of diluted earnings per share for both years did not assume the conversion of the Company's outstanding convertible bonds because the assumed conversion would result in an increase in earnings per share.

19. PROPERTY, PLANT AND EQUIPMENT

	Freehold land outside Hong Kong HK$'000	Buildings outside Hong Kong HK$'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 2015	16,230	840,687	647,736	3,582,131	52,972	20,540	5,160,296
Currency realignment	(172)	(50,076)	(8,817)	(135,599)	(1,307)	9	(195,962)
Acquisition of business *(note 38)*	–	–	8,501	76,970	–	–	85,471
Additions	–	–	61,514	245,214	5,368	233,599	545,695
Disposals	–	–	(382)	(52,440)	(1,335)	–	(54,157)
Write-off	–	–	(6,605)	(44,082)	(1,409)	–	(52,096)
Transfer	–	3,444	–	–	–	(3,444)	–
At 31 December 2015	16,058	794,055	701,947	3,672,194	54,289	250,704	5,489,247
Currency realignment	(519)	(32,019)	(8,718)	(73,749)	(1,621)	174	(116,452)
Additions	–	666	65,921	289,533	6,668	53,903	416,691
Disposals	–	–	(130)	(113,241)	(30)	–	(113,401)
Write-off	–	(1,764)	(3,702)	(16,227)	(901)	–	(22,594)
Transfer	–	304,781	–	–	–	(304,781)	–
At 31 December 2016	15,539	1,065,719	755,318	3,758,510	58,405	–	5,653,491
DEPRECIATION AND IMPAIRMENT							
At 1 January 2015	–	248,887	481,639	2,326,905	29,376	–	3,086,807
Currency realignment	–	(11,662)	(6,601)	(77,377)	(815)	–	(96,455)
Provided for the year	–	26,204	63,850	278,737	8,421	–	377,212
Eliminated on disposals	–	–	(382)	(43,553)	(675)	–	(44,610)
Eliminated on write-off	–	–	(6,570)	(44,049)	(1,249)	–	(51,868)
At 31 December 2015	–	263,429	531,936	2,440,663	35,058	–	3,271,086
Currency realignment	–	(3,741)	(6,156)	(42,892)	(721)	–	(53,510)
Provided for the year	–	34,197	61,579	289,591	8,319	–	393,686
Eliminated on disposals	–	–	(130)	(96,296)	(25)	–	(96,451)
Eliminated on write-off	–	(922)	(3,500)	(14,178)	(685)	–	(19,285)
At 31 December 2016	–	292,963	583,729	2,576,888	41,946	–	3,495,526
CARRYING VALUES							
At 31 December 2016	15,539	772,756	171,589	1,181,622	16,459	–	2,157,965
At 31 December 2015	16,058	530,626	170,011	1,231,531	19,231	250,704	2,218,161

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For the year ended 31 December 2016

19. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

Buildings	2% 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%

As at 31 December 2015 and 2016, 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.

20. INVESTMENT PROPERTY

	HK$'000
COST	
At 1 January 2015	72,996
Currency realignment	(4,261)
At 31 December 2015	68,735
Currency realignment	(4,359)
At 31 December 2016	64,376
DEPRECIATION	
At 1 January 2015	4,529
Currency realignment	(264)
Provided for the year	1,422
At 31 December 2015	5,687
Currency realignment	(361)
Provided for the year	1,332
At 31 December 2016	6,658
CARRYING VALUES	
At 31 December 2016	57,718
At 31 December 2015	63,048

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.

20. INVESTMENT PROPERTY (Continued)

The fair value of the Group's investment property at 31 December 2016 was HK$93,345,000 (2015: HK$99,069,000). The fair value has been arrived at based on a valuation carried out by DTZ Cushman & Wakefield Limited, an independent firm of qualified professional valuers not connected with the Group with appropriate qualifications and recent experiences in the valuation of similar properties in the relevant location. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. There has been no change from the valuation technique used in the prior year.

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

	Level 3 HK$'000	**Fair value as at 31.12.2016 HK$'000**
Research and development center located in the PRC	**93,345**	**93,345**

	Level 3 HK$'000	Fair value as at 31.12.2015 HK$'000
Research and development center located in the PRC	99,069	99,069

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

21. GOODWILL

	HK$'000
COST	
At 1 January 2015	405,652
Arising on acquisition of business *(note 38)*	22,426
Currency realignment	(324)
At 31 December 2015	427,754
Currency realignment	298
At 31 December 2016	428,052
IMPAIRMENT	
At 1 January 2015, 31 December 2015 and 31 December 2016	–
CARRYING VALUE	
At 31 December 2016	428,052
At 31 December 2015	427,754

Particulars regarding impairment testing on goodwill are disclosed in note 23.

22. INTANGIBLE ASSETS

	Trade name HK$'000	Technology HK$'000	Customer bases HK$'000	Licenses and similar rights HK$'000	Total HK$'000
COST					
At 1 January 2015	244,792	177,700	217,257	41,070	680,819
Currency realignment	(196)	(137)	(174)	(4,257)	(4,764)
Additions	–	–	–	18,889	18,889
Write-off	–	–	–	(13)	(13)
At 31 December 2015	244,596	177,563	217,083	55,689	694,931
Currency realignment	170	119	151	(2,126)	(1,686)
Additions	–	–	–	8,681	8,681
At 31 December 2016	244,766	177,682	217,234	62,244	701,926
AMORTIZATION					
At 1 January 2015	–	9,742	7,757	35,982	53,481
Currency realignment	–	(7)	(6)	(3,739)	(3,752)
Charge for the year	–	18,406	15,508	6,413	40,327
Eliminated on write-off	–	–	–	(13)	(13)
At 31 December 2015	–	28,141	23,259	38,643	90,043
Currency realignment	–	18	16	(1,590)	(1,556)
Charge for the year	–	18,418	15,519	7,974	41,911
At 31 December 2016	–	46,577	38,794	45,027	130,398
CARRYING VALUES					
At 31 December 2016	244,766	131,105	178,440	17,217	571,528
At 31 December 2015	244,596	149,422	193,824	17,046	604,888

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

The trade name is with indefinite useful life and the other intangible assets are amortized on a straight-line basis at below rates per annum:

Technology	10%
Customer bases	7%
Licenses and similar rights	20% to $33\frac{1}{3}$%

23. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSET WITH INDEFINITE USEFUL LIVES

For the purposes of impairment testing, goodwill and trade name with indefinite useful lives set out in notes 21 and 22, respectively, have been allocated to group of cash generating units ("CGUs"), comprising certain subsidiaries in the surface mount technology solutions and materials segments. The carrying amounts of goodwill and trade name as at 31 December 2016 and 2015 allocated to these groups of CGUs are as follows:

	Goodwill		Trade name	
	2016	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000
SMT Solutions Business *(Note)*	**405,610**	405,328	**244,766**	244,596
Materials – MIS Business *(as defined in note 38)*	**22,442**	22,426	**–**	–

Note: Due to the convergence of business operations of surface mount technology ("SMT") Placement Business and SMT Printing Business during the year ended 31 December 2016, now jointly described as "SMT Solutions Business", the lowest level at which the goodwill and the return on investment is monitored, the Group performed the goodwill impairment test at SMT Solutions Business for the year ended 31 December 2016.

During the year ended 31 December 2016 and 2015, management of the Group determines that there are no impairments of its CGUs containing goodwill or trade name with indefinite useful lives.

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

SMT Solutions Business

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the directors covering a five-year period, and discount rate of 16% (2015: 17%). The valuation of the recoverable amount is based on a valuation carried out by an independent professional valuer not connected with the Group with appropriate qualification. The cash flows beyond the five-year period are extrapolated using a steady 2.5% (2015: 2.5%) growth rate. This growth rate is based on the economic outlook and relevant industry growth forecasts. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of SMT Solutions Business (2015: SMT Printing Business) to exceed the aggregate recoverable amount of SMT Solutions Business (2015: SMT Printing Business).

23. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSET WITH INDEFINITE USEFUL LIVES (Continued)

MIS Business

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the directors covering a five-year period, and discount rate of 15% (2015: 15%). The cash flows beyond the five-year period are extrapolated using a steady 3% (2015: 3%) growth rate. This growth rate is based on the relevant industry growth forecasts. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of MIS Business to exceed the aggregate recoverable amount of MIS Business.

24. PREPAID LEASE PAYMENTS

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

Analyzed for reporting purposes as:

	2016 HK$'000	2015 HK$'000
Current	**780**	822
Non-current	**20,461**	22,573
	21,241	23,395

25. PLEDGED BANK DEPOSITS

The pledged bank deposits did not carry interest during the year ended 31 December 2016 and 2015.

26. INVENTORIES

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

	2016 HK$'000	2015 HK$'000
Raw materials	**958,278**	746,422
Work in progress	**2,315,347**	1,833,704
Finished goods	**980,916**	902,310
	4,254,541	3,482,436

27. TRADE AND OTHER RECEIVABLES

	2016 **HK$'000**	2015 HK$'000
Trade receivables *(Note a)*	**3,540,968**	3,628,676
Amount recoverable from Siemens AG *(Note b)*	**21,788**	18,796
Value added tax recoverable	**313,510**	180,234
Tax reserve certificate recoverable	**370,049**	346,029
Other receivables, deposits and prepayments	**219,509**	155,418
	4,465,824	4,329,153
Less: Non-current rental deposits paid shown under non-current assets	**(44,506)**	(24,755)
	4,421,318	4,304,398

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

	2016 **HK$'000**	2015 HK$'000
Not yet due	**2,749,780**	2,902,657
Overdue within 30 days	**348,160**	367,086
Overdue within 31 to 60 days	**153,323**	130,003
Overdue within 61 to 90 days	**125,749**	90,572
Overdue over 90 days	**163,956**	138,358
	3,540,968	3,628,676

Notes:

(a) The amount included notes receivables amounting to HK$410,358,000 (2015: HK$841,173,000).

(b) Pursuant to the Master Sale and Purchase Agreement of the acquisition entered into between Siemens Aktiengesellschaft ("Siemens AG") and the Company, Siemens AG undertakes to pay to the Group such amount as is necessary to indemnify 13 former direct and indirect subsidiaries of Siemens AG ("ASM AS Entities") 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 notes from tax authorities. The balance is expected to be settled in 2017.

27. TRADE AND OTHER RECEIVABLES (Continued)

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 totaling HK$791,188,000 (2015: HK$726,019,000) 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.

28. DERIVATIVE FINANCIAL INSTRUMENTS

	2016		2015	
	Assets HK$'000	**Liabilities HK$'000**	Assets HK$'000	Liabilities HK$'000
Foreign currency forward contracts	**1,113**	**24,664**	2,108	9,057

The foreign currency forward contracts were mainly related to the purchase of Euros and the sale of US dollar at contract rates ranging from US$1.0511 to US$1.1437 (2015: US$1.0650 to US$1.1324) per one Euro with future maturity dates ranging from 25 January 2017 to 20 December 2017 (2015: 21 January 2016 to 23 November 2016) at an aggregate notional amount of US$90,500,000, equivalent to approximately HK$701,882,000 (2015: US$65,300,000, equivalent to approximately HK$506,088,000).

29. BANK DEPOSITS WITH ORIGINAL MATURITY OF MORE THAN THREE MONTHS AND BANK BALANCES AND CASH

Bank balances, current and fixed deposits carry interest at market rates which ranges from 0% to 8.8% (2015: 0% to 6.4%) per annum during the year ended 31 December 2016 and 2015.

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For the year ended 31 December 2016

30. TRADE AND OTHER PAYABLES

	2016 HK$'000	2015 HK$'000
Trade payables	**1,686,043**	954,419
Amount due to a subsidiary of a shareholder *(Note a)*	**–**	9
Deferred revenue	**134,534**	129,889
Accrued salaries and wages	**235,958**	227,643
Other accrued charges	**510,353**	402,418
Deposits received from customers	**282,380**	324,865
Accrual for tax-related expense *(Note b)*	**168,400**	168,400
Payables arising from acquisition of property, plant and equipment	**111,092**	102,513
Other payables	**171,910**	117,395
	3,300,670	2,427,551
Less: Non-current other liabilities and accruals	**(34,697)**	(37,753)
	3,265,973	2,389,798

Notes:

(a) Balance represented amount due to a subsidiary of a shareholder of the Company, ASM International N.V., which was not yet due, unsecured, non-interest bearing and repayable according to normal trade terms. The amount was settled during the year ended 31 December 2016.

(b) As detailed in note 13, the Group continued to receive letters from the HKIRD during the year ended 31 December 2016 seeking information relating to Hong Kong Profits Tax and other tax affairs of certain subsidiaries of the Company. The enquires might lead to additional tax-related expenses and accrual has been provided accordingly.

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

	2016 HK$'000	2015 HK$'000
Not yet due	**1,192,941**	674,109
Overdue within 30 days	**274,202**	155,052
Overdue within 31 to 60 days	**123,046**	60,314
Overdue within 61 to 90 days	**57,856**	34,303
Overdue over 90 days	**37,998**	30,641
	1,686,043	954,419

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

31. PROVISIONS

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

	2016 HK$'000	2015 HK$'000
Current	**272,513**	280,733
Non-current	**46,349**	65,459
	318,862	346,192

The Group's provisions mainly comprise warranty provision of HK$276,402,000 (2015: HK$333,292,000) and restructuring provision of HK$28,550,000 (2015: HK$3,242,000). The movement of the warranty provision and restructuring provision are as follows:

	Warranty provision HK$'000	**Restructuring provision HK$'000**
At 1 January 2015	393,352	4,970
Currency realignment	(27,599)	(290)
Additions	227,338	49,758
Utilization	(259,799)	(51,196)
At 31 December 2015	333,292	3,242
Currency realignment	(11,075)	(2,632)
Additions	229,358	97,899
Utilization	(275,173)	(69,959)
At 31 December 2016	276,402	28,550

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

See note 11 for details of the restructuring provision for the year.

32. BANK BORROWINGS

	2016 **HK$'000**	2015 HK$'000
Carrying amount repayable:		
Within one year	**116,334**	37,459
More than one year, but not exceeding two years	**77,556**	81,377
More than two years, but not more than five years	**–**	60,064
	193,890	178,900
Less: Amounts due within one year shown under current liabilities	**(116,334)**	(37,459)
Amounts shown under non-current liabilities	**77,556**	141,441

At 31 December 2016, all bank borrowings bear interest at LIBOR plus a margin per annum, at a weighted average effective interest rate of 2.058% (2015: 1.646%) per annum.

33. SHARE CAPITAL OF THE COMPANY

	Number of shares		**Share capital**	
	2016 **'000**	2015 '000	**2016** **HK$'000**	2015 HK$'000
Issued and fully paid:				
At 1 January	**404,529**	402,518	**40,453**	40,252
Shares issued upon conversion of convertible bonds on 20 May 2016	**1,576**	–	**157**	–
Shares issued under the Scheme	**2,139**	2,011	**214**	201
At 31 December	**408,244**	404,529	**40,824**	40,453

The authorized share capital of the Company is HK$50 million, comprising 500 million shares of HK$0.10 each, at 31 December 2016 and 2015.

During the year, 2,139,100 (2015: 2,010,800) shares were issued at par to eligible employees and members of management under the Scheme.

34. EMPLOYEE SHARE INCENTIVE SCHEME

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

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

On 28 March 2012 (the "Adoption Date"), and by virtue of the Scheme, a Share Award Scheme (the "Share Award Scheme") was adopted by the Company to establish a trust to purchase shares of the Company for the benefit of employees and the directors of the Company and its subsidiaries under the Scheme ("Award Shares"). The Share Award Scheme is valid and effective for a period of 8 years commencing from the Adoption Date. Pursuant to the rules of the Share Award Scheme, the Company has appointed a trustee, Law Debenture Trust (Asia) Limited ("Trustee"), to administer the Share Award Scheme and to purchase and hold the Award Shares during the defined qualification period.

On 26 March 2015 and 15 June 2015, and pursuant to the Scheme, the directors resolved to grant and the Company granted 2,093,100 shares and 266,700 shares in the Company, respectively, to certain employees and members of the management of the Group who shall remain employment within the Group upon expiration of the defined qualification period. Out of the aggregate 2,359,800 shares granted pursuant to the Scheme, 315,000 shares were allocated to be purchased by the Trustee under the Share Award Scheme as Award Shares. The vesting period of such grant, that is, the qualification period, was from 26 March 2015 to 15 December 2015 and 15 June 2015 to 15 December 2015, respectively.

On 15 December 2015, out of the aggregate 2,359,800 shares granted on 26 March 2015 and 15 June 2015 pursuant to the Scheme, 2,010,800 shares were issued and 34,000 shares were forfeited and unallocated by the Company. 315,000 Award Shares also vested on the same date.

On 21 March 2016, the directors resolved to grant and the Company granted 2,501,100 shares in the Company to certain employees and members of the management of the Group who shall remain employment within the Group upon expiration of the defined qualification period. Out of the 2,501,100 shares granted pursuant to the Scheme, 332,400 shares were allocated to be purchased by the Trustee under the Share Award Scheme as Award Shares. The vesting period of such grant, that is, the qualification period, was from 21 March 2016 to 15 December 2016.

34. EMPLOYEE SHARE INCENTIVE SCHEME (Continued)

On 15 December 2016, out of the 2,501,100 shares granted on 21 March 2016 pursuant to the Scheme, 2,139,100 shares were issued and 29,600 shares were forfeited and unallocated by the Company. 329,400 Award Shares vested on the same date and the remaining 3,000 Award Shares were forfeited and unallocated by the Company and to be held for the benefit of future grantee.

The fair value of the shares granted pursuant to the Scheme in 2015 and 2016 was determined with reference to market value of the shares at the grant date taking into account the exclusion of the expected dividends as the employees are not entitled to receive dividends paid during the vesting period.

The Group recognized share-based payments amounting to HK$153,664,000 (2015: HK$178,617,000) for the year ended 31 December 2016 in relation to the shares granted pursuant to the Scheme in 2016 by the Company, such an amount being determined by the fair value of the shares granted at the grant date.

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

	Number of Shares '000
Outstanding as at 1 January 2015	–
Shares granted on 26 March 2015	2,093
Shares granted on 15 June 2015	267
Allocated as Award Shares on 26 March 2015 *(Note)*	(93)
Allocated as Award Shares on 15 June 2015 *(Note)*	(222)
Shares entitlement forfeited on 15 December 2015	(34)
Shares issued on 15 December 2015	(2,011)
Outstanding as at 31 December 2015 and 1 January 2016	–
Shares granted on 21 March 2016	2,501
Allocated as Award Shares on 21 March 2016 *(Note)*	(332)
Shares entitlement forfeited on 15 December 2016	(30)
Shares issued on 15 December 2016	(2,139)
Outstanding as at 31 December 2016	–

34. EMPLOYEE SHARE INCENTIVE SCHEME (Continued)

Note: Movement of Award Shares purchased is as follows:

	Number of shares purchased '000	**Cost of purchase** HK$'000
At 1 January 2015	–	–
Shares purchased from the market during the year	315	23,344
Award Shares vested	(315)	(23,344)
At 31 December 2015 and 1 January 2016	–	–
Shares purchased from the market during the year	332	21,992
Award Shares vested	(329)	(21,794)
At 31 December 2016	3	198

35. RETIREMENT BENEFIT PLANS

Defined contribution plans

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

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

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

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the MPF Scheme subject only to the maximum level of payroll costs of HK$30,000 per employee, 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$193,326,000 (2015: HK$189,122,000) represents contributions paid or payable to the plans by the Group at rates specified in the rules of the plans. For the year ended 31 December 2016 and 2015, there were no forfeitures arising from employees leaving the Group prior to completion of qualifying service period.

At 31 December 2016 and 2015, there were no forfeited contributions which arose upon employees leaving the retirement plans and which are available to reduce the contributions payable in the future years.

35. RETIREMENT BENEFIT PLANS (Continued)

Defined benefit plans

Certain ASM AS Entities operate funded defined benefits pension scheme for all their qualified employees.

Pension benefits provided by ASM AS Entities are currently organized 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.

The plan of ASM AS Entities exposes the Group to actuarial risks such as investment risk, interest rate risk and longevity risk.

Investment risk	The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in equity securities and debt instruments. Due to the long-term nature of the plan liabilities, the board of the pension fund considers it appropriate that a reasonable portion of the plan assets should be invested in equity securities to leverage the return generated by the fund.
Interest rate risk	A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

Defined benefit plans determine the entitlements of their beneficiaries. An employee's final benefit entitlement at regular retirement age may be higher than the fixed benefits at the reporting date due to future compensation or benefit increases. The net present value of this ultimate future benefit entitlement for service already rendered is represented by the Defined Benefit Obligation ("DBO"), which is calculated with consideration of future compensation increases by actuaries. The DBO is calculated based on the projected unit credit method and reflects the net present value as of the reporting date of the accumulated pension entitlements of active employees, former employees with vested rights and of retirees and their surviving dependents with consideration of future compensation and pension increases. The most recent actuarial valuation of the DBO plan in Germany was carried out at 31 December 2016 by independent qualified actuaries, Aon Hewitt GmbH, a member of the International Actuarial Association.

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

35. RETIREMENT BENEFIT PLANS (Continued)

Defined benefit plans (Continued)

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

	31 December 2016	2015
Discount rate	**1.90%**	2.40%
Average longevity at retirement age	**63 years**	63 years
Expected rate of compensation increase	**2.25%**	2.25%
Expected rate of pension progression	**1.50%**	1.50%

The amount included in the consolidated statement of financial position arising from the Group's obligation in respect of its defined benefit plans comprise:

	2016 HK$'000	2015 HK$'000
Principal pension benefit plans *(Note a)*	**137,158**	103,817
Other post-employment benefit plans *(Note b)*	**18,211**	17,652
Other retirement benefit obligations *(Note c)*	**5,880**	6,364
	161,249	127,833

Notes:

(a) Principal pension benefit plans

A reconciliation of the funded status of the principal pension benefit plans to the amount recognized in the consolidated statement of financial position at 31 December 2016 and 2015 are as follows:

	2016 HK$'000	2015 HK$'000
Fair value of plan assets	**351,077**	336,208
Total present value of DBO		
Defined benefit obligation (funded)	**(483,288)**	(435,600)
Defined benefit obligation (unfunded)	**(4,947)**	(4,425)
Net liability arising from defined benefit obligation	**(137,158)**	(103,817)

The actuarial valuation showed that market value of the plan assets was HK$351,077,000 (2015: HK$336,208,000) and that the actuarial value of these represented 72% (2015: 76%) of the benefits that had accrued to members.

35. RETIREMENT BENEFIT PLANS (Continued)

Defined benefit plans (Continued)

Notes: (Continued)

(a) Principal pension benefit plans (Continued)

The following table shows the movements in the present value of the plan assets for the years ended:

	2016 **HK$'000**	2015 HK$'000
At 1 January	**336,208**	335,772
Currency realignment	**(10,458)**	(34,920)
Interest income	**8,197**	7,425
Return on plan assets (excluding amounts included in net interest expenses)	**(3,950)**	10,789
Benefits paid	**(70)**	–
Employer contribution	**21,150**	17,142
At 31 December	**351,077**	336,208

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

	2016 **HK$'000**	2015 HK$'000
Asset class		
Fixed income and corporate bonds	**199,412**	214,232
Equity securities	**100,759**	95,147
Cash and other assets	**50,906**	26,829
	351,077	336,208

The fair values of the above equity and debt instruments are determined based on quoted market prices in active markets.

The actual return on defined benefit plan assets for the year ended 31 December 2016 was a net gain of HK$4,247,000 (2015: HK$18,214,000).

The movements in the present value of the DBO for the years ended are as follows:

	2016 **HK$'000**	2015 HK$'000
At 1 January	**440,025**	463,575
Currency realignment	**(13,929)**	(48,300)
Current service cost	**22,129**	22,172
Interest cost	**10,308**	10,045
Remeasurement losses (gains)		
Actuarial loss (gain) arising from changes in financial assumptions	**34,936**	(9,826)
Actuarial (gain) loss arising from experience adjustments	**(4,177)**	3,154
Actuarial losses arising from changes in demographic assumptions	**7**	18
Benefits paid	**(1,064)**	(813)
At 31 December	**488,235**	440,025

35. RETIREMENT BENEFIT PLANS (Continued)

Defined benefit plans (Continued)

Notes: (Continued)

(b) Other post-employment benefit plans

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

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

	2016 HK$'000	2015 HK$'000
Defined benefit obligation (unfunded)	**18,211**	17,652

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

	2016 HK$'000	2015 HK$'000
At 1 January	**17,652**	18,505
Currency realignment	**(549)**	(1,925)
Current service cost	**519**	535
Interest cost	**392**	387
Remeasurement losses (gains)		
Actuarial loss arising from changes in financial assumptions	**531**	–
Actuarial (gain) loss arising from experience adjustments	**(187)**	68
Actuarial loss arising from changes in demographic assumptions	**–**	82
Benefits paid	**(147)**	–
At 31 December	**18,211**	17,652

(c) Other retirement benefit obligations

As at 31 December 2016, the consolidated statement of financial position also includes liabilities for other retirement benefit obligations consisting of liabilities for severance payments in Italy and Austria and national pension fund in Korea and United Kingdom amounting to HK$5,880,000 (2015: HK$6,364,000).

35. RETIREMENT BENEFIT PLANS (Continued)

Defined benefit plans (Continued)

Significant actuarial assumptions for the determination of the defined obligation of the principal pension benefit plans and other post-employment benefit plans are discount rate and expected pension progression. The sensitivity analyzes below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate is 50 basis points higher (lower), the defined benefit obligation would decrease by HK$37,511,000 (increase by HK$43,502,000) (2015: decrease by HK$31,526,000 (increase by HK$36,568,000)).

- If the expected rate of pension progression increases (decreases) by 50 basis points, the defined benefit obligation would increase by HK$26,151,000 (decrease by HK$23,626,000) (2015: increase by HK$21,030,000 (decrease by HK$18,976,000)).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

Each year an Asset-Liability-Matching study is performed in which the consequences of the strategic investment policies are analyzed in terms of risk-and-return profiles. Investment and contribution policies are integrated within this study. Main strategic choices that are formulated in the actuarial and technical policy document of the fund is asset mix based on 30% equity instruments and 70% debt instruments.

There has been no change in the process used by the Group to manage its risks from prior periods.

The Group's subsidiaries fund the service costs expected to be earned on a yearly basis.

The average duration of the benefit obligation at 31 December 2016 is 15.60 years (2015: 15.30 years).

The Group expects to make a contribution of HK$22,335,000 (2015: HK$21,829,000) to the defined benefit plans during the next financial year.

35. RETIREMENT BENEFIT PLANS (Continued)

Defined benefit plans (Continued)

Amount of remeasurement of defined benefit retirement plans, net of tax, recognized in other comprehensive (expense) income are as follows:

For the year ended 31 December 2016

	Principal pension benefit plans HK$'000	**Other post-employment benefit plans HK$'000**	**Other retirement benefit obligations HK$'000**	**Total HK$'000**
Remeasurement losses	**(34,716)**	**(344)**	**(25)**	**(35,085)**
Income tax effect	**11,353**	**113**	**(15)**	**11,451**
	(23,363)	**(231)**	**(40)**	**(23,634)**

For the year ended 31 December 2015

	Principal pension benefit plans HK$'000	Other post-employment benefit plans HK$'000	Other retirement benefit obligations HK$'000	Total HK$'000
Remeasurement gains (losses)	17,443	(150)	31	17,324
Income tax effect	(5,722)	49	38	(5,635)
	11,721	(101)	69	11,689

35. RETIREMENT BENEFIT PLANS (Continued)

Defined benefit plans (Continued)

Amounts recognized in profit or loss and other comprehensive income in respect of these defined benefit plans are as follows:

For the year ended 31 December 2016

	Principal pension benefit plans HK$'000	Other post-employment benefit plans HK$'000	Total HK$'000
Service cost:			
Current service cost	22,129	519	22,648
Net interest expense	2,111	392	2,503
Components of defined benefit costs recognized in profit or loss	24,240	911	25,151
Remeasurement losses (gains):			
Loss on plan assets (excluding amounts included in net interest expense)	3,950	–	3,950
Actuarial losses arising from changes in financial assumptions	34,936	531	35,467
Actuarial gains arising from experience adjustments	(4,177)	(187)	(4,364)
Actuarial losses arising from changes in demographic assumptions	7	–	7
Components of defined benefit costs recognized in other comprehensive expense	34,716	344	35,060
Total	58,956	1,255	60,211

35. RETIREMENT BENEFIT PLANS (Continued)

Defined benefit plans (Continued)

For the year ended 31 December 2015

	Principal pension benefit plans HK$'000	Other post-employment benefit plans HK$'000	Total HK$'000
Service cost:			
Current service cost	22,172	535	22,707
Net interest expense	2,620	387	3,007
Components of defined benefit costs recognized in profit or loss	24,792	922	25,714
Remeasurement (gains) losses:			
Return on plan assets (excluding amounts included in net interest expense)	(10,789)	–	(10,789)
Actuarial gains arising from changes in financial assumptions	(9,826)	–	(9,826)
Actuarial losses arising from experience adjustments	3,154	68	3,222
Actuarial losses arising from changes in demographic assumptions	18	82	100
Components of defined benefit costs recognized in other comprehensive (income) expense	(17,443)	150	(17,293)
Total	7,349	1,072	8,421

Service cost and net interest expense for pension are allocated among functional costs (cost of sales, selling and distribution expenses, general and administrative expenses and research and development expenses).

The remeasurement of the net defined benefit liability is included in other comprehensive income.

36. DEFERRED TAXATION

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

	Depreciation/ amortization HK$'000 *(Note a)*	Tax losses HK$'000	Retirement benefit obligations HK$'000 *(Note b)*	Inventories HK$'000 *(Note c)*	Trade receivables HK$'000 *(Note c)*	Provisions HK$'000 *(Note b)*	Others HK$'000	Total HK$'000
At 1 January 2015	(43,144)	30,552	70,794	104,851	2,955	42,477	13,093	221,578
(Charge) credit to profit or loss for the year	(14,483)	14,677	13,169	18,316	8,161	7,370	(19,772)	27,438
Charge to other comprehensive income for the year	–	–	(5,635)	–	–	–	–	(5,635)
Currency realignment	2,325	(7,993)	(7,291)	(1,091)	(83)	(2,421)	1,397	(15,157)
At 31 December 2015	(55,302)	37,236	71,037	122,076	11,033	47,426	(5,282)	228,224
Credit (charge) to profit or loss for the year	8,613	(16,105)	8,936	13,829	(1,989)	(4,405)	10,386	19,265
Credit to other comprehensive income for the year	–	–	11,451	–	–	–	–	11,451
Currency realignment	(423)	24	(2,245)	(1,673)	(520)	(2,306)	(507)	(7,650)
At 31 December 2016	(47,112)	21,155	89,179	134,232	8,524	40,715	4,597	251,290

Notes:

(a) The deferred tax arose from the temporary difference between the carrying amounts of intangible assets, property, plant and equipment and their tax base.

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

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

36. DEFERRED TAXATION (Continued)

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2016 HK$'000	2015 HK$'000
Deferred tax assets	**307,015**	289,846
Deferred tax liabilities	**(55,725)**	(61,622)
	251,290	228,224

At 31 December 2016, the Group had unused tax losses of HK$367,464,000 (2015: HK$486,626,000), subject to the approval by the relevant tax authorities, available to offset future taxable profits. At 31 December 2016, a deferred tax asset amounting to HK$21,155,000 (2015: HK$37,236,000) was recognized for tax losses amounting to HK$88,028,000 (2015: HK$176,339,000) and no deferred tax was recognized in respect of the remaining tax losses of HK$279,436,000 (2015: HK$310,287,000) due to the unpredictability of future profit streams. At 31 December 2016, included in the unrecognized tax losses are losses of HK$59,239,000 that would expire during 2020 to 2024 (2015: HK$126,879,000 that will expire during 2020 to 2022). Other losses may be carried forward indefinitely.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. For certain subsidiaries located in other jurisdictions, withholding tax is also imposed on dividend. Deferred taxation has not been provided in the consolidated financial statements in respect of temporary difference attributable to accumulated profits of these subsidiaries amounting to HK$3,215,223,000 (2015: HK$2,439,780,000) 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.

37. CONVERTIBLE BONDS

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

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

The Company will redeem the convertible bonds on the Maturity Date at their principal amount outstanding together with accrued and unpaid interest thereon.

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

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

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

The Company would, at the option ("Put Option") of the bond holder, redeem all or some of that convertible bonds on 28 March 2017 (the "Put Option Date") at their principal amount together with interest accrued to such date but unpaid. To exercise such option, the bond holder should serve notice of redemption to the Company not earlier than 60 days and not later than 30 days prior to the Put Option Date. As the Company did not have an unconditional right to defer settlement of the convertible bonds in more than twelve months from the end of December 2016, the entire balance of liability component of the convertible bonds was classified as current liabilities as at 31 December 2016. The Company did not receive any notice of redemption up to date of report and the Put Option was lapsed accordingly.

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

37. CONVERTIBLE BONDS (Continued)

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

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

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

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

None of the convertible bonds was redeemed or converted during the year ended 31 December 2015.

On 20 May 2016, convertible bonds with principal amount of HK$150,000,000 were converted into the Company's shares at the prevailing adjusted conversion price of HK$95.23 per share. As a result, a total number of 1,575,133 shares of the Company were issued and credited as fully paid and the relevant portion of convertible bonds equity reserve of HK$16,683,000 was transferred to share premium.

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

	Liability component HK$'000	Equity component HK$'000	Total HK$'000
At 1 January 2015	2,176,894	266,932	2,443,826
Interest charge during the year *(note 12)*	148,571	–	148,571
Interest paid	(48,000)	–	(48,000)
At 31 December 2015 and 1 January 2016	2,277,465	266,932	2,544,397
Conversion of convertible bonds	(144,537)	(16,683)	(161,220)
Interest charge during the year *(note 12)*	150,364	–	150,364
Interest paid	(46,500)	–	(46,500)
At 31 December 2016	2,236,792	250,249	2,487,041

37. CONVERTIBLE BONDS (Continued)

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

	2016 **HK$'000**	2015 HK$'000
Current liabilities		
Interest payable on convertible bonds (included in trade and other payables)	**11,897**	12,690
Convertible bonds	**2,224,895**	–
Non-current liabilities		
Convertible bonds	**–**	2,264,775
	2,236,792	2,277,465

38. ACQUISITION OF BUSINESS

Acquisition of molded interconnect substrates business ("MIS Business") in 2015

On 9 October 2015, the Group entered into a purchase agreement to acquire 61% interest in the MIS Business from Interconnect Tech Pte Ltd., a Singapore-based company, at a consideration of US$7,102,000 (equivalent to approximately HK$55,041,000) ("MIS Acquisition"). The MIS Acquisition was completed during the year and had been accounted for using the acquisition method.

Acquisition-related costs amounting to HK$86,000 had been excluded from the cost of MIS Acquisition and had been recognized directly as an expense in the period and included in the "general and administrative expenses" line item in the consolidated statement of profit or loss.

Assets acquired and liabilities recognized at the date of acquisition were as follows:

	HK$'000
Property, plant and equipment	85,471
Inventories	1,322
Trade and other receivables	4,536
Trade and other payables	(25,972)
	65,357

38. ACQUISITION OF BUSINESS (Continued)

Acquisition of molded interconnect substrates business ("MIS Business") in 2015 (Continued)

	HK$'000
Net cash outflow arising on acquisition:	
Consideration paid in cash	55,041

	HK$'000
Goodwill arising on acquisition:	
Consideration transferred	55,041
Plus: non-controlling interests	32,742
Less: fair value of identified net assets acquired	(65,357)
	22,426

The non-controlling interests (39%) recognized at the acquisition date was measured by reference to the fair value of the non-controlling interests and amounted to HK$32,742,000. This fair value was estimated by applying an income approach. The key model inputs used in determining the fair value were assumed discount rate of 15% and assumed long-term sustainable growth rate of 3%.

The receivables acquired (which principally comprised trade receivables) in this acquisition with a fair value of HK$3,108,000, which was the same as the related gross contractual amount.

Goodwill arose in MIS Acquisition because of the cost of the combination include a control premium. In addition, the consideration paid for the combination effectively included amount in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of MIS Business. These benefits were not recognized separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

The goodwill arising from this acquisition was not expected to be deductible for tax purposes.

Impact of acquisitions on the results of the Group

Included in the profit for the year ended 31 December 2015 was loss of HK$8,402,000 attributable to MIS Business. Revenue for the year ended 31 December 2015 included HK$4,116,000 attributable to MIS Business.

Had the acquisition of MIS Business been completed at the beginning of the year ended 31 December 2015, the total amount of revenue of the Group for the year ended 31 December 2015 would have been HK$13,014,112,000 and the amount of the profit for the year would have been HK$900,279,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the year ended 31 December 2015, nor is it intended to be a projection of future results.

39. CONTINGENT LIABILITIES

(a) As at 31 December 2016, the Group has provided guarantees amounting to HK$2,445,000 (2015: HK$2,189,000) to the Singapore government for work permits of foreign workers in Singapore.

(b) As at 31 December 2016, a subsidiary of the Group was involved in a litigation with a third party for which the High Court ruled in favor of the third party. Subsequent to year end, the subsidiary filed an appeal to the Court of Appeal against the judgment of the High Court. Both parties have agreed that the hearing on costs of the High Court suit be adjourned and the assessment of damages or an account of profits be held in abeyance, pending the outcome of the appeal to the Court of Appeal.

The directors of the Company have sought their legal counsels' advice and are of the opinion that there is reasonable basis for appeal and defending the case. At the date of this report, the directors of the Company are unable to reliably estimate the costs for legal settlement. Accordingly, no provision has been made in the consolidated financial statements.

40. CAPITAL COMMITMENTS

	2016	2015
	HK$'000	HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**108,914**	130,705

41. OPERATING LEASE COMMITMENTS

The Group as lessee

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

	2016			2015		
	Land and buildings HK$'000	**Motor vehicles and others HK$'000**	**Total HK$'000**	Land and buildings HK$'000	Motor vehicles and others HK$'000	Total HK$'000
Within one year	**167,421**	**11,937**	**179,358**	184,372	10,840	195,212
In the second to fifth years inclusive	**414,357**	**6,288**	**420,645**	209,967	9,222	219,189
Over five years	**626,566**	**–**	**626,566**	6,797	–	6,797
	1,208,344	**18,225**	**1,226,569**	401,136	20,062	421,198

Operating lease payments represent rentals payable by the Group for certain of its manufacturing plants, office properties, quarters and motor vehicles. Except for land leased from the Singapore Housing & Development Board for a period of 30 years (renewable upon expiry for a further term of 30 years), other leases are negotiated for an average term of two to fifteen years (2015: two to five years).

The Group as lessor

Operating leases relate to the investment property owned by the Group with lease terms of 10 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Rental income earned by the Group from its investment property for the year is set out in note 14.

At the end of the reporting period, the Group has future minimum lease income receivables under non-cancellable operating lease as follows:

	2016 HK$'000	2015 HK$'000
Within one year	**4,082**	–
In second to fifth years inclusive	**17,186**	–
Over five years	**26,484**	–
	47,752	–

42. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

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

	2016 HK$'000	2015 HK$'000
Short-term benefits	**30,500**	31,435
Post-employment benefits	**1,365**	1,358
Share-based payments	**23,020**	28,476
	54,885	61,269

Certain shares of the Company were issued to key management under the Scheme (see note 34 for details of the Scheme). The estimated fair value of such shares has been included in share-based payments for both years.

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

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the principal subsidiaries at 31 December 2016 and 2015 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued capital	Proportion of nominal value of issued ordinary share/ registered capital held by the Company		Principal activities
		Ordinary shares/ registered capital	Directly	Indirectly	
ASM Advanced Packaging Materials Pte. Ltd.	Singapore	US$10,832,840	–	61% *(Note a)*	Manufacturing of materials
ASM Assembly Equipment Bangkok Limited	Thailand	Baht7,000,000	–	100%	Marketing service
ASM Assembly Equipment (M) Sdn. Bhd.	Malaysia	MYR10,000	–	100%	Marketing service
ASM Assembly Systems GmbH & Co. KG	Germany	EUR20,200,000	–	100%	Manufacture and sale of surface mount technology equipment and trading of semiconductor equipment

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*
For the year ended 31 December 2016

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

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued capital	Proportion of nominal value of issued ordinary share/ registered capital held by the Company		Principal activities
		Ordinary shares/ registered capital	Directly	Indirectly	
ASM Assembly Systems, LLC	Delaware,United States	–	–	100%	Trading of surface mount technology equipment
先進裝配系統有限公司 (ASM Assembly Systems Ltd.)*	PRC	EUR5,400,000	–	100%	Trading of surface mount technology equipment
ASM Assembly Systems Singapore Pte. Ltd.	Singapore	S$33,000,001	–	100%	Manufacture and sale of surface mount technology equipment
ASM Assembly Systems Switzerland GmbH	Switzerland	CHF500,000	–	100%	Trading of surface mount technology equipment
ASM Assembly Systems Weymouth Limited	United Kingdom	GBP1,680,000 (2015: GBP41,680,000)	–	100%	Trading and manufacture of surface mount technology equipment
ASM Assembly Technology Co., Ltd.	Japan	JPY10,000,000	100%	–	Trading of semiconductor equipment
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	Hong Kong	HK$1,000,000	100%	–	Trading of semiconductor equipment and materials in Taiwan
ASM Pacific (Hong Kong) Limited	Hong Kong	HK$500,000	100%	–	Trading of semiconductor equipment, surface mount technology equipment and materials in Hong Kong and marketing service in Korea
先進半導體材料(深圳)有限公司 (ASM Materials China Limited)*	PRC	US$45,170,000	–	100%	Manufacture of semiconductor equipment and materials

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2016

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

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued capital	Proportion of nominal value of issued ordinary share/ registered capital held by the Company		Principal activities
		Ordinary shares/ registered capital	Directly	Indirectly	
ASM Technology Asia Limited	Hong Kong	HK$1,900,000,002 (2015: 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 and property investment
ASM Technology Hong Kong Limited	Hong Kong	HK$10,000,000	100%	–	Manufacture of semiconductor equipment and provision of research and development services
先進科技(惠州)有限公司 (ASM Technology (Huizhou) Co., Ltd.)*	PRC	US$108,606,872 (2015: US$107,737,691)	–	100%	Manufacture of semiconductor equipment and surface mount technology equipment
ASM Technology (M) Sdn. Bhd.	Malaysia	MYR74,000,000	100%	–	Manufacture of semiconductor equipment, materials and surface mount technology equipment
ASM Technology Singapore Pte Ltd.	Singapore	S$53,000,000	100%	–	Manufacture and sale of semiconductor equipment and materials
進峰貿易(深圳)有限公司 (Edgeward Trading (Shenzhen) Company Limited)*	PRC	US$300,000	–	100%	Trading of semiconductor equipment and materials
深圳先進微電子科技有限公司 (Shenzhen ASM Micro Electronic Technology Co., Ltd.)	PRC	HK$718,300,000 (2015: HK$712,500,000) *(Note b)*	–	100% *(Note b)*	Manufacture of semiconductor equipment and surface mount technology equipment

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

Notes:

(a) The entity was incorporated in September 2015 to acquire the MIS Business (see note 38).

(b) Under a joint venture agreement which was terminated in July 2016, the Group had committed to contribute 100% of the registered capital of HK$718,300,000 in 深圳先進微電子科技有限公司 (Shenzhen ASM Micro Electronic Technology Co., Ltd.) ("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 2015, the Group had paid up HK$712,500,000 as registered capital of MET. The Group had to bear the entire risk and liabilities of MET and had power over MET. Also, the Group was exposed and had rights, to variable returns from its involvement with MET. Other than amount of HK$5,555,000 attributable to the factory premises ("Assets") provided by the PRC joint venture partners for the period from January to July 2016 (for the period from January to December 2015: HK$10,192,000) which was included in the minimum lease payments, the Group was entitled to the entire profit or loss of MET. The commitment for the future payments as at 31 December 2015 was included in the operating lease commitments in note 41. Pursuant to the shareholders resolution passed on 10 March 2016, upon the approval by the government authority in the PRC, the Assets would be returned to the PRC joint venture partners and in return, the joint venture partners would transfer their respective shareholders' equity rights to the Group at nil consideration (the "Proposed Transfer"). On 12 July 2016, the Proposed Transfer was approved by the government authority. Effective from 13 July 2016, MET is a wholly foreign owned enterprise in the PRC. The Group has paid up HK$718,300,000 as registered capital of MET as at 31 December 2016.

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

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

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

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

44. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

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

	2016 HK$'000	2015 HK$'000
Non-current assets		
Unlisted investments in subsidiaries	**3,590,990**	1,483,929
Loans to subsidiaries	**483,589**	534,791
	4,074,579	2,018,720
Current assets		
Other receivables and prepayments	**15,662**	5,734
Amounts due from subsidiaries	**638,442**	4,164,460
Bank deposits with original maturity of more than three months	**655,089**	–
Bank balances and cash	**420,414**	418,616
	1,729,607	4,588,810
Current liabilities		
Other payables	**25,163**	19,271
Amounts due to subsidiaries	**421,588**	727,462
Convertible bonds	**2,224,895**	–
	2,671,646	746,733
Net current (liabilities) assets	**(942,039)**	3,842,077
	3,132,540	5,860,797
Capital and reserves		
Share capital *(see note 33)*	**40,824**	40,453
Reserves *(Note)*	**3,091,716**	3,555,569
	3,132,540	3,596,022
Non-current liabilities		
Convertible bonds	**–**	2,264,775
	3,132,540	5,860,797

44. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

(Continued)

Note: Movement in reserves

	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Shares held for share award scheme HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Convertible bonds equity reserve HK$'000	Retained profits HK$'000	Dividend reserve HK$'000	Total HK$'000
At 1 January 2015	1,074,976	–	–	155	56,143	266,932	1,802,256	523,274	3,723,736
Profit and total comprehensive income for the year	–	–	–	–	–	–	602,554	–	602,554
Sub-total	1,074,976	–	–	155	56,143	266,932	2,404,810	523,274	4,326,290
Recognition of equity-settled share-based payments	–	178,617	–	–	–	–	–	–	178,617
Purchase of shares under the Scheme	–	–	(23,344)	–	–	–	–	–	(23,344)
Shares vested under the Scheme	–	(24,674)	23,344	–	–	–	1,330	–	–
Shares issued under the Scheme	153,742	(153,943)	–	–	–	–	–	–	(201)
2014 final dividend paid	–	–	–	–	–	–	–	(523,274)	(523,274)
2015 interim dividend paid	–	–	–	–	–	–	(402,519)	–	(402,519)
2015 final dividend proposed	–	–	–	–	–	–	(161,812)	161,812	–
At 31 December 2015 and 1 January 2016	1,228,718	–	–	155	56,143	266,932	1,841,809	161,812	3,555,569
Loss and total comprehensive expense for the year	–	–	–	–	–	–	(252,995)	–	(252,995)
Sub-total	1,228,718	–	–	155	56,143	266,932	1,588,814	161,812	3,302,574
Conversion of convertible bonds	161,063	–	–	–	–	(16,683)	–	–	144,380
Recognition of equity-settled share-based payments	–	153,664	–	–	–	–	–	–	153,664
Purchase of shares under the Scheme	–	–	(21,992)	–	–	–	–	–	(21,992)
Shares vested under the Scheme	–	(20,505)	21,794	–	–	–	(1,289)	–	–
Shares issued under the Scheme	132,945	(133,159)	–	–	–	–	–	–	(214)
2015 final dividend paid	–	–	–	–	–	–	–	(161,812)	(161,812)
2016 interim dividend paid	–	–	–	–	–	–	(324,884)	–	(324,884)
2016 final dividend proposed	–	–	–	–	–	–	(449,068)	449,068	–
At 31 December 2016	1,522,726	–	(198)	155	56,143	250,249	813,573	449,068	3,091,716

FIVE-YEAR FINANCIAL SUMMARY

	For the year ended 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue	**14,249,093**	12,977,289	14,229,177	10,841,166	10,460,558
Profit before taxation	**1,792,949**	1,363,376	2,028,463	673,010	868,678
Income tax expense	**(354,567)**	(410,462)	(428,509)	(114,421)	(179,684)
Profit for the year	**1,438,382**	952,914	1,599,954	558,589	688,994
Loss attributable to non-controlling interests	**25,482**	3,277	–	–	–
Profit attributable to owners of the Company	**1,463,864**	956,191	1,599,954	558,589	688,994

	At 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and Liabilities					
Non-current assets	**3,721,076**	3,773,749	3,656,279	2,721,609	2,698,143
Current assets	**11,917,876**	10,093,894	10,839,979	8,018,860	7,525,837
Current liabilities	**(6,237,113)**	(3,132,775)	(3,758,619)	(3,303,270)	(3,351,939)
Net current assets	**5,680,763**	6,961,119	7,081,360	4,715,590	4,173,898
Non-current liabilities	**(375,576)**	(2,698,883)	(2,532,445)	(355,934)	(315,367)
Total equity	**9,026,263**	8,035,985	8,205,194	7,081,265	6,556,674
Non-controlling interests	**(4,056)**	(29,466)	–	–	–
Equity attributable to owners of the Company	**9,022,207**	8,006,519	8,205,194	7,081,265	6,556,674

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