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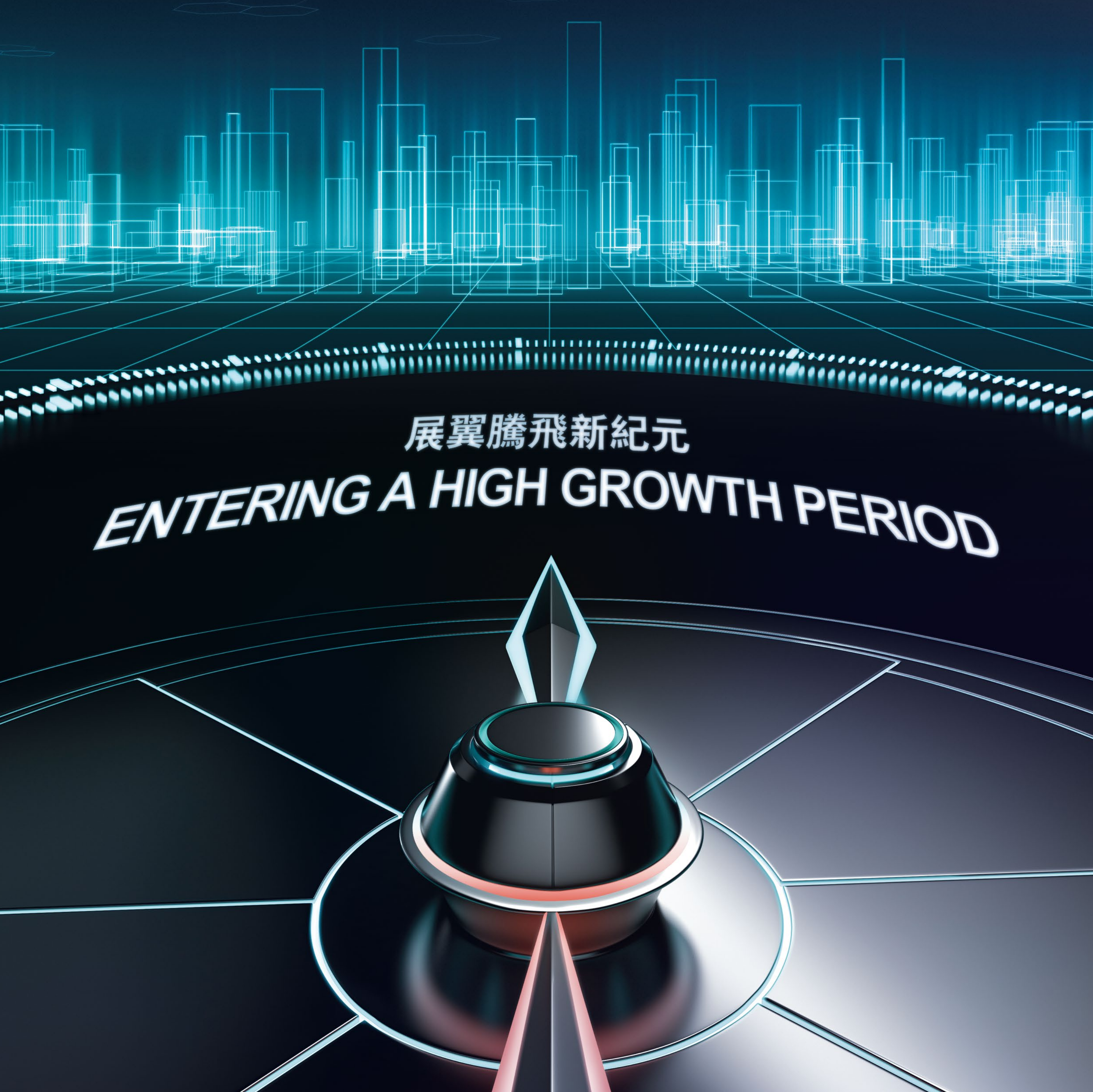
Interim Report 中期報告

2018

ASM Pacific Technology

(STOCK CODE 股份代號: 0522)

ASM Pacific Technology Limited



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CORPORATE INFORMATION

DIRECTORS

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

Non-Executive Directors:

Charles Dean del Prado
Petrus Antonius Maria van Bommel

Executive Directors:

Lee Wai Kwong
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So Sau Ming

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FINANCIAL HIGHLIGHTS

RECORD BOOKING OF US$1.48 BILLION RECEIVED

First Half of 2018

- Record Group revenue of US$1.23 billion, representing increases of 17.5% and 3.0% over the first and second six-month periods of last year, respectively

- Net profit of HK$1.40 billion, representing increases of 9.4% and 6.2% as compared with the first six-month periods of the last year (excluding a non-cash gain of HK$202.1 million arising from the adjustment of the liability component of convertible bonds last year) and the second six-month periods of the last year, respectively

- Earnings per share of HK$3.46 for the first half of 2018

- Record Back-end equipment revenue of US$645.3 million, representing increases of 14.4% and 20.1% over the first and second six-month periods of last year, respectively

- Record Materials revenue of US$151.0 million, representing increases of 12.1% and 8.7% over the first and second six-month periods of last year, respectively

- SMT Solutions revenue of US$431.0 million, representing an increase of 24.6% over the first six-month period of last year but a contraction of 16.4% over the second six-month periods of last year

- Record new order bookings of US$1.48 billion, representing increases of 16.7% and 38.4% over the first and second six-month periods of last year, respectively

- Record order backlog of US$808.9 million as of 30 June 2018

Second Quarter of 2018

- Record Group revenue of US$671.5 million, representing increases of 21.3% and 19.1% over the preceding quarter and the same period last year, respectively

- Net profit of HK$781.8 million, representing increases of 27.0% and 4.1% over the preceding quarter and the same period last year, respectively

- Earnings per share of HK$1.94 for the second quarter 2018

- Record Group operating profits of HK$1.18 billion, representing increases of 70.1% and 35.5% over the preceding quarter and the same period last year, respectively

- Record Back-end equipment revenue of US$362.7 million, representing increases of 28.8% and 17.6% over the preceding quarter and the same period last year, respectively

- Record Materials revenue of US$76.1 million, representing increases of 2.1% and 7.1% over the preceding quarter and the same period last year, respectively

- SMT Solutions revenue of US$232.7 million, representing increases of 17.8% and 26.3% over the preceding quarter and the same period last year, respectively

- New order bookings of US$727.7 million, representing an increase of 10.1% over the same period last year and a slight contraction of 3.5% over the preceding quarter

- Cash and bank deposits of HK$2.95 billion as of 30 June 2018

FINANCIAL HIGHLIGHTS (CONTINUED)

	Three months ended 30 June		Six months ended 30 June	
	2018 (Unaudited) HK$'000	2017 (Unaudited) HK$'000	2018 (Unaudited) HK$'000	2017 (Unaudited) HK$'000
Revenue	5,270,477	4,424,164	9,616,377	8,185,401
Cost of sales	(2,991,270)	(2,609,614)	(5,704,254)	(4,869,583)
Gross profit	2,279,207	1,814,550	3,912,123	3,315,818
Other income	14,841	14,716	35,334	30,747
Selling and distribution expenses	(417,579)	(356,283)	(769,415)	(689,345)
General and administrative expenses	(273,114)	(232,716)	(506,010)	(413,585)
Research and development expenses	(409,037)	(355,040)	(763,695)	(672,747)
Adjustment of liability component of convertible bonds	—	—	—	202,104
Other gains and losses	(23,499)	5,996	7,449	(5,989)
Finance costs	(44,322)	(43,769)	(81,002)	(83,701)
Profit before taxation	1,126,497	847,454	1,834,784	1,683,302
Income tax expense	(344,673)	(96,660)	(437,336)	(203,329)
Profit for the period	781,824	750,794	1,397,448	1,479,973
Profit for the period, attributable to:				
Owners of the Company	783,758	756,228	1,401,538	1,492,252
Non-controlling interests	(1,934)	(5,434)	(4,090)	(12,279)
	781,824	750,794	1,397,448	1,479,973
Earnings per share				
– Basic	HK$1.94	HK$1.85	HK$3.46	HK$3.66
– Diluted	HK$1.91	HK$1.83	HK$3.42	HK$3.15

CHAIRMAN'S STATEMENT

RESULTS

ASM Pacific Technology Limited and its subsidiaries (the "Group" or "ASMPT") achieved a revenue of HK$9.62 billion in the six months ended 30 June 2018, representing an increase of 17.5% as compared with HK$8.19 billion for the first six months of 2017 and an increase of 3.0% over the preceding six months. The Group's consolidated profit after taxation for the first six months of 2018 was HK$1.40 billion as compared with a profit of HK$1.48 billion (which included a non-cash gain of HK$202.1 million arising from the adjustment of the liability component of convertible bonds) in the corresponding period in 2017 and a profit of HK$1.32 billion in the preceding six months. Basic earnings per share (EPS) for the first six months of 2018 amounted to HK$3.46 (first six months of 2017: HK$3.66, second six months of 2017: HK$3.24).

DIVIDEND

The Board of Directors of ASM Pacific Technology Limited (the "Company") is pleased to declare an interim dividend of HK$1.30 (2017: HK$1.20) per share, payable to shareholders whose names appear on the Register of Members of the Company on 15 August 2018.

REVIEW

The Group continued to set new records during the second quarter and for the first half of 2018. At the Group level, both billings and bookings for the first half of this year hit new six-month records while first quarter bookings and second quarter billings set new quarterly records. The Group also set a new quarterly record in respect of operating profits during the second quarter of this year. At a segment level, the Backend Equipment Segment and the Materials Segment set new billing records while the SMT Solutions Segment set new booking records both in the second quarter and in the first half of this year.

Group revenue for the first six months of this year amounted to US$1.23 billion, representing increases of 17.5% year-on-year and 3.0% against the preceding six-month period, respectively. Furthermore, Group bookings for the first half of this year amounted to US$1.48 billion, representing increases of 16.7% year-on-year and 38.4% over the second half of last year, respectively. Group revenue and bookings for the last twelve months reached record levels, amounting to US$2.42 billion and US$2.55 billion, respectively.

The Backend Equipment Segment and the SMT Solutions Segment were leading the growth. It was notable that the semiconductor and electronics markets continued to be driven by broad-based growth drivers during the past six months. Demand from the automotive and industrial electronics markets were particularly strong, leading to a robust growth in bookings for our IC and discrete Backend Equipment and SMT Solutions products.

	1H 2018 Bookings		1H 2018 Billings	
	YoY	HoH	YoY	HoH
Group	+16.7%	+38.4%	+17.5%	+3.0%
Back-end Equipment Segment	+16.9%	+60.9%	+14.4%	+20.1%
Materials Segment	−7.5%	+12.6%	+12.1%	+8.7%
SMT Solutions Segment	+25.3%	+22.9%	+24.6%	−16.4%

CHAIRMAN'S STATEMENT (CONTINUED)

REVIEW (Continued)

Group bookings for the second quarter of this year grew 10.1% year-on-year but declined 3.5% quarter-on-quarter to US$727.7 million. In particular, bookings of the SMT Solutions Segment experienced strong year-on-year growth of 14.1%. The SMT Solutions Segment has now set consecutive booking records in the first two quarters of this year.

Group billings for the second quarter of this year increased 19.1% year-on-year and 21.3% quarter-on-quarter to a new record of US$671.5 million. Both the Backend Equipment Segment and the Materials Segment achieved new quarterly billing records during the second quarter of this year.

	Q2 2018 Bookings		Q2 2018 Billings	
	YoY	QoQ	YoY	QoQ
Group	+10.1%	−3.5%	+19.1%	+21.3%
Back-end Equipment Segment	+8.4%	−12.9%	+17.6%	+28.8%
Materials Segment	+3.3%	+5.5%	+7.1%	+2.1%
SMT Solutions Segment	+14.1%	+8.0%	+26.3%	+17.8%

Contributions from the Group's three business segments to the Group's billings during the first half of this year were 52.6%, 12.3% and 35.1%, for the Backend Equipment, Materials and SMT Solutions Segments, respectively. By geographical distribution, China (inclusive of Hong Kong) (48.1%), Europe (17.1%), Malaysia (7.0%), the Americas (6.3%) and Taiwan (4.7%) were the top five markets for ASMPT during the first half of this year. For the first half of this year, our top 5 customers collectively accounted for 19.6% of the Group's revenue. 80% of the Group's revenue was attributable to 136 customers.

The book-to-bill ratio for the first six months of this year was 1.21. The Group's backlog as of the end of the second quarter of this year increased to a new record of US$808.9 million, which was a gain of 8.0% from the previous quarter.

Profitability of the Group has continued to improve. The Group achieved gross margins of 43.2% and 40.7% for the second quarter and the first half of this year, respectively. During the first half of 2018, net profits of the Group improved by 6.2% over the preceding six months and by 9.4% as compared with the same period of last year (excluding a non-cash gain of HK$202.1 million arising from the adjustment of liability component of convertible bonds last year). Group operating profits were at a new peak of HK$1.18 billion in the second quarter this year.

Group	Q2 2018		1H 2018	
	YoY	QoQ	YoY	HoH
Bookings	+10.1%	−3.5%	+16.7%	+38.4%
Revenue	+19.1%	+21.3%	+17.5%	+3.0%
Gross Margin	+223bps	+567bps	+17bps	+68bps
EBIT	+31.4%	+58.0%	+22.5%*	+14.7%
Net Profit	+4.1%	+27.0%	+ 9.4%*	+6.2%
Net Profit Margin	−214bps	+67bps	−108bps*	+44bps

* Excluding the non-cash gain arising from the adjustment of the liability component of convertible bonds that amounted to HK$202.1 million for the three months ended 31 March 2017.

REVIEW (Continued)

Back-end Equipment Segment

The Backend Equipment Segment achieved new billing records both for the second quarter and for the first half of this year.

During the second quarter of this year, billings of the Backend Equipment Segment amounted to US$362.7 million, representing increases of 28.8% over the first quarter of this year and 17.6% over the same period a year ago. Billings of the Backend Equipment Segment for the first six months of this year were US$645.3 million, representing improvements of 14.4% and 20.1% against the same period a year ago and the preceding six months, respectively. The Backend Equipment Segment contributed 54.0% to the Group's billings during the second quarter of this year.

New order bookings of the Backend Equipment Segment in the second quarter of the year increased 8.4% year-on-year but declined 12.9% against the preceding quarter. For the first six months, bookings of the Backend Equipment Segment surged 60.9% against the preceding six months to US$760.9 million. It rose 16.9% as compared with the same period a year ago. During the first half of this year, we received strong orders from the IC/discrete market. This reflects robust demand for semiconductor devices from diversified application markets. Internet-of-things ("IoT"), automotive and industrial electronics were among the key growth drivers.

The optoelectronics market had recovered strongly from the second half of last year. LED general lighting, RGB displays and mini-LED backlighting remained the growth drivers.

In the CIS market, demand for our active alignment equipment, particularly from the supply chain for Tier-2 smart phones continued to be solid during the first six months of this year. We expect that healthy demand for active alignment equipment will be sustainable for many years. Front and rear side 3D sensing, triple cameras and folded lenses are some of the innovations that smart phone suppliers are implementing to differentiate themselves from their peers. Active alignment is one of the key enabling technologies for achieving these innovations.

Customers have recognized ASMPT as the leader in the Advanced Packaging market. With its diversified product portfolio, the Group is involved in most of the Advanced Packaging development programs of its customers. Our ALSI laser dicing and grooving business performed very well this year. Its bookings and billings for the first half of this year had already surpassed the full year bookings and billings of the previous year.

Our thermo-compression bonders ("TCB") are now accepted by more customers. We expect that some of these customers will be able to reach volume production by next year. It seems that High Performance Computing ("HPC") for artificial intelligence ("AI"), finer wafer node technology and heterogeneous integration ("HI") may become drivers for the wider adoption of TCB technology in Advanced Packaging.

Our Nucleus pick-and-place equipment has established a definitive benchmark in the wafer level fan-out ("WLFO") and panel level fan-out ("PLFO") markets. It offers the highest productivity with accuracy of down to 3 microns and the capability of handling 600 mm x 600 mm panels.

CHAIRMAN'S STATEMENT (CONTINUED)

REVIEW (Continued)

Back-end Equipment Segment (Continued)

Sunbird, which is our pick, test, inspect and packing machine for wafer level packages, was one of the contributors to the strong performance of our Backend Equipment Segment in the first half of this year. With the introduction of 5G smart phones, we expect demand for our Sunbird to increase further.

The Group has further expanded its product portfolio and strengthened its technology leadership in the Backend Equipment market. In April this year, the Group completed its acquisition of the Germany-based leader in Silicon Photonics equipment, AMICRA Microelectronics GmbH. It has been successfully integrated into the Group's Optoelectronics Business Unit in the Backend Equipment Segment.

As the world is entering the Data-Centric Era, it is predicted that more hyper-scale data centres will be needed. Silicon Photonics is the key technology enabling high speed data transfer within and between data centres. Some people believe in the adage that "Data is the new oil". Silicon Photonics is the key technology for developing the new "pipes".

Moreover, in April this year, the Group entered into a definitive agreement with Tokyo Electron Corporation to acquire its subsidiary, TEL NEXX Inc., which is based in the USA. We expect the acquisition to be completed during the second half of this year, after the necessary approvals from all the relevant regulatory authorities have been received. TEL NEXX Inc. is a leader in ECD and PVD technologies, which are the key enabling technologies in 3D packaging and redistribution layers ("RDL") for wafer level fan-in and wafer/panel level fan-out. As semiconductors are moving towards wafer node technology of below 10 nm, we believe that the only viable interconnection technologies today are TCB or wafer/panel level fan-out. Traditional flip chip technology followed by mass reflow and wire bonding are no longer sufficient for meeting such challenging interconnection requirements.

ASMPT has been moving ahead of its peers and has invested in building up a comprehensive technology and product portfolio to serve the exacting needs of the semiconductor industry.

Our Backend Equipment Segment achieved gross margins of 50.8% and 48.0% during the second quarter and the first half of this year, respectively, which represent respective year-on-year improvements of 278bps and 59bps. This segment achieved a segment profit of HK$861.9 million in the second quarter of this year, a new high since 2011. The segment result margin for the second quarter of this year improved by 315 bps to 30.3% on year-on-year basis.

Back-end Equipment Segment	Q2 2018		1H 2018	
	YoY	QoQ	YoY	HoH
Bookings	+8.4%	−12.9%	+16.9%	+60.9%
Revenue	+17.6%	+28.8%	+14.4%	+20.1%
Gross Margin	+278bps	+649bps	+59bps	−59bps
Segment Profit	+31.3%	+71.6%	+18.6%	+33.9%
Segment Profit Margin	+315bps	+755bps	+94bps	+278bps

CHAIRMAN'S STATEMENT (CONTINUED)

REVIEW (Continued)

Materials Segment

The Materials Segment set new billing records in both the second quarter and the first half of this year.

In the second quarter, the billings of our Materials Segment amounted to US$76.1 million, representing a quarter-on-quarter improvement of 2.1% and a year-on-year improvement of 7.1%. Billings of our Materials Segment for the six-month period amounted to US$151.0 million, representing improvements of 8.7% and 12.1% against the preceding six months and the same period a year ago, respectively. The Materials Segment contributed 11.3% to the Group's billings during the second quarter of this year.

During the first six months of this year, the bookings of our Materials Segment amounted to US$150.9 million. This was an improvement of 12.6% against the preceding six months period, but was a decline of 7.5% from the corresponding period of last year. During the second quarter, new order bookings of our Materials Segment grew by 3.3% year-on-year and 5.5% quarter-on-quarter.

The Materials Segment achieved gross margins of 13.3% and 13.2% during the second quarter and the first half of this year, respectively, representing respective improvement of 14bps and reduction of 35bps over the first quarter of this year and the second half of last year.

Materials Segment	Q2 2018		1H 2018	
	YoY	QoQ	YoY	HoH
Bookings	+3.3%	+5.5%	−7.5%	+12.6%
Revenue	+7.1%	+2.1%	+12.1%	+8.7%
Gross Margin	+32bps	+14bps	−38bps	−35bps
Segment Profit	+29.7%	+14.3%	+12.8%	+56.3%
Segment Profit Margin	+131bps	+80bps	+5bps	+217bps

SMT Solutions Segment

The SMT Solutions Segment achieved new booking records for both the second quarter and the first half of this year.

The billings of our SMT Solutions Segment amounted to US$232.7 million in the second quarter, representing improvements of 17.8% compared with the first quarter of this year and 26.3% against the same period a year ago. During the six-month period, the billings of our SMT Solutions Segment were US$431.0 million, representing an improvement of 24.6% against the first half of last year and a contraction of 16.4% as compared with the preceding six months, respectively. The SMT Solutions Segment contributed 35.1% to the Group's billings during the first half of this year.

New order bookings for the SMT Solutions Segment for the first six-month period of this year amounted to US$570.1 million, which represented improvements of 22.9% and 25.3% as compared with the preceding six months and with the corresponding period of last year, respectively. New order bookings in the second quarter of this year improved by 8.0% and 14.1% as compared with the first quarter of this year and with the same period a year ago, respectively.

REVIEW (Continued)

SMT Solutions Segment (Continued)

Strong demand from the Automotive and Industrial Electronics markets lifted the bookings of our SMT Solutions Segment to a new high. Whilst the European market has been strong, the Group is also successfully gaining market share in the smart phone supply chain in China. With India's plan to leapfrog to global technology leadership by 2030, we see promising growth opportunities for our SMT Solutions Segment in India.

During the second quarter and the first half of this year, the SMT Solutions Segment achieved gross margins of 41.3% and 39.4% and segment results margin of 18.6% and 16.0%, respectively.

SMT Solutions Segment	Q2 2018		1H 2018	
	YoY	QoQ	YoY	HoH
Bookings	+14.1%	+8.0%	+25.3%	+22.9%
Revenue	+26.3%	+17.8%	+24.6%	−16.4%
Gross Margin	+115bps	+408bps	−40bps	+117bps
Segment Profit	+48.2%	+69.2%	+35.2%	−21.1%
Segment Profit Margin	+275bps	+565bps	+126bps	−96bps

RESEARCH AND DEVELOPMENT

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

Our strategy reinforces our ability to deliver the best innovative products with differentiated value propositions to our customers. During the past six months, we have again adopted the longstanding policy of investing up to 10% of our annual equipment revenue in R&D irrespective of short-term sales fluctuations. Customers have benefited from ASMPT's depth and breadth of enabling technologies, strong financial resources and excellent infrastructure support.

At the commencement of this year, the Group officially opened a new R&D center in Taoyuan, Taiwan to tap on the technical talents available in Taiwan.

Research and development expenses for the year-to-date were HK$763.7 million and the Group has obtained more than 1,000 patents on leading-edge technologies. As of 30 June 2018, the Group is operating eight research and development centers in Taiwan, Hong Kong and Chengdu (China), Singapore, Regensburg and Munich (Germany), Weymouth (United Kingdom) and Beuningen (The Netherlands), hiring more than 1,800 R&D employees.

In January this year, the Group was recognized as one of the Top 100 Global Technology Leaders by Thomson Reuters, which is an acknowledgement of the Group's efforts and achievements in R&D. In fact, during the past three years, the Group also received the Technological Achievement Grand Award of the Hong Kong Award for Industries twice.

LIQUIDITY AND FINANCIAL RESOURCES

Return on sales was 19.7% for the six-month period of this year. Annualized return on capital employed and on invested capital for the past six months were 27.3% and 29.9% respectively.

Our ending inventory as of 30 June 2018 rose to HK$6.85 billion, as compared with HK$5.37 billion as of 31 December 2017, mainly due to an increase in our sales level. Our annualized inventory turn was 3.15 times (first half of 2017: 3.42 times).

Days sales-outstanding increased to 112.1 days from 102.7 days in the second half of 2017. Capital expenditure in the first six months was HK$390.2 million, which was partly funded by depreciation and amortization of HK$249.2 million for the same period. After paying last year's final dividend totaling HK$525.8 million in May, funding capital investment and paying off some bank loans in the first half of 2018, cash and bank deposits as of 30 June 2018 were HK$2.95 billion, which was HK$103.1 million lower than the preceding six months. Our current ratio stands at 1.82 and we have a debt-equity ratio of 26.0% (debt represents all bank borrowings and convertible bonds).

Bank borrowings, which are mainly arranged to support day-to-day operations and to finance our growth activities, are denominated in Hong Kong dollars, U.S. dollars and Euros. The Group used the net proceeds of the convertible bonds, which were denominated in Hong Kong dollars, raised in year 2014 with an annual coupon of 2.00%, and due in 2019, to fund the acquisition of the DEK business and other working capital requirements. Cash holdings of the Group are mainly in U.S. dollars, Euros, Chinese renminbi and Hong Kong dollars. The Group's SMT Solutions Segment enters into U.S. dollars and Euros hedging contracts to mitigate its foreign currency risks as a significant portion of the production of the Group's SMT Equipment and its suppliers are located in Europe while a substantial part of the Group's revenue for SMT Solutions Segment is denominated in U.S. dollars.

During the period from September 2017 to June 2018, the Company repurchased an aggregate of 6,056,400 ordinary shares on The Stock Exchange of Hong Kong Limited for a total consideration of approximately HK$654.1 million (excluding relevant trading costs directly attributable to the share repurchases) at an average purchase price of HK$108.0 per share. All the shares repurchased were subsequently cancelled.

The Group has decided to adopt a sustainable and gradually increasing dividend policy. After considering the near to mid-term cash flow needs of the Group, the Board has recommended an interim dividend of HK$1.30 per share.

HUMAN RESOURCE

As of 30 June 2018, the total headcount for the Group globally was approximately 17,500 employees, which included 2,900 temporary, short-term contract and outsourced employees. Our employees, being our greatest assets, form the bedrock of the Group and it is important to nurture and retain the right talents through various schemes and motivations to help our employees build and strengthen their competencies.

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

The total human resource costs of the Group for the first six months of 2018 were HK$2.45 billion, as compared with HK$2.18 billion during the same period of 2017. This year, the Board granted a total of 2,623,200 incentives shares to around 1,500 employees, inclusive of the three Executive Directors of the Company. The vesting periods of these incentive shares will end on 14 December 2018 and 16 December 2019 respectively.

CHAIRMAN'S STATEMENT (CONTINUED)

PROSPECTS

Unless current market conditions deteriorate drastically during the second half of this year, we expect 2018 to be a year of growth for the Group comparative to 2017. Specifically, we expect Group revenue to set another new record.

With the strong backlog that we have on hand, we anticipate Group billings in the third quarter of this year to be in the range of US$650 million to US$700 million, a level similar to the second quarter preceding it. The billings of our SMT Solutions Segment are expected to achieve quarter-on-quarter improvement, whereas the billings of our Backend Equipment Segment may experience a small decline from the peak that was achieved in the second quarter of this year. The billings of our Materials Segment are expected to be flat as compared with the second quarter of this year.

From a geographical perspective, we expect increased contributions from the Asian market for our SMT Solutions Segment during the third quarter of this year, in line with the typical seasonal pattern for this segment and the momentum we have gained in the China and India markets.

Due to our product and geographical mix, we expect that the gross margin for the Group in the third quarter may decline by about 1.5% to 3%, from the second quarter of this year. In terms of bookings, we expect that the Group's bookings in third quarter would be lower quarter-on-quarter due to typical seasonal effects. However, due to the uncertain global economic and political circumstances, it would be difficult to work out a reliable forecast.

Demand for semiconductor devices and electronic systems have in fact remained healthy, but the trade frictions unfolding between the USA and other countries have resulted in significant uncertainties and concerns for the industry as a whole. Although the trade tariffs have not impacted our business so far, tariffs imposed by any country will unavoidably hurt the spending power of consumers, and ultimately may affect demand for our products.

On a longer-term basis, we believe that we are entering an exciting era and a likely high-growth period for ASMPT. Unlike in the past decade when the industry was primarily driven by smart phones, our industry is now driven by diversified growth drivers such as IoT, automotive, industrial electronics, smart phones, 5G communications, hyper-scale data centres, data analytics, artificial intelligence, augmented/virtual and mixed reality, smart cities and smart factories, just to name a few.

With the acquisitions that we have made and our continuous investment in research and development, we believe that ASMPT is currently in an unparalleled position to capture the upcoming market opportunities.

Orasa Livasiri
Chairman
24 July 2018

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

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

INTRODUCTION

We have reviewed the condensed consolidated financial statements of ASM Pacific Technology Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 14 to 53, which comprise the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and the Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
24 July 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

		Six months ended 30 June	
	Notes	2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Revenue	*3*	9,616,377	8,185,401
Cost of sales		(5,704,254)	(4,869,583)
Gross profit		3,912,123	3,315,818
Other income		35,334	30,747
Selling and distribution expenses		(769,415)	(689,345)
General and administrative expenses		(506,010)	(413,585)
Research and development expenses		(763,695)	(672,747)
Adjustment of liability component of convertible bonds	*5*	–	202,104
Other gains and losses	*6*	7,449	(5,989)
Finance costs	*7*	(81,002)	(83,701)
Profit before taxation		1,834,784	1,683,302
Income tax expense	*8*	(437,336)	(203,329)
Profit for the period		1,397,448	1,479,973
Profit for the period, attributable to:			
Owners of the Company		1,401,538	1,492,252
Non-controlling interests		(4,090)	(12,279)
		1,397,448	1,479,973
Earnings per share	*10*		
– Basic		HK$3.46	HK$3.66
– Diluted		HK$3.42	HK$3.15

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Profit for the period	**1,397,448**	1,479,973
Other comprehensive (expense) income		
Exchange differences on translation of foreign operations, which may be reclassified subsequently to profit or loss	**(110,889)**	318,612
Total comprehensive income for the period	**1,286,559**	1,798,585
Total comprehensive income for the period attributable to:		
Owners of the Company	**1,290,656**	1,810,872
Non-controlling interests	**(4,097)**	(12,287)
	1,286,559	1,798,585

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Notes	At 30 June 2018 HK$'000 (Unaudited)	At 31 December 2017 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	*11*	2,646,665	2,426,005
Investment property		59,119	60,340
Goodwill		636,301	408,696
Intangible assets		773,949	542,101
Prepaid lease payments		130,006	115,046
Other investment	*2(b)*	18,502	18,502
Pledged bank deposits		2,135	2,153
Deposits paid for acquisition of property, plant and equipment		43,756	33,263
Rental deposits paid		38,564	36,120
Deferred tax assets		394,268	361,673
Other non-current assets		15,427	24,761
		4,758,692	4,028,660
Current assets			
Inventories		6,854,354	5,368,889
Trade and other receivables	*12*	6,926,008	6,058,686
Prepaid lease payments		3,860	3,849
Derivative financial instruments		–	13,289
Income tax recoverable		18,264	66,553
Pledged bank deposits		3,327	3,351
Restricted bank balances		1,781	–
Bank deposits with original maturity of more than three months		481,803	691,018
Bank balances and cash		2,470,219	2,365,911
		16,759,616	14,571,546
Current liabilities			
Trade liabilities and other payables	*13*	5,280,121	4,020,855
Derivative financial instruments		30,363	234
Obligations under finance leases		407	–
Provisions	*14*	302,196	295,825
Income tax payable		527,412	349,999
Convertible bonds	*17*	2,171,950	–
Bank borrowings	*15*	888,136	117,219
		9,200,585	4,784,132
Net current assets		7,559,031	9,787,414
		12,317,723	13,816,074

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2018

	Notes	At 30 June 2018 HK$'000 (Unaudited)	At 31 December 2017 HK$'000 (Audited)
Capital and reserves			
Share capital	*16*	40,443	40,908
Dividend reserve	*9*	525,753	528,175
Other reserves		11,294,598	10,808,542
Equity attributable to owners of the Company		11,860,794	11,377,625
Non-controlling interests		(4,246)	(149)
Total equity		11,856,548	11,377,476
Non-current liabilities			
Convertible bonds	*17*	–	2,121,830
Obligations under finance leases		962	–
Retirement benefit obligations		193,162	183,277
Provisions	*14*	77,525	50,242
Bank borrowings	*15*	12,805	–
Deferred tax liabilities		125,142	39,996
Other liabilities and accruals		51,579	43,253
		461,175	2,438,598
		12,317,723	13,816,074

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Equity 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 18)*	Treasury share reserve HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Other reserve HK$'000 *(Note)*	Convertible bonds equity reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Dividend reserve HK$'000	Sub-total HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
At 1 January 2017 (audited)	40,824	1,522,726	–	(198)	–	155	72,979	–	250,249	(854,761)	7,541,165	449,068	9,022,207	4,056	9,026,263
Profit for the year	–	–	–	–	–	–	–	–	–	–	2,815,473	–	2,815,473	(19,771)	2,795,702
Exchange differences on translation of foreign operations, which may be reclassified subsequently to profit or loss	–	–	–	–	–	–	–	–	–	575,488	–	–	575,488	(4)	575,484
Remeasurement of defined benefit retirement plans, net of tax, which will not be reclassified to profit or loss	–	–	–	–	–	–	–	–	–	–	3,023	–	3,023	–	3,023
Total comprehensive income for the year	–	–	–	–	–	–	–	–	–	575,488	2,818,496	–	3,393,984	(19,775)	3,374,209
Sub-total	40,824	1,522,726	–	(198)	–	155	72,979	–	250,249	(279,273)	10,359,661	449,068	12,416,191	(15,719)	12,400,472
Recognition of equity-settled share-based payments	–	–	303,223	–	–	–	–	–	–	–	–	–	303,223	–	303,223
Purchase of shares under the Scheme	–	–	–	(34,064)	–	–	–	–	–	–	–	–	(34,064)	–	(34,064)
Shares vested under the Scheme	–	–	(34,165)	34,262	–	–	–	–	–	–	(97)	–	–	–	–
Shares issued under the Scheme	224	234,329	(234,553)	–	–	–	–	–	–	–	–	–	–	–	–
Cancellation of the grant under the Scheme	–	–	(4,628)	–	–	–	–	–	–	–	–	–	(4,628)	–	(4,628)
Arising on additional interest in a subsidiary	–	–	–	–	–	–	–	(15,570)	–	–	–	–	(15,570)	15,570	–
Shares repurchased and cancelled	(140)	(149,435)	–	–	–	140	–	–	–	–	(140)	–	(149,575)	–	(149,575)
Shares repurchased but not yet cancelled	–	–	–	–	(198,992)	–	–	–	–	–	–	–	(198,992)	–	(198,992)
2016 final dividend paid	–	–	–	–	–	–	–	–	–	–	–	(449,068)	(449,068)	–	(449,068)
2017 interim dividend paid	–	–	–	–	–	–	–	–	–	–	(489,892)	–	(489,892)	–	(489,892)
2017 final dividend proposed	–	–	–	–	–	–	–	–	–	–	(528,175)	528,175	–	–	–
At 31 December 2017 (audited)	40,908	1,607,620	29,877	–	(198,992)	295	72,979	(15,570)	250,249	(279,273)	9,341,357	528,175	11,377,625	(149)	11,377,476
Adjustments due to adopting of new standards	–	–	–	–	–	–	–	–	–	–	(50,279)	–	(50,279)	–	(50,279)
At 1 January 2018 (restated)	40,908	1,607,620	29,877	–	(198,992)	295	72,979	(15,570)	250,249	(279,273)	9,291,078	528,175	11,327,346	(149)	11,327,197
Profit for the period	–	–	–	–	–	–	–	–	–	–	1,401,538	–	1,401,538	(4,090)	1,397,448
Exchange differences on translation of foreign operations, which may be reclassified subsequently to profit or loss	–	–	–	–	–	–	–	–	–	(110,882)	–	–	(110,882)	(7)	(110,889)
Total comprehensive income for the period	–	–	–	–	–	–	–	–	–	(110,882)	1,401,538	–	1,290,656	(4,097)	1,286,559
Sub-total	40,908	1,607,620	29,877	–	(198,992)	295	72,979	(15,570)	250,249	(390,155)	10,692,616	528,175	12,618,002	(4,246)	12,613,756
Recognition of equity-settled share-based payments	–	–	114,513	–	–	–	–	–	–	–	–	–	114,513	–	114,513
Purchase of shares under the Scheme	–	–	–	(40,473)	–	–	–	–	–	–	–	–	(40,473)	–	(40,473)
Shares repurchased and cancelled	(465)	(504,022)	–	–	198,992	465	–	–	–	–	(465)	–	(305,495)	–	(305,495)
2017 final dividend paid	–	–	–	–	–	–	–	–	–	–	–	(525,753)	(525,753)	–	(525,753)
2018 interim dividend declared after end of interim period	–	–	–	–	–	–	–	–	–	–	(523,331)	523,331	–	–	–
At 30 June 2018 (unaudited)	40,443	1,103,598	144,390	(40,473)	–	760	72,979	(15,570)	250,249	(390,155)	10,168,820	525,753	11,860,794	(4,246)	11,856,548

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2018

	Equity 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 18)*	Capital redemption reserve HK$'000	Capital reserve HK$'000	Other reserve HK$'000 *(Note)*	Convertible bonds equity reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Dividend reserve HK$'000	Sub-total HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
At 1 January 2017 (audited)	40,824	1,522,726	–	(198)	155	72,979	–	250,249	(854,761)	7,541,165	449,068	9,022,207	4,056	9,026,263
Profit for the period	–	–	–	–	–	–	–	–	–	1,492,252	–	1,492,252	(12,279)	1,479,973
Exchange differences on translation of foreign operations, which may be reclassified subsequently to profit or loss	–	–	–	–	–	–	–	–	318,620	–	–	318,620	(8)	318,612
Total comprehensive income for the period	–	–	–	–	–	–	–	–	318,620	1,492,252	–	1,810,872	(12,287)	1,798,585
Sub-total	40,824	1,522,726	–	(198)	155	72,979	–	250,249	(536,141)	9,033,417	449,068	10,833,079	(8,231)	10,824,848
Recognition of equity-settled share-based payments	–	–	117,988	–	–	–	–	–	–	–	–	117,988	–	117,988
Purchase of shares under the Employee Share Incentive Scheme	–	–	–	(34,064)	–	–	–	–	–	–	–	(34,064)	–	(34,064)
Arising on additional interest in a subsidiary	–	–	–	–	–	–	(15,570)	–	–	–	–	(15,570)	15,570	–
2016 final dividend paid	–	–	–	–	–	–	–	–	–	–	(449,068)	(449,068)	–	(449,068)
2017 interim dividend declared after end of interim period	–	–	–	–	–	–	–	–	–	(489,892)	489,892	–	–	–
At 30 June 2017 (unaudited)	40,824	1,522,726	117,988	(34,262)	155	72,979	(15,570)	250,249	(536,141)	8,543,525	489,892	10,452,365	7,339	10,459,704

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

		Six months ended 30 June	
	Note	2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Cash generated from operations		1,141,345	504,114
Income taxes paid		(230,047)	(191,172)
Net cash from operating activities		911,298	312,942
Net cash (used in) from investing activities			
Purchase of property, plant and equipment		(369,241)	(169,238)
Net cash outflow arising on acquisition of subsidiaries	*19*	(484,280)	–
Placement of bank deposits with original maturity of more than three months		(33,023)	(249,848)
Deposits paid for acquisition of property, plant and equipment		(43,408)	(42,436)
Withdrawal of bank deposits with original maturity of more than three months		245,914	785,391
Structured deposit placed		–	(23,285)
Withdrawal of structured deposit		–	23,285
Other investing cash flows		41,622	7,195
		(642,416)	331,064
Net cash used in financing activities			
Dividends paid		(525,753)	(449,068)
Bank borrowings raised		1,090,334	77,579
Repayment of bank borrowings		(367,194)	(64,851)
Payment on repurchase of shares		(305,495)	–
Other financing cash flows		(31,115)	(34,023)
		(139,223)	(470,363)
Net increase in cash and cash equivalents		129,659	173,643
Cash and cash equivalents at beginning of the period		2,365,911	2,138,886
Effect of foreign exchange rate changes		(25,351)	85,522
Cash and cash equivalents at end of the period, represented by bank balances and cash		2,470,219	2,398,051

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The condensed consolidated financial statements do not include all the information required for a complete set of Hong Kong Financial Reporting Standards financial statements and should be read in conjunction with the Group’s annual consolidated financial statements as at 31 December 2017.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for the derivative financial instruments, contingent consideration payable and other investment (classified as financial assets at fair value through other comprehensive income) which are measured at fair value.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2017. In addition, the Group has applied the following accounting policy for the obligations under finance leases recognized during the current interim period.

Leasing

The Group as lessee

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

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

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

(a) Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers"

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

The Group recognizes revenue from the following major sources:

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" (Continued)

Key changes in accounting policies resulting from application of HKFRS 15

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

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

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

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

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

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

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct goods or services.

A contract liability, i.e. advance payments from customers, represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A point in time revenue recognition

The revenue of the Group is recognized at a point in time, except for revenue from provision of training service and service-type warranty which are recognized over time. Under the transfer-of-control approach in HKFRS 15, revenue from sales of new or highly customized product is generally recognized when customer acceptance has been obtained, which is the point of time when the customer has the ability to direct the use of the equipment and obtain substantially all of the remaining benefits of the equipment. This results in revenue from sales of new and highly customized equipment being recognized upon customer acceptance instead of goods delivery.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" (Continued)

Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations (including sales of goods, installation of equipment, service-type warranty, training services and rights to purchase certain amounts of spare parts for free), the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct goods or services underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised goods or services separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

Warranties

If a customer has the option to purchase a warranty separately, the Group accounts for the warranty as a separate performance obligation and allocates a portion of the transaction price to that performance obligation.

If a customer does not have the option to purchase a warranty separately, the Group accounts for the warranty in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications (i.e. service-type warranties).

For service-type warranties, the promised service is a performance obligation. In that case, the Group allocates a portion of the transaction price to the warranty.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" (Continued)

Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

Summary of effects arising from initial application of HKFRS 15

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

	Notes	Impacts of adopting HKFRS 15 at 1 January 2018 HK$'000 (Decrease) increase
Retained profits		
Installation of equipment and training services which have not been provided (included in back-end equipment)	*a*	(7,203)
Deferral of recognition of sales of new or highly customized products upon customer acceptance (included in back-end equipment)	*b*	(35,245)
Tax effects	*c*	4,857
Impacts at 1 January 2018		(37,591)

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

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

	Notes	Carrying amount previously reported at 31 December 2017 HK$'000 (Audited)	Impacts of adopting HKFRS 15 HK$'000	Carrying amounts under HKFRS 15 at 1 January 2018* HK$'000
Deferred tax assets	*c*	361,673	4,857	366,530
Inventories	*d*	5,368,889	20,032	5,388,921
Trade and other receivables	*e*	6,058,686	(32,248)	6,026,438
Trade liabilities and other payables	*f*	(4,020,855)	(30,232)	(4,051,087)
Retained profits		(9,341,357)	37,591	(9,303,766)

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" (Continued)

Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

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

The following tables summarize the impacts of applying HKFRS 15 on the Group's condensed consolidated statement of profit or loss and other comprehensive income for the current interim period and its condensed consolidated statement of financial position as at 30 June 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impacts on condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2018

		Six months ended 30 June 2018 (Unaudited)		
	Notes	As reported HK$'000	Impacts of adopting HKFRS 15 HK$'000	Amounts excluding impacts of adopting HKFRS 15 HK$'000
Revenue	*a, b*	9,616,377	30,253	9,646,630
Cost of sales		(5,704,254)	(33,474)	(5,737,728)
Income tax expense		(437,336)	(1,644)	(438,980)
Profit for the period		1,397,448	(4,865)	1,392,583
Total comprehensive income for the period		1,286,559	(4,865)	1,281,694

Notes:

(a) For contracts of equipment sales that have multiple deliverables (including installation of equipment and training services) which represent separate performance obligations from sales of equipment, revenue is recognized for each of these performance obligations when control over the corresponding goods and services is transferred to the customers. According to HKFRS 15, the transaction price is allocated to the different performance obligations on a relative stand-alone selling price basis. The revenue relating to the undelivered elements of the arrangements is deferred until delivery of these elements. In relation to this change, a decrease of HK$7,203,000 in revenue for the previous year has been adjusted from opening retained profits. The impacts of adopting HKFRS 15 to revenue in relation to installation of equipment and training services for the six months ended 30 June 2018 amounted to HK$6,148,000 (decrease).

(b) Under HKAS 18, the Group recognized revenue from sales of back-end equipment when the goods are delivered and titles have passed to the customer and the significant risks and rewards of ownership of the equipment have been transferred to the customer. Upon the application HKFRS 15, revenue from sales of new or highly customized products is generally recognized when customer acceptance has been obtained, which is the point of time when the customer has the ability to direct the use of the equipment and obtain substantially all of the remaining benefits of the equipment. This change in accounting policies resulted in deferral of revenue recognition from sales of new and highly customized equipment since it is recognized upon customer acceptance instead of goods delivery. In relation to this change, a decrease of HK$35,245,000 in revenue for the previous year has been adjusted from opening retained profits. The impacts of adopting HKFRS 15 to revenue related to sales of new or highly customized products for the six months ended 30 June 2018 amounted to HK$24,105,000 (decrease).

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" (Continued)

Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

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

Impacts on condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2018 (Continued)

Notes: (Continued)

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

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

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

Impacts on the condensed consolidated statement of financial position as at 30 June 2018

	As reported HK$'000	Adjustments HK$'000	Amounts without application of HKFRS 15 HK$'000
Deferred tax assets	394,268	(6,512)	387,756
Inventories	6,854,354	(53,590)	6,800,764
Trade and other receivables	6,926,008	41,961	6,967,969
Trade liabilities and other payables	(5,280,121)	50,867	(5,229,254)
Retained profits	(10,168,820)	(32,726)	(10,201,546)

(b) Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments"

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (Continued)

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

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

Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognized financial assets that are within the scope of HKFRS 9 are subsequently measured at amortized cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortized cost:

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

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (Continued)

Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Classification and measurement of financial assets (Continued)

In addition, the Group may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in below.

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

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

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established in accordance with HKFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

Impairment under ECL model

The Group recognizes a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (Continued)

Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Impairment under ECL model (Continued)

The Group always recognizes lifetime ECL for trade receivables within the scope of HKFRS 15. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread or the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (Continued)

Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

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

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortized cost of the financial asset.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, where the corresponding adjustment is recognized through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed below.

Summary of effects arising from initial application of HKFRS 9

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

Reclassification from available-for-sale ("AFS") equity investment to equity instrument at FVTOCI

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (Continued)

Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

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

Impairment under ECL model

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

In the current period, the Group has applied HKFRS 9 simplified approach to measure ECL using lifetime ECL for trade receivables that are within the scope of HKFRS 15. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics.

Loss allowance for other financial assets at amortized cost mainly comprise of pledged bank deposits, restricted bank balances, bank deposits with original maturity of more than three months and bank balances, and are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

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

The loss allowances for trade receivables and the reclassification of AFS equity investment as at 31 December 2017 reconcile to the opening balances of trade receivables and other investment at FVTOCI as at 1 January 2018 is as follows:

	Trade receivables HK$'000	Other investment – AFS HK$'000	Other investment – at FVTOCI HK$'000
At 31 December 2017 (Audited) – HKAS 39	5,212,686	18,502	N/A
Reclassification	–	(18,502)	18,502
Amounts remeasured through opening retained profits	(15,483)	–	–
At 1 January 2018 (Unaudited)	5,197,203	–	18,502

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table shows the adjustments recognized for each individual line item.

	31 December 2017 HK$'000 (Audited)	HKFRS 15 HK$'000	HKFRS 9 HK$'000	1 January 2018 HK$'000 (Restated)
Deferred tax assets	361,673	4,857	2,795	369,325
Inventories	5,368,889	20,032	–	5,388,921
Trade and other receivables	6,058,686	(32,248)	(15,483)	6,010,955
Trade liabilities and other payables	(4,020,855)	(30,232)	–	(4,051,087)
Retained profits	(9,341,357)	37,591	12,688	(9,291,078)

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

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

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after a date to be determined.
3 Effective for annual periods beginning on or after 1 January 2021.

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards (Continued)

HKFRS 16 "Leases" (Continued)

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.

As at 30 June 2018, the Group has non-cancellable operating lease commitments. 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.

The Group currently considers refundable rental deposits paid and refundable rental deposits received as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the deposits would be recognized initially at fair value with the difference between fair value and nominal amount considered as additional lease payments and be included in the carrying amount of right-of-use assets. Similar adjustments to refundable rental deposits received would be considered as advance lease payments.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

3. SEGMENT INFORMATION

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

Segment results represent the profit before taxation earned by each segment without allocation of interest income, adjustment of liability component of convertible bonds, finance costs, unallocated other income, unallocated net foreign exchange gain (loss) and unallocated general and administrative expenses.

Segment revenue and results

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

	Six months ended 30 June	
	2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Segment revenue from external customers		
Back-end equipment	5,056,555	4,419,598
Surface mount technology solutions	3,377,027	2,710,245
Materials	1,182,795	1,055,558
	9,616,377	8,185,401
Segment profit		
Back-end equipment	1,363,996	1,150,437
Surface mount technology solutions	540,178	399,476
Materials	84,116	74,587
	1,988,290	1,624,500
Interest income	18,714	15,921
Adjustment of liability component of convertible bonds	–	202,104
Finance costs	(81,002)	(83,701)
Unallocated other income	453	351
Unallocated net foreign exchange gain (loss)	1,539	(8,468)
Unallocated general and administrative expenses	(93,210)	(67,405)
Profit before taxation	1,834,784	1,683,302

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
For the six months ended 30 June 2018

3. SEGMENT INFORMATION (Continued)

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

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

Geographical analysis of revenue by location of customers

	Revenue from external customers Six months ended 30 June	
	2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Mainland China	3,766,277	3,627,558
Europe	1,651,744	1,158,669
– Germany	584,737	352,485
– France	151,223	75,812
– Hungary	147,485	124,621
– Romania	127,049	129,384
– Austria	56,175	22,613
– Others	585,075	453,754
Hong Kong	863,448	451,524
Malaysia	663,988	613,585
Americas	604,750	487,341
– United States of America	406,787	286,433
– Mexico	111,205	83,148
– Canada	41,914	68,391
– Others	44,844	49,369
Taiwan	453,927	517,592
Korea	345,174	376,870
Thailand	336,327	371,050
Japan	280,309	57,030
Vietnam	262,859	67,163
Philippines	202,680	288,679
Singapore	48,598	111,861
Others	136,296	56,479
	9,616,377	8,185,401

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

4. DEPRECIATION AND AMORTIZATION

During the period, depreciation and amortization amounting to HK$219.9 million (for the six months ended 30 June 2017: HK$204.6 million), HK$0.7 million (for the six months ended 30 June 2017: HK$0.7 million) and HK$26.6 million (for the six months ended 30 June 2017: HK$22.5 million) were charged to profit or loss in respect of the Group's property, plant and equipment, investment property and intangible assets, respectively.

5. ADJUSTMENT OF LIABILITY COMPONENT OF CONVERTIBLE BONDS

On 28 March 2014, the Company issued convertible bonds due 2019 in an aggregate principal amount of HK$2,400,000,000. The Company would, at the option ("Put Option") of the bond holder, redeem all or some of the convertible bonds on 28 March 2017 at their principal amount together with interest accrued to such date but unpaid. The Put Option lapsed on 28 March 2017. The estimated date of payment in relation to the convertible bonds was revised from 28 March 2017 to 28 March 2019. Accordingly, the carrying amount of the liability component of the convertible bonds was adjusted from HK$2,250,000,000 to HK$2,047,896,000 on 28 March 2017 to reflect the revised estimated cash outflows that was recalculated by computing the present value of estimated future cash flows at its original effective interest rate of 6.786% per annum. The adjustment of the carrying value of the liability component of the convertible bonds amounting to HK$202,104,000 was recognized in profit or loss during the six months ended 30 June 2017.

6. OTHER GAINS AND LOSSES

During the period, included in other gains and losses are mainly net gain on disposal/write-off of property, plant and equipment of HK$5.9 million (for the six months ended 30 June 2017: HK$2.7 million) and net foreign exchange gain of HK$1.5 million (for the six months ended 30 June 2017: net foreign exchange loss of HK$8.5 million).

7. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Interest on bank borrowings	**6,754**	2,516
Interest on convertible bonds *(note 17)*	**72,435**	72,100
Interest on discounted bills without recourse	**–**	8,685
Others	**1,813**	400
	81,002	83,701

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
The charge (credit) comprises:		
Current tax:		
Hong Kong	28,340	28,899
PRC Enterprise Income Tax	74,081	64,922
Other jurisdictions	276,848	141,425
	379,269	235,246
Underprovision in prior years	87,154	3,540
	466,423	238,786
Deferred tax credit	(29,087)	(35,457)
	437,336	203,329

Current tax:

(a) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporation will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. For the period ended 30 June 2018, Hong Kong Profits Tax of the qualified entity is calculated in accordance with the two-tiered profits tax rates regime. The profits of other group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%.

For the period ended 30 June 2017, Hong Kong Profits Tax was calculated at a flat rate of 16.5% of the estimated assessable profits.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

8. INCOME TAX EXPENSE (Continued)

(b) Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC is 25% for the six months ended 30 June 2018 (for the six months ended 30 June 2017: 25%), except for ASM Technology China Limited ("ATC"). On 28 October 2015, ATC was recognized as an advanced technology service enterprise ("ATSE") by the Chengdu Science and Technology Bureau for a period of 3 years, i.e. from 2015 to 2017. In April 2018, Sichuan Science and Technology Bureau launched ATSE re-assessment for ATSE granted in 2015. ATC passed the re-assessment in May 2018 and is now waiting for confirmation by Sichuan Science and Technology Bureau. According to the tax circular Caishui [2017] No. 79 (for the six months ended 30 June 2017: Caishui [2014] No. 59), ATC, as an ATSE, is subject to Enterprise Income Tax at a reduced income tax rate of 15%, 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 to ASM Technology Singapore Pte Ltd. ("ATS"), a principal subsidiary of the Company, to the effect that profits arising from certain new back-end equipment and lead frame products are exempted from tax for a period of 10 years effective from the dates commenced between 1 June 2010 and 1 January 2012 across specified products, subject to fulfillment of certain criteria during the relevant periods.

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

Income of ATS arising from activities not covered under the abovementioned incentives is taxed at the prevailing corporate tax rate in Singapore of 17% (for the six months ended 30 June 2017: 17%).

(d) The calculation of current tax of the Group's subsidiaries in Germany is based on a corporate income tax rate of 15.00% (for the six months ended 30 June 2017: 15.00%) plus 5.50% (for the six months ended 30 June 2017: 5.50%) solidarity surcharge thereon for the assessable profit for the period. In addition to corporate income tax, trade tax is levied on taxable income. The applicable German trade tax (local income tax) rates for the Group's subsidiaries in Germany vary from 14.800% to 17.015% (for the six months ended 30 June 2017: 12.495% to 17.015%) according to the municipal in which the entity resides. Thus the aggregate tax rates were between 30.625% and 32.840% (for the six months ended 30 June 2017: between 28.320% and 32.840%).

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

8. INCOME TAX EXPENSE (Continued)

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

The Group continued to receive letters from the Hong Kong Inland Revenue Department (the “HKIRD”) during the six months ended 30 June 2018 seeking information relating to Hong Kong Profits Tax and other tax affairs of certain subsidiaries of the Company. The enquiries might lead to significant additional tax being charged on profits from some overseas subsidiaries in respect of source of income as concerned that have not previously been included in the scope of charge for Hong Kong Profits Tax or significant tax adjustments to companies currently subject to Hong Kong Profits Tax. As at 30 June 2018, the Group purchased tax reserve certificates amounting to HK$381.2 million (31 December 2017: HK$371.1 million), as disclosed in note 12.

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

9. DIVIDENDS

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Dividend recognized as distribution during the period		
Final dividend for 2017 paid of HK$1.30 (2017: final dividend for 2016 paid of HK$1.10) per share on 404,425,433 (2017: 408,243,733) shares	**525,753**	449,068
Dividend declared after the end of the interim reporting period		
Interim dividend for 2018 of HK$1.30 (2017: HK$1.20) per share on 404,425,433 (2017: 408,243,733) shares	**525,753**	489,892

The dividends declared after 30 June 2018 will be paid to the shareholders of the Company whose names appear on the Register of Members on 15 August 2018.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
For the six months ended 30 June 2018

10. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Earnings for the purpose of calculating basic earnings per share (Profit for the period attributable to owners of the Company)	1,401,538	1,492,252
Less: Adjustment of liability component of convertible bonds *(Note)*	–	(202,104)
Add: Interest expense on convertible bonds *(Note)*	72,435	72,100
Earnings for the purpose of calculating diluted earnings per share	1,473,973	1,362,248

	Number of shares (in thousands) Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	405,484	408,060
Effect of dilutive potential shares:		
– Employee Share Incentive Scheme	949	748
– Convertible bonds *(Note)*	23,927	23,627
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	430,360	432,435

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

In the calculation of the diluted earnings per share for the six months ended 30 June 2017, the Company's outstanding convertible bonds were assumed to have been fully converted into ordinary shares and the profit for the period attributable to owners of the Company was adjusted to exclude the items comprising the adjustment of liability component of convertible bonds and the interest expense relating to the convertible bonds.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

11. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred HK$419.6 million on the acquisition of property, plant and equipment (for the six months ended 30 June 2017: HK$192.5 million).

12. TRADE AND OTHER RECEIVABLES

	At 30 June 2018 HK$'000 (Unaudited)	At 31 December 2017 HK$'000 (Audited)
Trade receivables *(Note)*	5,957,374	5,212,686
Value added tax recoverable	386,759	292,344
Tax reserve certificate recoverable	381,166	371,113
Other receivables, deposits and prepayments	200,709	182,543
	6,926,008	6,058,686

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

	At 30 June 2018 HK$'000 (Unaudited)	At 31 December 2017 HK$'000 (Audited)
Not yet due *(Note)*	4,630,506	3,863,809
Overdue within 30 days	576,400	449,604
Overdue within 31 to 60 days	314,079	389,295
Overdue within 61 to 90 days	126,050	113,655
Overdue over 90 days	310,339	396,323
	5,957,374	5,212,686

Note: The amount included notes receivables amounting to HK$1,382,970,000 (31 December 2017: HK$777,905,000).

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

13. TRADE LIABILITIES AND OTHER PAYABLES

	At 30 June 2018 HK$'000 (Unaudited)	At 31 December 2017 HK$'000 (Audited)
Trade payables	2,584,845	1,579,912
Deferred income	107,403	121,450
Accrued salaries and wages	286,236	298,040
Other accrued charges	715,475	804,375
Advance payments from customers *(Note i)*	1,069,390	642,595
Accrual for tax-related expense *(Note ii)*	168,400	168,400
Payables arising from acquisition of property, plant and equipment	137,579	150,395
Payable in relation to repurchase of shares	–	25,911
Other payables	210,793	229,777
	5,280,121	4,020,855

Notes:

(i) The amounts represent advance payments received from customers in relation to their purchase orders of equipment placed with the Group. At 30 June 2018, the advance payments from customers are contract liabilities and the Group does not expect to refund any of the advance payments. The Group applied the limited retrospective method of transition to HKFRS 15 with comparative figure not restated and hence the advance payments from customers as at 31 December 2017, which was of the same nature, are not restated but are presented in the same line item.

(ii) As detailed in note 8, the Group continued to receive letters from the HKIRD during the period ended 30 June 2018 seeking information relating to Hong Kong Profits Tax and other tax affairs of certain subsidiaries of the Company. The enquiries might lead to additional tax-related expenses and accrual has been provided accordingly.

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

	At 30 June 2018 HK$'000 (Unaudited)	At 31 December 2017 HK$'000 (Audited)
Not yet due	1,977,317	1,168,803
Overdue within 30 days	298,822	201,374
Overdue within 31 to 60 days	206,072	88,887
Overdue within 61 to 90 days	76,888	56,314
Overdue over 90 days	25,746	64,534
	2,584,845	1,579,912

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

14. PROVISIONS

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

	At 30 June 2018 HK$'000 (Unaudited)	At 31 December 2017 HK$'000 (Audited)
Current	302,196	295,825
Non-current	77,525	50,242
	379,721	346,067

The Group's provisions mainly comprise warranty provision of HK$332,343,000 (31 December 2017: HK$327,048,000). The movements of the warranty provision and restructuring provision are as follows:

	Warranty provision HK$'000	Restructuring provision HK$'000
At 1 January 2017 (audited)	276,402	28,550
Currency realignment	23,143	354
Additions	195,755	–
Utilization	(168,252)	(28,904)
At 31 December 2017 (audited)	327,048	–
Currency realignment	(5,225)	–
Additions	104,482	–
Acquisition of subsidiaries *(note 19)*	1,294	–
Utilization	(95,256)	–
At 30 June 2018 (unaudited)	332,343	–

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

15. BANK BORROWINGS

At 30 June 2018, the bank borrowings bear fixed-rate interest or interest at London Interbank Offered Rate plus a margin per annum, at a weighted average effective interest rate of 2.61% (31 December 2017: 2.54%) per annum. During the six months ended 30 June 2018, the Group obtained new bank borrowings in the amount of HK$1,090,334,000 (for six months ended 30 June 2017: HK$77,579,000) and repaid bank borrowings of HK$367,194,000 (for six months ended 30 June 2017: HK$64,851,000).

At 30 June 2018, a bank borrowing of the Group with a repayment on demand clause amounting to HK$546,000,000 (31 December 2017: nil) is due for repayment one year after the reporting period and has been classified as current liabilities accordingly.

16. SHARE CAPITAL OF THE COMPANY

	Number of shares '000	Amount HK$'000
Issued and fully paid:		
Shares of HK$0.10 each		
At 1 January 2017	408,244	40,824
Shares repurchased and cancelled	(1,399)	(140)
Shares issued under the Employee Share Incentive Scheme	2,238	224
At 31 December 2017	409,083	40,908
Share repurchased and cancelled	(4,658)	(465)
At 30 June 2018	404,425	40,443

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
For the six months ended 30 June 2018

17. CONVERTIBLE BONDS

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

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

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

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

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

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

The Company would, at the option of the bond holder, redeem all or some of that convertible bonds on 28 March 2017 (the "Put Option Date") at their principal amount together with interest accrued to such date but unpaid. To exercise such Put Option, the bond holder should serve notice of redemption to the Company not earlier than 60 days and not later than 30 days prior to the Put Option Date. The Company did not receive any notice of redemption up to end of February 2017 and the Put Option has lapsed accordingly. Therefore, the convertible bonds due 2019 were classified as non-current liabilities as at 31 December 2017. Upon lapse of the Put Option, the carrying value of the liability component of the convertible bonds was adjusted to reflect the revised estimated cash flows (details set out in note 5).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

17. CONVERTIBLE BONDS (Continued)

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

None of the convertible bonds was redeemed or converted during the six months ended 30 June 2018 and 2017.

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

	Liability component HK$'000	Equity component HK$'000	Total HK$'000
At 1 January 2017 (audited)	2,236,792	250,249	2,487,041
Adjustment of liability component of convertible bonds *(note 5)*	(202,104)	–	(202,104)
Interest charge during the year	144,039	–	144,039
Interest paid	(45,000)	–	(45,000)
At 31 December 2017 and 1 January 2018 (audited)	2,133,727	250,249	2,383,976
Interest charge during the period *(note 7)*	72,435	–	72,435
Interest paid	(22,500)	–	(22,500)
At 30 June 2018 (unaudited)	2,183,662	250,249	2,433,911

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

	At 30 June 2018 HK$'000 (Unaudited)	At 31 December 2017 HK$'000 (Audited)
Current liabilities		
Interest payable on convertible bonds (included in trade liabilities and other payables)	**11,712**	11,897
Convertible bonds	**2,171,950**	–
Non-current liabilities		
Convertible bonds	**–**	2,121,830
	2,183,662	2,133,727

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

18. SHARE-BASED PAYMENTS

On 17 March 2017 and pursuant to the Employee Share Incentive Scheme ("Scheme"), the directors resolved to grant and the Company granted 3,363,300 shares in the Company to certain employees and members of the management of the Group who shall remain employment within the Group upon expiration of the respective defined qualification periods, wherein 2,631,200 shares relate to the qualification period expiring on 15 December 2017, 488,200 shares relate to the qualification period expiring on 14 December 2018 and 243,900 shares relate to qualification period expiring on 16 December 2019. The respective vesting period of such grant, that is, the qualification period, was from 17 March 2017 to 15 December 2017, 14 December 2018 and 16 December 2019 respectively. The directors also resolved to allocate 369,500 shares out of the 3,363,300 shares granted pursuant to the Scheme, in which 366,500 shares to be purchased by the Trustee under the Share Award Scheme as Award Shares.

On 15 December 2017, out of the 3,363,300 shares granted on 17 March 2017 pursuant to the Scheme, 2,238,100 shares were issued and 23,600 shares were forfeited and unallocated by the Company. 326,000 Award Shares vested on the same date.

In December 2017, the Board resolved to cancel and revoke the grant of 43,500 Award Shares to eight employees and members of the management of the Group and to pay cash bonus to these employees at management's discretion. The Group paid a cash bonus amounting to HK$4,628,000 to them. The amount of cash bonus paid was equivalent to the closing price of the share on 15 December 2017, multiplying by the total number of shares cancelled and revoked.

On 23 March 2018, the directors resolved to grant and the Company granted 2,623,200 shares in the Company to certain employees and members of the management of the Group who shall remain employment within the Group upon expiration of the respective defined qualification periods, wherein 2,145,500 shares relate to qualification period expiring on 14 December 2018 and 477,700 shares relate to qualification period expiring on 16 December 2019. The respective vesting period of such grant, that is, the qualification period, was from 23 March 2018 to 14 December 2018 and 16 December 2019 respectively. The directors also resolved to allocate 354,600 shares out of the 2,623,200 shares granted pursuant to the Scheme, to be purchased by the Trustee under the Share Award Scheme as Award Shares.

The fair value of shares granted pursuant to the Scheme in 2017 and 2018 was determined with reference to market value of the shares at the grant date taking into account the exclusion of the expected dividends as the employees are not entitled to receive dividends paid during the vesting periods.

The Group recognized share-based payments amounting to HK$114,513,000 (for the six months ended 30 June 2017: HK$117,988,000) for the six months ended 30 June 2018 in relation to the shares granted pursuant to the Scheme in 2017 and 2018 by the Company, such an amount being determined by the fair value of the shares granted at the grant date.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

18. SHARE-BASED PAYMENTS (Continued)

Movement of the shares granted to employees and members of the management of the Group under the Scheme during the period ended 30 June 2018 are as follows:

		Number of shares			
Date of grant	Vesting period	At 1 January 2018 (Audited)	Granted on 23 March 2018	Allocated as Award Shares on 23 March 2018	At 30 June 2018 (Unaudited)
17 March 2017	17 March 2017 to 14 December 2018	488,200	–	–	488,200
17 March 2017	17 March 2017 to 16 December 2019	243,900	–	–	243,900
23 March 2018	23 March 2018 to 14 December 2018	–	2,145,500	(354,600)	1,790,900
23 March 2018	23 March 2018 to 16 December 2019	–	477,700	–	477,700
		732,100	2,623,200	(354,600)	3,000,700

Movement of the shares granted to employees and members of the management of the Group under the Scheme during the year ended 31 December 2017 are as follows:

		Number of shares					
Date of grant	Vesting period	At 1 January 2017 (Audited)	Granted on 17 March 2017	Allocated as Award Shares on 17 March 2017	Shares issued on 15 December 2017	Shares entitlement forfeited on 15 December 2017	At 31 December 2017 (Audited)
17 March 2017	17 March 2017 to 15 December 2017	–	2,631,200	(369,500)	(2,238,100)	(23,600)	–
17 March 2017	17 March 2017 to 14 December 2018	–	488,200	–	–	–	488,200
17 March 2017	17 March 2017 to 16 December 2019	–	243,900	–	–	–	243,900
		–	3,363,300	(369,500)	(2,238,100)	(23,600)	732,100

Note: Movement of Award Shares purchased is as follows:

	Number of shares purchased '000	Cost of purchase HK$'000
At 1 January 2017 (audited)	3	198
Shares purchased from the market during the year	323	34,064
Award Shares vested	(326)	(34,262)
At 31 December 2017 and 1 January 2018 (audited)	–	–
Shares purchased from the market during the period	355	40,473
At 30 June 2018 (unaudited)	355	40,473

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

19. ACQUISITION OF BUSINESS

On 3 April 2018, the Group entered into a share purchase agreement to acquire 100% equity interest in AMICRA Microtechnologies GmbH ("AMICRA", subsequently renamed as ASM AMICRA Microtechnologies GmbH), a technology company based in Regensburg, Germany, at a consideration of EUR52,119,000 (equivalent to approximately HK$503,478,000) ("AMICRA Acquisition"). AMICRA is a supplier of ultra-high precision die-attach equipment specializing in submicron placement accuracy. The AMICRA Acquisition was completed on 4 April 2018 and has been accounted for using the acquisition method.

Acquisition-related costs amounting to HK$5,297,000 had been excluded from the cost of AMICRA Acquisition and had been recognized directly as an expense in the period and included in the "general and administrative expenses" line item in the condensed consolidated statement of profit or loss.

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

	HK$'000
Property, plant and equipment	48,306
Intangible assets	257,559
Deposits paid for acquisition of property, plant and equipment	348
Inventories	133,256
Trade and other receivables	51,034
Bank balances and cash	1,308
Trade liabilities and other payables	(61,795)
Provisions	(1,294)
Income tax payables	(312)
Obligations under finance leases	(1,515)
Bank borrowings	(63,781)
Deferred tax liabilities	(85,668)
	277,446

	HK$'000
Net cash outflow arising on acquisition:	
Purchase consideration	503,478
Less: Cash and cash equivalent balances acquired	(1,308)
Consideration payable	(3,506)
Contingent consideration arrangement *(Note)*	(14,384)
	484,280

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

19. ACQUISITION OF BUSINESS (Continued)

	HK$'000
Goodwill arising on acquisition (determined on a provisional basis):	
Purchase consideration	503,478
Less: fair value of identified net assets acquired	(277,446)
	226,032

Note: The contingent consideration arrangement required the Group to pay the co-founders of AMICRA additional earn-out payments by reference to the operating performance of AMICRA (i.e. revenue and EBITDA) for the 12-month period ending 31 October 2018 and the 12-month period ending 31 October 2019, respectively ("Relevant Periods") pursuant to the share purchase agreement. At the date of acquisition, the directors consider that the fair value of the contingent consideration was the earn-out payments payable to the co-founders of AMICRA during the Relevant Periods which is estimated to be approximately EUR1,489,000 (equivalent to approximately HK$14,384,000) by reference to the estimated sales performance and profit forecast of AMICRA. The contingent consideration payable of HK$6,828,000 expected to be settled within twelve months from the reporting period is included in "Trade liabilities and other payables" and the remaining amount of HK$7,556,000 expected to be settled more than twelve months after the reporting period is included in "Other liabilities and accruals" under the non-current liabilities.

The fair value of the identified net assets acquired was estimated by applying an income approach. The key model inputs used in determining the fair value were assumed discount rate of 14.5% and assumed long-term sustainable growth rate of 3%.

The trade receivables acquired in this acquisition had a fair value of HK$48,910,000, which was the same as the related gross contractual amount and the best estimate at acquisition date of the contractual cash flows expected to be collected.

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

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

Impact of acquisitions on the results of the Group

Included in the profit for the six months ended 30 June 2018 is a loss of HK$11,583,000 attributable to AMICRA. Revenue for the six months ended 30 June 2018 includes HK$63,491,000 attributable to AMICRA.

Had the acquisition of AMICRA been completed on 1 January 2018, the total amount of revenue of the Group for the six months ended 30 June 2018 would have been HK$9,737,548,000 and the amount of the profit for the six months ended 30 June 2018 would have been HK$1,396,542,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the period, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had AMICRA been acquired at the beginning of the period, the directors of the Company have calculated depreciation of property, plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognized in the pre-acquisition financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

20. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

During the period, the emoluments of directors and other members of key management were HK$42,969,000 (for the six months ended 30 June 2017: HK$42,595,000).

Certain shares of the Company were issued to the key management under the Employee Share Incentive Scheme which has a term of 10 years starting from March 1990, the scheme was extended for a further term of 10 years up to 23 March 2010 pursuant to an extraordinary general meeting of the Company on 25 June 1999. The scheme was further extended for another term of 10 years up to 23 March 2020 pursuant to an annual general meeting of the Company on 24 April 2009. The estimated fair value of such shares included in the emoluments above amounted to HK$18,724,000 (for the six months ended 30 June 2017: HK$21,324,000) for the six months ended 30 June 2018. The vesting periods of the shares granted to key management during the six months ended 30 June 2018 span multiple years with such vesting periods expiring on 14 December 2018 and 16 December 2019 respectively. The vesting periods for the shares granted during the six months ended 30 June 2017 span multiple years with such vesting periods expiring on 15 December 2017, 14 December 2018 and 16 December 2019 respectively.

21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

Financial assets and liabilities	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	30 June 2018	31 December 2017				
Foreign currency forward contracts classified as derivative financial instruments on the condensed consolidated statement of financial position	Asset – Nil Liability – HK$30,363,000	Asset – HK$13,289,000 Liability – HK$234,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
Contingent consideration in AMICRA Acquisition (as defined in *note 19*)	Liability – HK$14,384,000	N/A	Level 3	Discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Group arising from the contingent consideration, based on an approximate discount rate.	AMICRA *(note 19)* would meet the amount of revenue and EBITDA target by reference to the estimated sales performance and profit forecast of AMICRA that could achieve.	The higher the amount of revenue and EBITDA, the higher the fair value *(Note)*.
Other investment (classified as equity instrument at FVTOCI)	Asset – HK$18,502,000	N/A	Level 3	Market approach is used by comparing the consideration for share transfer of business ownership interest in similar equity investment interest. Considerations such as time and condition of sale and terms of agreements are analyzed and adjustments are made, where appropriate, to arrive at an estimation of fair value.	The considerations may vary significantly due to difference in timing, condition of sale and terms of agreements, size and nature of similar business to derive the estimated fair value.	The higher the value of similar transactions, the higher the estimation of fair value derived from it, and vice versa.

Note: If AMICRA met a higher amount of revenue and EBITDA target, this would result in an increase in the fair value of the contingent consideration, and vice versa.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2018

21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

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

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

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

22. CONTINGENT LIABILITIES

As at 30 June 2018, the Group has provided guarantees amounting to HK$3,050,000 (31 December 2017: HK$2,837,000) to the Singapore government for work permits of foreign workers in Singapore.

23. COMMITMENTS

	At 30 June 2018 HK$'000 (Unaudited)	At 31 December 2017 HK$'000 (Audited)
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	405,761	470,891

Acquisition of TEL NEXX Business

In April 2018, the Group entered into a purchase agreement with Tokyo Electron Corporation in relation to acquisition of TEL NEXX Inc., a company based in the USA, at a consideration of approximately HK$706 million plus certain adjustments as set out in the Company's announcement on 3 April 2018. TEL NEXX Inc., is a supplier of electrochemical deposition and physical vapour deposition equipment for advanced packaging of semiconductor devices. The management expects that the acquisition will be completed during the second half of 2018, after the necessary approvals from all the relevant regulatory authorities been received.

OTHER INFORMATION

DIRECTORS' INTERESTS IN SHARES

Details of the interests of the Directors and chief executives of the Company and their associates in the share capital of the Company and its associated corporations as at 30 June 2018 as recorded in the register by the Company pursuant to Section 352 of the Securities and Futures 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 *(Note 1)*	Beneficial owner	1,665,100	0.41%
Tsui Ching Man, Stanley *(Note 2)*	Beneficial owner & interest of spouse	260,800	0.06%
Robin Gerard Ng Cher Tat *(Note 3)*	Beneficial owner	200,000	0.05%

Notes:

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

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

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

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 30 June 2018, none of the Directors or chief executives of the Company nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations.

OTHER INFORMATION (CONTINUED)

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2018, the following persons (other than the interests disclosed above in respect of Directors or chief executives of the Company) had interests or short positions in the share capital of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

		Long positions		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	103,003,000	25.47%	—	—	—	—
ASM Pacific Holding B.V.	Beneficial owner	103,003,000	25.47%	—	—	—	—
JPMorgan Chase & Co.	*(Note 2)*	24,437,115 *(Note 2)*	6.04%	10,242,089 *(Note 2)*	2.53%	7,594,735	1.88%
Commonwealth Bank of Australia *(Note 3)*	Interest of a controlled corporation	24,376,928	6.03%	—	—	—	—
GIC Private Limited	Investment manager	20,458,036	5.06%	—	—	—	—

Notes:

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

2. 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	13,887,493	10,242,089	—
Investment manager	2,954,887	—	—
Approved lending agent	7,594,735	—	7,594,735

The long position of 24,437,115 shares includes derivative interests in 4,107,357 underlying shares of the Company, of which 1,102,523 underlying shares are derived from listed and physically settled derivatives and 3,004,834 underlying shares are derived from unlisted and physically settled derivatives.

The short position of 10,242,089 shares includes derivative interests in 74,431 underlying shares of the Company, of which 11 underlying shares are derived from listed and physically settled derivatives, 36,220 underlying shares are derived from listed and cash settled derivatives and 38,200 underlying shares are derived from unlisted and physically settled derivatives.

3. Commonwealth Bank of Australia is deemed interested in 24,376,928 shares, through the shares held by its wholly owned subsidiaries, including ASB Holdings Limited, Colonial Holding Company Limited, ASB Bank Limited, Commonwealth Insurance Holdings Limited, ASB Group Investments Limited, Capital 121 Pty Limited, Colonial First State Group Ltd, Colonial First State Investments Limited, Colonial First State Asset Management (Australia) Limited, First State Investment Managers (Asia) Limited, First State Investments (UK Holdings) Limited, FSIB Limited, Realindex Investments Pty Limited, First State Investments (Hong Kong) Ltd, SI Holdings Limited, First State Investments Holdings (Singapore) Limited, First State Investment Management (UK) Limited and First State Investments (Singapore).

Save as disclosed above, as at 30 June 2018, according to the register of interests required to be kept by the Company under Section 336 of the SFO, there was no other person who had any interest or short position in the shares or underlying shares of the Company.

OTHER INFORMATION (CONTINUED)

CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 June 2018.

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

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. Specific enquiry has been made of all directors, and all directors have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2018.

AUDIT COMMITTEE

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

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2018 in conjunction with the Company's external auditor.

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

The Company was authorized at its 2017 Annual General Meeting to repurchase its own ordinary shares not exceeding 4% of the total number of its issued shares as at the date of the resolution being passed.

During the six months ended 30 June 2018, the Company repurchased an aggregate of 2,810,600 ordinary shares for a total consideration of approximately HK$305.5 million (excluding relevant trading costs directly attributable to share repurchase) on the Stock Exchange. All the shares repurchased were subsequently cancelled.

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

During the six months ended 30 June 2018, an independent professional trustee appointed by the Board under the Employee Share Incentive Scheme, pursuant to the terms of the rules and trust deed of the Employee Share Incentive Scheme, purchased on the Stock Exchange a total of 354,600 shares in the Company. The cost of purchase of these shares amounted to HK$40.5 million.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

CLOSURES OF REGISTER OF MEMBERS

The Register of Members will be closed from 13 August 2018 to 15 August 2018, both days inclusive, during which period no share transfers can be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant shares certificates, must be lodged with Company's Share Registrars, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on 10 August 2018. The interim dividend will be paid on or about 24 August 2018.

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