

Company Registration No. 199407932D

Stats ChipPAC Pte. Ltd.
And its Subsidiaries

Annual Report
For the financial year ended 31 December 2017



STATS CHIPPAC PTE. LTD. AND ITS SUBSIDIARIES

(Incorporated in Singapore)

ANNUAL REPORT

For the financial year ended 31 December 2017

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STATS CHIPPAK PTE. LTD. AND ITS SUBSIDIARIES

DIRECTORS' STATEMENT For the financial year ended 31 December 2017

The directors present their statement to the member together with the audited consolidated financial statements of the Group for the financial year ended 31 December 2017 and the unconsolidated statement of financial position of the Company as at 31 December 2017.

Opinion of the Directors

In the opinion of the directors,

- (a) the consolidated financial statements of the Group and the unconsolidated statement of financial position of the Company as set out on pages 9 to 74 are drawn up so as to give a true and fair view of the financial position of the Group and the Company at 31 December 2017, and of the financial performance, changes in equity and cash flows of the Group for the financial year then ended; and
- (b) at the date of this statement, after taking into account the Group's operation forecast and financial support from the ultimate holding company, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

Directors

The directors of the Company in office at the date of this statement are:

Han Byung Joon	(Chairman)
Lai Chih-Ming	(President and Chief Executive Officer, appointed in September 2017)
Wang Xin Chao	
Liu Ming	
Wang Liang	(appointed in October 2017)
Fan Xiao Ning	
Cui Dong	
Luo Hong Wei	
Woo Kwek Kiong	(appointed in February 2017)
Ren Kai	(resigned in September 2017)

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than as disclosed under "Directors' interests in shares or debentures" of this statement.

Directors' interests in shares or debentures

According to the register of directors' shareholdings required to be kept under Section 164 of the Singapore Companies Act, Chapter 50, none of the directors holding office at the end of the financial year had any interest or was deemed to have any interest in the shares or debentures of the Company or its related corporations, except as follows:

STATS CHIPPAK PTE. LTD. AND ITS SUBSIDIARIES

DIRECTORS' STATEMENT
For the financial year ended 31 December 2017

Jiangsu Changjiang Electronic Technology Co., Ltd - Fully paid ordinary shares

	<u>Direct</u> <u>At Beginning</u> <u>of Year</u>	<u>At End</u> <u>of Year</u>
Wang Xin Chao	300,000	300,000

Jiangsu Xinchao Technology Group Co. Ltd - Ownership

Jiangsu Xinchao Technology Group Co., Ltd, a private limited company incorporated in Jiangyin, China, owns 13.57% of the shares of Jiangsu Changjiang Electronics Technology Co., Ltd.

Wang Xin Chao and Luo Hong Wei have 50.99% and 2.76% ownership, respectively, in Jiangsu Xinchao Technology Group Co., Ltd.

Share options

There were no share options granted during the financial year to subscribe for unissued shares of the Company.

There were no shares issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company.

There were no unissued shares of the Company under option at the end of the financial year.

Auditors

The auditors, Ernst & Young LLP, have expressed their willingness to accept re-appointment.

On behalf of the Board of Directors



Lai Chih-Ming
President and Chief Executive Officer



Woo Kwek Kiong
Chief Financial Officer

Singapore
16 April 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF STATS CHIPPAC PTE. LTD.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Stats ChipPAC Pte. Ltd. (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2017, the statements of changes in equity of the Group and the consolidated income statement, consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group, the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF STATS CHIPPAK PTE. LTD.

Report on the Audit of the Financial Statements

Key Audit Matters (cont'd)

Impairment assessment of goodwill, property, plant and equipment and intangible assets

As at 31 December 2017, the Group's goodwill, property, plant and equipment and intangible assets amounted to US\$380.2 million, US\$1,144.7 million and US\$34.5 million, representing 24.1%, 72.6% and 2.2% of the total non-current assets of the consolidated balance sheet, respectively. Goodwill is reviewed for impairment annually and whenever events or changes in circumstances indicate that its carrying amounts may not be recoverable. Property, plant and equipment and intangible assets are reviewed for impairment whenever objective evidence of impairment exist.

Management has determined the Group as one cash-generating unit ("CGU") based on its integrated operations and a shared customer base. Therefore, as part of the impairment assessment, the carrying value of the CGU to which goodwill has been allocated to is compared to its recoverable amount. Included in the carrying value of CGU are the carrying values of goodwill, property, plant and equipment and intangible assets. The recoverable amount is determined using value-in-use model based on cash flow projections. Determining the recoverable amount is judgemental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rate and operating margins used to calculate projected future cash flows taking into consideration future economic and market conditions, risk-adjusted discount rates and determination of appropriate market return. Management has engaged an external specialist to assist them in determining the value-in-use for the CGU. As the impairment assessment required significant management estimates and judgement, we have determined this as a key audit matter.

Our audit procedures, included amongst others, evaluating the assumptions and methodologies used by the Group in estimating the recoverable amount. We evaluated the appropriateness of the CGU determined by management. We checked whether the cash flows were based on approved management budgets that reflected business plans, and evaluated management's forecasting process by comparing previous forecasts to actual results. We evaluated management's assumptions by comparing them to historical data as well as recent trends, market and economic outlooks. On the discount rate applied to determine present value, we have involved our internal valuation specialist to assist us in evaluating the reasonableness of the rate by considering the key elements such as risk-free rate, equity beta, market risk premium and cost of debt to the source data and external observable data, and making comparison to the rates used by other players in the same industry. We also evaluated the objectivity, competence and capabilities of the external specialist engaged and reviewed their valuation reports. Finally, we assessed the adequacy of the disclosures on the key assumptions and their sensitivity analysis in Note 13 of the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF STATS CHIPPAK PTE. LTD.

Report on the Audit of the Financial Statements

Key Audit Matters (cont'd)

Technical Services Agreement

As disclosed in Note 20 of the financial statements, the Group entered into a Technical Services Agreement with two Taiwan entities (the "Agreement"). Management has assessed the Agreement to be a derivative instrument under FRS 39. As at 31 December 2017, the Group recorded a fair value liability on the derivative of US\$16.0 million.

Management has engaged an external specialist to assess the fair value of derivative. The fair value is calculated using Monte Carlo simulation method based on management's estimation of the best and worst scenario of the projection for the commitment period. Computer simulation calculations assuming the likely amount of orders to be placed with the 2 Taiwan entities is performed. The probability weighted results of these calculations are discounted using an appropriate discount rate to arrive at the fair value of the derivative. Significant judgement is required in the estimates which include expectations of sales growth rate, revenue forecast by product line and discount rate. In addition, the valuation methodology is complex. For these reasons, we have determined this as a key audit matter.

Our audit procedures, included amongst others, considering the objectivity, competence and capabilities of the external specialist engaged by the Group. In addition, we involved our internal valuation specialist in evaluating the assumptions and methodologies used in estimating the fair value of the derivative. We evaluated management's forecasting process by comparing previous forecasts to actual results. We also evaluated the assumptions used by comparing them to historical data as well as recent trends and market and economic outlooks. On the discount rate applied to determine present value, we have evaluated the rate by considering the key elements such as credit rating analysis and comparable bond yield curve to the source data and external observable data. We also assessed the adequacy of the disclosures on the derivative in Note 17 of the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF STATS CHIPPAK PTE. LTD.

Report on the Audit of the Financial Statements

Key Audit Matters (cont'd)

Carrying value of inventory

As at 31 December 2017, carrying value of the Group's inventory is US\$75.8 million, representing 14.8% of the total current assets of the Group. During the current financial year, the Group reversed allowance for inventory obsolescence amounting to US\$2.8 million. The Group is exposed to the risk of excess and obsolete inventory which arises from volatility in demand for semiconductor chips. Significant judgement is required in the estimation of allowance for excess and obsolete inventory. The amount provided is subject to judgemental factors such as current and expected future customer demand and technological advances. As such, we determined that this is a key audit matter.

As part of our audit, we evaluated the Group's processes and controls relating to purchase of inventories for packaging solution services. In addition, we observed the inventory counts for raw materials, work in process and finished goods performed by the management to verify the existence and completeness of inventory and the physical condition of the inventory. We also evaluated management's assumptions and estimates used to determine the allowance amount through testing of the accuracy of the aging of inventories and analyses of ageing profile of inventories to identify excess and obsolete inventories. We also tested, on a sample basis, items to assess whether inventory is carried at the lower of cost and net realisable value. We also reviewed the rationale for the recording of specific allowances for inventory that cannot be sold to the customer and cannot be utilised by other divisions within the Group. Finally, we reviewed the appropriateness of the disclosures on the allowance amount in Note 9 of the financial statements.

Accounting for taxation

The Group operates across a number of different tax jurisdictions and is subject to periodic challenge by local tax authorities on a range of tax matters during the normal course of business. This includes tax exposures arising from transfer pricing arrangements. Where the amount of tax payable is uncertain, the Company establishes a liability based on management's best estimate of the probable amount to settle the liability. As a result of the complexities of the tax rules on transfer pricing, significant judgement is involved in the determination of amount to be provided. Accordingly, we have identified this area as a key audit matter.

Our audit procedures, included amongst others, involving our tax specialists to gain an understanding of the current status of tax assessments, assess the appropriateness of deferred and uncertain tax positions and challenge the assumptions used to determine the provisions. We have inspected the correspondences with relevant tax authorities. In addition, we have engaged our internal tax specialists to review the transfer pricing documentation as part of our consideration of the tax positions taken by the Company and we examined the calculations prepared by the management and compared the details of the related party transactions included in the calculation of transfer pricing adjustment to underlying data. We also considered the adequacy of the Group's disclosures as set out in Note 15.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF STATS CHIPPAC PTE. LTD.

Report on the Audit of the Financial Statements

Other information

Management is responsible for other information. The other information comprises the information included in the "Report of STATS ChipPAC Pte. Ltd. Relating to Fiscal Year 2017 including Management's Discussion and Analysis of Financial Condition and Results of Operations" and Directors' statement.

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

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

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSS, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

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

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

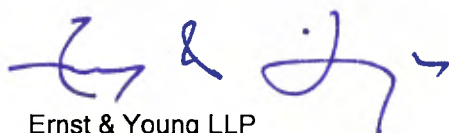
We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Yong Kok Keong.



Ernst & Young LLP
Public Accountants and
Chartered Accountants

Singapore
16 April 2018

STATS CHIPPAC PTE. LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2017 \$'000	31 December 2016 \$'000
ASSETS			
Current assets:			
Cash and cash equivalents	5	110,219	139,828
Accounts receivable	7	178,620	205,223
Short-term amounts due from related parties	30	32,944	8,313
Other receivables	8	80,100	43,708
Inventories	9	75,832	60,690
Assets held for sale	10	18,062	–
Prepaid expenses and other current assets		17,816	11,278
Total current assets		<u>513,593</u>	<u>469,040</u>
Non-current assets:			
Long-term bank deposits	6	1,365	1,096
Property, plant and equipment	11	1,144,726	1,211,964
Intangible assets	12	34,487	33,599
Goodwill	13	380,166	380,166
Prepaid expenses and other non-current assets		16,125	4,120
Total non-current assets		<u>1,576,869</u>	<u>1,630,945</u>
Total assets		<u><u>2,090,462</u></u>	<u><u>2,099,985</u></u>
LIABILITIES			
Current liabilities:			
Accounts and other payable		239,746	219,232
Payables related to property, plant and equipment purchases		85,395	35,738
Accrued operating expenses	14	72,802	126,432
Income taxes payable		884	2,246
Short-term borrowings	16	59,063	37,233
Short-term amounts due to related parties	30	73,534	34,079
Total current liabilities		<u>531,424</u>	<u>454,960</u>
Non-current liabilities:			
Long-term borrowings	16	705,079	842,535
Long-term payables to holding company		–	29,908
Deferred tax liabilities	15	18,098	38,084
Other non-current liabilities	18	2,786	8,284
Total non-current liabilities		<u>725,963</u>	<u>918,811</u>
Total liabilities		<u><u>1,257,387</u></u>	<u><u>1,373,771</u></u>
EQUITY			
Share capital	24	977,276	784,546
Retained earnings		(350,966)	(253,876)
Other reserves	25	(12,568)	(15,789)
Equity attributable to equity holders of STATS ChipPAC Pte. Ltd.		<u>613,742</u>	<u>514,881</u>
Perpetual securities	26	219,333	211,333
Total equity		<u><u>833,075</u></u>	<u><u>726,214</u></u>
Total liabilities and equity		<u><u>2,090,462</u></u>	<u><u>2,099,985</u></u>

The accompanying notes form an integral part of these financial statements.

STATS CHIPPAC PTE. LTD. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT

	Note	Year Ended	
		31 December 2017 \$'000	31 December 2016 \$'000
Net revenues		1,160,625	1,163,161
Cost of revenues		(1,104,212)	(1,084,960)
Gross profit		56,413	78,201
Operating expenses:			
Selling, general and administrative		71,110	64,704
Research and development		34,767	30,606
Total operating expenses		105,877	95,310
Operating loss		(49,464)	(17,109)
Other income (expenses), net:			
Interest income		378	559
Interest expense		(68,890)	(68,687)
Foreign currency exchange loss		(1,114)	(913)
Other non-operating income, net	22	6,529	8,795
Total other expenses, net		(63,097)	(60,246)
Loss before income taxes		(112,561)	(77,355)
Income tax (expense) benefit	15	23,471	(9,395)
Net loss for the year		(89,090)	(86,750)
Less: Net income attributable to Holders of Perpetual Securities		(8,000)	(8,000)
Net loss attributable to STATS ChipPAC Pte. Ltd.		(97,090)	(94,750)
Net loss per ordinary share attributable to STATS ChipPAC Pte.Ltd.:	23		
— Basic		\$(0.04)	\$(0.04)
— Diluted		\$(0.04)	\$(0.04)

The accompanying notes form an integral part of these financial statements.

STATS CHIPPAC PTE. LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year Ended	
	31 December 2017 \$'000	31 December 2016 \$'000
Note		
Net loss for the year	(89,090)	(86,750)
Other comprehensive loss:		
Cash flow hedges	5,536	(2,391)
Foreign currency translation adjustment	(2,367)	413
Actuarial reserve	52	589
Comprehensive income (loss), net of tax	3,221	(1,389)
Total comprehensive loss, net of tax	<u>(85,869)</u>	<u>(88,139)</u>
Total comprehensive income (loss), net of tax attributable to:		
STATS ChipPAC Pte. Ltd.	(93,869)	(96,139)
Holders of perpetual securities	8,000	8,000
	<u>(85,869)</u>	<u>(88,139)</u>

The accompanying notes form an integral part of these financial statements.

STATS CHIPPAC PTE. LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to Equity Holders of STATS ChipPAC Pte. Ltd.					Total Equity Attributable to STATS ChipPAC Pte. Ltd. \$'000	Perpetual securities \$'000	Total Equity \$'000
	Share Capital \$'000	Retained Earnings \$'000	Foreign Currency Translation Reserve \$'000	Hedging Reserve \$'000	Actuarial Reserve \$'000			
2017								
Balances at 1 January 2017	784,546	(253,876)	(13,569)	(3,297)	1,077	514,881	211,333	726,214
Capital increase (Note 24)	192,730	—	—	—	—	192,730	—	192,730
Total comprehensive income (loss), net of tax	—	(97,090)	(2,367)	5,536	52	(93,869)	8,000	(85,869)
Balances at 31 December 2017	977,276	(350,966)	(15,936)	2,239	1,129	613,742	219,333	833,075
2016								
Balances at 1 January 2016	784,546	(159,126)	(13,982)	(906)	488	611,020	203,333	814,353
Total comprehensive income (loss), net of tax	—	(94,750)	413	(2,391)	589	(96,139)	8,000	(88,139)
Balances at 31 December 2016	784,546	(253,876)	(13,569)	(3,297)	1,077	514,881	211,333	726,214

The accompanying notes form an integral part of these financial statements.

STATS CHIPPAK PTE. LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended	
	31 December 2017 \$'000	31 December 2016 \$'000
Cash Flows From Operating Activities		
Net loss for the year	(89,090)	(86,750)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Income tax expense (benefit)	(23,471)	9,395
Depreciation and amortisation	252,322	249,859
Gain on sale of property, plant and equipment	(9,372)	(2,292)
Foreign currency exchange gain	(30,633)	(1,903)
Interest income	(378)	(559)
Interest expense	68,890	68,687
Others	395	751
Changes in working capital:		
Accounts receivable	26,603	(36,768)
Amounts due from related parties	(24,631)	(811)
Inventories	(15,142)	(10,643)
Other receivables, prepaid expense and other assets	(67,306)	(1,036)
Accounts payable, accrued operating expenses and other payables	5,939	9,878
Amounts due to related parties	39,455	31,409
Interest received	456	521
Income tax received (paid)	1,410	(926)
Net cash provided by operating activities	135,447	228,812
Cash Flows From Investing Activities		
Acquisition of intangible assets	(2,970)	(3,119)
Purchases of property, plant and equipment	(167,392)	(201,227)
Purchases of other non-current assets	(13,800)	—
Proceeds from sale of property, plant and equipment and others	8,606	18,413
Net cash used in investing activities	(175,556)	(185,933)
Cash Flows From Financing Activities		
Repayment of bank borrowings	(82,233)	(354,507)
Redemption of senior notes	(74,489)	(41,369)
Proceeds from bank borrowings	30,000	363,396
Proceeds from holding company	—	29,908
Capital injection from holding company	162,730	—
Government compensation and grants received	32,176	39,682
Interest paid	(57,779)	(56,893)
Net cash provided by (used in) financing activities	10,405	(19,783)
Net (decrease) increase in cash and cash equivalents	(29,704)	23,096
Effect of exchange rate changes on cash and cash equivalents	95	—
Cash and cash equivalents at beginning of the year	139,828	116,732
Cash and cash equivalents at end of the year	110,219	139,828

The accompanying notes form an integral part of these financial statements.

STATS CHIPPAC PTE. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

These notes form an integral part of the consolidated financial statements.

1. General Information

STATS ChipPAC Pte. Ltd. ("STATS ChipPAC" or the "Company" and together with its subsidiaries, the "Group") is an independent provider of a full range of semiconductor packaging design, bump, probe, assembly, test and distribution solutions. STATS ChipPAC is headquartered in Singapore and has manufacturing facilities in South Korea, Singapore and China. STATS ChipPAC markets its services through its direct sales force in the United States, Singapore, South Korea, China and Switzerland.

STATS ChipPAC is incorporated and domiciled in Singapore. The Company was listed on the Singapore Exchange Securities Trading Limited ("SGX-ST") and subsequently delisted on 19 October 2015. The registered office of the Company is at 10 Ang Mo Kio Street 65 Techpoint #04-08/09 Singapore 569059.

On 5 August 2015, Jiangsu Changjiang Electronics Technology Co., Ltd ("JCET") through its subsidiary, JCET-SC (Singapore) Pte. Ltd ("JCET-SC") acquired more than 90% of the Company's ordinary shares (the "Change of Control" and such transaction, the "Change of Control Transaction"). On 15 October 2015, JCET-SC acquired the remaining ordinary shares of the Company and became the sole shareholder. Prior to 5 August 2015, Singapore Technologies Semiconductors Pte Ltd ("STSPL"), a wholly-owned subsidiary of Temasek Holdings (Private) Limited ("Temasek"), beneficially owned 83.8% of our ordinary shares.

As part of the Change of Control Transaction, the Company completed the divestment of its wholly owned subsidiary, STATS ChipPAC Taiwan Co., Ltd. and its 52%-owned STATS ChipPAC Semiconductor Corporation (collectively, "Taiwan Entities") and \$15.0 million in cash to the Company's shareholders via a capital reduction (the "Taiwan Restructuring, Capital Reduction and Distribution").

With effect from 29 March 2016, the Company converted to a private company and that the name of the Company is now STATS ChipPAC Pte. Ltd..

The Group's immediate holding corporation is JCET-SC, incorporated in Singapore. The ultimate holding corporation is JCET, beneficially owned approximately 100.0% of the Company as of 31 December 2017 (2016: 39.4%).

2. Presentation of Financial Statements

The financial statements of STATS ChipPAC comply with the Singapore Financial Reporting Standards ("SFRS").

The financial statements for the year ended 31 December 2017 (including comparatives) were approved and authorised for issue by the board of directors on 16 April 2018.

3. Summary of Significant Accounting Policies

(a) Basis of Preparation

The financial statements have been prepared on the basis of historical cost, except as disclosed in the accounting policies below. The significant accounting policies set out below have been applied consistently to all periods presented in the financial statements.

The financial statements are presented in US dollars ("US\$" or "\$") and all values are rounded to the nearest thousand ("'\$'000") except where otherwise indicated.

The Group incurred a net loss of \$89.1 million (2016: 86.8 million) for the financial year ended 31 December 2017. As at that date, the Group's current liabilities exceeded its current assets by \$17.8 million (2016: net

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current liability: \$14.1 million). The Group has borrowing and interest repayment commitments of \$127.4 million (2016: \$192.4 million) which are due within 12 months from the date of the Auditor's Report.

After taking into account the Group's operation forecast and financial support from the ultimate holding company, the directors of the Company consider that the Group will have sufficient working capital to finance its operations and financial obligations as and when they fall due, and accordingly, are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

(b) Changes in Significant Accounting Policies and Disclosure

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised standards which are effective for annual financial periods beginning on or after 1 January 2017, including the Amendments to FRS 7 Disclosure Initiative. The adoption of these standards did not have any effect on the financial performance or position of the Group and the Company.

The Group has not adopted the following standards applicable to the Group that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
Amendments to FRS 102 Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to FRS 40 Transfers of Investment Property	1 January 2018
FRS 109 Financial Instruments	1 January 2018
FRS 115 Revenue from Contracts with Customers	1 January 2018
Amendments to FRS115 Clarifications to FRS115 Revenue from Contracts with Customers	1 January 2018
Amendments to FRS 104 Applying FRS 109 Financial Instruments with FRS 104 Insurance Contracts	1 January 2018
FRS 116 Leases	1 January 2019
Amendments to FRS 109 Prepayment Features with Negative Compensation	1 January 2019
Amendments to FRS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019
Improvements to FRSs (December 2016)	
- Amendments To FRS 28 Investments in Associates and Joint Ventures	1 January 2018
INT FRS 122 Foreign Currency Transactions and Advance Consideration	1 January 2018
INT FRS 123 Uncertainty over Income Tax Treatments	1 January 2019
Improvements to FRSs (March 2018)	
- Amendments to FRS 103 Business Combinations	1 January 2019
- Amendments to FRS 111 Joint Arrangements	1 January 2019
- Amendments to FRS 12 Income Taxes	1 January 2019

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- Amendments to FRS 23 Borrowing Costs

1 January 2019

Amendments to FRS 110 and FRS 28 Sale or Contribution of Assets
between an Investor and its Associate or Joint Venture

Date to be determined

Except for FRS 109, FRS 115 and FRS 116, the Group does not expect the adoption of the above FRSs, Interpretations of FRSs and amendments to FRS in the future periods to have a material impact on the financial statements of the Group in the period of their initial adoption. The nature of the impending changes in accounting policy on adoption of FRS 109, FRS 115 and FRS 116 are described below.

FRS 115 Revenue from Contracts with Customers

FRS 115 establishes a five-step model to account for revenue arising from contracts with customers. Under FRS 115, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard is effective for annual periods beginning on or after 1 January 2018.

The Group has performed a preliminary impact assessment of adopting FRS 115 based on currently available information. The Group does not expect a significant impact upon adoption of FRS 115. This assessment may be subject to changes arising from ongoing analysis until the Group adopts FRS 115 in 2018.

The Group plans to apply the changes in accounting policies retrospectively to each reporting year presented, using the full retrospective approach.

FRS 109 Financial Instruments

FRS 109 introduces new requirements for classification and measurement of financial assets, impairment of financial assets and hedge accounting. Financial assets are classified according to their contractual cash flow characteristics and the business model under which they are held. The impairment requirements in FRS 109 are based on an expected credit loss model and replace the FRS 39 incurred loss model.

The Group plans to adopt the new standard on the required effective date without restating prior periods' information and recognises any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period at the date of initial application in the opening retained earnings.

The Group has performed a preliminary impact assessment of adopting FRS 109 based on currently available information. The Group does not expect a significant impact upon adoption of FRS 109. This assessment may be subject to changes arising from ongoing analysis, until the Group adopts FRS 109 in 2018.

Impairment

FRS 109 requires the Group to record expected credit losses on all of its debt securities, loans, trade receivables and financial guarantees, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all account receivables. Upon application of the expected credit loss model, the Group does not expect a significant impact due to its historical experience and customers' profile, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of impact.

FRS 116 Leases

FRS 116 requires lessees to recognise most leases on balance sheets to reflect the rights to use the leased assets and the associated obligations for lease payments as well as the corresponding interest expense and depreciation charges. The standard includes two recognition exemption for lessees - leases of 'low value'

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assets and short-term leases. The new standard is effective for annual periods beginning on or after 1 January 2019.

The Group is currently assessing the impact of the new standard and plans to adopt the new standard on the required effective date. The Group expects the adoption of the new standard will result in increase in total assets and total liabilities, EBITDA and gearing ratio.

The Group plans to adopt the new standard on the required effective date by applying FRS 116 retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of retained earnings as at 1 January 2019.

The Group is currently in the process of analysing the transitional approaches and practical expedients to be elected on transition to FRS 116 and assessing the possible impact of adoption.

(c) Principles of Consolidation and Subsidiaries

(i) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- de-recognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;
- de-recognises the carrying amount of any non-controlling interest;
- de-recognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss;
- re-classifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

(ii) Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company.

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Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

(d) Business Combinations

Business combinations are accounted for using the acquisition method of accounting. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. The consideration transferred for the acquisition is measured as the cash paid, the fair value of other assets given and equity instruments issued by the acquirer and liabilities incurred or assumed at the date of exchange by the acquirer to the former owners of the acquiree. The transaction cost of an acquisition is recognised as expenses in the periods in which the costs are incurred and the services are rendered.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any), that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation, is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another FRS.

(e) Subsidiaries

A subsidiary is an investee that is controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

(f) Foreign Currency Transactions

The Group predominantly utilises the U.S. dollar as its functional currency, which reflects the economic environment in which the activities of the Group are largely exposed to. Assets and liabilities which are denominated in foreign currencies are converted into the functional currency at the rates of exchange prevailing at the balance sheet date. Income and expenses which are denominated in foreign currencies are converted at the average rates of exchange prevailing during the period. Foreign currency transaction gains or losses are included in results of operations.

Where the functional currency of a subsidiary is other than the Company's U.S. dollar reporting currency, the financial statements are translated into U.S. dollars using exchange rates prevailing at the balance sheet date for assets and liabilities and average exchange rates for the reporting period for the results of operations. Adjustments resulting from translation of such foreign subsidiary financial statements are reported within other reserves, which is reflected as a separate component of equity.

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(g) Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have original maturities of three months or less. Cash and cash equivalents consisted of cash, deposit accounts and money market funds.

Investments in securities, investments or bank accounts subject to restrictions, other than restrictions due to regulations specific to a country's exchange controls or activity sector, are not presented as cash and cash equivalents but as restricted cash. Restricted cash consists of time deposits and government bonds held in connection with foreign regulatory requirement and as collateral for bank loans.

(h) Derivative Instruments and Hedging Activities

The Group has established risk management policies for committed or forecasted exposures to protect against volatility of future cash flows. These programs reduce, but do not always entirely eliminate, the impact of the currency exchange, interest rate or commodities price movements. The Group uses derivative financial instruments such as forward currency contracts and interest rate swap contracts to hedge its risks associated with foreign currency rate movement arising from its operations in various countries and interest rate fluctuations.

The Group recognises all derivatives as either assets or liabilities in the consolidated balance sheets and measures those instruments at fair value. Changes in the fair value of those instruments will be reported in earnings or other comprehensive income depending on the use of the derivative and whether it qualifies for hedge accounting. The accounting for gains and losses associated with changes in the fair value of derivatives and the effect on the consolidated financial statements will depend on the derivatives' hedge designation and whether the hedge is highly effective in achieving offsetting changes in the fair values of cash flows of the asset or liability hedged. Ineffectiveness of the hedge or termination of the hedged transaction requires amounts to be classified from other comprehensive income (loss) to earnings.

Certain foreign currency forward contracts transacted to economically hedge certain committed exposures are not designated as hedges. Accordingly, the changes in fair value of these foreign currency forward contracts are reported in earnings.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur or is unrecoverable, the net cumulative gain or loss recognised in equity is reported in earnings.

(i) Financial Assets

Initial recognition and measurement

Financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

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(i) Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

(ii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by FRS 39. Derivatives, including embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial assets are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss include exchange differences, interest and dividend income.

De-recognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

(j) Accounts and Other Receivables

Accounts and other receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Allowances are made for collectability of accounts receivable when there is doubt as to the collectability of individual accounts. The fair value of accounts and other receivables is not materially different from the carrying value presented. Collectability is assessed based on the age of the balance, the customer's historical payment history, its current credit-worthiness and current economic trends.

(k) Inventories

Inventories are stated at the lower of standard cost, which approximates actual cost determined on the weighted average basis, and net realisable value. Cost is generally computed on a standard cost basis, based on normal capacity utilisation, with unrecoverable costs arising from underutilisation of capacity expensed when incurred. Net realisable value is determined based on estimated selling price, less further costs expected to be incurred to completion and disposal. Reserves are established for excess and obsolete inventories based on estimates of salability and forecasted future demand. The Group generally does not take ownership of customer supplied semiconductors, and accordingly does not include them as part of its inventories.

(l) Goodwill

Goodwill represents the excess of the consideration transferred in a business combination over the fair value of the Group's share of the identifiable net assets acquired. Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment on an annual basis for its cash-generating-unit ("CGU"), and whenever there is an indication that the carrying value may be impaired. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

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(m) Intangible Assets

The Group capitalises direct costs associated with acquisition, development or purchase of patent rights and technology licenses for use in its processes. These costs are amortised over the shorter of the useful life or license period. In addition, intangible assets acquired in business combinations accounted for under the acquisition method of accounting are recorded at fair value on the Group's consolidated balance sheet at the date of acquisition. Management considered a number of factors when estimating fair value, including appraisals, discounted cash flow analysis, estimated royalty rates and appropriate market comparables. Acquired intangible assets are stated at cost less accumulated amortisation. Amortisation is calculated on the straight-line method over the following periods:

Tradenames	7 years
Technology and intellectual property	10 years
Customer relationships	2 years
Patents	18 to 19 years
Software and licenses	3 to 5 years

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

(n) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on the straight-line method over the following periods:

Buildings, mechanical and electrical installation	3 to 25 years
Equipment	2 to 8 years

No depreciation is provided on property, plant and equipment under installation or construction and freehold land. Repairs and replacements of a routine nature are expensed, while those that extend the life of an asset are capitalised. Plant and equipment under finance leases are stated at the present value of minimum lease payments and are amortised straight-line over the estimated useful life of the assets.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on de-recognition of the asset is included in profit or loss in the year the asset is derecognised.

(o) Impairment

(1) Non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when an annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses of continuing operations are recognised in profit or loss, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

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A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

(2) Financial assets carried at amortised cost

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial asset is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

(p) Financial liabilities

Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

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(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial liabilities are recognised in profit or loss.

(ii) Financial liabilities at amortised cost

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

De-recognition

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(q) Interest Bearing Loans and Other Borrowings

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(r) Share capital and share issuance expenses

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

(s) Revenue Recognition

Revenue is derived primarily from wafer probe and bumping, packaging and testing of semiconductor integrated circuits. Net revenues represent the invoiced value of goods and services rendered net of returns, trade discounts and allowances, and excluding goods and services tax.

Revenue is recognised when all significant risks and rewards of ownership of the goods and services are transferred to the customer. Significant risks and rewards are generally considered to be transferred to the customers when the customer has taken undisputed delivery of the goods.

The Group generally does not take ownership of customer supplied semiconductors as these materials are sent to the Group on a consignment basis. Accordingly, the values of the customer supplied materials are neither reflected in revenue nor in cost of revenue.

Provisions are made for estimates of potential sales returns and discounts allowance for volume purchases and early payments and are recorded as a deduction from gross revenue based upon historical experience and expectations of customers' ultimate purchase levels and timing of payment. Specific returns and discounts are provided for at the time their existence is known and the amounts are estimable.

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(t) Grants

Government grants relating to property plant and equipment used for research and development activities are treated as deferred income and are credited to income on the straight-line basis over the estimated useful lives of the relevant assets. Other grants on subsidies of training and research and development expenses are credited to income when it becomes probable that expenditures already incurred will constitute qualifying expenditures for purposes of reimbursement under the grants, which is typically substantially concurrent with the expenditures.

(u) Employee Benefit Plans

(i) Defined contribution plan

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. The Group contributes to several state plans for individual employees that are considered defined contribution plans. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

(ii) Defined benefit plan

The Company's defined benefit plan, in accordance with the Company's employees benefit policy, establishes the provision for severance and retirement benefits for employees terminating their employment with at least one year of service based on the rates of pay in effect at the time of termination, years of service and certain other factors. The provision is determined based on the amount that would be payable assuming all employees were to terminate their employment as at the reporting date. Moreover, the Company calculates the present value of the expected pension amounts payable to those retired employees, who have satisfied the conditions for the pension payment and elected to receive the payment, and provides an accrual for such defined benefit obligations.

Provision is made for end-of-service gratuity payable to the staff at the statement of financial position date in accordance with the local law in respective jurisdictions. The said additional provisions, which are unfunded, are estimated using actuarial calculations based on the report prepared by an independent firm of actuary. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation (derived using a discount rate based on high quality corporate bonds) at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reduction in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognised as expense in profit or loss. Past service costs are recognised when plan amendment or curtailment occurs. Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on high quality corporate bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognised as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognised immediately in other comprehensive income in the period in which they arise. Remeasurements are recognised in retained earnings within equity and are not reclassified to profit or loss in subsequent periods.

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(v) Leases

Agreements under which payments are made to owners in return for the right to use an asset for a period are accounted for as leases. Leases that transfer substantially all the risks and rewards of ownership are recognised at the commencement of the lease term as finance leases within property, plant and equipment and debt at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Finance lease payments are apportioned between interest expense and repayments of debt. All other leases are recorded as operating leases and the costs are recognised in income on a straight-line basis term, even if the payments are not made on such a basis.

(w) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive), as a result of past event, and it is probable that an outflow of resources, that can be reliably estimated, will be required to settle such an obligation. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimate.

The Group guarantees that work performed will be free from any defects in workmanship, materials and manufacture generally for a period ranging from three to twelve months to meet the stated functionality as agreed to in each sales arrangement. Products are tested against specified functionality requirements prior to delivery, but the Group nevertheless from time to time experiences claims under its warranty guarantees. The Group accrues for estimated warranty costs under those guarantees based upon historical experience, and for specific items at the time their existence is known and the amounts are determinable.

(x) Research and Development

As the Group cannot definitively distinguish the research phase from the development phase of its internal projects to create intangible assets, the Group treats the expenditure on its internal projects as if they were incurred in the research phase only. Accordingly, all research and development costs are expensed as incurred.

(y) Taxes

(1) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(2) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

(3) Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included.

(2) Earnings per Share

Basic earnings per share is computed by dividing net income attributable to ordinary shareholders of STATS ChipPAC Pte. Ltd. by the weighted average shares outstanding during the year. Diluted earnings per share is calculated by assuming conversion or exercise of all potentially dilutive share options outstanding during the period plus other dilutive securities outstanding, such as convertible notes.

(aa) Segment Reporting

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by management (chief operating decision makers) for the purpose of making decisions about resources to be allocated and for assessing performance. Commencing in 2013, the Group realigned its segment reporting for packaging and test business as a single business unit delivering turnkey

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packaging and test solutions to customers. The Group considered developments and changes in its business to align the identification of its operating segments.

(bb) Contingencies

A contingent liability is:

- a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- b) a present obligation that arises from past events but is not recognised because:
 - i. It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - ii. The amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the balance sheet of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

4. Critical Accounting Assumptions and Estimation Uncertainty

The preparation of financial statements requires the Group's management to make certain assumptions and estimates that affect the reported amount of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Despite regular reviews of these assumptions and estimates, based in particular on past achievements or anticipations, facts and circumstances may lead to changes in these assumptions and estimate which could impact the reported amount of the Group's assets, liabilities, equity or earnings. These assumptions and estimates are detailed in the following areas:

Revenue Recognition

Revenue recognition is impacted by the Group's ability to estimate sales incentives, expected returns and provisions for uncollectible receivables. The Group makes estimates of potential sales returns and discounts in which allowance for volume purchases and early payments is made as a deduction from gross revenue based on historical experience and expectations of the customers' ultimate purchase levels and payment timing. Actual revenues may differ from estimates if future customer purchases or payment timing differ, which may happen as a result of changes in general economic conditions, market demand for the customers' products, or by customers' desire to achieve payment timing discounts.

Allowances are made for collectability of accounts receivable when there is doubt as to the collectability of individual accounts. The Group considers various factors, including a review of specific transactions, age of the balance, the creditworthiness of the customers, historical payment experience and market and economic conditions when determining provisions for uncollectible receivables. Estimates are evaluated on a periodic basis to assess the adequacy of the estimates. The Group mitigates its credit risk through credit evaluation process, credit policies, and credit control and collection procedures but these methods cannot eliminate all potential credit risk losses. The actual level of debt collected may differ from the estimated levels of recovery and additional allowances may be required in the future.

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Valuation of Inventory

The valuation of inventory requires the Group to estimate obsolete or excess inventory as well as inventory that are not of saleable quality. The determination of obsolete or excess inventory requires the Group to estimate the future demand from our customers within specific time horizons, generally six months or less. The estimates of future demand that is used in the valuation of inventories are based on the forecasts provided by the customers. If inventory for specific customer forecast is greater than actual demand, the Group may be required to record additional inventory reserves.

Depreciation and Amortisation

The Group's operations are capital intensive and the Group has significant investment in testing and packaging equipment. The Group depreciates its property, plant and equipment based on its estimate of the period that the Group expects to derive economic benefits from their use. The estimates of economic useful lives are set based on historical experience, future expectations and the likelihood of technological obsolescence arising from changes in production techniques or in market demand for the use of our equipment and machinery. However, business conditions, underlying technology and customers' requirements may change in the future which could cause a change in the useful lives. Any change in useful lives could have a significant effect on the Group's future operating results.

Valuation of Property, Plant and Equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Management judgement is critical in assessing whether events have occurred that may impact the carrying value of property, plant and equipment.

Due to the nature of the business, which may include sudden changes in demand in the end markets, and due to the fact that certain equipment is dedicated to specific customers, the Group may not be able to anticipate declines in the utilisation of its equipment and machinery. Generally, the Group considers consecutive quarterly utilisation rate declines or projected utilisation deterioration or implication of natural disasters as principal factors for its impairment review. Consequently, additional impairment charges may be necessary in the future and this could have a significant negative impact on future operating results.

In determining the recoverable amount of equipment and machinery, the Group considers offers to purchase such equipment, comparable market analyses and expected future discounted cash flows. Discounted cash flows involves management estimates on selling prices, market demand and supply, economic and regulatory climates, production cost estimation, discount rates and other factors. Any subsequent changes to the discounted cash flow due to changes in the above mentioned factors could impact on the carrying value of the assets.

Deferred Tax Asset and Uncertain Income Tax Positions

Tax provisions are recognised when it is considered probable (more likely than not) that there will be a future outflow of funds to a taxing authority. In such cases, provision is made for the amount that is expected to be settled, where this can be reasonably estimated. This requires the application of judgement as to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognised in income in the period in which the change occurs.

Deferred tax assets are recognised only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse, and a judgement as to whether or not there will be sufficient taxable profits available to offset the tax assets upon reversal. This requires assumptions regarding future business plan, profitability, tax planning strategies and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognised in respect of deferred tax assets as well as the amounts recognised in income in the period in which the change occurs.

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Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognised in income both in the period of change, which would include any impact on cumulative provisions, and in future periods.

Valuation of Goodwill

Goodwill is reviewed for impairment annually and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. The determination of the recoverable amount of a CGU (or group of CGUs) to which goodwill is allocated is based on value-in-used model and involves the use of estimates by management. Recoverable amount is estimated based on the present value of future cash flows which is judgemental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions, and determination of appropriate market comparables. These estimates, including the methodology used, can have a material impact on the respective values and ultimately the amount of any goodwill impairment.

5. Cash and Cash Equivalents

	31 December 2017 \$'000	31 December 2016 \$'000
Cash at banks and on hand	92,334	112,479
Cash equivalents		
Bank fixed deposits	13,871	23,659
Money market funds	4,014	3,690
	<u>110,219</u>	<u>139,828</u>

Bank fixed deposits are made for periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Cash and cash equivalents are deposited with financial institutions primarily in Singapore, the United States of America, British Virgin Islands, South Korea and China. Deposits in the financial institutions may exceed the amount of insurance provided on such deposits, if any. South Korean and Chinese foreign currency exchange regulators may place restrictions on the flow of foreign funds into and out of those countries. The Group is required to comply with these regulations when entering into transactions in foreign currencies in South Korea and China.

6. Bank deposits

	31 December 2017 \$'000	31 December 2016 \$'000
Long-term bank deposits	1,365	1,096
Less: bank deposits pledged	(1,365)	(1,096)
	<u>—</u>	<u>—</u>

Bank deposits are made for periods more than three months depending on the cash requirements of the Group and earn interest at the respective deposit rates. Certain bank deposits are pledged in relation to performance security of the new factory construction in South Korea (refer to Note 11).

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7. Accounts Receivable

	31 December 2017 \$'000	31 December 2016 \$'000
Accounts receivable – third parties	179,031	205,876
Less: Provision for sales return	(411)	(653)
Accounts receivable	<u>178,620</u>	<u>205,223</u>

Trade receivables are non-interest bearing and are generally on 30 to 90 days' terms. As of 31 December 2017, the Group entered into \$89.3 million (2016: \$60.3 million) non-recourse factoring of accounts receivable for cash under its cash realisation program with bank, and the associated accounts receivable were derecognised.

8. Other Receivables

	31 December 2017 \$'000	31 December 2016 \$'000
Deposits and staff advances	1,048	275
Taxes receivable	27,210	14,949
Forward contracts receivables	2,846	7
China compensation receivables	47,144	27,064
Other receivables	1,852	1,413
	<u>80,100</u>	<u>43,708</u>

9. Inventories

	31 December 2017 \$'000	31 December 2016 \$'000
Raw materials	58,203	44,218
Work-in-progress	15,079	16,188
Finished goods	2,550	284
	<u>75,832</u>	<u>60,690</u>

Inventories recognised in cost of revenues during 2017 amounted to \$377.0 million (2016: \$380.1 million), including reversal for allowance of inventory obsolescence of \$2.8 million (2016: allowance of \$1.6 million).

10. Assets held for sale

In 2017, land and building with net book value of \$18.1 million in Korea were reclassified from property, plant and equipment to assets held for sale.

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11. Property, Plant and Equipment

	Freehold Land \$'000	Buildings, Construction In Progress, Mechanical and Electrical Installation \$'000	Equipment \$'000	Total \$'000
<i>Cost</i>				
Balances at 1 January 2017	3,234	470,843	2,963,586	3,437,663
Additions	—	25,389	155,949	181,338
Transfer from related parties	—	—	42,115	42,115
Disposal/write-off	—	(4,949)	(113,274)	(118,223)
Reclassification to current held for sale assets	(3,234)	(24,529)	—	(27,763)
Reclassification to intangible assets	—	—	(22,558)	(22,558)
Transfer to related parties	—	—	(24,616)	(24,616)
Balances at 31 December 2017	—	466,754	3,001,202	3,467,956
<i>Accumulated depreciation</i>				
Balances at 1 January 2017	—	130,661	2,095,038	2,225,699
Additions	—	27,937	219,648	247,585
Transfer from related parties	—	—	6,404	6,404
Disposal/write-off	—	(4,944)	(101,091)	(106,035)
Reclassification to current held for sale assets	—	(9,701)	—	(9,701)
Reclassification to intangible assets	—	—	(19,862)	(19,862)
Transfer to related parties	—	—	(20,860)	(20,860)
Balances at 31 December 2017	—	143,953	2,179,277	2,323,230
Net book value at 31 December 2017	—	322,801	821,925	1,144,726
	Freehold Land \$'000	Buildings, Construction In Progress, Mechanical and Electrical Installation \$'000	Equipment \$'000	Total \$'000
<i>Cost</i>				
Balances at 1 January 2016	3,234	442,058	2,921,279	3,366,571
Additions	—	29,138	163,157	192,295
Transfer from related parties	—	—	10,150	10,150
Disposal/write-off	—	(64)	(95,450)	(95,514)
Transfer to related parties	—	(289)	(35,550)	(35,839)
Balances at 31 December 2016	3,234	470,843	2,963,586	3,437,663
<i>Accumulated depreciation</i>				
Balances at 1 January 2016	—	105,446	1,983,860	2,089,306
Additions	—	23,074	223,478	246,552
Disposal/write-off	—	(28)	(93,845)	(93,873)
Transfer to related parties	—	(6)	(21,353)	(21,359)
Depreciation recovery	—	2,175	2,898	5,073
Balances at 31 December 2016	—	130,661	2,095,038	2,225,699
Net book value at 31 December 2016	3,234	340,182	868,548	1,211,964

The Group routinely reviews the remaining estimated useful lives of its equipment to determine if such lives should be adjusted due to the likelihood of technological obsolescence arising from changes in production techniques or in market demand for the use of its equipment.

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The Singapore facilities are located in a building constructed on land held on a 30-year operating lease which is renewable for a further 30-year period subject to the fulfillment of certain conditions. The facilities in Icheon City, South Korea are located on freehold land. In 2017, land and building with net book value of \$18.1 million in Korea were reclassified from property, plant and equipment to assets held for sale.

Certain bank deposits are pledged in relation to performance security of the new factory construction in South Korea with carrying amount of \$202.5 million (2016: \$213.5 million) (refer to Note 6).

Property, plant and equipment of the Group with carrying amounts of \$951.3 million (2016: \$1,046.8 million) are provided as collateral for Take-Out Facilities and 2020 Notes (refer to Note 16).

On 1 January 2015, the Group announced the plan to relocate its wholly-owned subsidiary, STATS ChipPAC Shanghai, Co., Ltd. to a new manufacturing site in China. Recent changes in the long term zoning, development and construction plans for the West Hongqiao area of Shanghai, China have resulted in the need to relocate by the end of 2017. STATS ChipPAC Shanghai, Co., Ltd. ceased operation and the relocation to STATS ChipPAC Semiconductor Jiangyin Co., Ltd was completed by September 2017. Total compensation amount of RMB1,026.8 million (equivalent to approximately \$159.2 million) will be paid to the Group by the relevant People's Republic of China (PRC) authorities over several agreed upon milestones. RMB308.1 million (equivalent to approximately \$49.3 million) was received in February 2015. RMB256.7 million (equivalent to approximately \$38.4 million) was received in October 2016. RMB51.3 million (equivalent to approximately \$7.5 million) was received in February 2017. RMB102.7 million (equivalent to approximately \$15.3 million) was received in Aug 2017. RMB258.0 million (equivalent to approximately \$41.0 million) was received in April 2018. The Group expects to receive the remaining compensation of RMB50.0 million (equivalent to approximately \$7.7 million) by 2018.

Impairment testing of property, plant and equipment

For the year ended 31 December 2017, the Group performed impairment assessment on the net book value of property, plant and equipment of \$1,144.7 million (2016: \$1,212.0 million).

The recoverable amount of property, plant and equipment has been determined based on a value-in-use calculation. Cash flow projections used in the value-in-use calculations were based on financial forecasts covering a ten-year (2016: three-year) period using group pre-tax discount rate of 15% (2016: 11%).

The calculation of value-in-use is most sensitive to the following assumption:

- i. Pre-tax discount rate - Discount rate represent the current market assessment of the risk specific to the CGU, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates.

Based on the annual impairment testing, no impairment charge was recognised for the year. With regards to the assessment of value-in-use of the property, plant and equipment, management believes that no reasonably possible changes in any of the key assumption would cause the carrying value of the property, plant and equipment to differ materially from recoverable amount.

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12. Intangible Assets

	Tradenames \$'000	Technology and Intellectual Property \$'000	Customer Relationships \$'000	Patent Costs, Software, Licenses and Others \$'000	Total \$'000
<i>Cost</i>					
Balances at 1 January 2017	7,700	32,000	99,300	62,901	201,901
Additions	—	—	—	2,970	2,970
Transfer from equipment	—	—	—	22,558	22,558
Disposal/write-off	—	—	—	(1,950)	(1,950)
Balances at 31 December 2017	7,700	32,000	99,300	86,479	225,479
<i>Accumulated amortisation</i>					
Balances at 1 January 2017	7,700	32,000	99,300	29,302	168,302
Additions	—	—	—	4,737	4,737
Transfer from equipment	—	—	—	19,862	19,862
Disposal/write-off	—	—	—	(1,909)	(1,909)
Balances at 31 December 2017	7,700	32,000	99,300	51,992	190,992
Net book value at 31 December 2017	—	—	—	34,487	34,487

	Tradenames \$'000	Technology and Intellectual Property \$'000	Customer Relationships \$'000	Patent Costs, Software, Licenses and Others \$'000	Total \$'000
<i>Cost</i>					
Balances at 1 January 2016	7,700	32,000	99,300	60,603	199,603
Additions	—	—	—	3,119	3,119
Disposal/write-off	—	—	—	(821)	(821)
Balances at 31 December 2016	7,700	32,000	99,300	62,901	201,901
<i>Accumulated amortisation</i>					
Balances at 1 January 2016	7,700	32,000	99,300	26,169	165,169
Additions	—	—	—	3,307	3,307
Disposal/write-off	—	—	—	(174)	(174)
Balances at 31 December 2016	7,700	32,000	99,300	29,302	168,302
Net book value at 31 December 2016	—	—	—	33,599	33,599

Amortisation expense included in the consolidated income statement is analysed as follows:

	31 December 2017 \$'000	31 December 2016 \$'000
Cost of sales	577	475
Selling, general and administrative expenses	1,262	85
Research and development expenses	2,898	2,747
	<u>4,737</u>	<u>3,307</u>

Impairment testing of intangible assets

For the year ended 31 December 2017, the Group performed impairment assessment on the net book value of intangible assets of \$34.5 million (2016: \$33.6 million).

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The recoverable amount of intangible assets has been determined based on a value-in-use calculation. The key assumptions are included in Note 13 to the consolidated financial statements.

Based on the annual impairment testing, no impairment charge was recognised for the year. With regards to the assessment of value-in-use of the intangible assets, management believes that no reasonably possible changes in any of the key assumptions would cause the carrying value of the intangible assets to differ materially from recoverable amount, particularly the discount rate and long-term growth rate.

13. Goodwill

The carrying amounts of goodwill resulted from the acquisition of ChipPAC, Inc. in 2004.

The recoverable amounts of the CGU were determined based on value-in-use calculations. Cash flow projections used in the value-in-use calculations were based on financial forecasts covering a five-year (2016: three-year) period and extrapolated beyond the forecast period using estimated terminal growth rate of 0% (2016: 3%) and group pre-tax discount rate of 15% (2016: 11%).

The calculations of value-in-use are most sensitive to the following assumptions:

- i. Growth rate - The forecasted growth rate is based on performance achieved in the past few years and its expectations on market development.
- ii. Pre-tax discount rate - Discount rates represent the current market assessment of the risk specific to the CGU, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates.

With regards to the assessment of value-in-use of the CGU, Management believes that no reasonably possible changes in any of the key assumptions would cause the carrying value of the CGU to differ materially from recoverable amount, particularly the discount rate and long-term growth rate.

14. Accrued Operating Expenses

	31 December 2017 \$'000	31 December 2016 \$'000
Staff costs and accrued restructuring charges	24,320	22,745
Maintenance fees, license fees and royalties	3,369	3,812
Interest expense	6,835	6,406
Accruals for vacation liability	4,601	4,008
Forward contracts payable	-	1,197
Minimum Spend commitment (refer to Note 20)	16,041	58,967
Other accrued operating expenses	17,636	25,997
	<u>72,802</u>	<u>126,432</u>

15. Income Taxes

Income tax expense (benefit) consists of the following:

	Year Ended 31 December 2017 \$'000	31 December 2016 \$'000
Current income tax (arising from subsidiaries)	(10,130)	1,659
Under-provision in respect of prior years	2,084	1,375
Deferred tax	(15,425)	6,361
	<u>(23,471)</u>	<u>9,395</u>

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A reconciliation of the expected tax expense (benefit) at the Singapore statutory rate of tax to actual tax expense is as follows:

	Year Ended	
	31 December 2017 \$'000	31 December 2016 \$'000
Income tax expense (benefit) computed at Singapore statutory rate of 17.0% (2016: 17.0%)	(19,135)	(13,150)
Non-deductible expenses, including certain plant closure costs, debt refinancing costs and capital reduction related costs	2,977	11,241
Income not subjected to taxation	(9,862)	(4,416)
Effects of difference in tax rates of other countries	(5,445)	4,406
Benefits from previously unrecognised tax benefits	(239)	(37)
Effect of recognising deferred tax assets at concessionary tax rate and tax credits	(1,306)	(967)
Deferred tax assets not recognised	10,682	5,215
Under-provision in respect of prior years	2,084	1,375
Others	(3,227)	5,728
Income tax expense (benefit)	(23,471)	9,395

The tax charge (benefit) relating to each component of other comprehensive income is as follows:

	Year Ended	
	31 December 2017 \$'000	31 December 2016 \$'000
Fair value gains (losses) and reclassification adjustments on cash flow hedges	1,111	(484)
Re-measurement gains on defined benefit plan	14	121
Other comprehensive income (loss)	1,125	(363)

In 2017, tax credits of \$28.6 million was recognised in relation to the finalisation of the tax review of China and South Korea plant in the current period. In 2016, charge of \$5.2 million was recognised for additional taxes related to tax contingency in connection with contested tax examination ongoing in South Korea. In 2017 and 2016, the group incurred approximately \$44.9 million and \$43.0 million, respectively, of non-tax deductible expenses related to the Group's capital reduction transaction in 2010.

The deferred tax assets arose principally as a result of the deferred tax benefit associated with operating loss carryforwards, investment tax credit, and research and development tax credits, reinvestment allowance, capital allowance and deductible temporary differences on property, plant and equipment. The tax effect of significant items comprising the Group's deferred tax assets and liabilities are as follows:

	31 December 2017 \$'000	31 December 2016 \$'000
Deferred tax assets:		
Investment, and research and development tax credits	3,261	4,337
Others	1,582	7,205
	4,843	11,542
Deferred tax liabilities:		
Property, plant and equipment	17,134	20,152
Allowances and reserves	1,733	1,746
Uncertain tax position and others	4,074	27,728
	22,941	49,626
Net deferred tax liabilities	(18,098)	(38,084)

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Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The amounts, determined after appropriate offsetting, are shown as follows:

	31 December 2017 \$'000	31 December 2016 \$'000
Deferred tax assets:		
To be recovered within one year	–	–
To be recovered after one year	–	–
	–	–
Deferred tax liabilities:		
To be settled within one year	–	–
To be settled after one year	18,098	38,084
	18,098	38,084

In 2017 and 2016, the Group had approximately \$123.5 million and \$110.1 million, respectively, of unrecognised tax losses available to offset against future taxable income. Singapore tax losses and capital allowances are generally allowed to be carried forward indefinitely provided there is no substantial change to the shareholders and their shareholdings. Although there was a change in the shareholders in 2015, the Company obtained a waiver letter from the tax authority to carry forward the losses. Tax losses of approximately \$99.6 million in China and United States of America are expected to expire in varying amounts from 2019 to 2036.

In 2017 and 2016, the Group had unrecognised research and development, unutilised capital allowances, investment tax credits and reinvestment allowance, in the aggregate of \$122.4 million and \$193.0 million, respectively, which can be used to offset income tax payable in future years. Certain credits in South Korea will expire in varying amounts from 2019 through 2022.

Deferred tax assets are recognised to the extent that it is probable that they will be able to be utilised against future taxable income. The utilisation of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, historical taxable income, projected future taxable income based on business plans, and tax planning strategies in making this assessment.

In 2012, the Singapore Economic Development Board (“EDB”) extended the Company’s five-year tax incentive for its Singapore operations, whereby certain qualifying income will be subject to a concessionary tax rate of 5% instead of the Singapore statutory rate of 17%, subject to the fulfillment of certain continuing conditions. Due to the substantial amount of capital allowance claimed arising from capital expenditure on its plant and equipment, the Company had not enjoyed the concessionary tax rate. Separately, due to the reduction of headcount at corporate headquarters as a result of the global initiative to redesign its business structure, the Company did not fulfill certain continuing conditions. As a result, the Company has applied for the termination of the incentive to EDB. The termination of the incentive was approved by EDB in April 2016 with effect from 1 July 2015.

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The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) is as follows:

Deferred tax assets

	Operating Loss Carry Forwards \$'000	Investments, Research and Development Tax Credits, and Reinvestment Allowance \$'000	Others \$'000	Total \$'000
Balances at 1 January 2017	–	4,337	7,205	11,542
Credits (charges) to:				
Income Statement	–	(1,076)	(4,570)	(5,646)
Hedging Reserve	–	–	(1,053)	(1,053)
Balances at 31 December 2017	–	3,261	1,582	4,843
Balances at 1 January 2016	–	5,700	7,907	13,607
Credits (charges) to:				
Income Statement	–	(1,363)	(1,234)	(2,597)
Hedging Reserve	–	–	532	532
Balances at 31 December 2016	–	4,337	7,205	11,542

Deferred tax liabilities

	Property, Plant and Equipment \$'000	Allowances and Reserves \$'000	Uncertain Tax Position and Others \$'000	Total \$'000
Balances at 1 January 2017	20,152	1,746	27,728	49,626
Charges (credits) to:				
Income Statement	(3,018)	(13)	(16,412)	(19,443)
Hedging Reserve	–	–	32	32
Settlement with taxing authorities	–	–	(7,274)	(7,274)
Balances at 31 December 2017	17,134	1,733	4,074	22,941
Balances at 1 January 2016	20,149	1,769	23,679	45,597
Charges (credits) to:				
Income Statement	3	(23)	3,784	3,764
Hedging Reserve	–	–	265	265
Balances at 31 December 2016	20,152	1,746	27,728	49,626

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16. Borrowings

The borrowings of the Group carried at amortised cost are as follows:

	31 December 2017 \$'000	31 December 2016 \$'000
U.S. dollars floating rate syndicated loan ("Take-Out Facilities")	277,192	295,674
8.5% senior notes due 2020	416,466	414,019
4.5% senior notes due 2018	–	74,489
U.S. dollars floating rate revolving credit facilities	50,000	50,000
South Korean Won floating rate revolving credit facilities	20,484	18,197
Renminbi floating rate revolving credit facilities	–	27,389
Total borrowings	764,142	879,768
Less: borrowings repayable within one year	59,063	37,233
Long-term borrowings	705,079	842,535

Take-Out Facilities

On 12 April 2016, the Company entered into the \$315.0 million senior term loan and revolving credit facilities agreement (the "Take-Out Facilities Agreement") with DBS Bank Ltd. as facility agent (the "Facility Agent"), DBS Bank Ltd., Barclays Bank PLC and ING Bank N.V. as original mandated lead arrangers (the "OMLABs"), and DBS Bank Ltd., Barclays Bank PLC, ING Bank N.V., Singapore branch, Taishin International Bank Co., Ltd, Singapore Branch, China Minsheng Banking Corp., Ltd Hong Kong Branch, First Gulf Bank PJSC, Singapore Branch, KGI Bank and China CITIC Bank International Limited as original lenders (the "Original Lenders"), pursuant to which the Original Lenders agreed, subject to certain conditions, to make available to the Company up to \$315.0 million in senior secured credit facilities comprising a term loan facility (the "Term Loan Facility") of \$267.75 million and a revolving credit facility of \$47.25 million (the "Revolving Credit Facility" and, together with the Term Loan Facility, the "Take-Out Facilities"). The facility agent, OMLABS and Original Lenders acceded to the Intercreditor Deed.

The Take-out Facilities were drawn down in full on 15 April 2016 to fully refinance the Bridge Loan Facility and certain other debt facilities of the Company and certain of the subsidiaries. Following the repayment of this indebtedness, the Company intend to use amounts borrowed under the Revolving Credit Facility for working capital requirements of the Company and the subsidiaries.

The Revolving Credit Facility is available for draw down on a revolving basis up to one month prior to the final maturity date of the Take-Out Facilities. The final maturity date of the Take-Out Facilities will be 24 August 2020 (the "Take-Out Maturity Date").

The Term Loan Facility is repayable in accordance with an amortising repayment schedule commencing 15 months from the Agreement Date and the Revolving Credit Facility is repayable on the Take-Out Maturity Date. The interest payable is 3.70% plus LIBOR per annum.

The obligations of the Company under the Take-Out Facilities is secured and guaranteed by all of the subsidiaries, except Malaysia subsidiary (which commenced voluntary liquidation on 3 May 2016 and was deemed dissolved on 2 April 2018), China subsidiaries and Thai subsidiaries. Further, the obligations of the Company under the Take-Out Facilities are secured by the Collateral, on a pari passu basis, with certain hedging obligations and the 2020 Notes, pursuant to the security sharing arrangements provided in the Intercreditor Deed.

The Take-Out Facilities contain mandatory prepayment provisions that are customary for financings of such nature, including but not limited to mandatory prepayment from the proceeds of specified future debt and equity issuances by the Company. The Take-Out Facilities also include certain covenants limiting, among others, the Company's ability to: dispose assets; create liens; consolidate or merge; incur additional

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indebtedness; and declare dividends or redeem or make any distribution on the Perpetual Securities. The Take-Out Facilities also require the Company to maintain certain debt to EBITDA and EBITDA to interest expense ratios, and to subordinate the Perpetual Securities (and any debt used to refinance the Perpetual Securities).

Further, under the Take-Out Facilities, the Company may not refinance or redeem the 2018 Notes, the Shinhan Facility, the Unsecured Hana Facility and the CMB Facility, each as described below, unless certain conditions are fulfilled, as further set out in the Take-out Facilities Agreement.

As of 31 December 2017, \$257.9 million was outstanding under the Term Loan Facility and \$32.3 million was outstanding under the Revolving Credit Facility.

8.5% Senior Notes due 2020 ("2020 Notes")

On 24 November 2015, the Company issued \$425.0 million of the 2020 Notes for proceeds of \$411.0 million after deducting debt issuance cost. The 2020 Notes are senior secured obligations and rank at least pari passu in right of payment with all of the existing and future senior indebtedness and senior in right of payment to the existing and future subordinated indebtedness. The 2020 Notes are listed on the SGX-ST. The Bank of New York Mellon is the trustee of the 2020 Notes.

The 2020 Notes will mature on 24 November 2020, bearing interest at the rate of 8.5% per annum payable semi-annually on 24 May and 24 November of each year, commencing 24 May 2016. Prior to 24 November 2018, the Company may redeem all or part of these notes at any time by paying a "make-whole" premium plus accrued and unpaid interest. The Company may redeem all, but not less than all, of these notes at any time in the event of certain changes affecting withholding taxes at 100.0% of their principal amount plus accrued and unpaid interest. At any time on or after 24 November 2018, the Company may redeem all or a part of these notes at any time at specified redemption prices plus accrued and unpaid interest. In addition, prior to 24 November 2018, the Company may redeem up to 35.0% of these notes with the net proceeds of certain equity offerings. Upon a Change of Control (as defined in the 2020 Notes Indenture), the Company will be required to offer to purchase these notes at 101.0% of their principal amount plus accrued and unpaid interest. The STATS ChipPAC consolidated group is subject to certain covenant restrictions, which, among other things, limit their ability to incur additional indebtedness and issue certain preferred stock; pay dividends, repurchase stock, prepay subordinated debt and make investments and other restricted payments; create or incur liens; create restrictions on the ability of the subsidiaries to pay dividends or make other payments; enter into transactions with affiliates, enter into sale and leaseback transactions; and sell assets or merge with or into other companies.

The 2020 Notes are guaranteed, on a senior secured basis, by all of the subsidiaries (except STATS ChipPAC Shanghai Co., Ltd. and STATS ChipPAC Jiangyin Semiconductor Co., Ltd. ("China subsidiaries") and STATS ChipPAC (Thailand) Limited and STATS ChipPAC Services (Thailand) Limited ("Thai subsidiaries") and future restricted subsidiaries (except where prohibited by local law). The 2020 Notes and the related note guarantees are secured, subject to certain permitted liens, on an equal and rateable basis with all Senior Debt, including any Additional Pari Passu Debt (each as defined in the 2020 Notes Indenture) under the terms of the Intercreditor Deed (as defined below) by first priority liens on the Collateral, which initially consists of (i) pledges over all present and future shares its subsidiaries, excluding China subsidiaries; (ii) fixed and floating charge debentures over substantially all of the Company and its subsidiaries' assets other than the China subsidiaries, the Thai subsidiaries, STATS ChipPAC Korea Ltd. and STATS ChipPAC, Inc.; (iii) a pledge over substantially all of the assets of STATS ChipPAC, Inc.; (iv) a mortgage over certain real property in Singapore; and (v) pledges over certain bank accounts.

The Collateral securing the 2020 Notes and the related guarantees will also serve as collateral to secure the obligations of STATS ChipPAC and the guarantors under other Senior Debt, including the Bridge Loan Facility, the Take-Out Facilities (when executed), certain hedging debt and any other Additional Pari Passu Debt. The trustee of the 2020 Notes acceded to the Intercreditor Deed that has been entered into among STATS ChipPAC, the guarantors, the Bridge Loan Facility Agent, the Common Security Agent, the Korean Security Agent and the Existing Trustee. The Intercreditor Deed provides, among other things, (i) that Senior Creditors that enter into the Intercreditor Deed shall share equal priority and pro rata entitlement in and to the

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Collateral, (ii) the conditions under which the Senior Creditors will consent to the granting of any lien on such Collateral, (iii) that the Collateral may be released only in accordance with the terms of the Senior Finance Documents and (iv) the conditions under which the Senior Creditors will enforce their rights with respect to such Collateral and the Senior Debt secured thereby.

Contemporaneously with the entry into of the Take-out Facilities Agreement, and in accordance with the terms of the 2020 Notes, STATS ChipPAC Korea Ltd. granted security over substantially all of its assets to secure the Senior Debt. Following the repayment of the Secured Hana Facility, and in accordance with the terms of the 2020 Notes, STATS ChipPAC Korea Ltd. granted security over all of its assets which were previously secured in favor of Hana Bank to secure the Senior Debt.

4.5% Senior Notes due 2018 ("2018 Notes")

In February 2013, the Company commenced a private offer to exchange any and all of the outstanding \$600.0 million of 7.5% Senior Notes due 2015 for U.S. dollar-denominated fixed rate senior notes due 2018. On 15 March 2013, upon the expiry of the exchange offer, an aggregate principal amount of \$358.4 million of 7.5% Senior Notes due 2015, representing 59.7% of these notes were validly tendered. The notes that were validly tendered in the exchange offer were cancelled immediately upon exchange for the new 4.5% Senior Notes due 2018. On 20 March 2013, the Company issued a further \$255.0 million of 4.5% Senior Notes due 2018 to fund the redemption of the remaining outstanding \$241.6 million of 7.5% Senior Notes due 2015 for cash proceeds of \$247.6 million, after deducting debt issuance cost. On 19 April 2013, the Company redeemed the remaining outstanding \$246.1 million of 7.5% Senior Notes due 2015 for \$255.7 million pursuant to the redemption price terms of the indenture. The Company financed the redemption with the proceeds from the issuance of the 2018 Notes and short-term borrowings. The notes were cancelled upon redemption. Redemption premium of \$15.7 million and debt issuance costs of \$2.4 million were expensed in the income statement in 2013.

The aggregate principal amount of the 2018 Notes issued pursuant to the exchange offer and private placement of these notes for cash amounted to \$611.2 million. The 2018 Notes are senior obligations and are listed on the SGX-ST. The Bank of New York Mellon is the trustee of the 2018 Notes.

The 2018 Notes are guaranteed, on a senior basis, by all of Company's existing subsidiaries (except for China subsidiaries) and the Company's future restricted subsidiaries (except where prohibited by local law).

The 2018 Notes will mature on 20 March 2018, bearing interest at the rate of 4.5% per annum payable semi-annually on 20 March and 20 September of each year, commencing 20 September 2013. Prior to 20 March 2016, the Company may redeem all or part of these notes at any time by paying a "make-whole" premium plus accrued and unpaid interest. The Company may redeem all, but not less than all, of these notes at any time in the event of certain changes affecting withholding taxes at 100% of their principal amount plus accrued and unpaid interest. At any time on or after 20 March 2016, the Company may redeem all or a part of these notes at any time at the redemption prices specified under the terms and conditions of these notes plus accrued and unpaid interest. In addition, prior to 20 March 2016, the Company may redeem up to 35% of these notes with the net proceeds from certain equity offerings. Certain of the 2018 Notes were issued in exchange for the Company's 2015 Notes and the Company used the net proceeds from the offering of the balance 2018 Notes to redeem the remaining 2015 Notes.

In August 2015, the Company entered into the Intercreditor Deed and a supplemental indenture to the indenture governing the 2018 Notes to secure these notes with the Collateral on an equal and rateable basis as the Bridge Loan Facility and future secured debt that may be issued (including the 2020 Notes).

Pursuant to the Tender Offer and Consent Solicitation, the Company solicited consents of holders of the 2018 Notes to release the rights of holders of the 2018 Notes in the Initial Collateral and to adopt amendments to the indenture governing the 2018 Notes that would eliminate or modify substantially all of the restrictive covenants, certain reporting obligations, certain events of default and certain other provisions under the indenture.

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Upon a change of control as defined in the indenture governing the 2018 Notes, the Company are required to make, or another third party may make, an offer to repurchase the 2018 Notes at 101% of the principal amount of these notes plus accrued and unpaid interest within 30 days from such change of control. The Change of Control constituted a change of control under the terms of the 2018 Notes. Accordingly, on 4 September 2015, the Company commenced the Change of Control Offer, which was completed on 16 October 2015.

The Company repurchased \$536.7 million in principal amount of the 2018 Notes, representing 87.8% of the 2018 Notes, for a total consideration (including accrued interest and premium) of \$544.4 million in the Tender Offer and Consent Solicitation and the Change of Control Offer. The Company used the balance of \$194.3 million remaining from the proceeds from the Perpetual Securities Offering, together with borrowings of \$538.0 million under the Bridge Loan Facility, to fund the Tender Offer and Consent Solicitation and the Change of Control Offer in respect of the 2018 Notes. Following the completion of the Tender Offer and Consent Solicitation and the Change of Control Offer, \$74.5 million in principal amount of the 2018 Notes remain outstanding.

On 29 September 2017, the Company redeemed the remaining \$74.5 million of the 2018 Notes prior to its maturity date of 20 March 2018, utilising the capital injection received from JCET.

5.375% Senior Notes due 2016 ("2016 Notes")

On 12 January 2011, the Company issued \$200.0 million of the 2016 Notes for proceeds of \$198.0 million after deducting debt issuance cost. The 2016 Notes were senior obligations and were listed on the SGX-ST. The Bank of New York Mellon was the trustee of the 2016 Notes.

The 2016 Notes were guaranteed, on a senior basis, by all of the Company's existing subsidiaries (except our China subsidiaries). The maturity date of the 2016 Notes was 31 March 2016. The 2016 Notes bore interest at the rate of 5.375% per annum payable semi-annually on 31 March and 30 September of each year, commencing 31 March 2011.

Pursuant to the Tender Offer and Consent Solicitation, the Company solicited consents of holders of the 2016 Notes to release the rights of holders of the 2016 Notes in the Initial Collateral and to adopt amendments to the indenture governing the 2016 Notes that would eliminate or modify substantially all of the restrictive covenants, certain reporting obligations, certain events of default and certain other provisions under the indenture.

Upon a change of control as defined in the indenture governing the 2016 Notes, the Company was required to make, or another third party may make, an offer to repurchase the 2016 Notes at 101% of the principal amount of these notes plus accrued and unpaid interest within 30 days from such change of control. The Change of Control constituted a change of control under the terms of the 2016 Notes. Accordingly, on 4 September 2015, the Company commenced the Change of Control Offer, which was completed on 16 October 2015.

The Company repurchased \$158.6 million in principal amount of the 2016 Notes, representing 79.3% of the 2016 Notes, for a total consideration (including accrued interest and premium) of \$160.8 million in the Tender Offer and Consent Solicitation and the Change of Control Offer. The Company used the balance of \$194.3 million available from the proceeds from the Perpetual Securities Offering, together with borrowings of \$538.0 million under the Bridge Loan Facility, to fund the Tender Offer and Consent Solicitation and the Change of Control Offer in respect of the 2016 Notes. Following the completion of the Tender Offer and Consent Solicitation and the Change of Control Offer, there were \$41.4 million in principal amount of the 2016 Notes outstanding as of 31 December 2015.

The Company redeemed the remaining \$41.4 million of the 2016 Notes at its maturity on 31 March 2016.

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Intercreditor Deed

Prior to completion of the Consent Solicitation, each of the indentures governing the 2016 Notes and the 2018 Notes contained a limitation on liens covenant that restricted us from granting liens over the Group's assets above and beyond the permitted liens specified therein, unless the Group secured the 2016 Notes and the 2018 Notes on an equal and rateable basis. In compliance with these indentures, concurrently with entering into the Bridge Loan Facility Agreement, on 6 August 2015, STATS ChipPAC and certain of our subsidiaries entered into supplemental indentures and an intercreditor deed (the "Intercreditor Deed") with DBS Bank Ltd., as facility agent for the Bridge Loan Facility, Citicorp International Limited, as common security agent (the "Common Security Agent"), and Citibank Korea Inc., as Korean security agent (the "Korean Security Agent"), to effect the grant of equal and rateable security over the Initial Collateral, and the rest of the Collateral as and when available, in favour of holders of the 2016 Notes and the 2018 Notes and the lender under the Bridge Loan Facility.

On 7 October 2015, after receipt of the requisite consents from holders of the 2016 Notes and the 2018 Notes of tendered in the Tender Offer and Consent Solicitation and payment therefore, the rights of holders of the 2016 Notes and the 2018 Notes in the Collateral were released.

Bridge Loan Facility

On 6 August 2015, the Company entered into the \$890.0 million Bridge Loan Facility Agreement with DBS Bank Ltd. as facility agent, arranger and lender. The purpose of the Bridge Loan Facility was to refinance certain of the Group's outstanding debt. The Company has drawn down \$538.0 million from this facility to fund, together with the balance of \$194.3 million remaining from the proceeds from the Perpetual Securities Offering, the Tender Offer, Consent Solicitation and Change of Control Offer in respect of the 2016 Notes and the 2018 Notes. Pursuant to the deed of amendment dated 17 November 2015, the amount available under the Bridge Facility Agreement was reduced to \$120.0 million, which the Company may use, together with cash on hand, if necessary, to redeem outstanding 2016 Notes and 2018 Notes.

All amounts borrowed under the Bridge Loan Facility and accrued interest thereon were due on the date falling six months from the date of the Bridge Loan Facility Agreement, which may (subject to, among other things, notice requirements and no default having occurred) be extended twice with the second extension's maturity date falling 12 months from the date of the Bridge Loan Facility Agreement. The interest payable ranged from 1.50% plus LIBOR (up to and including the original maturity date prior to any extensions) to 2.40% plus LIBOR (from the first extension's maturity date to second extension's maturity date). Interest was payable on interest periods elected by the Company. The Company also paid a customary commitment fee from the date of the Bridge Loan Facility Agreement to the end of the availability period under the Bridge Loan Facility Agreement.

The Bridge Loan Facility was guaranteed by all subsidiaries except the China subsidiaries and the Thai subsidiaries. The Bridge Loan Facility was secured by the Collateral that also secures the 2020 Notes and certain other senior debt, on an equal and ratable basis, pursuant to the security sharing arrangements provided in the Intercreditor Deed.

On 30 March 2016, the Company has further drawdown \$42.5 million to finance the redemption of the 2016 Notes at its maturity on 31 March 2016. On 15 April 2016, this loan was repaid using the proceeds from the Take-out Facilities.

Other bank borrowings

On 27 November 2015, the Company entered into a S\$10.0 million letter of guarantee and standby letters of credit facility with DBS Bank Ltd., for the provision of uncommitted facilities for the refinancing of existing trade facilities and working capital purposes of the Company (the "BG Facility"). The BG Facility was guaranteed by all of the subsidiaries (other than Malaysia Subsidiary, China Subsidiaries and Thai Subsidiaries) pursuant to a deed of guarantee dated 8 March 2016. On 11 March 2016, DBS Bank Ltd acceded to the Intercreditor Agreement as an Additional Pari Passu Creditor and accordingly shares in the benefit of the Collateral, on a pari passu basis, pursuant to the security sharing arrangements provided in the Intercreditor Deed.

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On 24 November 2015, STATS ChipPAC Shanghai Co., Ltd. entered into a RMB 200 million (approximately \$30.6 million) unsecured working capital facility with China Merchant Bank (CMB) (the "CMB Facility"). The purpose of this facility is for working capital purposes. The interest on the loan is payable on a quarterly basis. The loan bears interest at the rate of 4.35% per annum. The \$28.0 million outstanding under the CMB Facility was repaid in the third quarter of 2017, utilising capital injection received from JCET. As of 31 December 2017, there was no outstanding amount under this facility. The CMB facility expired in February 2018.

On 26 September 2014, the Company's subsidiary, STATS ChipPAC Korea Ltd. entered into a \$40.0 million committed revolving credit facility with Shinhan Bank (the "Shinhan Facility") and a \$30.0 million committed revolving credit facility with KEB Hana Bank, formerly known as Hana Bank (the "Unsecured Hana Facility"). The purpose of these facilities is to finance the purchase of materials and capital expenditures. On 3 March 2015, the \$40.0 million committed revolving credit facility with Shinhan Bank was amended into a South Korean Won 22.0 billion and a \$20.0 million committed revolving credit facility, with the total amount of facility remaining at \$40.0 million regardless of the exchange rate fluctuation between South Korean Won and U.S. dollar. The principal of the South Korean Won 22.0 billion and the \$20.0 million committed revolving credit facility with Shinhan Bank is payable on maturity in March 2018 and September 2017, respectively. In April 2017, the South Korean Won 22.0 billion and the \$20.0 million committed revolving credit facility with Shinhan Bank was renewed to March 2021 and September 2020, respectively. On 11 September 2017, the \$20.0 million committed revolving credit facility with Shinhan Bank was converted into a \$20.0 million unsecured term loan facility and will expire in August 2020. As of 31 December 2017, \$40.5 million was outstanding under the Shinhan Bank revolving facility. The interest on the loan is payable on a monthly basis. The South Korean Won and U.S. dollar denominated loan bears interest at the rate of 2.9% and 3.3% per annum, respectively. As of 31 December 2017, \$30.0 million was outstanding under the Unsecured Hana Bank revolving facility. The interest of the loan is payable on a monthly basis and bears interest at the rate of 3.7% per annum. In April 2017, the Unsecured Hana Facility was renewed from September 2017 to September 2020.

On 26 September 2013, the Company's subsidiary, STATS ChipPAC Korea Ltd. entered into a \$120.0 million five-year secured term loan with Hana Bank (the "Secured Hana Facility"). The purpose of the loan is to finance capital expenditures. The facility is collateralised by equipment located at our South Korean subsidiary and following completion of construction, the Company's South Korean subsidiary's new facility in the Incheon Free Economic Zone. The principal of the loan is payable on maturity in September 2018. The interest of the loan is payable on a monthly basis. The loan bears interest at the rate of 4% per annum. As of 31 December 2015, \$110.0 million was outstanding under this facility. The Secured Hana Facility was fully refinanced using the proceeds from the Take-out Facilities and cash on hand on 18 April 2016.

On 29 August 2012, the Company obtained a \$50.0 million revolving credit facility from DBS Bank Ltd. On 26 September 2013, the availability of the revolving credit facility was extended until February 2015 and the facility amount was increased to \$75.0 million. In July 2014, the revolving credit facility was extended until February 2016. The purpose of the facility was for our general corporate funding. The principal of and interest on the loan are payable on maturity. The maturity of revolving credit facility was further extended by mutual agreement with DBS Bank Ltd. on the understanding that the revolving credit facility will form part of the Take-Out Facilities. The loan bears interest at the rate of 1% per annum. This facility was fully refinanced by the proceeds of the Take-out Facilities on 15 April 2016.

In addition to the above, as of 31 December 2017, \$36.6 million of unsecured revolving credit facilities were available to the Company's subsidiaries in South Korea and China. The purpose of these facilities was for general corporate funding.

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The exposure of the borrowings of the Group to interest rate changes and the contractual repricing dates at the balance sheet dates are as follows:

	31 December 2017 \$'000	31 December 2016 \$'000
Less than 1 year	347,676	391,260
1 - 5 years	416,466	488,508
	<u>764,142</u>	<u>879,768</u>

The fair value of the borrowings of the Group at the balance sheet dates are as follows:

	31 December 2017 \$'000	31 December 2016 \$'000
U.S. dollars floating rate syndicated loan	290,156	315,000
8.5% senior notes due 2020	452,625	440,406
4.5% senior notes due 2018	–	72,255
U.S. dollars floating rate revolving credit facilities	50,000	50,000
South Korean Won floating rate revolving credit facilities	20,484	18,197
Renminbi floating rate revolving credit facilities	–	27,389
	<u>813,265</u>	<u>923,247</u>

The fair values of the senior notes are determined from the trading market prices of the senior notes as of each balance sheet date. The borrowings under the U.S. dollars floating rate syndicated loan, the U.S. dollars floating rate revolving credit facilities, the South Korean Won floating rate revolving credit facilities and the Renminbi floating rate revolving credit facilities are assumed to approximate their fair values, and the fair values are within Level 2 of the fair values hierarchy.

The Group has lines of credit and banking facilities consisting of loans, overdrafts, letters of credit and bank guarantees, which amounted to an aggregate of \$422.5 million (2016: \$444.5 million), of which \$51.6 million (2016: \$24.7 million) of credit facilities and \$6.0 million (2016: \$5.3million) of other banking facilities were available on 31 December 2017.

A reconciliation of borrowings arising from financing activities is as follows:

	As at 31 December 2016 \$'000	Drawdown of Bank borrowings \$'000	Repayment of bank borrowings \$'000	Redemption of senior notes \$'000	Non-cash changes			As at 31 December 2017 \$'000
					Amortisation of debt issuance cost \$'000	Foreign exchange movement \$'000	Reclassifi- cation \$'000	
<i>Total borrowings</i>								
- current	37,233	–	(37,233)	–	–	–	59,063	59,063
- non-current	842,535	30,000	(45,000)	(74,489)	8,809	2,287	(59,063)	705,079
	<u>879,768</u>	<u>30,000</u>	<u>(82,233)</u>	<u>(74,489)</u>	<u>8,809</u>	<u>2,287</u>	<u>–</u>	<u>764,142</u>

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17. Derivative Financial Instruments

	31 December 2017			31 December 2016		
	Contract Notional Amount \$'000	Asset \$'000	Liability \$'000	Contract Notional Amount \$'000	Asset \$'000	Liability \$'000
<i>Cash-flow hedges</i>						
- Currency forwards	44,019	2,846	—	85,662	7	(4,497)
Minimum Spend commitment (Note 20)		—	(16,041)		—	(63,319)

The Group enters into forward contracts for hedging highly probable forecast transactions and accounts for them as cash flow hedges and states them at fair value. Subsequent changes in fair value are recognised in equity until the hedged transactions occur, at which time the respective gains or losses are transferred to the income statement.

18. Other Non-Current Liabilities

	31 December 2017 \$'000	31 December 2016 \$'000
Accrued retirement and severance benefits	138	150
Minimum Spend commitment (refer to Note 20)	—	4,352
Other non-current liabilities	2,648	3,782
	<u>2,786</u>	<u>8,284</u>

The Group has a defined benefit plan and the changes in accrued retirement and severance benefits in 2017 and 2016 are as follows:

	31 December 2017 \$'000	31 December 2016 \$'000
Beginning of financial year	4,026	5,131
Provision for retirement and severance benefits	659	855
Severance payments	(357)	(996)
Re-measurement gain in actuarial reserve	25	(788)
Foreign currency gain	518	(176)
End of financial year	<u>4,871</u>	<u>4,026</u>
Payments on deposits with Korean National Pension Fund	(91)	(86)
Plan assets	<u>(4,642)</u>	<u>(3,790)</u>
Ending, net of payments on deposits	<u>138</u>	<u>150</u>

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The discounted rate is determined on the Group's reporting date by reference to market yield on high quality government bonds. The discount rates reflect the estimated timings of the benefits payments. The estimated timings of the benefit payments are achieved by applying a single weighted average discount rate that reflects the estimate timings and amount of benefit payments.

	31 December 2017 %	31 December 2016 %
Discount rate (p.a)	2.99	2.63
Average pay increase (p.a)	3.00	3.00
Withdrawal from service (age band)		
25 - 35 years	12.40	12.40
35 - 45 years	7.68	7.68
45 - 55 years	9.70	9.70
Standard mortality for pensioner:		
Male	0.05	0.05
Female	0.02	0.02

19. Expenses by Nature

Expenses such as inventories recognised in cost of revenues, depreciation and amortisation, employee compensation and rental expense on operating leases are disclosed elsewhere in the financial statements.

20. Minimum Spend Commitment

Following the completion of the Change of Control, the Company entered into a Technical Services Agreement ("TSA") with the Taiwan Entities. Under the terms of the TSA, the Company has agreed to pay a minimum amount of service fees per year during the five-year term of the agreement ("Minimum Spend"). If customer demand for services for which the Company rely on the Taiwan Entities to provide under the TSA decreases for any reason, the Company, under the terms of the TSA, has to pay the Taiwan Entities the Minimum Spend even if the Company do not require or receive the services from the Taiwan Entities in consideration for the payment. The Minimum Spend may therefore reduce the Company's gross profit margin.

The Company has assessed the Minimum Spend to be a derivative instrument under FRS 39. In 2017, \$10.1 million fair value gain on the derivative was recorded in the cost of revenues (2016: \$23.1 million). In 2017, the Company made \$37.2 million Minimum Spend payment to the Taiwan Entities. In February 2018, the Company made \$5.5 million Minimum Spend payment to the Taiwan Entities. The Company will make another \$5.5 million Minimum Spend payment to the Taiwan Entities by April 2018.

At 31 December 2017, the Company recorded a financial derivative liability of \$16.0 million (2016: \$63.3 million).

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21. Employee Compensation

	Year Ended	
	31 December 2017 \$'000	31 December 2016 \$'000
Wages and salaries	249,539	230,908
Employer's contribution to defined contribution plans including Central Provident Fund	26,633	32,903
Other benefits	23,589	24,705
	<u>299,761</u>	<u>288,516</u>

22. Other Non-operating Income (Expenses), net

	Year Ended	
	31 December 2017 \$'000	31 December 2016 \$'000
Management fee income from a related company	2,959	5,965
Other income, net	3,570	2,830
	<u>6,529</u>	<u>8,795</u>

23. Earnings Per Share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of STATS ChipPAC Pte. Ltd. by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is calculated by dividing the net profit attributable to equity holders of STATS ChipPAC Pte. Ltd. by the weighted average number of ordinary shares outstanding as adjusted for the effects of all dilutive potential ordinary shares from the assumed exercise of share options outstanding during the financial year plus other potentially dilutive securities outstanding.

	Year Ended	
	31 December 2017	31 December 2016
Net loss attributable to equity holders of STATS ChipPAC Pte. Ltd. (\$'000)	(97,090)	(91,750)
Weighted average number of ordinary shares outstanding (basic) ('000)	2,394,948	2,202,218
Weighted average number of ordinary shares and equivalent ordinary shares outstanding (diluted) ('000)	<u>2,394,948</u>	<u>2,202,218</u>
Net loss per ordinary share attributable to equity holders of STATS ChipPAC Pte. Ltd.		
- Basic	\$(0.04)	\$(0.04)
- Diluted	\$(0.04)	\$(0.04)

24. Share Capital

In 2017, the Company received capital injection of \$162.7 million from JCET-SC and converted shareholders' loan of \$30.0 million into equity.

The Company's statutory issued share capital represented by 2,394,948,293 (2016: 2,202,218,293) ordinary shares pursuant to the Singapore Companies Act (Cap 50) is S\$2,482.0 million as of 31 December 2017. The

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amount was increased by S\$261.1 million (\$192.7 million) in 2017 due to capital injection from the holding company, JCET-SC.

25. Other Reserves

Composition

	31 December 2017 \$'000	31 December 2016 \$'000
Hedging reserve	2,239	(3,297)
Foreign currency translation reserve	(15,936)	(13,569)
Actuarial reserve	1,129	1,077
	<u>(12,568)</u>	<u>(15,789)</u>

Movement

(i) Hedging reserve

	Year ended	
	31 December 2017 \$'000	31 December 2016 \$'000
Beginning of financial year	(3,297)	(906)
Fair value gains (losses)	9,213	(6,216)
Tax on fair value changes	(1,428)	1,071
Reclassification of fair value (gains) losses to Income Statement	(2,566)	3,341
Tax on reclassification adjustments	317	(587)
End of financial year	<u>2,239</u>	<u>(3,297)</u>

(ii) Foreign currency translation reserve

	Year ended	
	31 December 2017 \$'000	31 December 2016 \$'000
Beginning of financial year	(13,569)	(13,982)
Net currency translation differences of financial statements of a foreign subsidiary	(2,367)	413
End of financial year	<u>(15,936)</u>	<u>(13,569)</u>

In 2016, the Company's wholly owned subsidiary, STATS ChipPAC Semiconductor Jiangyin Co.,Ltd changed its functional currency from U.S. dollar to the Chinese Reminbi. In 2017, \$2.4 million of foreign currency translation loss was recognised (2016: income of \$0.4 million).

(iii) Actuarial reserve

	Year ended	
	31 December 2017 \$'000	31 December 2016 \$'000
Beginning of financial year	1,077	488
Re-measurement gains on defined benefit plan	66	710
Tax on re-measurement gains	(14)	(121)
End of financial year	<u>1,129</u>	<u>1,077</u>

Other reserves are non-distributable.

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26. Perpetual Securities

On 16 July 2015, the Company commenced the Perpetual Securities Offering of \$200.0 million of 4% Perpetual Securities to the Company's then existing shareholders by way of a non-renounceable rights offering to strengthen the Group's financial position. The Perpetual Securities Offering closed on 21 August 2015. STSPL had, subject to certain conditions, undertaken to subscribe for its 83.7% pro rata share of the Perpetual Securities and all other Perpetual Securities not subscribed by the Company's other then existing shareholders. Pursuant to the undertaking, STSPL subscribed for \$199.8 million of the Perpetual Securities. On the Change of Control Date, the Company issued \$167.4 million of the Perpetual Securities subscribed by that date. The Company issued the balance \$32.6 million of the Perpetual Securities on 21 August 2015.

The Perpetual Securities constitute our direct, senior and unsecured obligations and rank pari passu with all other outstanding senior and unsecured and unsubordinated obligations, except the Contractually Senior Obligations. The Perpetual Securities rank junior to the Contractually Senior Obligations. The Contractually Senior Obligations refer to (1) the 2020 Notes, (2) the 2016 and the 2018 Notes, (3) the Bridge Loan Facility, (4) the Take-Out Facilities for the refinancing of (i) the Bridge Loan Facility, (ii) the up to \$75 million revolving credit facility dated 31 July 2014 (as amended in 15 September 2014) from DBS Bank Ltd. and (iii) one or more of (a) STATS ChipPAC Korea Ltd.'s up to \$120 million loan facility dated 26 September 2013 from Hana Bank (b) STATS ChipPAC Korea Ltd.'s up to \$30 million loan facility dated 26 September 2014 from Hana Bank and (c) STATS ChipPAC Korea Ltd.'s up to \$40 million revolving credit facility dated 26 September 2014 from Shinhan Bank and (5) the Group's obligations due to any financial institution that is a counterparty to a hedging agreement in respect of the Bridge Loan Facility or the Take-Out Facilities and is also a lender under such facility that are secured, on a pari passu basis, by the security granted to lenders under the Bridge Loan Facility or the Take-Out Facilities.

The Perpetual Securities have no maturity date. Under the terms and conditions of the Perpetual Securities, the Company may at any time (including upon the occurrence of the Step Up Date or a Step Up Event) redeem all but not some of the Perpetual Securities at the principal amount of the Perpetual Securities plus any accrued but unpaid distributions (the "Perps Redemption Price"). The Perpetual Securities confer a right to receive distributions from the period commencing on their initial issue date on 5 August 2015 to the date falling three years after such issue date (the "Step Up Date") at an initial distribution rate of 4% per annum. Thereafter, if the Company has not redeemed or repaid the Perpetual Securities, the distribution rate will increase to 8% per annum in the fourth year following the issue date and will increase by 1% per annum in the following years to a maximum of 12% per annum. In the event of a breach of certain covenants by the Company or if any debt of the Company or any of its subsidiaries is declared to be or is capable of being rendered due and payable prior to its stated maturity or is not paid when due, (any such event or occurrence being a "Step Up Event"), the rate of distribution will increase to 12% per annum. The Company may, in its sole and absolute discretion, defer payment of any distributions, and any deferred distributions will be cumulative and compounded, conferring the right to distributions as if it constituted the principal of the Perpetual Securities.

The Company is subject to certain covenants under the terms and conditions of the Perpetual Securities, including a restriction on the payment of any discretionary dividends, discretionary distributions or other discretionary payments on any class of obligations ranking junior to or pari passu with the Perpetual Securities, an obligation to furnish the trustee and holders of the Perpetual Securities with certain financial information, an obligation to disclose our related party transactions and an obligation to comply with the financial maintenance and incurrence covenants in all of the financial or debt agreements or undertakings of our Company or any of our subsidiaries. The terms and conditions of the Perpetual Securities also require the Company to use commercially reasonable efforts to redeem the Perpetual Securities at the time of refinancing the Bridge Loan Facility, although our failure to effect such redemption would not be a breach of the terms and conditions of the Perpetual Securities nor constitute a Step Up Event.

Upon the earlier of the Step Up Date or the date a Step Up Event occurs, holders of at least a majority in aggregate principal amount of the Perpetual Securities then outstanding but excluding any Perpetual Securities beneficially owned by JCET, any party acting in concert with it or its related parties or affiliates (such holders being referred to as "Required Holders") will have the right from time to time to appoint such number of directors to the Board of Directors as is equal to the proportion of the aggregate principal amount of the Perpetual Securities then outstanding to the total indebtedness (excluding any indebtedness owed to

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JCET, any party acting in concert with its or its related parties or affiliates), but such number will always be less than the majority of directors. Upon such appointment, the Required Holders agree not to change any of our existing corporate governance procedures to provide any such appointees with disproportional voting rights. In addition, upon the earlier of the Step Up Date or the date a Step Up Event occurs, any matter requiring shareholder approval will also require the written approval of the Required Holders.

Pursuant to a deed poll undertaking and guarantee (the "Deed Poll Undertaking and Guarantee") in favour of the holders of the Perpetual Securities, JCET has unconditionally and irrevocably agreed to procure and ensure that the Company exercises its right to redeem all of the Perpetual Securities upon the Step Up Date or a Step Up Event (that occurs after the Step Up Date). In addition, pursuant to the Deed Poll Undertaking and Guarantee, in the event that the Company does not redeem all of the Perpetual Securities in accordance with the terms and conditions of the Perpetual Securities and by the time specified for a redemption in connection with a Step Up Date or a Step Up Event (that occurs after the Step Up Date), each holder of the Perpetual Securities will have the right to require (i) JCET to purchase all of the Perpetual Securities held by the holder at the Perps Redemption Price or (ii) JCET, pursuant to a guarantee, to pay to the holder, with respect to the Perpetual Securities held by such holder, the Perps Redemption Price on our behalf. Jiangsu Xinchao Technology Group Co., Ltd., ("Xinchao"), a substantial shareholder of JCET, has, in turn, unconditionally and irrevocably pursuant to the Deed Poll Undertaking and Guarantee, undertaken to procure the performance of, and has guaranteed the obligations and payments by, JCET under the Deed Poll Undertaking and Guarantee.

In addition, JCET has agreed in a deed of undertaking dated 6 August 2015 with Citicorp International Limited, as common security agent under the Intercreditor Deed, for the benefit of holders of the 2020 Notes and other senior creditors, to (and to cause us to) cause (1) the Perpetual Securities to be amended so that they become subordinated to certain senior debt of our Company, including the Bridge Loan Facility, the 2016 Notes, the 2018 Notes, the 2020 Notes, the Take-Out Facilities (once executed), certain hedging obligations and other debt as permitted under the Intercreditor Deed and the 2020 Notes Indenture, and (2) the holders (or trustee) of the Perpetual Securities to accede to the Intercreditor Deed as unsecured, subordinated creditor(s), in each case, within six months of the third anniversary of the first issue date of the Perpetual Securities. The first issue date of the Perpetual Securities was the Change of Control Date. The deed of undertaking provides that JCET (or a party designated by it, other than our Company or any of our subsidiaries) is not restricted from purchasing all of the Perpetual Securities so long as JCET (or such other purchaser), upon becoming the holder of the Perpetual Securities, accedes to the Intercreditor Deed as a subordinated debt creditor and causes the terms and conditions of the Perpetual Securities to be subordinated to the Senior Debt. JCET has also agreed not to (nor permit Xinchao to) amend, modify or waive any term of the deed poll described above that could delay, terminate or otherwise limit either JCET's or Xinchao's guarantee of, or obligation to purchase, the Perpetual Securities, in each case, without the prior written consent of the common security agent under the Intercreditor Deed (acting on the instructions of the majority senior creditors in accordance with the Intercreditor Deed) and each other senior creditor representative acting on behalf of any other holders of the Contractually Senior Obligations.

The Company used \$5.7 million of the proceeds from the Perpetual Securities Offering, together with proceeds from the repayment of the \$126.7 million intercompany loan to the Company, to repay \$132.4 million of its bank loans that became due and payable upon the Change of Control. The Company used the balance of \$194.3 million remaining from the proceeds from the Perpetual Securities Offering, together with borrowings of \$538.0 million under the Bridge Loan Facility (as defined above), to fund the Tender Offer and Consent Solicitation (each as defined above) in respect of the outstanding 2016 Notes and the 2018 Notes and the Change of Control Offer (as defined above).

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27. Commitments and Contingencies

(a) Commitments

As of 31 December 2017 and 31 December 2016, unconditional purchase obligations consist of the following:

	31 December 2017 \$'000	31 December 2016 \$'000
Capital commitments		
Building, mechanical and electrical installation	2,271	8,089
Equipment	28,655	68,964
Other commitments		
Inventories	115,415	68,600
Other purchase commitments	—	1,098

These unconditional purchase obligations include agreements to purchase goods or services that are enforceable and legally binding on the Group and specify all significant terms, including fixed or minimum quantities to be purchased, fixed or variable price provisions and the approximate timing of transactions. The duration of these purchase obligations are generally less than 12 months.

The Group is party to certain royalty and licensing agreements which have anticipated cumulative payments of approximately \$4.0 million for 2018 through 2022.

The Group leases certain of its facilities in Singapore, South Korea and the United States under operating lease arrangements and has lease agreements for the land located in Singapore and China related to its facilities in these locations. Operating lease rental expense in 2017 and 2016 was \$5.0 million and \$4.4 million, respectively.

The Group has leased certain plant and equipment under operating leases. These leases extend through 2018. Operating lease rental expenses, including amortisation of lease prepayments, in respect of these leases in 2017 and 2016 were \$15.4 million each.

These leases have varying escalation clauses and renewal rights.

Future minimum lease payments under non-cancelable operating leases contracted for at the balance sheet date but not recognised as liabilities were:

	31 December 2017 \$'000	31 December 2016 \$'000
Not later than one year	12,827	18,936
Between one and five years	30,489	24,178
Later than five years	108,068	81,497
	151,384	124,611

(b) Contingencies

The Company is subject to claims and litigations that arise in the normal course of business. These claims may include allegations of infringement of intellectual property rights of others as well as other claims of liability. The Company accrues liability associated with these claims and litigations when they are probable and reasonably estimable.

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The Group also, from time to time, receives from customers' request for indemnification against pending or threatened infringement claims brought against such customers. The resolution of any future allegation or request for indemnification could have a material adverse effect on the Group's business, financial condition and results of operations.

In addition, the Group is subject to various taxes in the different jurisdictions in which it operates. These include taxes on income, property, goods and services, and other taxes. The Group submits tax returns and claims with the appropriate government taxing authorities, which are subject to examination and agreement by those taxing authorities. The Group regularly assesses the likelihood of adverse outcomes resulting from these examinations to determine adequacy of provision for taxes. Refer to Note 15 for additional information on tax contingencies.

28. Financial Risk Management

The Group operates in various countries and therefore is subject to several risks and uncertainties including financial risks. The Group's risk management functions to mitigate the various financial risks to which the businesses are exposed to in the course of their daily operations. The risk management covers areas such as capital management, liquidity risk, foreign currency risk, commodity price risk, interest rate risk and credit risk. The Group's overall risk management approach is to moderate the effects of such volatility on its financial performance. The Group uses derivatives to hedge specific exposures.

Capital Management

The Group regularly reviews its financial position, capital structure and use of capital, with the objective of achieving long-term capital efficiency, optimum shareholders' total returns and proper strategic positioning. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of return of capital and distributable earnings to shareholders, issue new shares, obtain new borrowings or sell assets to reduce borrowings.

The Group manages the use of capital centrally and all borrowings to fund the operations of the subsidiaries are managed by the Company. The capital employed by the Group consists of equity attributable to shareholders, bank borrowings from financial institutions and borrowings from senior notes issuance.

The Group is in compliance with all externally imposed capital requirements in 2017 and 2016, which primarily arises from its borrowing facilities. There were no changes in the Group's approach to capital management during the year.

Foreign Currency Risk

A portion of the Group's costs is denominated in various foreign currencies, like the Singapore dollar, the South Korean Won and the Chinese Renminbi. As a result, changes in the exchange rates of these currencies or any other applicable currencies to the U.S. dollar will affect cost of goods sold and operating margins and could result in exchange losses. Based on the Group's overall currency rate exposure, the Group has adopted a foreign currency hedging policy for committed or forecasted currency exposures. The Group may utilise foreign currency swaps as well as foreign exchange forward contracts and options. The goal of the hedging policy is to effectively manage risk associated with fluctuations in the value of the foreign currency, thereby making financial results more stable and predictable in the short-term. Over the longer-term, however, permanent changes in exchange rate of foreign currencies would have an impact on earnings.

The Group has entered into foreign currency contracts with nominal contract value of \$44.0 million and \$85.7 million in 2017 and 2016 respectively, to mitigate currency risks associated with payroll costs, materials costs, contractual costs and other costs denominated in these foreign currencies to reduce its exposure from future exchange rate fluctuations. These programs reduce, but do not always entirely eliminate, the impact of currency exchange movements. The duration of these instruments are generally less than twelve months.

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The Group is also exposed to the adverse movement in the exchange rates for all the currencies relative to the U.S. dollar on the Group's foreign currencies denominated assets and liabilities. Sensitivity analyses of change in the fair values arising from a hypothetical 10% adverse movement in the exchange rates for all the foreign currencies relative to the U.S. dollar, with all other variables held constant, after taking into account offsetting positions, would result in a foreign exchange loss of \$2.6 million and \$2.7 million as of 31 December 2017 and 31 December 2016, respectively.

Commodity Price Risk

The Group purchases certain raw materials in the normal course of business, which are affected by commodity prices. Therefore, the Group is exposed to some price volatility related to various market conditions outside its control. However, the Group employs various purchasing and pricing contract techniques in an effort to minimise volatility. Generally these techniques include setting in advance the price for products to be delivered in the future. The Group does not generally make use of financial instruments to hedge commodity prices, partly because of the contract pricing utilised. While commodity price volatility can occur, which would impact profit margins, there are generally alternative suppliers available. The Group may undertake hedging activity in commodities to a limited degree. Hedging may be used primarily as a risk management tool and, in some cases, to secure future cash flows in cases of high volatility by entering into forward contracts or similar instruments.

Interest Rate Risk

The Group's exposure to market risk associated with changes in interest rates primarily relates to its investment portfolio and debt obligations. Investments are placed in time deposits and marketable securities. The Group has no material cash flow exposure due to rate changes for cash equivalents and short-term investments. Longer-term borrowings are therefore usually at fixed rates. As at 31 December 2017, 54.5% (2016: 55.5%) of the total debt was at fixed interest rates and the balance was at variable interest rates. The Group's borrowings in senior notes are subject to fixed interest rates. As of 31 December 2017, the Group's senior notes due 2020 bear interest of 8.5% per annum. As of 31 December 2017, assuming that the market interest rate increase or decrease by 10% and with no change to the other variables, the annualised interest expense on borrowings at variable interest rates would be higher or lower by \$1.7 million (2016: \$1.8 million).

Credit Risk

The Group's customers are comprised of companies in the semiconductor industry located primarily in the United States of America, Asia and Europe. The semiconductor industry is highly cyclical and experiences significant fluctuations in customer demand, evolving industry standards, competitive pricing pressure that leads to steady declines in average selling prices, rapid technological changes, risk associated with foreign currencies and enforcement of intellectual property rights. Additionally, the market in which the Group operates is very competitive. As a result of these industry and market characteristics, key elements of competition in the independent semiconductor packaging market include breadth of packaging offerings, time-to-market, technical competence, design services quality, production yields, reliability of customer service and price. The Group's largest customer accounted for approximately 15% and 17% of revenues in 2017 and 2016, respectively. The Group's ten largest customers collectively accounted for approximately 75.6% and 80.0% of revenues in 2017 and 2016, respectively. The Group generally does not require collateral on its trade receivables. The Group mitigates the concentration of credit risk in trade receivables through the Group's credit evaluation process, credit policies, credit control and collection procedures but these methods cannot eliminate all potential credit risk losses. The withdrawal of commitment from any major customer for products, or reduced or delayed demand or the loss of or default by any of these major customers could have an adverse effect upon the Group's financial position, results of operations and cash flows.

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The age analysis of trade receivables that are past due but not impaired is as follows:

	31 December 2017 \$'000	31 December 2016 \$'000
Past due less than 30 days	16,988	15,506
30-60 days	2,965	6,963
61-90 days	92	1,891
More than 90 days	5,014	11,244
	<u>25,059</u>	<u>35,604</u>

The movements in the related provision for sales return are as follows:

	31 December 2017 \$'000	31 December 2016 \$'000
Beginning of financial year	653	734
Additions	466	931
Write-back	(708)	(1,012)
End of financial year	<u>411</u>	<u>653</u>

Cash and cash equivalents are deposited with financial institutions primarily in Singapore the United States of America, British Virgin Islands, South Korea and China. Deposits in the financial institutions may exceed the amount of insurance provided on such deposits, if any. The Group mitigates default risk by investing in marketable securities that are of at least an "A" rating, as assigned by an internationally recognised credit rating organisation, and major Singapore banks and government-linked companies. The Group utilises forward contracts to protect against the effects of foreign currency fluctuations. Such contracts involve the risk of non-performance by the counterparty, which could result in a material loss. The Group has not experienced any such losses to date from nonperformance by its counterparties. South Korean and Chinese foreign currency exchange regulators may place restrictions on the flow of foreign funds into and out of those countries. The Group is required to comply with these regulations when entering into transactions in foreign currencies in South Korea and China.

Liquidity Risk

The Group's principal source of liquidity consists of cash flows from operating activities, bank facilities, debt financing, and existing cash and cash equivalents and marketable securities. As of 31 December 2017, the Group had cash, cash equivalents and bank deposits of \$111.6 million (2016: \$140.9 million). The Group also has available lines of credit and banking facilities consisting of loans, overdrafts, letters of credit and bank guarantees, including those available to its consolidated subsidiaries, which amounted to an aggregate of \$422.5 million (2016: \$444.5 million), of which \$51.6 million (2016: \$24.7 million) of credit facilities and \$6.0 million (2016: \$5.3 million) of other banking facilities were available as of 31 December 2017. Liquidity needs arise primarily from servicing outstanding debts, working capital needs and the funding of capital expenditures and investments. Capital expenditures are largely driven by the demand for the Group's services, primarily to increase packaging and testing capacity, to replace packaging and testing equipment from time to time, and to expand the facilities and service offerings.

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The maturity profile of the Group's financial liabilities based on the remaining period from the balance sheet date to the contractual maturity date is given in the table below. The figures reflect the contractual undiscounted cash obligation of the Group:

As at 31 December 2017					
	< 1 year \$'000	1-2 years \$'000	2-5 years \$'000	> 5 years \$'000	Total \$'000
Accounts and other payables	239,746	-	-	-	239,746
Payables related to property, plant and equipment	85,395	-	-	-	85,395
Accrued operating expenses, excluding GST payables	70,970	-	-	-	70,970
Borrowings	59,063	98,437	628,140	-	785,640
Amounts due to related parties	73,534	-	-	-	73,534
Non-current liabilities	-	-	-	2,786	2,786
Total	528,708	98,437	628,140	2,786	1,258,071

As at 31 December 2016					
	< 1 year \$'000	1-2 years \$'000	2-5 years \$'000	> 5 years \$'000	Total \$'000
Accounts and other payables	219,232	-	-	-	219,232
Payables related to property, plant and equipment	35,738	-	-	-	35,738
Accrued operating expenses, excluding GST payables	125,579	-	-	-	125,579
Borrowings	87,233	250,186	572,656	-	910,075
Amounts due to related parties	34,079	-	-	-	34,079
Long-term payables to holding company	-	29,908	-	-	29,908
Non-current liabilities	-	4,352	-	-	4,352
Total	501,861	284,446	572,656	-	1,358,963

The interest payments on the Group's borrowings due within one year, 1-2 years and 2-5 years amount to \$50.1 million (2016: \$55.3 million), \$46.7 million (2016: \$51.8 million) and \$41.1 million (2016: \$83.6 million), respectively.

Estimation of Fair Value

The accounting classification of each category of financial instruments, and their carrying amounts, are as follows:

	31 December 2017 \$'000	31 December 2016 \$'000
Financial assets		
Cash and cash equivalents	110,219	139,828
Bank deposits	1,365	1,096
Loan and receivables		
- Accounts receivable	178,620	205,223
- Amounts due from related parties	32,944	8,313
- Other receivables, excluding GST receivables	52,890	28,759
Total	376,038	383,219

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Financial liabilities

Financial liabilities at nominal value and amortised cost

- Accounts and other payables	(239,746)	(219,232)
- Payables related to property, plant and equipment purchases	(85,395)	(35,738)
- Accrued operating expenses, excluding GST payables	(70,970)	(125,579)
- Borrowings	(764,142)	(879,768)
- Amounts due to related parties	(73,534)	(34,079)
- Long-term payables to holding company	-	(29,908)
- Other non-current liabilities	(2,786)	(4,352)
Total	(1,236,573)	(1,328,656)

Fair value for measurements are estimates of the amounts for which assets or liabilities (including financial instruments and other derivative contracts) could be exchanged at the measurement date, based on the assumption that such exchanges take place between knowledgeable, unrelated parties in unforced transactions. Where available, fair value measurements are derived from prices quoted in active markets for identical assets or liabilities. In the absence of such information, other observable inputs are used to estimate fair value. Where publicly available information is not available, fair value is determined using estimation techniques that take into account market perspectives relevant to the asset or liability, in as far as they can reasonably be ascertained, based on predominantly unobservable inputs.

The Group uses a three-tier fair value hierarchy to classify and disclose all assets and liabilities measured at fair value on a recurring basis, as well as assets and liabilities measured at fair value on a non-recurring basis, in periods subsequent to their initial measurement. These tiers include: Level 1, defined as quoted market prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, model-based valuation techniques for which all significant assumptions are observable in the market, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and Level 3, defined as unobservable inputs that are not corroborated by market data.

The following tables set forth the Group's financial assets and liabilities, excluding interest components that were accounted for at fair value on a recurring basis as of 31 December 2017 and 31 December 2016, respectively:

	Fair Value Measurement as of 31 December 2017			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets:				
Foreign currency forward contracts	-	2,846	-	2,846
Total assets measured and recorded at fair value	-	2,846	-	2,846
Liabilities:				
Foreign currency forward contracts	-	-	-	-
Minimum Spend commitment	-	-	(16,041)	(16,041)
Total liabilities measured and recorded at fair value	-	-	(16,041)	(16,041)

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	Fair Value Measurement as of 31 December 2016			Total \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
Assets:				
Foreign currency forward contracts	-	7	-	7
Total assets measured and recorded at fair value	-	7	-	7
Liabilities:				
Foreign currency forward contracts	-	(4,497)	-	(4,497)
Minimum Spend commitment	-	-	(63,319)	(63,319)
Total liabilities measured and recorded at fair value	-	(4,497)	(63,319)	(67,816)

Level 3 Fair value measurements

(i) Information about significant unobservable inputs used in Level 3 fair value measurements

The following table shows the information about fair value measurement of Minimum Spend commitment using significant unobservable inputs (Level 3).

Description Recurring fair value measurements	Fair value as at 31 December 2017 \$'000	Valuation techniques	Unobservable Inputs*	Range
Minimum Spend commitment (Note 17, 18)	16,041	Discounted cash flow	Discount rate	6.1% to 9.0%

Description Recurring fair value measurements	Fair value as at 31 December 2016 \$'000	Valuation techniques	Unobservable Inputs*	Range
Minimum Spend commitment (Note 17, 18)	63,319	Discounted cash flow	Discount rate	4.2% to 6.8%

A significant increases/(decreases) in revenue growth rate, Minimum Spend would result in a significantly (lower)/higher fair value measurement.

A significant increase/(decrease) in discount rate, would result in a significantly lower/(higher) fair value measurement.

(ii) Movements in Level 3 assets measured at fair value

During the financial year 2017, the Group recognised gain from fair value adjustments of Minimum Spend commitment which amounted to \$10.1 million (2016: gain of \$23.1 million). In 2017, the Company made \$37.2 million Minimum Spend payment to the Taiwan Entities. In February 2018, the Company made \$5.5 million Minimum Spend payment to the Taiwan Entities. The Company will make another \$5.5 million Minimum Spend payment to the Taiwan Entities by April 2018.

STATS CHIPPAK PTE. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(iii) Valuation policies and procedures

Management of the Group oversees the Group's financial reporting valuation process and is responsible for setting and documenting the Group's valuation policies and procedures.

For all significant financial reporting valuations using valuation models and significant unobservable inputs, it is the Group's policy to engage external valuation experts who possess the relevant credentials and knowledge on the subject of valuation, valuation methodologies and FRS 113 fair value measurement guidance to perform the valuation.

For valuations performed by external valuation experts, the appropriateness of the valuation methodologies and assumptions adopted are reviewed along with the appropriateness and reliability of the inputs (including those developed internally by the Group) used in the valuations.

For valuations performed by external valuation experts, the Management reviews the appropriateness of the valuation methodologies and assumptions adopted. The Management also evaluates the appropriateness and reliability of the inputs used in the valuations.

Significant changes in fair value measurements from period to period are evaluated by Management for reasonableness. Key drivers of the changes are identified and assessed for reasonableness against relevant information from independent sources, or internal sources if necessary and appropriate.

29. Immediate and Ultimate Holding Corporations and Subsidiaries

The Group's immediate holding corporation is JCET-SC, incorporated in Singapore. The ultimate holding corporation is JCET, beneficially owned approximately 100.0% of the Company as of 31 December 2017 (2016: 39.4%).

Prior to the Change of Control, the Group's immediate holding corporation was STSPL, incorporated in Singapore. The ultimate holding corporation was Temasek Holdings (Private) Limited ("Temasek"), incorporated in Singapore. Temasek, through its wholly-owned subsidiary, STSPL, beneficially owned approximately 83.8% of the Company as of 5 August 2015. Temasek, a private limited company incorporated in Singapore, is wholly-owned by the Minister for Finance of Singapore, a body corporate constituted by the Minister for Finance (Incorporation) Act (Cap. 183).

STATS CHIPPAC PTE. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The significant subsidiaries of the Company are as follows:

Name of Subsidiary	Principal Activities	Country of Incorporation	Effective Percentage Holdings	
			2017	2016
STATS ChipPAC (BVI) Limited*	Investment holding, turnkey packaging and test services, warehousing services, research and development	British Virgin Islands	100%	100%
STATS ChipPAC Korea Ltd.#	Turnkey packaging and test services, research and development, warehousing services and drop shipment services	South Korea	100%	100%
STATS ChipPAC Shanghai Co., Ltd.#	Turnkey packaging and test services, flip-chip, research and development, warehousing services, and drop shipment services	China	100%	100%
STATS ChipPAC Semiconductor Jiangyin Co., Ltd. #	Turnkey packaging and test services, flip-chip, research and development, warehousing services, and drop shipment services	China	100%	100%
STATS ChipPAC, Inc.*	Sales, marketing, administration and research and development	Delaware, USA	100%	100%

Audited by member firms of Ernst & Young, in the respective countries

* Not required to be audited under the laws of its country of incorporation

30. Related Party Transactions

During the financial year, the following significant transactions between the Group and related parties took place:

	Year Ended	
	31 December 2017 \$'000	31 December 2016 \$'000
Sales to related companies	(15,086)	(49)
Purchase of property, plant and equipment from related companies	35,711	-
Sales of property, plant and equipment to related companies	(430)	(808)
Rental fees paid to related companies	3,213	542
Management fees from a subsidiary	(14,882)	(18,351)
Management fees to subsidiaries	7,271	6,965
Guarantee fee to a subsidiary	917	874
Others	(43)	(19)

STATS CHIPPAK PTE. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The amounts owing by (to) related parties were as follows:

	31 December 2017 \$'000	31 December 2016 \$'000
Short-term amounts due from related parties		
Accounts receivable	32,944	8,313
Short-term amounts due to related parties		
Accounts payable	(73,534)	(34,079)
Long-term amounts due to holding company		
Other payable	-	(29,908)

Amounts due from (to) related parties are non-trade related, unsecured, non-interest bearing, repayable upon demand.

Directors and Key Executives Compensation

	Year Ended	
	31 December 2017 \$'000	31 December 2016 \$'000
Directors' fee	124	120
Key Executives' remuneration ⁽¹⁾	6,365	5,561
	6,489	5,681

Notes:

(1) Key executives remuneration in 2017 and 2016 mainly relates to base salary and other fixed short-term benefits.

31. Business Segment, Geographic and Major Customer Data

Commencing in 2013, the Group realigned its segment reporting for packaging and test business as a single business unit delivering turnkey packaging and test solutions to customers. The Group considered developments and changes in its business to align the identification of its operating segments.

Net revenues by geographical areas (identified by location of customer headquarters) were:

	Year Ended	
	31 December 2017 \$'000	31 December 2016 \$'000
United States	657,726	675,650
Asia	345,254	338,481
Europe	157,645	149,030
Total	1,160,625	1,163,161

STATS CHIPPAC PTE. LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Long-lived assets by geographical area were:

	Year Ended	
	31 December 2017 \$'000	31 December 2016 \$'000
Singapore	526,004	588,099
South Korea	425,150	458,514
China	193,454	165,193
United States and rest of Asia	118	158
Total	<u>1,144,726</u>	<u>1,211,964</u>

The Group's largest customer accounted for approximately 15% and 17% of revenues in 2017 and 2016, respectively. The Group's ten largest customers collectively accounted for approximately 75.6% and 80.0% of revenues in 2017 and 2016, respectively.

32. Guarantor Subsidiaries and Non Guarantor Subsidiaries

In November 2015, the Company issued \$425.0 million of the 2020 Notes, which are fully and unconditionally guaranteed, jointly and severally, on a senior basis, by its subsidiaries, with the exception of its China subsidiaries and its Thai subsidiaries (collectively, the "Non-Guarantor Subsidiaries"). All of the Non-Guarantor Subsidiaries are Restricted Subsidiaries as defined under the 2020 Notes.

In 2017, the Non-Guarantor Subsidiaries, after eliminations of transactions and balances within these entities (but before taking into account any transactions and balances between the Non-Guarantor Subsidiaries, the guarantor subsidiaries, and STATS ChipPAC Pte. Ltd.), generated \$272.3 million of net revenues (representing 23.5% of the Group's consolidated net revenues) and \$31.3 million of operating loss (representing 63.2% of the Group's consolidated operating loss). As of 31 December 2017, the Non-Guarantor Subsidiaries held \$536.5 million of assets (representing 25.7% of the Group's consolidated total assets).

As of 31 December 2017, the Non-Guarantor Subsidiaries had no indebtedness outstanding and approximately \$258.2 million of trade payables and other liabilities outstanding.

In 2017, STATS ChipPAC Korea Ltd. generated \$419.3 million of net revenues (representing 36.1% of the Group's consolidated net revenues) and \$12.8 million of operating income (representing 25.8% of the Group's consolidated operating loss of \$49.5 million). As of 31 December 2017, STATS ChipPAC Korea Ltd. held \$923.8 million of assets (representing 44.2% of the Group's consolidated total assets).

As of 31 December 2017, STATS ChipPAC Korea Ltd. had indebtedness outstanding of \$70.5 million and approximately \$135.7 million of trade payables and other liabilities outstanding.

STATS CHIPPAK PTE. LTD.

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2017 \$'000	31 December 2016 \$'000
ASSETS			
Current assets:			
Cash and cash equivalents	3	72,839	62,414
Accounts receivable	4	112,299	112,270
Other receivables		1,279	1,107
Inventories	5	16,943	18,475
Prepaid expenses and other current assets		1,448	3,388
Short-term amounts due from related parties		15,675	153
Short-term amounts due from subsidiaries		88,583	118,911
Total current assets		309,066	316,718
Non-current assets			
Property, plant and equipment	6	526,004	588,099
Investment in subsidiaries	7	786,516	714,727
Intangible assets	8	31,526	30,367
Prepaid expenses and other non-current assets		-	7
Total non-current assets		1,344,046	1,333,200
Total assets		1,653,112	1,649,918
LIABILITIES			
Current liabilities:			
Accounts and other payable		92,868	77,766
Payables related to property, plant and equipment purchases		16,150	14,859
Accrued operating expenses	9	41,265	80,781
Short-term borrowings	11	59,063	9,844
Short-term amounts due to related parties		12,795	2,670
Short-term amounts due to subsidiaries		85,606	63,458
Total current liabilities		307,747	249,378
Non-current liabilities:			
Long-term borrowings	11	634,595	774,338
Long-term payables to holding company		-	29,908
Other non-current liabilities	12	-	4,352
Total non-current liabilities		634,595	808,598
Total liabilities		942,342	1,057,976
EQUITY			
Share capital	14	976,376	783,646
Retained earnings		(475,206)	(393,195)
Other reserves	15	(9,733)	(9,842)
Perpetual securities	16	219,333	211,333
Total equity		710,770	591,942
Total liabilities and equity		1,653,112	1,649,918

The accompanying notes form an integral part of the unconsolidated statement of financial position.

STATS CHIPPAC PTE. LTD.

NOTES TO THE UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

These notes form an integral part of the unconsolidated statement of financial position.

1. Background and Summary of Significant Accounting Policies

(a) Business and Organisation

STATS ChipPAC was listed on the Singapore Exchange Securities Trading Limited ("SGX-ST") and subsequently delisted on 19 October 2015. The Company is incorporated and domiciled in Singapore and the registered office of the Company is at 10 Ang Mo Kio Street 65 Techpoint #04-08/09 Singapore 569059.

On 5 August 2015, Jiangsu Changjiang Electronics Technology Co., Ltd ("JCET") through its subsidiary, JCET-SC (Singapore) Pte. Ltd ("JCET-SC") acquired more than 90% of the Company's ordinary shares (the "Change of Control" and such transaction, the "Change of Control Transaction"). On 15 October 2015, JCET-SC acquired the remaining ordinary shares of the Company and became the sole shareholder. Prior to 5 August 2015, Singapore Technologies Semiconductors Pte Ltd ("STSPL"), a wholly-owned subsidiary of Temasek Holdings (Private) Limited ("Temasek"), beneficially owned 83.8% of our ordinary shares.

With effect from 29 March 2016, the Company converted to a private company and that the name of the Company is now STATS ChipPAC Pte. Ltd..

The Company is required to prepare the unconsolidated statement of financial position of the Company in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") for filing with the Accounting and Corporate Regulatory Authority ("ACRA").

The unconsolidated statement of financial position is presented based on the Singapore Financial Reporting Standards ("FRS").

The unconsolidated statement of financial position should be read in conjunction with the Consolidated Financial Statements of STATS ChipPAC.

The financial statements are expressed in U.S. dollars, which is the Company's functional and presentation currency.

(b) Subsidiaries and Equity Investee

The Company has significant subsidiaries in South Korea, China, the British Virgin Islands, Barbados, and in the United States, its principal market. Investments in subsidiaries and equity investee are accounted for at cost less accumulated impairment loss. The Company assesses annually whether there is an indication that the investment in subsidiaries and equity investee may be impaired. If any such indication exists, the recoverable amount is estimated in order to determine the extent of the impairment loss (if any).

2. Related Parties

On 5 August 2015, upon completion of the Change of Control Transaction, STATS ChipPAC Ltd. became a subsidiary of JCET-SC. Refer to Note 30 of the consolidated financial statements for details of related party transactions.

STATS CHIPPAK PTE. LTD.

NOTES TO THE UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

3. Cash and Cash Equivalents

	31 December 2017 \$'000	31 December 2016 \$'000
Cash at banks and on hand	68,825	55,277
Cash equivalents		
Money market funds	4,014	3,690
Bank fixed deposits	–	3,447
	<u>72,839</u>	<u>62,414</u>

4. Accounts Receivable

	31 December 2017 \$'000	31 December 2016 \$'000
Accounts receivable – third parties	112,710	112,923
Less: Provision for sales return	(411)	(653)
Accounts receivable	<u>112,299</u>	<u>112,270</u>

Trade receivables are non-interest bearing and are generally on 30 to 90 days' terms.

As of 31 December 2017, the Company entered into \$62.4 million (2016: \$30.7 million) non-recourse factoring of accounts receivable with a bank for cash, and the associated accounts receivable were derecognised.

5. Inventories

	31 December 2017 \$'000	31 December 2016 \$'000
Raw materials	11,595	10,128
Work-in-progress	5,032	8,286
Finished goods	316	61
	<u>16,943</u>	<u>18,475</u>

STATS CHIPPAK PTE. LTD.

NOTES TO THE UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

6. Property, Plant and Equipment

	Buildings, Construction In Progress, Mechanical and Electrical Installation \$'000	Equipment \$'000	Total \$'000
<i>Cost</i>			
Balances at 1 January 2017	210,557	1,503,903	1,714,460
Additions	8,195	48,151	56,346
Transfer from subsidiaries	—	26,008	26,008
Transfer from related parties	—	42,115	42,115
Transfer to subsidiaries	—	(30,331)	(30,331)
Transfer to related parties	—	(825)	(825)
Reclassification to intangible assets	—	(22,558)	(22,558)
Disposal/write-off	(2,842)	(22,835)	(25,677)
Balances at 31 December 2017	215,910	1,543,628	1,759,538
<i>Accumulated depreciation</i>			
Balances at 1 January 2017	101,394	1,024,967	1,126,361
Additions	15,650	121,956	137,606
Transfer from subsidiaries	—	22,395	22,395
Transfer from related parties	—	6,404	6,404
Transfer to subsidiaries	—	(19,875)	(19,875)
Transfer to related parties	—	(396)	(396)
Reclassification to intangible assets	—	(19,862)	(19,862)
Disposal/write-off	(2,833)	(16,266)	(19,099)
Balances at 31 December 2017	114,211	1,119,323	1,233,534
Net book value at 31 December 2017	101,699	424,305	526,004

	Buildings, Construction In Progress, Mechanical and Electrical Installation \$'000	Equipment \$'000	Total \$'000
<i>Cost</i>			
Balances at 1 January 2016	181,903	1,433,818	1,615,721
Additions	28,717	123,556	152,273
Transfers from subsidiaries	—	28,784	28,784
Transfers to subsidiaries	—	(24,726)	(24,726)
Transfer to related parties	—	(4,491)	(4,491)
Disposal/write-off	(63)	(53,038)	(53,101)
Balances at 31 December 2016	210,557	1,503,903	1,714,460
<i>Accumulated depreciation</i>			
Balances at 1 January 2016	88,528	959,700	1,048,228
Additions	12,893	122,496	135,389
Transfers from subsidiaries	—	16,581	16,581
Transfers to subsidiaries	—	(17,546)	(17,546)
Transfer to related parties	—	(3,683)	(3,683)
Disposal/write-off	(27)	(52,581)	(52,608)
Balances at 31 December 2016	101,394	1,024,967	1,126,361
Net book value at 31 December 2016	109,163	478,936	588,099

The Company routinely reviews the remaining estimated useful lives of its equipment to determine if such lives should be adjusted due to the likelihood of technological obsolescence arising from changes in production techniques or in market demand for the use of its equipment.

STATS CHIPPAK PTE. LTD.

NOTES TO THE UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

Refer to Note 11 of the consolidated financial statements for details of impairment testing of property, plant and equipment.

7. Investment in Subsidiaries

	31 December 2017 \$'000	31 December 2016 \$'000
Unquoted equity shares at cost	786,516	714,727

8. Intangible Assets

The Company's intangible assets consist of patent costs, software, licenses and others.

	31 December 2017 \$'000	31 December 2016 \$'000
<i>Cost</i>		
Beginning of financial year	45,018	43,012
Additions	2,498	2,813
Transfer from property, plant and equipment	22,558	–
Write-off	(576)	(807)
End of financial year	69,498	45,018
<i>Accumulated amortisation</i>		
Beginning of financial year	14,651	12,249
Additions	3,995	2,561
Transfer from property, plant and equipment	19,862	–
Write-off	(536)	(159)
End of financial year	37,972	14,651
Net book value	31,526	30,367

Refer to Note 12 of the consolidated financial statements for details of impairment testing of intangible assets.

9. Accrued Operating Expenses

	31 December 2017 \$'000	31 December 2016 \$'000
Staff costs	10,458	7,172
Maintenance fees, license fees and royalties	3,272	3,684
Interest expense	6,708	6,333
Accruals for vacation liability	728	518
Forward contracts payable	–	116
Minimum Spend commitment (refer to Note 17)	16,041	58,967
Other accrued operating expenses	4,058	3,991
	41,265	80,781

STATS CHIPPA PTE. LTD.

NOTES TO THE UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

10. Income Taxes

In 2012, the Singapore Economic Development Board ("EDB") extended the Company's five-year tax incentive for its Singapore operations, whereby certain qualifying income will be subject to a concessionary tax rate of 5% instead of the Singapore statutory rate of 17%, subject to the fulfillment of certain continuing conditions. Due to the substantial amount of capital allowance claimed arising from capital expenditure on its plant and equipment, the Company had not enjoyed the concessionary tax rate. Separately, due to the reduction of headcount at corporate headquarters as a result of the global initiative to redesign its business structure, the Company did not fulfill certain continuing conditions. As a result, the Company has applied for the termination of the incentive to EDB. The termination of the incentive was approved by EDB in April 2016 with effect from 1 July 2015.

As of 31 December 2017, the Company has approximately \$23.9 million (2016: \$23.9 million) and \$122.4 million (2016: \$186.0 million) of tax loss carryforwards and unutilised capital allowances, respectively, which can, subject to the relevant provision of the Singapore Income Tax Act, be carried forward and utilised against future taxable profits. Singapore tax losses and capital allowances are generally allowed to be carried forward indefinitely provided there is no substantial change to the shareholders and their shareholdings. Pursuant to the Change of Control, the Company has submitted application to Inland Revenue of Singapore ("IRAS") for the Ministerial waiver of shareholder's test under Sections 23(5) and 37(16) of the Income Tax Act.

11. Borrowings

	31 December 2017 \$'000	31 December 2016 \$'000
U.S. dollars floating rate syndicated loan	277,192	295,674
8.5% senior notes due 2020	416,466	414,019
4.5% senior notes due 2018	—	74,489
Total borrowings	693,658	784,182
Less: borrowings repayable within one year	(59,063)	(9,844)
Long-term borrowings	634,595	774,338

The exposure of the borrowings of the Company to interest rate changes and the contractual repricing dates at the balance sheet dates are as follows:

	31 December 2017 \$'000	31 December 2016 \$'000
Less than 1 year	277,192	295,674
1 - 5 years	416,466	488,508
	693,658	784,182

Refer to Note 16 of the consolidated financial statements for details of the borrowings and further information on exposure of the borrowings of the Company to interest rate changes and the contractual repricing dates.

STATS CHIPPAK PTE. LTD.

NOTES TO THE UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

The fair values of the borrowings of the Company at balance sheet dates are as follows:

	31 December 2017 \$'000	31 December 2016 \$'000
U.S. dollars floating rate syndicated loan	290,156	315,000
8.5% senior notes due 2020	452,625	440,406
4.5% senior notes due 2018	—	72,255
	<u>742,781</u>	<u>827,661</u>

The fair values of the senior notes are determined from the trading market prices of the senior notes as of each balance sheet date. The borrowing under the U.S. dollars floating rate syndicated loan is assumed to approximate its fair values.

The Company has lines of credit and banking facilities consisting of loans, overdrafts, letters of credit and bank guarantees, which amounted to an aggregate of \$315.4 million (2016: \$324.2 million), of which \$15.0 million (2016: Nil) of credit facilities and \$6.0 million (2016: \$6.0 million) of other banking facilities were available as of 31 December 2017.

A reconciliation of borrowings arising from financing activities is as follows:

	As at 31 December 2016 \$'000	Drawdown of Bank borrowings \$'000	Repayment of bank borrowings \$'000	Redemption of senior notes \$'000	Non-cash changes Amortisation of debt issuance cost \$'000	Reclassifi- cation \$'000	As at 31 December 2017 \$'000
<i>Total borrowings</i>							
- current	9,844	—	(9,844)	—	—	59,063	59,063
- non-current	774,338	30,000	(45,000)	(74,489)	8,809	(59,063)	634,595
	<u>784,182</u>	<u>30,000</u>	<u>(54,844)</u>	<u>(74,489)</u>	<u>8,809</u>	<u>—</u>	<u>693,658</u>

12. Non-current liabilities

	31 December 2017 \$'000	31 December 2016 \$'000
Minimum Spend commitment (refer to Note 17)	—	4,352

13. Derivative Financial Instruments

	31 December 2017			31 December 2016		
	Contract notional amount \$'000	Asset \$'000	Liability \$'000	Contract notional amount \$'000	Asset \$'000	Liability \$'000
<i>Cash-flow hedges</i>						
- Currency forwards	—	—	—	7,584	7	(116)
Minimum Spend commitment (Note 17)		—	(16,041)		—	(63,319)

The Company enters into forward contracts for hedging highly probable forecast transactions and accounts for them as cash flow hedges and states them at fair value. Subsequent changes in fair value are recognised in equity until the hedged transactions occur, at which time the respective gains or losses are transferred to the income statement.

STATS CHIPPAK PTE. LTD.

NOTES TO THE UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

14. Share Capital

Refer to Note 24 of the consolidated financial statements for details of Share Capital.

15. Other Reserves

(a) Composition

	31 December 2017 \$'000	31 December 2016 \$'000
Hedging reserve	—	(109)
Foreign currency translation reserve	(9,733)	(9,733)
	<u>(9,733)</u>	<u>(9,842)</u>

(b) Movement

Hedging reserve

	Year ended	
	31 December 2017 \$'000	31 December 2016 \$'000
Beginning of financial year	(109)	13
Fair value gains	812	104
Reclassification of fair value gain to Income Statement	(703)	(226)
End of financial year	<u>—</u>	<u>(109)</u>

The hedging reserve is non-distributable.

16. Perpetual Securities

Refer to Note 26 of the consolidated financial statements for details of Perpetual Securities.

17. Minimum Spend Commitment

Refer to Note 20 of the consolidated financial statements for details.

18. Commitments and Contingencies

(a) Commitments

As of 31 December 2017 and 31 December 2016 unconditional purchase obligations consist of the following:

	31 December 2017 \$'000	31 December 2016 \$'000
Capital commitments		
Building, mechanical and electrical installation	1,531	4,060
Equipment	9,234	63,631
	<u>10,765</u>	<u>67,691</u>
Other commitments		
Inventories	23,593	23,117

STATS CHIPPAK PTE. LTD.

NOTES TO THE UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

These unconditional purchase obligations include agreements to purchase goods or services that are enforceable and legally binding on the Company and specify all significant terms, including fixed or minimum quantities to be purchased, fixed or variable price provisions and the approximate timing of transactions. The duration of these purchase obligations are generally less than 12 months.

The Company leases two facilities in Singapore under operating lease arrangement and has a lease agreement for the land located in Singapore related to its production facility. The Company has also leased certain production equipment under operating leases.

These leases have varying escalation clauses and renewal rights.

Future minimum lease payments under non-cancelable operating leases contracted for at the balance sheet date but not recognised as liabilities were:

	31 December 2017 \$'000	31 December 2016 \$'000
Not later than one year	3,595	5,608
Between one and five years	3,794	3,000
Later than five years	2,187	2,911
	<u>9,576</u>	<u>11,519</u>

(b) Contingencies

The Company is subject to claims and litigations that arise in the normal course of business. These claims may include allegations of infringement of intellectual property rights of others as well as other claims of liability. The Company accrues liability associated with these claims and litigations when they are probable and reasonably estimable.

In addition, the Company is subject to various taxes in the different jurisdictions in which it operates. These include taxes on income, property, goods and services, and other taxes. The Company submits tax returns and claims with the appropriate government taxing authorities, which are subject to examination and agreement by those taxing authorities. The Company regularly assesses the likelihood of adverse outcomes resulting from these examinations to determine adequacy of provision for taxes.

Refer to Note 27(b) of the consolidated financial statements for details of contingencies.

19. Financial Risk Management

Refer to Note 2 of the consolidated financial statements for details on the Group's financial risk management.

Credit Risk

The age analysis of trade receivables past due but not impaired is as follows:

	31 December 2017 \$'000	31 December 2016 \$'000
Past due less than 30 days	10,436	6,039
30-60 days	2,630	2,486
61-90 days	—	1,595
More than 90 days	3,935	10,191
	<u>17,001</u>	<u>20,311</u>

STATS CHIPPAK PTE. LTD.

NOTES TO THE UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

The movements in the related provision for sales return are as follows:

	31 December 2017 \$'000	31 December 2016 \$'000
Beginning of financial year	653	734
Additions	466	931
Write-back	(708)	(1,012)
End of financial year	411	653

Liquidity Risk

The maturity profile of the Company's financial liabilities based on the remaining period from the balance sheet date to the contractual maturity date is given in the table below. The figures reflect the contractual undiscounted cash obligation of the Company:

As at 31 December 2017					
	< 1 year \$'000	1-2 years \$'000	2-5 years \$'000	> 5 years \$'000	Total \$'000
Accounts and other payables	92,868	—	—	—	92,868
Payables related to property, plant and equipment purchases	16,150	—	—	—	16,150
Accrued operating expenses, excluding GST payables	39,617	—	—	—	39,617
Borrowings	59,063	98,437	557,656	—	715,156
Amounts due to related parties	12,795	—	—	—	12,795
Amounts due to subsidiaries	85,606	—	—	—	85,606
Total	306,099	98,437	557,656	—	962,192

As at 31 December 2016					
	< 1 year \$'000	1-2 years \$'000	2-5 years \$'000	> 5 years \$'000	Total \$'000
Accounts and other payables	77,766	—	—	—	77,766
Payables related to property, plant and equipment purchases	14,859	—	—	—	14,859
Accrued operating expenses, excluding GST payables	80,202	—	—	—	80,202
Borrowings	9,844	133,551	671,094	—	814,489
Amounts due to related parties	2,670	—	—	—	2,670
Amounts due to subsidiaries	63,458	—	—	—	63,458
Long-term payables to holding company	—	29,908	—	—	29,908
Non-current liabilities	—	4,352	—	—	4,352
Total	248,799	167,811	671,094	—	1,087,704

The interest payments on the Company's borrowings due within one year, 1-2 years and 2-5 years amount to \$47.6 million (2016: \$52.5 million), \$44.2 million (2016: \$49.3 million) and \$38.8 million (2016: \$83.0 million), respectively.

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NOTES TO THE UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

Estimation of Fair Value

The accounting classification of each category of financial instruments, and their carrying amounts, are as follows:

	31 December 2017 \$'000	31 December 2016 \$'000
Financial assets		
Cash and cash equivalents	72,839	62,414
Loan and receivables		
- Accounts receivable	112,299	112,270
- Amounts due from related parties	15,675	153
- Amounts due from subsidiaries	91,997	118,911
- Other receivables, excluding GST receivables	1,281	1,107
Total	294,091	294,855
Financial liabilities		
Financial liabilities at nominal value and amortised cost		
- Accounts and other payables	(92,868)	(77,766)
- Payables related to property, plant and equipment purchases	(16,150)	(14,859)
- Accrued operating expenses, excluding GST payables	(39,617)	(80,202)
- Borrowings	(693,658)	(784,182)
- Amounts due to related parties	(12,795)	(2,670)
- Amounts due to subsidiaries	(85,606)	(63,458)
- Long-term payables to holding company	-	(29,908)
- Other non-current liabilities	-	(4,352)
Total	(940,694)	(1,057,397)

The following tables set forth the Company's financial assets and liabilities, excluding interest components that were accounted for at fair value on a recurring basis as of 31 December 2017 and 31 December 2016, respectively:

Fair Value Measurement As of 31 December 2017				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets:				
Foreign currency forward contracts	-	-	-	-
Total assets measured and recorded at fair value	-	-	-	-
Liabilities:				
Foreign currency forward contracts	-	-	-	-
Minimum Spend commitment	-	-	(16,041)	(16,041)
Total liabilities measured and recorded at fair value	-	-	(16,041)	(16,041)
Fair Value Measurement As of 31 December 2016				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets:				
Foreign currency forward contracts	-	7	-	7
Total assets measured and recorded at fair value	-	7	-	7
Liabilities:				
Foreign currency forward contracts	-	(116)	-	(116)
Minimum Spend commitment	-	-	(63,319)	(63,319)
Total liabilities measured and recorded at fair value	-	(116)	(63,319)	(63,435)

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NOTES TO THE UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

Level 3 Fair value measurements

- (i) Information about significant unobservable inputs used in Level 3 fair value measurements

The following table shows the information about fair value measurement of Minimum Spend commitment using significant unobservable inputs (Level 3).

Description	Fair value as at 31 December 2017 \$'000	Valuation techniques	Unobservable Inputs*	Range
Recurring fair value measurements				
Minimum Spend commitment (Note 12, 13)	16,041	Discounted cash flow	Discount rate	6.1% to 9.0%

Description	Fair value as at 31 December 2016 \$'000	Valuation techniques	Unobservable Inputs*	Range
Recurring fair value measurements				
Minimum Spend commitment (Note 12, 13)	63,319	Discounted cash flow	Discount rate	4.2% to 6.8%

A significant increases/(decreases) in revenue growth rate, Minimum Spend would result in a significantly (lower)/higher fair value measurement.

A significant increase/(decrease) in discount rate, would result in a significantly lower/(higher) fair value measurement.

- (ii) Movements in Level 3 assets measured at fair value

During the financial year 2017, the Company recognised gain from fair value adjustments of Minimum Spend commitment which amounted to \$10.1 million (2016: gain of \$23.1 million). In 2017, the Company made \$37.2 million Minimum Spend payment to the Taiwan Entities. In February 2018, the Company made \$5.5 million Minimum Spend payment to the Taiwan Entities. The Company will make another \$5.5 million Minimum Spend payment to the Taiwan Entities by April 2018.

- (iii) Valuation policies and procedures

Management of the Company oversees the Company's financial reporting valuation process and is responsible for setting and documenting the Group's valuation policies and procedures.

For all significant financial reporting valuations using valuation models and significant unobservable inputs, it is the Company's policy to engage external valuation experts who possess the relevant credentials and knowledge on the subject of valuation, valuation methodologies and FRS 113 fair value measurement guidance to perform the valuation.

For valuations performed by external valuation experts, the appropriateness of the valuation methodologies and assumptions adopted are reviewed along with the appropriateness and reliability of the inputs (including those developed internally by the Group) used in the valuations.

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NOTES TO THE UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

For valuations performed by external valuation experts, the Management reviews the appropriateness of the valuation methodologies and assumptions adopted. The Management also evaluates the appropriateness and reliability of the inputs used in the valuations.

Significant changes in fair value measurements from period to period are evaluated by Management for reasonableness. Key drivers of the changes are identified and assessed for reasonableness against relevant information from independent sources, or internal sources if necessary and appropriate.