

ADVANCED SEMICONDUCTOR ENGINEERING INC  
Form 20-F/A  
July 05, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 20-F/A  
(AMENDMENT NO. 1)**

OR

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2006

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 001-16125  
(Exact Name of Registrant as Specified in Its Charter)

**Advanced Semiconductor Engineering, Inc.**  
(Translation of Registrant's Name into English)

**REPUBLIC OF CHINA**  
(Jurisdiction of Incorporation or Organization)

**26 Chin Third Road  
Nantze Export Processing Zone  
Nantze, Kaohsiung, Taiwan  
Republic of China**

(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on which Registered</u>
Common Shares, par value NT\$10.00 each	The New York Stock Exchange*
*Traded in the form of American Depositary Receipts evidencing American Depositary Shares, each representing five Common Shares	
(Title of Class)	

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None  
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

4,592,508,620 Common Shares, par value NT\$10 each\*\*

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

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If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes \_\_\_ No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes  No \_\_\_

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer \_\_\_ Non-accelerated filer \_\_\_

Indicate by check mark which financial statement item the Registrant has elected to follow.

Item 17 \_\_\_ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes \_\_\_ No

\*\* As a result of the exercise of employee stock options and the conversion of our convertible bonds due September 2008 subsequent to December 31, 2006, as of May 31, 2007, we had 4,645,295,431 shares outstanding.

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**EXPLANATORY NOTE**

This Amendment No. 1 on Form 20-F/A amends our annual report on Form 20-F for the year ended December 31, 2006, which was filed with the Securities and Exchange Commission on June 25, 2007. This Amendment No. 1 is being made solely for the purpose of including the conformed signature of Deloitte & Touche and deleting the two paragraphs entitled, "Notice to Readers", in their Report of Independent Registered Public Accounting Firm included as part of our audited financial statements under Item 18.

**PART III**

**Item 17. Financial Statements**

The Company has elected to provide financial statements for fiscal year 2006 and the related information pursuant to Item 18.

**Item 18. Financial Statements**

Reference is made to pages F-1 to F-72 of this annual report.

The consolidated financial statements of the Company and the report thereon by its independent registered public accounting firm listed below are attached hereto as follows:

- (a) Report of Independent Registered Public Accounting Firm of the Company dated April 30, 2007 (page F-1 to F-2).
- (b) Consolidated Balance Sheets of the Company and subsidiaries as of December 31, 2005 and 2006 (page F-3).
- (c) Consolidated Statements of Income of the Company and subsidiaries for the years ended December 31, 2004, 2005 and 2006 (page F-4 to F-6).
- (d) Consolidated Statements of Changes in Shareholders' Equity of the Company and subsidiaries for the years ended December 31, 2004, 2005 and 2006 (page F-7).

(e) Consolidated Statements of Cash Flows of the Company and subsidiaries for the years ended December 31, 2004, 2005 and 2006 (pages F-8 to F-10).

(f) Notes to Consolidated Financial Statements of the Company and subsidiaries (pages F-11 to F-72).

**Item 19. Exhibits**

1. Articles of Incorporation of the Registrant (English translation of Chinese).\*
2. (a) Amended and Restated Deposit Agreement dated as of September 29, 2000 among ASE Inc., Citibank N.A., as depository, and Holders and Beneficial Holders of American Depositary Shares evidenced by American Depositary Receipts issued thereunder, including the form of American Depositary Receipt (incorporated by reference to Exhibit (a) to our registration statement on Form F-6 (File No. 333-108834) filed on September 16, 2003).  
  
(b) Letter Agreement dated as of February 1, 2001 by and between ASE Inc. and Citibank N.A., as depository for the sole purpose of accommodating the surrender of ASE Inc.'s Rule 144A Global Depositary Shares, the issuance of American Depositary Shares and the delivery of American Depositary Receipts in the context of the termination of ASE Inc.'s Rule 144A Depositary Receipts Facility (incorporated by reference to Exhibit (b)(i) to our registration statement on Post-Effective Amendment No. 1 to Form F-6 (File No. 333-108834) filed on April 3, 2006).  
  
(c) Letter Agreement dated as of September 25, 2003 by and between ASE Inc. and Citibank N.A., as depository for the sole purpose of accommodating the issuance of American Depositary Shares upon ASE Inc.'s deposit of its shares with the depository following the conversion of certain bonds issued by ASE Inc. in accordance with, and subject to, the terms and conditions of the indenture governing such bonds (incorporated by reference to Exhibit (b)(ii) to our registration statement on Post-Effective Amendment No. 1 to Form F-6 (File No. 333-108834) filed on April 3, 2006).  
  
(d) Amendment No. 1 to Amended and Restated Deposit Agreement dated as of April 6, 2006 among ASE Inc., Citibank N.A., as depository, and Holders and Beneficial Holders of American Depositary Shares evidenced by American Depositary Receipts issued thereunder, including the form of American Depositary Receipt (incorporated by reference to Exhibit (a)(ii) to our registration statement on Post-Effective Amendment No. 2 to Form F-6 (File No. 333-108834) filed on October 25, 2006).  
  
(e) Form of Amendment No. 2 to Amended and Restated Deposit Agreement among ASE Inc., Citibank N.A., as depository, and Holders and Beneficial Holders of American Depositary Shares evidenced by American Depositary Receipts issued thereunder, including the form of American Depositary Receipt (incorporated by reference to Exhibit (a)(iii) to our registration statement on Post-Effective Amendment No. 2 to Form F-6 (File No. 333-108834) filed on October 25, 2006).
4. (a) Asset Purchase Agreement dated as of July 3, 1999 among ASE (Chung Li) Inc., ASE Inc., Motorola Electronics Taiwan, Ltd. and Motorola, Inc. (incorporated by reference to Exhibit 10.2 to ASE Test's registration statement on Form F-3 (File No. 333-10892) filed on September 27, 1999 (the "ASE Test 1999 Form-3")).  
  
(b) Agreement dated as of June 5, 2002 among ASE (Chung Li) Inc., ASE Inc., Motorola Electronics Taiwan, Ltd. and Motorola, Inc. amending certain earn-out arrangements provided for in Section 2.09(b)(ii)(D) of the Asset Purchase Agreement dated as of July 3, 1999 among the same parties (incorporated by reference to Exhibit 4(b) to our annual report on Form 20-F (File No. 001-16125) for the year ended December 31, 2002 filed on June 30, 2003).

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- (c) Stock Purchase Agreement dated as of July 3, 1999 among ASE Investment (Labuan) Inc., ASE Inc., Motorola Asia Ltd. and Motorola, Inc. relating to the purchase and sale of 100.0% of the common stock of Motorola Korea Ltd. (incorporated by reference to Exhibit 10.3 to the ASE Test 1999 Form F-3).
- (d) BGA Immunity Agreement dated as of January 25, 1994 between ASE Inc. and Motorola, Inc. (incorporated by reference to Exhibit 10.6 to the Form F-1).
- (e) Amendment dated March 18, 2003 renewing the BGA Immunity Agreement dated as of January 25, 1994 between ASE Inc. and Motorola, Inc. (incorporated by reference to Exhibit 4(g) to our annual report on Form 20-F (File No. 001-16125) for the year ended December 31, 2003 filed on June 30, 2004).
- (f) Consent dated June 10, 2004 to the Assignment of the BGA Immunity Agreement between ASE Inc. and Motorola, Inc. dated January 25, 1994 (incorporated by reference to Exhibit 4(h) to our annual report on Form 20-F (File No. 001-16125) for the year ended December 31, 2003 filed on June 30, 2004).
- (g) Asset Purchase Agreement by and among Flextronics Manufacturing (M) Sdn Bhd, as Buyer, ASE Electronics (M) Sdn. Bhd. as Company, dated as of October 3, 2005 (incorporated by reference to Exhibit 4(g) to our annual report on Form 20-F (File No. 001-16125) for the year ended December 31, 2005 filed on June 19, 2006).
- (h) Commission Agreement dated as of August 1, 2005 between ASE Electronics (M) Sdn. Bhd. and Gardex International Limited (incorporated by reference to Exhibit 4(l) to our annual report on Form 20-F (File No. 001-16125) for the year ended December 31, 2005 filed on June 19, 2006).
- (i) Commission Agreement dated as of August 1, 2005 between ASE Test, Inc. and Gardex International Limited (incorporated by reference to Exhibit 4(m) to our annual report on Form 20-F (File No. 001-16125) for the year ended December 31, 2005 filed on June 19, 2006).

- (j) Commission Agreement dated as of August 1, 2005 between ASE (Korea) Inc. and Gardex International Limited (incorporated by reference to Exhibit 4(n) to our annual report on Form 20-F (File No. 001-16125) for the year ended December 31, 2005 filed on June 19, 2006).
- (k) Commission Agreement dated as of August 1, 2005 between Advanced Semiconductor Engineering, Inc. and Gardex International Limited (incorporated by reference to Exhibit 4(o) to our annual report on Form 20-F (File No. 001-16125) for the year ended December 31, 2005 filed on June 19, 2006).
- (l) Commission Agreement dated as of August 1, 2005 between ASE Inc. (Chung Li) and Gardex International Limited (incorporated by reference to Exhibit 4(p) to our annual report on Form 20-F (File No. 001-16125) for the year ended December 31, 2005 filed on June 19, 2006).
- (m) Commission Agreement dated as of January 1, 2006 between ASE Electronics (M) Sdn. Bhd. and Gardex International Limited (incorporated by reference to Exhibit 4(q) to our annual report on Form 20-F (File No. 001-16125) for the year ended December 31, 2005 filed on June 19, 2006).
- (n) Commission Agreement dated as of January 1, 2006 between ASE Test, Inc. and Gardex International Limited (incorporated by reference to Exhibit 4(r) to our annual report on Form 20-F (File No. 001-16125) for the year ended December 31, 2005 filed on June 19, 2006).
- (o) Commission Agreement dated as of January 1, 2006 between ASE (Korea) Inc. and Gardex International Limited (incorporated by reference to Exhibit 4(s) to our annual report on Form 20-F (File No. 001-16125) for the year ended December 31, 2005 filed on June 19, 2006).
- (p) Commission Agreement dated as of January 1, 2006 between Advanced Semiconductor Engineering, Inc. and Gardex International Limited (incorporated by reference to Exhibit 4(t) to our annual report on Form 20-F (File No. 001-16125) for the year ended December 31, 2005 filed on June 19, 2006).
- (q) Commission Agreement dated as of January 1, 2006 between ASE Inc. (Chung Li) and Gardex International Limited (incorporated by reference to Exhibit 4(u) to our annual report on Form 20-F (File No. 001-16125) for the year ended December 31, 2005 filed on June 19, 2006).
- (r) Joint Venture Agreement dated as of July 14, 2006 among Advanced Semiconductor Engineering, Inc. and Powerchip Semiconductor Corp. relating to the establishment of, and our investment of 60.0% in, Power ASE.\*
- (s) Sale and Purchase Agreement dated January 11, 2007 among J&R Holding Limited and Seacoast Profits Limited relating to our acquisition of 100% of GAPT.\*

8. List of Subsidiaries.\*

- 12. (a) Certification of Jason C.S. Chang, Chief Executive Officer of Advanced Semiconductor Engineering, Inc. required by Rule 13a-14(a) of the Exchange Act.
- (b) Certification of Joseph Tung, Chief Financial Officer of Advanced Semiconductor Engineering, Inc. required by Rule 13a-14(a) of the Exchange Act.
- 13. Certification of the Chief Executive Officer and the Chief Financial Officer of Advanced Semiconductor Engineering, Inc. required by Rule 13a-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code.



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† Does not contain portions for which confidential treatment has been granted.  
\* Previously filed.

The Company agrees to furnish to the Securities and Exchange Commission upon request a copy of any instrument which defines the rights of holders of long-term debt of the Company and its consolidated subsidiaries.

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F/A and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

ADVANCED SEMICONDUCTOR ENGINEERING, INC.

By:                               /s/ Joseph Tung  
  Joseph Tung  
  Chief Financial Officer

Date: July 5, 2007

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**Advanced Semiconductor Engineering,  
Inc. and Subsidiaries**

**Consolidated Financial Statements for the  
Years Ended December 31, 2004, 2005 and 2006 and  
Report of Independent Registered Public Accounting Firm**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders  
Advanced Semiconductor Engineering, Inc.

We have audited the accompanying consolidated balance sheets of Advanced Semiconductor Engineering, Inc. (a corporation incorporated under the laws of the Republic of China) and its subsidiaries (collectively the "Company") as of December 31, 2005 and 2006, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years ended December 31, 2006, all expressed in New Taiwan dollars. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants, auditing standards generally accepted in the Republic of China and the Standards of the Public Company Accounting Oversight Board (United States). Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2005 and 2006, and the consolidated results of their operations and their cash flows for each of the three years ended December 31, 2006, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As discussed in Note 29 to the consolidated financial statements, the Company incurred fire damage to its production line and facilities in Chung Li, Taiwan on May 1, 2005. The Company recognized an estimated loss of NT\$13,479,079 thousand for the damage to its inventories, building, machinery and equipment, net of NT\$4,641,000 thousand (US\$142,406 thousand) of insurance receivable in 2005. The Company reached final settlement with the insurers in June 2006 with regards to the fire damage referred to above. The final settlement amount of NT\$8,068,000 thousand (US\$247,561 thousand), less the NT\$4,641,000 thousand recorded in 2005 and the related repair and restoring expenses of NT\$1,043,132 thousand (US\$32,008 thousand), was recorded as a gain in 2006. The Company also reversed NT\$2,190,583 thousand (US\$67,217 thousand) of previously recorded impairment charges on these fire-damaged building, machinery and equipment due to an increase in the estimated service potential of the assets. Net amount of NT\$4,574,451 thousand (US\$140,364 thousand) was recognized as a gain on insurance settlement and impairment recovery.

As discussed in Note 3 to the consolidated financial statements, the Company adopted the Republic of China Statement of Financial Accounting Standards No. 34 “Financial Instruments: Recognition and Measurement”, No. 36 “Financial Instruments: Disclosure and Presentation” and other revised Statements on January 1, 2006.

Accounting principles generally accepted in the Republic of China differ in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 31 to the consolidated financial statements.

Our audits also comprehended the translation of New Taiwan dollar amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. Such U.S. dollar amounts are presented solely for the convenience of the readers.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company’s internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 30, 2007 expressed an unqualified opinion on management’s assessment of the effectiveness of the Company’s internal control over financial reporting and an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

/s/ Deloitte & Touche  
Taipei, Taiwan  
The Republic of China  
April 30, 2007

## ADVANCED SEMICONDUCTOR ENGINEERING, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands, Except Par Value)

	December 31			December 31			
	2005	2006		2005	2006		
ASSETS	NT\$	NT\$	US\$ (Note 2)	LIABILITIES AND SHAREHOLDERS' EQUITY	NT\$	NT\$	US\$ (Note 2)
<b>CURRENT ASSETS</b>				<b>CURRENT LIABILITIES</b>			
Cash (Note 4)	\$ 13,263,788	\$ 15,730,075	\$ 482,666	Short-term borrowings (Note 13)	\$ 5,084,937	\$ 2,868,138	\$ 88,600
Financial assets at fair value through profit or loss (Notes 2, 3, 5 and 23)	4,330,733	1,557,903	47,803	Financial liabilities at fair value through profit or loss (Notes 2, 3, 5 and 23)	202,729	352,583	10,000
Available-for-sale financial assets (Notes 2, 3, 6 and 23)	27,973	9,346,415	286,788	Derivative financial liabilities for hedging (Notes 2, 3 and 23)	129,179	-	-
Notes receivable	83,936	109,912	3,373	Notes payable and accounts payable	10,984,695	7,304,812	224,000
Accounts receivable, net (Notes 2 and 7)	15,501,680	11,344,961	348,112	Income tax payable (Note 2)	37,751	1,332,000	40,000
Other receivables	3,851,270	915,390	28,088	Accrued expenses (Note 17)	4,005,290	3,108,175	95,000
Inventories (Notes 2, 3 and 8)	7,757,077	5,674,010	174,103	Payable for properties	3,659,836	3,082,384	94,000
Deferred income tax assets, net (Notes 2 and 21)	1,615,696	2,808,184	86,167	Current portion of bonds payable (Notes 2, 14 and 23)	-	3,798,233	116,000
Pledged time deposits (Note 25)	62,505	-	-	Current portion of long-term bank loans (Notes 15, 23 and 25)	5,232,529	1,292,040	39,000
Prepayments and other	1,049,353	1,275,948	39,151	Temporary receipts (Note 7)	1,005,057	2,503,125	76,000
				Current portion of capital lease obligations (Notes 2, 16 and 23)	205,662	540,736	16,000
Total current assets	47,544,011	48,762,798	1,496,251	Other	557,954	1,828,016	56,000
					31,105,619	28,010,242	859,000

LONG-TERM INVESTMENTS				Total current liabilities			
Held-to-maturity financial assets (Notes 2, 3 and 23)	50,000	50,000	1,534				
Financial assets carried at cost (Notes 2, 3, 9 and 23)	1,272,311	1,595,597	48,960	LONG-TERM DEBTS			
Equity method investments (Notes 2 and 10)	3,494,371	4,088,949	125,466	Long-term bonds payable (Notes 2, 14 and 23)	9,361,902	5,758,611	176
Prepayments for long-term investments	81,375	-	-	Long-term bank loans (Notes 15, 23 and 25)	33,298,508	23,571,786	723
				Capital leases obligations (Notes 2, 16 and 23)	201,700	67,903	2
Total long-term investments	4,898,057	5,734,546	175,960	Total long-term debts	42,862,110	29,398,300	902
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 11, 16, 24 and 25)							
Cost				OTHER LIABILITIES			
Land	2,255,006	2,284,577	70,101	Accrued pension cost (Notes 2 and 17)	2,234,994	2,296,384	70
Buildings and improvements	26,257,236	30,508,824	936,141	Deferred income tax liabilities (Notes 2 and 21)	-	25,888	
Machinery and equipment	104,206,962	100,838,100	3,094,142	Other	72,521	183,303	5
Transportation equipment	149,143	165,665	5,083	Total other liabilities	2,307,515	2,505,575	76
Furniture and fixtures	2,698,066	2,951,547	90,566				
Leased assets and leasehold improvements	2,364,403	1,042,889	32,000	Total liabilities	76,275,244	59,914,117	1,838
Total cost	137,930,816	137,791,602	4,228,033				
Accumulated depreciation	(67,277,930)	(71,608,252)	(2,197,246)	EQUITY ATTRIBUTE TO SHAREHOLDERS OF THE PARENT			
	70,652,886	66,183,350	2,030,787				
	3,690,175	3,678,333	112,867				

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Construction in progress				Capital stock - NT\$10 par value			
Machinery in transit and prepayments	4,843,303	3,682,071	112,982	Authorized - 6,300,000 thousand shares in 2005 and 7,000,000 thousand shares in 2006			
Accumulated impairment	(11,145,593)	-	-	Issued - 4,557,372 thousand shares in 2005 and 4,592,509 thousand shares in 2006	45,573,723	45,925,086	1,409
Net property, plant and equipment	68,040,771	73,543,754	2,256,636	Capital received in advance (Note 18)	156,228	384,428	11
INTANGIBLE ASSETS				Capital surplus (Note 18)			
Patents (Note 2)	-	4,081	125	Capital in excess of par value	2,093,712	269,027	8
Goodwill (Notes 2 and 12)	2,843,022	2,831,274	86,876	Treasury stock transactions	237,503	16,768	
Land use rights (Note 2)	746,087	600,322	18,420	Long-term investment	3,585,077	3,519,973	108
Total intangible assets	3,589,109	3,435,677	105,421	Total capital surplus	5,916,292	3,805,768	116
OTHER ASSETS				Retained earnings (accumulated deficit) (Note 18)	(2,745,555)	16,985,043	521
Guarantee deposits (Note 23)	223,592	314,489	9,650	Other equity adjustments (Notes 2, 3 and 18)			
Deferred charges, net (Note 2)	1,960,849	1,880,712	57,708	Cumulative translation adjustments	1,072,511	1,330,651	40
Deferred income tax assets, net (Notes 2 and 21)	4,046,772	2,512,421	77,092	Unrecognized pension cost	(17,421)	(19,041)	
Restricted assets (Notes 23 and 25)	204,632	336,463	10,324	Unrealized gain or loss on financial instruments	(199,093)	416,400	12
Other	617,688	520,016	15,956	Total other equity adjustments	855,997	1,728,010	53
				Treasury stock - 184,713 thousand shares (Notes 2 and 18)	(2,808,436)	(2,808,436)	(86)
				Total equity attribute to shareholders of the parent	46,948,249	66,019,899	2,025



				MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES			
Total other assets	7,053,533	5,564,101	170,730		7,901,988	11,106,860	340
				Total shareholders' equity	54,850,237	77,126,759	2,366
<b>TOTAL</b>	<b>\$ 131,125,481</b>	<b>\$ 137,040,876</b>	<b>\$ 4,204,998</b>	<b>TOTAL</b>	<b>\$ 131,125,481</b>	<b>\$ 137,040,876</b>	<b>\$ 4,204</b>

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche audit report dated April 30, 2007)

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**ADVANCED SEMICONDUCTOR ENGINEERING, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****(Amounts in Thousands, Except Share Data)**

	Year Ended December 31			US\$
	2004 NT\$	2005 NT\$	2006 NT\$	
<b>NET REVENUES (Note 2)</b>				
Packaging	\$ 58,261,796	\$ 66,022,940	\$ 76,820,475	\$ 2,357,179
Testing	16,473,924	17,121,986	21,429,584	657,551
Other	501,966	890,872	2,173,588	66,695
<b>Total net revenues</b>	<b>75,237,686</b>	<b>84,035,798</b>	<b>100,423,647</b>	<b>3,081,425</b>
<b>COST OF REVENUES (Note 20)</b>				
Packaging	47,115,746	55,894,282	57,539,702	1,765,563
Testing	12,141,233	12,688,893	12,701,354	389,732
Other	384,101	934,829	1,402,211	43,025
<b>Total cost of revenues</b>	<b>59,641,080</b>	<b>69,518,004</b>	<b>71,643,267</b>	<b>2,198,320</b>
<b>GROSS PROFIT</b>	<b>15,596,606</b>	<b>14,517,794</b>	<b>28,780,380</b>	<b>883,105</b>
<b>OPERATING EXPENSES (Notes 12 and 20)</b>				
Selling	1,341,067	1,100,023	1,320,646	40,523
General and administrative	4,717,653	4,813,177	4,381,267	134,436
Research and development	2,581,089	2,785,432	2,632,036	80,762
<b>Total operating expenses</b>	<b>8,639,809</b>	<b>8,698,632</b>	<b>8,333,949</b>	<b>255,721</b>
<b>INCOME FROM OPERATIONS</b>	<b>6,956,797</b>	<b>5,819,162</b>	<b>20,446,431</b>	<b>627,384</b>
<b>NON-OPERATING INCOME AND GAINS</b>				
Interest income	77,797	173,325	406,364	12,469
Equity in earnings of equity method investees (Notes 2 and 10)	-	74,292	315,654	9,685
Foreign exchange gain, net (Notes 3 and 23)	222,358	154,275	92,819	2,848
Gain on valuation of financial asset, net (Notes 5 and 23)	-	-	29,278	898
Gain on valuation of financial liability, net (Note 5 and 23)	-	20,919	-	-
Gain on insurance settlement and impairment recovery (Note 29)	-	-	4,574,451	140,364
Other	396,182	324,132	961,041	29,489
<b>Total non-operating income and gains</b>	<b>696,337</b>	<b>746,943</b>	<b>6,379,607</b>	<b>195,753</b>
<b>NON-OPERATING EXPENSES AND LOSSES</b>				

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Interest expense (Note 11)	972,188	1,571,058	1,620,294	49,718
Loss on valuation of financial liability (Notes 5 and 23)	370,502	-	289,847	8,894
Loss on inventory valuation and obsolescence	75,842	611,679	1,143,925	35,100
Equity in losses of equity method investees (Notes 2 and 10)	394,995	-	-	-
Loss on fire damage (Note 29)	-	8,838,079	-	-
Other investment loss (Notes 2 and 3)	512,000	-	-	-
Impairment of goodwill (Notes 2, 3 and 12)	1,950,097	-	-	-
Other (Note 7)	414,593	1,219,135	1,520,548	46,657
<b>Total non-operating expenses and losses</b>	<b>4,690,217</b>	<b>12,239,951</b>	<b>4,574,614</b>	<b>140,369</b>
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>2,962,917</b>	<b>(5,673,846)</b>	<b>22,251,424</b>	<b>682,768</b>
<b>INCOME TAX BENEFIT (EXPENSE) (Notes 2 and 21)</b>	<b>1,397,003</b>	<b>118,656</b>	<b>(2,084,787)</b>	<b>(63,970)</b>
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS</b>	<b>4,359,920</b>	<b>(5,555,190)</b>	<b>20,166,637</b>	<b>618,798</b>
<b>DISCONTINUED OPERATIONS (Note 28)</b>				
Income from discontinued operations, net of income tax expense of NT\$677 thousand in 2004 and NT\$2,147 thousand in 2005	568,222	120,962	-	-
Gain on disposal of discontinued operations, net of income tax expense of NT\$1,920 thousand	-	232,737	-	-

(Continued)

**ADVANCED SEMICONDUCTOR ENGINEERING, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****(Amounts in Thousands, Except Share Data)**

	Year Ended December 31			US\$
	2004 NT\$	2005 NT\$	2006 NT\$	
	\$ 568,222	\$ 353,699	\$ -	\$ -
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLE	4,928,142	(5,201,491)	20,166,637	618,798
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES, NET OF TAX BENEFIT OF NT\$114,168 THOUSAND IN 2006 (Note 3)	(26,844)	-	(342,503)	(10,509)
NET INCOME (LOSS)	\$ 4,901,298	\$ (5,201,491)	\$ 19,824,134	\$ 608,289
ATTRIBUTABLE TO				
Shareholders of parent company	\$ 4,209,690	\$ (4,691,187)	\$ 17,416,151	\$ 534,402
Minority interest	691,608	(510,304)	2,407,983	73,887
	\$ 4,901,298	\$ (5,201,491)	\$ 19,824,134	\$ 608,289
EARNINGS (LOSS) PER SHARE (Note 22)				
Basic earnings (loss) per share				
Before income tax				
Income (loss) from continuing operations	0.71	(1.31)	4.33	0.13
Discontinued operations	0.13	0.08	-	-
Cumulative effect of changes in accounting principles	(0.01)	-	(0.10)	-
Income (loss) of parent company's common shareholders	0.83	(1.23)	4.23	0.13
After income tax				
Income (loss) from continuing operations	0.87	(1.15)	4.03	0.12
Discontinued operations	0.13	0.08	-	-
Cumulative effect of changes in accounting principles	(0.01)	-	(0.08)	-
Income (loss) of parent company's common shareholders	0.99	(1.07)	3.95	0.12
Diluted earnings (loss) per share				
Before income tax				
Income (loss) from continuing operations	0.71	(1.31)	4.13	0.13
Discontinued operations	0.12	0.08	-	-
Cumulative effect of changes in accounting principles	(0.01)	-	(0.10)	(0.01)
Income (loss) of parent company's common shareholders	0.82	(1.23)	4.03	0.12
After income tax				
Income (loss) from continuing operations	0.85	(1.15)	3.84	0.12

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Discontinued operations	0.12	0.08	-	-
Cumulative effect of changes in accounting principles	(0.01)	-	(0.07)	-
Income (loss) of parent company's common shareholders	0.96	(1.07)	3.77	0.12
<b>EARNINGS PER EQUIVALENT ADS (Note 22)</b>				
<b>Basic earnings (loss) per equivalent ADS</b>				
<b>Before income tax</b>				
Income (loss) from continuing operations	3.50	(6.55)	21.65	0.66
Discontinued operations	0.67	0.41	-	-
Cumulative effect of changes in accounting principles	(0.03)	-	(0.52)	(0.01)
Income (loss) of parent company's common shareholders	4.14	(6.14)	21.13	0.65
<b>After income tax</b>				
Income (loss) from continuing operations	4.30	(5.77)	20.16	0.62
Discontinued operations	0.67	0.40	-	-
Cumulative effect of changes in accounting principles	(0.03)	-	(0.39)	(0.01)
Income (loss) of parent company's common shareholders	4.94	(5.37)	19.77	0.61

(Continued)

**ADVANCED SEMICONDUCTOR ENGINEERING, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****(Amounts in Thousands, Except Share Data)**

	Year Ended December 31			US\$
	2004 NT\$	2005 NT\$	2006 NT\$	
Diluted earnings (loss) per equivalent ADS				
Before income tax				
Income (loss) from continuing operations	3.50	(6.55)	20.66	0.63
Discontinued operations	0.63	0.41	-	-
Cumulative effect of changes in accounting principles	(0.03)	-	(0.49)	(0.01)
Income (loss) of parent company's common shareholders	4.10	(6.14)	20.17	0.62
After income tax				
Income (loss) from continuing operations	4.22	(5.77)	19.22	0.59
Discontinued operations	0.62	0.40	-	-
Cumulative effect of changes in accounting principles	(0.03)	-	(0.37)	(0.01)
Income (loss) of parent company's common shareholders	4.81	(5.37)	18.85	0.58

(Concluded)

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte &amp; Touche audit report dated April 30, 2007)

## ADVANCED SEMICONDUCTOR ENGINEERING, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
(Amounts in Thousands)

	Capital Stock	Capital Received in Advance	Capital Surplus	Retained Earnings (Accumulated Deficit) Legal Reserve	Unappropriated Earnings (Accumulated Deficit)	Other Adjustments Cumulative Translation Adjustments	Unrecognized Pension Cost	Unrealized Gain (Loss) on Financial Instruments
New Taiwan dollars								
BALANCE, JANUARY 1, 2004	\$ 35,802,800	\$ -	\$ 4,046,774	\$ 1,051,665	\$ 2,756,771	\$ 1,559,599	\$ (16,137)	\$ (68,833)
Appropriations of 2003 earnings								
Legal reserve	-	-	-	274,279	(274,279)	-	-	-
Compensation to directors and supervisors	-	-	-	-	(49,320)	-	-	-
Bonus to employees - cash	-	-	-	-	(18,428)	-	-	-
Bonus to employees - stock	154,272	-	-	-	(154,272)	-	-	-
Stock dividends - 5.7%	2,219,774	-	-	-	(2,219,774)	-	-	-
Capital received in advance from stock options exercised by employees	-	42,759	-	-	-	-	-	-
Reclassification of ASE Inc. shares held by subsidiaries to treasury stock	-	-	-	-	-	-	-	-
Valuation loss on derivatives financial instruments	-	-	-	-	-	-	-	(36,607)
Adjustment of equity in subsidiary	-	-	15,332	-	-	-	11,427	(1,781)
Issuance of common stock through merger	2,823,154	-	3,153,342	-	-	-	-	-

Elimination of long-term investment balance on consolidation	-	-	(242,792)	-	-	-	-	-
Net income in 2004	-	-	-	-	4,209,690	-	-	-
Change in minority interest	-	-	-	-	-	-	-	-
Cumulative translation adjustments	-	-	-	-	-	(919,220)	-	-
<b>BALANCE, DECEMBER 31, 2004</b>	<b>41,000,000</b>	<b>42,759</b>	<b>6,972,656</b>	<b>1,325,944</b>	<b>4,250,388</b>	<b>640,379</b>	<b>(4,710)</b>	<b>(107,221)</b>
Appropriations of 2004 earnings								
Legal reserve	-	-	-	420,969	(420,969)	-	-	-
Compensation to directors and supervisors	-	-	-	-	(75,720)	-	-	-
Bonus to employees - cash	-	-	-	-	(9,536)	-	-	-
Bonus to employees - stock	255,675	-	-	-	(255,675)	-	-	-
Cash dividends - 1%	-	-	-	-	(411,221)	-	-	-
Stock dividends - 6.99%	2,878,548	-	-	-	(2,878,548)	-	-	-
Capital surplus transferred to common stock - 2.99%	1,233,663	-	(1,233,663)	-	-	-	-	-
Adjustment of equity in subsidiary	-	-	18,043	-	-	-	(12,711)	700
Valuation gain on derivative financial instruments	-	-	-	-	-	-	-	36,607
Stock options exercised by employees								
Common stock	205,837	(42,759)	159,256	-	-	-	-	-
Capital received in advance	-	156,228	-	-	-	-	-	-
Net loss in 2005	-	-	-	-	(4,691,187)	-	-	-
Change in minority interest	-	-	-	-	-	-	-	-
Cumulative translation	-	-	-	-	-	432,132	-	-



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adjustments									
BALANCE, DECEMBER 31, 2005	45,573,723	156,228	5,916,292	1,746,913	(4,492,468)	1,072,511	(17,421)	(69,914)	
Effect of adopting ROC SFAS No. 34	-	-	-	-	-	-	-	-	(129,179)
Offset against deficit	-	-	(2,314,447)	(1,746,913)	4,061,360	-	-	-	-
Unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	16,827
Valuation gain on derivative financial instruments	-	-	-	-	-	-	-	-	129,179
Adjustment of equity in subsidiary	-	-	(65,104)	-	-	-	(1,620)	469,487	
Stock options exercised by employees									
Common stock	351,363	(156,228)	269,027	-	-	-	-	-	-
Capital received in advance	-	384,428	-	-	-	-	-	-	-
Net income in 2006	-	-	-	-	17,416,151	-	-	-	-
Changes in minority interest	-	-	-	-	-	-	-	-	-
Cumulative translation adjustments	-	-	-	-	-	258,140	-	-	-
BALANCE, DECEMBER 31, 2006	\$ 45,925,086	\$ 384,428	\$ 3,805,768	\$ -	\$ 16,985,043	\$ 1,330,651	\$ (19,041)	\$ 416,400	
U.S. Dollars									
BALANCE, JANUARY 1, 2006	\$ 1,398,396	\$ 4,794	\$ 181,537	\$ 53,603	\$ (137,848)	\$ 32,909	\$ (534)	\$ (2,145)	
Effect of adopting of ROC SFAS No. 34	-	-	-	-	-	-	-	-	(3,964)
Offset against deficit	-	-	(71,017)	(53,603)	124,620	-	-	-	-
Unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	516
Valuation gain on derivative	-	-	-	-	-	-	-	-	3,964

financial  
instruments

Adjustment of equity in subsidiary	-	-	(1,998)	-	-	-	(50)	14,406
Stock options exercised by employees								
Common stock	10,781	(4,794)	8,255	-	-	-	-	-
Capital received in advance	-	11,796	-	-	-	-	-	-
Net income in 2006	-	-	-	-	534,402	-	-	-
Changes in minority interest	-	-	-	-	-	-	-	-
Cumulative translation adjustments	-	-	-	-	-	7,921	-	-
BALANCE, DECEMBER 31, 2006	\$ 1,409,177	\$ 11,796	\$ 116,777	\$ -	\$ 521,174	\$ 40,830	\$ (584)	\$ 12,777

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche audit report dated April 30, 2007)

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## ADVANCED SEMICONDUCTOR ENGINEERING, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Year Ended December 31			US\$
	2004 NT\$	2005 NT\$	2006 NT\$	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income (loss)	\$ 4,901,298	\$ (5,201,491)	\$ 19,824,134	\$ 608,289
Cumulative effect of changes in accounting principle	-	-	342,503	10,509
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation	13,898,098	13,990,219	13,488,180	413,875
Amortization	888,174	1,042,560	1,000,031	30,685
Equity in losses (earnings) of equity method investees, net of cash dividends received	394,995	(74,292)	(222,847)	(6,838)
Impairment of goodwill	1,950,097	-	-	-
Other investment loss	512,000	-	-	-
Accrued interest on foreign convertible bonds	255,172	241,394	247,155	7,584
Unrealized exchange loss (gain) on long-term foreign bonds payable and accrued interest	(425,822)	215,762	(52,213)	(1,602)
Allowance for inventory valuation	75,842	611,679	1,143,925	35,100
Provision (reversal) for doubtful accounts and sales allowances	151,358	115,200	(62,198)	(1,908)
Loss on disposal of properties	83,826	193,038	45,535	1,397
Gain on disposal of discontinued operations	-	(232,737)	-	-
Loss on fire damage (gain on insurance settlement and impairment recovery)	-	8,212,780	(4,574,451)	(140,364)
Deferred income taxes	(1,660,695)	(481,310)	481,919	14,787
Amortization of goodwill	877,582	528,943	-	-
Accrued pension cost	372,580	109,068	44,541	1,367
Other	110,592	219,949	225,271	6,912
Changes in operating assets and liabilities				
Financial assets for trading	225,680	(1,782,863)	2,773,501	85,103
Notes and accounts receivable	(674,517)	(2,024,569)	4,192,941	128,657
Other receivable	(492,059)	(621,283)	573,125	17,586
Inventories	(4,691,419)	87,290	1,363,885	41,850
Prepayments and other current assets	(469,247)	100,859	(228,740)	(7,019)
Financial liabilities for trading	308,138	(80,852)	(436,667)	(13,399)
Notes and accounts payable	1,485,391	3,134,747	(3,679,883)	(112,914)
Income tax payable	62,727	(249,958)	1,294,249	39,713
Accrued expenses and other current liabilities	1,059,138	705,200	(522,403)	(16,029)
Other liabilities	7,729	(8,246)	28,526	876
Net cash provided by operating activities	19,206,658	18,751,087	37,290,019	1,144,217

## CASH FLOWS FROM INVESTING ACTIVITIES

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Acquisition of property, plant and equipment	(28,521,375)	(15,611,549)	(17,764,237)	(545,082)
Acquisition of available-for-sale financial assets	(1,347,213)	(795,770)	(16,652,840)	(510,980)
Disposal of available-for-sale financial assets	995,256	1,503,175	7,518,738	230,707
Acquisition of financial assets carried at cost	-	-	(320,881)	(9,846)
Proceeds from insurance claims	-	2,300,000	5,768,000	176,987
Decrease (increase) in pledged time deposits and restricted assets	41,827	(4,198)	(69,326)	(2,127)
Acquisition of long-term equity method investments	(61,713)	(104,738)	(309)	(10)
Increase in other assets	(2,006,620)	(598,680)	(815,006)	(25,008)
Proceeds from sales of:				
Property, plant and equipment	628,508	1,119,132	413,540	12,689
Others	505,546	82,171	-	-
Purchase of ASE Japan Co., Ltd. shares	(830,678)	-	-	-
Purchase of ASE (U.S.) Inc. shares	(112,824)	-	-	-
Purchase of ASE Test Limited shares	(339,644)	-	-	-
Proceeds from disposal of discontinued operations	-	566,411	-	-
Increase in land use rights	-	(87,912)	(182,187)	(5,590)
Net cash used in investing activities	(31,048,930)	(11,631,958)	(22,104,508)	(678,260)

(Continued)

## ADVANCED SEMICONDUCTOR ENGINEERING, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Year Ended December 31			US\$
	2004 NT\$	2005 NT\$	2006 NT\$	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from (repayments of):				
Issuance of domestic secured bonds	\$ 2,733,112	\$ -	\$ -	\$ -
Investment payable	(2,309,960)	-	-	-
Foreign convertible bonds	-	(502,748)	-	-
Short-term borrowings	2,695,984	3,638,444	(2,216,799)	(68,021)
Commercial papers and bank acceptances payable	(167,149)	(908,816)	-	-
Proceeds from long-term debts	19,246,822	24,514,627	16,148,800	495,514
Repayments of long-term debts	(13,251,715)	(27,736,492)	(29,894,517)	(917,291)
Proceeds from exercise of stock options by employees	42,759	478,562	848,590	26,038
Increase in guarantee deposits received	-	-	261,754	8,032
Increase in collection of accounts receivable sold	-	887,354	1,491,110	45,754
Increase in minority interest	242,059	7,466	809,544	24,840
Compensation to directors and supervisors and bonus to employees	(67,748)	(75,720)	(9,536)	(293)
Cash dividends	-	(394,453)	-	-
Net cash provided by (used in) financing activities	9,164,164	(91,776)	(12,561,054)	(385,427)
EFFECT OF EXCHANGE RATE CHANGES	90,786	261,332	(162,734)	(4,994)
EFFECT OF FIRST INCLUSION FOR CONSOLIDATION OF A SUBSIDIARY	-	-	4,564	140
NET INCREASE (DECREASE) IN CASH	(2,587,322)	7,288,685	2,466,287	75,676
CASH, BEGINNING OF YEAR	8,562,425	5,975,103	13,263,788	406,990
CASH, END OF YEAR	\$ 5,975,103	\$ 13,263,788	\$ 15,730,075	\$ 482,666
<b>SUPPLEMENTAL INFORMATION</b>				
Interest paid (excluding capitalized interest)	\$ 951,281	\$ 1,759,546	\$ 1,689,075	\$ 51,828
Income tax paid	\$ 193,829	\$ 612,612	\$ 308,619	\$ 9,470
Cash paid for acquisition of property, plant and equipment				
Acquisition of property, plant and equipment	\$ (30,588,311)	\$ (12,957,405)	\$ (17,730,935)	\$ (544,060)
Increase (decrease) in payable	1,961,788	(2,891,017)	(444,718)	(13,646)
Increase in capital lease obligations	105,148	236,873	411,416	12,624
	\$ (28,521,375)	\$ (15,611,549)	\$ (17,764,237)	\$ (545,082)

Cash received from disposal of property, plant and equipment				
Proceeds from disposal of property, plant and equipment	\$ 628,508	\$ 1,119,132	\$ 637,541	\$ 19,562
Increase in other receivables	-	-	(224,001)	(6,873)
	\$ 628,508	\$ 1,119,132	\$ 413,540	\$ 12,689
Cash received from issuance of domestic secured bonds				
Proceeds	\$ 2,750,000	\$ -	\$ -	\$ -
Issuance expense	(16,888)	-	-	-
	\$ 2,733,112	\$ -	\$ -	\$ -
Cash received from disposal of discontinued operations				
Sales price	\$ -	\$ 625,559	\$ -	\$ -
Increase in receivable	-	(59,148)	-	-
	\$ -	\$ 566,411	\$ -	\$ -

(Continued)

**ADVANCED SEMICONDUCTOR ENGINEERING, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Amounts in Thousands)**

	Year Ended December 31			
	2004 NT\$	2005 NT\$	2006 NT\$	US\$
Total assets acquired from acquisition of ASE Japan Co., Ltd.	\$ 2,162,468	\$ -	\$ -	\$ -
Less: Liabilities assumed	(1,310,428)	-	-	-
Cash paid	852,040	-	-	-
Less: Cash received at the date of acquisition	(21,362)	-	-	-
Net cash outflow	\$ 830,678	\$ -	\$ -	\$ -
Total assets acquired from acquisition of ASE (U.S.) Inc.	\$ 171,999	\$ -	\$ -	\$ -
Less: Liabilities assumed	(16,240)	-	-	-
Cash paid	155,759	-	-	-
Less: Cash received at the date of acquisition	(42,935)	-	-	-
Net cash outflow	\$ 112,824	\$ -	\$ -	\$ -
<b>NON-CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES</b>				
Reclassification of the ASE Inc. shares held by consolidated subsidiaries from long-term investment to treasury stock	\$ 2,798,399	\$ -	\$ -	\$ -
Current portion of long-term bank loans	2,011,673	5,232,529	1,292,040	39,645
Current portion of bonds payable	-	-	3,798,233	116,546
Current portion of capital lease obligations	198,831	205,662	540,736	16,592

**SUPPLEMENTAL DISCLOSURES**

Effect of first inclusion for consolidation of the subsidiary - Shanghai Ding Hui Real Estate Development Co., Ltd. (amounts of its assets and liabilities as of December 31, 2005) was as follows:

Cash	\$ 4,564
Others	76,874
Total assets	81,438
Liabilities	-
Total shareholders' equity	\$ 81,438
Allocated to:	
Minority interest in consolidated subsidiaries	\$ 8,145
Shareholders' equity	73,293

(Concluded)

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche audit report dated April 30, 2007)

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## ADVANCED SEMICONDUCTOR ENGINEERING, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004, 2005 AND 2006

(Amounts in Thousands, Except Share Data and Unless Otherwise Stated)

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#### 1. HISTORY AND ORGANIZATION

Advanced Semiconductor Engineering, Inc. (“ASE Inc. or including its subsidiaries, collectively the “Company”), a corporation incorporated under the laws of Republic of China (the “ROC”), is an independent provider of semiconductor packaging and testing services and offers a comprehensive range of advanced IC packaging service. The Company’s common shares are traded on the Taiwan Stock Exchange under the symbol “2311”. Since September 2000, the Company’s common shares have been traded on the New York Stock Exchange under the symbol “ASX” in the form of American depository shares (“ADS”). The Company and its affiliates are together referred to as the “ASE Group”.

On August 1, 2004, ASE (Chung Li) Inc. (“ASE Chung Li”) and ASE Material Inc. (“ASE Material”) were merged into the Company.

As of December 31, 2005 and 2006, the Company had approximately 29,000 and 27,000 employees, respectively.

Set forth is a brief overview of the Company’s organizational structure.

a. Wholly-owned subsidiaries as of December 31, 2006:

- 1) ASE Holding Limited (incorporated in Bermuda in April 1990), which holds shares in ASE Group companies;
- 2) ASE Marketing Services Ltd. (incorporated in Hong Kong in February 1991), which engages in trading activities;
- 3) J&R Holding Limited (incorporated in Bermuda in December 1995), which holds shares in ASE Group companies;
- 4) ASE Marketing & Service Japan Co., Ltd. (incorporated in Japan in November 2003), which engages in marketing and provides sales services in the packaging and testing markets;
- 5) Innosource Limited (“Innosource”) was a holding company incorporated in British Virgin Islands in June 2004 through which the Company invested in ASE (Kun Shan) Inc. and ASE Modules (Shanghai) Inc. Due to an organizational restructure, the Company transferred its investment shareholding in ASE (Kun Shan) from Innosource to Omniquest Industrial Limited (“Omniquest”), a subsidiary of the Company through direct and indirect ownership, and invested an additional US\$ 30,000 thousand in Omniquest. As of December 31, 2006, Innosource held a 20% ownership interest in Omniquest;
- 6) Ming-Jei Technologies Inc. (formerly ASE - Compeq Technologies, Inc., incorporated in the ROC in February 2004), which is engaged in the manufacturing and sale of electronic components. ASE – Compeq Technologies, Inc. was renamed Ming-Jei Technologies Inc. in November 2005 and was dissolved in May 2006.

7) ASE Global, Inc. (incorporated in the ROC in May 2005), which is engaged in the manufacturing and sales of electronic materials and related equipment. ASE Global, Inc. was dissolved in November 2006.

b. As of December 31, 2006, the Company held more than 50% ownership interest in the following subsidiaries:

- 1) 99.5% ownership interest in ASE Technologies, Inc. (incorporated in the ROC in June 1991), which is engaged in the research and development, manufacture and sales of computers and related accessories. ASE Technologies, Inc. is in the process of liquidation;
- 2) 90.0% ownership interest in ASE Network Inc. (incorporated in the ROC in January 2000), which had a 1.62% equity stake in Taiwan Fixed Network Co., Ltd; and
- 3) 65.6% direct ownership interest in Omniquest and the other 20% and 14.4% were held through Innosource and J&R Holding Limited, respectively. The Company invested in ASE (Shanghai) Inc. and ASE High-Tech (Shanghai) Inc. through Omniquest in September 1990 and February 2006, respectively. As a result of an investment restructure, the Company made new investments in ASE Corporation (incorporated in the British Cayman Islands in August 2006 and had two wholly-owned subsidiaries, ASE Mauritius Inc. and ASE Labuan Inc.) through Omniquest. The Company then transferred the shareholding of ASE (Shanghai) Inc. and ASE High-Tech (Shanghai) Inc. from Omniquest to ASE Mauritius Inc.

ASE (Shanghai) Inc. held a 90% ownership interest in Shanghai Ding Hui Real Estate Development Co., Ltd.

The Company had 1% of direct ownership interest and through ASE Labuan Inc., 99% of indirect ownership interest in ASE Electronics Inc., which was incorporated in March 2006 in the ROC. As a result of an organizational restructure, the Company transferred the operation, assets and liabilities of its material department to ASE Electronics Inc. on August 1, 2006.

c. ASE Holding Limited has the following wholly-owned or majority-owned subsidiaries:

- 1) ASEP Realty Corporation (incorporated in the Philippines in December 1995), which holds real estate of ASE Holding Electronics (Philippines), and is in the process of liquidation;
- 2) ASE Holding Electronics (Philippines) Incorporated (incorporated in the Philippines in December 1995), which manufactures electronic products, components and semiconductors, and is in the process of liquidation; and
- 3) 70.0% ownership interest in ASE Investment (Labuan) Inc. (incorporated in Malaysia in June 1999). ASE Investment (Labuan) Inc. holds shares in ASE Korea Inc. (incorporated in Korea in 1999), which engages in the packaging and testing of semiconductors. In addition, ASE Test Limited owned the remaining 30.0% ownership interest in ASE Investment (Labuan) Inc.

A portion of the share capital of the Company's subsidiaries incorporated in the Philippines is held by certain Filipino individuals, on behalf of the Company, in order to comply with the Philippine legal requirements.

d. J&R Holding Limited has six subsidiaries:

- 1) 100.0% ownership interest in J&R Industrial Inc. (incorporated in the ROC in April 1999), which is mainly engaged in the leasing of substrate, packaging and testing equipment, to consolidated subsidiaries of the Company. J&R Industrial Inc. reduced its capital and returned NT\$2,953,000 thousand (US\$90,058 thousand) to J&R Holding Limited in June 2006;



- 2) 100.0% ownership interest in Grand Innovation Co., Ltd. (incorporated in the British Virgin Islands in March 2001), which holds convertible preferred stock of Integrated Programmable Communication, Inc. (“Integrated”) representing 6.1% Integrated’s equity interest;
  - 3) 100% ownership interest in ASE Japan Co., Ltd. (incorporated in Japan in May 2004), which is engaged in the packaging and testing of semiconductors;
  - 4) 100% ownership interest in ASE (U.S.) Inc. (incorporated in the USA in December 1983), which is engaged in marketing and provides sales services relating to packaging and testing;
  - 5) 57.9% ownership interest in Power ASE Technology Holding Limited (incorporated in the British Cayman Islands in December 2006), which is a holding company that owned 95% of Power ASE Technology Inc. (incorporated in the ROC in June 2006). The Company directly owned the remaining 5% ownership interest in Power ASE Technology Inc. Power ASE Technology Inc. is engaged in the packaging and testing of memory; and
  - 6) 39.8% ownership interest in ASE Test Limited (“ASE Test”) (incorporated in Singapore in May 1996), which holds shares in ASE Group companies. ASE Holding Limited owned another 11.1% ownership interest in ASE Test. Since June 1996, shares of ASE Test have been traded on the NASDAQ National Market in the United States under the symbol “ASTSF”. In addition, J&R Holding Limited offered partial shares of ASE Test in the form of Taiwan Depositary Receipts traded on the Taiwan Stock Exchange under the symbol “9101”.
- e. ASE Test has four direct subsidiaries:
- 1) ASE Test, Inc. (incorporated in the ROC in December 1987 and wholly-owned by ASE Test Limited), which is engaged in the testing of semiconductors;
  - 2) ASE Holdings (Singapore) Pte Ltd. (incorporated in Singapore in December 1994), which is engaged in investing activities;
  - 3) ASE Test Holdings, Limited (“ASE Test Holdings”) (incorporated in Cayman Islands in April 1999), which is engaged in investing activities; and
  - 4) ASE Test Finance Limited (“ASE Test Finance”) (incorporation in Mauritius in June 1999), which is engaged in financing activities.

ASE Holding (Singapore) Pte Ltd. has a wholly-owned subsidiary, ASE Electronics (M) Sdn. Bhd. (“ASE Test Malaysia”) (incorporated in Malaysia in February 1991), which is engaged in the packaging and testing of semiconductors. ASE Test Malaysia disposed of its camera module operations on October 3, 2005 (Note 28).

ASE Test Holdings has a wholly-owned subsidiary, ISE Labs, Inc. (“ISE Labs”) (incorporated in California, U.S.A. in November 1983). ISE Labs and its wholly-owned subsidiaries, ISE Labs Hong Kong Limited, which was dissolved in 2005, ASE Singapore Pte Ltd., ISE Technology, Inc. and Digital Testing Services Inc., are engaged in the front-end engineering testing and final testing of semiconductors.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting, and accounting principles generally accepted in the Republic of China ("ROC GAAP"). Under these law, guidelines and principles, the Company should reasonably estimate the amounts of allowances for doubtful accounts, allowance for sales discounts, inventory valuations, depreciation of property, plant, and equipment, loss on impairment of assets, pension expenses, gain (loss) on valuation of financial instrument and allowance of deferred income tax assets. Actual results may differ from these estimates. Significant accounting policies are summarized as follows:

### **Basis of Presentation**

The Company prepares its consolidated financial statements using the aforementioned law, guidelines and principles with reconciliation to accounting principles generally accepted in the United States of America ("U.S. GAAP") (Note 31). The accompanying consolidated balance sheets are presented as of December 31, 2005 and 2006, and the accompanying consolidated statements of income, changes in shareholders' equity and cash flows are presented for the three years ended December 31, 2004, 2005 and 2006.

### **Basis of Consolidation**

The consolidated financial statements include the accounts of the Company and all of the aforementioned subsidiaries. All significant intercompany accounts and transactions are eliminated upon consolidation.

### **Current and Noncurrent Assets and Liabilities**

Current assets include cash, financial assets held for trading purposes and assets expected to be converted to cash, sold or consumed within one year from the balance sheet date. Current liabilities are obligations incurred for trading purposes and obligations expected to be settled within one year from the balance sheet date. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

### **Financial Assets/Liabilities at Fair Value Through Profit or Loss**

Financial instruments at fair value through profit or loss consist of financial assets or financial liabilities held for trading. These financial instruments are initially recognized at fair value with associated transaction costs expensed as incurred. The financial instruments are subsequently remeasured at fair value, and changes in fair value are recognized in current income (loss). A regular way purchase or sale of financial assets is recognized and derecognized using settlement date accounting.

Derivatives which are not qualified for hedge accounting are recorded as financial assets or liabilities held for trading. Fair value of beneficiary certificates of open-end mutual funds and derivatives with no active market fair value is estimated using the net asset value and valuation techniques, respectively.

### **Available-for-Sale Financial Assets**

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Changes in fair value of financial assets are reported in a separate component of shareholders' equity. The corresponding accumulated gains or losses are recognized in earnings when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

Fair value for beneficiary certificates of open-ended mutual funds and publicly traded stocks are determined using the net asset value and closing-price at the balance sheet date, respectively.

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If certain objective evidence indicates that such available-for-sale financial asset should be impaired, a loss should be recognized currently, if, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to shareholders' equity.

### **Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts**

Revenues from semiconductor packaging and testing services are recognized upon completion of the services or shipment. The Company does not take ownership of: (i) bare semiconductor wafers received from customers that the Company packages into finished semiconductors, and (ii) packaged semiconductors received from customers that the Company tests as to whether they meet certain performance specifications. The title and risk of loss remain with the customer for those bare semiconductors and/or packaged semiconductors. Accordingly, the costs of customer-supplied semiconductor materials are not included in the accompanying consolidated financial statements. Other criteria the Company uses to determine when to recognize revenue are: (i) existence of persuasive evidence of an arrangement, (ii) the selling price is fixed or determinable and (iii) collectibility is reasonably assured.

Revenues are determined using the fair value taking into account related sales discounts agreed to by the Company and customers. Since the receivables from sales are collectible within one year and such transactions are frequent, the fair value of receivables is equivalent to the nominal amount of cash received.

Allowance for doubtful accounts is provided based on an evaluation of the collectibility of receivables. The Company determines the amount of allowance for doubtful receivables by examining the aging analysis of the outstanding accounts receivable and current trends in the credit quality of its customers. An appropriate sales allowance, based on historical experience, is recognized in the same period the sale is recognized.

### **Accounts Receivable Securitization**

Accounts receivable securitization is the transfer of a designated pool of accounts receivable to a bank which in turn issues beneficial securities or asset-backed securities based on the accounts receivable. Under ROC Statement of Financial Accounting Standards (ROC SFAS) No. 33 "Accounting for Transfers of Financial Assets and Extinguishments of Liabilities", such transfer of financial assets in which the transferor surrenders control over those assets is accounted for as a sale to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. The difference between the book value of accounts receivable and total proceeds received is recorded as a gain or loss on the disposal of financial assets.

### **Inventories**

Inventories including raw materials (materials received from customers for processing, mainly semiconductor wafers are excluded from inventories as title and risk of loss remain with the customers), supplies and spare parts, work in process, finished goods and supplies in transit are stated at the lower of cost or market value. Market value represents net realizable value for finished goods and work in process, and replacement costs for raw materials, supplies and spare parts.

Raw materials, supplies and spare parts are recorded at moving average cost; others are recorded at standard cost and adjusted to the approximate weighted average cost at the balance sheet date. Estimated losses on scrap and slow-moving items are recognized and included in the allowance for losses.

Construction in progress is accounted for using the completed-contract method.





### **Held-to-Maturity Financial Assets**

Held-to-maturity financial assets are carried at amortized cost under the effective interest method. Those financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Gains or losses are recognized at the time of derecognition, impairment or amortization.

If certain objective evidence indicates that such held-to-maturity financial asset is impaired, a loss should be recognized currently. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversal may not result in a carrying amount that exceeds the amortized cost that would have been determined as if no impairment loss had been recognized.

### **Financial Assets Carried at Cost**

Investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at their original cost, such as non-publicly traded stocks. If certain objective evidence indicates that such financial asset is impaired, a loss should be recognized. A subsequent reversal of such impairment loss is not allowed.

Cash dividends are recognized as investment income on declaration date. Stock dividends not resulting in investment income are recorded as an increase in the number of shares held and the cost per share is recalculated based on the new total number of shares.

### **Equity Method Investments**

Investments in companies of which the Company owns at least 20% of the outstanding voting shares or where the Company exercises significant influence over the investee company's operating and financial policy decisions are accounted for using the equity method. Prior to January 1, 2006 the difference, if any, between the cost of investment and the Company's proportionate equity in the fair value of the net assets of the investees at the time of investments or at the time the equity method of accounting is first applied to a particular investment, is amortized on the straight-line method over 10 years. Effective January 1, 2006, pursuant to the revised ROC SFAS No. 5, "Long-term Investments under Equity Securities" (SFAS No. 5), the cost of an investment shall be analyzed and the difference between the cost of investment and the fair value of identifiable net assets acquired, representing goodwill, shall not be amortized and instead shall be tested for impairment annually. The accounting treatment for the investment premiums acquired before January 1, 2006 is the same as that for goodwill which is no longer being amortized.

When the Company subscribes for additional investee's shares at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment in the investee differs from the amount of the Company's share in the investee's net equity. The Company records such a difference as an adjustment to equity method investments with the corresponding amount charged or credited to capital surplus.

Gains or losses on sales from the Company to equity method investees are deferred in proportion to the Company's ownership percentage in the investees until such gains or losses are realized through transactions with third parties. Gains or losses on sales from equity method investees to the Company are deferred in proportion to the Company's ownership percentages in the investees until they are realized through transactions with third parties.

On the balance sheet date, the Company tests investments for impairment. When an impairment is identified, the carrying amount of the investments is reduced, with the related impairment loss recognized in earnings.

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### **Property, plant and equipment**

Property, plant and equipment, except for machinery and equipment under operating lease, are stated at cost less accumulated depreciation and accumulated impairment. Equipment held under capital leases is recorded as an asset and an obligation at an amount equal to the lower of: (i) the present value at the beginning of the lease term of the minimum lease payments during the lease term (including the payment called for under any bargain purchase option); or (ii) fair value of the leased equipment at the inception of the lease. Machinery in transit, construction in progress and prepayments are stated at cost. These include the cost of machinery, construction, down payments and other direct costs plus interest charges attributable to the borrowings used to finance the acquisitions of these assets. Major overhaul and improvements are capitalized, while maintenance and repairs are expensed as incurred.

Depreciation is computed using the straight-line method over estimated service lives, which range as follows: buildings and improvements, 2 to 55 years; machinery and equipment, 2 to 10 years; furniture and fixtures, 2 to 15 years; transportation equipment, 1 to 10 years; and leased assets and leasehold improvements, 2 to 6 years. In the event that an asset depreciated to its residual value is still in service, its residual value is depreciated over its re-estimated service life.

When properties are retired or disposed of, their costs and accumulated depreciation are removed from the accounts and any gain or loss is credited or charged to income.

### **Intangible Assets**

Patents are recorded at cost and amortized using straight-line method over the estimated useful lives of 2 years. Land use rights are amortized over the contract terms of 50 years.

### **Goodwill**

Goodwill represents the excess of the consideration paid for an acquisition over the fair value of identifiable net assets acquired. Prior to January 1, 2006, goodwill was amortized using the straight-line method over the estimated life of 10 years. Effective January 1, 2006, pursuant to the newly revised ROC SFAS No. 25, "Business Combinations-Accounting Treatment under Purchase Method" ("SFAS No.25"), goodwill is no longer amortized and instead is tested for impairment annually.

The Company regularly evaluates the carrying amount of goodwill according to its recoverable amount. If the carrying amount of goodwill is determined to exceed its recoverable amount, an impairment loss is recognized at an amount equal to that excess. Reversal of such impairment loss is prohibited.

### **Asset Impairment**

The Company evaluates whether or not there are indications that assets (primarily property, plant and equipment, intangible assets, assets leased to others and long-term investments) may be impaired on the balance sheet date. If there are indications, the Company should estimate the recoverable amount for the asset. If an asset's recoverable amount is lower than its carrying amount, the carrying amount of the asset should be reduced to its recoverable amount by recording a charge to the accumulated impairment account of the asset and such reduction should be recognized as impairment loss in current period income. When the recoverable amount subsequently increases, then the impairment loss previously recognized would be reversed and recorded as a gain. However, the carrying amount of an asset (other than goodwill) after the reversal of impairment loss should not exceed the carrying amount of the asset that would have been determined net of depreciation as if no impairment loss had been recognized.

### **Deferred Charges**

Deferred charges consist of certain intangibles and other assets, including tools, license fees, telecommunications and computer network systems, bond issuance costs and the costs directly attribute to bringing the assets to be capable of operating. The amounts are amortized over 2 to 5 years.

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### **Pension Cost**

For employees under defined benefit pension plan, pension costs are recorded based on actuarial calculations. Provisions for pension costs are accrued based on actuarially determined amounts which include service costs, interest, amortization of unrecognized net obligation and expected return on pension assets.

For employees under defined contribution pension plan, pension costs are recorded based on the actual contribution made to employee's personal pension accounts.

### **Convertible Bonds**

Prior to the adoption of ROC SFAS No. 34 and No. 36 on January 1, 2006, convertible bonds issued was recorded as financial liability. The stated redemption price in excess of the face value of bond is recognized as interest expense over a period starting from the issuance date to the last date of the redemption period, using the effective interest rate method. Conversion of convertible bonds into common shares is accounted for by the book value method. Under this method, unamortized bond issuance costs and accrued interest which is no longer payable, together with the carrying amount of converted bonds are written off, and the common shares issued are recorded at their par value, and any excess is recorded as capital surplus. No change in accounting treatment was required for convertible bonds after the adoption of ROC SFAS No. 34 and No. 36.

### **Employee Stock Options**

All stock-based compensation for awards granted or modified after January 1, 2004 is accounted for by the related Interpretations of the Accounting Research and Development Foundation (ARDF) in ROC. The compensation cost is measured based on the intrinsic value method, for which the compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. The intrinsic value of the shares is recognized as expense over the requisite service or vesting period.

### **Treasury Stock**

The Company's shares held by its subsidiaries are accounted for as treasury stock and, accordingly, the cost of such shares are reclassified from long-term investments to treasury stock upon consolidation.

### **Shipping and Handling Costs**

Shipping and handling costs are recorded as selling expense and the amounts in 2004, 2005 and 2006 were NT\$170,771 thousand, NT\$156,043 thousand and NT\$168,986 thousand (US\$5,185 thousand), respectively.

### **Research and Development Costs**

Research and development costs are charged to expenses as incurred.

### **Income Taxes**

The Company applies intra-period and inter-period allocations for its income tax whereby (1) a portion of current income tax expense is allocated to the income from discontinued operations and the cumulative effect of changes in accounting principles; and (2) deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, loss carryforward and unused tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability

is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent

based on the expected length of time before it is realized or settled.

Any tax credits arising from purchases of machinery, equipment and technology, research and development expenditures, and personnel training are recognized in the year in which they are acquired and expended.

Adjustments of prior years' income tax are added to or deducted from the current year's tax provision.

Income tax on undistributed earnings is recorded by the Company and Taiwan-based subsidiaries at the rate of 10% and is recorded as an expense in the subsequent year following the shareholders' approval.

### **Foreign Currency Transactions and Translation of Foreign-currency Financial Statements**

The functional and reporting currency of the Company is N.T. dollars, while the functional currencies of its major subsidiaries are their local currencies, namely, U.S. dollars, Japanese Yen, Korea Won, China Yuan Renminbi and Malaysia Ringgits, respectively.

Foreign currency transactions, except for derivative transactions, are recorded in the local currencies at the rates of exchange in effect when the transactions occur.

If an investee's functional currency is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported as a separate component of shareholders' equity.

The financial statements of foreign subsidiaries are translated into New Taiwan dollars at the following exchange rates: Assets and liabilities - spot rates at year-end; shareholders' equity - historical rates; income and expenses - average rates during the year. The resulting translation adjustments are recorded as a separate component of shareholders' equity.

### **Derivative Financial Instruments for Hedging**

Derivative financial instruments for hedging are stated at fair value. At period-end, the balances of derivative financial instruments are remeasured at fair value and the resulting differences are charged to current income, or recorded as unrealized gain from financial instruments under shareholders' equity.

### **Cash Flow Hedge Accounting**

Gains or losses from hedging instruments that are determined to meet the criteria for hedge accounting shall be recognized directly in shareholders' equity.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized directly in equity shall be reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability becomes a firm commitment, then the entity shall reclassify the associated gains and losses as adjustment to acquisition cost or book value of the asset or liability.

### **Recent Accounting Pronouncements**

In July 2006, the ROC ARDF issued ROC SFAS No. 37 “Intangible Assets”, which is required to be applied by the Company on January 1, 2007. The standard provides guidance on initial recognition and measurement, amortization, presentation and disclosure of intangible assets. An intangible asset should be measured initially at cost. For an intangible asset of a finite useful life; the carrying amount shall be amortized over its useful life. On the other hand, for an intangible asset with an indefinite useful life, the carrying amount shall not be amortized. Intangible assets shall be evaluated for impairment at least



annually as required by ROC. SFAS No.35 “Accounting for Impairment of Assets” (ROC SFAS No. 35). Upon adoption of the standard on January 1, 2007, the Company expects no significant impact on its current accounting treatment.

In November 2006, ARDF issued ROC SFAS No. 38 “Non-current Assets Held for Sale and Discontinued Operations” (ROC SFAS No. 38), which is also required to be applied by the Company on January 1, 2007. Under ROC SFAS No.38, assets classified as held-for-sale shall be measured at the lower of carrying values or fair values and ceased to be depreciated or amortized. Any impairment loss shall be recognized in current earnings. Assets classified as held-for-sale shall be presented separately on the balance sheet. ROC SFAS No.38 also requires the Company to disclose information of discontinued operations separately on the statements of income and cash flow or in a footnote. Upon adoption of the standard on January 1, 2007, the Company expects no significant impact on its current accounting treatment.

In March 2007, ARDF requires ROC companies to recognize compensation expenses for bonuses paid to employees, directors and supervisors beginning January 1, 2008. Such bonuses are currently recorded as appropriation of earnings under ROC GAAP. On March 30, 2007, the ROC Financial Supervisory Commission also issued an interpretation which requires that bonuses granted to employees, directors and supervisors in the form of shares be valued at fair market value for purposes of compensation expenses.

### **U.S. Dollar Amounts**

The Company prepares its consolidated financial statements in N.T. dollars. A translation of the 2006 financial statements into U.S. dollars is included solely for the convenience of the reader, and has been based on the U.S. Federal Reserve Bank of New York noon buying rate of NT\$32.59 to US\$1.00 in effect at December 31, 2006. The translations should not be construed as representations that the N.T. dollars amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

### **Reclassifications**

Certain accounts in the consolidated financial statements as of December 31, 2005 and for the years ended December 31, 2004 and 2005 have been reclassified to conform to the consolidated financial statements as of and for the year ended December 31, 2006.

### **3. ACCOUNTING CHANGE**

On January 1, 2006, the Company adopted the newly released SFAS No. 34, “Financial Instruments: Recognition and Measurement” and No. 36, “Financial Instruments: Disclosure and Presentation” and revisions of previously released SFAS No. 5 and No. 25.

#### **a. Effect of adopting the newly released SFASs and revisions of previously released SFASs**

1)The Company had categorized its financial assets and liabilities upon the initial adoption of the newly released ROC SFAS No.34 and No.36. The adjustments made to the carrying amounts of the financial instruments categorized as financial assets or liabilities at fair value through profit or loss were included in the cumulative effect of changes in accounting principles; on the other hand, the adjustments made to the carrying amounts of those categorized as available-for-sale financial assets were recognized as adjustments to shareholders’ equity.

Deferred exchange losses for cash flow hedges were reclassified as adjustments to shareholders’ equity.

The effect of adopting the newly released SFASs is summarized as follows:

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	Recognized as Cumulative Effect of Changes in Accounting Principles (Net of Tax)		Recognized as a Separate Component of Shareholders' Equity	
	NT\$	US\$	NT\$	US\$
	Financial assets at fair value through profit or loss	503	16	-
Financial liabilities at fair value through profit or loss	(343,006)	(10,525)	-	-
Derivative financial liabilities for hedging	-	-	(129,179)	(3,694)
	(342,503)	(10,509)	(129,179)	(3,694)

In addition to the effect on cumulative effect of changes in accounting principles and shareholders' equity shown above, the adoption of ROC SFAS No. 34 and No. 36 also resulted in an increase in net income before cumulative effect of changes in accounting principles of NT\$242,961 thousand (US\$7,455 thousand), a decrease in net income of NT\$99,542 thousand (US\$3,054 thousand) (net of income tax of NT\$33,181 thousand (US\$10,162 thousand), and a decrease in basic earnings per share (after income tax) of NT\$0.02 for the year ended December 31, 2006.

2) The Company adopted the newly revised SFAS No. 5 and SFAS No. 25, which prescribe that investment premiums, representing goodwill, be ceased from amortization and be assessed for impairment at least on an annual basis. Such a change in accounting principle resulted in an increase in net income before cumulative effect of changes in accounting principles of NT\$619,397 thousand (US\$19,006 thousand) and an increase in basic earnings per share (after income tax) of NT\$0.14 for the year ended December 31, 2006.

The adoption of the Company for the newly released and revised SFAS resulted in an aggregate increase in net income before cumulative effect of changes in accounting principles of NT\$862,358 thousand (US\$26,461 thousand), an increase in net income of NT\$519,855 thousand (US\$15,951 thousand), an increase in basic earnings per share (after income tax) of NT\$0.12, and unrealized gain on financial instruments of NT\$416,400 thousand (US\$12,777 thousand) recognized under shareholders' equity for the year ended December 31, 2006.

#### b. Reclassifications

Upon the adoption of SFAS No. 34, certain accounts in the consolidated financial statements as of December 31, 2005 and for the years ended December 31, 2004 and 2005 were reclassified to conform to the consolidated financial statements as of and for the year end December 31, 2006. The previous issued consolidated financial statements as of December 31, 2005 and for the years ended December 31, 2004 and 2005 were not required to be restated.

Certain accounting policies prior to the adoption of the newly released SFASs are summarized as follows:

#### 1) Short-term investments

Short-term investments that were publicly-traded stock, mutual fund, or bonds were recorded at historical cost and are carried at the lower of cost or market value as of the balance sheet date. An allowance or decline in value is provided and is charged to current income when the aggregate carrying amount of the investments exceeds the aggregate market value. A reversal of the allowance is recorded for a subsequent recovery in the aggregate market value.



2) Long-term Investments

Forward exchange contracts, which the Company enters into as an economic hedge of foreign-currency denominated assets or liabilities, are initially recorded in N.T. dollars at the spot rates on the date of each forward contract. The differences between the spot rates and the forward rates are amortized over the contract periods and recognized as gains or losses. On the balance sheet date, the balances of the forward exchange receivables or payables are restated based on the prevailing exchange rates and the resulting adjustments are credited or charged to income. Any resulting gain or loss upon settlement is credited or charged to income in the year of settlement.

For outstanding forward contracts as of the balance sheet date, the related receivables and payables are netted with the resulting amount presented as either a current asset or liability.

3) Forward exchange contracts

Forward exchange contracts, which the Company enters into as an economic hedge of foreign-currency denominated assets or liabilities, are initially recorded in N.T. dollars at the spot rates on the date of each forward contract. The differences between the spot rates and the forward rates are amortized over the contract periods and recognized as gains or losses. On the balance sheet date, the balances of the forward exchange receivables or payables are restated based on the prevailing exchange rates and the resulting adjustments are credited or charged to income. Any resulting gain or loss upon settlement is credited or charged to income in the year of settlement.

For outstanding forward contracts as of the balance sheet date, the related receivables and payables are netted with the resulting amount presented as either an other receivable or payable.

4) Option contracts

Exchange gains or losses from option contracts for the purpose of hedging an identifiable foreign currency commitment should be deferred as a part of the foreign currency commitment.

5) Interest rate swap contracts

Interest rate swap contracts entered into to limit the impact of interest rate fluctuations on certain long-term debt are not recorded as assets or liabilities on the contract date. The difference between fixed and variable rates to be paid or received on swaps is accrued as an interest rate change based on the contracts and is included in current interest income or expense.

6) Cross currency swap contracts

The Company enters into cross-currency swap contracts in order to manage its exposure to exchange rate fluctuations on foreign-currency denominated assets and liabilities. The principal amount is recorded at spot rates on the contract date. The difference in interest between the contract starting date rate and the rate on each settlement date or the balance sheet date is recorded as an adjustment to the interest income or expense associated with the hedged items.

At the end of each year, the receivables or payables arising from outstanding cross-currency swap contracts are restated at prevailing spot rates and the difference is charged to income or loss. In addition, the receivables and payables under the contracts are presented on a net basis as either an asset or a liability.

The reclassifications of the whole or a part of the account balances of certain accounts are summarized as follows:



	Before Reclassification		After Reclassification	
	NT\$	US\$	NT\$	US\$
<u>Balance sheet as of December 31, 2005</u>				
Short-term investments	4,352,923	133,566	-	-
Other receivables	5,783	177	-	-
Other current assets	129,179	3,964	-	-
Long-term investments - cost method	1,272,311	39,040	-	-
Other long-term investment	50,000	1,534	-	-
Other payable	177,128	5,435	-	-
Other financial liabilities - noncurrent	154,780	4,749	-	-
Unrealized loss on long-term investments	69,914	2,145	-	-
Financial assets at fair value through profit or loss -current	-	-	4,330,733	132,885
Available-for-sale financial assets - current	-	-	27,973	857
Held-to-maturity financial assets - noncurrent	-	-	50,000	1,534
Financial assets carried at cost - noncurrent	-	-	1,272,311	39,040
Financial liabilities at fair value through profit or loss	-	-	202,729	6,221
Derivative financial liabilities for hedging	-	-	129,179	3,964
Unrealized loss on financial instruments	-	-	199,093	6,109
<u>Statement of income for 2005</u>				
Exchange gain, net	175,194	5,376	154,275	4,734
Gain on valuation of financial liability, net	-	-	20,919	642
<u>Statement of income for 2004</u>				
Exchange gain (loss), net	(148,144)	(4,546)	222,358	6,823
Loss on valuation of financial liability, net	-	-	370,502	11,369

On January 1, 2005, the Company adopted the newly revised SFAS No. 7, "Consolidated Financial Statements". Long-term investments of which the Company owns less than 50% of the outstanding voting shares but where the Company exercises significant influence over the investee company's operations are accounted for as subsidiaries of the Company. The adoption of ROC SFAS No. 7 did not have an effect on the Company's consolidated financial statements as of and for the year ended December 31, 2005.

The Company introduced Enterprise Resource Planning (ERP) as part of its strategy to enhance operations to enhance its competitiveness as well as strengthen internal management and integrate resources. Thus, at the beginning of 2004, the Company decided to change its method for pricing raw materials and supplies from the weighted-average method to the moving-average method. The cumulative effect of this accounting change resulted in decrease of NT\$26,844 thousand and NT\$0.01 in net income and earnings per share, respectively, for the year ended December 31, 2004. The pro forma effects of this change in accounting principle on the 2003 net income were immaterial.

On December 31, 2004, the Company adopted ROC SFAS No. 35 "Accounting for Asset Impairment". The adoption of ROC SFAS No. 35 resulted in the decrease in the balance of long-term investments and goodwill by NT\$512,000 thousand and NT\$1,950,097 thousand, respectively.

#### 4. CASH

December 31

	<b>2005</b>	<b>2006</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>US\$</b>
Cash on hand	4,031	8,186	251
Checking and saving accounts	11,122,724	13,482,961	413,715
Time deposits	2,137,033	2,238,928	68,700
	13,263,788	15,730,075	482,666

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**5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>2005</b>	<b>December 31</b>	<b>2006</b>	
	<b>NT\$</b>	<b>NT\$</b>		<b>US\$</b>
<b>Financial assets for trading</b>				
Beneficiary Certificate of funds	4,324,950	1,546,450		47,452
Forward exchange contracts	5,783	11,453		351
	<b>4,330,733</b>	<b>1,557,903</b>		<b>47,803</b>
<b>Financial liabilities for trading</b>				
Cross currency swap contracts	154,780	274,421		8,421
Interest rate swap contracts	-	58,990		1,810
Forward exchange contracts	5,652	19,172		588
Foreign currency option contracts	42,297	-		-
	<b>202,729</b>	<b>352,583</b>		<b>10,819</b>

The Company entered into derivative contracts during the years ended December 31, 2005 and 2006 to manage exposures to foreign exchange rates and interest rates risk.

Information on such derivative transactions is as follows:

a. Forward exchange contracts

The outstanding put forward contracts on December 31, 2005 and 2006 are as follows:

<b>Currency</b>	<b>Maturity Date</b>		<b>Contract Amount (in Thousands)</b>
<u>December 31, 2006</u>			
USD/JPY	2007.01.09	2007.03.22	USD23,300/JPY2,718,849
USD/NTD	2007.01.11	2007.03.01	USD69,000/NTD2,229,074
USD/KRW	2007.01.09	2007.02.09	USD13,000/KRW12,408,440
<u>December 31, 2005</u>			
USD/JPY	2006.03.02		USD172/JPY20,000

b. Cross-currency swap contracts

In October 2003, the Company entered into two cross-currency swap contracts with banks to manage its exposure to interest rate and exchange rate fluctuations associated with its long-term bonds payable, described as follows:

- 1) The terms of one of these contracts provide for a semi-annual exchange of interest payments, whereby the Company pays an annual interest rate of 1.7% and receives an annual interest rate of 2.7% on a notional amount of

US\$157,000 thousand. In April 2005, the nominal amount of US\$15,000 thousand was closed early because of partial redemption of foreign convertible bonds. The remaining of US\$142,000 thousand will expire in October 2007.

2) The Company got the agreement of the terms to calculate interest with the bank. If the terms are met once, the Company pays interests on a nominal amount of US\$43,000 thousand in semi-annual payments. Otherwise, the bank pays interests to the Company with the same terms. This contract was closed early in December 2005.

For the year ended December 31, 2006, the effect of the cross-currency swap contracts based on mark to market valuation and the fluctuation of exchange rate of bonds payable was resulted in an increase in net income of NT\$108,420 thousand (US\$3,327 thousand), and was recognized as gain on valuation of financial liability of NT\$56,206 thousand (US\$1,725 thousand) and exchange gain of NT\$52,214 thousand (US\$1,602 thousand), respectively.

c. Interest rate swap contracts

The outstanding contracts on December 31, 2005 and 2006 are as follows:

<b>Contract Date</b>	<b>Maturity Date</b>	<b>Notional Amount NT\$ (Thousand)</b>	<b>Interest Receipt</b>	<b>Interest Payment</b>
<u>As of December 31, 2005</u>				
2003.12.19	2009.01.09	2,750,000	Based on floating rate semi-annually	Based on floating rate semi-annually
2005.02.04	Note	Decreases by every contract period; 1,000,000 in this period	Based on floating rate quarterly	Computed quarterly based on fixed rate specified in contract
2005.02.23	Note	Decreases by every contract period; 2,000,000 in this period	Based on floating rate quarterly	Computed quarterly based on fixed rate specified in contract
2005.12.23	Note	2,000,000	Based on floating rate quarterly	Based on floating rate quarterly
2005.12.23	Note	2,000,000	Based on floating rate quarterly	Computed quarterly based on fixed rate appointed by contract
<u>As of December 31, 2006</u>				
2003.12.19	2009.01.09	2,750,000	Based on floating rate semi-annually	Based on floating rate semi-annually

Note: The contracts were terminated in 2006.

d. European foreign currency option contracts

The outstanding contracts as of December 31, 2005 are as follows:

<b>Contract</b>	<b>Amount (In Millions)</b>	<b>Strike Price</b>	<b>Maturity Date</b>
Sell USD Put/NTD Call	US\$185.00	\$32.6~32.7	2006.08.21
Buy USD Put/NTD Call	185.00	33.2~33.3	2006.03.20
Buy USD Put/JPY Call	13.20	103.5	2006.01.05 - 2006.06.05
Sell USD Call/JPY Put	13.20	103.5	2006.01.05 - 2006.06.05
Buy KRW Call/USD Put	15.00	Note	2006.06.28
Sell KRW Put/USD Call	15.00	1,090	2006.06.28
Buy KRW Call/USD Put	0.150	990	2006.06.28

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Note: Strike rate was 1,070 and there is no right and obligation if USD/KRW < 990.

e. Interest rate swaption contracts

In May 2004, the Company entered into an interest rate swaption contract with a bank. According to the contract, if the interest rate ever reaches 3.65%, the bank has the right to request the Company to pay a floating interest rate from May 2005 to May 2006, and receives a fixed annual rate of 3.65% on the notional amount of US\$20,000 thousand. The contract was early terminated in May 2005.

In April 2004, the Company entered into an interest rate swaption contract which will expire in October 2007. The terms of the contract provide that if the interest rate (USD 6 Month LIBOR fixing at 11 Am London time and set on London Business Days) ever reaches 5 % before the expiration of the contract, the interest to be paid to the bank during the contract period is calculated based on the arrangement of the revised contract on the notional amount of US\$157,000 thousand. The contract was early terminated in March, 2006.

For the years ended December 31, 2005 and 2006, gain on valuation of financial asset held for trading was NT\$0 thousand and NT\$29,278 thousand(US\$898 thousand), respectively; the valuation of financial liability held for trading was net gain NT\$20,919 thousand and net loss NT\$289,847 thousand(US\$8,894 thousand), respectively.

## 6. AVAILABLE-FOR-SALE FINANCIAL ASSET

	December 31		
	2005 NT\$	2006 NT\$	US\$
Publicly-traded stocks	27,973	117,421	3,603
Open-ended mutual funds	-	9,228,994	283,185
	27,973	9,346,415	286,788

## 7. ACCOUNTS RECEIVABLE

	December 31		
	2005 NT\$	2006 NT\$	US\$
Accounts receivable	16,010,070	11,639,978	357,164
Allowance for doubtful accounts (Note 2)	(382,608)	(244,366)	(7,498)
Allowance for sales allowances (Note 2)	(125,782)	(50,651)	(1,554)
	15,501,680	11,344,961	348,112

The change in allowance for doubtful accounts and sales allowances are as follows:

	<b>Doubtful Accounts NT\$</b>	<b>Sales Allowances NT\$</b>
Balance at January 1, 2004	337,311	45,107
Additions	98,597	52,761
Write-offs	(7,132)	(29,126)
Balance at December 31, 2004	428,776	68,742
Additions	35,712	79,488
Write-offs	(81,880)	(22,448)
Balance at December 31, 2005	382,608	125,782
Additions	2,464	34,738
Reversal	(92,748)	(6,652)
Write-offs	(47,958)	(103,217)
Balance at December 31, 2006	244,366	50,651
	<b>Doubtful Accounts US\$</b>	<b>Sales Allowances US\$</b>
Balance at January 1, 2006	11,740	3,860
Additions	76	1,066
Reversal	(2,846)	(204)
Write-offs	(1,472)	(3,168)
Balance at December 31, 2006	7,498	1,554

In November 2005, the Company and ASE Test Inc. entered into a three-year revolving accounts receivable securitization agreement with a bank for US\$100 million and the credit line was increased to US\$200 million in June 2006.

Under the agreement, the Company and ASE Test Inc. transferred a pool of accounts receivable to the bank, who issued securities backed by these accounts receivable. Proceeds received from the bank were the net carrying value of the pool of accounts receivable, less a deferred purchase price receivable at 20% of accounts receivable sold, guarantee deposit, program fee and other related expenses. The Company lost control of these accounts receivable at the time of transfer to the bank, and therefore the transaction was accounted for as a sale of accounts receivable, for which the book value of the accounts receivable was derecognized and difference between the book value and the proceeds received was recorded as non-operating loss. Loss from sale of receivables was NT\$13,374 thousand and \$235,509 thousand (US\$7,226 thousand) in 2005 and 2006, respectively.

After the transfer of the accounts receivable, the Company continues to service, administer, and collect these accounts receivable on behalf of the bank. The Company collects on the initial receivables and transfers certain new accounts receivable having similar value to replace the collected receivables. Collected receivables not yet replaced by new accounts receivable due to timing difference are recorded as temporary receipts on the balance sheet, which amounted to NT\$887,354 thousand and NT\$ 2,378,464 thousand (US\$72,981 thousand) as of December 31, 2005 and 2006, respectively. Total accounts receivable sold was NT\$3,915,034 thousand and NT\$ 4,608,182 thousand (US\$141,399 thousand) as of December 31, 2005 and 2006, respectively.

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**8. INVENTORIES**

	<b>December 31</b>		
	<b>2005</b>	<b>2006</b>	<b>US\$</b>
	<b>NT\$</b>	<b>NT\$</b>	
Raw materials	5,438,301	3,663,475	112,411
Supplies and spare parts	837,106	800,668	24,568
Work in process	1,227,920	526,680	16,161
Finished goods	657,675	609,982	18,717
Supplies in transit	87,066	162,395	4,983
Construction in progress	-	484,805	14,876
	8,248,068	6,248,005	191,716
Allowance for obsolescence (Note 2)	(490,991)	(573,995)	(17,613)
	7,757,077	5,674,010	174,103

The movement of allowance for obsolescence is as follows:

	<b>NT\$</b>
Balance at January 1, 2004	313,559
Additions	75,842
Write-offs	(183,998)
Balance at December 31, 2004	205,403
Additions	678,590
Write-offs	(393,002)
Balance at December 31, 2005	490,991
Additions	1,143,925
Write-offs	(1,060,921)
Balance at December 31, 2006	573,995
	<b>US\$</b>
Balance at January 1, 2006	15,066
Additions	35,100
Write-offs	(32,553)
Balance at December 31, 2006	17,613

**9. FINANCIAL ASSETS CARRIED AT COST**

	<b>December 31</b>		
	<b>2005</b>	<b>2006</b>	<b>US\$</b>
	<b>NT\$</b>	<b>NT\$</b>	
Non-publicly traded common stocks			
Taiwan Fixed Network Co., Ltd.	1,050,000	1,050,000	32,219



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H&HH Venture Investment Corporation	50,000	65,790	2,019
Global Strategic Investment, Inc.	65,720	65,192	2,000
UC Fund II	32,860	32,596	1,000
InveStar Burgeon Venture Capital, Inc.	4,508	7	-
Non-publicly traded preferred stock			
ID Solutions, Inc.	8,083	16,166	496

(Continued)

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	<b>2005</b>	<b>December 31</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>2006</b>
			<b>US\$</b>
Limited Partnership			
Crimson Velocity Fund, L.P.	61,140	90,726	2,784
Ripley Cable Holdings I, L.P.	-	275,120	8,442
	1,272,311	1,595,597	48,960
			(Concluded)

There is no quoted price from an active market for these investments and fair value is not readily available. Therefore, these investments are carried at cost.

## 10. EQUITY METHOD INVESTMENTS

	<b>2005</b>		<b>December 31</b>		
	<b>NT\$</b>	<b>% of</b>	<b>2006</b>	<b>US\$</b>	<b>% of</b>
		<b>Direct</b>			<b>Direct</b>
		<b>Owner-</b>	<b>NT\$</b>		<b>Owner-</b>
		<b>ship</b>			<b>ship</b>
Publicly traded					
Universal Scientific Industrial Co., Ltd.	2,762,233	23.7	3,074,221	94,330	19.8
Hung Ching Development & Construction Co.	680,920	26.4	958,417	29,408	26.4
Non-publicly traded					
Hung Ching Kwan Co.	347,319	27.3	352,414	10,814	27.3
Inprocomm, Inc.	2,224	32.1	2,224	68	32.1
Intergrated Programmable Communication, Inc.	1,824	26.5	1,822	56	26.5
	3,794,520		4,389,098	134,676	
Unrealized gain on sale of land	(300,149)		(300,149)	(9,210)	
	3,494,371		4,088,949	125,466	

The market value of the publicly traded stocks was NT\$2,169,644 thousand and NT\$4,525,391 thousand (US\$138,838 thousand) as of December 31, 2005 and 2006, respectively.

The Company acquired shares of Universal Scientific Industrial Co., Ltd. ("USI") from the open market on the Taiwan Stock Exchange. As of December 31, 2006, the Company had an accumulated total investment cost of NT\$3,838,677 thousand (US\$117,787 thousand) and owned 19.8% of the outstanding shares. The Company exercises significant influence over USI, therefore the investment was still accounted for equity method. USI is engaged in the manufacturing, processing and sale of computer peripherals, integrated circuits, electrical parts, personal computers and related accessories. USI declared stock and cash dividends in 2006 for NT\$0.4 and NT\$0.4 per share, respectively. As of December 31, 2006, the market value of the shares held in USI totaled NT\$ 3,104,755 thousand (US\$95,267 thousand). The difference between the cost of investment and the Company's share in the net equity of USI amounted to NT\$371,436 thousand is attributable to goodwill. Effective January 1, 2006, the goodwill was no longer amortized and instead was tested for impairment.

For the year ended December 31, 2004, the Company recorded an impairment loss of NT\$512,000 thousand on its investment in USI, based on the difference between the calculated recoverable amount and the book value of the investment.

The Company acquired shares of Hung Ching Development & Construction Co. (“HCDC”) from the Taiwan Stock Exchange. As of December 31, 2006, the Company had an accumulated total investment cost of NT\$2,845,913 thousand (US\$87,325 thousand). HCDC is engaged in the development and management of commercial, residential and industrial real estate properties in Taiwan. HCDC declared cash dividends in 2006 for NT\$ 0.35 per share.

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The Company acquired its 27.3% equity interest in Hung Ching Kwan Co. ("HCKC") in 1992 by transferring HCKC a parcel of land as an investment in HCKC at an agreed value of NT\$390,470 thousand. The resulting gain of NT\$300,149 thousand, which represents the excess of such value over the cost of the land plus land value increment tax, has been deferred until the disposal of this investment. As of December 31, 2006, the Company had a 44.1% effective interest in HCKC, which consisted of a 27.3% interest directly owned by the Company, and a 16.8% interest indirectly owned through HCDC (based on HCDC's 63.5% interest in HCKC).

As of December 31, 2006, Inprocomm, Inc. and Intergrated Programmable Communication, Inc. are in liquidation.

The Company recorded equity in losses of equity method investees of NT\$394,995 thousand in 2004, and equity in earnings of equity method investees of NT\$74,292 thousand and NT\$315,654 thousand (US\$9,685 thousand) in 2005 and 2006, respectively, from its investments in the aforementioned equity-method investees.

## 11. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation consists of:

	December 31		
	2005 NT\$	2006 NT\$	US\$
Buildings and improvements	5,859,410	7,035,205	215,870
Machinery and equipment	58,898,061	62,065,807	1,904,443
Transportation equipment	75,185	80,112	2,458
Furniture and fixtures	1,720,872	1,916,860	58,818
Leased assets and leasehold improvements	724,402	510,268	15,657
	67,277,930	71,608,252	2,197,246

Accumulated impairment consists of:

	December 31		
	2005 NT\$	2006 NT\$	US\$
Buildings and improvements	2,839,510	-	-
Machinery and equipment	5,707,605	-	-
Transportation equipment	493	-	-
Furniture and fixtures	50,351	-	-
Leased assets and leasehold improvements	1,147,869	-	-
Construction in progress	270,347	-	-
Machinery in transit and prepayments	1,129,418	-	-
	11,145,593	-	-

Interest capitalized and included as cost of properties amounted to NT\$298,062 thousand, NT\$258,960 thousand and NT\$241,188 thousand (US\$7,401 thousand) for the years ended December 31, 2004, 2005 and 2006, respectively.

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As discussed in Note 29, the Company reversed \$2,190,583 thousand of impairment loss previously recorded to accumulated impairment. The remaining \$8,955,010 thousand of impairment was concluded not recoverable, and was netted against the corresponding assets in 2006 to reflect the new cost basis of these impaired assets.

## 12. GOODWILL

Goodwill arose from purchases of the following:

	2005 NT\$	December 31	
		2006 NT\$	US\$
ASE Chung Li shares	957,166	957,166	29,370
ISE Labs shares	678,398	672,948	20,649
ASE Test shares	575,117	570,496	17,505
ASE Material shares	423,664	423,664	13,000
ASE Korea shares	169,106	167,747	5,147
ASE Japan shares	23,679	23,489	721
ASE (U.S.) shares	15,892	15,764	484
	2,843,022	2,831,274	86,876

As discussed in Note 3 and effective January 1, 2006, goodwill was no longer amortized and instead is tested for impairment at least annually.

Amortization of goodwill is reflected in general and administrative expenses in the consolidated statement of income and was NT\$877,582 thousand and NT\$528,943 thousand for the year ended December 31, 2004 and 2005, respectively.

## 13. SHORT-TERM BORROWINGS

Revolving borrowings; annual interest rates was 1.47%-6.50% and 1.80%-7.33% as of December 31, 2005 and 2006, respectively.

## 14. LONG-TERM BONDS PAYABLE

	2005 NT\$	December 31	
		2006 NT\$	US\$
Foreign convertible bonds	6,079,100	6,030,260	185,034
Accrued interest	532,802	776,584	23,829
	6,611,902	6,806,844	208,863
Current portion	-	(3,798,233)	(116,546)
	6,611,902	3,008,611	92,317
Domestic secured bonds	2,750,000	2,750,000	84,382

9,361,902      5,758,611      176,699

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Information on the long-term bonds payable is as follows:

a. Foreign convertible bonds

In September 2003, the Company issued US\$200,000 thousand of unsecured zero coupon convertible bonds due September 2008, consisting of 200,000 units with face values of US\$1,000 each. The bonds have an implied interest rate of 3.75%. In April 2005, the Company redeemed US\$15,000 thousand of the bonds, resulting in other loss of NT\$7,012 thousand and an exchange gain of NT\$34,614 thousand. Outstanding balance on the convertible bonds was US\$185,000 thousand as of December 31, 2005 and 2006.

From 31 days after the date of issuance through 10 days before the due date, the bondholders have the right to convert the bonds into the Company's common shares or ADS at the specified conversion price. The conversion price is based on the current market price at the time of sale.

The Company may redeem the bonds at the early redemption price if:

- 1) On or at any time after September 2007, the closing price of the common shares for a period of 20 consecutive trading days is higher than 130% of the conversion price (NT\$31.98 per share on December 31, 2006) in effect on each such trading day;
- 2) At least 90% of the bonds have already been converted, redeemed, or purchased and cancelled; or
- 3) If the applicable tax law is unfavorably changed, the Company may redeem at any time all, but not some, of the bonds.

In addition, the stipulation of redemption is as below:

- 1) Unless the bonds have been previously redeemed, repurchased and cancelled, or converted, bondholders shall have the right to require the Company to purchase for cash the bonds at 116.02% of their outstanding principal amount on September 25, 2007;
- 2) Upon the occurrence of change of control, bondholders shall have the option to require the Company to repurchase all (or any portion) of the holders' bonds; or
- 3) In the event that the common share of the Company cease to be listed or admitted to trading on the Taiwan Stock Exchange, each holders have the right to require the Company to repurchase all (but not less than all) of such holders' bonds at a price equal to 100% of the outstanding principal amount.

Based on the aforementioned stipulation, the holders of the bonds have the right to request the redemption of the bond on September 2007. However, the Company has obtained new long term credit lines to refinance on a long-term basis before December 31, 2006. Therefore, some of the bonds, amounted to NT\$3,008,611 thousand (US\$92,317 thousand), were classified as long-term debts.

b. Domestic secured bonds

In January 2004, the Company issued NT\$2.75 billion in domestic secured bonds, due in January 2009. The bonds consisted of 275 units with par value of NT\$10 million each and are repayable in January 2008 and 2009 in two equal payments. The interest, payable semiannually, was 0.27%-3.60% in 2005 and 0%-0.27% in 2006. The bank has guaranteed the bonds and has the right to redeem the bonds early in the event the Company violates certain provisions of the bond agreement.



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**15. LONG-TERM BANK LOANS**

Long-term bank loans consist of the following:

	2005 NT\$	December 31	
		2006 NT\$	US\$
Revolving bank loans	22,879,566	17,356,844	532,582
Mortgage bank loans for purchase of building and machinery	5,371,568	2,605,248	79,940
Acceptances payable	3,937,923	-	-
Loans for special purpose	6,341,980	4,901,734	150,406
	38,531,037	24,863,826	762,928
Current portion	(5,232,529)	(1,292,040)	(39,645)
	33,298,508	23,571,786	723,283

## a. Revolving bank loans

	2005 NT\$	December 31	
		2006 NT\$	US\$
Syndicated bank loan - effective interest rate was 2.68%-4.87% in 2005 and 1.51%-6.16% in 2006			
ASE	15,250,000	9,600,000	294,569
ASE Shanghai	2,595,940	3,878,924	119,022
ASE Japan	-	1,096,000	33,630
Revolving credit lines due April 2007 to August 2010 - effective interest rate was 1.98%-5.29% in 2005 and 2.25%-6.12% in 2006			
ASE	2,728,600	1,010,000	30,991
Other	2,305,026	1,771,920	54,370
	22,879,566	17,356,844	532,582

The loan agreements contain the following financial and non-financial covenants:

- 1) Without the prior written consent from the majority of the banks, the Company should not make significant operating change, provide financing to any other entity other than in the normal course of business, pledge its assets, assume liabilities or dispose of assets in excess of 20% of total assets, unless the transaction involves a transfer of assets between affiliates;
- 2) The Company should not merge with any other entity or make investments in excess of NT\$10.0 billion or acquire material assets from another entity;
- 3) The Company's tangible net worth, as defined in a loan agreement, should not be less than NT\$45.0 billion; and
- 4) The Company should maintain certain financial ratios.

As of December 31, 2006, the Company was in compliance with all of the loan covenants.

As of December 31, 2006, syndicated bank loans of ASE Shanghai also has covenants including negative pledge, disposals, merger and certain financial ratios.

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As of December 31, 2005, revolving bank loan of NT\$690,000 thousand was due before the end of 2006. The Company has received permission from the banks concerned to refinance these loans or obtain a new long-term credit line to repay these loans.

b. Mortgage bank loans for purchase of building and machinery

Mortgage bank loans obtained by the Company, are repayable in quarterly or in a lump sum payment at maturity. The effective interest rates on these loans ranged from 1.45% to 6.38% in 2005 and 2.50% to 6.80% in 2006, respectively.

c. Acceptance payables - as of December 31, 2005

Acceptance payables	3,955,800
Unamortized discounts	(17,877)
	3,937,923
Interest rate	2.27%-2.75%

d. Loans for special purpose

Loans for special purpose were restricted for use in the redemption of the other loans or purchase of machinery and the interest rate ranged from 5.45% to 5.73% in 2005 and 6.10% to 6.35% in 2006, respectively.

The loan for special use agreement's covenants specify the tangible net worth of ASE Corporation should not be less than US\$200,000 thousand.

The abovementioned bank loan contracts have variable interest rates and are subject to adjustments by banks or changes in prime rate. In addition, several of the loan agreements have default provisions, whereby a default under one debt agreement may also trigger cross-defaults under other debt agreements.

As of December 31, 2006, the maturities of long-term bonds payable and long-term bank loans were as follows:

	Amount	
	NT\$	US\$
Within the following year	5,090,273	156,191
During the second year	12,444,800	381,860
During the third year	9,498,230	291,446
During the fourth year	6,187,367	189,855
During the fifth year and thereafter	1,200,000	36,821
	34,420,670	1,056,173

Long-term bonds payable and long-term bank loans by currencies are detailed as follows:

	December 31	
	2005	2006
New Taiwan dollars	NT\$ 27,581,042	NT\$ 15,099,112
U.S. dollars	US\$ 592,699	US\$ 559,135

Japanese yen	3,000,000	4,000,000
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**16. CAPITAL LEASE OBLIGATIONS**

The Company lease machinery and equipment under certain non-cancelable capital lease agreements. The effective interest rates on obligations under capital leases ranged from 4.16% to 11% in 2005 and 3.02% to 11% in 2006, respectively.

The future minimum lease payments under the above-mentioned capital leases as of December 31, 2006 were as follows:

	NT\$	US\$
Within the following year	573,349	17,593
Within the second year	66,199	2,031
Within the third year	8,676	266
Within the fourth year	615	19
Within the fifth year	80	2
Total minimum lease payments	648,919	19,911
Imputed interest	(40,280)	(1,236)
Present value of future lease obligations	608,639	18,675
Capital lease obligation, current	(540,736)	(16,592)
Capital lease obligation, long-term	67,903	2,083

**17. PENSION PLANS****Defined Contribution Pension Plan**

a. The Labor Pension Act (“the Act”), which took effect in ROC on July 1, 2005, provides for a pension mechanism that is deemed a defined contribution plan. The employees of the Company who was subject to the Labor Standards Law (“the LS Law”) of ROC before the enforcement of this Act may choose to be subject to the pension mechanism under the Act or may continue to be subject to the pension mechanism under the Labor Standards Law. For those employees who were subject to the Labor Standards Law before July 1, 2005, work for the same company after July 1, 2005 and choose to be subject to the pension mechanism under the Act, their service years will be retained.

b. ISE Labs has a defined contribution savings plan (“401k plan”) for eligible employees. This plan permits employees to make contributions up to the maximum limits allowable under the U.S. Internal Revenue Code Section 401(k). ASE Test Malaysia and ASE Singapore Pte Ltd. also have defined contribution plan.

c. According to the regulations of local government, ASE (Shanghai) made contribution based on each employee’s average wage at rate of 22% to the government.

Under defined contribution plans, the Company recognized pension costs of NT\$184,332 thousand and NT\$403,572 thousand (US\$12,383 thousand) for the year ended 2005 and 2006, respectively.

**Defined Benefit Pension Plans**

a. The Company has a defined benefit pension plan under the subject to the pension mechanism under the LS Law. The retirement benefits are calculated based on the length of service and average basic regular salaries of the last six months before retirement. The Company contributes an amount equal to 2% of monthly salaries to a

retirement fund, which is deposited in the Central Trust of China (the “CTC”), an ROC government agency, in the name of, and is administered by the employees’ pension monitoring committee.

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b. ASE Japan has a pension plan where eligible employees with more than ten years of service are entitled to receive retirement benefits based on their length of service and rate of pay at the time of termination. In addition, ASE Korea has a pension plan under which eligible employees and directors with more than one year of service are entitled to receive a lump-sum payment upon termination of their service with ASE Korea, based on their length of service and rate of pay at the time of termination.

c. The Company and ASE Test, Inc. maintain pension plans for management. Pension cost for these management was NT\$25,226 thousand and NT\$18,141 thousand (US\$557 thousand) for the year ended in 2005 and 2006, respectively; of which, NT\$25,226 thousand and NT\$ 43,367 thousand (US\$1,331 thousand) was recorded as accrued pension cost as of December 31, 2005 and 2006.

The related information of aforementioned defined benefit pension plan is summarized as follows:

a. Pension costs for these entities consist of:

	Year Ended December 31			
	2004 NT\$	2005 NT\$	2006 NT\$	US\$
Service costs	455,912	488,610	366,314	11,240
Interest	88,090	98,144	91,386	2,804
Projected return on pension assets	(26,179)	(33,862)	(35,408)	(1,086)
Amortization	16,454	19,292	11,751	360
	534,277	572,184	434,043	13,318

b. Other pension information based on actuarial calculations of the plan during the periods indicated is as follows:

	December 31		
	2005 NT\$	2006 NT\$	US\$
Benefit obligations			
Vested benefit obligation	731,618	932,231	28,605
Non-vested benefit obligation	1,359,283	1,465,560	44,970
Accumulated benefit obligation	2,090,901	2,397,791	73,575
Additional benefits based on future salaries	1,915,699	2,077,171	63,736
Projected benefit obligation	4,006,600	4,474,962	137,311
Fair value of assets	(1,449,368)	(1,657,132)	(50,848)
Funded status	2,557,232	2,817,830	86,463
Unrecognized net transition obligation	(82,727)	(89,604)	(2,749)
Unrecognized prior service cost	(13,795)	(13,069)	(401)
Unrecognized net actuarial loss	(249,813)	(476,534)	(14,622)
Additional pension cost	14,108	24,063	738
Portion in accrued expenses	(15,237)	(9,669)	(297)
Accrued pension cost	2,209,768	2,253,017	69,132
c. Vested obligation	744,257	876,035	26,880



d. Actuarial assumptions used

Discount rate	2.50%-4.40%	2.25%-4.70%
Increase in future salary level	2.50%-5.00%	2.50%-5.00%
Expected rate of return on plan assets	2.50%-2.75%	2.50%-2.75%

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e. The Company expects to make contributions of NT\$133,770 thousand (US\$4,105 thousand) to retirement funds in 2007.

f. Expected benefit payments:

<b>Year of Payments</b>	<b>NT\$</b>
2007	99,769
2008	104,792
2009	121,764
2010	130,993
2011	75,232
2012 and thereafter	1,101,117

Plan assets and obligations reflected herein were measured as of December 31, 2006.

## **18. SHAREHOLDERS' EQUITY**

### **Common Stock**

As of December 31, 2005 and 2006, the Company had "capital received in advance" of NT\$156,228 thousand and NT\$384,428 thousand (US\$11,796 thousand) as a result of employees exercising their options in accordance with the 2002 Stock Option Plan.

### **American Depositary Shares**

In July 1995, the Company issued 8,600,000 Global Depositary Shares, representing 43,000 thousand common shares. In September 2000, the Company issued 20,000 thousand ADS, representing 100,000 thousand common shares. In connection with the ADS offering in 2000, the Company offered to exchange all outstanding GDS for ADS listed on the New York Stock Exchange.

The ADS holders generally have the same rights and obligations as other shareholders, subject to provisions of relevant laws. The exercise of such rights and obligations shall comply with the related regulations and the deposit agreement, which stipulate, among other things, that the ADS holders can, through Citicorp Financial Services Limited as the nominee holder: (a) exercise their voting rights; (b) sell their ADS; and (c) receive dividends declared and subscribe to the issuance of new shares.

As of December 31, 2006, there were 19,608 thousand ADS outstanding and representing for approximately 98,042 thousand common shares of the Company. As of December 31, 2006, outstanding ADS represented 2.13% of the Company's total outstanding common shares (including treasury stock).

### **Capital Surplus**

Under the ROC Company Law, capital surplus from paid-in capital in excess of par value and from treasury stock transactions can be used to offset a deficit. In addition, such capital surplus may be transferred to capital and is subject to a specified limit under relevant regulations.

Capital surplus from long-term investments in shares of stock which are accounted for by the equity method may not be used for any purpose.

### **Appropriation of Retained Earnings**

The Company's Articles of Incorporation provide that the annual net income shall be appropriated in the order as shown below:

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- a. Offset against deficit, if any;
- b. 10.0% of the remainder from a. as legal reserve;
- c. An amount equal to the income from long-term investments in shares of stock accounted for by the equity method, excluding cash dividends, as special reserve;
- d. Not more than 2.0% of the remainder from c. as compensation to directors and supervisors;
- e. Between 5.0% to 7.0% of the remainder from d. as bonus to employees, of which 5.0% will be distributed in accordance with the employee bonus plan and the excess will be distributed to specific employees as decided by the board of directors; and
- f. The remainder from e. as dividends to shareholders.

The aforementioned appropriations shall be approved by the shareholders in the subsequent year and given effect in the financial statements in the year of shareholders' approval.

Under the ROC Company Law, the appropriation for aforementioned legal reserve shall be made until the reserve equals the Company's capital surplus. The reserve may be used to offset a deficit, or be distributed as dividends and bonuses for the portion in excess of 50% of the capital surplus if the Company has no unappropriated earnings and the reserve balance has exceeded 50% of the Company's paid-in capital. Also, when the reserve has reached 50% of capital surplus, up to 50% thereof may be transferred to capital stock.

The shareholders' meeting was held in June 2006 and approved to offset the deficit in 2005 with NT\$1,746,913 thousand (US\$53,603 thousand) legal capital reserve and NT\$2,314,447 thousand (US\$71,017 thousand) capital surplus.

The appropriation of 2004 earnings resolved at the Company's annual shareholders' meeting and the appropriation of 2006 to be resolved by the Company's annual shareholders' meeting were as follow:

	<b>2004</b>	<b>2006</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>US\$</b>
Legal reserve	420,969	1,698,504	52,117
Compensations to directors and supervisors	75,720	300,000	9,205
Bonus to employees - cash	9,536	535,029	16,417
Bonus to employees - stock	255,675	535,029	16,417
Stock dividends - NT\$0.699 in 2004 and NT\$1.500 in 2006	2,878,548	6,941,011	212,980
Cash dividends - NT\$0.100 in 2004 and NT\$0.150 in 2006	411,221	6,941,011	212,980
	4,051,669	16,950,584	520,116

Should the bonus to employees, directors and supervisors be charged to expense of 2004, the basic earnings per share (after income tax) for the year ended December 31, 2004 would decrease from NT\$0.99 to NT\$0.91.

The shares distributed as a bonus to employees represented 25,567 thousand shares and 0.62% of the company's total outstanding common shares as of December 31, 2004.

The above information about the appropriations of earnings is available at the Market Observation Post System website.

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### Dividend Policy

In order to meet the needs of the Company's present and future capital expenditures, the Company's dividend distribution shall be primarily in the form of stock dividends. Cash dividends may also be distributed under certain circumstances. However, the percentage of cash dividends generally shall not exceed 50% of any dividend declared.

With respect to the percentage of cash dividends to be paid referred to in the preceding paragraph, the Company may decide the most suitable manner to distribute such dividends in accordance with its current operational status while taking into consideration its plan for the following year. The board of directors shall propose a profit distribution plan, which shall be submitted to the shareholders for approval before implementation.

### Imputation Tax System

Under the Integrated Income Tax System in the ROC, which became effective on January 1, 1998, non-corporate resident shareholders are allowed a tax credit for the income tax paid or payable by the Company on earnings generated in 1998 and onwards. Non-resident shareholders are allowed only a tax credit from the 10% income tax on undistributed earnings, which can be used to deduct the withholding income tax on dividends paid. An Imputation Credit Account ("ICA") is maintained by the Company for such income tax and the tax credit allocated to each shareholder. The maximum credit available for allocation to each shareholder cannot exceed the balance shown in the ICA on the date of distribution of dividends.

As of December 31, 2006, the creditable taxes aggregated NT\$134,500 thousand (US\$4,127 thousand). The estimated creditable ratio for the distribution of earnings for 2006 was 4.70%.

### Treasury Stock

As of December 31, 2005 and 2006, the information on Company's shares held by its subsidiaries is as follows:

Subsidiary	Thousand Shares	Thousand Shares	Calculated by the Company's Ownership	
			Book Value (NT\$)	Market Value (NT\$)
<u>2005</u>				
ASE Test	173,482	88,389	1,337,211	2,415,680
J & R Holding Limited	92,936	92,936	1,405,334	2,539,939
ASE Test, Inc.	6,650	3,388	65,891	92,597
	273,068	184,713	2,808,436	5,048,216
<u>2006</u>				
ASE Test	173,482	88,389	1,337,211	3,270,405
J & R Holding Limited	92,936	92,936	1,405,334	3,438,630
ASE Test, Inc.	6,650	3,388	65,891	125,360
	273,068	184,713	2,808,436	6,834,395

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Subsidiary	Calculated by the Company's Ownership	
	Book Value (US\$)	Market Value (US\$)
<u>2006</u>		
ASE Test	41,031	100,350
J & R Holding Limited	43,122	105,512
ASE Test, Inc.	2,022	3,847
	86,175	209,709

Stock dividends and cash dividends received by the subsidiaries from the Company was 24,783 thousand shares and NT\$16,768 thousand which was recorded as capital surplus in 2005, respectively. There was no change in 2006.

The Company issued common shares in connection with the merger of ASE Chung Li and ASE Material. The Company reclassified the shares held by its subsidiaries with a book value of NT\$2,798,399 thousand, representing 234,089 thousand shares, from long-term investments to treasury stock. The Company's subsidiary, ASE Test, is a Singapore incorporated company and may not acquire, directly or indirectly, shares in the Company under Singapore laws. In order to comply with relevant regulations, a trust has been established to hold and dispose of the Company's shares acquired by ASE Test in connection with the merger. Pursuant to the trust agreement, ASE Test's rights with respect to the Company's shares held in trust are limited to the right to receive the proceeds from the sale of such common shares and any cash dividends declared while the shares remain in trust.

Although these shares are treated as treasury stock in the consolidated financial statements, the shareholders are entitled to exercise their rights on these shares, except for participation in additional capital increases through cash payment. However, based on revised ROC Corporation Law, the shareholders of treasury stock can not exercise their rights to vote.

## 19. EMPLOYEE STOCK OPTION PLANS

In order to attract, retain and incentive employees, the Company adopted two employee stock option plans, the 2002 Plan and the 2004 Plan, which were approved in August 2002 and May 2004, respectively. The maximum number of units authorized to be granted under 2002 Plan and 2004 Plan is 160,000 thousand and 140,000 thousand, respectively, with each unit representing the right to purchase one share of common stock. Under the terms of the plans, stock option rights are granted at an exercise price equal to the closing price of the Company's common shares listed on the Taiwan Stock Exchange on the date of grant. The option rights of both plans are valid for ten years and exercisable at certain percentages subsequent to the second anniversary of the grant date. Under the 2002 Plan, the number of units authorized, including those which were never granted and those which had been granted and subsequently cancelled all expired as of August 2004. Under the 2004 Plan, 124,917 thousand and 15,000 thousand units were granted on June 30, 2004 and May 23, 2005, respectively. The remaining 83 thousand units will never be granted.

As of December 31, 2006, ASE Test had three stock option plans, the 1999, 2000 and 2004 Option Plans. Stock options granted under these plans are exercisable for ASE Test ordinary shares based on a vesting schedule and expire ten years from the grant date.



Information on the outstanding stock options in 2004 and 2005 and 2006 is as follows:

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## ASE Inc. Option Plan

	2004			2005			2006		
	Weighted	Weighted		Weighted	Weighted		Weighted	Weighted	
	Average	Average		Average	Average		Average	Average	
	Exercise	Exercise		Exercise	Exercise		Exercise	Exercise	
	Price	Price		Price	Price		Price	Price	
	Per	Per		Per	Per		Per	Per	
	Share	Share		Share	Share		Share	Share	
	Share	Share		Share	Share		Share	Share	
	Values	Values		Values	Values		Values	Values	
	(NT\$)	(NT\$)		(NT\$)	(NT\$)		(NT\$)	(NT\$)	
	Number	Number		Number	Number		Number	Number	
	of	of		of	of		of	of	
	Shares	Shares		Shares	Shares		Shares	Shares	
	(in	(in		(in	(in		(in	(in	
	Thousand)	Thousand)		Thousand)	Thousand)		Thousand)	Thousand)	
Beginning									
outstanding balance	146,752	\$ 18.30		260,047	\$ 19.50		227,341	\$ 19.80	
Option granted	124,917	25.10	\$ 11.08	15,000	18.60	\$ 7.09	-	- \$ -	
Option exercised	(2,402)	17.80		(27,761)	16.20		(44,999)	18.90	
Option forfeited	(9,220)	19.20		(19,945)	20.10		(11,086)	20.70	
Option expired	-	-		-	-		-	-	
Ending outstanding									
balance	260,047	21.50		227,341	19.80		171,256	20.00	

The numbers of outstanding options and their exercise prices have been adjusted to reflect the dilution attributable to the distribution of stock dividends in accordance with the terms of the plans.

Information on outstanding and exercisable option rights as of December 31, 2006 is as follows:

Exercise Price (NT\$)	Outstanding		Exercisable	
	Number of Options (in Thousands)	Remaining Contractual Life (Years)	Exercisable Options (in Thousands)	Remaining Contractual Life (Years)
16.1	60,659	6.0	38,494	6.0
21.0	7,516	6.6	3,687	6.6
22.7	89,691	7.5	35,911	7.5
18.6	13,390	8.4	-	-
	171,256	7.0	78,092	6.7

As of December 31, 2006, the number of options that are expected to vest was 79,414 thousand.

The aggregate intrinsic value of outstanding and exercisable options was NT\$2,916,990 thousand and NT\$1,377,038 thousand as of December 31, 2006, respectively. Total intrinsic value of options exercised in the years ended December 31, 2004, 2005 and 2006 was NT\$14,205 thousand, NT\$177,938 thousand and NT\$585,948 thousand, respectively.

The fair value of the common stock options issued was determined using a Black-Scholes option pricing model with the following assumptions:

	2004	2005
Expected dividend yield	3.00%	3.00%
Expected volatility	59%	47%
Risk free interest rate	2.50%	1.80%
Expected life	5 years	5 years

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### ASE Test Option Plan

Information regarding the stock options granted or modified after January 1, 2004 is presented below:

	2004			2005			2006		
	Weighted Average Exercise Price Per Share (in Thousand) (US\$)	Weighted Average Grant Date Fair Values (in Thousand) (US\$)	Weighted Average Exercise Price Per Share (in Thousand) (US\$)	Weighted Average Exercise Price Per Share (in Thousand) (US\$)	Weighted Average Grant Date Fair Values (in Thousand) (US\$)	Weighted Average Exercise Price Per Share (in Thousand) (US\$)	Weighted Average Grant Date Fair Values (in Thousand) (US\$)	Weighted Average Exercise Price Per Share (in Thousand) (US\$)	Weighted Average Grant Date Fair Values (in Thousand) (US\$)
Beginning outstanding balance	-	\$ -	260	\$ 6.18	293	\$ 6.21			
Option granted	260	6.18	\$ 6.18	33	6.50	\$ 6.50	130	9.60	\$ 9.60
Option exercised	-	-	-	-	-	-	(9)	6.10	-
Option forfeited	-	-	-	-	-	-	-	-	-
Option expired	-	-	-	-	-	-	-	-	-
Ending outstanding balance	260	6.18	293	6.21	414	7.28			

Above options outstanding at December 31, 2006 and the related weighted average exercise price and remaining contractual life information is as follows:

Exercise Price (US\$)	Number of Outstanding Options (in Thousands)	Remaining Contractual Life (Years)	Exercisable Options (in Thousands)	Exercisable Options Weighted-average Exercise Price (US\$)
5.50	60	7.6	24	5.50
6.10	51	7.8	15	6.10
6.50	173	7.6	77	6.50
9.79	115	9.3	12	9.79
8.10	15	9.6	7	8.10
	414		135	

The fair value of the common stock options issued was determined using a Black-Scholes option pricing model with the following assumptions:

	2004	2005	2006
Expected dividend yield	0%	0%	0%
Expected volatility	78.28%	59.06%	59.95%-62.03%
Risk free interest rate	3.50%-3.88%	3.88%	4.88%

Expected life	5 years	5 years	3-5 years
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For purposes of pro forma disclosure below, the estimated fair values of the options is assumed to be amortized to expense over the option vesting periods. Had the Company and ASE Test recorded compensation costs based on the estimated grant date fair value, the Company's net income (loss) would have been reduced to the pro forma amounts below:

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	2004 NT\$	2005 NT\$	2006 NT\$	US\$
Net income (loss) for calculation of basic EPS				
As reported	4,209,690	(4,691,187)	17,416,151	534,402
Pro forma	3,784,386	(5,924,330)	16,301,168	500,189
Net Income (loss) for calculation of diluted EPS				
As reported	4,373,239	(4,691,187)	17,582,151	539,495
Pro forma	3,947,935	(5,924,330)	16,467,168	505,283
Earnings (loss) per share (EPS):				
Basic EPS as reported	0.99	(1.07)	3.95	0.12
Pro forma basic EPS	0.89	(1.36)	3.70	0.11
Diluted EPS as reported	0.96	(1.07)	3.77	0.12
Pro forma diluted EPS	0.87	(1.36)	3.53	0.11

## 20. PERSONNEL EXPENDITURE, DEPRECIATION AND AMORTIZATION

	Year Ended December 31, 2005			Year Ended December 31, 2006			
	Cost of Revenues	Operating Expenses	Total	Cost of Revenues	Operating Expenses	Total	
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	US\$
Personnel							
Salary	10,661,821	3,314,091	13,975,912	11,247,354	3,401,115	14,648,469	449,477
Pension cost	676,226	181,192	857,418	748,437	191,233	939,670	28,833
Labor and health insurance	823,231	226,243	1,049,474	862,163	242,791	1,104,954	33,905
Others	955,882	346,502	1,302,384	1,175,983	395,931	1,571,914	48,233
	13,117,160	4,068,028	17,185,188	14,033,937	4,231,070	18,265,007	560,448
Depreciation	13,286,081	704,138	13,990,219	12,736,924	751,256	13,488,180	413,875
Amortization	687,178	884,325	1,571,503	576,102	423,929	1,000,031	30,685

## 21. INCOME TAX

The ROC government enacted the Alternative Minimum Tax Act (the AMT Act), which became effective on January 1, 2006. The alternative minimum tax (AMT) imposed under the AMT Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the AMT Act. The taxable income for calculating the AMT includes most of the income that is exempted from income tax under various laws and statutes. The Company has considered the impact of the AMT Act in the determination of its tax liabilities.

a. Income tax expense (benefit) is summarized as follows:

	Year Ended December 31		
	2004	2005	2006

	NT\$	NT\$	NT\$	US\$
Tax (benefit) based on pre-tax accounting income (loss) at statutory rate	1,470,928	(1,038,061)	5,957,310	182,796
Cumulative effect of change in accounting principle	-	-	(114,168)	(3,503)
Add (less) tax effects of:				
Permanent differences Tax-exempt income	(651,812)	-	(778,834)	(23,898)

(Continued)

	Year Ended December 31			US\$
	2004 NT\$	2005 NT\$	2006 NT\$	
Equity in losses (earnings) of equity method investees	132,031	(18,573)	(78,914)	(2,421)
Other	-	2,997	(10,516)	(323)
Temporary differences				
Other investment loss	123,345	-	-	-
Capital tax credits	-	(104,856)	(375,764)	(11,530)
Bond interest payable	63,793	56,586	60,855	1,867
Depreciation	-	(36,969)	174,853	5,365
Other	76,872	335,705	(409,395)	(12,562)
	1,215,157	(803,171)	4,425,427	135,791
Operating loss carryforwards	-	1,370,960	(1,246,641)	(38,252)
Income taxes on undistributed earnings	86,968	173,834	-	-
Credits for investments and research and development	(1,081,023)	(292,195)	(1,697,397)	(52,083)
Net change in deferred income tax for the period	(1,660,695)	(481,310)	367,751	11,284
Adjustment of prior year's income tax	42,590	(86,774)	121,479	3,727
Cumulative effect of change in accounting principle	-	-	114,168	3,503
	(1,397,003)	(118,656)	2,084,787	63,970

(Concluded)

b. The above-mentioned taxes on pre-tax accounting income (loss) based on the applicable statutory rates for both domestic and foreign entities are shown below:

	Year Ended December 31			US\$
	2004 NT\$	2005 NT\$	2006 NT\$	
Domestic entities in ROC (25% statutory rate)	1,364,316	(1,255,167)	5,570,158	170,916
Foreign entities				
ASE Korea (30.8% statutory rate)	(37,683)	41,159	97,499	2,992
ASE Japan (40% statutory rate)	101,429	182,148	182,372	5,596
ISE Labs (federal tax rate 35% and state tax rate 6%)	(16,852)	(2,963)	(11,141)	(342)
ASE Test Malaysia (28% statutory rate)	59,718	(3,238)	118,422	3,634
	1,470,928	(1,038,061)	5,957,310	182,796

(Continued)



c. Deferred income tax assets and liabilities are summarized as follows:

	December 31		
	2005 NT\$	2006 NT\$	US\$
<b>Current deferred income tax assets</b>			
Unused tax credits	1,339,206	2,405,057	73,797
Bond interest payable	-	160,675	4,930
Operating loss carryforwards	1,257,792	6,904	212
Other	183,066	259,091	7,950
	2,780,064	2,831,727	86,889
Valuation allowance	(1,164,368)	(23,543)	(722)
<b>Net current deferred income tax assets</b>	<b>1,615,696</b>	<b>2,808,184</b>	<b>86,167</b>
<b>Non-current deferred income tax assets</b>			
Unused tax credits	4,962,603	2,927,041	89,814
Accrued pension costs	531,545	261,000	8,009
Loss carryforwards	305,401	267,157	8,198
Unused capital tax credits	-	204,833	6,285
Investment income	(144,000)	(144,000)	(4,419)
Others	342,223	67,484	2,071
	5,997,772	3,583,515	109,958
Valuation allowance	(1,951,000)	(1,071,094)	(32,866)
<b>Non-current deferred income tax assets</b>	<b>4,046,772</b>	<b>2,512,421</b>	<b>77,092</b>
<b>Non-current deferred income tax liabilities</b>	<b>-</b>	<b>(25,888)</b>	<b>(794)</b>
	<b>5,662,468</b>	<b>5,294,717</b>	<b>162,465</b>

In assessing the realizability of deferred income tax assets, the Company considers its future taxable earnings and expected timing of the reversal of temporary differences. In addition, in the event future taxable earnings do not materialize as forecasted, the Company will consider executing certain tax planning strategies available to realize the deferred income tax assets. The valuation allowance is provided to reduce the gross deferred income tax assets to an amount which the Company believes will more likely than not be realized. Deferred income tax assets and liabilities are classified in the consolidated balance sheets based on the classification of the related assets or liabilities or the expected timing of the reversal of temporary differences.

The tax holidays for the Company are as follow:

- 1) A portion of the Company's income from the packing of semiconductors is exempt from income tax for the five years ending 2007 and September 2009. A portion income of ASE Chung Li branch from the manufacturing, processing and testing of semiconductors is exempt from income tax for the five years ending 2007.
- 2) A portion of ASE Test, Inc.'s income from the testing of semiconductors is exempt from income tax for the five years ending December 2005 and 2010, respectively.
- 3)

Under the tax regulation in China, the income of ASE (Shanghai) Inc. was wholly exempt from income tax from 2006 to 2007 and half exempt from income tax from 2008 to 2010.

4) ASE Singapore Pte Ltd. has been granted pioneer status under the provisions of the Economic Expansion Incentives (Relief from Income Tax) Act for its operation in Singapore for a qualifying period of 10 years commencing September 1, 1998. During the qualifying period, all income arising from pioneer status activities is wholly exempt from income tax.

The per share effect of this tax holiday was NT\$0.15 in 2004, NT\$0 in 2005 and NT\$0.18 in 2006, respectively.

d. As of December 31, 2006, unused tax credits which can be utilized to offset future income tax, are set forth below:

<b>Year of Expiry</b>	<b>NT\$</b>	<b>US\$</b>
2007	1,838,601	56,416
2008	1,797,871	55,166
2009	823,390	25,265
2010	607,595	18,644
2011 and thereafter	264,641	8,120
	5,332,098	163,611

In the ROC, the tax credits may be utilized to reduce up to 50% of income tax payable each year. In the year of expiration, any remaining unused tax credits can be used entirely. Effective on January 1, 2006, the Company and its subsidiaries in Taiwan have to pay a minimum of 10% tax on their taxable income, including taxable income earned during tax holiday periods according to the new tax regulation of ROC.

Income tax returns of the company have been examined by the ROC tax authorities through the 2002 (Income tax returns of ASE Material and ASE Chung Li have been examined through 2003). However, the Company was unwilling to accept the examination in 2002, and the High Administrative Court judged against the Company in January 2007 though. For the High Administrative Court award, the Company have recognized related income tax expense in 2006 and appealed this case to the Supreme Administrative Court.

## 22. EARNINGS (LOSS) PER SHARE

The Company's common shares corresponding to the employees' stock options issued by the Company and convertible bonds had a dilutive effect on the 2004 and 2006 EPS calculation, while the employee stock options issued by ASE Test had a dilutive effect only on the 2006 EPS calculation. The numerators and denominators used in the EPS calculations were as follows:

a. Numerator - net income (loss)

	<b>2004</b>		<b>2005</b>	
	<b>Before Income Tax NT\$</b>	<b>After Income Tax NT\$</b>	<b>Before Income Tax NT\$</b>	<b>After Income Tax NT\$</b>
Income (loss) from continuing operations	2,985,244	3,668,312	(5,722,984)	(5,044,886)
Discontinued operations	568,899	568,222	357,766	353,699
Cumulative effect of change in accounting principle	(26,844)	(26,844)	-	-
Basic EPS				
Income (loss) of parent company's common shareholders	3,527,299	4,209,690	(5,365,218)	(4,691,187)

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Interest, net of tax, paid on convertible bonds	197,762	163,549	-	-
Diluted EPS				
Income (loss) of parent company's common shareholders	3,725,061	4,373,239	(5,365,218)	(4,691,187)

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	2006			
	Before Income Tax		After Income Tax	
	NT\$	US\$	NT\$	US\$
Income from continuing operations	19,067,237	585,064	17,758,654	544,911
Cumulative effect of change in accounting principle	(456,671)	(14,012)	(342,503)	(10,509)
<b>Basic EPS</b>				
Income of parent company's common shareholders	18,610,566	571,052	17,416,151	534,402
Interest, net of tax, paid on convertible bonds	213,079	6,538	168,993	5,185
Employee stock option from ASE Test issued	(2,993)	(92)	(2,993)	(92)
<b>Diluted EPS</b>				
Income of parent company's common shareholders	18,820,652	577,498	17,582,151	539,495

Denominator - shares (in thousands)

b.

	2004	2005	2006
Weighted-average number of common stock	3,580,280	4,100,661	4,566,952
Retroactive adjustments for capitalization of retained earnings	631,744	436,789	-
Issuance of common stock in connection with the merger	130,887	-	-
Shares issued in connection with stock options exercised by employees	15	17,777	22,605
Shares held by subsidiaries	(78,113)	(184,713)	(184,713)
Number of shares used for purposes of the basic EPS calculation	4,264,813	4,370,514	4,404,844
Potential number shares issuable upon exercise of options	68,909	-	62,632
Potential number of outstanding shares assumed upon conversion of convertible bonds	212,145	-	197,119
Number of shares used in the diluted EPS calculation	4,545,867	4,370,514	4,664,595

For purposes of the ADS calculation, the denominator represents the above-mentioned weighted average outstanding shares divided by five (one ADS represents five common shares). The numerator was the same.

### 23. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Fair value of financial instruments was as follows:

	2005		December 31			
	Carrying		2005		2006	
	Values NT\$	Fair Values NT\$	Carrying Values NT\$	US\$	Fair Values NT\$	US\$
<u>Non-derivative financial instruments</u>						
<b>Assets</b>						
Financial assets at fair value through profit or loss	4,324,950	4,325,568	1,546,450	47,452	1,546,450	47,452
Available-for-sale financial assets	27,973	43,686	9,346,415	286,788	9,346,415	286,788
Held-to-maturity financial assets	50,000		50,000	1,534		
Financial assets carried at cost	1,272,311		1,595,597	48,960		

Guarantee deposit-noncurrent	223,592	223,592	314,489	9,650	314,489	9,650
Restricted assets	204,632	204,632	336,463	10,324	336,463	10,324

(Continued)

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	2005		December 31			
	Carrying		2006			
	Values NT\$	Fair Values NT\$	Carrying Values NT\$	US\$	Fair Values NT\$	US\$
<b>Liabilities</b>						
Financial liabilities at fair value through profit or loss	202,729	202,729	352,583	10,819	352,583	10,819
Long-term bonds payable (included current portion)	9,361,902	10,092,675	9,556,844	293,245	10,262,526	314,898
Long-term bank loans (included current portion)	38,531,037	38,531,037	24,863,826	762,928	24,863,826	762,928
Capital lease obligation (included current portion)	407,362	407,362	608,639	18,675	608,639	18,675
<b>Derivative financial instruments</b>						
Foreign currency option contracts	(171,476)	(171,476)	-	-	-	-
Interest rate swap contracts	-	(228,401)	(58,990)	(1,810)	(58,990)	(1,810)
Cross currency swap contract	(154,780)	(330,627)	(274,421)	(8,421)	(274,421)	(8,421)
Interest rate swaption contract	-	(53,094)	-	-	-	-
Forward exchange contracts	131	131	(7,719)	(237)	(7,719)	(237)
<b>Geographical classify by traded object</b>						
Taiwan	(327,076)	(633,492)	(334,956)	(10,278)	(334,956)	(10,278)
Outside of Taiwan (including foreign agencies operating in Taiwan)	951	(149,975)	(6,174)	(190)	(6,174)	(190)
					(Concluded)	

The Company adopted the newly released SFAS No. 34 from January 1, 2006. As a result, certain financial instruments were not included in the consolidated financial statements for the year ended December 31, 2005. Please see Note 3 for the cumulative effect of changes in accounting principles and adjustments to shareholders' equity.

b. Methods and assumptions used in the determination of fair values of financial instruments were as below:

- 1) The aforementioned financial instruments do not include cash, notes and accounts receivable, pledged time deposits-current, other receivables, short-term borrowings, notes and accounts payables, accrued expense, payable for properties, and temporary receipts. These financial instruments' carrying amounts approximate their fair values.
- 2) Fair values of financial assets or liabilities at fair value through profit or loss and available-for-sale financial assets were determined at their quoted market prices. Fair values of derivatives were determined using valuation techniques incorporating estimates and assumptions that were consistent with prevailing market conditions.
- 3) The fair value of financial assets carried at cost and held-to-maturity financial assets were not measured, since they didn't have active market and quotation price or significant cost will be incurred to verify the fair value in practice.

4) The interest rate of long-term debts except bonds payable and some bank loans were floating, fair values approximate book values. Bonds payable was based on their quoted market price.

5) The carrying value of guarantee deposits and restricted assets reflects their fair value.

c. Gain or loss from changes of the fair value determined using valuation techniques was gain NT\$20,919 thousand and loss NT\$260,569 thousand (US\$7,995 thousand) for the year ended December 31, 2005 and 2006, respectively.

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d. As of December 31, 2005 and 2006, financial assets exposed to fair value interest rate risk were NT\$378,514 thousand and NT\$288,389 thousand (US\$8,849 thousand), respectively, financial liabilities exposed to fair value interest rate risk were NT\$7,517,962 thousand and NT\$7,428,267 thousand (US\$227,931 thousand), respectively, financial assets exposed to cash flow interest rate risk were NT\$11,115,658 thousand and NT\$13,911,303 thousand (US\$426,858 thousand), respectively, and financial liabilities exposed to cash flow interest rate risk were NT\$40,150,185 thousand and NT\$26,960,168 thousand (US\$827,252 thousand), respectively.

e. For the years ended December 31, 2004, 2005 and 2006, the Company recognized interest income NT\$77,797 thousand, NT\$173,325 thousand and NT\$406,364 thousand (US\$12,469 thousand), and interest expense (including capitalized interest) NT\$1,125,141 thousand, NT\$1,791,947 thousand and NT\$1,841,401 thousand (US\$56,502 thousand) for those financial assets or liabilities that are not categorized as financial assets or liabilities at fair value through profit and loss.

f. Strategy for financial risk

The derivative instrument employed by the company is to mitigate risks arising from the ordinary business operation. All derivative transactions engaged by the company should be designated into two purposes: hedging and speculating which are governed by separated internal guidelines and controls. Derivative transactions entered for hedging purpose must hedge the risk against fluctuation in foreign exchange and interest rates arising from operating activities. The currency and the amount of derivative instrument held by the company must match company's actual assets and liabilities.

g. Information about financial risk

1) Market risk

All derivative financial instruments are mainly used to hedge the exchange rate fluctuations of foreign - currency - denominated assets and liabilities and interest rate fluctuations on its floating rate long-term loans. Exchange gains or losses on these derivative contracts are likely to be offset by gains or losses on the hedged assets and liabilities. Interest rate risks are also controlled because the expected cost of capital is fixed. Thus, market price risks are believed to be minimal.

2) Credit risk

Credit risk represents the potential loss that would be incurred by the Company if the counter-parties or third-parties breached contracts. Risk factors include the degree of concentration and components and contract amounts of financial instruments. Credit risk represents the positive fair values of contracts as of the balance sheet date. The Company's maximum credit risk on financial instruments approximated the book value as of December 31, 2005 and 2006.

3) Liquidity risk

The Company believes its liquidity risk is low because the Company's working capital, which includes investments in mutual funds and other marketable securities that are readily convertible to cash at or near fair market value, is sufficient to fulfill its obligations incurred in the operation.

4) Cash flow interest rate risk

The Company mainly engages in floating interest-rate debts. Therefore, cash flows are expected to increase NT\$270,000 thousand (US\$8,248 thousand) while the market interest rate increases 1%.

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## h. Cash flow hedging

The Company entered into cash flow hedge transactions to manage its exposure to exchange rate fluctuations arising from commitments for the payment of materials and capital expenditures in Japanese yen.

The outstanding European foreign currency option contracts as of December 31, 2005 were as follows:

<b>Contract</b>	<b>Amount (In Millions)</b>	<b>Strike Price</b>	<b>Maturity Date</b>
Buy USD Put/JPY Call	US\$34.8	\$103.5	2006.01.05 - 2006.06.05
Sell USD Call/JPY Put	34.8	103.5	2006.01.05 - 2006.06.05

The derivative financial liabilities for hedging amounted to NT\$129,179 thousand (US\$3,964 thousand) arising from above contracts based on mark-to-market valuation on December 31, 2005.

**24. RELATED PARTY TRANSACTIONS**

## a. Related parties

The name and relationship of related parties are the equity method investees as disclosed in Note 10.

## b. Significant transactions with related parties were as follows:

The Company and ASE Test Inc. purchased real estate from HCDC for NT\$930,745 thousand in 2005 and NT\$1,311,429 thousand (US\$40,240 thousand) in 2006 and the prices were based on fair market value of the assets as assessed by the appraisers.

**25. ASSETS PLEDGED OR MORTGAGED**

The following assets have been pledged or mortgaged as collaterals for bank loans and as guarantees for the employment of foreign labor and the leases of property, plant and equipment, etc.

	<b>December 31</b>		<b>US\$</b>
	<b>2005 NT\$</b>	<b>2006 NT\$</b>	
Land	511,644	507,534	15,573
Buildings and improvements, net	2,174,690	2,093,043	64,223
Machinery and equipment, net	5,714,003	2,542,862	78,026
Pledged time deposits - current	62,505	-	-
Restricted assets - noncurrent	204,632	336,463	10,325
	<b>8,667,474</b>	<b>5,479,902</b>	<b>168,147</b>



**26. COMMITMENTS AND CONTINGENCIES**

a. The Company and ASE Test, Inc. lease the land on which their buildings are situated under various operating lease agreements with the ROC government expiring on various dates through February 2016. The agreements grant these entities the option to renew the leases and reserve the right for the lessor to adjust the lease payments upon an increase in the assessed value of the land and to terminate the leases under certain conditions. In addition, the Company leases buildings and machinery and equipment under non-cancelable operating leases which will expire through December 2010.

The future minimum lease payments under the above-mentioned operating leases are as follows:

Operating Leases	NT\$	US\$
2007	836,526	25,668
2008	375,173	11,512
2009	206,198	6,327
2010	133,323	4,091
2011 and thereafter	41,485	1,273
<b>Total minimum lease payments</b>	<b>1,592,705</b>	<b>48,871</b>

- b. The Company engages outside sales agencies to provide sales services. Commissions and service fees were paid based on monthly service-related costs and expenses incurred plus a certain percentage, subject to specified limits, for costs and expenses incurred or based on a certain percentage of net export sales. Commissions and service fees paid in 2004, 2005 and 2006 were approximately NT\$769,637 thousand, NT\$231,874 thousand and NT\$320,503 thousand (US\$9,834 thousand), respectively.
- c. As of December 31, 2006, unused letters of credit were approximately NT\$1,288,540 thousand (US\$39,538 thousand).
- d. As of December 31, 2006, commitments to purchase machinery and equipment were approximately NT\$4,500,000 thousand (US\$138,079 thousand), of which NT\$75,817 thousand (US\$2,326 thousand) had been prepaid.
- e. As of December 31, 2006, outstanding commitments related to the construction of buildings were approximately NT\$4,000,000 thousand (US\$122,737 thousand), of which NT\$232,000 thousand (US\$7,119 thousand) had been prepaid.
- f. The Company entered into technology license agreements with foreign companies which will expire on various dates through 2010. Pursuant to the agreements, the Company shall pay royalties based on specified percentages of sales volume, and licensing fees to the counter parties. Royalties and licensing fees paid in 2004, 2005 and 2006 were approximately NT\$163,975 thousand, NT\$179,061 thousand and NT\$282,329 thousand (US\$8,663 thousand), respectively.
- g. Tessera Inc. (Tessera) filed a lawsuit in February 2006 against the Company for patent infringements. The Company has retained attorneys to investigate this asserted claim. Tessera has not disclosed the details of the alleged infringements, and therefore the outcome of this litigation cannot be determined at this time.



**27. SUBSEQUENT EVENTS**

- a. In December 2006, the Ministry of Economic Affairs, ROC approved the Company's investment to Global Advanced Packaging Technology Limited (GAPT), which was incorporated in Shanghai, through a subsidiary in the Cayman Island. The Company subsequently increased its ownership interest in GAPT to 100% on January 11, 2007. Total amount of the investment was US\$60,000 thousand. GAPT is engaged in semiconductor wire bonding packaging and testing services. The purpose of the investment was to promote competitive strengths and achieve the Company's targeted long-term production capacity.
- b. On February 2, 2007, the Company and NXP Semiconductors (NXP), formerly Philips Semiconductors, announced the signing of a Memorandum of Understanding to form a joint venture (JV) in Suzhou, China, focused on semiconductor testing and packaging. Terms of the agreement are subject to final negotiations between NXP and the Company and the receipt of necessary approvals from regulatory authorities. The Company plans to invest 60% in the JV.

**28. DISCONTINUED OPERATIONS**

ASE Test Malaysia sold its camera module assembly operations in early October 2005 for US\$19,116 thousand, which covers the book value of the equipment and inventory, plus an acquisition premium. As a result, the Company reclassified the camera module assembly segment as discontinued operations.

Summarized below are operating results of the discontinued segment for the years ended December 31, 2004 and 2005.

	<b>2004</b>	<b>From January 1, 2005 to October 3, 2005</b>
	<b>NT\$</b>	<b>NT\$</b>
Net revenues	6,474,958	2,095,835
Cost of revenues	5,806,058	1,885,492
Gross profit	668,900	210,343
Operating expenses	74,540	44,909
Non-operating expenses	25,461	42,325
Income from discontinued operations before income tax	568,899	123,109
Income tax expense	677	2,147
Income from discontinued operations	568,222	120,962
Gain on disposal of assets	-	234,657
Income tax expense	-	1,920
Gain on disposal of discontinued operations	-	232,737
	568,222	353,699





**29. LOSS ON FIRE DAMAGE****Significant Unusual Loss and gain**

The Company and its subsidiary, ASE Test, Inc., incurred fire damage to its production lines in Chung Li, Taiwan on May 1, 2005, and recognized an estimated loss of NT\$13,479,079 thousand for damages to its inventories, building, machinery and equipment. With the assistance of external counsel, the Company submitted insurance claims of NT\$4,641,000 thousand (US\$142,406 thousand) to its insurers for compensation for damages which the Company believes to be clearly identifiable and reasonably estimated, and recorded such amount as an offset to fire loss in 2005.

The Company reached final settlement with the insurers in June 2006 with regards to the fire damage incurred to the production lines and facilities in Chung Li. The final settlement amount of NT\$8,068,000 thousand (US\$247,561 thousand), offset by the NT\$4,641,000 thousand (US\$142,406 thousand) recorded in 2005 and the related repair and restoring expenses of NT\$1,043,132 thousand (US\$32,008 thousand), was recorded in the current period. The Company also reversed NT\$2,190,583 thousand (US\$67,217 thousand) of impairment loss recognized in 2005 after careful analysis of the increase in the estimated service potential of the production line facilities by an external specialist. Net amount of NT\$4,574,451 thousand (US\$140,364 thousand) was recognized as a gain on insurance settlement and loss recovery in 2006. All of the insurance recoveries were received in August 2006.

**30. SEGMENT AND GEOGRAPHICAL INFORMATION**

## a. Geographical sales and long-lived assets information

## 1) Net revenues:

	2004		2005		2006		% of Total Revenues
	NT\$	% of Total Revenues	NT\$	% of Total Revenues	NT\$	US\$	
America	41,094,054	55	43,294,394	52	53,280,483	1,634,872	53
Taiwan	17,656,632	23	16,798,661	20	18,810,441	577,184	19
Asia	9,821,205	13	13,649,326	16	15,752,825	483,365	16
Europe	6,664,946	9	10,293,167	12	12,579,366	385,988	12
Other	849	-	250	-	532	16	-
	75,237,686	100	84,035,798	100	100,423,647	3,081,425	100

## 2) Long-lived assets:

	2005		December 31		2006	
	NT\$	%	NT\$	US\$	US\$	%
Taiwan	46,661,951	69	49,802,688	1,528,159	1,528,159	68
Asia	20,996,335	31	23,307,342	715,169	715,169	32
America	382,485	-	433,724	13,308	13,308	-

68,040,771	100	73,543,754	2,256,636	100
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b. Major customers

For the years ended December 31, 2004, 2005 and 2006, the Company did not have a single customer to which the net revenues accounted for over 10% of total net revenues.

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## c. Reported segment information

The Company has three reportable segments: packaging, testing and investing. The Company packages bare semiconductors into finished semiconductors with enhanced electrical and thermal characteristics; provides testing services, including front-end engineering testing, wafer probing and final testing services; and engages in investing activities. The accounting policies for segments are the same as those described in Note 2. Segment information for the years ended December 31, 2004, 2005 and 2006 was as follows:

	Packaging	Testing	Investing	All Other	Total
<b>2004</b>					
Revenue from external customer	NT\$ 58,261,796	NT\$ 16,473,924	NT\$ -	NT\$ 501,966	NT\$ 75,237,686
Inter-segment revenues	122,131	128,398	-	5,254,732	5,505,261
Interest income	50,222	6,445	19,516	1,614	77,797
Interest expense	(599,379)	(132,320)	(166,910)	(73,579)	(972,188)
Net interest expense	(549,157)	(125,875)	(147,394)	(71,965)	(894,391)
Depreciation and amortization	7,487,669	6,220,398	431,492	1,257,197	15,396,756
Impairment on assets	175,348	1,774,749	-	512,000	2,462,097
Segment profit (loss)	5,035,031	691,150	(1,737,156)	(1,026,108)	2,962,917
Segment asset	75,714,335	35,200,341	4,239,422	18,796,778	133,950,876
Expenditures for segment assets	16,756,713	7,769,043	-	6,062,555	30,588,311
Goodwill	868,682	1,977,438	-	490,256	3,336,376
<b>2005</b>					
Revenue from external customer	66,022,940	17,121,986	-	890,872	84,035,798
Inter-segment revenues	84,909	86,810	-	2,454,643	2,626,362
Interest income	108,362	32,013	22,097	10,853	173,325
Interest expense	(965,068)	(194,310)	(288,306)	(123,374)	(1,571,058)
Net interest expense	(856,706)	(162,297)	(266,209)	(112,521)	(1,397,733)
Depreciation and amortization	8,351,842	5,786,034	179,911	1,096,059	15,413,846
Loss on fire damage	(2,973,506)	(2,420,339)	-	(3,444,234)	(8,838,079)
Segment profit (loss)	791,286	(575,806)	(495,164)	(5,394,162)	(5,673,846)
Segment asset	77,135,982	30,547,884	2,511,894	20,929,721	131,125,481
Expenditures for segment assets	6,359,429	2,527,322	-	4,070,654	12,957,405
Goodwill	775,899	1,627,567	-	439,556	2,843,022
<b>2006</b>					
Revenue from external customer	76,820,475	21,429,584	-	2,173,588	100,423,647
Inter-segment revenues	74,879	51,214	-	5,821,221	5,947,314
Interest income	193,412	66,237	115,742	30,973	406,364
Interest expense	(861,737)	(145,669)	(397,394)	(215,494)	(1,620,294)

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Net interest expense	(668,325)	(79,432)	(281,652)	(184,521)	(1,213,930)
Depreciation and amortization	8,245,204	4,889,792	11,202	1,342,013	14,488,211
Gain on insurance settlement and impairment recovery	1,758,957	1,637,709	-	1,177,785	4,574,451
Segment profit (loss)	14,679,021	7,829,473	(247,276)	(9,794)	22,251,424
Segment asset	78,958,866	33,095,566	4,472,318	20,514,126	137,040,876
Expenditures for segment assets	7,025,247	4,859,188	-	5,846,500	17,730,935
Goodwill	772,148	1,619,698	-	439,428	2,831,274

2006

Revenue from external customer	US\$ 2,357,179	US\$ 657,551	US\$ -	US\$ 66,695	US\$ 3,081,425
Inter-segment revenues	2,298	1,571	-	178,620	182,489
Interest income	5,935	2,033	3,551	950	12,469
Interest expense	(26,442)	(4,470)	(12,194)	(6,612)	(49,718)
Net interest expense	(20,507)	(2,437)	(8,643)	(5,662)	(37,249)
Depreciation and amortization	252,998	150,039	344	41,179	444,560
Gain on insurance settlement and impairment recovery	53,972	50,252	-	36,140	140,364
Segment profit (loss)	450,415	240,240	(7,587)	(300)	682,768
Segment asset	2,422,794	1,015,513	137,230	629,461	4,204,998
Expenditures for segment assets	215,564	149,101	-	179,395	544,060
Goodwill	23,693	49,699	-	13,484	86,876

### **31. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE COMPANY AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA**

The Company's consolidated financial statements have been prepared in accordance with ROC GAAP, which differ in the following respects from U.S. GAAP:

a. Pension benefits

The Company adopted U.S. Statement of Financial Accounting Standards (U.S. SFAS) No. 87, "Employers' Accounting for Pensions" on January 1, 1987, which requires the Company to determine the accumulated pension obligation and the pension expense on an actuarial basis.

U.S. SFAS No. 87 was amended by U.S. SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" on September 29, 2006, which requires employers to recognize the overfunded or underfunded status of a defined benefit pension plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. The Company adopted U.S. SFAS No. 158 on December 31, 2006. U.S. SFAS No. 158 defines the funded status of a benefit plan as the difference between the fair value of the plan assets and the projected benefit obligation. Previously unrecognized items such as gains or losses, prior service credits and transition assets or liabilities will be recognized in accumulated other comprehensive income and will be subsequently recognized through net periodic benefit cost pursuant to the provisions of U.S. SFAS No. 87.

ROC SFAS No. 18 "Accounting for Pensions" is similar in many respects to U.S. SFAS No. 87 and was adopted by the Company in 1996. However, ROC SFAS No. 18 does not require a company to recognize the overfunded or underfunded status of a defined benefit pension plan as an asset or liability in the statement of financial position. The difference in the dates of adoption gives rise to a U.S. GAAP difference in the actuarial computation for transition obligation pension expense and the related amortization.

b. Marketable securities

Under ROC GAAP, prior to January 1, 2006, marketable securities are carried at the lower of aggregate cost or market, and debt securities are carried at cost, with only unrealized losses recognized. Effective January 1, 2006, the Company adopted ROC SFAS No. 34, "Financial Instruments: Recognition and Measurement", and No. 36, "Financial Instruments: Disclosure and Presentation". Financial instrument including debt securities and equity securities are recognized at fair value or including transaction costs and categorized as financial assets or liabilities at fair value through profit or loss (FVTPL), available-for-sale (AFS) or held-to-maturity (HTM) securities. FVTPL has two sub-categories, financial asset designated on initial recognition as one to be measured at fair value with fair value changes in profit or loss, and those that are classified as held for trading. These classifications are similar to those required by U.S. SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities".

Under U.S. SFAS No. 115, debt and equity securities that have readily determinable fair values are classified as either trading, available-for-sale or held-to-maturity securities. Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost. Debt and equity securities that are bought and traded for short-term profit are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings. Debt and equity securities not classified as either held-to-maturity or trading are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity.



Upon adoption of ROC SFAS No. 34 and No. 36, the Company has recorded accumulated effect of changes in accounting principles of NT\$342,503 thousand for the year ended December 31, 2006 for marketable securities and derivative financial instruments, of which NT\$16,331 thousand relates to the adjustment of carrying basis of trading securities to fair market value. Such adjustment, representing unrealized gain on trading securities already recognized under U.S. GAAP in 2005, was reversed in 2006 as a one-time reconciling adjustment between U.S. GAAP and ROC GAAP.

Upon adoption of ROC GAAP No. 34 and No. 36, the Company also adjusted the carrying value of the marketable securities categorized as available-for-sale, which were carried at the lower of aggregate cost or market with unrealized losses included in earnings, to fair market value on January 1, 2006, therefore unrealized gains and losses included in shareholders' equity associated with available-for-sale marketable securities acquired prior to January 1, 2006 under ROC GAAP would be different from that under U.S. GAAP.

c. Bonuses to employees, directors and supervisors

According to ROC regulations and the Articles of Incorporation of the Company, a portion of distributable earnings is required to be set aside as bonuses to employees, directors and supervisors. Bonuses to directors and supervisors are always paid in cash. However, bonuses to employees may be granted in cash or stock or both. All of these appropriations, including stock bonuses which are valued at par value of NT\$10, are charged against retained earnings under ROC GAAP after such appropriations are formally approved by the shareholders in the following year.

Under U.S. GAAP, such bonuses are charged against income in the year earned. Shares issued as part of these bonuses are recorded at fair market value. Since the amount and form of such bonuses are not usually determinable until the shareholders' meeting in the subsequent year, the total amount of the aforementioned bonuses is initially accrued based on management's estimate regarding the amount to be paid based on the Company's Articles of Incorporation. Any difference between the initially accrued amount and the fair market value of any shares issued as bonuses is recognized in the year of approval by the shareholders.

d. Depreciation of buildings

Under ROC GAAP, buildings may be depreciated over their estimated life or up to 40 years based on ROC practices and tax regulations. For U.S. GAAP purposes, buildings are depreciated over their estimated economic useful life of 25 years.

e. Depreciation on the excess of book value on transfer of buildings between consolidated subsidiaries

ASE Test, Inc., a subsidiary of the Company, purchased buildings and facilities from another subsidiary, ASE Technologies, in 1997. The purchase price was based on market value, which represents the portion of the purchase price in excess of book value NT\$17,667 thousand was capitalized by ASE Test, Inc. as allowed under ROC GAAP. Under U.S. GAAP, transfers of assets between entities under common control are recorded at historical costs. Therefore, depreciation on the capitalized amount recorded under ROC GAAP is reversed under U.S. GAAP until the buildings and facilities are fully depreciated or disposed.

f. Gain on sales of subsidiary's stock

The carrying value of stock investments in ASE Test by J&R Holding Limited under ROC GAAP is different from that under U.S. GAAP mainly due to the differences in accounting for bonuses to employees, directors and supervisors.

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g. Effects of U.S. GAAP adjustments on equity-method investments

The carrying values of equity-method investments and the investment income (loss) accounted for by the equity method in HCDC, HCKC, USI are reflected in the consolidated financial statements under ROC GAAP. The financial statements of these equity investees prepared under ROC GAAP are different from the financial statements of such equity investees prepared under U.S. GAAP mainly due to the differences in accounting for bonuses to employees, directors and supervisors, stock options and the depreciation of buildings. Therefore, the investment income (loss) has been adjusted to reflect the differences between ROC GAAP and U.S. GAAP in the investees' financial statements.

h. Impairment of long-lived assets

Under U.S. GAAP, an impairment loss is recognized when the carrying amount of an asset or a group of assets is not recoverable from the expected future cash flows and the impairment loss is measured as the difference between the fair value and the carrying amount of the asset or group of assets. The impairment loss is recorded in earnings and cannot be reversed subsequently. Effective January 1, 2002, long-lived assets (excluding goodwill and other indefinite lived assets) held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Under ROC GAAP, effective January 1, 2005, the Company is required to recognize an impairment loss when an indication is identified that the carrying amount of an asset or a group of assets is not recoverable from the expected future cash flows. However, if the recoverable amount increases in a future period, the amount previously recognized as impairment would be reversed and recognized as a gain. The adjusted amount may not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

Prior to January 1, 2005, the Company followed U.S. GAAP in accounting for impairment of long-lived assets for ROC GAAP purpose.

On December 31, 2004, the Company adopted ROC SFAS No. 35 to account for impairment of long-lived assets for ROC GAAP purposes. Similar to U.S. SFAS No. 144 in principal, ROC SFAS No. 35 requires the Company to analyze for impairment when there is an indication. However, ROC SFAS No. 35 differs from U.S. SFAS No. 144 in the following aspects: (1) the determination of impairment is based on discounted cashflows and (2) previously recorded impairment can be reversed up to the net book value of the long-lived assets as if no impairment loss was recorded.

As discussed in Note 29, the Company reversed NT\$2,190,583 thousand (US\$67,217 thousand) of impairment loss recognized in 2005 under ROC GAAP after a careful analysis of the increase in the estimated service potential of the production line and facilities by an external specialist. Reversal of the amount is prohibited under U.S. GAAP. As such, differences in the cost basis of these damaged machinery and equipment and associated depreciation expense between ROC and U.S. GAAP are reflected in the reconciliation.

i. Stock dividends

Under ROC GAAP, stock dividends are recorded at par value with a charge to retained earnings. Under U.S. GAAP, if the ratio of distribution is less than 25 percent of the same class of shares outstanding, the fair value of the shares issued should be charged to retained earnings. The difference for stock dividends paid in 2004 and 2005 is treated as an additional reduction to retained earnings and an increase to capital surplus amounted to NT\$3,285 million and NT\$3,944 million, respectively.



j. Stock-based compensation

Under U.S. GAAP, stock-based compensation expense for the year ended December 31, 2006 includes compensation expense for all unvested stock-based compensation awards granted prior to January 1, 2006 that are expected to vest, based on the grant date fair value estimated in accordance with the transition method and the original provision of U.S. SFAS No. 123, "Accounting for Stock-Based Compensation" ("U.S. SFAS No. 123"). Upon an employee's termination, unvested awards are forfeited, which affects the quantity of options to be included in the calculation of stock-based compensation expense. Forfeitures do not include vested options that expire unexercised. Stock-based compensation expense for all stock-based compensation awards granted after January 1, 2006 is based on the grant-date fair value estimate in accordance with the provisions of U.S. SFAS No. 123R, "Share-Based Payment" ("U.S. SFAS No. 123R"). The Company recognizes these compensation costs using the graded vesting method over the requisite service period of the award, which is generally the option vesting term of five years. Prior to the adoption of U.S. SFAS No. 123R, the Company recognized stock-based compensation expense in accordance with U.S. Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). See Note 32e a further discussion on stock-based compensation.

Certain characteristics of the stock option granted under the ASE 2002 Option Plan made the fair values of these options not reasonably estimable using appropriate valuation methodologies as prescribed under U.S. SFAS No. 123 and have been accounted for using the intrinsic value method. Upon the adoption of U.S. SFAS No. 123R, the Company continued to account for these stock options based on its intrinsic value, remeasured at each reporting date through the date of exercise or other settlement.

Under ROC GAAP, employee stock option plans that are amended or have options granted on or after January 1, 2004 must be accounted for by the interpretations issued by the ARDF in Taiwan. The Company adopted the intrinsic value method and any compensation expense determined using this method is recognized over the vesting period. No stock-based compensation expense was recognized under ROC GAAP for the years ended December 31, 2004, 2005 and 2006.

k. Derivative financial instruments

Under ROC GAAP, prior to January 1, 2006, the Company accounts for certain derivative instruments as cash flow hedges of certain forecasted transactions and accordingly any gains or losses on such contracts have been recorded to other component of shareholder's equity. Others are described in Note 3. Effective January 1, 2006, the Company adopted ROC SFAS No. 34 which required derivatives that do not qualify for hedge accounting are recorded as "financial assets or liabilities at fair value through profit or loss (FVTPL)" account at fair value as described in Note 2.

Under U.S. GAAP, accounting for derivative instruments is covered under U.S. SFAS No. 133, as amended by U.S. SFAS No. 138, which requires that all companies recognize derivative instruments as assets and liabilities in the balance sheet at fair value. If certain conditions are met, including certain rigorous documentation requirements, entities may elect to designate a derivative instrument as a hedge. Under U.S. GAAP, the Company does not apply hedge accounting, and derivatives have historically been, and continue to be, recorded on the consolidated balance sheet at fair value, with changes in fair values recorded in current period earnings.

l. Goodwill

Before January 1, 2006, under ROC GAAP, the Company amortized goodwill arising from acquisitions over 10 years. The Company adopted ROC SFAS No. 35 on December 31, 2004, and accordingly performed an impairment analysis and recorded an impairment charge of NT\$1,950,097 thousand for the year ended December 31, 2004 based on a "recoverable amount" as determined by an estimate of the cash flows for the next six years. The Company performed its annual impairment test and determined that the goodwill related to the acquisition of ASE Test and ISE

Labs was impaired and recorded a charge of NT\$1,337,670 thousand in 2004 under U.S. GAAP.

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As discussed in Note 3, effective January 1, 2006, the Company adopted ROC SFAS No. 25 (revised 2005), "Business Combinations – Accounting Treatment under Purchase Method" which is similar to U.S. SFAS No. 142. The Company reviews goodwill for impairment in accordance with the provision of the standard and found no impairment as of December 31, 2006.

Under U.S. GAAP, the Company adopted U.S. SFAS No. 142 "Goodwill and Other Intangible Assets" (U.S. SFAS No. 142) on January 1, 2002, which requires the Company to review for possible impairment goodwill existing at the date of adoption and perform subsequent impairment tests on at least an annual basis. In addition, existing goodwill and intangible assets must be reassessed and classified consistently in accordance with the criteria set forth in U.S. SFAS No. 141 "Business Combinations" and U.S. SFAS No. 142. As a result, the Company ceased to amortize goodwill effective January 1, 2002. Definite-lived intangible assets continue to be amortized over their estimated useful lives.

Under U.S. GAAP, the determination of whether or not the goodwill is impaired is made by first estimating the fair value of the reporting unit and comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, the Company calculates an implied fair value of the goodwill based on an allocation of the fair value reporting unit to the underlying assets and liabilities of the reporting unit. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess.

m. Undistributed earnings tax

In the ROC, a 10% tax is imposed on unappropriated earnings (excluding earnings from foreign consolidated subsidiaries). For ROC GAAP purposes, the Company records the 10% tax on unappropriated earnings in the year of shareholders' approval. Starting from 2002, the American Institute of Certified Public Accountants International Practices Task Force (the "Task Force") concluded that in accordance with Emerging Issues Task Force (EITF) 95-10, "Accounting for tax credits related to dividends in accordance with SFAS 109," the 10% tax on unappropriated earnings should be accrued under U.S. GAAP during the period the earnings arise and adjusted to the extent that distributions are approved by the shareholders in the following year.

n. Impairment of long-term investments

ROC GAAP and U.S. GAAP require an assessment of impairment of long-term investments whenever events or circumstances indicate a decline in value may be other than temporary. The criteria for determining whether or not an impairment charge is required are similar under ROC GAAP and U.S. GAAP; however, the methods to measure the amount of impairment may be based on different estimates of fair values depending on the circumstances. When impairment is determined to have occurred, U.S. GAAP generally requires the market price to be used, if available, to determine the fair value of the long-term investment and measure the amount of impairment at the reporting date. Under ROC GAAP, if the investments have an inactive market, another measure of fair value may be used. No impairment charge was incurred under U.S. GAAP in 2005 and 2006 as a result of the increase of the market price of the stock of investee companies. On December 31, 2004, the Company adopted ROC SFAS No. 35 and, in accordance with this standard, determined that an impairment charge of NT\$512,000 thousand was required. The Company recorded an additional NT\$1,195,000 thousand for the impairment under U.S. GAAP.

o. Earnings per share

Under both ROC GAAP and U.S. GAAP, basic earnings per share is calculated by dividing net income by the average number of shares outstanding in each period. Other shares issued from unappropriated earnings, such as stock bonuses to employees, are included in the calculation of weighted-average number of shares outstanding from the date of occurrence. For diluted earnings per share, unvested stock options are included in the calculation using the treasury stock method if the inclusion of such

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would be dilutive.

U.S. SFAS No. 128, "Earnings per share" provides guidance on applying the treasury stock method for equity instruments granted in share-based payment transactions in determining diluted earnings per share, which states that the assumed proceeds shall be the sum of (a) the exercise price, (b) the amount of compensation cost attributed to future services and not yet recognized, and (c) the amount of excess tax benefits that would be credited to additional paid-in capital assuming exercise of the options. Prior to January 1, 2006, the Company used intrinsic value method to account for its stock-based compensation under APB No. 25, and had no unrecognized compensation costs to be included in the assumed proceeds calculation. However, upon adoption of U.S. SFAS No. 123R, the Company now has unrecognized compensation costs, and therefore, the number of diluted shares included in the diluted earnings per share calculation under U.S. GAAP will be different from that under ROC GAAP.

The following schedule reconciles net income (loss) and shareholders' equity under ROC GAAP as reported in the consolidated financial statements to the approximate net income (loss) and shareholders' equity amounts as determined under U.S. GAAP, giving effect to adjustments for the differences listed above.

	<b>Year Ended December 31</b>			
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>US\$</b>
	<b>NT\$</b>	<b>NT\$</b>	<b>NT\$</b>	
<u>Net income (loss)</u>				
Net income (loss) based on ROC GAAP	4,209,690	(4,691,187)	17,416,151	534,402
Adjustments:				
a. Pension benefits	2,568	(14,748)	104,011	3,192
b. Marketable securities	(1,011)	12,145	(16,331)	(501)
c. Bonuses to employees, directors and supervisors	(609,008)	(191,184)	(1,656,438)	(50,827)
d. Depreciation of buildings	(98,828)	(2,517)	(103,493)	(3,175)
e. Depreciation on the excess of book value of building transferred between subsidiaries	432	432	432	13
g. Effect of U.S. GAAP adjustments on equity-method investees	436,619	100,868	(38,719)	(1,188)
h. Impairment loss reversal net Recoverable amount	-	-	(2,190,583)	(67,217)
Depreciation on recoverable amount	-	-	85,631	2,628
i. Stock option compensation	238,602	(976,986)	(635,041)	(19,486)
j. Cumulative effect of changes in accounting principle for adopting U.S. SFAS No. 123R	-	-	45,976	1,411
	(374,444)	(216,037)	590,481	18,118

k. Derivative financial instruments

l. Goodwill				
Amortization	877,582	528,943	-	-
Impairment loss	612,427	-	-	-
m. Undistributed earnings tax				
	-	-	(300,438)	(9,219)
n. Net impact of impairment loss on equity-method investees				
	(1,195,000)	-	-	-
Effect of U.S. GAAP adjustments on income tax	109,068	71,629	404,491	12,412
Effect of U.S. GAAP adjustments on minority interest	88,376	(151,884)	416,566	12,782
Net decrease in net income (loss)	87,383	(839,339)	(3,293,455)	(101,057)
Net income (loss) based on U.S. GAAP	4,297,073	(5,530,526)	14,122,696	433,345
Earnings (loss) per share				
Basic	1.02	(1.27)	3.21	0.10
Diluted	0.95	(1.27)	3.07	0.09
Earnings (loss) per ADS (Note 32(i))				
Basic	5.08	(6.35)	16.03	0.49
Diluted	4.76	(6.35)	15.33	0.47
Number of weighted average shares outstanding (Note 32(i))				
Basic	4,229,632,582	4,352,673,959	4,404,843,421	4,404,843,421
Diluted	4,509,109,898	4,352,673,959	4,661,200,143	4,661,200,143
Number of ADS				
Basic	845,926,516	870,534,792	880,968,684	880,968,684
Diluted	901,821,980	870,534,792	932,240,029	932,240,029



	Year Ended December 31			US\$
	2004 NT\$	2005 NT\$	2006 NT\$	
<u>Shareholders' equity</u>				
Shareholders' equity based on ROC GAAP	51,311,759	46,948,249	66,019,899	2,025,772
Adjustments:				
a. Pension benefits (expenses) and additional liability				
Pension benefits (expenses)	(31,045)	(45,793)	58,218	1,786
Unrecognized pension cost on adoption of U.S. SFAS No.158	-	-	(613,362)	(18,820)
b. Marketable securities	4,186	16,331	-	-
c. Bonuses to employees, directors and supervisors	(244,345)	-	(1,656,438)	(50,827)
d. Depreciation of buildings	(476,277)	(478,794)	(582,287)	(17,867)
e. Depreciation on the excess of book value of building transferred between subsidiaries	(14,463)	(14,031)	(13,599)	(418)
f. Adjustment of carrying value of subsidiaries' long-term investment	(8,619)	(8,619)	(8,619)	(264)
g. Effects of U.S. GAAP adjustments on equity-method investees	548,855	649,723	611,004	18,748
h. Impairment loss reversal, net	-	-	(2,104,952)	(64,589)
i. Stock option compensation	(908,661)	(908,661)	(908,661)	(27,882)
k. Derivative financial instruments	(337,837)	(461,301)	-	-
l. Goodwill				
Amortization	2,512,408	3,041,351	3,041,351	93,321
Impairment loss	(1,600,618)	(1,600,618)	(1,600,618)	(49,114)
m. Undistributed earnings tax	-	-	(300,438)	(9,219)
n. Impairment loss on equity-method investments	(2,078,620)	(2,078,620)	(2,078,620)	(63,780)
Effect of U.S. GAAP adjustments on income tax	159,505	231,134	635,625	19,504
Effect on U.S. GAAP adjustments on minority interest	(179,132)	(331,016)	85,550	2,626
Net decrease in shareholders' equity	(2,654,663)	(1,988,914)	(5,435,846)	(166,795)
Shareholders' equity based on U.S. GAAP	48,657,096	44,959,335	60,584,053	1,858,977
Changes in shareholders' equity based on U.S. GAAP:				
Balance, beginning of year	42,093,464	48,657,096	44,959,335	1,379,543
Net income (loss) for the year	4,297,073	(5,530,526)	14,122,696	433,345
Capital received in advance	42,759	156,228	384,428	11,796
Adjustment for common shares issued as bonuses to employees, directors and supervisors	421,339	350,274	-	-
Adjustment for stock option compensation	(238,602)	976,986	635,041	19,486

Cumulative effect of changes in accounting principle for adopting U.S. SFAS No. 123R.	-	-	(45,976)	(1,411)
Translation adjustment	(919,220)	432,132	258,140	7,921
Adjustment from changes in ownership percentage of investees	15,332	18,043	(65,104)	(1,998)
Unrealized gain on financial assets	-	-	486,314	14,922
Unrealized gain (loss) on long-term investment	(1,781)	700	-	-
Capital increase through the issuance of common stock through merger	5,976,496	-	-	-
Issuance of common stock from stock option exercised by employees	-	322,334	464,162	14,242
Cash dividends	-	(411,221)	-	-
Elimination of long-term investment balance on consolidation	(242,792)	-	-	-
Purchase of treasury stock	(2,798,399)	-	-	-
Unrecognized pension cost	11,427	(12,711)	(1,621)	(49)
Unrecognized pension cost on adoption of U.S. SFAS No.158	-	-	(613,362)	(18,820)
Balance, end of year	48,657,096	44,959,335	60,584,053	1,858,977

A reconciliation of significant balance sheet accounts to the approximate amounts as determined under U.S. GAAP is as follows:

	<b>2005</b>	<b>December 31</b>	
	<b>NT\$</b>	<b>2006</b>	<b>US\$</b>
		<b>NT\$</b>	
<u>Financial assets at fair value through profit or loss</u>			
As reported	4,330,733	1,557,903	47,803
U.S. GAAP adjustments			
Adjustment to fair value	16,331	-	-
As adjusted	4,347,064	1,557,903	47,803

(Continued)

	2005 NT\$	December 31 2006 NT\$	US\$
<u>Long-term investments</u>			
As reported	4,898,057	5,734,546	175,960
U.S. GAAP adjustments			
Equity investments	649,723	611,004	18,748
Impairment loss	(2,078,620)	(2,078,620)	(63,780)
As adjusted	3,469,160	4,266,930	130,928
<u>Property, plant and equipment</u>			
As reported	68,040,771	73,543,754	2,256,636
U.S. GAAP adjustments			
Depreciation of buildings	(478,794)	(582,287)	(17,867)
Impairment recovery, net	-	(2,104,952)	(64,589)
Depreciation on the excess of book value of building transferred between subsidiaries	(14,031)	(13,599)	(418)
As adjusted	67,547,946	70,842,916	2,173,762
<u>Goodwill</u>			
As reported	2,843,022	2,831,274	86,876
U.S. GAAP adjustments			
Adjustment of carrying value of subsidiaries' long-term investments	(917,280)	(917,280)	(28,146)
Goodwill amortization	3,041,351	3,041,351	93,321
Impairment loss of goodwill	(1,600,618)	(1,600,618)	(49,114)
As adjusted	3,366,475	3,354,727	102,937
<u>Deferred income tax assets – noncurrent</u>			
As reported	4,046,772	2,512,421	77,092
U.S. GAAP adjustments			
Undistributed earning tax	-	(300,438)	(9,219)
Effect of U.S. GAAP adjustments on income tax	231,134	635,625	19,504
As adjusted	4,277,906	2,847,608	87,377
<u>Current liabilities</u>			
As reported	31,105,619	28,010,242	859,473
U.S. GAAP adjustments			
Bonuses to employees, directors and supervisors	-	1,656,438	50,827
As adjusted	31,105,619	29,666,680	910,300

Other liabilities

As reported	2,307,515	2,505,575	76,882
U.S. GAAP adjustments			
Pension benefits	45,793	(58,218)	(1,786)
Unrecognized pension cost on adoption of U.S. SFAS No. 158	-	613,362	18,820
Derivative financial instruments	461,301	-	-
As adjusted	2,814,609	3,060,719	93,916

As a result of the adjustments presented above, total assets under U.S. GAAP were NT\$129,974,677 thousand and NT\$133,731,062 thousand (US\$4,103,438 thousand) as of December 31, 2005 and 2006, respectively. Total liabilities under U.S. GAAP were NT\$76,782,338 thousand and NT\$62,125,699 thousand (US\$1,906,281 thousand) as of December 31, 2005 and 2006, respectively. Minority interest under U.S. GAAP were NT\$8,233,004 thousand and NT\$11,021,310 thousand (US\$338,180 thousand) as of December 31, 2005 and 2006, respectively.

## 32. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP

### a. Recently issued accounting standards

In February 2006, the FASB issued U.S. SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140." This Statement resolves issues addressed in Statement No. 133 Implementation Issue No. D1, "Application of Statement No. 133 to Beneficial Interests in Securitized Financial Assets." U.S. SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends Statement No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. U.S. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The fair value election provided for in this U.S. SFAS No. 155 may also be applied upon adoption of U.S. SFAS No. 155 for hybrid financial instruments that had been bifurcated under paragraph 12 of Statement No. 133 prior to the adoption of U.S. SFAS No. 155. Earlier adoption is permitted as of the beginning of an entity's fiscal year, providing the entity has not yet issued financial statements for any interim period for that fiscal year. The Company does not expect the adoption of U.S. SFAS No. 155 to impact the Company's consolidated financial position or results of operations.

In March 2006, the FASB issued U.S. SFAS No. 156, "Accounting for Servicing of Financial Assets" (U.S. SFAS No. 156), which (i) provides revised guidance on when a servicing asset and servicing liability should be recognized, (ii) requires all separately recognized servicing assets and liabilities to be initially measured at fair value, if practicable, and (iii) permits an entity to elect to measure servicing assets and liabilities at fair value each reporting date and report changes in fair value in earnings in the period in which the changes occur. The Company believes that there is no impact on the results of operations and financial position of the Company after adopting U.S. SFAS No. 156.

In September 2006, the FASB issued U.S. SFAS No. 157, "Fair Value Measurements", which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. U.S. SFAS No. 157 does not require any new fair value measurements, but brings up guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement is effective for the Company beginning January 1, 2008. The Company is currently assessing the potential impact that the adoption of U.S. SFAS No. 157 will have on the results of operations and financial position of the Company, and is not yet in a position to determine such effects.

In September 2006, the FASB issued U.S. SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—An Amendment of FASB Statements No. 87, 88, 106, and 132R" (U.S. SFAS No. 158). Provisions with respect to the recognition of an asset and liability related to the funded status and the changes in the funded status be reflected in comprehensive income are effective for fiscal years ended after December 15, 2006 and the change in measurement date provisions is effective for fiscal years ended after December 15, 2008. U.S. SFAS No. 158 also requires the measurement date of the plan's funded status be the same as the Company's fiscal year-end. The Company adopted all requirements of U.S. SFAS No. 158 its fiscal year ended December 31, 2006. Upon the adoption of U.S. SFAS No. 158, the Company recognized a decrease to accumulated other comprehensive income of NT\$460,022 thousand (net of tax effect) as of December 31, 2006.



In July 2006, the FASB issued FASB Interpretation No.48, “Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109” (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN48 is effective for fiscal years beginning after December15, 2006 and is required to be adopted by the Company in fiscal year 2007. The cumulative effects, if any, of applying FIN 48 will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the effect that the adoption of FIN 48 will have on the results of operations and financial position of the Company and is not yet in a position to determine such effects.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin (“SAB”) No.108, “Considering the Effects of Prior Year Misstatements when Quantifying Current Year Misstatements”. SAB No. 108 requires analysis of misstatements using both an income statement (rollover) approach and a balance sheet (iron curtain) approach in assessing materiality and provides for a one-time cumulative effect transition adjustment. SAB No. 108 is effective for the Company’s fiscal year 2006 annual financial statements. The Company believes that there is no impact on the results of operations and financial position of the Company after adopting SAB No. 108.

b. Pension

Set forth below is pension information disclosed in accordance with U.S. SFAS 132:

	Year Ended December 31			
	2004 NT\$	2005 NT\$	2006 NT\$	US\$
<b>Components of net periodic benefit cost</b>				
Service cost	455,913	488,303	267,351	8,204
Interest cost	88,087	98,268	89,761	2,754
Expected return on plan assets	(25,961)	(33,862)	(34,777)	(1,067)
Amortization of prior service cost	13,670	16,187	7,697	236
Curtailement loss on pension	-	18,036	-	-
<b>Net periodic benefit cost</b>	<b>531,709</b>	<b>586,932</b>	<b>330,032</b>	<b>10,127</b>
<b>Changes in benefit obligation</b>				
Benefit obligation at beginning of year	1,985,971	3,797,207	4,006,601	122,940
Benefit obligation from acquisition from ASE Japan	1,133,061	-	-	-
Service cost	455,913	488,303	376,027	11,538
Interest cost	88,087	98,268	88,341	2,711
Initial adoption of U.S. SFAS No. 158	-	-	31,691	972
Curtailement of settlement gain	-	-	(29,327)	(900)
Actuarial loss (gain)	142,752	(212,871)	250,851	7,697
Benefits paid	(52,649)	(20,065)	(285,063)	(8,747)
Exchange loss (gain)	44,072	(144,241)	35,841	1,100
<b>Benefit obligation at end of year</b>	<b>3,797,207</b>	<b>4,006,601</b>	<b>4,474,962</b>	<b>137,311</b>

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	Year Ended December 31			
	2004 NT\$	2005 NT\$	2006 NT\$	US\$
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	619,358	1,051,460	1,421,105	43,606
Acquire from ASE - Japan	299,142	-	-	-
Actual return on plan assets	20,428	96,113	51,438	1,578
Employer contribution	138,320	350,226	223,136	6,847
Benefits paid	(25,788)	(76,694)	(38,547)	(1,183)
	1,051,460	1,421,105	1,657,132	50,848
<b>Funded status</b>				
Unrecognized net transition obligation	-	(6,803)	-	-
Unrecognized prior service cost	-	(276)	-	-
Unrecognized actuarial gain (loss)	(597,363)	(303,348)	-	-
Additional pension cost	8,867	12,259	-	-
Net amount recognized (recognized as accrued pension cost)	2,157,251	2,287,328	2,817,830	86,463

## Actuarial assumptions:

	2004	2005	2006
Discount rate	2.50% to 4.50 %	2.50% to 4.40 %	2.25% to 4.40 %
Rate of compensation increase	3.00% to 5.00 %	2.50% to 5.00 %	2.50% to 5.00 %
Expected return on plan assets	2.50% to 3.25 %	2.50% to 2.75 %	2.50% to 2.75 %

The Company has no other post-retirement or post-employment benefit plans.

## c. Marketable securities

At December 31, 2005 and 2006, marketable securities by category are as follows. Certain investments as of December 31, 2005 carried at the lower of cost or market value under ROC GAAP were adjusted to fair market value as required under U.S. SFAS No. 115.

	2005		December 31		2006		Unre- Hol- Ga NT\$
	Carrying Value NT\$	Fair Value NT\$	Unrealized Holding Gains NT\$	Carrying Value NT\$ US\$	Fair Value NT\$ US\$		
<b>Trading</b>							
- Beneficiary Certificate of funds	4,324,950	4,325,568	618	1,546,450 47,452	1,546,450 47,452	8,420	
<b>Available for sale</b>							
- Publicly-trading stocks	27,973	43,686	15,713	117,421 3,603	117,421 3,603	42,728	
	4,352,923	4,369,254	16,331	1,663,871 51,055	1,663,871 51,055	51,148	

The Company uses the average cost method for trading securities and available-for-sale securities when determining their cost basis. Proceeds from sales of available-for-sale securities for the year ended December 31, 2004, 2005 and 2006 was NT\$995,256 thousand, NT\$1,503,175 thousand and NT\$7,518,738 thousand (US\$230,707 thousand), respectively. Net realized gains on these sales for the year ended December 31, 2004, 2005 and 2006 was NT\$57,140 thousand, NT\$65,199 thousand and NT\$56,748 thousand (US\$1,741 thousand), respectively.

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## d. Income tax benefit

	Year Ended December 31			US\$
	2004 NT\$	2005 NT\$	2006 NT\$	
Tax expense (benefit)	134,811	(1,095,366)	2,842,198	87,211
Net change in deferred income tax assets (liabilities) for the period	(1,769,763)	(552,939)	(36,740)	(1,128)
Loss carry forward	-	1,370,960	(1,246,641)	(38,252)
Income tax on undistributed earnings	86,968	173,834	300,438	9,219
Adjustment of prior years' income taxes	42,590	(86,774)	121,479	3,727
<b>Income tax expense (benefit)</b>	<b>(1,505,394)</b>	<b>(190,285)</b>	<b>1,980,734</b>	<b>60,777</b>

A reconciliation between the income tax calculated on pre-tax financial statement income based on the statutory tax rate and the income tax expense (benefit) which conforms to U.S. GAAP is as follows:

	Year Ended December 31			US\$
	2004 NT\$	2005 NT\$	2006 NT\$	
Tax (benefit) based on pre-tax accounting income (loss) at statutory rate	1,391,754	(1,398,039)	5,107,933	156,733
Add (less) tax effects of:				
Permanent differences				
Tax-exempt income				
Tax holiday	(642,285)	-	(778,834)	(23,898)
Gain from sale of securities	(9,527)	(8,829)	-	-
Investment gain	(202,290)	(53,909)	(69,234)	(2,124)
Bonus to employee and directors	92,602	292,043	572,870	17,578
Other	(22,094)	59,916	(114,765)	(3,521)
Credits for investments and research and development	(1,081,023)	(292,195)	(1,697,397)	(52,083)
Loss carry forward	-	1,370,960	(1,246,641)	(38,252)
Deferred	(1,162,089)	(247,292)	(215,115)	(6,602)
Income taxes (10%) on undistributed earnings	86,968	173,834	300,438	9,219
Adjustment of prior year's income tax	42,590	(86,774)	121,479	3,727
<b>Income tax expense (benefit)</b>	<b>(1,505,394)</b>	<b>(190,285)</b>	<b>1,980,734</b>	<b>60,777</b>

The abovementioned taxes on pretax accounting income (loss) at the statutory rates for domestic and foreign entities are shown below:

	Year Ended December 31			US\$
	2004 NT\$	2005 NT\$	2006 NT\$	
Domestic entities in ROC (25% statutory rate)	1,287,255	(1,617,173)	4,720,781	144,853
Foreign entities				
ASE Japan (40% statutory rate)	101,429	182,148	182,372	5,596
ASE Test Malaysia (28% statutory rate)	57,605	(1,210)	118,422	3,634
Others	(54,535)	38,196	86,358	2,650
	1,391,754	(1,398,039)	5,107,933	156,733

Deferred income tax assets and liabilities as of December 31, 2005 and 2006 are summarized as follows:

	December 31			US\$
	2005 NT\$	2006 NT\$		
Current deferred income tax assets				
Unused tax credits	1,339,206	2,405,057		73,797
Operating loss carryforwards	1,257,792	6,904		212
Other	183,066	419,766		12,880
	2,780,064	2,831,727		86,889
Valuation allowance	(1,164,368)	(23,543)		(722)
	1,615,696	2,808,184		86,167
Non-current deferred income tax assets (liabilities)				
Unused tax credits	4,962,603	2,927,041		89,814
Accrued pension costs	531,545	261,000		8,009
Loss carryforwards	305,401	267,157		8,198
Reinvestment allowance	-	204,833		6,285
Investment income	(144,000)	(144,000)		(4,419)
Others	573,357	402,671		12,356
	6,228,906	3,918,702		120,243
Valuation allowance	(1,951,000)	(1,071,094)		(32,866)
	4,277,906	2,847,608		87,377
Non-current deferred income tax liabilities				
		-	(25,888)	(794)

e. Employee stock option plans

Effective January 1, 2006, the Company adopted the fair value recognition provisions of U.S. SFAS No. 123R, using the modified prospective transition method and therefore has not restated results for prior periods. Under this transition method, stock-based compensation expense for the year ended December 31, 2006 included stock-based compensation expense for all share-based payment awards granted prior to, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provision of U.S. SFAS No. 123. In addition, the stock-based compensation expense also includes intrinsic value of certain outstanding share-based awards for which it was not possible to reasonable estimate their grant-date fair value under the requirement of U.S.

SFAS No. 123. Stock-based compensation expense for all share-based payment awards granted after January 1, 2006 is based on the grant-date fair value estimated in accordance with the provision of U.S. SFAS

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No. 123R. The Company recognizes these compensation costs using the graded vesting method over the requisite service period of the award, which is generally a five-year vesting period. The adoption of U.S. SFAS No. 123R resulted in a cumulative gain from changes in accounting principle of \$18,084 thousand, which reflects the net cumulative impact of estimating future forfeitures in the determination of period expense, rather than recording forfeitures when they occur as previously permitted. Prior to the adoption of U.S. SFAS No. 123R, the Company accounted for awards granted from ASE Inc. under the intrinsic value method prescribed "APB 25", and related interpretations, and provided the required pro forma disclosures prescribed by U.S. SFAS No. 123, as amended. In March 2005, SEC issued Staff Accounting Bulletin No. 107 ("SAB 107") regarding SEC's interpretation U.S. of SFAS No. 123R and the value of share-based payments for public companies. The Company has applied the provisions of SAB 107 in its adoption of U.S. SFAS No. 123R.

As a result of adopting U.S. SFAS No. 123R, income before income taxes and net income for the year ended December 31, 2006 were lower by NT\$16,614 thousand and NT\$12,640 thousand, respectively, than if the Company had continued to account for stock-based compensation under APB 25. Information regarding the Company's and ASE Test's stock option plans is as follows.

#### ASE Inc. Option Plan

Information regarding the Company's employee stock option plans is provided in Note 19.

#### ASE Test Option Plan

ASE Test has three stock option plans, the 1999 Option Plan, the 2000 Option Plan and the 2004 Option Plan. Up to 2,000,000 shares, 12,000,000, and 2,500,000 shares have been reserved for issuance under the 1999, 2000 and 2004 option plans, respectively.

The 1999, 2000 and 2004 Option Plans granted the following stock options to purchase ASE Test's shares which vest ratably over a period of five years from the date of grant until the expiration of options, to directors, officers and key employees. If any granted shares are forfeited, the shares may be granted again, to the extent of any such forfeiture.

The exercise price under each of the aforementioned stock option plans was equal to the stock's market price on the date of grant. Options granted under the 1999, 2000 and 2004 Option Plans expire 5 or 10 years after grant.

Information regarding the option plans of ASE Test is presented below (in U.S. dollars):

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Grant Date Fair Values	Aggregate Intrinsic Value (In thousand)
Beginning outstanding balance - January 1, 2004	13,301,418	\$ 11.80		
Option granted	260,000	6.18	\$ 6.18	
Option exercised	(512,815)	8.90		
Option forfeited	(417,815)	11.82		
Option expired	(1,753,340)	20.00		
Ending outstanding balance - December 31, 2004	10,877,448	10.48		
Option granted	32,500	6.50	\$ 6.50	
Option exercised	-	-		
Option forfeited	(358,884)	10.97		
Option expired	(60,000)	25.00		
Ending outstanding balance - December 31, 2005	10,491,064	10.37		
Option granted	130,000	9.60	\$ 9.60	
Option exercised	(79,201)	8.56		
Option forfeited	(216,825)	11.60		
Option expired	-	-		
Ending outstanding balance - December 31, 2006	10,325,038	10.34		\$ 16,660
Ending exercisable balance - December 31, 2006	9,025,838	10.18		\$ 15,479

As of December 31, 2006, the number of options that are expected to vest was 1,278,131.

Total intrinsic value of options exercised in the years ended December 31, 2004 and 2006 was US\$2,144 thousand and US\$76 thousand, respectively.

Options outstanding on December 31, 2006, the related weighted average exercise price and remaining contractual life information are as follows (in U.S. dollars):

	Outstanding			Exercisable		
	Shares	Weighted Average Price	Weighted Average Remaining Life (Years)	Shares	Weighted Average Price	Weighted Average Remaining Life (Years)
Options with exercise price of:						
\$20-\$25	596,900	\$ 22.35	2.93	596,900	\$ 22.35	2.94
\$11.5-\$12.95	2,139,450	12.81	6.48	1,176,450	12.70	6.69
\$5.5-\$9.79	7,588,688	8.70	4.34	7,252,488	8.77	4.17
	10,325,038		4.47	9,025,838		4.39

The Company has used the fair value based method (based on the Black-Sholes model) to evaluate the options granted with the following assumptions:

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	2004	2005	2006
Risk-free interest rate	3.50-3.88%	3.88%	4.88%
Expected life	5 years	5 years	3-5 years
Expected volatility	78.28%	59.06%	59.95%-62.03%
Expected dividend	0%	0%	0%

For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the option rights vesting periods. Had the Company and ASE Test recorded compensation costs based on the estimated grant date fair value, as defined by U.S. SFAS No. 123, the Company's net income (loss) under U.S. GAAP would have been reduced to the pro forma amounts below.

	Year Ended December 31	
	2004 NT\$	2005 NT\$
Net income (loss) based on U.S. GAAP	4,297,073	(5,530,526)
Stock - based compensation expense (net of tax)	(375,135)	(424,746)
Pro forma net income (loss) based on U.S. GAAP	3,921,938	(5,955,272)
Report EPS		
Basic	1.02	(1.27)
Diluted	0.95	(1.27)
Pro forma EPS		
Basic	0.93	(1.37)
Diluted	0.87	(1.37)
Reported EPS per ADS		
Basic	5.08	(6.35)
Diluted	4.76	(6.35)
Pro forma EPS per ADS		
Basic	4.64	(6.84)
Diluted	4.35	(6.84)

The pro forma amounts reflect compensation expense related to the Company's 2004 option plan and ASE Test's 1999, 2000 and 2004 option plans granted and vested only. In future years, the annual compensation expense may increase relative to the fair value of the options granted and vested in those future years.

f. In accordance with U.S. SFAS No. 130 "Reporting Comprehensive Income", the statements of comprehensive income (loss) for the years ended December 31, 2004, 2005 and 2006 are presented below:

	Year Ended December 31			
	2004 NT\$	2005 NT\$	2006 NT\$	US\$
Net income (loss) based on U.S. GAAP	4,297,073	(5,530,526)	14,122,696	433,345
Translation adjustments on subsidiaries, net of income tax benefit (expense) of NT\$229,805 thousand, NT\$108,033 thousand NT\$64,535 thousand in 2004, 2005 and 2006, respectively	(689,415)	324,099	193,605	5,941

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	Year Ended December 31			US\$
	2004 NT\$	2005 NT\$	2006 NT\$	
Unrealized gain on financial assets	-	-	486,314	14,922
Unrecognized pension cost	11,427	(12,711)	(1,621)	(49)
Comprehensive income (loss)	3,619,085	(5,219,138)	14,800,994	454,159

## g. U.S. GAAP cash flow information

The Company applies ROC SFAS No. 17, "Statement of Cash Flows". Its objectives and principles are similar to those set out in the U.S. SFAS No. 95, "Statement of Cash Flows". Summarized cash flow data by operating, investing and financing activities in accordance with U.S. SFAS No. 95 are as follows:

	Year Ended December 31			US\$
	2004 NT\$	2005 NT\$	2006 NT\$	
Cash flows				
Net cash provided by operating activities	19,138,910	18,675,367	37,280,483	1,143,924
Net cash used in investing activities	(31,048,930)	(11,631,958)	(22,104,508)	(678,260)
Net cash provided by financing activities	9,231,912	(16,056)	(12,551,518)	(385,134)
Net decrease in cash	(2,678,108)	7,027,353	2,624,457	80,530
Cash, beginning of year	8,562,425	5,975,103	13,263,788	406,990
Effect of first inclusion for consolidation of the subsidiary	-	-	4,564	140
Effect of exchange rate changes in cash	90,786	261,332	(162,734)	(4,994)
Cash, end of year	5,975,103	13,263,788	15,730,075	482,666

The significant reclassifications for U.S. GAAP cash flow statements pertain to the compensation to directors and supervisors and bonuses to employees shown in the operating activity under U.S. GAAP as opposed to financing activities under ROC GAAP.

## h. Goodwill

On January 1, 2002, the Company adopted U.S. SFAS No. 142, which requires that goodwill no longer be amortized, and instead, be tested for impairment on a periodic basis. In conjunction with the implementation of U.S. SFAS No. 142, the Company completed a goodwill impairment review as of January 1, 2002 using a fair-value based approach in accordance with the provision of the standard and found no impairment.

The Company completed its annual goodwill impairment test at December 31, 2002 and determined that it had impairment of NT\$2,213,045 thousand relating to the remaining goodwill associated with its acquisition of ASE Test. The Company also completed its annual goodwill impairment test on December 31, 2004 and determined impairment of NT\$1,337,670 thousand of the remaining goodwill associated with its acquisition of ISE Labs. As of December 31, 2005 and 2006, the Company had goodwill of NT\$3,366,475 thousand and NT\$3,354,727 thousand (US\$102,937 thousand) primarily from the reporting units of the testing operations, respectively.



Changes in the carrying amount of goodwill for the years ended December 31, 2005 and 2006, by reportable segment, are as follows:

	<b>Packaging NT\$</b>	<b>Testing NT\$</b>	<b>Other NT\$</b>	<b>Total NT\$</b>	<b>US\$</b>
Balance as of December 31, 2004	844,940	1,974,375	511,571	3,330,886	101,551
Translation adjustment	(1,031)	36,155	465	35,589	1,085
Balance as of December 31, 2005	843,909	2,010,530	512,036	3,366,475	102,636
Translation adjustment	(737)	(10,883)	(128)	(11,748)	301
Balance as of December 31, 2006	843,172	1,999,647	511,908	3,354,727	102,937

i. Earnings per share

U.S. SFAS No. 128 requires the presentation of basic and diluted earnings per share. Basic net income per share is computed based on the weighted average number of common shares outstanding during the period. Diluted net income per share includes the effect of diluted equivalent common shares (stock options issued during the period using the treasury stock method).

The following table represents the computation of basic and diluted earnings (loss) per share for each of the years ended at December 31:

	<b>2004 NT\$</b>	<b>2005 NT\$</b>	<b>2006 NT\$</b>	<b>US\$</b>
<b>Basic EPS</b>				
Net income (loss)	4,297,073	(5,530,526)	14,122,696	433,345
Effect of ASE Test's stock option plans	-	-	(1,663)	(51)
Interest, net of tax, paid on convertible bonds	163,549	-	168,993	5,185
<b>Diluted EPS</b>				
Net income (loss)	4,460,622	(5,530,526)	14,290,026	438,479
<b>Weighted average shares outstanding</b>				
Basic	4,229,632,582	4,352,673,959	4,404,843,421	4,404,843,421
Effect of dilutive securities	279,477,316	-	256,356,722	256,356,722
Diluted	4,509,109,898	4,352,673,959	4,661,200,143	4,661,200,143

Diluted earnings per share exclude 227,341 thousand options and convertible bonds for the year ended December 31, 2005 as a result of net loss, and they could be dilutive in the future. In 2004 and 2006, no options or convertible bonds were excluded from the calculation of diluted EPS.

The denominator used for purposes of calculating earnings (loss) per ADS was the above-mentioned weighted average outstanding shares divided by five (one ADS represents five common shares). The numerator was the same as mentioned in the above EPS calculation.

