

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

**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

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.

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.

† 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**

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)

ASSETS	December 31			LIABILITIES AND SHAREHOLDERS' EQUITY	December 31		
	2005	2006			2005	2006	
	NT\$	NT\$	US\$ (Note 2)		NT\$	NT\$	US\$ (Note 2)
CURRENT ASSETS				CURRENT LIABILITIES			
Cash (Note 4)	\$ 13,263,788	\$ 15,730,075	\$ 482,666	Short-term borrowings (Note 13)	\$ 5,084,937	\$ 2,868,138	\$ 88,612
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	10,100
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	224,400
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				
Furniture and fixtures	2,698,066	2,951,547	90,566	Total other liabilities	2,307,515	2,505,575	76
Leased assets and leasehold improvements	2,364,403	1,042,889	32,000				
Total cost	137,930,816	137,791,602	4,228,033	Total liabilities	76,275,244	59,914,117	1,838
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
TOTAL	\$ 131,125,481	\$ 137,040,876	\$ 4,204,998	TOTAL	\$ 131,125,481	\$ 137,040,876	\$ 4,204

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\$	
NET REVENUES (Note 2)				
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
Total net revenues	75,237,686	84,035,798	100,423,647	3,081,425
COST OF REVENUES (Note 20)				
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
Total cost of revenues	59,641,080	69,518,004	71,643,267	2,198,320
GROSS PROFIT	15,596,606	14,517,794	28,780,380	883,105
OPERATING EXPENSES (Notes 12 and 20)				
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
Total operating expenses	8,639,809	8,698,632	8,333,949	255,721
INCOME FROM OPERATIONS	6,956,797	5,819,162	20,446,431	627,384
NON-OPERATING INCOME AND GAINS				
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
Total non-operating income and gains	696,337	746,943	6,379,607	195,753
NON-OPERATING EXPENSES AND LOSSES				

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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
Total non-operating expenses and losses	4,690,217	12,239,951	4,574,614	140,369
INCOME (LOSS) BEFORE INCOME TAX	2,962,917	(5,673,846)	22,251,424	682,768
INCOME TAX BENEFIT (EXPENSE) (Notes 2 and 21)	1,397,003	118,656	(2,084,787)	(63,970)
INCOME (LOSS) FROM CONTINUING OPERATIONS	4,359,920	(5,555,190)	20,166,637	618,798
DISCONTINUED OPERATIONS (Note 28)				
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

EARNINGS PER EQUIVALENT ADS (Note 22)

Basic earnings (loss) per equivalent ADS

Before income tax

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

After income tax

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 & 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)	-	-
BALANCE, DECEMBER 31, 2004	41,000,000	42,759	6,972,656	1,325,944	4,250,388	640,379	(4,710)	(107,221)
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\$	
CASH FLOWS FROM OPERATING ACTIVITIES				
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\$	
CASH FLOWS FROM FINANCING ACTIVITIES				
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
SUPPLEMENTAL INFORMATION				
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			US\$
	2004 NT\$	2005 NT\$	2006 NT\$	
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	\$ -	\$ -	\$ -

NON-CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES

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)

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

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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		Recognized as a	
	Effect of Changes in		Separate Component of	
	Accounting		Shareholders' Equity	
	Principles (Net of Tax)			
	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)