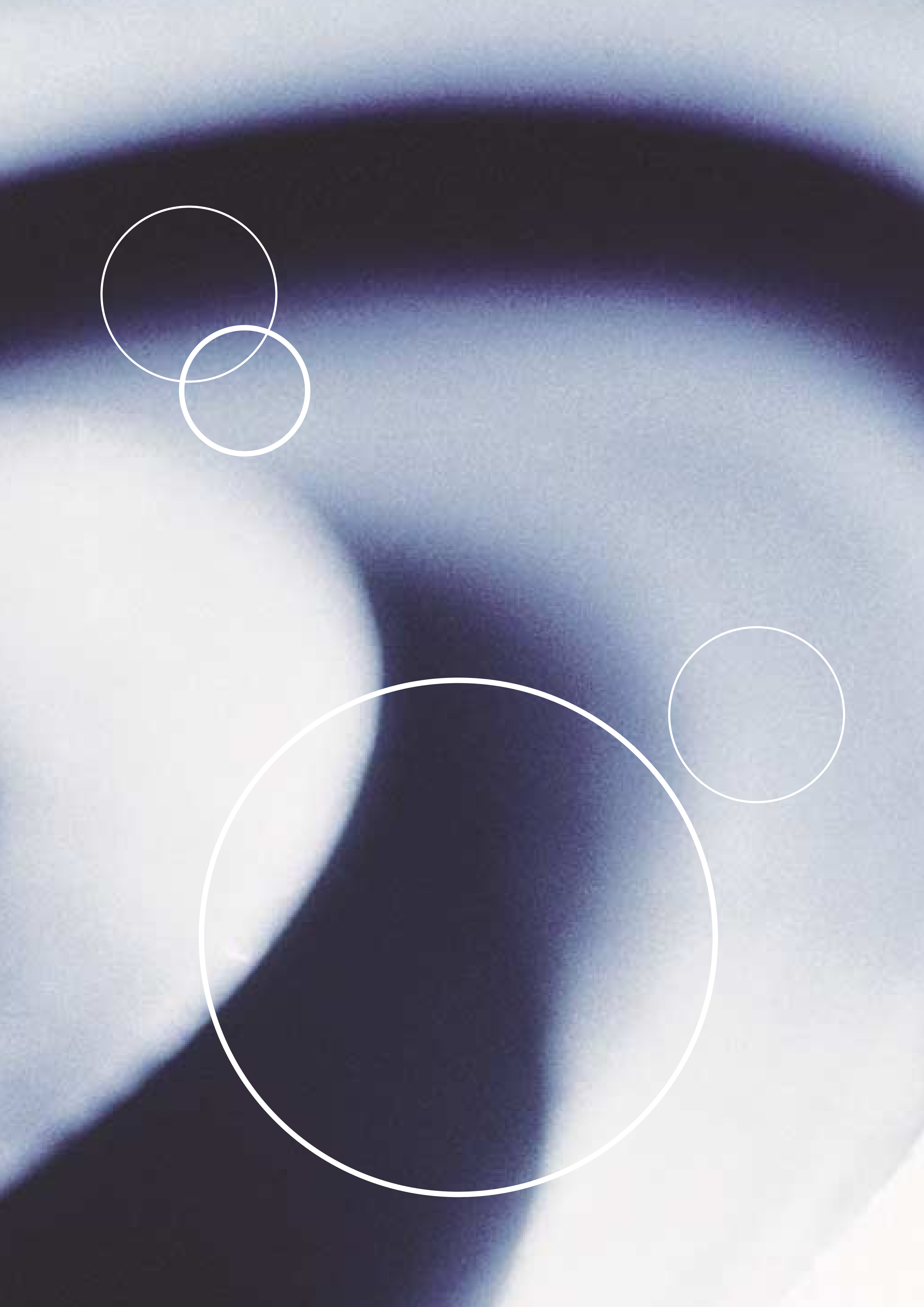
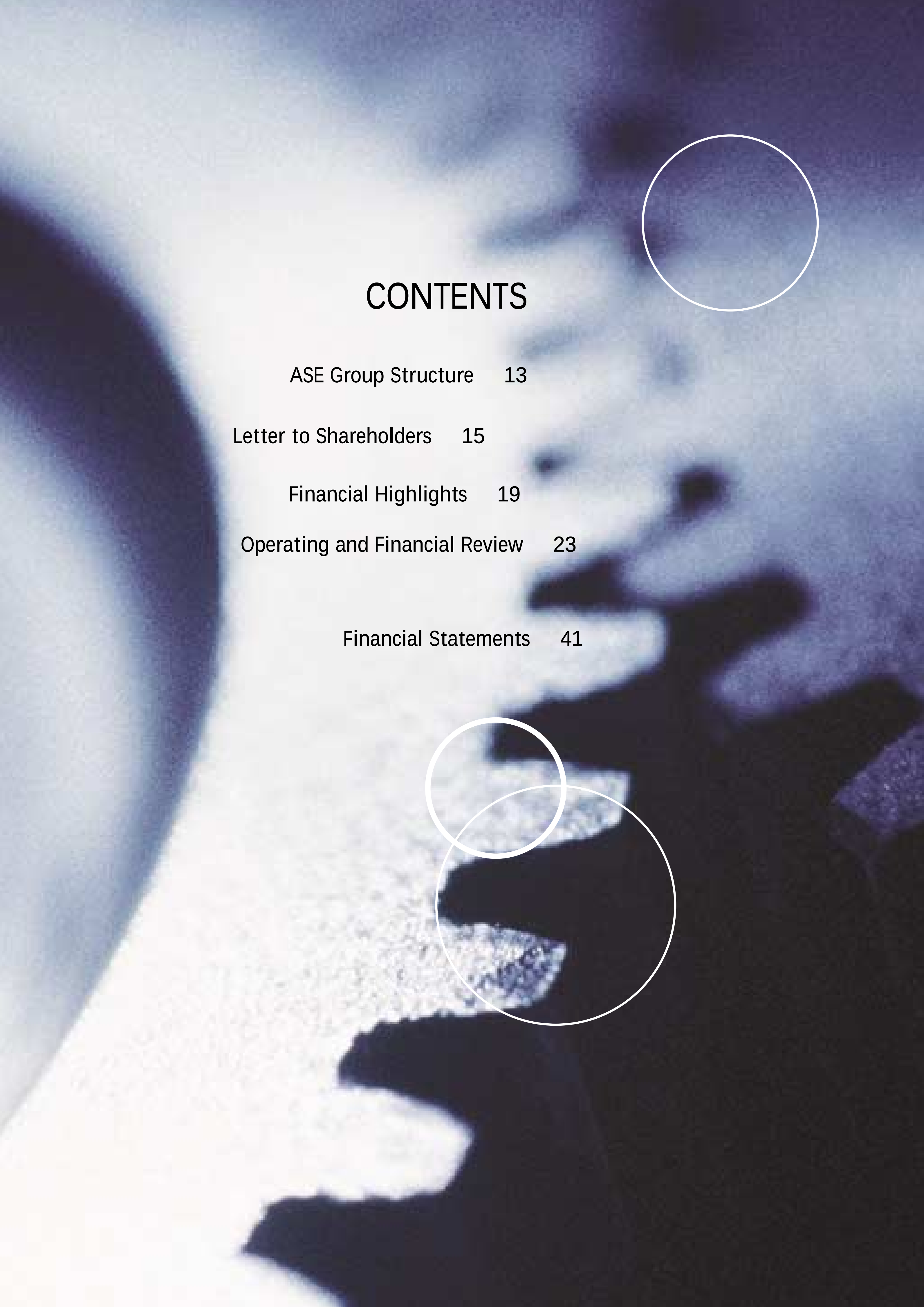
ASE ANNUAL 2001 REPORT

2001 Annual Report

Advanced Semiconductor Engineering, Inc.





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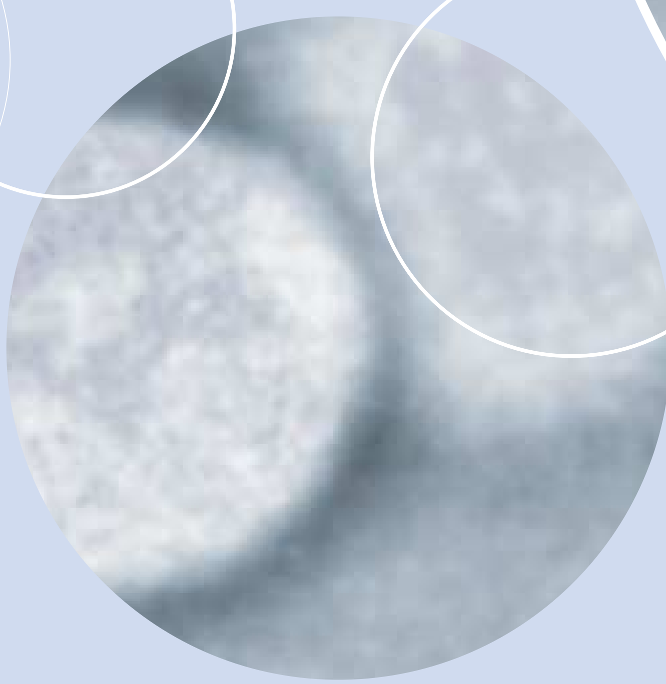
Achieving Maximum

with

Count on Us for



Minimum

You Can Always Growth.

The inventors of the IC chip were driven by the desire to make more out of less. At ASE, we have a similar aspiration – Maximum with Minimum.

ASE, acting as an extension of our customers' own operations, is a partner you can count on to achieve your maximum business objectives with the minimum resources.

Maximum value
Minimum cost

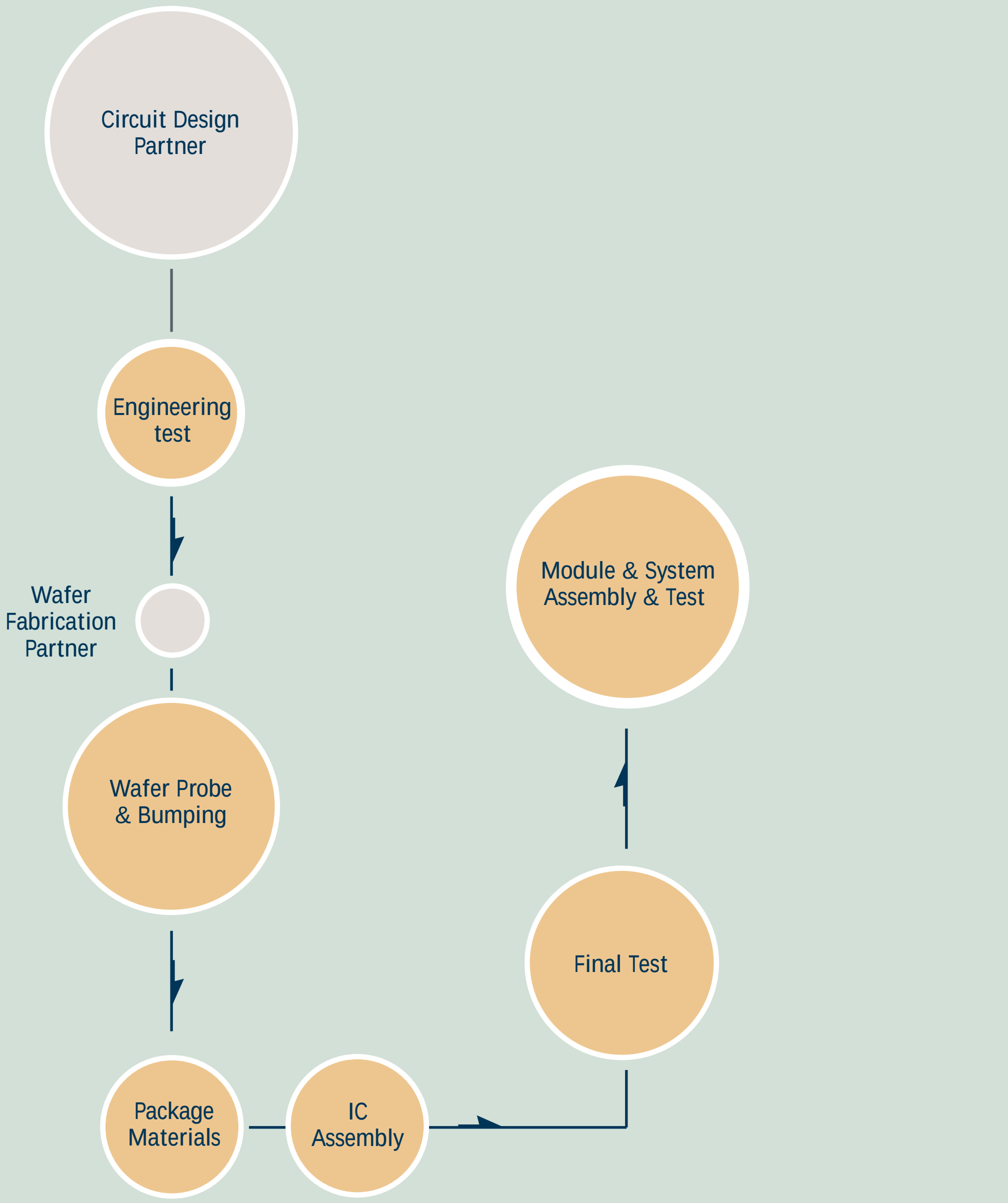
The success of the fabless model and the increase in outsourcing by integrated device manufacturers (IDM) have demonstrated the effectiveness of utilizing independent semiconductor manufacturing services to maximize revenue and minimize costs.

The ASE Group offers customers a fully-integrated semiconductor backend manufacturing supply chain. With our flagship manufacturing facilities located at the heart of the Taiwan cluster, one of the world's major centers for semiconductor manufacturing, we leverage strategic partnerships with the world's largest wafer foundries, TSMC and UMC.

"As a fabless IC company, Genesis Microchip works selectively with a number of semiconductor service companies to provide us proficient manufacturing support. ASE maintains a high standard in manufacturing processes and keeps ahead in IC packaging developments. The company also delivers quality services enabling a fast time-to-production for our leading edge display chips."

-Amnon Fisher, President & CEO, Genesis Microchip Inc.

ASE's Offering in the Electronics Manufacturing Value Chain



Maximum dimension
Minimum feature size

Over the years, the ASE Group has invested substantially in research and development for advanced product and process technologies.

The advanced manufacturing process technologies we provide include flip chip, 6-inch/8-inch/12-inch wafer bumping and test, chip scale package (CSP), 3D packages and system in package (SiP). Our fully-integrated 12-inch wafer backend assembly and test capabilities are among the most advanced in the world. We are also developing advanced packaging solutions to enable opto-electronics and Bluetooth™ technologies.

"Expressing our appreciation for the resourceful support from ASE Inc. and the ASE Group, ATI is expecting more advances in ASE's technologies, quality and services, which mean an acceleration to our growth. ATI and ASE have established a very important partnership that, with ASE's advanced packaging technologies, allows us to surpass our competitors and go for new-generation products."

– Eugene Liaw, Director, ATI Technologies Inc.

Maximum performance

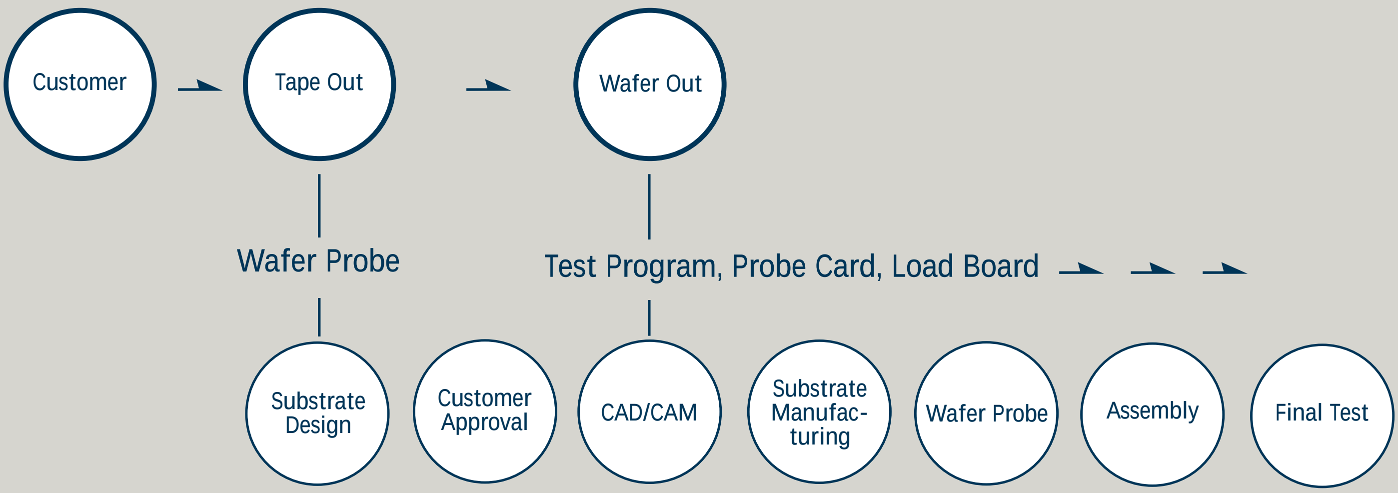
Minimum cycle time

In today's aggressive marketplace, our ability to help customers achieve the best time to market is crucial in helping them stay ahead of the competition. Our customers enjoy seamless manufacturing processes because of the way we structure our capabilities. ASE's parallel manufacturing concept reduces the cycle time significantly for our customers.

"In the fast-paced consumer electronics market, supplier delivery to schedule and quality is critical. ASE's depth and breadth of packaging and test capability has been a key element in our ability to meet our customers' stringent time-to-market requirements and broaden our leadership position in the digital media space."

-Young Sohn, Chairman & CEO, Oak Technology Inc.

Customer New Product Development



Traditional Sequence – Approximate number of days = 40

ASE Parallel Sequence – Approximate number of days = 20

Maximum flexibility
Minimum risk

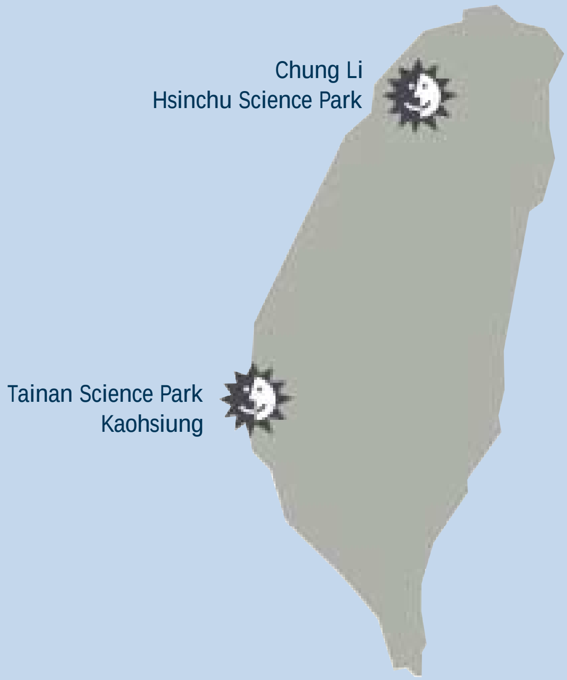
ASE Group is a global company with manufacturing bases strategically located in key centers for semiconductor manufacturing. We allocate our manufacturing capabilities effectively to minimize risks for our customers.

Our stable financial position enables us to make investment decisions quickly according to market conditions and needs. We constantly seek new opportunities for further growth to augment our resources. This gives customers maximum flexibility and efficiency in leveraging our capabilities to match their manufacturing needs.

"As one of Taiwan's leading chipset designers, Via Technologies prudently select our business partners who can provide us with ingenious manufacturing support to implement our advanced designs to the market. ASE acts as a natural extension of our operation with possession of a state-of-the-art and high quality manufacturing processes and taking lead in IC packages and tests, which enable us a fast time-to-production and timely deliver of our leading technologies to the ever-changing computing and communications markets."

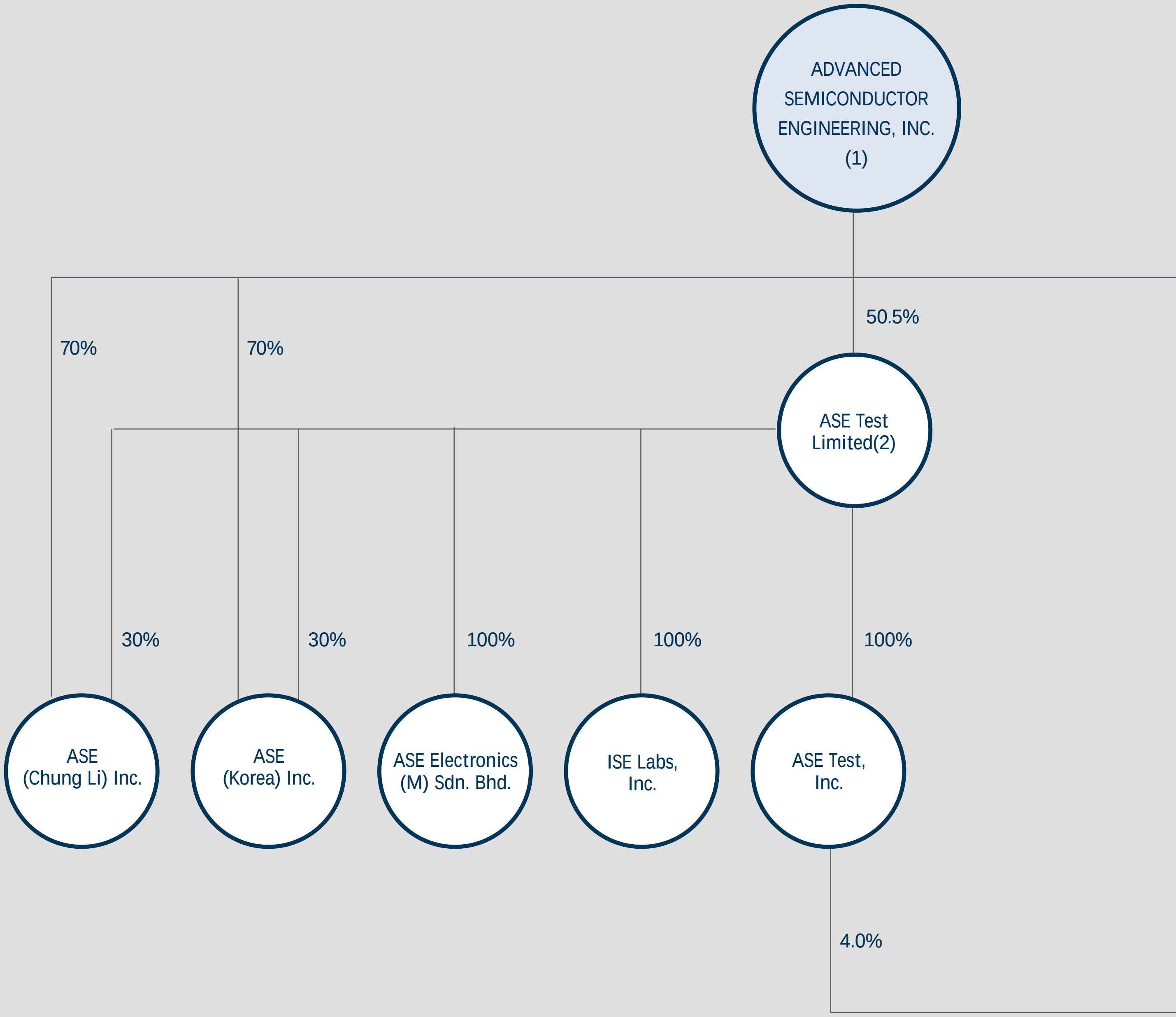
–Ted Lee, Vice President, VIA Technologies Inc.

The 'Taiwan Cluster' → Best Service to ASE Customers



ASE Group Structure

The following chart illustrates our corporate structure and effective ownership interest in each of our principal operating subsidiaries and affiliates.



(1) The common shares of ASE Inc. and Universal Scientific are listed on the Taiwan Stock Exchange.
(2) The ordinary shares of ASE Test are quoted for trading on the Nasdaq National Market under the symbol "ASTSF".
(3) The remaining shares of ASE Materials are owned by management and employees of ASE Inc. and its affiliates.
(4) The common shares of Hung Ching Development & Construction Co. Ltd. are listed on the Taiwan Stock Exchange under the symbol "2527".
(5) The remaining shares of ASE Material Inc. are owned by the management and employees of ASE Material Inc., the management and employees of ASE Inc. and its affiliates, as well as a strategic investor.

Letter to Sharehold

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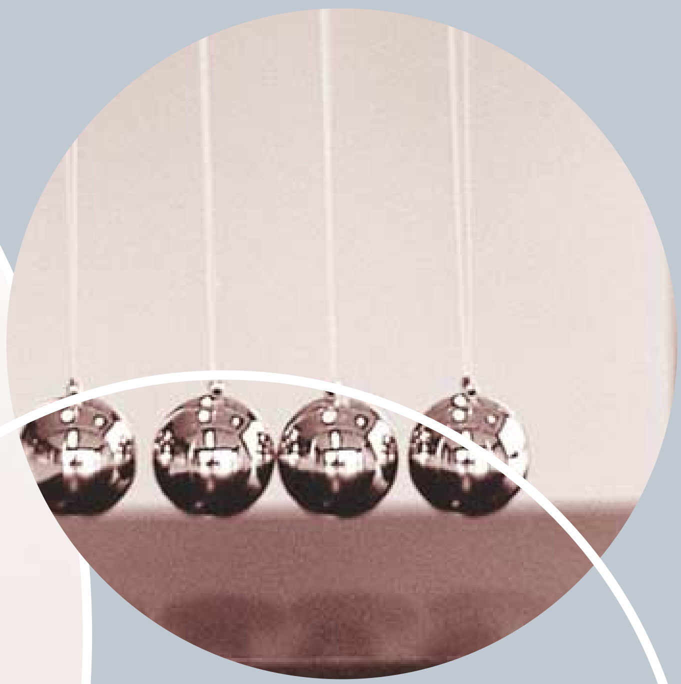


Letter to Shareholders

2001 – An Opportunity in a Challenging Year

The year 2001 was an extremely challenging year for the semiconductor industry. The industry went through a sharp, rapid correction following a year of extraordinary growth in 2000. Most of our customers experienced inventory problems and overall chip volumes going into production were sharply reduced as a result. We were not immune from this slowdown and, unfortunately, we closed the year with our first loss on an annual basis in 10 years. Our revenues for the year totaled NT$38,368 million with a net loss of NT$2,142 million.

On a positive note, we continue to maintain a very strong balance sheet and positive cash flow in every quarter. In addition, we believe that the industry correction actually provided ASE with a great opportunity to further widen our market leadership. We also gained the confidence of our customers when we proved to be able to continue offering high-quality services and solutions through our integrated IC manufacturing services chain; from front-end testing, wafer probing, materials and IC packaging, final test until delivery to our customers' users.

A Year of Achievements

Despite the industry slowdown, we had several significant achievements. For the second consecutive year, ASE was voted the leading semiconductor packaging and test service provider in an annual Wafer and Packaging Demand survey conducted by PricewaterhouseCoopers LLP for the Fabless Semiconductor Association.

We received United States and Taiwan patents for our fine pitch wire bonding technology. We were also among the first to achieve technology initiatives such as the capability to process 12-inch wafers for wafer bumping, packaging and testing, and introducing the world's largest PBGA (Plastic Ball Grid Array) at 42.5 and 45mm.

Growth in Outsourcing Trends

Outsourcing will continue to provide growth for foundries, packaging and test service companies. In 2002, we believe that we will see continued increase in outsourcing from integrated device manufacturers, who traditionally have manufactured their ICs in-house. The success of the fabless model will also prompt semiconductor manufacturers to focus their efforts on designing increasingly smaller and faster devices rather than on packaging and testing their devices in-house.

Investing in Tomorrow

While many marginal players in the industry are facing difficulties in continuing their operations, we remain one of the very few companies in this industry that continue to invest in the research and development in high-end assembly and test technologies.

As a result of the advancement in the functionalities and performance of semiconductors, flip chip will become a mainstream package type for the high performance ICs. Key materials, such as substrates, will generate a greater part of value than in the past. In light of this trend, we have established ASE Material, focusing on the production of substrates. In 2001, ASE Material supplied over a third, by value of ASE's internal substrate requirement. We will continue to develop this area of expertise to provide our customers with more competitive manufacturing solutions through the shortening of cycle time and reduction in costs.

To date, we believe we are one of the biggest producers of PBGA and CSP packages among independent semiconductor assembly houses worldwide. We also started mass production for 8-inch wafer bumping in early 2001. In addition, we will have our facilities and capacity for 12-inch wafer bumping ready in the second half of 2002.

As the leader in fine pitch bonding (the technology of choice for chip-and-wire interconnect, used in the substantial majority of today's chip interconnect packages), we have the largest number of fine pitch wire bonders in our manufacturing plants. In the IC testing market, we continue to be the leader with a market share of more than 30%. We collaborate with many major test equipment companies to install advanced testers in our facilities worldwide. We also added over 145,000 square feet of manufacturing space in our facilities in Penang, Malaysia; Kaohsiung and Chung Li, Taiwan, which will house our expansion for the next three years.

Apart from our advanced technology and service, we maintain a sound financial position. Even during the severe downturn in 2001, we still operated with positive cashflow. While many of our competitors were forced to cut back or stop their investment in research and development, ASE was able to continue our investment in many leading-edge technologies, and therefore further widened our leadership in the industry.

We believe it is our unique strength to provide a turnkey solution for customers through our integrated IC manufacturing services chain; from front-end testing, wafer probing, materials and IC packaging, final test until delivery to our customers' users. The ability to provide this one-stop shopping solution has become a critical competitive advantage that differentiates ASE from our competitors.

Maximum Value and Flexibility

The significant downturn in 2001 has changed the landscape of the semiconductor industry. Packaging and testing companies such as ASE, now play a more significant role in the semiconductor food chain. We not only provide manufacturing services as a contractor, but also add value to our customers' products by working with our customers in the early stages to develop appropriate IC package and substrate designs as well as appropriate testing platforms. We also focus on developing leading-edge packaging technologies to maximize the functions of a chip within a minimum package area.

Maximum with Minimum

Our new corporate theme seeks to focus on our core values. At ASE, we work as a team to offer maximum results with minimum risk to our customers, shareholders, employees and suppliers.

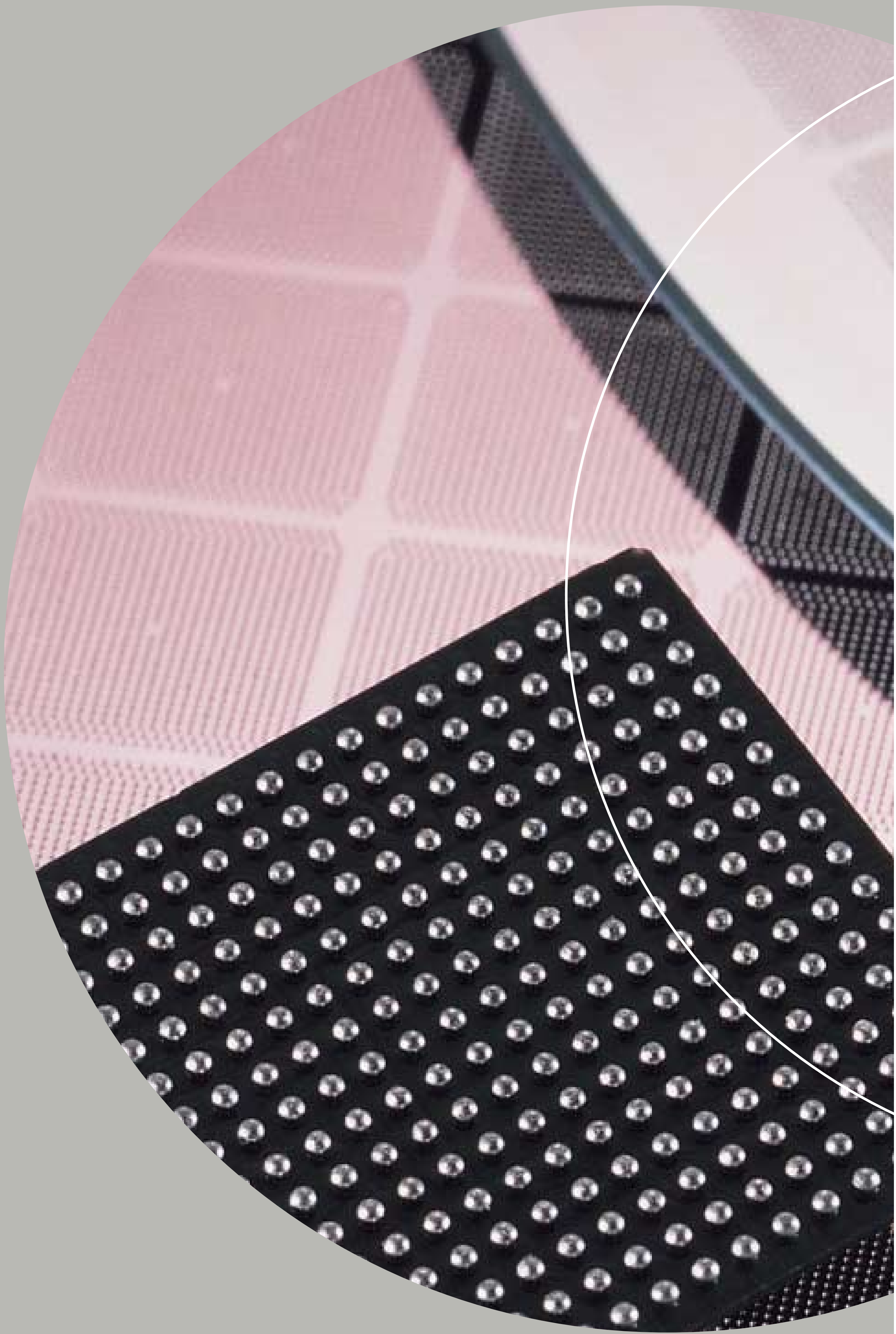
We will continue to devote resources to maintain our superiority in technology, service quality and financial strength. We are also fortunate to have the best talents. Our people focus on maximizing the value of the business because they possess a strong sense of ownership, knowing that if the business succeeds, so do they.

We also extend our appreciation to all our shareholders, customers and suppliers for their ardent support to the ASE Group, especially in the past twelve months. Indeed, it is through difficult periods that we emerge stronger and ready to scale new heights in the technological requirements of the industry.

Thank you.

Jason C.S. Chang
Chairman
Chief Operating Officer

Richard H.P. Chang
Vice-Chairman
Chief Executive Officer



Financial Hightlights

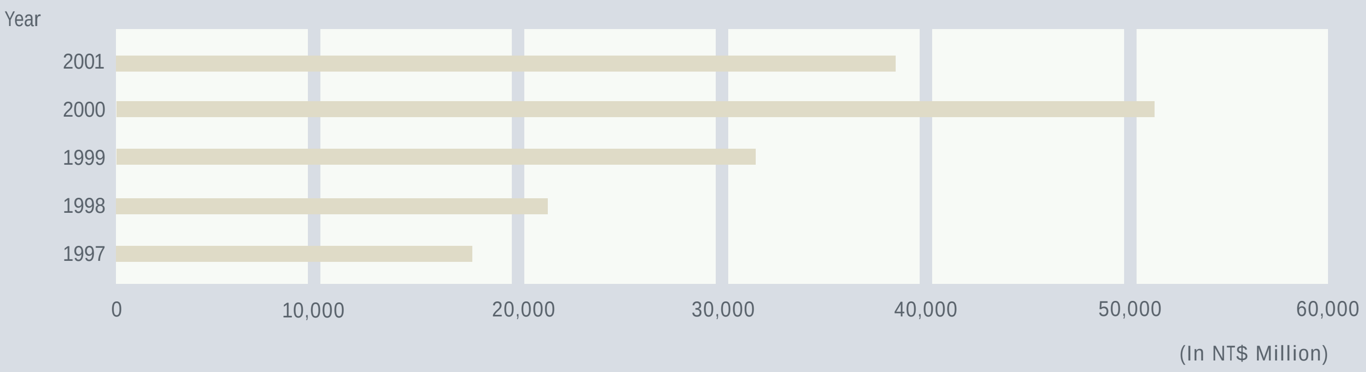
Selected Consolidated Financial and Other Data

(In NT$ Million)

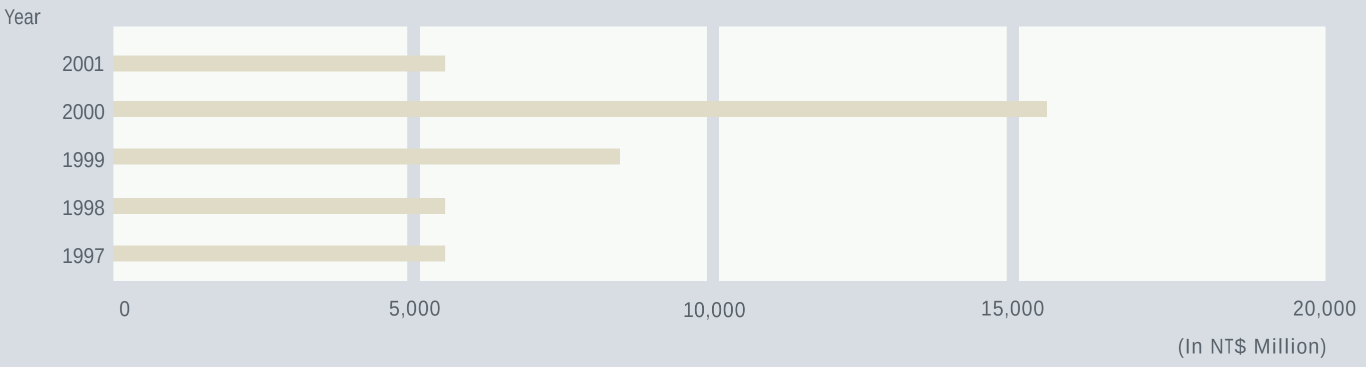
	1997	1998	1999	2000	2001
Net revenues	19,088.2	20,762.4	32,609.6	50,893.4	38,367.8
Gross profit	5,329.7	5,294.3	8,650.0	15,326.1	5,410.8
Income (loss) from operations	3,521.4	2,840.9	4,848.6	9,877.1	(462.1)
Income (loss) before tax	8,142.7	1,981.3	9,062.4	8,403.6	(2,985.5)
Net income (loss)	7,403.5	1,604.0	7,794.7	5,837.2	(2,142.2)
Earning (loss) per common share (NT$/share)*	2.33	0.49	2.46	1.82	(0.66)
Dividends per common share (NT$/share)	3.80	7.20	1.07	3.15	1.70
Properties	16,363.1	20,356.8	38,107.5	60,566.2	60,555.1
Shareholders' equity	21,033.7	21,874.8	30,057.0	43,669.2	41,946.3
Total assets	45,159.1	47,011.5	77,330.8	108,341.2	106,326.3
Employees (persons)	8,547	8,737	14,184	18,121	15,681
ASE market value (years ended December31)	116,446.5	96,120.0	221,760.0	60,268.8	105,781.0

* Note: With retroactive adjustment

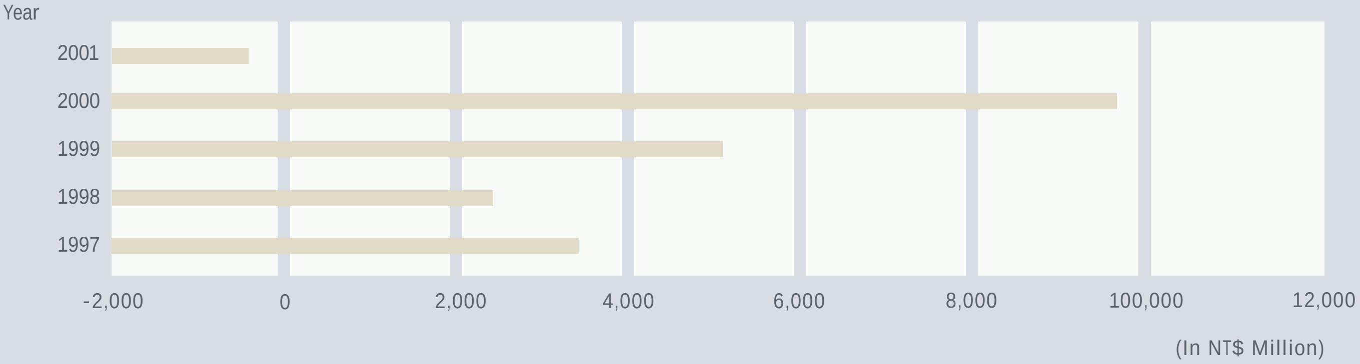
NET REVENUES OVER THE YEARS



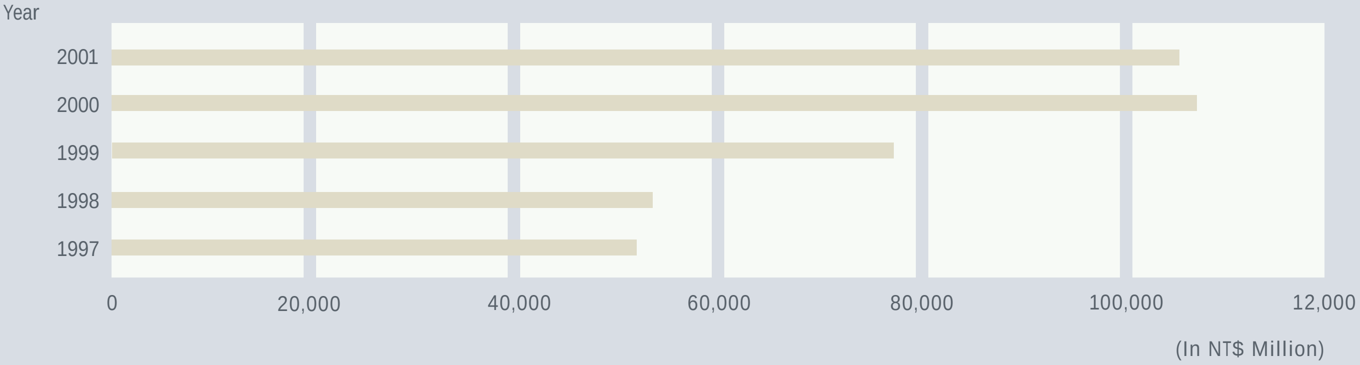
GROSS PROFIT OVER THE YEARS



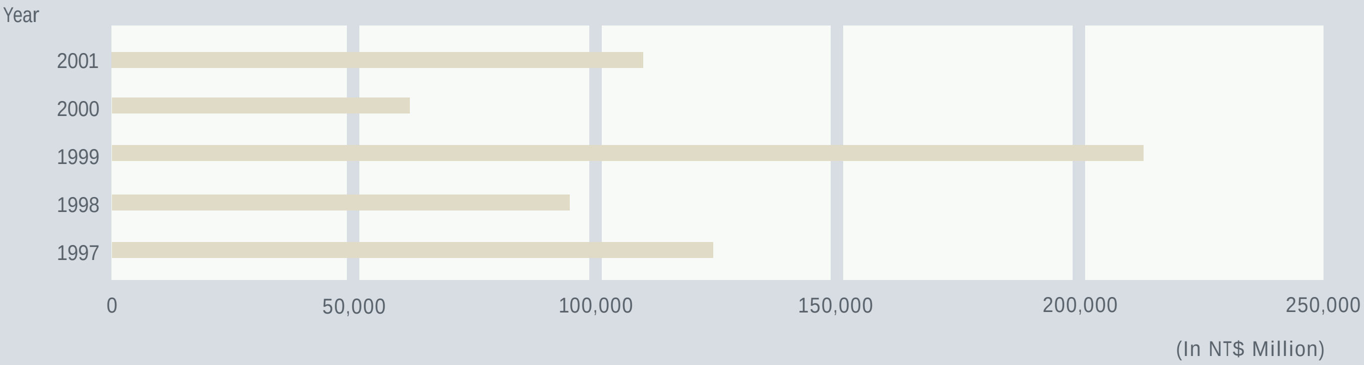
INCOME (LOSS) FROM OPERATIONS OVER THE YEARS



TOTAL ASSETS OVER THE YEARS



ASE MARKET VALUE OVER THE YEARS



and

Operating Financial Review

OPERATING RESULTS AND TREND INFORMATION

The following discussion of our business, financial condition and results of operations should be read in conjunction with our consolidated financial statements, which are included elsewhere in this annual report. This discussion contains forward-looking statements that reflect our current views with respect to future events and financial performance. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of any number of factors.

Overview

We offer a broad range of semiconductor packaging and testing services. In addition to offering each service separately, we also offer turnkey services, which consist of the integrated packaging, testing and direct shipment of semiconductors to end users designated by our customers. Our net revenues increased from NT$32,609.6 million in 1999 to NT$50,893.4 million in 2000 primarily as a result of an upturn in the semiconductor industry that continued through the third quarter of 2000, but decreased to NT$38,367.8 million (US$1,096.2 million) in 2001 due to a severe downturn in the semiconductor industry. The decrease in our net revenues during 2001 was across each of the principal end use applications for the products which we packaged and tested — communications, personal computers and consumer electronics. In the fourth quarter of 2001, we experienced a gradual improvement in our net revenues compared to the preceding quarter. This improvement was generally concentrated in the packaging of more advanced package types and the testing of more complex, high-performance semiconductors.

Pricing and Revenue Mix

We price our services on a cost-plus basis, taking into account the actual costs involved in providing these services, with reference to prevailing market prices. The majority of our prices and revenues are denominated in U.S. dollars. However, as more than half of our costs, including most of our labor and overhead costs, are denominated in NT dollars, we consider the NT dollar to be our functional currency. Furthermore, the majority of our financing costs are denominated in NT dollars.

In 1999, 2000 and 2001, our packaging revenues accounted for 75.2%, 74.7% and 75.3% while testing revenues accounted for 23.9%, 25.1% and 24.7%, respectively, of our net revenues. The portion of the semiconductor testing market currently accounted for by independent testing service providers is smaller than that for packaging, which we believe will result in outsourced testing growing at a faster rate than outsourced packaging. In addition, the large capital expenditures needed for increasingly sophisticated testing equipment, as compared to less expensive packaging equipment, is leading to further outsourcing of testing services by integrated device manufacturers.

The semiconductor industry is characterized by a general trend towards declining prices for products and services of a given technology over time. In addition, during periods of intense competition and adverse conditions in the semiconductor industry, the pace of this decline may be more rapid than that experienced in other years. The average selling prices of our packaging and testing services have experienced sharp declines during such periods as a result of intense price competition from other independent packaging and testing companies that attempt to maintain high capacity utilization levels in the face of reduced demand. During the industry downturn commencing in the fourth quarter of 2000, we experienced a significant deterioration in prices which resulted in our company incurring a net loss in 2001.

Declines in average selling prices have been partially offset over the last three years by a change in our revenue mix. In particular, revenues derived from packaging more advanced package types, such as ball grid array, or BGA, and higher density packages with finer lead-to-lead spacing, or pitch, and testing of more complex, high-performance semiconductors have increased as a percentage of total revenues. We intend to continue developing and offering new technologies in packaging and testing services and expand our capacity to achieve economies of scale, as well as improving production efficiencies for older technology, in order to mitigate the effects of declining prices on our profitability.

High Fixed Costs

Our operations are capital intensive and our primary capital requirements are for the purchase of packaging and testing equipment. As a result, fixed costs, primarily depreciation expense, are a major component of our cost of revenues. In particular, depreciation is the principal component of our cost of testing revenues as testing requires minimal raw materials. Increases or decreases in capacity utilization rates can have a significant effect on gross profit margins, as the unit cost of packaging and testing services generally decreases as fixed costs, such as equipment depreciation expense, are allocated over a larger number of units. Our ability to maintain or improve our margins will continue to depend to a large extent on our ability to effectively manage capacity utilization levels.

The current generation of advanced testers typically cost between US$2.0 million and US$5.0 million each, while wire bonders used in packaging typically cost approximately US$100,000 each. In 1999, 2000 and 2001, our depreciation expense as a percentage of net revenues was 16.3%, 15.7% and 27.0%, respectively. The significant increase in depreciation expense as a percentage of net revenues in 2001 primarily reflected the significant decrease in net revenues during that year and full year effect of our capacity expansion in 2000. We begin depreciating our equipment when it is placed into service. There may sometimes be a time lag between when our equipment is placed into service and when it achieves high levels of utilization. In periods of depressed industry conditions such as 2001, we may experience lower than expected demand from customers and a sharp decline in average selling price, resulting in an increase in depreciation expense relative to net revenues.

Raw Material Costs

Substantially all of our raw material costs are accounted for by packaging and the production of interconnect materials, as testing requires minimal raw materials. In 1999, 2000 and 2001, raw material cost as a percentage of our net revenues was 30.0%, 28.7% and 30.7%, respectively. We expect interconnect materials to become an increasingly important component of the cost of our packaging revenues and we plan to continue to develop and enhance our in-house interconnect materials capabilities through ASE Material in order to maintain and enhance our profitability, ensure an adequate supply of interconnect materials at competitive prices and reduce production time.

Consolidation of ISE Labs, ASE Chung Li and ASE Korea

In 1999, we acquired Motorola, Inc.'s semiconductor packaging and testing operations in Chung Li, Taiwan and Paju, South Korea. The businesses are now operated by ASE (Chung Li) Inc., or ASE Chung Li, and ASE (Korea) Inc., or ASE Korea. In addition, in 1999 ASE Test acquired 70% of the outstanding shares of ISE Labs, Inc., or ISE Labs, an independent semiconductor testing company. Under the method of consolidation used by us to consolidate the statements of income of ISE Labs, ASE Chung Li and ASE Korea for the year ended December 31, 1999: (1) ISE Labs' full-year 1999 net revenues, cost of revenues and operating expenses are included in our consolidated financial statements, and the pre-acquisition income of ISE Labs for the year ended December 31, 1999 (from January 1 to May 4, 1999) is then subtracted from our net income for 1999; and (2) the net revenues, cost of revenues, operating expenses and net income of ASE Chung Li and ASE Korea are included in our consolidated financial statements since the date of acquisition. See notes 2 and 28f to our consolidated financial statements.

Goodwill Amortization

Our operating and non-operating income in recent years have been affected by goodwill amortization charges in connection with acquisitions, the restructuring of our investment holdings and other share repurchases. Under ROC GAAP, additional purchases of shares of consolidated subsidiaries (majority owned) or of companies accounted for using the equity method (less than majority but at least 20% owned) will generate goodwill in an amount equal to the difference between the purchase price and the book value per share of those shares. The goodwill generated is amortized over ten years. Goodwill generated on the purchases of shares of consolidated subsidiaries are recognized under general and administrative expense. Goodwill generated on the purchases of shares of companies accounted for using the equity method are recognized as a debit under investment income. In addition to the acquisitions of ASE Korea and ISE Labs, other transactions which created significant goodwill charges were (1) the open-market purchases of 22.6% of Universal Scientific Industrial Co., Ltd., or Universal Scientific, shares in 1999, (2) the purchase of additional ordinary shares of ASE Test in 2001 from two of our directors at the prevailing market price and (3) the open market purchase of shares of Hung Ching between 1995 and 1996. No goodwill was recognized in connection with the acquisition of ASE Chung Li, which was structured as an asset purchase, due to the appreciation of the fixed assets purchased. See note 10 to our consolidated financial statements.

Critical Accounting Policies and Estimates

Preparation of our consolidated financial statements requires us to make estimates and judgments that affect the amounts of our assets, liabilities, revenues and expenses. We continually evaluate these estimates, including those related to allowances for doubtful accounts, inventories, useful lives of properties, consolidated debits, income tax valuation allowances, pension plans and the fair value of financial instruments. We base our estimates on historical experience and other assumptions which we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions. We have identified below the accounting policies that are the most critical to our consolidated financial statements.

Revenue recognition. Revenues from semiconductor packaging services that we provide are recognized upon shipment. Revenues from testing services that we provide are recognized upon completion of the services. We do not take ownership of: (1) bare semiconductor wafers received from customers that we package into finished semiconductors, and (2) packaged semiconductors received from customers that we test. The title and risk of loss remains with the customer for those bare semiconductors and/or packaged semiconductors. Accordingly, the cost of customer-supplied semiconductors materials is not included in our consolidated financial statements. Other criteria that we use to determine when to recognize revenue are: (1) persuasive evidence that the services provided exists, (2) the selling price is fixed or determinable and (3) collectibility is reasonably assured. These policies are consistent with provisions in the Staff Accounting Bulletin No. 101 issued by the United States Securities and Exchange Commission, or SEC. We do not provide warranties to our customers except in cases of defects in the packaging services provided and deficiencies in testing services provided. An appropriate sales allowance is recognized in the period during which the sale is recognized.

Allowance for Doubtful Accounts. We periodically record a provision for doubtful accounts based on our evaluation of the collectibility of our accounts receivable. The total amount of this provision is determined by us as follows. We first identify the receivables of customers that are of a higher credit risk based on their current overdue accounts with us, difficulties collecting from these customers in the past or their overall financial condition. For each of these customers, we estimate the extent to which the customer will be able to meet its financial obligations to us, and we record an allowance that reduces our accounts receivable for that customer to the amount that we reasonably believe will be collected. For all other customers, we maintain an allowance for doubtful accounts equal to a percentage of their aggregate accounts receivable. Based on our prior experience, we currently maintain an allowance for the account receivables of these other customers of between 3% and 4% of net revenues. Additional allowances may be required in the future if the financial condition of our customers or general economic conditions deteriorate, and this additional allowance would reduce our net income.

Useful Lives of Properties. Our operations are capital intensive and we have significant investments in expensive packaging and testing equipment. Properties represented 56% and 57% of our total assets as of December 31, 2000 and 2001, respectively. We depreciate our properties based on our estimate of their economic useful lives to us, which is in turn based on our judgment, historical experience and the potential obsolescence of our existing equipment brought about by the introduction of more sophisticated packaging and testing technologies and processes. If we subsequently determine that the actual useful life of properties is shorter than what we had estimated, we will depreciate the remaining undepreciated value of that asset over its remaining economic useful life. This would result in increased depreciation expense and decreased net income during those periods. Similarly, if the actual lives of properties is longer than what we had estimated, we would have a smaller depreciation expense and higher net income in subsequent periods. As a result, if our estimations of the useful lives of our properties are not accurate or are required to be changed in the future, our net income in future periods would be affected.

Results of Operations

The following table sets forth, for the periods indicated, financial data from our consolidated statements of income, expressed as a percentage of net revenues.

Year Ended December 31, 1999, 2000 and 2001 (percentage of net revenues)

	1999	2000	2001
ROC GAAP:			
Net revenues	100.0%	100.0%	100.0%
Packaging	75.2	74.7	75.3
Testing	23.9	25.1	24.7
Other	0.9	0.2	0.0
Cost of revenues	(73.5)	(69.9)	(85.9)
Gross profit	26.5	30.1	14.1
Operating expenses	(11.6)	(10.7)	(15.3)
Operating income (loss)	14.9	19.4	(1.2)
Non-operating income (expenses)	12.9	(2.9)	(6.6)
Income (loss) before income tax and minority interest	27.8	16.5	(7.8)
Income tax benefit (expense)	(1.4)	(2.1)	0.5
Income (loss) before minority interest	26.4	14.4	(7.3)
Pre-acquisition interest	(0.2)	—	—
Extraordinary loss	—	—	(0.4)
Minority interest in net (income) loss of subsidiary	(2.3)	(2.9)	2.1
Net income (loss)	23.9%	11.5%	(5.6)%

The following table sets forth, for the periods indicated, the gross margins for our packaging and testing services and our total gross margin.

Year Ended December 31, 1999, 2000 and 2001

	1999	2000	2001
ROC GAAP:			
Gross margin			
Packaging	23.5%	26.3%	16.0%
Testing	39.8%	41.5%	8.3%
Total	26.5%	30.1%	14.1%

The following table sets forth, for the periods indicated, a breakdown of our total cost of revenues and operating expenses, expressed as a percentage of net revenues.

Year Ended December 31, 1999, 2000 and 2001 (percentage of net revenues)

	1999	2000	2001
ROC GAAP:			
Cost of revenues			
Raw materials	30.0%	28.7%	30.7%
Labor	13.0	12.9	14.6
Depreciation	16.3	15.7	27.0
Other	14.4	12.6	13.6
Total cost of revenues	73.5%	69.9%	85.9%
Operating expenses			
Selling	2.8%	2.0%	2.3%
General and administrative(1)	5.0	5.1	7.3
Goodwill amortization(2)	1.6	1.1	1.8
Research and development	2.2	2.5	3.9
Total operating expenses	11.6%	10.7%	15.3%

(1) Excludes goodwill amortization for purposes of this table only.

(2) Included in general and administrative expense in our consolidated financial statements.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Net Revenues. Net revenues decreased 24.6% to NT$38,367.8 million (US$1,096.2 million) in 2001 from NT$50,893.4 million in 2000. Packaging revenues decreased 24.0% to NT$28,898.2 million (US$825.7 million) in 2001 from NT$38,028.8 million in 2000. Testing revenues decreased 25.9% to NT$9,459.3 million (US$270.3 million) in 2001 from NT$12,768.4 million in 2000. The decreases in packaging and testing revenues were primarily due to an industry downturn commencing in the fourth quarter of 2000, resulting in a decrease in the average selling prices and volumes for packaging and testing services. The decrease in the average selling prices reflects the general trend in the semiconductor industry of declining prices for each input/output lead on a semiconductor device, which was exacerbated by the sharp decline in demand resulting from the industry downturn. This decrease was partially offset by a change in the revenue mix as our BGA packages and fine pitch packages, which typically command higher average selling prices, accounted for a greater portion of the packaging volume, and as we tested more complex high-performance semiconductors, which generally command higher prices.

Gross Profit. Gross profit decreased 64.7% to NT$5,410.8 million (US$154.6 million) in 2001 from NT$15,326.1 million in 2000. Our gross margin, which is equal to gross profit divided by net revenues, decreased to 14.1% in 2001 from 30.1% in 2000, primarily as a result of increased depreciation expense and increased raw materials costs, all as a percentage of net revenues. Our gross margin for packaging decreased to 16.0% in 2001 from 26.3% in 2000. This decrease was primarily due to increases in depreciation expense and raw materials costs, all as a percentage of packaging revenues. Our gross margin for testing decreased to 8.3% in 2001 from 41.5% in 2000. This decrease was primarily due to increases in depreciation expense and plant and machine rental costs, all as a percentage of testing revenues. Raw material costs in 2001 were NT$11,776.2 million (US$336.5 million), or 30.7% of net revenues, compared to NT$14,620.4 million, or 28.7% of net revenues, in 2000. The increase in raw material costs was largely a result of products with higher raw material costs, such as BGA packages, accounting for a larger proportion of our packaging services. Depreciation for 2001 was NT$10,375.0 million (US$296.4 million), compared to NT$7,992.3 million in 2000. This increase was primarily due to the full year effect of our capacity expansion in 2000. As a percentage of net revenues, depreciation increased to 27.0% in 2001 from 15.7% in 2000, principally as a result of the significant decrease in our net revenues and higher depreciation in 2001.

Operating Income (Loss). We incurred an operating loss of NT$462.1 million (US$13.2 million) in 2001 compared to an operating income of NT$9,877.1 million in 2000. Operating margin decreased to negative 1.2% in 2001 compared to 19.4% in 2000. Operating expenses increased 7.8% to NT$5,872.9 million (US$167.8 million) in 2001 compared to NT$5,449.0 million in 2000. This was primarily due to higher general and administrative, goodwill amortization and research and development expenses, partially offset by lower selling expense. Selling expense decreased 14.0% to NT$877.9 million (US$25.1 million) in 2001 from NT$1,020.5 million in 2000. This decrease reflected decreased sales in 2001. Selling expense represented 2.3% of our net revenues in 2001 compared to 2.0% in 2000. General and administrative expenses, excluding goodwill amortization, increased 7.3% to NT$2,797.6 million (US$79.9 million) in 2001 from NT$2,606.2 million in 2000. This increase was primarily due to increases in cash bonuses and directors' compensation of our subsidiaries paid in 2001 with respect to the preceding fiscal year. General and administrative expense, excluding goodwill amortization, represented 7.3% of our net revenues in 2001 compared to 5.1% in 2000. Goodwill amortization expense increased 23.8% to NT$692.9 million (US$19.8 million) in 2001 from NT$559.8 million in 2000. This increase was primarily due to additional goodwill amortization expense resulting from our purchase of additional shares of ASE Test in 2001. Goodwill amortization expense represented 1.8% of our net revenues in 2001 compared to 1.1% in 2000. Research and development expense increased 19.2% to NT$1,504.5 million (US$43.0 million) in 2001 from NT$1,262.5 million in 2000. This increase was largely a result of an increase in the number of research and development employees as well as an increase in depreciation charges associated with testers and other equipment dedicated to research and development uses. Research and development expense accounted for 3.9% of our net revenues in 2001 compared to 2.5% in 2000.

Net Non-Operating Income (Expense). We recorded a net non-operating loss of NT$2,523.4 million (US$72.1 million) in 2001 compared to a net non-operating loss of NT$1,473.5 million in 2000. This was primarily a result of an increase in net interest expense, an increase in net investment loss on long-term investments and a decrease in net foreign exchange gain. Net interest expense increased 13.1% to NT$1,739.3 million (US$49.7 million) in 2001 from NT$1,538.0 million in 2000. This increase was primarily a result of increased debt financing incurred in 2001, which was partially offset by higher interest income resulting from higher cash balances resulting from our offering of ADSs in September 2000. We recorded a net investment loss of NT$1,196.1 million (US$34.2 million) in 2001 as compared to a net investment loss of NT$75.6 million in 2000. The loss was principally a result of a one-time write down of NT$475.6 million (US$13.6 million) due to the prolonged weakness of Hung Ching's stock price, as well as the goodwill amortization associated with our purchase of the shares of, and the net investment losses incurred by, Hung Ching and Universal Scientific. We recorded a net foreign exchange gain of NT$247.5 million (US$7.1 million) in 2001 compared to net foreign exchange gain of NT$302.7 million in 2000. These foreign exchange gains were primarily due to the Japanese yen's depreciation, which reduced the NT dollar value of our Japanese yen denominated liabilities.

Net Income (Loss). As a result of the foregoing, we recorded a net loss of NT$2,142.2 million (US$61.2 million) in 2001 compared to net income of NT$5,837.2 million in 2000. The net loss per ADS was NT$3.29 (US$0.09) for 2001 compared with net income per ADS of NT$9.01 for 2000. As a result of our net loss in 2001, we had an income tax benefit of NT$247.3 million (US$7.1 million) in 2001 compared to an income tax expense of NT$1,065.8 million in 2000.

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

Net Revenues. Net revenues increased 56.1% to NT$50,893.4 million in 2000 from NT$32,609.6 million in 1999. Packaging revenues increased 55.1% to NT$38,028.8 million in 2000 from NT$24,523.0 million in 1999. Testing revenues increased 63.8% to NT$12,768.4 million in 2000 from NT$7,793.2 million in 1999. Increases in packaging and testing revenues resulted primarily from an increase in net revenues at our existing facilities, due to an upturn in the semiconductor industry which commenced in the second half of 1999 and continued through the third quarter of 2000. After eliminating the results of ISE Labs, ASE Chung Li and ASE Korea for comparative purposes, our net revenues for 2000 increased by 44.4% compared to 1999, reflecting a 43.5% increase in packaging revenues and a 57.2% increase in testing revenues.

Gross Profit. Gross profit increased 77.2% to NT$15,326.1 million in 2000 from NT$8,650.0 million in 1999. Our gross margin improved to 30.1% in 2000 compared to 26.5% in 1999, primarily as a result of a higher revenue contribution from testing operations and decreases in raw material costs and depreciation as a percentage of net revenues. Our testing operations historically have higher gross margins than our packaging operations, except during periods of lower-than-normal capacity utilization. Our gross margin for packaging increased to 26.3% in 2000 from 23.5% in 1999. This increase was primarily due to decreases in direct and indirect labor costs, raw material costs and depreciation as percentages of packaging revenues. Our gross margin for testing increased to 41.5% in 2000 from 39.8% in 1999. This increase was principally a result of a decrease in repair and maintenance costs, which was partially offset by increases in depreciation as well as direct and indirect labor costs, all as percentages of testing revenues. Raw material costs in 2000 were NT$14,620.4 million, or 28.7% of net revenues, compared to NT$9,782.9 million, or 30.0% of net revenues, in 1999. This percentage decrease reflected a change in the revenue mix, as testing services, which incur very limited raw material costs, accounted for a greater portion of our net revenues, as well as a decrease in raw material prices. Depreciation increased to NT$7,992.3 million in 2000 from NT$5,325.8 million in 1999, due primarily to the full year effect of capacity expansion in 2000. As a percentage of net revenues, depreciation decreased to 15.7% in 2000 from 16.3% in 1999, primarily reflecting a higher capacity utilization rate in 2000 as a result of increased economies of scale realized through increased production.

Operating Income. Operating income increased 103.7% to NT$9,877.1 million in 2000 from NT$4,848.6 million in 1999. Operating margin increased to 19.4% in 2000 from 14.9% in 1999. Operating expenses increased 43.3% to NT$5,449.0 million in 2000 compared to NT$3,801.4 million in 1999. This was primarily due to higher general and administrative and research and development expenses in 2000. Selling expense increased 10.4% to NT$1,020.5 million in 2000 from NT$924.3 million in 1999. This increase reflected our increased sales in 2000. Selling expense accounted for 2.0% of our net revenues in 2000 compared to 2.8% in 1999. General and administrative expense, excluding goodwill amortization, increased 57.5% to NT$2,606.2 million in 2000 from NT$1,655.0 million in 1999. General and administrative expense, excluding goodwill amortization, represented 5.1% of our net revenues in 2000 compared to 5.0% in 1999. This was primarily due to an increase in the number of employees responsible for general and administrative functions as a result of the acquisitions of ISE Labs, ASE Chung Li and ASE Korea. Goodwill amortization expense increased 10.2% to NT$559.8 million in 2000 from NT$507.8 million in 1999. This increase was primarily due to the full year effect of the higher goodwill amortization expense resulting from our acquisitions of ISE Labs and ASE Korea in 1999. Goodwill amortization expense represented 1.1% of our net revenues in 2000 compared to 1.6% in 1999. Research and development expense increased 76.7% to NT$1,262.5 million in 2000 from NT$714.3 million in 1999. This increase was largely a result of the full year effect of the increase in the number of research and development employees as well as additional depreciation charges associated with testers and other equipment dedicated to research and development uses attributable to our acquisitions of ISE Labs, ASE Chung Li and ASE Korea in 1999. Research and development expense accounted for 2.5% of our net revenues in 2000 compared to 2.2% in 1999.

Net Non-Operating Income (Loss). We recorded a net non-operating loss of NT$1,473.5 million in 2000 compared with net non-operating income of NT$4,213.8 million in 1999. This difference was primarily a result of a significant one-time gain on the sale of long-term investments in 1999. Net interest expense increased 47.0% to NT$1,538.0 million in 2000 from NT$1,046.6 million in 1999, primarily as a result of the full year effect of the interest expense from the convertible bonds issued by ASE Test in June 1999 and long-term debt incurred in 1999 to finance our acquisitions of our interests in Universal Scientific, ISE Labs, ASE Chung Li and ASE Korea. We recorded a net investment loss of NT$75.6 million in 2000 compared to net investment income of NT$5,594.8 million in 1999. The difference primarily resulted from a one-time capital gain of NT$5,544.2 million in 1999 resulting from the sale of ASE Test ordinary shares by our subsidiary J&R Holding Limited through a public offering of Taiwan depositary receipts and the sale of ASE Inc. common shares by our subsidiaries and affiliates in a private placement of global depositary shares. Most of the ASE Inc. common shares underlying the global depositary shares were acquired by our subsidiaries between March 1996 and April 1998 as part of a share repurchase program instituted in support of ROC government policies. We recorded a net foreign exchange gain of NT$302.7 million in 2000, compared to a net loss of NT$538.4 million in 1999, reflecting the unrealized foreign exchange gains on assets that are denominated in foreign currencies due to the year-end depreciation of the NT dollar.

Net Income. As a result of the foregoing, net income declined 25.1% to NT$5,837.2 million in 2000 from NT$7,794.7 million in 1999. Excluding the one-time capital gain of NT$5,544.2 million in 1999, net income was NT$2,250.5 million in 1999. The net income per ADS was NT$9.01 for 2000 compared to NT$12.27 for 1999. After eliminating the results of ISE Labs, ASE Chung Li and ASE Korea for comparative purposes, our net income declined 48.3% to NT$3,673.6 million in 2000 compared to NT$7,110.8 million in 1999. Our effective tax rate was 12.7% in 2000 compared to 5.1% in 1999. Our effective income tax rate was significantly lower in 1999 primarily as a result of substantial capital gain in 1999 that was not subject to ROC corporate tax.

Quarterly Net Revenues, Gross Profit and Gross Margin

The following table sets forth our unaudited consolidated net revenues, gross profit and gross margin for the quarterly periods indicated. You should read the following table in conjunction with our consolidated financial statements and related notes included in this annual report. Our net revenues, gross profit and gross margin for any quarter are not necessarily indicative of the results for any future period. Our quarterly net revenues, gross profit and gross margin may fluctuate significantly.

Quarter Ended (in millions)

	Mar. 31, 2000	Jun. 30, 2000	Sept. 30, 2000	Dec. 31, 2000	Mar. 31, 2001	Jun. 30, 2001	Sept. 30, 2001	Dec. 31, 2001
Consolidated Net Revenues:								
Packaging	NT$ 8,378.4	NT$ 9,347.1	NT$ 10,458.9	NT$ 9,844.4	NT$ 8,142.4	NT$ 6,273.5	NT$ 6,406.8	NT$ 8,075.5
Testing	2,776.2	3,013.3	3,440.1	3,538.8	3,105.5	2,204.3	1,970.4	2,179.1
Other	7.0	75.2	5.2	8.8	2.1	4.6	3.6	—
Total	NT$ 11,161.6	NT$ 12,435.6	NT$ 13,904.2	NT$ 13,392.0	NT$ 11,250.0	NT$ 8,482.4	NT$ 8,380.8	NT$ 10,254.6
Consolidated Gross Profit:								
Packaging	NT$ 2,320.1	NT$ 2,568.2	NT$ 2,688.7	NT$ 2,439.9	NT$ 1506.6	NT$ 779.0	NT$ 846.7	NT$ 1493.5
Testing	1,208.7	1,285.8	1,433.9	1,366.0	875.9	103.5	(138.9)	(57.7)
Other	(39.0)	(23.3)	(45.1)	122.2	0.3	(0.1)	0.6	1.4
Total	NT$ 3,489.8	NT$ 3,830.7	NT$ 4,077.5	NT$ 3,928.1	NT$ 2,382.8	NT$ 882.4	NT$ 708.4	NT$ 1,437.2
Consolidated Gross Margin:								
Packaging	27.7%	27.5%	25.7%	24.8%	18.5%	12.4%	13.2%	18.5%
Testing	43.5%	42.7%	41.7%	38.6%	28.2%	4.7%	(7.0)%	(2.6)%
Total	31.3%	30.8%	29.3%	29.3%	21.2%	10.4%	8.5%	14.0%

Our results of operations have been adversely affected by the global semiconductor industry downturn which commenced in the fourth quarter of 2000 and continued through 2001. In the fourth quarter of 2001, we experienced an improvement in our net revenues compared to the preceding quarter. To a lesser extent, our results of operations have also been affected by seasonality. Our first quarter net revenues have historically decreased over the preceding fourth quarter, primarily due to the combined effects of holidays in the United States, Taiwan and Malaysia. Moreover, the increase or decrease in net revenues of a particular quarter as compared with the immediately preceding quarter varies significantly.

Our testing operations historically have higher gross margins than our packaging operations. However, during periods of lower-than-normal capacity utilization, such as the last three quarters of 2001, our testing operations have experienced lower gross margins than our packaging operations.

Off-Balance Sheet Arrangements

We have, from time to time, entered into interest rate swap transactions to hedge our interest rate exposure. As of December 31, 2001, there were no outstanding interest rate swap transactions. In addition, we have entered into foreign currency option contracts to hedge our existing assets and liabilities denominated in foreign currencies and identifiable foreign currency purchase commitments. As of December 31, 2001, we had NT$5,470.5 million (US$156.3 million) outstanding in foreign currency option contracts.

Inflation

We do not believe that inflation in Taiwan has had a material impact on our results of operations.

Taxation

The regular corporate income tax rate in the ROC applicable to us is 25%. We enjoy preferential tax treatment under the tax laws of the ROC and Malaysia. Under the ROC Statute of Upgrading Industries, which gives certain preferential tax treatment to companies that qualify as operating in an "important technology industry", we enjoy a tax exemption on income derived from the packaging of BGA products which expires at the end of 2005. In addition, ASE Electronics (M) Sdn, Bhd., or ASE Test Malaysia, qualified as a "pioneer" company in Malaysia and enjoyed a tax exemption which expired on June 30, 1999. ASE Test Malaysia subsequently obtained the status as "high-tech pioneer" and was granted a five-year tax exemption which expires on June 30, 2004. These tax exemptions resulted in tax savings for us of approximately NT$779.4 million, NT$700.7 million and NT$26.4 million (US$0.8 million) in 1999, 2000 and 2001, respectively.

We also enjoy tax credits under the ROC Statute of Upgrading Industries. Under the previous tax credit rules, we enjoyed a tax credit of 20% for the purchase of equipment manufactured in Taiwan and 10% for the purchase of equipment manufactured outside Taiwan. In April 2002, the ROC Executive Yuan amended the tax credit rules and adopted a 13% rate of tax credit to be applied to the purchase of equipment regardless of where it was manufactured.

Under ROC tax laws, we may apply for additional tax holidays upon receipt of cash infusion from our shareholders, including through rights offerings, if the proceeds of which are used to purchase eligible machinery and equipment. We may also apply for this tax holiday after the capitalization of retained earnings through the issuance of stock dividends. See note 17 to our consolidated financial statements.

In addition, since we have facilities located in special export zones such as the Nantze Export Processing Zone in Taiwan and the Bayan Lepas Free Industrial Zone in Malaysia, we enjoy exemptions from various import duties and commodity taxes on imported machinery, equipment, raw materials and components. Goods produced by companies located in these zones and exported or sold to others within the zones are exempt from otherwise applicable commodity or business taxes.

Our effective income tax rate was 5.1%, 12.7% and 0% in 1999, 2000 and 2001, respectively. The effective tax rate was significantly lower in 2001 because we incurred a net loss, which resulted in income tax benefits of NT$247.3 million (US$7.1 million).

US GAAP Reconciliation

Our financial statements are prepared in accordance with ROC GAAP, which differ in material respects from US GAAP. The following table sets forth a comparison of our net income and shareholders' equity in accordance with ROC GAAP and US GAAP as of and for the periods indicated.

As of and for the Year Ended December 31, 1999, 2000 and 2001 (in millions)

	1999	2000	2001	2001
Net income (loss) in accordance with:				
ROC GAAP	NT$7,794.7	NT$5,837.2	NT$(2,142.2)	US$(61.2)
US GAAP	NT$4,641.3	NT$3,930.0	NT$(4,046.6)	US$(115.6)
Shareholders' equity in accordance with:				
ROC GAAP	NT$30,057.0	NT$43,669.2	NT$41,946.3	US$1,198.5
US GAAP	NT$26,569.7	NT$40,729.1	NT$37,960.3	US$1,084.6

Note 27 to our consolidated financial statements provides a description of the principal differences between ROC GAAP and US GAAP as they relate to us, and a reconciliation to US GAAP of select items, including net income and shareholders' equity. Differences between ROC GAAP and US GAAP which have a material effect on our net income as reported under ROC GAAP relate to gain from the sale of treasury stock and compensation expense pertaining to bonuses to employees, directors and supervisors.

In 2001, we purchased 2,480,000 shares of ASE Test from two of our directors following their exercise of employee stock options in ASE Test shares. We entered into the transaction in order to maintain our investment in ASE Test at a level above 50% of the outstanding shares of ASE Test. We purchased these shares directly from these two directors based on a 10-day average of the market price of the shares. Although we entered into the transaction in order to maintain our majority ownership of ASE Test and not for compensation purposes, under US GAAP, all shares issued upon the exercise of employee incentive stock options which are repurchased by the ASE Test or ASE Test's affiliates within six months of exercise results in compensation expense, which in our case, the excess of the purchase price over the exercise price. The transaction resulted in a US$26.7 million increase in ASE Test's compensation expense and a corresponding increase in ASE Test's capital surplus, which in turn led to a NT$908.7 million (US$26.0 million) increase in ASE Inc.'s compensation expense.

In 1999, three of our consolidated subsidiaries sold an aggregate of 32.5 million ASE Inc. common shares in open market sales. Under US GAAP, when a subsidiary holds its parent's common shares as investments, the common shares are treated as treasury stock and is presented in the consolidated balance sheet as a deduction to shareholders' equity. The capital gain or loss from the sale of treasury stock is added to or deducted from the balance of treasury stock. Under ROC GAAP, this treatment is not required and, as a result, the investment in ASE Inc. common shares by its subsidiaries is presented as long-term investment in the consolidated balance sheet and the capital gain or loss from the sale of treasury stock is recognized as income or loss. As a result of these transactions, we recognized under ROC GAAP capital gains on sale of investments of NT$1,388.5 million in 1999. Under US GAAP, these investments in ASE Inc.'s common shares should be classified as treasury stock and the capital gain is not recognized as income but is deducted from treasury stock under capital surplus. The accounting and financial statement presentation under ROC GAAP for shares of a parent company held by its subsidiary and any related capital gain or loss was, effective January 1, 2002, changed to conform to the accounting and financial presentation under US GAAP.

We paid employee bonuses in 2000 and 2001 in the form of common shares with respect to the results of the preceding fiscal years. We do not expect to pay any employee bonuses in 2002 because we incurred a net loss in 2001. We typically pay all or a portion of employee bonuses in the form of common shares. The number of common shares distributed as part of employee bonuses is obtained by dividing the total nominal NT dollar amount of the bonus to be paid in the form of common shares by the par value of the common shares, or NT$10 per share, rather than their market value, which has generally been substantially higher than par value. Under ROC GAAP, the distribution of employee bonus shares is treated as an allocation from retained earnings, and we are not required to, and do not, charge the value of the employee bonus shares to income. Under US GAAP, however, we would be required to charge the market value of the employee bonus shares to employee compensation expense in the period to which they relate, correspondingly reduce our net income and income per common share calculated in accordance with US GAAP.

The amount and the form of the payment of this compensation is subject to approval at our shareholders' meeting. Under US GAAP, the compensation expense is initially accrued at the nominal NT dollar amount of the aggregate bonus in the period to which it relates. For US GAAP purposes, the difference between the amount initially accrued and the market value of the common shares issued as payment of all or any part of the bonus is recorded as employee compensation expense in the period in which shareholders' approval is obtained, which normally occurs during the second quarter of each year. See note 27 to our consolidated financial statements. Net income and income per common share amounts calculated in accordance with ROC GAAP and US GAAP differ accordingly. The amount of the adjustment for market price for the purpose of US GAAP reconciliation for the special stock bonus paid in 2000 was allocated over a period of three years commencing in the second quarter of the year following the year in which the bonus was paid, reflecting the additional length of service which we require from employees who received the special stock bonus.

Recent US GAAP Accounting Pronouncements

We are required by SEC Staff Accounting Bulletin No. 74 to disclose the impact that recently issued accounting standards will have on our financial statements when adopted in a future period, as well as make certain disclosure about recently issued accounting standards.

In June 2001, the U.S. Financial Accounting Standards Board issued SFAS No. 141, "Accounting for Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". We were required to adopt these standards on January 1, 2002, which may affect accounting for business combinations consummated after June 30, 2001 and that for existing goodwill and other intangible assets upon adoption. The standards require, among other things, companies to review for possible impairment of goodwill existing at the date of adoption and perform subsequent impairment tests on an annual basis. In addition, existing goodwill and intangible assets must be reassessed and classified consistently in accordance with the criteria set forth in SFAS No. 141 and SFAS No. 142. Under the new standards, we will no longer amortize goodwill but intangible assets will continue to be amortized over their estimated useful lives, which, if supportable, may be a period that exceeds the current maximum period of 40 years. As of December 31, 2000 and 2001, we had unamortized goodwill of approximately NT$7,652.7 million and NT$6,900.7 million (US$197.2 million), respectively. Total goodwill amortization expenses of goodwill under ROC GAAP incurred for the years ended December 31, 1999, 2000, and 2001 were NT$507.8 million, NT$559.8 million and NT$692.9 million (US$19.8 million), respectively. We have not yet completed our assessment of the impact that these new standards may have on the accompanying financial statements and cannot estimate whether the related impact would be material or not.

In June 2001, the U.S. Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 requires, among other things, retirement obligations to be recognized when they are incurred and displayed as liabilities, with a corresponding amount capitalized as part of the related long-lived asset. The capitalized element is required to be expensed using a systematic and rational method over its useful life. SFAS No. 143 will be adopted by us on January 1, 2003 and is not expected to have a material impact on our consolidated financial information relating to US GAAP.

In August 2001, the U.S. Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations — Reporting the Effects of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". SFAS No. 144 is effective for years beginning after December 15, 2001. The impact of adopting this accounting standard is not expected to have a material effect on our financial position and results of operations.

LIQUIDITY AND CAPITAL RESOURCES

We have historically been able to satisfy our working capital needs from cash flow from operations. We have historically funded our capacity expansion from internally generated cash, and to the extent necessary, the issuance of equity securities and long-term borrowings. If adequate funds are not available on satisfactory terms, we may be forced to curtail our expansion plans. Moreover, our ability to meet our working capital needs from cash flow from operations will be affected by the demand for our packaging and testing services, which in turn may be affected by several factors. Many of these factors are outside of our control, such as economic downturns and declines in the prices of our services caused by a downturn in the semiconductor industry. The average selling prices of our packaging and testing services are likely to be subject to further downward pressure in the future. To the extent we do not generate sufficient cash flow from our operations to meet our cash requirements, we will have to rely on external financing. Other than as described in "— Off-Balance Sheet Arrangements", we have not historically relied, and we do not plan to rely in the foreseeable future, on off-balance sheet financing arrangements to finance our working capital or capacity expansion.

Our net cash provided by operating activities amounted to NT$11,707.2 million (US$334.5 million) for 2001, partly as a result of adjusting for non-cash depreciation and amortization of NT$11,820.2 million (US$337.7 million). Our net cash provided by operating activities amounted to NT$17,618.3 million for 2000, partly as a result of adjusting for non-cash depreciation and amortization of NT$9,153.6 million. The decline in net cash generated by operating activities was primarily a result of our net loss of NT$2,142.2 million (US$61.2 million) in 2001, compared to a net profit of NT$5,837.2 million in 2000. Depreciation and amortization increased in 2001 compared to 2000 primarily due to the full year effect of our capacity expansion in 2000. In 1999, our net cash provided by operating activities amounted to NT$7,017.2 million, partly as a result of adjusting for non-cash depreciation and amortization expenses of NT$6,062.2 million. The increase in net cash generated by operating activities in 2000 compared to 1999 was primarily due to an increase in net income to NT$5,837.2 million in 2000 from NT$2,250.5 million (excluding the one-time capital gain of NT$5,544.2 million) in 1999. The increase in depreciation and amortization in 2000 compared to 1999 was primarily due to increased capital investment for the expansion of our production capacity.

Net cash used in investing activities decreased to NT$15,180.0 million (US$433.7 million) from NT$33,550.4 million in 2000. This decrease was primarily due to a significant decrease in the acquisition of machinery and equipment for our packaging, testing and interconnect materials operations to NT$8,024.9 million (US$229.3 million) in 2001 from NT$27,154.2 million in 2000. Net cash used in investing activities was NT$11,782.7 million in 1999. The most significant components of this were the acquisition of ASE Chung Li, ASE Korea, ISE Labs and Universal Scientific and the acquisition of NT$7,787.9 million of machinery and equipment in connection with our packaging and testing operations, partially offset by proceeds of NT$7,889.3 million from the sale of shares in ASE Inc. and ASE Test by our subsidiaries.

Net cash provided by financing activities in 2001 amounted to NT$603.5 million (US$17.2 million). This amount primarily reflects proceeds from long-term debt of NT$9,746.6 million (US$278.5 million), partially offset by the payment of NT$6,066.0 million (US$173.3 million) for the early redemption of a portion of our US$200 million zero coupon convertible bonds due 2002. Net cash provided by financing activities in 2000 amounted to NT$17,607.3 million, primarily reflecting proceeds of NT$4,151.3 million from our offering of ADSs in September 2000 and the increase of NT$9,854.5 million in minority interest resulting from the equity offering by ASE Test in 2000. Net cash provided by financing activities in 1999 was NT$8,569.0 million, primarily reflecting the proceeds from long-term debt of NT$4,201.5 million and proceeds of NT$3,460.1 million received from the issuance of convertible notes by ASE Test.

As of December 31, 2001, our primary source of liquidity was NT$11,770.7 million (US$336.3 million) of cash and cash equivalents and NT$4,601.2 million (US$131.5 million) of short-term investments. Our short-term investments primarily consisted of investments in fixed income mutual funds. As of December 31, 2001, we had total availability under existing short-term lines of credit of NT$18,513.5 million (US$529.0 million), of which we had borrowed NT$6,900.5 million (US$197.2 million). The interest rate for borrowings under these facilities ranged from 0.85% to 7.3% per year as of December 31, 2001, as compared to 0.975% to 11.5% per year as of December 31, 2000. All of our short-term loans are revolving facilities with a term of one year, each of which may be extended on an annual basis with lender consent. We believe that our existing credit lines under our short-term loan facilities, together with cash generated from our operations, are sufficient to finance our working capital needs for the next 12 months. As of December 31, 2001, we had working capital of NT$8,380.7 million (US$239.4 million).

Our long-term liabilities consist primarily of bank loans. As of December 31, 2001, we had outstanding long-term bank loans, less current portion, of NT$23,075.2 million (US$659.3 million). These long-term bank loans carried variable interest rates which ranged between 0.88% and 7.92% per year as of December 31, 2001, as compared to 1.1% to 10.5% per year as of December 31, 2000. We have pledged a substantial portion of our assets, with a carrying value of NT$12,889.6 million (US$368.3 million) as of December 31, 2001, to secure our obligations under our short-term and long-term facilities.

In November 1997, we issued US$200 million in aggregate principal amount of zero coupon convertible bonds. These bonds have an implied interest rate of 6.372%, and are convertible into our shares. These bonds, which are scheduled to mature in November 2002, are convertible at the option of the holders from December 1997 through October 2002. As of March 31, 2002, these convertible bonds are convertible into our common shares at a conversion price of NT$50.5 per common share. As of December 31, 2001, 355,086 shares were issued as a result of the conversion of these bonds. The bonds are redeemable, in whole or in part, by us under certain circumstances beginning in November 2000. Between September and December 2001, we redeemed US$131 million in aggregate principal amount of these bonds. As of December 31, 2001, US$68 million in aggregate principal amount of the bonds remained outstanding. In addition, we were required to make payments to a sinking fund for the benefit of the outstanding amount of the bonds twelve months prior to the maturity date of the bonds. As of December 31, 2001, the balance of the sinking fund was NT$1,568.1 million (US$44.8 million).

Our long-term loans and facilities contain various financial and other covenants that could trigger a requirement for early payment. Among other things, these covenants require the maintenance of certain financial ratios, such as liquidity ratio, indebtedness ratio, interest coverage ratio and other technical requirements. In general, covenants in the agreements governing our existing debt, and debt we may incur in the future, may materially restrict our operations, including our ability to incur debt, pay dividends, make certain investments and payments and encumber or dispose of assets. A default under one debt instrument may also trigger cross-defaults under our other debt instruments. An event of default under any debt instrument, if not cured or waived, could have a material adverse effect on our liquidity, as well as our financial condition and operations.

The reduced levels of operating cash flow as a result of the downturn in the semiconductor industry resulted in our failure on June 30, 2001 to comply with the interest coverage ratio under our NT$5.2 billion three-year syndicated loan. We successfully obtained a waiver for the breach and an amendment to the interest coverage ratio from Citibank, N.A., as manager on behalf of the syndicate, in November 2001. If the downturn in the semiconductor industry and for our services continues, we cannot assure you that we will be able to remain in compliance with our financial covenants under this agreement or other agreements. In the event of default, we may not be able to cure the default or obtain a waiver, and our operations could be significantly disrupted and harmed.

The following table sets forth the maturity of our long-term debt, capital lease obligations and operating leases as of December 31, 2001.

(in millions)

	Payments Due by Period,				
Contractual Obligations	Total	Under 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years
Long-term debt	NT$34,039.2	NT$6,185.7	NT$26,220.9	NT$1,562.8	NT$ 69.8
Capital lease obligations	NT$ 106.5	NT$ 80.5	NT$ 26.0	NT$ —	NT$ —
Operating leases	NT$ 1,990.1	NT$ 314.0	NT$ 554.3	NT$ 534.1	NT$ 587.7

In addition to the contractual obligations set forth above, as of December 31, 2001, we had made commitments to purchase approximately NT$3,060.0 million (US$87.4 million) of machinery and equipment, which may be canceled subject to the payment of certain penalties. We also have continuing obligations to make cash royalty payments under our technology license agreements for the procurement of the manufacturing technology for certain products. Under these agreements, we are obligated to pay royalties equal to a specified percentage of quantities. The royalties we paid amounted to NT$112.0 million, NT$199.8 million and NT$151.2 million (US$4.3 million) in 1999, 2000 and 2001, respectively.

Our contingent obligations consist of guarantees provided by us to our subsidiaries. As of December 31, 2001, we have endorsed and guaranteed the promissory notes of our subsidiaries in the amount of NT$8,082.7 (US$230.9 million). Other than such guarantees, we have no other contingent obligations. See note 22 to our consolidated financial statements.

We have made, and expect to continue to make, substantial capital expenditures in connection with the expansion of our production capacity. The table below sets forth our principal capital expenditures incurred for the periods indicated.

Year Ended December 31, 1999, 2000 and 2001 (in millions)

	1999	2000	2001	
	NT$	NT$	NT$	US$
Machinery and equipment	7,787.9	27,154.2	8,024.9	229.3
Building and improvements	3,309.5	4,309.3	3,540.8	101.1

We have budgeted capital expenditures of approximately NT$9,800.0 million (US$280.0 million) for 2002, primarily to purchase machinery and equipment in connection with the expansion of our packaging, testing, and interconnect materials operations. We may adjust the amount of our capital expenditures upward or downward based on cash flow from operations, the progress of our expansion plans and market conditions. Due to the rapid changes in technology in the semiconductor industry, we frequently need to invest in new machinery and equipment, which may require us to raise additional capital. We cannot assure you that we will be able to raise additional capital should it become necessary on terms acceptable to us or at all.

We believe that our existing cash and cash equivalents, short-term investments, expected cash flow from operations and existing credit lines under our short-term loan facilities will be sufficient to meet our capital expenditures, working capital, cash obligations under our existing debt and lease arrangements, and other requirements for at least the next twelve months. We have contractual obligations of NT$33,381.4 million (US$953.8 million) due in the next three years. We intend to meet our payment obligations through the expected cash flow from operations, long-term debt and the issuance of additional equity or equity-linked securities. We will continue to evaluate our capital structure and may decide from time to time to increase or decrease our financial leverage through equity offerings or debt borrowings. The issuance of additional equity or equity-linked securities may result in additional dilution to our shareholders.

From time to time, we evaluate possible investments, acquisitions or divestments and may, if a suitable opportunity arises, make an investment, acquisition or divestment. We currently have no commitments to make any material investment, acquisition or divestment. In July 2000, our shareholders approved a resolution which authorizes our board of directors to make investments in the People's Republic of China. When this type of investment is permitted by the ROC investment law and policy, and if suitable opportunities are available at that time, we intend to consider establishing semiconductor packaging, testing and interconnect materials operations in the People's Republic of China.

RESEARCH AND DEVELOPMENT

For 1999, 2000 and 2001, our research and development expenditures totaled approximately NT$714.3 million, NT$1,262.5 million and NT$1,504.5 million (US$43.0 million), respectively. These expenditures represented approximately 2.2%, 2.5% and 3.9% of net revenues in 1999, 2000 and 2001, respectively. We have historically expensed all research and development costs as incurred and none is currently capitalized. As of December 31, 2001, we employed 1,275 employees in research and development.

Packaging

We centralize our research and development efforts in packaging technology in our Kaohsiung, Taiwan facilities. After initial phases of development, we conduct pilot runs in one of our facilities before the new technologies or processes are implemented commercially at other sites. Facilities with special product expertise, such as ASE Korea, also conduct research and development of these specialized products and technologies at their sites. One of the areas of emphasis for our research and development efforts is improving the efficiency and technology of our packaging processes. We expect these efforts to continue. We are now also putting significant research and development efforts into the development and adoption of new technology. We work closely with the manufacturers of our packaging equipment, including Kulicke & Soffa Industries Inc., in designing and modifying the equipment used in our production process. We also work closely with our customers to develop new product and process technology.

A significant portion of our research and development efforts is also focused on the development of advanced substrate production technology for BGA packaging through ASE Material. Substrate is the principal raw material for BGA packages. Development and production of advanced substrates involve complex technology and, as a result, high quality substrates are currently available only from a limited number of suppliers, located primarily in Japan. We believe that the successful development of substrate production capability by ASE Material will, among other things, enable us to capture an increasingly important value-added component of the packaging process, help ensure a stable and cost-effective supply of substrates for our BGA packaging operations and shorten production time. In 2001, ASE Material supplied approximately 34% of our substrate requirements by value.

Testing

Our research and development efforts in the area of testing have focused primarily on improving the efficiency and technology of our testing processes. The efforts include developing software for parallel testing of logic semiconductors, rapid automatic generation and cross-platform conversion of test programs to test logic/mixed-signal semiconductors, automatic code generation for converting and writing testing programs, testing new products using existing machines and providing customers remote access to monitor test results. We are also continuing the development of interface designs to provide for high-frequency testing by minimizing electrical noise. We work closely with our customers in designing and modifying testing software and with equipment vendors to increase the efficiency and reliability of testing equipment. Our research and development operations also include a mechanical engineering group, which currently designs handler kits for semiconductor testing and wafer probing, as well as software to optimize capacity utilization.


Financial Statements

Independent Auditors' Report

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

We have audited the accompanying balance sheets of Advanced Semiconductor Engineering, Inc. as of December 31, 2001 and 2000, and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Regulations for Audit of Financial Statements by Certified Public Accountants and generally accepted auditing standards in the Republic of China. Those 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 financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles in the Republic of China.

March 29, 2002

Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

BALANCE SHEETS

December 31, 2001 and 2000 (In Thousand New Taiwan Dollars)

ASSETS	2001		2000	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash	$ 5,614,903	8	$ 6,793,592	10
Short-term investments - net of allowance for declined market value of $4,849 in 2000 (Note 2)	729,810	1	15,151	-
Notes receivable	86,350	-	188,711	-
Accounts receivable (Notes 3 and 17)	4,548,253	6	4,689,997	7
Inventories (Notes 2 and 4)	1,549,863	2	1,757,719	2
Prepayments and other	178,504	-	143,858	-
Deferred income tax assets (Notes 2 and 15)	266,000	1	701,954	1
Sinking fund (Note 11)	1,568,057	2	-	-
Total Current Assets	14,541,740	20	14,290,982	20
LONG-TERM INVESTMENTS				
Shares of stock (Notes 2, 5, 17 and 19)	38,219,384	54	38,000,764	54
Bonds (Notes 2 and 6)	-	-	19,833	-
Total Long-Term Investments	38,219,384	54	38,020,597	54
PROPERTIES (Notes 2, 7, 12, 18 and 19)				
Cost				
Land	61,984	-	61,984	-
Buildings and improvements	5,772,071	8	3,819,861	5
Machinery and equipment	17,800,767	25	16,561,684	24
Transportation equipment	44,352	-	41,366	-
Furniture and fixtures	241,928	-	180,413	-
Leased assets	3,485,445	5	3,444,184	5
Total cost	27,406,547	38	24,109,492	34
Accumulated depreciation	10,790,514	15	8,765,815	12
	16,616,033	23	15,343,677	22
Construction in progress	646,392	1	806,022	1
Machinery in transit and prepayments	796,026	1	1,565,259	2
	18,058,451	25	17,714,958	25
OTHER ASSETS (Notes 2, 8, 15, 18 and 19)	837,011	1	699,608	1
TOTAL ASSETS	$ 71,656,586	100	$ 70,726,145	100

December 31, 2001 and 2000				(In Thousand New Taiwan Dollars)
LIABILITIES AND SHAREHOLDERS' EQUITY	2001		2000	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term borrowings (Note 9)	$ 821,930	1	$ 1,822,973	3
Commercial papers and bank acceptances payable (Note 10)	2,212,193	3	2,244,985	3
Accounts payable (Note 17)	2,462,606	4	2,384,179	3
Income tax payable (Note 15)	-	-	609,000	1
Accrued expenses	545,192	1	741,026	1
Current portion of bonds payable (Notes 2 and 11)	3,090,345	4	-	-
Current portion of long-term debts (Notes 12 and 18)	2,892,644	4	3,459,115	5
Other	702,871	1	645,336	1
Tota Current Liabilities	12,727,781	18	11,906,614	17
LONG-TERM BONDS PAYABLE (Notes 2 and 11)	-	-	8,048,495	11
LONG-TERM DEBTS (Notes 12 and 18)	16,726,610	23	5,985,193	9
ACCRUED PENSION COST (Notes 2 and 13)	251,679	-	220,311	-
DEFERRED INCOME TAX LIABILITIES - NET (Notes 2 and 15)	-	-	892,000	1
DEFERRED PROFIT FROM RELATED PARTY TRANSACTION (Note 2)	4,195	-	4,318	-
Total Liabilities	29,710,265	41	27,056,931	38
SHAREHOLDERS' EQUITY (Notes 11 and 14)				
Capital stock	32,548,000	46	27,520,000	39
Capital surplus				
Capital in excess of par value	3,171,933	5	3,171,933	4
Net gain on disposal of properties	23,109	-	23,109	-
Adjustment of equity in subsidiary due to change in percentage of ownership	3,656,472	5	4,075,783	6
Total capital surplus	6,851,514	10	7,270,825	10
Retained earnings	1,015,654	1	8,200,947	12
Unrealized loss on long-term investment in shares of stock	(442,246)	(1)	(546,829)	(1)
Cumulative translation adjustments	1,973,399	3	1,224,271	2
Total Shareholders' Equity	41,946,321	59	43,669,214	62
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 71,656,586	100	$ 70,726,145	100

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

STATEMENTS OF INCOME

Years Ended December 31, 2001 and 2000 (In Thousand New Taiwan Dollars, Except Earnings (loss) Per Share)

	2001		2000	
	Amount	%	Amount	%
NET SALES	$ 20,508,233	100	$ 25,524,296	100
COST OF SALE	17,139,414	83	18,529,603	73
GROSS PROFIT	3,368,819	17	6,994,693	27
OPERATING EXPENSE				
Selling	480,771	2	575,958	2
General and administrative	659,283	3	637,379	3
Research and development	507,292	3	520,310	2
Total Operating Expenses	1,647,346	8	1,733,647	7
INCOME FROM OPERATIONS	1,721,473	9	5,261,046	20
NON-OPERATING INCOME				
Interest	264,719	1	239,925	1
Investment income – net (Notes 2 and 5)	-	-	2,032,224	8
Foreign exchange gain – net (Notes 2 and 20)	28,958	-	115,467	1
Other	107,210	1	109,009	-
Total Non-Operating Income	400,887	2	2,496,625	10
NON-OPERATING EXPENSES				
Interest (Notes 2 and 7)	1,232,452	6	1,066,021	4
Investment loss – net (Notes 2 and 5)	3,280,319	16	-	-
Other	137,145	1	32,787	-
Total Non-Operating Expenses	4,649,916	23	1,098,808	4
INCOME (LOSS) BEFORE INCOME TAX AND EXTRAORDINARY LOSS	(2,527,556)	(12)	6,658,863	26

(Forward)

Years Ended December 31, 2001 and 2000	(In Thousand New Taiwan Dollars, Except Earnings (loss) Per Share)			
	2001		2000	
	Amount	%	Amount	%
INCOME TAX EXPENSE (BENEFIT)(Notes 2 and 15)	($ 529,902)	(3)	$ 821,714	3
INCOME BEFORE EXTRAORDINARY LOSS	(1,997,654)	(9)	5,837,149	23
EXTRAORDINARY LOSS - net of tax benefits $48,188 (Notes 11 and 15)	(144,565)	(1)	-	-
NET INCOME (LOSS)	($ 2,142,219)	(10)	$ 5,837,149	23
EARNINGS (LOSS) PER SHARE (Notes 2 and 16)				
Based on weighted average number of outstanding shares of 3,254,800,000 in 2001 and 2,677,602,508 in 2000				
Primary				
Income (loss) before extraordinary loss	($ 0.61)		$ 2.13	
Extraordinary loss	(0.05)		-	
Net income (loss)	($ 0.66)		$ 2.13	
Fully diluted				
Income (loss) before extraordinary loss	($ 0.61)		$ 2.13	
Extraordinary loss	(0.05)		-	
Net income (loss)	($ 0.66)		$ 2.13	
Based on weighted average number of outstanding shares after giving retroactive adjustment to 2001 stock dividends				
Primary			$ 1.80	
Fully diluted			$ 1.80	

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In Thousand New Taiwan Dollars, Except Par Value)

	CAPITAL STOCK ($10 Par Value)			CAPITAL SURPLUS	
	Authorized Shares	Issued and Outstanding Shares	Issued and Outstanding Amount	Capital in Excess of Par Value	Net Gain on Disposal of Properties
BALANCE, JANUARY 1, 2000	2,400,000,000	1,980,000,000	$ 19,800,000	$ 1,921	$ 11,879
Convertible bonds converted into common shares	-	355,086	3,551	32,102	-
Increase in authorized capital, July 11, 2000	800,000,000	-	-	-	-
Appropriations of 1999 earnings					
Legal reserve	-	-	-	-	-
Compensation to directors and supervisors	-	-	-	-	-
Bonus to employees - cash	-	-	-	-	-
Bonus to employees - stock	-	47,833,062	478,331	-	-
Stock dividends – 31.5%	-	623,811,852	6,238,118	-	-
Capital increase in cash through the issuance of American Depositary Receipts – September 29, 2000	-	100,000,000	1,000,000	3,137,910	-
Transfer of subsidiary's net gain on disposal of properties	-	-	-	-	9,470
Adjustment of equity in subsidiary due to change in percentage of ownership	-	-	-	-	-
Unrealized loss on long-term investment in shares of stock	-	-	-	-	-
Net income in 2000	-	-	-	-	-
Transfer of net gain on disposal of properties	-	-	-	-	1,760
Cumulative translation adjustments	-	-	-	-	-
BALANCE, DECEMBER 31, 2000	3,200,000,000	2,752,000,000	27,520,000	3,171,933	23,109
Increase in authorized capital, April 6, 2001	950,000,000	-	-	-	-
Appropriations of 2000 earnings Legal reserve	-	-	-	-	-
Compensation to directors and supervisors	-	-	-	-	-
Bonus to employees – cash	-	-	-	-	-
Bonus to employees – stock	-	34,960,000	349,600	-	-
Stock dividends – 17%	-	467,840,000	4,678,400	-	-
Adjustment of equity in subsidiary due to change in percentage of ownership	-	-	-	-	-
Reversal of unrealized loss on long-term investment in shares of stock	-	-	-	-	-
Net loss in 2001	-	-	-	-	-
Cumulative translation adjustments	-	-	-	-	-
BALANCE, DECEMBER 31, 2001	4,150,000,000	3,254,800,000	$ 32,548,000	$ 3,171,933	$ 23,109

(In Thousand New Taiwan Dollars, Except Par Value)

CAPITAL SURPLUS		RETAINED EARNINGS			UNREALIZED LOSS ON LONG-TERM INVESTMENT IN SHARES OF STOCK	CUMULATIVE TRANSLATION ADJUSTMENTS (Note 2)	TOTAL SHAREHOLD-ERS' EQUITY
Adjustment of Equity in Subsidiary due to Change in Percentage of Ownership	Total	Legal Reserve	Unappropriated Earnings (Accumulated Losses)	Total			
$ 669,874	$ 683,674	$ 1,549,784	$ 7,693,562	$ 9,243,346	$ -	$ 330,016	$ 30,057,036
-	32,102	-	-	-	-	-	35,653
-	-	-	-	-	-	-	-
-	-	779,393	(779,393)	-	-	-	-
-	-	-	(139,200)	(139,200)	-	-	(139,200)
-	-	-	(12,669)	(12,669)	-	-	(12,669)
-	-	-	(478,331)	(478,331)	-	-	-
-	-	-	(6,238,118)	(6,238,118)	-	-	-
-	3,137,910	-	-	-	-	-	4,137,910
-	9,470	-	(9,470)	(9,470)	-	-	-
3,405,909	3,405,909	-	-	-	-	-	3,405,909
-	-	-	-	-	(546,829)	-	(546,829)
-	-	-	5,837,149	5,837,149	-	-	5,837,149
-	1,760	-	(1,760)	(1,760)	-	-	-
-	-	-	-	-	-	894,255	894,255
4,075,783	7,270,825	2,329,177	5,871,770	8,200,947	(546,829)	1,224,271	43,669,214
-	-	-	-	-	-	-	-
-	-	583,539	(583,539)	-	-	-	-
-	-	-	(103,200)	(103,200)	-	-	(103,200)
-	-	-	(10,400)	(10,400)	-	-	(10,400)
-	-	-	(349,600)	(349,600)	-	-	-
-	-	-	(4,678,400)	(4,678,400)	-	-	-
(419,311)	(419,311)	-	98,526	98,526	-	-	(320,785)
-	-	-	-	-	104,583	-	104,583
-	-	-	(2,142,219)	(2,142,219)	-	-	(2,142,219)
-	-	-	-	-	-	749,128	749,128
$ 3,656,472	$ 6,851,514	$ 2,912,716	($ 1,897,062)	$ 1,015,654	($ 442,246)	$ 1,973,399	$ 41,946,321

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

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2001 and 2000		(In Thousand New Taiwan Dollars)
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	($ 2,142,219)	$ 5,837,149
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	3,258,770	2,636,825
Amortization	286,696	234,386
Investment (income) loss - net	3,266,975	(2,114,378)
Accrued interest on convertible bonds	492,088	459,191
Exchange loss on long-term bonds payable	423,051	416,211
Loss on early extinguishment of foreign convertible bonds	192,753	-
Deferred income taxes	(572,046)	255,046
Loss from idle assets	78,870	-
Cash dividends received from long-term stock investments	32,169	954,220
Provision for loss on long-term bonds investment	18,193	184,731
Exchange loss on foreign currency option and cross currency swap contracts	16,368	386
Provision for doubtful accounts and sales allowance	13,895	34,400
Loss on disposal of properties – net	1,408	12,141
Gain on sale of investments	-	(107,426)
Effect of exchange rate changes	(171,465)	(318,671)
Other	(3,332)	(5,763)
Changes in operating assets and liabilities		
Notes receivable	102,361	(10,110)
Accounts receivable	197,146	(918,702)
Inventories	207,856	(527,310)
Prepayments and other current assets	13,886	(17,640)
Accounts payable	78,427	431,684
Accrued expenses	(195,834)	300,361
Income tax payable	(609,000)	291,000
Accrued pension cost	31,368	48,129
Other current liabilities	3,259	(91,749)
Net Cash Provided by Operating Activities	5,021,643	7,984,111
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of:		
Properties	57,212	40,341
Long-term stock investments	-	100,666
Increase (Decrease) in short-term investments	(709,810)	85,760
Acquisition of properties	(3,809,050)	(5,571,373)
Increase in other assets	(308,099)	(391,304)
Payments for long-term stock investments	(2,984,838)	(3,882,199)
Net Cash Used in Investing Activities	(7,754,585)	(9,618,109)

(Forward)

Years Ended December 31, 2001 and 2000		(In Thousand New Taiwan Dollars)
	2001	2000
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	$ 1,889,553	$ 671,936
Repayments of long-term debts	(1,076,250)	(1,249,939)
Decrease in payable for fixed assets	(10,624)	(255,077)
Proceeds from (repaymants of) commercial papers and bank acceptances payable	(32,792)	2,244,985
Capital increase through the issuance of American Depositary Shares	-	4,151,300
Appropriation of sinking fund for convertible bonds	(1,568,057)	-
Early extinguishment of foreign convertible bonds	(6,066,042)	-
Compensation to directors and supervisors	(103,200)	(139,200)
Bonus to employees	(10,400)	(12,669)
Proceeds from long-term debts	8,360,600	427,285
Net Cash Provided by Financing Activities	1,382,788	5,838,621
EFFECT OF EXCHANGE RATE CHANGES	171,465	318,671
NET INCREASE (DECREASE) IN CASH	(1,178,689)	4,523,294
CASH, BEGINNING OF YEAR	6,793,592	2,270,298
CASH, END OF YEAR	$ 5,614,903	$ 6,793,592
SUPPLEMENTAL INFORMATION		
Interest paid (excluding capitalized interest)	$ 736,123	$ 577,981
Income tax paid	602,956	276,164
Cash paid for acquisition of fixed assets		
Acquisition of fixed assets	3,809,050	7,879,157
Increase in obligation under capital leases	-	(2,307,784)
	$ 3,809,050	$ 5,571,373
Cash received from sales of fixed assets		
Sales of fixed assets	$ 126,509	$ 67,827
Increase in receivable	(69,297)	(27,486)
	$ 57,212	$ 40,341
Cash received from capital increase through the issuance of American Depositary Shares		
Net proceeds	$ -	$ 4,137,910
Increase in accrued expense	-	13,390
Net cash inflow	$ -	$ 4,151,300

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

Independent Auditors' Report

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 consolidated subsidiaries (the "Corporation") as of December 31, 2000 and 2001 and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three year period ended December 31, 2001, all prepared in accordance with accounting principles generally accepted in the Republic of China and expressed in New Taiwan dollars. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Regulations for Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China and the United States of America. Those 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 Corporation as of December 31, 2000 and 2001, and the consolidated results of their operations and their cash flows for each of the years in the three year period ended December 31, 2001, in conformity with accounting principles generally accepted in the Republic of China.
Accounting principles generally accepted in the Republic of China vary in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of net income for each of the three years in the period ended December 31, 2001 and the determination of stockholders' equity and financial position at December 31, 2001 and 2000, to the extent summarized in Note 27.

T N Soong & Co
Associate Member Firm of Deloitte Touche Tohmatsu effective April 22, 2002
Former Member Firm of Andersen Worldwide, SC
Taipei, Taiwan
Republic of China

May 17, 2002

CONSOLIDATED BALANCE SHEETS

December 31, 2000 and 2001			(In Thousands)
ASSETS	2000	2001	
	NT$	NT$	US$
CURRENT ASSETS			
Cash and cash equivalents (Note 2)	14,166,495	11,770,729	336,307
Short-term investments (Notes 2 and 3)	1,682,679	4,601,172	131,462
Notes receivable	219,641	105,185	3,005
Accounts receivable - net (Notes 4)	9,040,934	7,020,964	200,599
Inventories (Notes 2 and 5)	3,246,327	2,768,436	79,098
Deferred income tax assets - net (Notes 2 and 17)	1,160,727	873,008	24,943
Prepayments and other (Note 21)	1,270,859	942,110	26,917
Sinking fund (Note 13)	-	1,568,057	44,802
Total Current Assets	30,787,662	29,649,661	847,133
LONG-TERM INVESTMENTS			
Shares of stock (Notes 2, 6, 10 and 21)	10,485,459	9,530,398	272,297
Bonds (Notes 2 and 7)	226,740	-	-
Total Long-Term Investments	10,712,199	9,530,398	272,297
PROPERTIES (Notes 2, 8,13 and 21)			
Cost			
Land and land improvements	3,798,835	3,940,476	112,585
Buildings and improvements	9,390,206	14,640,855	418,310
Machinery and equipment	59,631,388	66,986,146	1,913,890
Transportation equipment	101,409	107,927	3,084
Furniture and fixtures	1,458,138	1,387,583	39,645
Leased assets and leasehold improvements	486,275	584,163	16,690
Long-term land and leasehold rights	1,389	-	-
Total cost	74,867,640	87,647,150	2,504,204
Accumulated depreciation	(22,690,292)	(31,751,538)	(907,187)
	52,177,348	55,895,612	1,597,017
Construction in progress	3,438,426	1,728,587	49,388
Machinery in transit and prepayments	4,950,426	2,930,886	83,740
Net Properties	60,566,200	60,555,085	1,730,145
OTHER ASSETS (Notes 2, 9 and 21)	1,275,557	1,342,269	38,351
CONSOLIDATED DEBITS (Notes 2 and 10)	4,999,546	5,248,919	149,969
TOTAL ASSETS	108,341,164	106,326,332	3,037,895

December 31, 2000 and 2001			(In Thousands)
LIABILITIES AND SHAREHOLDERS' EQUITY	2000	2001	
	NT$	NT$	US$
CURRENT LIABILITIES			
Short-term borrowings (Notes 11 and 21)	5,402,597	3,456,149	98,747
Commercial papers and bank acceptances payable (Note 12)	4,281,805	3,444,314	98,409
Accounts payable	3,859,909	2,968,779	84,822
Payable for fixed assets (Note 8)	4,179,324	1,928,469	55,099
Income tax payable	1,100,964	244,618	6,989
Current portion of long-term bonds payable (Note13)	-	3,090,345	88,295
Current portion of long-term debts (Notes 14 and 21)	3,309,935	3,175,883	90,740
Current portion of long-term payable for investments (Note 26)	773,616	816,433	23,327
Accrued expenses (Note 19)	1,613,207	1,631,642	46,619
Other	1,352,002	512,295	14,636
Total Current Liabilities	25,873,359	21,268,927	607,683
LONG-TERM BONDS PAYABLE (Note 13)	12,229,179	4,778,291	136,523
LONG-TERM DEBTS (Notes 14 and 21)	10,329,851	23,101,135	660,032
LONG-TERM PAYABLE FOR INVESTMENTS (Note 26)	3,417,912	2,794,861	79,853
ACCRUED PENSION COST (Notes 2 and 18)	248,425	294,438	8,413
DEFERRED INCOME TAX LIABILITIES - NET (Notes 2 and 17)	511,462	-	-
Total Liabilities	52,610,188	52,237,652	1,492,504
COMMITMENTS AND CONTINGENCIES (Note 22)			
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	12,061,762	12,142,359	346,925
SHAREHOLDERS' EQUITY (Note 15)			
Capital stock – NT$10 par value	27,520,000	32,548,000	929,943
Authorized – 3,200,000 thousand shares in 2000 and 4,150,000 thousand shares in 2001			
Issued – 2,750,000 thousand shares in 2000 and 3,254,800 thousand shares in 2001			
Capital surplus			
Capital in excess of par value	3,171,933	3,171,933	90,627
Net gain on disposal of properties	23,109	23,109	660
Adjustment of equity in subsidiary due to change in percentage of ownership	4,075,783	3,656,472	104,471
Total capital surplus	7,270,825	6,851,514	195,758
Retained earning	8,200,947	1,015,654	29,018
Unrealized loss on long–term investments in shares of stock	(546,829)	(442,246)	(12,636)
Cumulative translation adjustments	1,224,271	1,973,399	56,383
Total Shareholders' Equity	43,669,214	41,946,321	1,198,466
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	108,341,164	106,326,332	3,037,895

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

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 1999,2000 and 2001 (In Thousands, Except Earnings (Loss) Per Share and Equivalent ADS)

	1999	2000	2001	
	NT$	NT$	NT$	US$
NET REVENUES (Note 25)				
Packaging	24,522,968	38,028,799	28,898,185	825,663
Testing	7,793,198	12,768,361	9,459,275	270,265
Other	293,395	96,217	10,366	296
Subtotal	32,609,561	50,893,377	38,367,826	1,096,224
COST OF REVENUES				
Packaging	18,769,995	28,011,934	24,272,336	693,495
Testing	4,687,939	7,473,964	8,676,475	247,899
Other	501,632	81,380	8,203	235
Subtotal	23,959,566	35,567,278	32,957,014	941,629
GROSS PROFIT	8,649,995	15,326,099	5,410,812	154,595
OPERATING EXPENSES				
Selling	924,347	1,020,451	877,858	25,081
General and administrative (Note 10)	2,162,765	3,166,006	3,490,507	99,729
Research and development	714,324	1,262,516	1,504,536	42,987
Total Operating Expenses	3,801,436	5,448,973	5,872,901	167,797
INCOME (LOSS) FROM OPERATIONS	4,848,559	9,877,126	(462,089)	(13,202)
NON-OPERATING INCOME				
Interest (Notes 2 and 23)	423,158	554,180	503,603	14,389
Gain on sales of investments (Notes 2 and 16)	5,544,155	91,666	50,666	1,448
Investment income under equity method (Notes 2 and 6)	81,466	69,915	-	-
Foreign exchange gain-net (Notes 2 and 23)	-	302,745	247,498	7,071
Other	314,549	198,518	466,787	13,336
Total Non-Operating Income	6,363,328	1,217,024	1,268,554	36,244
NON-OPERATING EXPENSES				
Interest (Notes 2 and 8)	1,469,795	2,092,238	2,242,897	64,082
Investment loss under equity method (Notes 2 and 6)	30,871	237,152	1,246,836	35,624
Foreign exchange loss - net (Notes 2 and 23)	538,368	-	-	-
Other	110,412	361,200	302,249	8,636
Total Non-Operating Expenses	2,149,446	2,690,590	3,791,964	108,342
INCOME (LOSS) BEFORE INCOME TAX AND MINORITY INTEREST AND ACQUISITION AND EXTRAORDINARY LOSS	9,062,441	8,403,560	(2,985,499)	(85,300)
INCOME TAX BENEFIT (EXPENSE) (Notes 2 and 17)	(459,543)	(1,065,768)	199,160	5,690
INCOME (LOSS) BEFORE MINORITY INTEREST AND ACQUISITION AND EXTRAORDINARY LOSS	8,602,898	7,337,792	(2,786,339)	(79,610)

(Forward)

Years Ended December 31, 1999,2000 and 2001	(In Thousands, Except Earnings (Loss) Per Share and Equivalent ADS)			
	1999	2000	2001	
	NT$	NT$	NT$	US$
INCOME BEFORE ACQUISITION (Note 2)	(65,167)	-	-	-
EXTRAORDINARY LOSS (net of tax benefit $48,188 (US$1,377)) (Note 13)	-	-	(144,565)	(4,130)
MINORITY INTEREST IN NET (INCOME) LOSS OF SUBSIDIARIES	(743,065)	(1,500,643)	788,685	22,534
NET INCOME (LOSS)	7,794,666	5,837,149	(2,142,219)	(61,206)
EARNINGS (LOSS) PER SHARE (Notes 2 and 20) Based on weighted average number of outstanding shares of 3,254,800,000 in 2001 and 2,677,602,508 in 2000 and 1,980,000,000 in 1999				
Simple				
Income loss before extraordinary loss	3.93	2.18	(0.61)	(0.02)
Extraordinary loss	-	-	(0.05)	-
Net loss	3.93	2.18	(0.66)	(0.02)
Primary	3.89	2.13	(0.66)	(0.02)
Fully diluted	3.89	2.13	(0.66)	(0.02)
Based on weighted average number of outstanding shares after giving retroactive adjustment to 2000 and 2001 stock dividends				
Primary	2.46	1.82	(0.66)	(0.02)
Fully diluted	2.45	1.80	(0.66)	(0.02)
EARNINGS (LOSS) PER EQUIVALENT ADS (Notes 2 and 20) Based on weighted average number of outstanding shares of 650,960,000 in 2001 and 535,520,502 in 2000 and 396,000,000 in 1999				
Simple				
Income loss before extraordinary loss	19.68	10.90	(3.07)	(0.09)
Extraordinary loss	-	-	(0.22)	-
Net loss	19.68	10.90	(3.29)	(0.09)
Primary	19.45	10.65	(3.29)	(0.09)
Fully diluted	19.43	10.65	(3.29)	(0.09)
Based on weighted average number of outstanding shares after giving retroactive adjustment to 2000 and 2001 stock dividends				
Primary	12.28	9.12	(3.29)	(0.09)
Fully diluted	12.27	9.01	(3.29)	(0.09)

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	CAPITAL STOCK (NT$10 Par Value)			CAPITAL SURPLUS
	Authorized Shares	Issued and Outstanding		
		Shares	Amount	
BALANCE, JANUARY 1, 1999	2,200,000.000	1,780,000,000	NT$17,800,000	NT$1,189,173
Increase in authorized capital, June 9, 1999	200,000,000	-	-	-
Appropriations of 1998 earnings (Note 15)				
Legal reserve	-	-	-	-
Compensation to directors and supervisors	-	-	-	-
Stock dividends – 7.8%	-	138,840,000	1,388,400	-
Bonus to employees – stock	-	9,540,000	95,400	-
Bonus to employees – cash	-	-	-	-
Stock dividends from capital surplus – 2.9%	-	51,620,000	516,200	(516,200)
Transfer of subsidiary's net gain on disposal of properties	-	-	-	4,931
Transfer of net gain on disposal of properties	-	-	-	736
Adjustment of equity in subsidiary due to change in percentage of ownership	-	-	-	5,034
Net income in 1999	-	-	-	-
Reversal of unrealized loss on long-term investment in shares of stock	-	-	-	-
Cumulative translation adjustments (Note 2)	-	-	-	-
BALANCE, DECEMBER 31, 1999	2,400,000,000	1,980,000,000	19,800,000	683,674
Convertible bonds converted into common shares	-	355,086	3,551	32,102
Increase in authorized capital, July 11, 2000	800,000,000	-	-	-
Appropriations of 1999 earnings (Note 15)				
Legal reserve	-	-	-	-
Compensation to directors and supervisors	-	-	-	-
Bonus to employees - cash	-	-	-	-
Bonus to employees - stock	-	47,833,062	478,331	-
Stock dividends – 31.5%	-	623,811,852	6,238,118	-
Capital increase in cash through the issuance of American				
Depositary Receipts – September 29	-	100,000,000	1,000,000	3,137,910
Transfer of subsidiary's net gain on disposal of properties	-	-	-	9,470
Adjustment of equity in subsidiary due to change in percentage of ownership	-	-	-	3,405,909
Unrealized loss on long-term investment in shares of stock	-	-	-	-
Net income in 2000	-	-	-	-
Transfer of net gain on disposal of properties	-	-	-	1,760
Cumulative translation adjustments (Note 2)	-	-	-	-
BALANCE, DECEMBER 31, 2000	3,200,000,000	2,752,000,000	27,520,000	7,270,825

(Forward)

(In Thousands, Except Share Data)

RETAINED EARNINGS			UNREALIZED LOSS ON LONG-TERM INVESTMENT IN SHARES OF STOCK	CUMULATIVE TRANSLATION ADJUSTMENTS (Note 2)	TOTAL SHAREHOLDERS' EQUITY
Legal Reserve	Unappropriated Earnings (Accumulated Losses)	Total			
NT$1,389,529	NT$1,695,998	NT$3,085,527	(NT$ 703,865)	NT$ 503,973	NT$21,874,808
-	-	-	-	-	-
160,255	(160,255)	-	-	-	-
-	(28,800)	(28,800)	-	-	(28,800)
-	(1,388,400)	(1,388,400)	-	-	-
-	(95,400)	(95,400)	-	-	-
-	(5,500)	(5,500)	-	-	(5,500)
-	-	-	-	-	-
-	(4,931)	(4,931)	-	-	-
-	(736)	(736)	-	-	-
-	(113,080)	(113,080)	-	-	(108,046)
-	7,794,666	7,794,666	-	-	7,794,666
-	-	-	703,865	-	703,865
-	-	-	-	(173,957)	(173,957)
1,549,784	7,693,562	9,243,346	-	330,016	30,057,036
-	-	-	-	-	35,653
-	-	-	-	-	-
779,393	(779,393)	-	-	-	-
-	(139,200)	(139,200)	-	-	(139,200)
-	(12,669)	(12,669)	-	-	(12,669)
-	(478,331)	(478,331)	-	-	-
-	(6,238,118)	(6,238,118)	-	-	-
-	-	-	-	-	4,137,910
-	(9,470)	(9,470)	-	-	-
-	-	-	-	-	3,405,909
-	-	-	(546,829)	-	(546,829)
-	5,837,149	5,837,149	-	-	5,837,149
-	(1,760)	(1,760)	-	-	-
-	-	-	-	894,255	894,255
2,329,177	5,871,770	8,200,947	(546,829)	1,224,271	43,669,214

(continue)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	CAPITAL STOCK (NT$10 Par Value)			CAPITAL SURPLUS
	Authorized Shares	Issued and Outstanding		
		Shares	Amount	
Increase in authorized capital, April 6, 2001	950,000,000	-	NT$ -	NT$ -
Appropriations of 2000 earnings (Note 15)				
Legal reserve	-	-	-	-
Compensation to directors and supervisors	-	-	-	-
Bonus to employees - cash	-	-	-	-
Bonus to employees - stock	-	34,960,000	349,600	-
Stock dividends - 17%	-	467,840,000	4,678,400	-
Adjustment of equity in subsidiary due to change in percentage of ownership	-	-	-	(419,311)
Reversal of unrealized loss on long-term investment in shares of stock	-	-	-	-
Net loss in 2001	-	-	-	-
Cumulative translation adjustments (Note 2)	-	-	-	-
BALANCE, DECEMBER 31, 2001	4,150,000,000	3,254,800,000	NT$32,548,000	NT$ 6,851,514

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	CAPITAL STOCK (NT$10 Par Value)			CAPITAL SURPLUS
	Authorized Shares	Issued and Outstanding		
		Shares	Amount	
BALANCE, JANUARY 1, 2001	3,200,000,000	2,752,000,000	US$ 786,285	US$ 207,738
Increase in authorized capital, April 6, 2001	950,000,000	-	-	-
Appropriations of 2000 earnings (Note 15)				
Legal reserve	-	-	-	-
Compensation to directors and supervisors	-	-	-	-
Bonus to employees – cash	-	-	-	-
Bonus to employees – stock	-	34,960,000	9,989	-
Stock dividends – 17%	-	467,840,000	133,669	-
Adjustment of equity in subsidiary due to change in percentage of ownership	-	-	-	(11,980)
Reversal of unrealized loss on long-term investment in shares of stock	-	-	-	-
Net loss in 2001	-	-	-	-
Cumulative translation adjustments (Note 2)	-	-	-	-
BALANCE, DECEMBER 31, 2001	4,150,000,000	3,254,800,000	US$ 929,943	US$ 195,758

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

(In Thousands, Except Share Data)

RETAINED EARNINGS			UNREALIZED LOSS ON LONG-TERM INVESTMENT IN SHARES OF STOCK	CUMULATIVE TRANSLATION ADJUSTMENTS (Note 2)	TOTAL SHAREHOLDERS' EQUITY
Legal Reserve	Unappropriated Earnings (AccumulatedLosses)	Total			
NT$ -	NT$ -	NT$ -	NT$ -	NT$ -	NT$ -
583,539	(583,539)	-	-	-	-
-	(103,200)	(103,200)	-	-	(103,200)
-	(10,400)	(10,400)	-	-	(10,400)
-	(349,600)	(349,600)	-	-	-
-	(4,678,400)	(4,678,400)	-	-	-
-	98,526	98,526	-	-	(320,785)
-	-	-	104,583	-	104,583
-	(2,142,219)	(2,142,219)	-	-	(2,142,219)
-	-	-	-	749,128	749,128
NT$ 2,912,716	(NT$1,897,062)	NT$ 1,015,654	(NT$ 442,246)	NT$ 1,973,399	NT$ 41,946,321

(In Thousands, Except Share Data)

RETAINED EARNINGS			UNREALIZED LOSS ON LONG-TERM INVESTMENT IN SHARES OF STOCK	CUMULATIVE TRANSLATION ADJUSTMENTS (Note 2)	TOTAL SHAREHOLDERS' EQUITY
Legal Reserve	Unappropriated Earnings (AccumulatedLosses)	Total			
US$ 66,547	US$ 167,766	US$ 234,313	(US$ 15,624)	US$ 34,980	US$ 1,247,692
-	-	-	-	-	-
16,673	(16,673)	-	-	-	-
-	(2,949)	(2,949)	-	-	(2,949)
-	(297)	(297)	-	-	(297)
-	(9,989)	(9,989)	-	-	-
-	(133,669)	(133,669)	-	-	-
-	2,815	2,815	-	-	(9,165)
-	-	-	2,988	-	2,988
-	(61,206)	(61,206)	-	-	(61,206)
-	-	-	-	21,403	21,403
US$ 83,220	(US$ 54,202)	US$ 29,018	(US$ 12,636)	US$ 56,383	US$ 1,198,466

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 1999,2000 and 2001 (In Thousands)

	1999	2000	2001	
	NT$	NT$	NT$	US$
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss)	7,794,666	5,837,149	(2,142,219)	(61,206)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Minority interest in net income (loss) of subsidiaries	743,065	1,500,643	(788,685)	(22,534)
Depreciation	5,128,282	8,127,561	10,633,197	303,806
Amortization	426,085	466,238	494,088	14,117
Exchange (gain) loss on long-term foreign:				
Bonds payable	(191,895)	628,058	640,171	18,291
Debts	(3,927)	-	-	-
Investment payable	-	170,351	223,599	6,389
Accrued interest on convertible bonds	615,805	812,931	872,575	24,931
Provision for doubtful accounts and sales allowance	109,263	155,458	80,629	2,304
Gain on sale of investments	(5,544,155)	(91,666)	(50,666)	(1,448)
Loss on early redemption of foreign convertible bonds	-	-	144,565	4,130
Investment (income) loss under equity method	(50,595)	167,237	1,246,836	35,624
Cash dividends received from long-term stock investments	-	-	33,196	948
Gain (Loss) on disposal of properties	(20,903)	19,298	26,884	768
Provision for loss on long-term bonds investments	-	284,301	29,822	852
Loss from idle assets	-	-	111,109	3,175
Amortization of consolidated debits	507,816	559,807	692,919	19,798
Deferred income taxes	(343,180)	(226,898)	(401,745)	(11,478)
Other	345	(16,441)	(3,251)	(93)
Changes in operating assets and liabilities, net of effects from purchases of Motorola SPS Businesses and ISE Labs, Inc.				
Notes receivable	189,530	(18,599)	114,456	3,270
Accounts receivable	(2,722,498)	(1,933,977)	1,939,341	55,410
Inventories	(444,885)	(796,636)	477,891	13,654
Prepayments and other	(284,376)	(327,757)	328,749	9,393
Notes payable	(214,858)	-	-	-
Accounts payable	869,713	707,556	(891,130)	(25,461)
Income tax payable	238,982	642,539	(856,346)	(24,467)
Accrued expenses and other	598,025	1,574,097	(821,272)	(23,465)
Accrued pension cost	(551,421)	59,236	46,013	1,314
Effect of exchange rate changes	168,350	(628,197)	(473,515)	(13,530)
Net Cash Provided by Operating Activities	7,017,234	17,618,289	11,707,211	334,492
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of Motorola SPS Businesses	(4,259,541)	-	-	-
Acquisition of ISE Labs, Inc	(3,014,427)	-	-	-
Acquisition of fixed assets	(9,869,161)	(30,063,640)	(11,565,689)	(330,448)
(Increase) decrease in short-term investments	569,099	(1,471,248)	(2,913,644)	(83,247)
Payments for long-term stock investments	(3,538,728)	(2,026,047)	(216,444)	(6,184)
Increase in other assets	(202,668)	(787,246)	(214,772)	(6,136)
Proceeds from sales of:				
Properties	361,149	697,126	685,776	19,594
Shares of stock:				
ASE Inc.	3,170,957	-	-	-
ASE Test Ltd	4,718,324	-	-	-
Bonds	282,306	-	195,320	5,580
Others	-	100,666	51,639	1,475
Purchase of ASE Test Ltd. shares	-	-	(1,202,185)	(34,348)
Net Cash Used in Investing Activities	(11,782,690)	(33,550,389)	(15,179,999)	(433,714)

(Forward)

Years Ended December 31, 1999,2000 and 2001				(In Thousands)
	1999	2000	2001	
	NT$	NT$	NT$	US$
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from (repayments of):				
Capital increase through the issuance of American Depositary Shares	-	4,151,300	-	-
Issuance of foreign convertible bonds	3,460,050	-	-	-
Long-term debts	4,201,517	1,013,796	9,746,636	278,475
Investment payable	-	(1,453,603)	(803,833)	(22,967)
Commercial papers and bank acceptances payable	(517,031)	2,578,212	(837,491)	(23,928)
Proceeds from short-term borrowings	1,218,200	1,614,950	944,148	26,976
Decrease in payable for fixed assets	-	-	(2,250,855)	(64,310)
Contribution to a sinking fund for convertible bonds	-	-	(1,568,057)	(44,802)
Early redemption of foreign convertible bonds	-	-	(6,066,042)	(173,315)
Increase in minority interest	235,081	9,854,500	1,552,601	44,360
Compensation to directors and supervisors and bonus to employees	(28,800)	(151,869)	(113,600)	(3,246)
Net Cash Provided by Financing Activities	8,569,017	17,607,286	603,507	17,243
EFFECT OF EXCHANGE RATE CHANGES	(168,350)	682,197	473,515	13,529
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,635,211	2,357,383	(2,395,766)	(68,450)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,173,901	11,809,112	14,166,495	404,757
CASH AND CASH EQUIVALENTS, END OF YEAR	11,809,112	14,166,495	11,770,729	336,307
SUPPLEMENTAL INFORMATION				
Interest paid (excluding capitalized interest)	787,106	1,217,052	1,557,887	44,511
Income tax paid	397,065	497,882	1,024,286	29,265
Cash paid for acquisition of fixed assets				
Acquisition of fixed assets	11,097,395	31,463,451	11,565,689	330,448
Increase in payable	(1,228,234)	(1,399,811)	-	-
	9,869,161	30,063,640	11,565,689	330,448
Total assets acquired from acquisition of Motorola SPS businesses	12,783,224	-	-	-
Less: Liabilities assumed	1,627,383	-	-	-
Payable amounts	11,155,841	-	-	-
Less: Payable balance at end of year	5,474,780	-	-	-
Cash paid	5,681,061	-	-	-
Less: Cash received at the date of acquisition	1,421,520	-	-	-
Net cash outflow	4,259,541	-	-	-
Total assets acquired from acquisition of ISE Labs, Inc.	4,671,849	-	-	-
Less: Liabilities assumed	1,371,453	-	-	-
Cash paid	3,300,396	-	-	-
Less: Cash received at the date of acquisition	285,969	-	-	-
Net cash outflow	3,014,427	-	-	-
Cash received from capital increase through the issuance of American Depositary Shares				
Net proceeds	-	4,137,910	-	-
Increase in payable	-	13,390	-	-
Net cash inflow	-	4,151,300	-	-

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000 and 2001 (Amounts In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

1. GENERAL

Advanced Semiconductor Engineering, Inc. ("ASE" or the "Corporation"), a corporation incorporated under the laws of the Republic of China (the "ROC"), is an independent provider of semiconductor packaging and testing services. ASE's common shares are traded on the Taiwan Stock Exchange under "2311". Since September 2000, ASE's common shares in the form of American Depositary Shares ("ADS") have been trading on the New York Stock Exchange under the symbol "ASX". ASE and its consolidated subsidiaries and affiliates are referred to as the "ASE Group".

ASE has six wholly-owned subsidiaries: a) ASE Holding Limited (incorporated in Bermuda in 1990) holds shares in ASE Group companies; b) ASE Marketing Services Ltd. (incorporated in Hong Kong in 1991) engages in trading; c) ASE Investment Co. (incorporated in the ROC in March 1996) holds shares in ASE Group companies; d) J&R Holding Limited (incorporated in Bermuda in May 1996) holds shares in ASE Group companies; and e) ASE Capital Inc. (incorporated in ROC in November 1997) holds shares in ASE Group companies; and f) ASE Southwest, Inc. (incorporated in the USA in August 1999) engages in trading. As of December 31, 2001, ASE also had a 99% equity stake in ASE Technologies, Inc., a company incorporated in the ROC engaged in the research and development, manufacture and sales of computers and related accessories, and a 90% equity stake in ASE Network Inc., a company incorporated in the ROC engaged in investing and a 56% equity stake in ASE Material Inc. ("ASE Material"), a company incorporated in the ROC engaged in manufacturing and processing of lead-frames and substrates used in the packaging of semiconductors. In addition, ASE Test, Inc. has a 4% equity stake in ASE Material.

In 1999, ASE (Chung Li) Inc. ("ASE Chung Li") and ASE Investment (Labuan) Inc., a holding company, were incorporated to acquire a 100% interest in the Motorola Semiconductor Product Sector Businesses ("Motorola SPS Businesses") in Chung-Li, Taiwan and Paju, Korea. The acquisition of Motorola SPS Busiuess were completed on July 4, 1999. ASE and ASE Test Limited ("ASE Test") own 70% and 30% equity stakes in the two subsidiaries, respectively. ASE Investment (Labuan) Inc. owns 100% of the equity of ASE Korea Inc. The acquisition transaction was accounted for as a purchase, and the purchase price was US$350.1 million (see Note 26).

In June 2001, ASE Chung Li invested US$6.8 million in Omniquest Industrial Limited, a wholly-owned subsidiary incorporated in the British Virgin Islands ("Omniquest"). Omniquest has a wholly-owned subsidiary in the People's of Republic of China ("PRC"), namely ASE (Hangzhou) Inc., with capital of US$6.8 million as of December 31, 2001. ASE (Hangzhou) Inc. is currently in the preoperating stage, and will be engaged in the manufacture and sale of transistors, LED (Light-Emitting Diode) modules and LED displays.

ASE Holding Limited has the following wholly-owned subsidiaries: a) ASEP Realty Corporation (incorporated in the Philippines in December 1995) develops and invests in real estate; b) ASE Holding Electronics (Philippines) (incorporated in the Philippines in December 1995) manufactures electronic products, components and semiconductors; and c) ASE Holding (Singapore) Pte. Ltd. (incorporated in Singapore in December 1994) holds shares in ASE Group companies. A portion of the share capital of the Philippine subsidiaries are held by certain Filipino individuals due to legal limitations. ASE Holding (Singapore) Pte. Ltd. holds a 100% equity stake in ASE Electronics (M) Sdn, Bhd. ("ASE Test Malaysia") (incorporated in Malaysia in 1991), which provides packaging and testing services for integrated circuits. In April 1997, ASE Holding Limited transferred its shareholding in ASE Test Malaysia to ASE Test.

J&R Holding Limited has two subsidiaries: a) ASE Test (40.25%-owned, incorporated in Singapore in May 1996) holds shares in ASE Group companies; and b) J&R Industrial Inc. (100% owned, incorporated in the ROC in April 1999), which is mainly engaged in the leasing of substrate, packaging and testing equipment. In addition, ASE Holding Limited has a 10.71% equity stake in ASE Test. The shares of ASE Test have been listed on the NASDAQ National Market in the United States since June 1996.

ASE Test has four majority-owned subsidiaries: a) ASE Test, Inc., which is engaged in testing of semiconductors; b) ASE Test Malaysia, which is engaged in packaging and testing of semiconductors; c) ASE Test Holding, which mainly holds shares in ASE Group companies; and d) ASE Test Finance Limited (incorporated in Mauritius in June 1999) which is engaged in financing activities.

ASE Test, Inc. has a wholly-owned subsidiary, ASE Test (USA) Inc., which is engaged in the after-sale service of tested semiconductors.

In May 1999, ASE Test acquired 70% of the outstanding shares of ISE Labs, Inc. (“ISE Labs”), which is engaged in front-end engineering testing, final testing and packaging of semiconductors. The purchase cost, including transaction costs, was US$100.1 million (NT$3,320.3 million). In 2001, ASE Test purchased additional shares of ISE Labs in connection with the capital increase of ISE Labs, and thereafter increased its ownership interest in ISE Labs. As of December 31, 2001, ASE Test has made total investments of US$171 million and acquired 80% of the outstanding shares of ISE Labs. In January 2002, the minority shareholders of ISE Labs sold the remaining 20% of the outstanding shares of ISE Labs to ASE Test for US$50 million. Consequently, ISE Labs has become a wholly-owned subsidiary of ASE Test.

ASE Technologies, Inc. originally had two subsidiaries: a) ASE Technologies (U.S.A.), Inc. (100% ownership), which was mainly engaged in research and development, manufacture and sales of computers and related accessories; and b) Transmonde Technologies, Inc. (83% ownership), which was mainly engaged in sales of computers and related accessories. In 2001, ASE Technologies, Inc. sold all of the shares in the two subsidiaries to a third party, and resulted in a gain of NT$50,666.

2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles in the ROC ("ROC GAAP”). Significant accounting policies are summarized as follows:

Presentation of financial statements

ASE prepared its consolidated financial statements using ROC GAAP with reconciliation to US GAAP (Note 27). The accompanying consolidated balance sheets are presented for the two years ended as at December 31, 2000 and 2001, and the accompanying consolidated statements of income, changes in shareholders’ equity and cash flows are presented for the three years ended December 31, 1999, 2000 and 2001.

Unless otherwise stated, amounts presented are in thousands of NT dollars (NT$).

Consolidation

The consolidated financial statements include the accounts of ASE and all of the aforementioned companies.

Under the consolidation method used by ASE to consolidate the statement of income of ISE Labs for the year ended December 31, 1999, ISE Labs’ full year 1999 net revenues, cost of revenues and operating expenses are included in the Corporation’s consolidated statements of income. The pre-acquisition income of ISE Labs for the period (from January 1, 1999 to May 4, 1999) is then subtracted from the Corporation’s net income for 1999.

The statements of income for both ASE Chung Li and ASE Korea (representing the acquirees from acquisitions of Motorola SPS Businesses) are consolidated since the date of acquisitions due to the change of business type after acquisition in ASE Chung Li and ASE Korea for the accounting of silicon wafers from previous purchase and sale transaction to customers’ consignments (see accounting policy for inventories).

In 1999, ASE and ASE Test Inc. owned 38% and 10% equity stake in ASE Material. However, the accounts of ASE Material for 1999 were consolidated because ASE effectively controls ASE Material. First, two of the five board members of ASE Material are appointed by ASE and one board member is appointed by ASE Test, Inc. Second, Mr. Jason Chang, the Chairman of ASE, also serves as the Chairman of ASE Material. Third, ASE appoints ASE Material's sole supervisor, whose duty under the ROC Company Law is to monitor ASE Material's business and financial condition. Finally, Mr. Jason Chang has committed to vote his shares of ASE Material as of December 31, 1999, which represented an 11.4% ownership interest in ASE Material, in concert with ASE.

All intercompany accounts and transactions have been eliminated and minority shareholders' interests in the equity and earnings of the subsidiaries are presented separately in the consolidated financial statements. The differences between the costs of investments and the proportionate equity in each subsidiary when the stocks were acquired are recorded as consolidated credits (debits) and are amortized on the straight-line method over ten years.

Use of Estimates

The preparation of consolidated financial statements both in conformity with ROC GAAP and generally accepted accounting principles in the United States ("US GAAP") requires management to make estimates and judgments that affect the recorded amounts of assets, liabilities, revenues and expenses of the Corporation. The Corporation continually evaluate these estimates, including those related to allowances for doubtful accounts, inventories, useful lives of properties, consolidated debits, income tax valuation allowances, pension plans and the fair value of financial instruments. The Corporation bases its estimates on historical experience and other assumptions, which it believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions.

Cash and cash equivalents

ASE considers all highly liquid investments within an original maturity from date of purchase of three months or less to be cash equivalents.

Short-term Investments

These are carried at cost less allowance for decline in market value.

Allowances for Doubtful Accounts

Allowance for doubtful accounts is provided based on evaluation of the collectibility of receivables.

Inventories

Inventories are stated at the lower of weighted average cost or market value. Unbilled processing charges incurred (included in finished goods and work in process) are stated at actual cost. Market value represents net realizable value for finished goods and work in process, and replacement costs for raw materials, supplies and spare parts.

Materials received from customers for processing, mainly semiconductor wafers, are excluded from inventories as title and risk of loss remains with the customers.

Long-term Investments in Shares of Stock

Long-term investments of which the Corporation owns at least 20% of the outstanding voting shares and where the Corporation exercises significant influence over the investee company's operations are accounted for by the equity method. Under the equity method, the investments are initially carried at cost and subsequently adjusted for the Corporation's proportionate share in the net earnings or losses of the investee companies. Such proportionate share in the earnings or losses are recognized as investment income or losses while any cash dividends declared are reflected as a reduction in the carrying value of the investments. The goodwill representing the excess of the investment costs over the Corporation'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 ten years. Changes in the Corporation's ownership percentage of investees under the equity method are accounted for as adjustments to long-term investments and capital surplus. The writedown of carrying value of long-term investments has been taken on the basis of the discounted cash flows expected to be realized in the future.

Other long-term investments (including ASE common shares) in shares of stock are carried at cost. An allowance for the decline in value is made for any permanent impairment in the carrying value of the investments and such decline in value is charged against current income. Cash dividends are recognized as income on the declaration date. The sales of ASE shares in 1999 were reflected as gains from the sale of long-term investments in the statement of income.

Unrealized profits or losses arising from transactions with equity investees or between equity investees are offset against investment income or loss from long-term investments, based on the percentage of ownership.

Long-term Investments in Bonds

Bond securities being held to maturity are stated at amortized cost. Allowances for loss in bond securities are provided based on the evaluation of recoverability of the carrying value of these securities.

Properties

Properties, except for leased equipment, are stated at cost. Equipment held under capital leases are 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 under construction 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 renewals and improvements are capitalized, while maintenance and repairs are expensed currently.

Depreciation is computed using the straight-line method over estimated service lives which range as follows: long-term land leasehold rights, 60 years (lease period); buildings and improvements, 3 to 55 years; machinery and equipment, 3 to 8 years; furniture and fixtures, 2 to 15 years; transportation equipment, 3 to 8 years, and leased assets and leasehold improvements, 3 to 5 years. In the event that an asset depreciated to its residual value is deemed to have a continual useful life, the residual value is depreciated over the remaining life, not to exceed 2 years.

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. Prior to January 1, 2001, the gain, after deducting applicable income tax, was reclassified to capital surplus at the end of the year.

Deferred Charges

Deferred charges are amortized using the straight-line method as follows: tools, 2 years; issuance costs of convertible bonds, 5 years; telecommunications, electrical and computer network systems, 5 years; and others, 2 to 5 years.

Consolidated Debits

The consolidated debits as shown in the balance sheet representing goodwill arising from acquisitions or investments in the consolidated subsidiaries, are amortized on the straight line method over 10 years.

Pension Cost

Provisions for pension costs are accrued based on actuarially determined amounts which include service costs, interests, amortisation of unrecognised net obligation and expected return on pension assets, in accordance with ROC SFAS No. 18, “Accounting for Pensions”.

Convertible Bonds

Conversion of convertible bonds into common shares is accounted for by the book value method. Under this method, unamortized bond issuance cost, accrued interest no longer payable and the carrying value of the bond are written off. In addition, common shares are recorded at the par value of the shares issued and the excess is recorded as capital surplus.

Revenue Recognition

Revenues from semiconductor packaging services that the Corporation provides are recognized upon shipment. Revenues from semiconductor testing services that the Corporation provides are recognized upon completion of the services. The Corporation does not take ownership of: (i) bare semiconductor wafers received from customers that the Corporation packages into finished semiconductors, and (ii) packaged semiconductors received from customers that the Corporation tests as to whether they meet certain performance specifications. The title and risk of loss remains with the customer for those bare semiconductors and/or packaged semiconductors. Accordingly, the cost of customer-supplied semiconductors materials is not included in the accompanying consolidated financial statements. Other criteria that the Corporation uses to determine when to recognize revenue are: (i) existence of persuasive evidence of the services provided, (ii) the selling price is fixed or determinable and (iii) collectibility is reasonably assured. The Corporation does not provide warranties to its customers except only in cases of defects in the packaging services provided and deficiencies in testing services provided. An appropriate sales allowance is recognized in the period the sale is recognized.

Income Tax

Tax effects of deductible temporary differences, unused tax credits and operating loss carryforwards are recognized as deferred income tax assets, while those taxable temporary differences are recognized as deferred income tax liabilities. Valuation allowance is provided for deferred income tax assets based on the estimated realizability.

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

Income taxes on undistributed earnings (10%) generated in 1998 and onwards for consolidated entities in the ROC are recorded as expense in the following year when the shareholders have resolved that the earnings shall be retained.

Foreign Currency Transactions and Translation of Foreign-currency Financial Statements

ASE and its subsidiaries maintain their accounts in the currency of their respective countries of incorporation (local currencies) and functional currencies.

Foreign currency transactions, other than foreign currency forward exchange contracts, are recorded in the local currencies at the rates of exchange in effect when the transactions occur. Gains or losses resulting from the application of different foreign exchange rates when foreign-currency assets and liabilities are settled, are credited or charged to income in the year of settlement. Year-end balances of foreign currency assets and liabilities are restated based on prevailing exchange rates and the resulting differences are credited or charged to income.

The financial statements of the foreign subsidiaries are translated into NT dollars at the following rates: Assets and liabilities, current rate; and income and expenses, average exchange rate during the year. The net resulting translation adjustment is reported as a separate component of shareholders' equity.

Derivative Financial Instruments

Premiums or discounts on foreign currency forward exchange contracts which hedge foreign currency assets or liabilities arising from the difference between the forward rate and the spot rate at the date of each contract are deferred and amortized over the contract period. At year end, the balances of the forward exchange receivables or payables are restated based on prevailing exchange rates and the resulting gain or loss is credited or charged to income. Any exchange gain or loss when the contract is settled is also credited or charged to income. The difference between receivable and payable balances arising from forward exchange contracts is accounted for as either current asset or current liability.

Written option contracts to purchase foreign currencies and cross currency swap contracts entered into for hedging purposes are not recorded as assets or liabilities on the contract dates. Gains or losses upon settlement are credited or charged to income. Amounts received or paid are amortized over each contract period. At year end, the outstanding written option contracts and cross currency swap contracts are marked to market with charges to current income.

Earnings Per Share ("EPS") and Earnings Per Equivalent ADS

Common shares of ASE's convertible bonds are not considered in the calculation of primary and fully diluted EPS because they have an anti-dilutive effect. Common share equivalents attributable to the employees' stock options of ASE Test are included in the EPS calculation (see Note 20).

Earnings per equivalent ADS are calculated by multiplying earnings per share by five (each of the ADS represents five common shares).

US Dollar Amount

ASE prepares its consolidated financial statements in NT dollars. Translations into US dollars for 2001 financial statements are included solely for the convenience of the readers, and are based on the US Federal Reserve Bank of New York noon buying rate of NT$35.00 to US$1.00 in effect as at December 31, 2001. The convenience translations should not be construed as representations that the NT dollar amounts have been, could have been, or could in the future be, converted into US dollars at this or any other rates.

3.SHORT-TERM INVESTMENTS

December 31, 2000 and 2001

	2000	2001	
	NT$	NT$	US$
Mutual funds	1,603,362	4,593,958	131,256
Stocks	63,978	5,337	152
Convertible bonds and government bonds	20,188	1,877	54
	1,687,528	4,601,172	131,462
Allowance for loss (Note 2)	(4,849)	-	-
	1,682,679	4,601,172	131,462

4.ACCOUNTS RECEIVABLE - NET

December 31, 2000 and 2001

	2000	2001	
	NT$	NT$	US$
Accounts receivable	9,393,853	7,361,066	210,316
Allowance for doubtful accounts	(314,243)	(286,476)	(8,185)
Allowance for sales allowances	(38,676)	(53,626)	(1,532)
	9,040,934	7,020,964	200,599

The movement of allowance for doubtful accounts and sales allowances are as follows:

	Doubtful Accounts	Sales Allowances
	NT$	NT$
Balance, beginning of 1999	84,708	53,000
Additions	109,263	-
Deductions	(6,809)	(5,908)
Balance, end of 1999	187,162	47,092
Additions	148,834	6,624
Deductions	(21,753)	(15,040)
Balance, end of 2000	314,243	38,676
Additions	15,619	65,010
Deductions	(43,386)	(50,060)
Balance, end of 2001	286,476	53,626
	US$	US$
Balance, beginning of 2001	8,979	1,105
Additions	446	1,858
Deductions	(1,240)	(1,431)
Balance, end of 2001	8,185	1,532

5. INVENTORIES

December 31, 2000 and 2001

	2000	2001	
	NT$	NT$	US$
Raw materials	2,099,058	1,613,458	46,099
General supplies and spare parts	630,979	665,598	19,016
Work in process	337,320	348,933	9,970
Finished goods	246,812	297,355	8,496
Supplies in transit	87,219	63,640	1,818
	3,401,388	2,988,984	85,399
Allowance for obsolescence	(155,061)	(220,548)	(6,301)
	3,246,327	2,768,436	79,098

The movement of allowance for obsolescence is as follows:

	NT$
Balance, beginning of 1999	199,018
Additions	50,566
Deductions	(73,379)
Balance, end of 1999	176,205
Additions	115,928
Deductions	(137,072)
Balance, end of 2000	155,061
Additions	131,197
Deductions	(65,710)
Balance, end of 2001	220,548
	US$
Balance, beginning of 2001	4,430
Additions	3,748
Deductions	(1,877)
Balance, end of 2001	6,301

6. LONG-TERM INVESTMENTS – COMMON STOCKS

December 31, 2000 and 2001

	2000		2001		
	NT$	% of Direct Ownership	NT$	US$	% of Direct Ownership
Equity method					
Common stock					
Hung Ching Development & Construction Co. (HCDC) (Note 10)	2,154,627	25.4	1,213,563	34,673	25.4
Hung Ching Kwan Co. (HCKC)	405,549	27.3	405,406	11,583	27.3
Universal Scientific Industrial Co., Ltd. (USI) (Note 10)	3,931,810	23.3	3,633,927	103,827	23.0
Universal Access Technology Inc. (UAT)	92,775	25.0	60,001	1,714	25.0
Preferred stock					
Intergrated Programmable Communication, Inc. (IPC)	118,681	23.1	101,447	2,898	23.1
Cost method					
ASE stock held by subsidiaries	2,919,411	4.9	3,017,964	86,228	5.1
InveStar Burgeon Venture Capital, Inc.	153,035	13.0	161,749	4,622	13.0
Taiwan Fixed Network Co., Ltd.	1,500,000	1.6	1,500,000	42,857	1.6
Global Strategic Investment, Inc.	-	-	69,980	1,999	1.0
UC Fund II	-	-	34,990	1,000	-
	11,275,888		10,199,027	291,401	
Adjustment for decline in market value in ASE stock	(490,280)		(368,480)	(10,528)	
Unrealized gain on sale of land	(300,149)		(300,149)	(8,576)	
	10,485,459		9,530,398	272,297	

ASE acquired its 27.3% equity interest in Hung Ching Kwan Co. ("HCKC") in 1992 by transferring to HCKC a parcel of land as an investment in HCKC at an agreed value of NT$390,470. The resulting gain of NT$300,149, 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, 2001, ASE has a 43.4% effective interest in HCKC, which consists of 27.3% interest directly owned by ASE, and 16.1% interest indirectly owned through Hung Ching Development & Construction Co. ("HCDC") (based on HCDC's 63.5% interest in HCKC).

ASE invested in Universal Access Technology Inc. ("UAT") in December 2000 and directly acquired its 25% equity interest. In addition, HCDC and Universal Scientific Industrial Co., Ltd. ("USI") have 10% and 25% equity interests in UAT, respectively. Accordingly, as of December 31, 2001, ASE has a 33.3% effective interest in UAT. UAT is engaged in the design of related computer products and software service.

In December 2000, ASE invested in convertible preferred stocks issued by Integrated Programmable Communication, Inc. ("IPC"). As of December 31, 2001, ASE has made total investments of US$4.0 million, and owns a 23.1% stake in IPC. In addition, USI and UAT have 16% and 7% equity interests in IPC, respectively.

As of December 31, 2001, the accumulated deficit for HCDC was NT$337,400 (US$14,828), the undistributed earnings for HCKC and USI were NT$54,460 (US$1,556) and NT$919,479 (US$26,271), respectively. HCKC did not declare dividends in 2000 and 2001. USI declared stock and cash dividends in 2001 for NT$1.3 and NT$0.25 per share, respectively, and stock dividends for NT$4.00 per share in 2000. HCDC declared stock and cash dividends in 2000 for NT$0.8 and NT$0.2 per share, respectively, but these dividends have not yet been distributed as of December 31, 2001.

ASE recorded net investment income of NT$50,595 in 1999, net investment losses of NT$167,237 in 2000 and NT$1,246,836 (US$35,624) in 2001 from its investments in the aforementioned equity investees.

7. LONG-TERM BOND INVESTMENTS

These represent long-term bond investments in APP Global Finance Ltd. ("APP") and the Federal National Mortgage Association. The investment cost was US$9.5 million and US$5.9 million, respectively. The bond investment in Federal Mortgage Association matured on May 2, 2001. The bond investment in APP had an original maturity on October 4, 2001, but was defaulted because APP incurred financial difficulties. ASE wrote off the gross bond investment in APP in 2001 due to a judgment of unrecoverability.

8. PROPERTIES

Accumulated depreciation consists of:

December 31, 2000 and 2001

	2000	2001	
	NT$	NT$	US$
Buildings and improvements	1,335,682	2,021,886	57,768
Machinery and equipment	20,586,431	28,735,918	821,026
Transportation equipment	56,731	116,845	3,338
Furniture and fixtures	469,584	569,013	16,258
Leased assets and leasehold improvements	235,634	300,187	8,577
Long-term land leasehold rights	6,230	7,689	220
	22,690,292	31,751,538	907,187

Interest capitalized and included as cost of properties amounted to NT$123,347, NT$163,916 and NT$100,453 (US$2,870) for the years ended December 31, 1999, 2000 and 2001, respectively.

ASE Chung Li and ASE Material entered into purchase agreements with HCDC in 2000 to purchase a building located in Chung Li for expansion purposes. The contract prices, which were based on appraisal, totaled NT$1,044,341 and NT$358,442, respectively. ASE and ASE Test, Inc. entered into purchase agreements with HCDC in 2001 to purchase a building located in Nantze Export Processing Zone for expansion purpose. The contract prices, which were based on appraisal, totaled NT$1,027,034 (US$29,344) and NT$459,363 (US$13,125), respectively. The buildings and improvements acquired under the purchase agreements described above have been included in the 2000 and 2001 consolidated balance sheets.

Machinery in transit and prepayments pertain to the purchase of packaging and testing equipment, which are associated with machinery purchased with title transferred but are not yet in ready-for-use condition, and down payments for machinery purchased with non-cancellable purchase orders.

Major components for machinery in transit and prepayments are as follows:

December 31, 2000 and 2001

	2000	2001	
	NT$	NT$	US$
Bonders	405,595	22,855	653
Testers	1,063,911	1,099,240	31,407
Others	3,480,920	1,808,791	51,680
Total	4,950,426	2,930,886	83,740

9. OTHER ASSETS

December 31, 2000 and 2001

	2000	2001	
	NT$	NT$	US$
Deferred charges (Note2)			
Tooling	124,468	48,479	1,385
Issuance costs of convertible bonds	139,244	68,761	1,965
Telecommunications, electrical and computer network systems	290,208	302,604	8,646
Other	346,130	302,857	8,653
	900,050	722,701	20,649
Deferred income tax assets (Note 17)	-	226,190	6,463
Guarantee deposits	204,112	185,162	5,290
Non-operating properties	147,686	155,703	4,449
Other	23,709	52,513	1,500
	1,275,557	1,342,269	38,351

10. CONSOLIDATED DEBITS

These represent goodwill arising from the purchases of:

December 31, 2000 and 2001

	2000	2001	
	NT$	NT$	US$
ASE Test shares	2,554,869	2,992,676	85,505
ISE Labs shares (Note 26)	2,008,793	1,870,915	53,455
Motorola SPS Businesses (Note 26)	417,760	377,382	10,782
Other	18,124	7,946	227
	4,999,546	5,248,919	149,969

The above goodwill arising from the purchases of ASE Test Limited shares included ASE Holding's purchase of 2,480,000 shares of ASE Test at the prevailing market price from ASE's directors in May 2001 .

Amortization of the above-mentioned goodwill for consolidated subsidiaries (as reflected in general and administrative expenses in the consolidated statement of income) were NT$507,816, NT$559,807 and NT$692,919 (US$19,798) for the years ended December 31, 1999, 2000 and 2001, respectively.

In addition, the carrying values of investments in HCDC and USI as discussed in Note 6 included unamortized goodwill, which is being amortized over ten years through April 2006 for HCDC and July 2010 for USI, resulting from the purchases of HCDC shares in 1995 and 1996, and USI shares in 1999 and 2000, as follows

December 31, 2000 and 2001

	2000	2001	
	NT$	NT$	US$
USI	1,872,342	1,651,742	47,193
HCDC	780,798	-	–
	2,653,140	1,651,742	47,193

In 2001, ASE amortized the remaining balance of goodwill for HCDC as a result of the significant decline in the market value of HCDC shares.

11. SHORT-TERM BORROWINGS

December 31, 2000 and 2001

	2000		2001		
	Interest Rate (%)	NT$	Interest Rate (%)	NT$	US$
Letters of credit	0.975~7.5	1,733,626	0.85~6.75	803,156	22,947
Revolving	1.6~10	2,741,038	2.65~7.3	1,416,551	40,473
Promissory notes	8.1~8.7	927,933	3~6	1,236,442	35,327
		5,402,597		3,456,149	98,747

As of December 31, 2001, unused credit lines for short-term borrowings and commercial paper and bank acceptances payable totaled approximately NT$11,613,000 (US$331,800).

12. COMMERCIAL PAPER AND BANK ACCEPTANCES PAYABLE

Commercial paper and bank acceptances payable bore interest rates ranging from 5.2% to 11.5% in 2000 and 1.8% to 6.3% in 2001, respectively.

13. LONG-TERM BONDS PAYABLE

December 31, 2000 and 2001

	2000	2001	
	NT$	NT$	US$
Foreign convertible bonds — issued by ASE (US$199 million outstanding in 2000 and US$68 million outstanding in 2001)	6,597,845	2,379,320	67,981
Foreign convertible bonds — issued by ASE Test Finance Limited (US$109,890 thousand outstanding in 2000 and 2001)	3,637,908	3,845,051	109,859
Accrued interest	1,993,426	1,644,265	46,978
	12,229,179	7,868,636	224,818
Less: Current portion	–	3,090,345	88,295
	12,229,179	4,778,291	136,523

Information on the long-term bonds payable is follows:

A. US$200 million - Issued by ASE

In November 1997, ASE issued bonds, consisting of 200 units with face value of US$1 million (NT$30.8 million) each, with zero coupon, due November 2002. The bonds bear an implicit interest rate of 6.372%.

Starting from December 1997 through October 2002, the bondholders may convert the bonds into common shares at the specified conversion price. The conversion rate was based on the current market price at the time of sale. As of December 31, 2001, 355,086 common shares were issued as a result of the conversion of such bonds, resulting in capital surplus of NT$32,102 (US$917). In 2001, ASE redeemed and cancelled 131 units of bonds (aggregated US$131,000 thousand) from the open market with payments of NT$6,066,042 (US$173,315), which had resulted in extraordinary losses of NT$192,753 (US$5,507). As of December 31, 2001, the outstanding convertible bonds aggregated US$68 million (NT$2,380 million). In addition, ASE was required to appropriate a sinking fund with the outstanding bonds at the date of twelve months prior to its maturity date. As of December 31, 2001, the balance of the sinking fund is NT$1,568,057 (US$44,802).

On or at any time after October 14, 2000, ASE may redeem the bonds at the redemption price if:

a)(i) the closing price of the common shares for a period of 30 consecutive trading days is higher than 140% of the conversion price (NT$50.5 per share as at December 31, 2001) in effect on each such trading day and (ii) the closing price of the common shares translated into US dollars at the prevailing rate for a period of 30 consecutive trading days is higher than 140% of the conversion price then in effect translated into US dollars at the exchange rate of NT$28.62=US$1.00; or

b)at least 95% of the bonds have already been converted, redeemed, or purchased and cancelled.

In addition, ASE may, if the applicable tax law is unfavorably changed, redeem at any time all, but not some, of the bonds.

On September 5, 1997, ASE entered into a firm commitment subscription agreement with SBC Warburg Securities Pte. Ltd. ("SBC Warburg") for the sale by ASE to SBC Warburg of US$200 million Zero Coupon Convertible Bonds due 2002 (the "Convertible Bonds"). The closing of the sale of the Convertible Bonds was initially scheduled to occur on October 6, 1997. Due to the adverse market conditions prevailing during this period of time as a result of the Asian financial crisis, however, SBC Warburg requested that the closing date for the sale of the Convertible Bonds be extended.

During the extension period (the "Extension Period"), SBC Warburg decided to market the Convertible Bonds to potential investors as two separate instruments by repackaging them into: (1) a debt portion consisting of US$200 million callable floating rate notes which are secured by the Convertible Bonds (the "FRNs") and (2) an equity portion consisting of options to purchase the Convertible Bonds (the "Call Options"). SBC Warburg was able to obtain commitments for the entire issue of the FRNs but, as a result of the adverse market conditions described above, was able to obtain commitments for only a portion of the Call Options. As a result, Swiss Bank Corporation ("SBC"), an affiliate of SBC Warburg, approached a number of large institutional investors, including J&R Holding Limited ("J&R Holding"), a consolidated subsidiary of ASE, with a proposal to sell a portion of the Call Options. Subsequently, J&R Holding entered into two agreements with SBC to purchase options on a portion of the Convertible Bonds.

Under the first agreement with SBC, J&R Holding is required to make four cash payments to SBC on November 4, 1998, 1999, 2000 and 2001 as long as the Call Options remain unexercised and outstanding. In return, J&R Holding has the right to call the Convertible Bonds at any time during the period from November 1998 through November 2002. The exercise price of the Call Options is equal to the accreted carrying value of the Convertible Bonds as shown on the Corporation's balance sheet at the date exercised. Pursuant to the second agreement, SBC paid US$200,000 to J&R Holding. In return, SBC has the right to sell a portion of the Call Options to J&R Holding at any time between November 4, 1997 and November 1, 1998. In any event, J&R Holding was required under the automatic exercise provision of this agreement to purchase the Call Options upon the expiration of the agreement on November 1, 1998. Those options were terminated by an agreement on December 11, 2001.

The closing of the sale of the Convertible Bonds eventually took place on November 4, 1997. Upon the closing of the sale of the Convertible Bonds, SBC Warburg immediately resold the Convertible Bonds to a subsidiary of SBC Warburg. Such subsidiary in turn repackaged the Convertible Bonds into the FRNs and the Call Options for resale to the investors that had indicated an interest in purchasing the FRNs and/or the Call Options during the Extension Period. The closing of the sale of the FRNs and the Call Options took place on November 5, 1997.

SBC Warburg and its subsidiary have entered into a swap transaction, which stipulates that SBC Warburg will pay the interest on the FRN (aggregating to US$80 million (NT$2,654 million)) on the subsidiary's behalf. The subsidiary will repay the interest to SBC Warburg at the maturity date of the Convertible Bonds. ASE has contracted with certain banks to issue letters of credit for US$53,783 (NT$1,882,405) to SBC Warburg to guarantee the interest payment obligation of the subsidiary. Under the contract with these banks, ASE may not, among other things, change its scope of operations and is required to maintain certain financial ratios.

B. US$110 million of Foreign Convertible Notes – Issued by ASE Test Finance Limited

In June 1999, ASE Test (the "Guarantor"), in connection with the acquisitions of ISE Labs and Motorola SPS Businesses, issued US$160 million (NT$5,600 million) of 1% guaranteed convertible notes (the "Convertible Notes") due July 1, 2004 through its subsidiary, ASE Test Finance Limited (the "Issuer"). ASE subscribed to US$50 million (NT$1,750 million) of the Convertible Notes and, accordingly, as of December 31, 2001, the net balance of US$109,890 thousand (NT$3,846 million) is shown in the accompanying balance sheet.

The holders of the Convertible Notes are entitled to convert the Convertible Notes into ASE Test's ordinary shares at the specified conversion price ($24.75 per share currently, subject to adjustment) at any time after December 29, 1999 and before or on July 1, 2004.

The Convertible Notes may be redeemed under the following circumstances:

a)Redemption for taxation reasons:

If the applicable tax law or treaty is unfavorably revised, the Issuer or ASE Test may redeem the Convertible Notes in whole at early redemption price, at any time upon giving written notice not less than 30 days and not more than 60 days to the bondholders.

b)Redemption at the option of the Issuer:

On or at any time after July 1, 2002, the Issuer may redeem all or a part of the Convertible Notes at the early redemption price.

14. LONG-TERM DEBTS

Long-term debts consist of the following:

December 31, 2000 and 2001

	2000	2001	
	NT$	NT$	US$
Mortgage bank loans for purchase of building and machinery	4,989,564	5,423,384	154,954
Acceptances payable to syndicate banks	6,678,815	7,507,825	214,509
Bank loans secured by assets	1,540,747	1,367,634	39,075
Revolving bank loans	250,708	3,773,000	107,800
Letters of credit loans for purchase of materials and machinery	-	2,098,650	59,961
Loans for specified use	-	6,000,000	171,429
Obligation under capital leases (Note 22)	179,952	106,525	3,044
	13,639,786	26,277,018	750,772
Current portion	3,309,935	3,175,883	90,740
	10,329,851	23,101,135	660,032

A. Mortgage Bank Loans for Purchase of Building and Machinery:

These represent various bank loans obtained by ASE, ASE Test, Inc., ASE Chung Li, and ASE Material. These mortgage bank loans are repayable in monthly, quarterly or semi-annually installments and bear interest at rates ranging from 1.1% to 8.12% in 2000 and 0.88% to 6.95% in 2001.

ASE Chung Li has a syndicate loan agreement with a total facility of NT$4,000,000, which will be repayable through May 2006. The agree ment requires that, among other things, ASE Chung Li should maintain certain financial ratios. As of December 31, 2001, the unused facility of the syndicate loan aggregated NT$2,700,000 (US$77,143).

B. Acceptances payable to syndicate banks

December 31, 2000 and 2001

	2000	2001	
	NT$	NT$	US$
Five-year revolving credit lines of NT$9,710,000 (US$277,429) through May 2003 to June 2004, interest at 5.223%-6.378% in 2000 and 2.905%-5.745% in 2001	6,775,000	6,500,000	185,714
Revolving credit lines through March 2003 to September 2004, interest at 2.05%-3.65% in 2001	-	1,055,000	30,143
	6,775,000	7,555,000	215,857
Unamortized discounts	(96,185)	(47,175)	(1,348)
	6,678,815	7,507,825	214,509

The above acceptances payable to syndicate banks were covered by several bank acceptance agreements made by ASE and ASE Test, Inc. which stipulate, among other things, the following:

1)Without the prior written consent from the majority of the banks, ASE can not pledge its assets or assume liabilities or change its operating items or merge with any other entity or dispose of more than 20% of total assets, or provide financing to other entity, or make such investment that will unfavorably affect its financial conditions.

2)ASE's tangible net worth (as defined, under ROC GAAP) should not be less than NT$38 billion (US$1,086 million).

3)ASE is required to maintain certain financial ratios.

4)ASE is required to pay an annual commitment fee at 0.15%–0.2% of the difference between the authorized and utilized credit line.

ASE Test provided a guaranty on the bank acceptance agreement entered into by ASE Test, Inc. Under the guaranty, ASE Test is required to maintain certain financial ratios and, without written consent of the majority banks, shall not:

1) Merge or consolidate with any other entity or take any action to dissolve, liquidate or reorganize.

2) Purchase or redeem its shares or reduce its share capital.

3) Reduce its ownership in ASE Test, Inc. to less than 51%.

4) Transfer, sell, lease or dispose of a substantial portion of its assets.

C. Bank loans secured by assets

These represent various bank loans obtained by ISE Labs and ASE Korea which are secured by its total assets and building and improve ments, respectively (Note 21). The loans will be repayable May 2009 and July 2007, respectively, and the loans bear interest ranging from 5.5% to 7.92% and 4.4%-6.1%, respectively. These agreements contain certain covenant and default provisions that require ISE to maintain certain financial ratios, dividend and capital expenditure restrictions and maintenance of working capital requirements. ISE did not meet the minimum quick ratio requirement for one of these agreements for the year ended December 31, 2001 and obtained a waiver from the financial institution within the cure period.

D. Revolving bank loans

These represent various revolving bank loans of Japanese Yen in 2000 and New Taiwan Dollars in 2001. The loans will be repayable through May 2003 to June 2004, with interest rates from 3.85% to 6.45%.

E. Letters of credit for purchase of materials and machinery

This represents various bank loans, due from May 2003 through September 2003 with interest rates ranging from 0.88% to 4.8%.

F. Loans for specified use

This represents the loan which has been specified use for the redemption of ASE's convertible bonds in 2001 (see Note 13). The loan is repayable in semi-annually installments starting June 2003 to December 2004 and bears interest at 5.95%. The agreement requires that among other things, the following:

1) Without the prior written consent from the majority of the banks, ASE can not:

(a) pledge its assets or assume liabilities or change significantly its operating items or dispose material assets, or provide financing to other entity, or make lending to any other parties.

(b) merge or combine with any other entity or make investments or acquire major assets of other entity.

2) ASE's tangible net worth (as defined in a loan agreement) should not be less than NT$38 billion (US$1,086 million).

3) Maintenance by ASE of certain financial ratios.

According to the abovementioned bank loan contracts, the interest rates are variable subject to adjustments by banks or changes in prime rate .

As of December 31, 2001, unused long-term bank facilities approximated NT$4,958,000 (US$141,657).

As of December 31, 2000 and 2001, the future maturities of long-term debts (including long-term bonds payable) are as follows:

	2000	2001	
	NT$	NT$	US$
Within the following year	3,309,935	6,266,228	179,035
During the second year	12,484,848	15,163,030	433,229
During the third year	3,257,243	11,083,861	316,682
During the fourth year	4,939,819	1,186,263	33,893
During the fifth year and thereafter	1,877,120	446,272	12,751
	25,868,965	34,145,654	975,590

Long-term debts (including long-term bonds payable) by currencies are detailed as follows:

	2000		2001	
New Taiwan Dollars	NT$	12,128,557	NT$	22,810,513
US Dollars	US$	469,339	US$	289,175
Deutsche Mark	DM	940	DM	-
Japanese Yen	¥	5,069,552	¥	4,562,877
Singapore Dollars	SGD	7	SGD	-
British Pound	GBP	91	GBP	-
European Currency Unit	EUR	4	EUR	-

15.SHAREHOLDERS' EQUITY

In July 1995, ASE issued 8,600,000 GDSs, representing 43,000,000 common shares. In September 2000, ASE issued 20,000,000 ADSs, representing 100,000,000 common shares. In connection with the ADS offering in 2000, ASE launched an exchange offer to exchange all outstanding GDSs for its New York Stock Exchange-listed ADS. A total of 7,536,000 GDSs, representing an aggregate of 37,677,000 common shares, were exchanged for ADSs pursuant to the exchange offer.

The ADS holders generally have the same rights and obligations as the shareholders, subject to the provision of relevant ROC 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 nominee holder: (a) exercise their voting rights; (b) sell their ADSs; and, (c) receive dividends declared and subscribe to the issuance of new shares.

As of December 31, 2001, the outstanding ADSs represented 6.95% of ASE's total outstanding common shares.

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

Capital surplus from prior years' gains on disposal of properties may be transferred to retained earnings upon approval by the shareholders at the annual general shareholders' meeting in 2002.

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

ASE's Articles of Incorporation provide that the annual net income shall be appropriated as follows:

a. gain on disposal of properties, less applicable income tax, as capital surplus;
b. offset against deficit, if any;
c. 10% of the remainder as legal reserve, until the accumulated amount equals paid-in capital;
d. an amount (Note 6) equal to the income from long-term investments in shares of stock accounted for by equity method, excluding cash dividends, as special reserve;
e. not more than 2% of the remainder, as compensation to directors and supervisors;
f. between 5% to 7% of the remainder, as bonus to employees, of which 5% will be distributed in shares based on the employee stock bonus plan and the excess to be distributed to specific employees as decided by the board of directors; and
g. the remainder, as dividends to shareholders.

The aforementioned appropriations shall be approved by the shareholders in the following year and given effect in the financial statements of such year.

Under the ROC Company Law, the aforementioned legal reserve may be used to offset a deficit. Also, when the reserve has reached 50% of capital, up to 50% thereof may be transferred to capital.

ASE is currently going through a growth phase. In order to meet the needs of operational expansion, both current and future, and to satisfy shareholders' need for cash inflow, the Corporation's dividend policy priority shall be stock dividends; cash dividends may also be paid. In principle, the percentage of cash dividends paid shall not exceed 20%. Cash dividends shall not be paid if the dividend per share is less than NT$0.1; and the stock dividends shall be declared instead.

With respect to the percentage of cash dividends to be paid referred to in the previous paragraph, ASE may decide the most suitable dividend distribution in accordance with its current operational status, and taking into consideration the budget plan for the following year. The board of directors shall draw up a profit distribution plan, which shall be submitted to the shareholders' meeting for approval before implementation.

Under the Integrated Income Tax System which became effective on January 1, 1998, non-corporate resident shareholders are allowed a tax credit for the income tax paid or payable by ASE on earnings generated in 1998 and onwards. An Imputation Credit Account (ICA) is maintained by ASE 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, 2001 the creditable taxes aggregated NT$22,555 (US$644). The actual percentage for the distribution of 2000 net income was 10.33%.

As of December 31, 2001, the unappropriated earnings prior to 1998 (the year that Integrated Income Tax System became effective) amounted to NT$17,644 (US$504).

16.GAIN ON SALES OF INVESTMENTS

This consists of the gross gain on sales of:

Years Ended December 31, 1999, 2000 and 2001

	1999	2000	2001	
	NT$	NT$	NT$	US$
Sale of ASE Test's shares	4,007,674	-	-	-
Sale of ASE's shares held by subsidiaries (Note 27)	1,388,523	-	-	-
Other	147,958	91,666	50,666	1,448
	5,544,155	91,666	50,666	1,448

The gain on sale of ASE Test's ordinary shares in 1999 was the result of the secondary offering of 2,500 thousand shares for issuances of TDRs.
The gain on sale of ASE's common shares in 1999 was the result of the 32,450 thousand shares sold through the re-issuance of GDSs.

17. INCOME TAX

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

Years Ended December 31, 1999, 2000 and 2001

	1999	2000	2001	
	NT$	NT$	NT$	US$
Current				
Tax (benefit) based on pre-tax accounting income (loss) at statutory rate	3,218,520	3,211,156	(579,651)	(16,561)
Add (less) tax effects of:				
Permanent differences				
Tax-exempt income				
-Tax holiday	(779,437)	(700,749)	(26,413)	(755)
-Gain from sales of securities	(384,079)	(51,415)	(31,711)	(906)
Investment income				
- Sale of ASE Test shares	(1,001,919)	-	-	-
Temporary differences				
Investment loss (income)	(398,886)	(523,941)	814,148	23,261
Unfunded pension cost	8,494	12,214	7,842	224
Unrealized foreign exchange loss (gain)	(38,701)	91,102	3,012	86
Bond interest payable	112,318	114,798	(189,164)	(5,405)
Other	248,765	158,786	153,854	4,397
	985,075	2,311,951	151,917	4,341
Income taxes on undistributed earnings	44,539	147,379	335,065	9,573
Credits for investments and research and development	(401,525)	(1,231,247)	(253,227)	(7,235)
Net change in deferred income tax assets (liabilities) for the period	(155,437)	(152,138)	(449,933)	(12,855)
Adjustment of prior year's income tax	(13,109)	(10,177)	17,018	486
Income tax (benefit) expense	459,543	1,065,768	(199,160)	(5,690)

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

Years Ended December 31, 1999, 2000 and 2001

	1999	2000	2001	
	NT$	NT$	NT$	US$
Domestic entities in ROC (25% statutory rate)	2,717,796	2,542,888	(501,553)	(15,707)
Foreign entities				
ASE Korea Inc. (30.8% statutory rate)	55,770	2,153	-	-
ISE Labs, Inc. (federal tax rate 35% and state tax rate 6%)	163,240	439,169	(92,487)	(2,642)
ASE Test Malaysia (30% statutory rate)	281,714	226,946	14,389	411
	3,218,520	3,211,156	(579,651)	(16,561)

c. Deferred income tax assets and liabilities as of December 31, 2000 and 2001 are summarized as follows:

	2000	2001	
	NT$	NT$	US$
Current assets			
Unused tax credits	1,028,885	378,075	10,802
Provision for inventory obsolescence	29,060	41,502	1,186
Accrued interest on convertible bonds	-	163,289	4,665
Provision for doubtful accounts and sales allowance	73,766	68,432	1,955
Unrealized foreign exchange loss	7,626	108,721	3,106
Loss carryforward	-	214,013	6,115
Other	129,139	97,776	2,794
	1,268,476	1,071,808	30,623
Valuation allowance	(85,057)	(161,800)	(4,623)
	1,183,419	910,008	26,000
Deferred income tax liability - unrealized foreign exchange gain	(22,692)	(37,000)	(1,057)
	1,160,727	873,008	24,943
Non-current assets (liabilities)			
Unused tax credits	754,914	1,648,956	47,113
Accrued pension costs	57,403	64,308	1,837
Accrued interest on convertible bonds	362,663	-	-
Loss carryforward	24,645	-	-
Others	83,382	97,472	2,785
	1,283,007	1,810,736	51,735
Valuation allowance	(343,825)	(639,188)	(18,262)
	939,182	1,171,548	33,473
Deferred income tax liability			
Investment income	(1,159,500)	(636,815)	(18,195)
Unrealized foreign exchange gain	(7,500)	(7,185)	(205)
Goodwill amortization	(75,744)	(56,124)	(1,604)
Others	(207,900)	(245,234)	(7,006)
	(1,450,644)	(945,358)	(27,010)
	(511,462)	226,190	6,463

In assessing the realizability of deferred tax assets, ASE considered its future taxable earnings and expected timing for the reversal of temporary differences. The valuation allowance is provided to reduce the gross deferred tax assets to an amount which ASE believes will more likely be realized. Deferred 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 U.S. Federal and State net operating loss carryforward of ISE Labs as of December 31, 2001 approximated US$5,087 thousand and US$454 thousand with expiration in 2021 and 2006, respectively.

A portion of ASE's and ASE Test, Inc.'s income from the manufacture, processing and testing of semiconductors is exempt from income tax for five years ending December 2000 and 2005, respectively. ASE Test Malaysia has been granted approval of "hi-tech pioneer" status for an additional five years and is expected to commence the tax holiday retroactively from July 1, 1999. The per share effect of tax holiday is NT$0.4 in 1999, NT$0.3 in 2000 and NT$0.01 in 2001.

d. As of December 31, 2001, unused tax credits of ROC subsidiaries which can be utilized to offset their future income tax are set forth below:

Year of Expiry	ASE	ASE Chung-Li	ASE Material	ASE Test Inc.	Total
2002	$ 72,373	$ -	$ 47,901	$ 151,752	$ 272,026
2003	225,750	13,246	27,252	241,966	508,214
2004	301,720	104,754	14,982	299,974	721,430
2005	278,040	-	175,865	71,456	525,361
	$ 877,883	$ 118,000	$ 266,000	$ 765,148	$2,027,031

In the ROC, the tax credits may be utilized to reduce up to 50% of income tax payable each year. In the expiring year, any remainder of unused tax credits can be used entirely.

Income tax returns of ASE and all its subsidiaries in Taiwan has been examined by the ROC tax authorities through 1999.

18. PENSION PLANS

The consolidated entities (including ASE) in the ROC have pension plans for their regular employees. Retirement benefits are based on the length of service and average salaries or wages of the last six months before retirement. Those entities make monthly contributions, at 2% of salaries and wages, to pension funds which are in the name of, and are administered by, the employee pension plan committee of the respective entities. The changes in the retirement funds are summarized as follows:

Years Ended December 31, 1999, 2000 and 2001

	1999	2000	2001	
	NT$	NT$	NT$	US$
Balance, beginning of year	186,412	232,205	339,500	9,700
Contributions	34,410	92,211	89,615	2,560
Payments	(574)	(435)	(3,654)	(104)
Interest income	11,957	15,519	15,285	437
Balance, end of year	232,205	339,500	440,746	12,593

Pension costs for these entities consist of:

Years Ended December 31,1999, 2000 and 2001

	1999	2000	2001	
	NT$	NT$	NT$	US$
Service costs	56,870	120,528	114,393	3,268
Interest	23,243	30,234	28,503	814
Projected return on pension assets	(12,543)	(14,575)	(21,611)	(617)
Amortization of prior period service cost, gain or loss on plan assets, etc.	2,689	4,231	6,933	198
	70,259	140,418	128,218	3,663

Other pension information based on actuarial calculations of the plan are as follows:

Years Ended December 31,1999, 2000 and 2001

	1999	2000	2001	
	NT$	NT$	NT$	US$
a. Benefit obligations				
Accumulated benefit obligation	209,543	347,107	434,131	12,404
Additional benefits based on future salaries	228,743	302,925	278,587	7,960
Projected benefit obligation	438,286	650,032	712,718	20,364
Fair value of assets	(211,576)	(311,758)	(412,192)	(11,778)
Funded status	226,710	338,274	300,526	8,586
Unrecognized net transition obligation	(114,468)	(114,550)	(101,984)	(2,914)
Unrecognized net actuarial gain (loss)	85,903	30,580	93,428	2,669
Portion in prepayments	-	-	5,561	159
Portion in other current liabilities	(8,956)	(5,879)	(3,093)	(87)
Accrued pension cost	189,189	248,425	294,438	8,413
b. Vested obligation	2,162	7,124	22,177	634
c. Actuarial assumptionDiscount rate	6.5%-7%	6%	5%	
Increase in future salary level	4%-5.5%	4%-5%	3%-4%	
Expected rate of return on plan assets	6.5%-7%	6%	5%	

19.STOCK OPTION PLANS

ASE Test has six stock option plans, the 1996 Option Plan (the “Pre-IPO Plan”), the 1996 Executive Management Option Plan (the “1996 Plan”), and the 1997, 1998, 1999 and 2000 Option Plans. Stock options granted under these plans are exercisable for ASE Test ordinary shares based on a vesting schedule over five years until the options expire. Because the exercise price is equal to the market price of the shares on the date of grant, no compensation cost was recognized.

20.EARNINGS PER SHARE AND ADS

Since ASE incurred loss from continuing operations for the year ended December 31, 2001, the simple net loss per share and per ADS are presented.

Primary and fully diluted earnings per share for the years ended December 31, 1999 and 2000 are calculated as follows:

The denominator is the weighted average number of outstanding shares of common stock of 1,980,000,000 and 2,677,602,000 shares in 1999 and 2000, respectively. The numerator is the net income with the primary and fully diluted EPS adjustment for the employee stock options of ASE Test.

The numerator with consideration of the adjustment of ASE Test's primary EPS in 1999 and 2000 is calculated as follows:

	1999	2000
Net income	$7,794,666	$5,837,149
Less: net income contributed from ASE Test	(1,184,670)	(1,816,985)
Add: ASE Test's primary EPS multiplied by the number of shares of ASE Test owned by ASE	1,092,952	1,753,903
As adjusted	$7,702,948	$5,774,067

The numerator with consideration of the adjustment of ASE Test's fully diluted EPS in 1999 and 2000 is calculated as follows:

	1999	2000
Net income	$7,794,666	$5,837,149
Less: net income contributed from ASE Test	(1,184,670)	(1,816,985)
Add: ASE Test's fully diluted EPS multiplied by the number of shares of ASE Test owned by ASE	1,085,749	1,685,617
As adjusted	$7,695,745	$5,705,781

Primary and fully diluted earnings per ADS for the years ended December 31, 1999 and 2000 are calculated as follows:

The denominator is the above-mentioned weighted average outstanding shares divided by five (one ADS represents five common shares). The numerator is the same as mentioned in the above EPS calculation.

The number of shares to be potentially issued from convertible bonds is as follow:

	1999	2000	2001
Convertible bonds — issued by ASE	70,666,667	95,400,000	38,537,822

21.ASSETS PLEDGED OR MORTGAGED

Except for those mentioned in Note 13, the assets pledged or mortgaged as first priority collateral for short-term and long-term debts, recruitment of foreign laborers and for tax appeal to the tax authorities are summarized as follows:

December 31, 2000 and 2001

	2000	2001	
	NT$	NT$	US$
Buildings and improvements	710,327	2,077,487	59,357
Machinery and equipment	7,487,835	9,021,120	257,746
Long-term investments	1,266,164	1,790,961	51,170
Time deposits	297,079	140,949	4,027
Guarantee deposits - time deposits	73,599	77,821	2,224
	9,835,004	13,108,338	374,524

In addition, the total assets of ISE Labs amounting to NT$5,458,090 (US$155,945) as of December 31, 2001, have been pledged as conllaterals for its long-term and short-term debts.

22.COMMITMENTS AND CONTINGENCIES AS OF DECEMBER 31, 2001

a. ASE, ASE Test, Inc., and ASE Material lease the land on which their buildings are situated under various operating lease agreements with the government expiring on various dates through September 2009 to 2012. The agreements grant these entities option to renew the leases and reserve the right for the lessor to adjust the lease charges upon an increase in the assessed value of the land and to terminate the leases under certain conditions. In addition, ASE and ASE Material and ISE Labs also lease equipment under non-cancellable capital lease agreements. The net book value as of December 31, 2000 and 2001 of the equipment acquired under the capital obligations amounted to NT$200,429 and NT$276,287 (US$7,894), respectively. The future minimum lease payments under the above-mentioned operating leases are as follows:

Operating leases	NT$	US$
2002	314,006	8,972
2003	280,148	8,004
2004	274,174	7,834
2005	271,953	7,770
Thereafter	849,772	24,279
Total minimum lease payments	1,990,053	56,859

The future minimum lease payments under above-mentioned capital leases as of December 31, 2001 are as follows:

	NT$	US$
Within the following year	86,316	2,466
Within the second year	25,752	736
Within the third year	897	26
Total minimum lease payments	112,965	3,228
Less: Imputed interest	6,440	184
Present value of future lease obligations	106,525	3,044
Capital lease obligation, current	80,550	2,302
Capital lease obligation, long-term	25,975	742

b. ASE, ASE Test, Inc., ASE Test Malaysia and ASE Chung Li (starting 1999) engage outside sales agencies. Commissions and service fees were paid based on monthly incurred services-related cost and expenses plus 10% in 1999 and 2000, and 5%-10% in 2001 (starting August 2001, there is limited amounts prescribed for cost and expenses incurred) or based on 1%-3% in 1999 and 2000, 0.48%-1% in 2001 of net export sales. Commissions and service fees paid in 1999, 2000 and 2001 approximated NT$570,729, NT$762,159 and NT$729,300 (US$20,837), respectively.

c. As of December 31, 2001, commitments to purchase machinery and equipment approximated NT$3,059,996 (US$87,428).

d. As of December 31, 2001, commitments for construction of buildings approximated NT$379,668 (US$10,848).

e. As of December 31, 2001, unused letters of credit of approximated NT$782,667 (US$22,362).

f. ASE entered into technology agreements with foreign companies which will expire in various dates through 2016 for the procurement of manufacturing technology of certain products. Based on the agreements, ASE shall pay royalties at a specified percentage of sales quantities. Such royalties in 1999, 2000 and 2001 were approximately NT$112,025, NT$199,836 and NT$151,249 (US$4,321), respectively.

g. As of December 31, 2001, ASE has endorsed and guaranteed the promissory notes of its subsidiaries as follows:

	NT$	US$
ASE (Labuan)	2,794,861	79,853
ASE (Philippines)	1,924,450	54,984
ASE Chung Li	1,166,322	33,324
ASE Material	1,017,295	29,066
ASE Holding	839,760	23,993
ASE Investment	300,000	8,571
ASE Technologies	40,000	1,143
	8,082,688	230,934

23.DERIVATIVE FINANCIAL INSTRUMENTS

Information on derivative transactions are as follows:

a. Interest rate swap

ASE entered into two interest rate swap contracts with a foreign bank, which expired in January and December 1999. Under these contracts, ASE paid interest based on a nominal principal amount of US$20 million (NT$663 million) and floating interest at a rate of 4.85%-5.19% of LIBOR minus 0.21%-0.25%, whichever was higher. The foreign bank paid interest to ASE based on the same nominal principal and floating interest rate of 3 months' USD LIBOR. The interest settlement was made on net basis. The net interest income from such contracts amounted to NT$842 in 1999. As of December 31, 2000 and 2001, there were no outstanding contracts.

b. Forward exchange contracts

ASE Test Malaysia entered into forward contracts to hedge foreign exchange fluctuations associated with foreign currency liabilities which has expired in February 2001, and the net gain from such contracts amounted to NT$31,803 (US$909) in 2001. As of December 31, 2001, there were no open contracts.

c. European options

Because ASE and ASE Test, Inc. and ASE Material expect to receive U.S. dollars from export sales and to pay Japanese yen or NT Dollars for long-term debts or short-term borrowings, ASE and ASE Test, Inc. and ASE Material have entered into foreign currency option contracts to hedge risks of exchange rate fluctuations.

As of December 31, 2001, the outstanding contracts are as follows:

ASE

Contract	Amount	Strike Price US$/NT$	Maturity Date
Buy US$ Put/JPY Call	US$ 2 million	US$1:JPY120	January 29, 2002
Buy US$ Put/JPY Call	US$ 2 million	US$1:JPY120	February 26, 2002
Buy US$ Put/JPY Call	US$ 2 million	US$1:JPY120	March 26, 2002
Sell US$ Call/JPY Put	US$ 3 million	US$1:JPY120	January 29, 2002
Sell US$ Call/JPY Put	US$ 3 million	US$1:JPY120	February 26, 2002
Sell US$ Call/JPY Put	US$ 3 million	US$1:JPY120	March 26, 2002
Sell US$ Call/NT$ Put	US$ 36.5 million	US$1:NT$34	March 26, 2002
Sell US$ Call/NT$ Put	US$ 66 million	US$1:NT$36	July 15, 2002

The loss arising from such contracts based on mark–to–market valuation as at December 31, 2001 approximated NT$86,732 (US$2,478).

ASE Test, Inc.

Contract	Amount	Strike Price US$/NT$	Maturity Date
Sell US$ Call/NT$ Put	US$ 4 million	US$1:NT$34.61	January 10, 2002
Sell US$ Call/NT$ Put	US$ 4 million	US$1:NT$34.61	February 15, 2002
Sell US$ Call/NT$ Put	US$ 4 million	US$1:NT$34.61	March 11, 2002
Buy US$ Put/NT$ Call	US$ 2 million	US$1:NT$34.50	January 29, 2002

The loss arising from such contracts based on mark–to–market valuation as at December 31, 2001 approximated NT$6,322 (US$181).

ASE Material

Contract	Amount	Strike Price US$/NT$	Maturity Date
Sell US$ Call/JPY Put	US$ 5 million	US$1:JPY120	January 29, 2002
Sell US$ Call/JPY Put	US$ 5 million	US$1:JPY120	February 26, 2002
Sell US$ Call/JPY Put	US$ 5 million	US$1:JPY120	March 26, 2002
Buy JPY Call/US$ Put	US$ 3.25 million	US$1:JPY112.5	January 29, 2002
Buy JPY Call/US$ Put	US$ 3.25 million	US$1:JPY112.5	February 26, 2002
Buy JPY Call/US$ Put	US$ 3.25 million	US$1:JPY112.5	March 26, 2002

The loss arising from such contracts based on mark–to–market valuation as at December 31, 2001 approximated NT$43,697 (US$1,248).

d. Cross currency swap contract

Because ASE will repay US dollars for convertible bonds upon maturity, ASE entered into cross currency swap contract to hedge risks of exchange rate fluctuation which will expire in November 4, 2002. In December 2001, ASE early settled the contract, and resulted in a gain of NT$69,978 (US$1,999).

e. Transaction risk

1) Credit risk

ASE, ASE Test Inc. and ASE Material are exposed to credit risk in the event of non-performance of the counter parties to forward contracts on maturity. In order to manage this risk, ASE, ASE Test, Inc. and ASE Material transact only with financial institutions with good credit ratings. As a result, no material losses resulting from counter party defaults are anticipated.

2) Market risk

Market risk is the exposure created by potential exposures to changes of foreign exchange rate related to its foreign-currency-denominated assets and/or liabilities and changes on interest rates related to its obligations.

3) Liquidation risk and cash flow risk

ASE, ASE Test, Inc. and ASE Material entered into European option contracts to hedge its exposure to the effect of exchange rate fluctuations on net assets or net liabilities. At the maturity of the contracts, ASE, ASE Test, Inc. and ASE Material have sufficient operating capital to meet cash requirements, there are no funds raising risk. Therefore, ASE, ASE Test, Inc. and ASE Material believe there are no significant liquidation risk and cash flow risk.

24.NON-DERIVATIVE AND DERIVATIVE FINANCIAL INSTRUMENTS

December 31, 2000 and 2001

	2000		2001			
	Carrying Values	Fair Values	Carrying Values	Fair Values	Carrying Values	Fair Values
Non-Derivative Financial Instruments	NT$	NT$	NT$	NT$	US$	US$
Assets						
Cash and cash equivalents	14,166,495	14,166,495	11,770,729	11,770,729	336,307	336,307
Short-term investments	1,682,679	1,717,617	4,601,172	4,642,062	131,462	132,630
Notes receivable	219,641	219,641	105,185	105,185	3,005	3,005
Accounts receivable – net	9,040,934	9,040,934	7,020,964	7,020,964	200,599	200,599
Long-term investments	10,712,199	10,303,014	9,530,398	11,026,363	272,297	315,039
Guarantee deposit	297,079	297,079	140,949	140,949	4,027	4,027
Sinking fund	-	-	1,568,057	1,568,057	44,802	44,802
Liabilities						
Short-term borrowings	5,402,597	5,402,597	3,456,149	3,456,149	98,747	98,747
C/P and B/A payable	4,281,805	4,281,805	3,444,314	3,444,314	98,409	98,409
Accounts payable	3,859,909	3,859,909	2,968,779	2,968,779	84,822	84,822
Long-term bonds payable (included current portion)	12,229,179	12,229,179	7,868,636	7,868,636	224,818	224,818
Long-term debts (included current portion)	13,639,786	13,639,786	26,277,018	26,277,018	750,772	750,772
Long-term payable for investments (included current portion)	4,191,528	4,191,528	3,611,294	3,611,294	103,180	103,180
Derivative Financial Instruments						
Forward exchange contracts	2,046	(1,708)	-	-	-	-
European options	-	(21,832)	-	(136,751)	-	(3,907)
Cross currency swap contract	-	21,446	-	-	-	-

The carrying values of cash and cash equivalent, notes receivable, accounts receivable, short-term borrowings, C/P and B/A payable, and notes and accounts payable approximate fair values because of the short maturity of these instruments. The fair values of short-term and long-term investments are determined based on market values or net equity values. The fair value for guarantee deposits and sinking fund is the book value. The fair values of long-term liabilities are determined based on the estimated present value of future cash flows using the interest rates of similar long-term debt instruments which ASE is able to obtain as the discount rate. Fair value of long-term debts is carrying value because floating interest rates are applied. The fair values of derivative financial instruments are based on the information of mark-to-market valuation.

25.SEGMENT AND GEOGRAPHICAL INFORMATION

a. Geographical sales information

1) Net revenue:

Years Ended December 31, 1999, 2000 and 2001

	1999		2000		2001		
	NT$	% of Total Sales	NT$	% of Total Sales	NT$	US$	% of Total Sales
America	18,645,953	57	33,089,214	65	24,930,813	712,309	65
Domestic	9,427,343	29	12,639,373	25	10,222,723	292,078	27
Europe	852,110	3	1,905,646	4	1,508,919	43,112	4
Asia and other areas	3,684,155	11	3,259,144	6	1,705,371	48,725	4
	32,609,561	100	50,893,377	100	38,367,826	1,096,224	100

2) Long-lived assets:

Years Ended December 31, 2000 and 2001

	2000		2001		
	NT$	% of Total Long-Lived Assets	NT$	US$	% of Total Sales
Domestic	43,309,343	72	43,724,466	1,249,270	72
Asia	14,271,843	23	13,482,411	385,212	22
America	2,985,014	5	3,348,228	95,663	6
	60,566,200	100	60,555,085	1,730,145	100

b. Major customers

Customers accounting by 10% or more of total revenues are shown below:

Years Ended December 31, 1999, 2000 and 2001

	1999		2000		2001		
	NT$	% of Total Sales	NT$	% of Total Sales	NT$	US$	% of Total Sales
Motorola, Inc.	5,155,573	16	11,256,760	22	7,164,415	204,698	19
VIA Technologies Inc.	2,576,155	8	5,185,434	10	4,413,854	126,110	12

c. Reported segment information

ASE has three reportable segments: Packaging, Testing and Investing, each of which requires different development and production. The packaging division packages bare semiconductors into finished semiconductors with enhanced electrical and thermal characteristics. The testing division provides testing services, including front-end engineering testing, wafer probing and final testing services. The investing division is engaged in investing activities. The accounting policies of the segments are the same as those described in Note 2. Segment information for the years ended December 31, 1999, 2000 and 2001 is as follows:

	Packaging	Testing	Investing	All other	Total
1999					
Revenue from external customer	NT$24,522,968	NT$ 7,874,728	NT$ -	NT$1,207,287	NT$33,604,983
Inter-segment revenues	-	(81,530)	-	(913,892)	(995,422)
Interest revenue	25,219	227,616	84,567	85,756	423,158
Interest expense	714,780	264,939	137,515	352,561	1,469,795
Net interest revenue (expense)	(689,561)	(37,323)	(52,948)	(266,805)	(1,046,637)
Depreciation and amortization	2,994,302	2,418,278	140	141,647	5,554,367
Segment profit	3,131,508	2,224,801	4,642,002	(935,870)	9,062,441
Segment asset	35,318,472	16,203,198	11,840,510	13,968,595	77,330,775
Expenditures for segment assets	5,617,480	4,808,413	-	671,502	11,097,395
2000					
Revenue from external customer	NT$38,028,799	NT$12,911,073	NT$ -	NT$2,001,604	NT$52,941,476
Inter-segment revenues	-	(142,712)	-	(1,905,387)	(2,048,099)
Interest revenue	265,737	45,112	182,915	60,416	554,180
Interest expense	1,200,236	375,257	461,791	54,954	2,092,238
Net interest revenue (expense)	(934,499)	(330,145)	(278,876)	5,462	(1,538,058)
Depreciation and amortization	4,423,814	3,815,237	59,704	295,044	8,593,799
Segment profit	6,191,070	3,541,102	(1,125,536)	(203,076)	8,403,560
Segment asset	53,385,822	31,155,426	16,810,253	6,989,663	108,341,164
Expenditures for segment assets	12,412,225	14,720,913	-	4,330,313	31,463,451

(Forward)

(continue)

	Packaging	Testing	Investing	All other	Total
2001					
Revenue from external customer	NT$28,928,185	NT$9,637,615	NT$ -	NT$ 2,684,736	NT$41,250,536
Inter-segment revenues	(30,000)	(178,340)	-	(2,674,370)	(2,882,710)
Interest revenue	283,733	36,138	172,866	10,866	503,603
Interest expense	1,260,786	310,571	565,071	106,451	2,242,879
Net interest revenue (expense)	(977,053)	(274,433)	(392,205)	(95,585)	(1,739,276)
Depreciation and amortization	5,186,067	5,466,435	24,489	450,294	11,127,285
Segment profit(loss)	(2,786,577)	(1,195,344)	800,266	196,156	(2,985,499)
Segment asset	51,397,373	32,968,822	11,508,993	10,451,144	106,326,332
Expenditures for segment assets	5,879,357	4,415,168	-	1,271,164	11,565,689
2001					
Revenue from external customer	US$ 826,520	US$ 275,360	US$ -	US$ 76,707	US$ 1,178,587
Inter-segment revenues	(857)	(5,095)	-	(76,411)	(82,363)
Interest revenue	8,107	1,033	4,939	310	14,389
Interest expense	36,022	8,873	16,145	3,042	64,082
Net interest revenue (expense)	(27,916)	(7,841)	(11,206)	(2,730)	(49,693)
Depreciation and amortization	148,174	156,184	700	12,865	317,923
Segment profit (loss)	(79,616)	(34,152)	22,865	5,604	(85,300)
Segment asset	1,468,496	941,966	328,829	298,604	3,037,895
Expenditures for segment assets	167,982	126,147	-	36,319	330,448

26.ACQUISITIONS

In May 1999, ASE Test acquired 70% equity of ISE Labs, which is engaged in the testing and packaging of semiconductors. The purchase costs, including transaction costs, approximated US$100.1 million (NT$3,503.5 million), which was paid in May 1999. In 2001, ASE Test purchased additional shares of ISE Labs in connection with the capital increase of ISE Labs, and consequently, as of December 31, 2001, owned 80% equity of ISE Labs. Total investment cost of the ISE Labs shares was US$171 million (NT$5,985 million) as of December 31, 2001. In January 2002, ASE Test purchased the remaining 20% equity interest in ISE Labs for US$50 million (NT$1,750 million), and thereafter owned 100% of ISE Labs.

In July 1999, ASE and ASE Test purchased 70% and 30%, respectively, of the interest of the Motorola SPS Businesses. The purchase cost approximated US$350.1 million (NT$12,253.5 million). As of December 31, 2001, US$246.8 million (NT$8,638 million) has been paid and the balance of US$103.3 million (NT$3,615.5 million), plus interest (commencing as of the acquisition date - July 1999) is payable, US$23.3 million (NT$815.5) of which is subject to target sales volumes being met for the Motorola SPS Businesses in Chung Li, Taiwan, based on specified payment dates. ASE believes the contingent payments of US$23.3 million (NT$815.5) are determinable beyond a reasonable doubt. As of December 31, 2001, ASE has provided guaranteed letters of credit of US$113,209 (NT$3,962,315) to Motorola. Both acquirees are currently engaged in the packaging and testing of semiconductors. A portion of the purchase price was financed through a Convertible Notes offering completed on June 29, 2000 by ASE Test Finance Limited and fully and unconditionally guaranteed by ASE Test (see Note 13).

Future payments for investments in Motorola as of December 31, 2001 are as follows:

	NT$	US$
Within the following year	816,433	23,327
Within the second year and after	2,794,861	79,853
	3,611,294	103,180

The acquisitions of the Motorola SPS Businesses and ISE Labs were accounted for by the purchase method. Assets acquired and liabilities assumed have been recorded at their estimated fair values as of the acquisition date. The purchase prices exceeded the fair value of the net tangible assets by about US$81.9 million for Motorola SPS Businesses and US$76.5 million for ISE Labs, Inc. The purchase cost in excess of fair value of net tangible assets was allocated to various tangible and intangible assets, which will be amortized on a straight-line basis over 3 to 38 years.

The purchase prices – net book value and calculation of excess amount for those acquisitions described above are as follows (amounts in millions US dollars):

Acquires	Purchase Cost	Net Book Value	Excess
ISE Labs	US$ 100.1	US$ 23.6	US$ 76.5
Motorola SPS Businesses	US$ 350.1	US$ 268.2	US$ 81.9

The excess purchase price was allocated as follows (amount in millions US dollars):

Item	ISE Labs	Motorola SPS Businesses
Write-up of land	2.5	87.7
Write-up (write-down) in buildings	2.7	(11.5)
Write-up (write-down) in machinery	9.0	(8.4)
Deferred tax liability	(5.7)	-
Goodwill	68.0	14.1
	76.5	81.9

In the first quarter of 2000, ASE Test adjusted its allocation of purchase price by reducing the allocation to land by US$0.2 million, buildings by US$2.3 million, machinery by US$2.3 million, deferred tax liabilities by US$1.9 million and increasing the allocation to goodwill by US$3.8 million because impairment loss incurred arising from the disposition of the packaging operation of ISE Labs, which was a preacquisition contingency at the date of acquisition.

The purchase prices for Motorola SPS Businesses and ISE Labs acquisitions, are respectively allocated as follows (amount in million US dollars):

	ISE Labs	Motorola SPS Businesses
Cash	US$ 4.3	US$ 45.2
Accounts receivable	14.3	30.3
Other current assets	0.7	6.9
Fixed assets – net	82.5	302.8
Other assets	3.5	2.6
Goodwill	68.0	14.1
Total liabilities	(59.4)	(51.8)
Minority interest	(13.8)	-
	US$ 100.1	US$ 350.1

27.SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE CORPORATION AND GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles in the Republic of China ("ROC GAAP"), which differ in the following respects from generally accepted accounting principles in the United States ("US GAAP"):

a. Pension benefits

US Financial Accounting Standards (FAS) 87, "Accounting for Pensions", was effective no later than the beginning of the first period for which a US GAAP reconciliation is required. A portion of the unrecognized net transition obligation at the adoption date is to be allocated directly to equity. The adoption date of ASE for US FAS 87 is the beginning of 1987. ROC SFAS 18, which is substantially similar to US FAS 87, was effective in 1996 for listed companies in Taiwan. Therefore, pension expense due to different adoption dates is adjusted.

b. Short-term investments

Under ROC GAAP, marketable equity securities are carried at the lower of aggregate cost or market value, and debt securities at cost. Under US FAS 115, "Accounting for Certain Investments in Debt and Equity Securities", except for debt securities classified as "held-to-maturity securities", investments in debt and equity securities, other than those recorded on the equity method, should be stated at fair value.

All of the Corporation's short-term investments are classified as trading securities under US GAAP, with gains and losses recognized currently in income. The unrealized holding gain included in earnings under US GAAP were NT$22,354 in 2000 and NT$5,952 (US$170) in 2001. All of the Corporation's short-term investments in mutual funds, stock and convertible debts are held principally for the purpose of selling them in the near term.

c. Bonuses to employees, directors and supervisors

According to ROC regulations and the Articles of Incorporation of the ASE, a portion of distributable earnings should 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 board of directors and resolved by the shareholders in the following year. Under US GAAP, such bonuses are charged to income currently in the year earned. Stock issued as part of these bonuses is recorded at fair market value. Since the amount and form of such bonuses are not finally determinable until the board of directors meeting in the subsequent year, the total amount of the aforementioned bonuses ("regular bonuses") is initially accrued based on the management's estimate regarding the amount to be paid based on ASE's Articles of Incorporation. Any difference between the initially accrued amount and the fair market value of the bonuses settled by the issuance of shares is recognized in the year of approval by the board of directors. The management estimates that the regular annual employee bonuses, including cash and stock, will approximate three to four months' salaries and wages.

Aside from the aforementioned regular bonus plan, ASE decided to grant a special stock bonus to employees amounting to NT$1,536,396 in 1997 and NT$2,506,617 in 2000 due to excellent profits for ASE in 1997 and 2000. Employees who received the special stock bonus are required to continue working for ASE for an additional three years. Accordingly, the amount of special stock bonuses is being allocated over three years as special compensation expenses in the statement of income under US GAAP.

d. Treasury stock

The shares of stock of ASE that are held by consolidated majority owned subsidiaries are, under US GAAP, reflected as treasury stock in the consolidated balance sheet. Also, under US GAAP, the minority interest reflected in the statements of income is adjusted to reflect the equity of the minority shareholders on the subsidiary's equity in the net income of ASE. The mutual or reciprocal holdings had no material effect on the minority interest reported in the consolidated statements of income. In addition, under US GAAP, the denominator used in calculating the EPS is adjusted to reflect that the shares of ASE held by the subsidiary are not outstanding beginning on the date that the subsidiary acquired the shares of ASE. The adjustment on the denominator under US GAAP for purposes of EPS computation is 103,321,373 shares in 1999, 135,867,641 shares in 2000 and 164,441,865 shares in 2001, respectively. The capital gain (loss) from sales of treasury stock is added to or deducted from the balance of capital surplus.

Under ROC GAAP, such treatment is not required and, as a result, the investment in ASE common shares is presented as a long-term investment in the balance sheets and capital gain (loss) from sale of treasury stock is recognized and included in the statements of income.

e. Depreciation of buildings

Under ROC GAAP, the estimated life of a building can be as long as 40 years based on ROC practices. For US GAAP purposes, an assessment for useful lives of buildings is estimated to be 25 years.

f. Excess of book value on transfer of buildings between related parties

ASE Test, Inc., a consolidated subsidiary, purchased buildings and facilitates from another consolidated subsidiary, ASE Technologies, in 1997. The actual costs purchased from ASE Technologies were based on market value. Such additional payment for the excess of book value of NT$17,667 was capitalized by ASE Test, Inc. as allowed under ROC GAAP. Under US GAAP, transfers of assets from related parties should not be recorded by the transferee at stepped-up values.

g. Gain on sales of subsidiary's stock

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

h. Effects of US GAAP adjustments on equity long-term investment

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

i. Impairment of long-lived assets

Under US GAAP, impairment losses are recorded in current period earnings, create a new cost basis for related assets going forward and cannot be reversed subsequently. Under US GAAP, in accordance with US FAS 121, long-lived assets held and used by the Corporation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of evaluating the recoverability of long-lived assets, the recoverability test is performed by comparing undiscounted net cash flows of the assets against the net book value of the assets. If the recoverability test indicates that an impairment has occurred, the impairment loss is the amount of the asset's net book value in excess of the related fair value. Under

ROC GAAP, there is no requirement to provide for impairment of fixed assets. Based on an assessment by ASE and its subsidiaries of the potential impact of US FAS 121, there is no impairment loss as of December 31, 2001 for ASE except for the value decline relating to the long-term bond investment in APP (see Note 7).

j. Stock dividends

Under ROC GAAP, stock dividends are recorded at par with a charge to retained earnings. Under US 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 1999 and 2001 stock dividends would be treated as an additional reduction to retained earnings and increase to capital surplus amounting to NT$9,580 million and NT$3,181 million, respectively.

k. Stock option compensation

In May 2001, ASE Test's directors exercised their stock options for 2,480,000 shares at US$3.5 per share under the 1996 option plan. ASE was concerned about potential dilution caused by the sales of these shares into the marketplace and decided, based on resolution of its Board of Directors, to purchase these shares from the directors at the prevailing market price of US$14.27 per share at the same day of option exercised. Under ROC GAAP, such share purchase is accounted for as additional investments of ASE Test's shares by ASE. However, under US GAAP, according to APB Opinion 25 and FIN44, the purchase of shares from employees within six months after exercise of vested option, the compensation expense shall be measured for the difference between the market price of the share on the date of purchase and the market price on the date the options were issued. Consequently, the difference amounting to NT$908,661 (US$25,961) arising from such shares purchased by ASE was recorded by ASE Test as compensation expenses.

l. Derivative financial instruments

There are no specific rules under ROC GAAP related to accounting for derivative financial instruments other than foreign currency forward exchange contracts (the "forward contracts"). The accounting of forward contracts and other derivatives is disclosed in Note 2. The accounting and reporting standards for derivative financial instruments under US GAAP are established in FAS 133 and FAS 138; which were adopted by the Corporation effective January 1, 2001. The adoption of US FAS 133 and US FAS 138 had no material impacts to the consolidated financial statements for all periods presented. Under US GAAP, the Corporation did not apply hedge accounting and derivatives have historically been, and continue to be, recorded on the balance sheets at fair value, with the changes in fair values recorded through current period earnings.

m.Earnings Per Share (EPS)

In calculating the weighted average number of shares outstanding for EPS purposes under ROC GAAP, employee bonus shares are treated as outstanding for all periods. Under US GAAP, employee bonus shares are treated as outstanding only from the date when they are issued.

The following 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 US GAAP, giving effect to adjustments for the differences listed above.

Years Ended December 31, 1999, 2000 and 2001

Net income (loss)	1999	2000	2001	
	NT$	NT$	NT$	US$
Net income (loss) based on ROC GAAP	7,794,666	5,837,149	(2,142,219)	(61,206)
Adjustments:				
a.Pension benefits (cost)	(15,799)	5,635	2,755	79
b.Short – term investments	12,584	22,354	5,952	170
c.Bonuses to employees, directors and supervisors:				
Accrued regular bonuses	(1,089,135)	(929,348)	-	-
Special stock bonuses	(577,500)	(929,901)	(963,572)	(27,531)
d.Gain from sale of treasury stock	(1,388,523)	-	-	-
e.Depreciation of building	(30,731)	(32,127)	(48,803)	(1,394)
f.Excess of book value of building transferred between related parties	432	432	432	12
g.Restate carrying value and related capital gain from sale of long-term investment	(5,180)	-	39,002	1,114
h.Effects for US GAAP adjustments on equity long–term investments	(154,218)	(51,825)	(33,785)	(965)
i.Stock option compensation	-	-	(908,661)	(25,961)
j.Effect of US GAAP adjustment on income tax	5,691	6,553	6,978	199
k.Effect of US GAAP adjustments on minority interest	89,014	1,074	(4,682)	(134)
Net decrease in net income	(3,153,365)	(1,907,153)	(1,904,384)	(54,411)
Net income (loss) based on US GAAP	4,641,301	3,929,996	(4,046,603)	(115,617)
Earnings (loss) per share				
Basic	1.61	1.34	(1.32)	(0.04)
Diluted	1.58	1.29	(1.32)	(0.04)
Earnings (loss) per ADS				
Basic	8.07	6.69	(6.59)	(0.19)
Diluted	7.91	6.47	(6.59)	(0.19)
Number of weighted average shares Outstanding	2,874,924,409	2,938,004,535	3,071,234,458	3,071,234,458
Number of ADS	574,984,882	587,600,907	614,246,892	614,246,892

Years Ended December 31, 1999, 2000 and 2001

Shareholders' equity	1999	2000	2001	
	NT$	NT$	NT$	US$
Shareholders' equity based on ROC GAAP	30,057,036	43,669,214	41,946,321	1,198,466
Adjustments:				
a. Pension benefits	(47,794)	(42,159)	(39,404)	(1,126)
b. Restatement of short–term investments	12,584	34,938	40,890	1,168
c. Bonuses to employees, directors and supervisors	(217,827)	(113,600)	-	-
d. Treasury stocks				
d1. reversal of unrealized loss	-	487,752	367,662	10,505
d2. classification of treasury stock	(2,922,561)	(2,919,411)	(3,017,964)	(86,228)
e. Effect of US GAAP adjustments on useful life	(95,296)	(127,423)	(176,226)	(5,035)
f. Excess of book value of building transferred between related parties	(16,623)	(16,191)	(15,759)	(450)
g. Restate carrying value of subsidiaries' long-term investment	(47,621)	(47,621)	(8,619)	(247)
h. Effects of the above adjustments on equity investment	(187,048)	(238,873)	(272,658)	(7,790)
i. Stock option compensation	–	-	(908,661)	(25,961)
j. Effect of US GAAP adjustments on income tax	15,170	21,723	28,701	820
k. Effect on US GAAP adjustments on minority interest	19,667	20,741	16,059	459
Net decrease in shareholders' equity	(3,487,349)	(2,940,124)	(3,985,979)	(113,885)
Shareholders' equity based on US GAAP	26,569,687	40,729,090	37,960,342	1,084,581
Changes in shareholders' equity based on US GAAP				
Balance, beginning of year	17,675,199	26,569,687	40,729,090	1,163,688
Convertible bonds converted into common shares	-	35,653	-	-
Capital increase in cash through the Issuance of American Depositary shares	-	4,137,910	-	-
Net income (loss) for the year	4,641,301	3,929,996	(4,046,603)	(115,617)
Adjustment for common shares issued as bonuses to employees, directors and supervisors	1,448,808	1,811,607	963,572	27,531
Translation adjustment for subsidiaries	(173,957)	894,255	749,128	21,403
Adjustment from changes in ownership percentage of investees	(108,046)	3,405,909	(320,785)	(9,165)
Unrealized loss on long-term investment in shares of stock	-	(59,077)	(15,508)	(443)
Effect of change in exchange rate	-	3,150	-	-
Purchase of treasury stock	-	-	(98,552)	(2,816)
Sale of treasury stock	1,782,434	-	-	-
Capital gain from sale of treasury stock	1,303,948	-	-	-
Balance, end of year	26,569,687	40,729,090	37,960,342	1,084,581

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

December 31, 2000 and 2001

	2000	2001	
	NT$	NT$	US$
Short-term investments			
As reported	1,682,679	4,601,172	131,462
US GAAP adjustments Restatement of investments to fair value	34,938	40,890	1,168
As adjusted	1,717,617	4,642,062	132,630
Long-term investments			
As reported	10,712,199	9,530,398	272,297
US GAAP adjustments			
Treasury stock	(2,429,131)	(2,649,484)	(75,700)
Equity investments	(238,837)	(272,658)	(7,790)
As adjusted	8,044,231	6,608,256	188,807
Buildings and improvement			
As reported	9,390,206	14,640,855	418,310
US GAAP adjustments			
Effect of US GAAP adjustments on useful life	(127,423)	(176,226)	(5,035)
Excess of book value of building transferred Between related parties	(16,191)	(15,759)	(450)
As adjusted	9,246,592	14,448,870	412,825
Other assets			
As reported	1,275,557	1,342,269	38,351
US GAAP			
Effect of US GAAP adjustments on income tax	-	28,701	820
As adjusted	1,275,557	1,370,970	39,171
Deferred income tax liabilities - net			
As reported	511,462	-	-
US GAAP			
Effect of US GAAP adjustments on income tax	(21,723)	-	-
As adjusted	489,739	-	-
Consolidated debits			
As reported	4,999,546	5,248,919	149,969
US GAAP adjustments			
Restated carrying value of subsidiaries'long-term investment	(47,621)	(8,619)	(247)
As adjusted	4,951,925	5,240,300	149,722
Current liabilities			
As reported	25,873,359	21,268,927	607,683
US GAAP adjustments – bonuses to employees,directors and supervisors	113,600	-	-
As adjusted	25,986,959	21,268,927	607,683
Accrued pension cost			
As reported	248,425	294,438	8,413
US GAAP adjustments – pension benefits	42,159	39,404	1,126
As adjusted	290,584	333,842	9,539

As a result of the adjustments presented above, the approximate amounts of total assets based on US GAAP are NT$105,516,899 and NT$103,273,177 (US$2,950,661) as of December 31, 2000 and 2001, respectively.

28.ADDITIONAL DISCLOSURES REQUIRED BY US GAAP

a. Pension

Set forth below is pension information disclosed in accordance with US FAS 132:

Years Ended December 31, 1999, 2000 and 2001

	1999	2000	2001	
	NT$	NT$	NT$	US$
Components of net periodic benefit cost				
Service cost	81,240	120,528	116,657	3,333
Interest cost	23,796	30,241	28,968	828
Expected return on plan assets	(12,242)	(14,575)	(21,630)	(618)
Amortization of prior service cost	642	8	1,468	42
Net periodic benefit cost	93,436	136,202	125,463	3,585
Changes in benefit obligation				
Benefit obligation at beginning of year	359,510	465,674	650,032	18,572
Service cost	79,410	120,528	116,657	3,333
Interest cost	23,369	30,241	28,968	827
Actuarial (gain) loss	3,586	34,025	(69,978)	(1,999)
Benefits paid	(201)	(436)	(3,655)	(104)
Benefit obligation at end of year	465,674	650,032	722,024	20,629
Change in plan assets				
Fair value of plan assets at beginning of year	165,155	208,289	311,737	8,907
Actual return on plan assets	10,790	12,408	13,324	380
Employer contribution	32,545	91,476	90,468	2,585
Benefits paid	(201)	(436)	(3,493)	(100)
	208,289	311,737	412,036	11,772
Funded Status	257,385	338,295	309,988	8,857
Unrecognized actuarial gain (loss)	(16,549)	(45,795)	26,947	770
Net amount recognized (recognized as accrued pension cost)	240,836	292,500	336,935	9,627

Actuarial assumptions:

	1999~2001
Discount rate	5%~7%
Rate of compensation increase	3%~5.5%
Expected return on plan assets	5%~7%

ASE has no other post-retirement or post-employment benefit plans.

b. Short-term investments

At December 31, 2000 and 2001, certain investments carried at cost under ROC GAAP were restated under US FAS 115:

December 31, 2000 and 2001

	2000			2001					
	Carrying Value	Fair Value	Unrealized Holding Gains	Carrying Value	Fair Value	Unrealized Holding Gains	Carrying Value	Fair Value	Unrealized Holding Gains
	NT$	NT$	NT$	NT$	NT$	NT$	US$	US$	US$
Short-term investments (Note 3)	1,682,679	1,717,617	34,938	4,601,172	4,642,062	40,890	131,462	132,630	1,168

c. Income taxes expense (benefit)

Years Ended December 31, 1999, 2000 and 2001

	1999	2000	2001	
	NT$	NT$	NT$	US$
Income tax currently payable (tax benefit)	583,550	1,080,704	(101,310)	(2,894)
Net change in deferred income tax assets (liabilities) for the period	(161,128)	(158,691)	(442,955)	(12,656)
Income tax on undistributed earnings	44,539	147,379	335,065	9,573
Adjustment of prior years' income taxes	(13,109)	(10,177)	17,018	486
	453,852	1,059,215	(192,182)	(5,491)

Reconciliation between the income tax calculated on pretax financial statement income based on the statutory tax rate and the income tax expense (benefit) which conforms to US GAAP is as follows:

Years Ended December 31, 1999, 2000 and 2001

	1999	2000	2001	
	NT$	NT$	NT$	US$
Tax (benefit) based on pre-tax accounting income (loss) at statutory rate	2,406,503	2,732,461	(1,056,321)	(30,181)
Add (less) tax effects of:				
Permanent differences Tax-exempt income -Tax holiday	(1,163,516)	(700,749)	(26,413)	(754)
-Gain from sale of securities	(653,493)	(51,415)	(31,711)	(906)
Bonus to employee and directors	416,659	464,812	468,058	13,373
Other	35,408	7,368	6,958	199
Tax credits				
Utilized	(401,525)	(1,231,247)	(253,227)	(7,235)
Deferred	(217,614)	(299,217)	348,390	9,954
Income taxes (10%) on undistributed earnings	44,539	147,379	335,065	9,573
Adjustment of prior year's income tax	(13,109)	(10,177)	17,018	486
Income tax expense (benefit)	453,852	1,059,215	(192,183)	(5,491)

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

Years Ended December 31, 1999, 2000 and 2001

	2000	2001	
	NT$	NT$	US$
Domestic entities in ROC (25% statutory rate)	2,064,193	(978,223)	(27,949)
Foreign entities			
ASE Korea Inc. (30.8% statutory rate)	2,153	-	-
ISE Labs, Inc. (33% statutory rate)	439,169	(92,487)	(2,643)
ASE Test Malaysia (30% statutory rate)	226,946	14,389	411
	2,732,461	(1,056,321)	(30,181)

d. Stock option plans

ASE Test Limited has six stock option plans, the 1996 Option Plan (the "Pre-IPO Plan"), the 1996 Executive Management Option Plan (the "1996 Plan"), the 1997 Option Plan, the 1998 Option Plan, the 1999 Option Plan and the 2000 Option Plan. The Pre-IPO Plan has expired as of December 31, 2001. Up to 10,000,000 shares, 3,200,000 shares, 1,600,000 shares, 2,000,000 shares and 12,000,000 shares have been reserved for issuance under the 1996, 1997, 1998, 1999 and 2000 Option Plans, respectively.

The 1996, 1997, 1998, 1999 and 2000 Option Plans granted the following stock options to purchase the ASE Test Limited's shares which are exercisable based on a vesting schedule over a period of five years 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.

Each aforementioned option exercise price was equal to the stock's market price on the date of grant. The 1996, 1997 and 1998 Option Plans will expire after 5 years and the 1999 and 2000 Option Plan will expire after 10 years.

A summary of the transaction of shares under the six plans is presented below:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Grant Date Fair Values
Beginning balance — January 1, 1999	11,585,128	$ 5.97	
Option granted	2,742,500	20.00	$10.65
Option exercised	(1,627,226)	5.47	
Option forfeited	(76,028)	7.29	
Ending balance — December 31, 1999	12,624,374	9.07	
Option granted	412,000	25.00	$13.44
Option exercised	(1,263,041)	6.31	
Option forfeited	(287,184)	14.14	
Ending balance — December 31, 2000	11,486,149	9.82	
Option granted	10,158,650	8.94	$ 4.24
Option exercised	(5,221,508)	3.81	
Option forfeited	(114,706)	17.11	
Ending balance — December 31, 2001	16,308,585	$11.15	
Options exercisable at:			
December 31, 1999	4,387,858	$ 4.91	
December 31, 2000	6,902,529	6.13	
December 31, 2001	6,233,453	11.89	

Significant option groups outstanding at December 31, 2001 and the related weighted average exercise price and remaining contractual life information are as follows (in US dollars):

	Outstanding		Exercisable		Weighted Average Remaining Life (Years)
	Shares	Weighted Average Price	Shares	Weighted Average Price	
Options with exercise price of:					
$25	397,000	$ 25.00	158,800	25.00	7.5
$13.4375-$20.15625	2,640,706	19.69	1,449,886	19.54	5.6
$8.875-$13.3125	12,728,479	9.18	4,082,367	9.52	7.4
$5-$7.5	542,400	5.46	542,400	5.46	0.2
Options outstanding at					
December 31, 2001	16,308,585		6,233,453		

US FAS 123, “Stock-Based Compensation” effective in 1996, establishes accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. Under US FAS 123, ASE Test has elected to continue using the intrinsic value-based method and provide pro forma disclosures of net income and earnings per share as if the fair value accounting provisions of this statement had been adopted.

ASE Test has computed for pro forma disclosure purposes the fair value of each option grant, as defined by US FAS 123, using the Black-Scholes option pricing model with the following assumptions:

	1999	2000	2001
Risk free interest rate	5.76-6.01%	6.61-6.75%	3.62-4.66%
Expected dividend yield	0%	0%	0%
Expected lives	3.4-5 years	3.4-5 years	3.4 years
Volatility	55.53%	55.53%	62.14%

For purposes of pro forma disclosure, the estimated fair value of the options are amortized to expense over the option rights vesting periods. Had ASE Test recorded compensation costs based on the estimated grant date fair value, as defined by US FAS 123, ASE's net income (loss) under US GAAP would have been reduced to the pro forma amounts below.

Years Ended December 31, 1999, 2000 and 2001

		1999	2000	2001	
		NT$	NT$	NT$	US$
Net income (loss) based on US GAAP		4,641,301	3,929,996	(4,046,603)	(115,617)
Pro forma net income (loss)		4,479,803	3,682,196	(4,351,688)	(124,334)
Basic EPS	As reported	1.61	1.34	(1.32)	(0.04)
	Pro forma	1.56	1.25	(1.42)	(0.04)
Diluted EPS	As reported	1.58	1.29	(1.32)	(0.04)
	Pro forma	1.53	1.21	(1.42)	(0.04)
Basic EPS per ADS	As reported	8.07	6.69	(6.59)	(0.19)
	Pro forma	7.79	6.27	(7.08)	(0.20)
Diluted EPS per ADS	As reported	7.91	6.47	(6.59)	(0.19)
	Pro forma	7.63	6.05	(7.08)	(0.20)

The pro forma amounts reflect compensation expense related to 1996, 1997, 1998, 1999 and 2000 option plans granted and vested only. In future years, the annual compensation expense will increase relative to the fair value of the options granted and vested in those future years.

e. According to US FAS 130, the statement of comprehensive income (loss) for the years ended December 31, 2000 and 2001 are present below:

Years Ended December 31, 1999, 2000 and 2001

	1999	2000	2001	
	NT$	NT$	NT$	US$
Net income (loss) based on US GAAP	4,641,301	3,929,996	(4,046,603)	(115,617)
Translation adjustment on subsidiaries — net of income tax benefit of NT$43,489 in 1999, income tax expense of NT$223,564 in 2000 and income tax expense of NT$187,282 in 2001	(130,468)	670,691	561,846	16,053
Comprehensive income (loss)	4,510,833	4,600,687	(3,484,757)	(99,564)

The pro forma amounts reflect compensation expense related to 1996, 1997, 1998, 1999 and 2000 option plans granted and vested only. In future years, the annual compensation expense will increase relative to the fair value of the options granted and vested in those future years.

f. Consolidation

The 1999 net revenues, cost of revenues and operating expense of ISE Labs before the date of acquisition in the amounts of NT$736,765, NT$475,250 and NT$117,880, respectively, were consolidated in the 1999 consolidated financial statements. The net revenues for the pre-acquisition period only represented 2% of the ASE's consolidated net revenues in 1999 and such presentation has no impact on the 1999 consolidated net income and shareholders' equity under US GAAP. If the results of ISE Labs were consolidated from the date of acquisition, the net revenues, gross profit and income from operation of 1999 consolidated statement of income will be NT$31,872,796, NT$8,388,480 and NT$4,704,924 , respectively.

g. US GAAP cash flow information

The following represents the major caption of cash flow under US GAAP pursuant to US FAS 95:

Years Ended December 31, 1999, 2000 and 2001

	1999	2000	2001	
	NT$	NT$	NT$	US$
Cash flows				
Net cash provided by operating activities	6,988,434	17,466,420	10,723,952	306,399
Net cash used in investing activities	(14,953,647)	(33,550,389)	(14,211,788)	(406,051)
Net cash provided by financing activities	11,768,774	17,759,155	618,555	17,673
Net increase (decrease) in cash	3,803,561	1,675,186	(2,869,281)	(81,979)
Cash, beginning of year	8,173,901	11,809,112	14,166,495	404,757
Effect of exchange rate changes in cash	(168,350)	682,197	473,515	13,529
	11,809,112	14,166,495	11,770,729	336,307

The significant reclassifications for US GAAP cash flow statements pertain to the following:

1) the effect of exchange rate changes on cash is shown in the reconciliation of the beginning balance and ending balance of cash (as opposed to operating activities under ROC GAAP)

2) compensation to directors and supervisors and bonuses to employees is shown in the operating activity under US GAAP (as opposed to financing activities under ROC GAAP)

3) proceeds from sales of treasury stock and purchases of treasury stock are shown in the financing activities under US GAAP (as opposed to investing activities under ROC GAAP).

h. New accounting standards

ASE is required by SEC Staff Accounting Bulletin No. 74, to disclose the impact of recently issued accounting standards will have on its financial statements when adopted in a future period, as well as make certain disclosure about recently issued accounting standards.

In June 2001, the US Financial Accounting Standards Board issued US FAS 141, “Accounting for business combinations”, and US FAS 142, “Goodwill and other intangible assets”. ASE must adopt these standards on January 1, 2002, which may affect accounting for business combinations consummated after June 30, 2001 and that for existing goodwill and other intangible assets of ASE upon adoption. The standards require, among other provisions, companies to review for possible impairment of goodwill existing at the date of adoption and perform subsequent impairment tests on an annual basis. In addition, existing goodwill and intangible assets must be reassessed and classified consistently in accordance with the criteria set forth in US FAS 141 and US FAS 142. Under the new standards, ASE will no longer amortize goodwill while the other intangible assets will continue to be amortized over its estimated useful lives, which, if supportable, may be a period that exceeds the current maximum period of 40 years. As of December 31, 2000 and 2001, ASE has unamortized goodwill of approximately NT$7,652,686 and NT$6,900,661 (US$197,162), respectively. Total amortization expenses of goodwill under ROC GAAP incurred for the years ended December 31, 1999, 2000, and 2001 are NT$507,816, NT$559,807 and NT$692,919 (US$19,798), respectively. ASE has not yet completed its assessment of the impact these new standards may have on the accompanying financial statements and cannot estimate whether related impact would be material or not.

In June 2001, the US Financial Accounting Standards Board issued US FAS 143, "Accounting for Asset Retirement Obligations". US FAS 143 requires, among other provisions, retirement obligations to be recognized when they are incurred and displayed as liabilities, with a corresponding amount capitalized as part of the related long-lived asset. The capitalized element is required to be expensed using a systematic and rational method over its useful life. US FAS 143 will be adopted by ASE on January 1, 2003 and is not expected to have a material impact on its consolidated financial information relating to US GAAP.

In August 2001, the US Financial Accounting Standards Board issued US FAS 144, "Accounting for the Impairment or Disposal of Long-lived Assets", which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. US FAS 144 supersedes US FAS 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed of", and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations for a disposal of a segment of a business". US FAS 144 is effective for years beginning after December 15, 2001, with earlier application encouraged. The impact of adopting this accounting standard is not expected to have a material effect on the ASE's consolidated financial position and results of operations.

29. Subsequent Event

During April 2002, ASE's ownership percentage in ASE Test fell below 50% and as of May 17, 2002 is 49.77%. ASE continues to consolidate ASE Test because ASE effectively controls ASE Test. Mr. Richard Chang, the Vice Chairman of ASE also serves as the Chairman of ASE Test. Mr. Chang has committed to vote his shares of ASE Test as of April 30, 2002, which represented a 1.05% ownership interest in ASE Test, in concert with ASE.

Advanced Semiconductor Engineering, Inc.

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Board of Directors & Supervisors

Directors

Jason C.S. Chang
Richard H.P. Chang
Chang Yao Hung-Ying
Leonard Liu
Chin Ko-Chien
David Pan
Joseph Tung

Supervisors

Mei-Jean Feng
Alan Cheng
Yen Yi Tseng
Raymond Lo
John Ho

Executive Officers

Jason C.S. Chang	Chairmman and Chief Operating Officer
Richard H.P. Chang	Vice Chairman and Chief Executive Officer
Leonard Liu	President, ASE Inc.
Chin Ko-Chien	Executive Vice President and General Manager, Kaohsiung Packaging facility.
David Pan	President, ASE Test Limited
Raymond Lo	President, ASE Test Taiwan
Kanapathi A/L Kuppusamy	President, ASE Test Malaysia
Shih-Song Lee	President, ASE (Chung-Li) Inc.
James Stilson	President, ASE Korea Inc.
Fu-Shing Chang	Presidnet, ASE Philippines
Gregory Lin	President, ASE Material
Harvey Wu	President, Universal Scientific Industrial Co., Ltd.
Joseph Tung	Chief Financial Officer

Stockholder Information

Annual General Meeting

The Annual General Meeting
of Shareholders was held on
June 21, 2002 at 10:00 a.m.
at the auditorium NEPZ
Kaohsiung, Taiwan

Stock Listing

The company's common stock is listed on TAIWAN STOCK EXCHANGE (2311.TW)
and NEW YORK STOCK EXCHANGE (ASX.US).

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