ADVANCED SEMICONDUCTOR ENGINEERING INC
Form F-3/A
April 30, 2003

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As filed with the Securities and Exchange Commission on April 30, 2003

Registration No. 333-89428

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 3
TO
FORM F-3
REGISTRATION STATEMENT UNDER
THE SECURITIES ACT OF 1933

(Exact name of Registrant as specified in its charter)

ADVANCED SEMICONDUCTOR ENGINEERING, INC.

(Translation of Registrant s name into English)

Republic of China	**3674**	**Not Applicable**
(State of other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification No.)*

26 Chin Third Road
Nantze Export Processing Zone
Nantze, Kaohsiung, Taiwan
Republic of China
(8867) 361-7131

(Address, including zip code, and telephone number including area code, of Registrant s principal executive offices)

CT Corporation System
111 Eighth Avenue
New York, New York 10011
(212) 894-8940

(Name, address, including zip code, and telephone number, including area code, of agent for service)

With copies to:

Show-Mao Chen, Esq.	**William Y. Chua, Esq.**
Davis Polk & Wardwell	**Sullivan & Cromwell LLP**
18th Floor, The Hong Kong Club Building	**28th Floor**
3A Chater Road	**Nine Queen s Road Central**
Hong Kong	**Hong Kong**
852-2533-3300	**852-2826-8688**

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion. Dated April 30, 2003.

Advanced Semiconductor Engineering, Inc.

(Incorporated as a company limited by shares in the Republic of China)

28,757,600
American Depositary Shares
Representing
143,788,000 Common Shares

This is a global offering of 28,757,600 American depositary shares, or ADSs, of Advanced Semiconductor Engineering, Inc., or ASE Inc. The selling shareholders named on page 34 are selling all of the ADSs being offered in this offering. ASE Inc. will receive all of the net proceeds from the sale of ADSs in this offering by the selling shareholders. ASE Inc. will also receive all of the net proceeds from the sale of additional ADSs by one of the selling shareholders, if the underwriters overallotment option is exercised. The ADSs are not being offered in the Republic of China. Each ADS represents five common shares, par value NT$10 per share, of ASE Inc. The ADSs are evidenced by American depositary receipts, or ADRs.

Our ADSs are listed on the New York Stock Exchange under the symbol ASX . The last reported sale price of our ADSs on the New York Stock Exchange on April 29, 2003 was US$2.69 per ADS. ASE Inc. s outstanding common shares are listed on the Taiwan Stock Exchange under the symbol 2311 . The closing price of the common shares on the Taiwan Stock Exchange on April 29, 2003 was NT$18.1 per share, which is equivalent to approximately US$0.52, assuming an exchange rate of NT$34.89 = US$1.00.

See Risk Factors beginning on page 13 to read about factors you should consider before buying the ADSs.

Neither the United States Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per ADS	Total
Initial price to public	US$	US$
Underwriting discount	US$	US$
Proceeds, before expenses, to the selling shareholders	US$	US$

ASE Capital Inc. has granted the underwriters an option exercisable within 30 days from the date of this prospectus to purchase up to an additional 4,000,000 ADSs at the initial price to public less the underwriting discount, solely to cover overallotments, if any.

The underwriters expect to deliver the ADSs through the book-entry transfer facilities of The Depository Trust Company against payment in U.S. dollars in New York, New York on , 2003.

Goldman Sachs International

Prospectus dated , 2003.

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These securities may not be offered or sold, directly or indirectly, in the Republic of China, except as permitted by applicable laws of the Republic of China.

The ADSs may only be offered, sold, transferred or delivered in or from The Netherlands, as part of their initial distribution or as part of any re-offering, and neither this prospectus nor any other document in respect of this offering may be distributed or circulated in The Netherlands, other than to individuals or legal entities which include, but are not limited to, banks, brokers, dealers, institutional investors and undertakings with a treasury department, who or which trade or invest in securities in the conduct of a business or profession.

In connection with this offering, Goldman Sachs International or any person acting for it may over-allot or effect transactions with a view to supporting the market price of the ADSs and, subject to applicable laws of the Republic of China, the common shares at a level higher than that which might otherwise prevail for a limited period of time after the issue date. However, there may be no obligation on Goldman Sachs International or its agent to do this. Such stabilization, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. See Underwriting .

Unless otherwise specified, the information contained herein assumes that the underwriters overallotment option has not been exercised. All references contained herein to the common shares outstanding include common shares held by our consolidated subsidiaries, unless otherwise specified.

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PROSPECTUS SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements appearing elsewhere or incorporated by reference in this prospectus. In addition to this summary, we urge you to read the entire prospectus carefully, especially the discussion of the risks of investing in our ADSs under Risk Factors , before deciding to buy our ADSs.

Business

We are one of the world s largest independent providers of semiconductor packaging services and, together with our subsidiary ASE Test Limited, or ASE Test, the world s largest independent provider of semiconductor testing services. Our services include semiconductor packaging, design and production of interconnect materials, front-end engineering testing, wafer probing and final testing services. We offer packaging and testing services on both stand-alone and turnkey bases. Turnkey services consist of the integrated packaging, testing and direct shipment of semiconductors to end users designated by our customers.

We believe that we are better positioned than our competitors to meet the requirements of semiconductor companies worldwide for outsourced packaging and testing services across a wide range of end-use applications because of:

- our ability to provide a broad range of advanced semiconductor packaging and testing services on a large scale turnkey basis;
- our expertise in developing and providing advanced packaging and testing technologies and solutions;
- our scale of operations and financial position, which enable us to make significant investments in capacity expansion and research and development as well as to make selective acquisitions;
- our geographic presence in key centers of outsourced semiconductor and electronics manufacturing; and
- our long-term relationships with providers of complementary semiconductor manufacturing services, including our strategic alliance with Taiwan Semiconductor Manufacturing Company Limited, or TSMC, the world s largest dedicated semiconductor foundry.

We believe that the trend for semiconductor companies to outsource their packaging and testing requirements is accelerating as semiconductor companies increasingly rely on independent providers of foundry and advanced packaging and testing services. In response to the increased pace of new product development and shortened product life and production cycles, semiconductor companies are increasingly seeking independent packaging and testing companies that can provide turnkey services in order to reduce time-to-market. We believe that our expertise and scale in advanced technology and our ability to integrate our broad range of solutions into turnkey services allow us to benefit from the accelerated outsourcing trend and better serve our existing and potential customers.

We believe that we have benefited, and will continue to benefit, from our geographic location in Taiwan. Taiwan is currently the largest center for outsourced semiconductor manufacturing in the world and, in addition, has a high concentration of electronics manufacturing service providers, which are the end users of our customers products. Our close proximity to foundries and other providers of complementary semiconductor manufacturing services is attractive to our customers who wish to take advantage of the efficiencies of a total semiconductor manufacturing solution by outsourcing several stages of their manufacturing

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requirements. Our close proximity to end users of our customers products is attractive to our customers who wish to take advantage of the logistical efficiencies of direct shipment services that we offer. We believe that, as a result, we are well positioned to meet the advanced semiconductor engineering requirements of our customers.

We have a global base of over 200 customers, including:

Advanced Micro Devices, Inc.
Altera Corporation
ATI Technologies Inc.
Conexant Systems, Inc.
IBM Corporation
Koninklijke Philips Electronics N.V.
LSI Logic Corporation
Motorola, Inc.
NVIDIA Corporation
ON Semiconductor Corp.
Qualcomm Incorporated
RF Micro Devices, Inc.
Silicon Integrated Systems Corp.
STMicroelectronics N.V.
VIA Technologies, Inc.

Strategy

Our objective is to provide leading-edge semiconductor packaging and testing services which set industry standards and to lead and facilitate the industry trend towards outsourcing semiconductor manufacturing requirements. The principal elements of our strategy are to:

maintain our focus on providing a complete range of semiconductor packaging and testing services;

continue to focus on advanced technological, processing and materials capabilities;

strategically expand production capacity;

continue to leverage our presence in key centers of semiconductor and electronics manufacturing; and

strengthen and develop strategic relationships with providers of complementary manufacturing services.

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Our Corporate Structure

The following chart illustrates our corporate structure and our effective equity interest in each of our principal operating subsidiaries and affiliates as of March 31, 2003. The following chart does not include wholly-owned intermediate holding companies.

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(1) The common shares of ASE Inc. are listed on the Taiwan Stock Exchange under the symbol 2311 . The ADSs of ASE Inc. are listed on the New York Stock Exchange under the symbol ASX .

(2) The ordinary shares of ASE Test Limited are quoted for trading on the Nasdaq National Market under the symbol ASTSF . ASE Test s Taiwan depositary shares, which represent its ordinary shares, are listed for trading on the Taiwan Stock Exchange under the symbol 9101 .

(3) The common shares of Universal Scientific Industrial Co., Ltd. are listed on the Taiwan Stock Exchange under the symbol 2350 .

(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.

We are incorporated under the laws of the Republic of China. Our principal executive offices are located at 26 Chin Third Road, Nantze Export Processing Zone, Nantze, Kaohsiung, Taiwan, Republic of China and our telephone number at the above address is (8867) 361-7131.

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The Offering

The following information assumes that the underwriters do not exercise the overallotment option granted by ASE Capital Inc., or ASE Capital, a wholly-owned subsidiary of ASE Inc., unless otherwise indicated. Please see Underwriting .

Offering price	US$ per ADS
Selling shareholders	The selling shareholders are ASE Investment Inc., or ASE Investment, and ASE Capital, both of which are our wholly-owned subsidiaries. If the underwriters option to purchase additional ADSs is exercised, ASE Capital will also sell additional ADSs in this offering.
ADSs offered by the selling shareholders	28,757,600 ADSs
ADSs outstanding as of March 31, 2003	10,323,893 ADSs
Common shares outstanding after this offering	3,254,800,000 common shares
ADS : common share ratio	1 : 5
Overallotment option	ASE Capital has granted the underwriters an option, exercisable within 30 days from the date hereof, to purchase up to an additional 4,000,000 ADSs, solely to cover overallotments, if any.
Trading market for the common shares	The only trading market for the common shares is the Taiwan Stock Exchange. The common shares have been listed on the Taiwan Stock Exchange since 1989 under the symbol 2311 .
New York Stock Exchange symbol for ADSs	ASX
Use of proceeds	We will receive all of the net proceeds from the sale of ADSs by the selling shareholders, which will be approximately US$70.7 million (assuming an offering price of US$2.69 per ADS, which is based on the closing price of the ADSs on the New York Stock Exchange on April 29, 2003), after we deduct underwriting and estimated offering expenses. If the underwriters overallotment option is exercised in full, we will receive all of the net proceeds from the sale of 4,000,000 additional ADSs by ASE Capital, which will be approximately US$10.0 million (assuming an offering price of US$2.69 per ADS, which is based on the closing price of the ADSs on the New York Stock Exchange on April 29, 2003), after we deduct underwriting and estimated offering expenses. We intend to use the net proceeds to reduce or retire our indebtedness and for working capital and general corporate purposes. See Use of Proceeds .

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Timing and settlement for ADSs	The ADSs are expected to be delivered against payment on , 2003. The ADRs evidencing the ADSs will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company, or DTC, in New York, New York. In general, beneficial interests in the ADSs will be shown on, and transfers of these beneficial interests will be effected only through, records maintained by DTC and its direct and indirect participants.

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SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The summary consolidated income statement data and cash flow data for the years ended December 31, 2000, 2001 and 2002 and the summary consolidated balance sheet data as of December 31, 2001 and 2002 set forth below are derived from our audited consolidated financial statements included in this prospectus and should be read in conjunction with, and are qualified in their entirety by reference to, these consolidated financial statements, including the notes to these consolidated financial statements. These consolidated financial statements have been audited by T.N. Soong & Co., independent public auditors, an associate member firm of Deloitte Touche Tohmatsu. The summary consolidated income statement data and cash flow data for the years ended December 31, 1998 and 1999 and the summary consolidated balance sheet data as of December 31, 1998, 1999 and 2000 set forth below are derived from our audited consolidated financial statements not included in this prospectus. These consolidated financial statements have been audited by T.N. Soong & Co., independent public auditors, an associate member firm of Deloitte Touche Tohmatsu. The consolidated financial statements have been prepared and presented in accordance with ROC GAAP, which differ in some material respects from US GAAP. Please see notes 26 and 27 to our consolidated financial statements for a description of the principal differences between ROC GAAP and US GAAP for the periods covered by these consolidated financial statements.

	Year Ended and as of December 31,					
	1998	1999	2000	2001	2002	2002
	NT$	NT$	NT$	NT$	NT$	US$
	(in millions, except share, ADS and earnings per share and per ADS data)					
ROC GAAP:						
Income Statement Data:						
Net revenues	20,762.4	32,609.6	50,893.4	38,367.8	45,586.8	1,313.7
Cost of revenues	(15,468.1)	(23,959.6)	(35,567.3)	(32,957.0)	(38,492.2)	(1,109.2)
Gross profit	5,294.3	8,650.0	15,326.1	5,410.8	7,094.6	204.5
Total operating expenses	(2,453.4)	(3,801.4)	(5,449.0)	(5,872.9)	(7,779.8)	(224.2)
Operating income (loss)	2,840.9	4,848.6	9,877.1	(462.1)	(685.2)	(19.7)
Net non-operating income (expense)	(859.6)	4,213.8	(1,473.5)	(2,523.4)	(2,024.5)	(58.4)
Income tax benefit (expense)	150.8	(459.5)	(1,065.8)	199.2	1,140.3	32.9
Income before acquisition		(65.1)				
Extraordinary loss				(144.6)	(34.6)	(1.0)
Minority interest in net loss (income) of subsidiary	(528.1)	(743.1)	(1,500.6)	788.7	1,733.0	49.9
Net income (loss)	1,604.0	7,794.7	5,837.2	(2,142.2)	129.0	3.7
Earnings per common share:						
Basic(1)	0.51	2.49	1.84	(0.66)	0.04	0.00
Diluted(1)	0.49	2.45	1.80	(0.66)	0.04	0.00
Dividends per common share(2)	7.20	1.07	3.15	1.70		
Earnings per pro forma equivalent ADS:						
Basic(1)	2.56	12.43	9.22	(3.29)	0.21	0.01
Diluted(1)	2.43	12.27	9.01	(3.29)	0.21	0.01
Number of common shares(3)	3,135,196,466	3,135,196,466	3,166,809,827	3,254,800,000	3,090,678,225	3,090,678,225
Number of pro forma equivalent ADSs	627,039,293	627,039,293	633,361,965	650,960,000	618,135,645	618,135,645
Balance Sheet Data:						
Current assets:						
Cash and cash equivalents	8,173.9	11,809.1	14,166.5	11,770.7	10,381.9	299.2
Short-term investments	647.2	216.3	1,682.7	4,601.2	2,038.0	58.7
Notes and accounts receivable	3,636.7	7,463.4	9,260.6	7,126.1	8,998.5	259.3
Inventories	1,744.8	2,449.7	3,246.3	2,768.4	3,131.7	90.3
Other	771.9	1,411.8	2,431.6	3,383.2	2,481.7	71.5

Total	14,974.5	23,350.3	30,787.7	29,649.6	27,031.8	779.0
Long-term investments	7,317.0	9,674.4	10,712.2	9,530.4	6,566.7	189.3
Properties	20,356.8	38,107.5	60,566.2	60,555.1	63,088.9	1,818.1
Other assets	1,125.9	952.8	1,275.6	1,342.3	2,640.2	76.1
Consolidated debits	3,237.3	5,245.8	4,999.5	5,248.9	5,541.8	159.7
Total assets	47,011.5	77,330.8	108,341.2	106,326.3	104,869.4	3,022.2
Short-term bank borrowings/loans(4)	6,810.2	9,868.2	13,768.0	13,983.1	13,453.8	387.8
Long-term bank borrowings/loans(5)	12,235.0	24,551.5	25,976.9	30,674.3	30,553.7	880.5
Other liabilities and minority interest	6,091.5	12,854.1	24,927.1	19,722.6	21,431.2	617.6
Total liabilities and minority interest	25,136.7	47,273.8	64,672.0	64,380.0	65,438.7	1,885.9
Shareholders equity	21,874.8	30,057.0	43,669.2	41,946.3	39,430.7	1,136.3

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	Year Ended and as of December 31,					
	1998	1999	2000	2001	2002	2002
	NT$	NT$	NT$	NT$	NT$	US$
	(in millions, except share, ADS and earnings per share and per ADS data)					
Other Data:						
Net cash outflow from acquisition of fixed assets	(6,945.0)	(9,869.2)	(30,063.6)	(11,565.7)	(12,657.9)	(364.8)
Depreciation and amortization	3,237.2	5,554.4	8,593.8	11,127.3	12,286.3	354.1
Net cash inflow (outflow) from operations	5,194.2	7,017.2	17,459.9	11,578.4	11,313.8	326.0
Net cash inflow (outflow) from sale of investments	290.5	7,889.3				
Net cash inflow (outflow) from investing activities(6)	(8,558.3)	(11,782.7)	(33,392.0)	(15,051.2)	(13,167.2)	(379.5)
Net cash inflow (outflow) from financing activities(7)	589.3	8,569.0	17,607.3	603.5	530.5	15.3
Segment Data:						
Net revenues:						
Packaging	16,867.4	24,523.0	38,028.8	28,898.2	35,515.4	1,023.5
Testing	3,131.3	7,793.2	12,768.4	9,459.2	10,060.6	289.9
Other	763.7	293.4	96.2	10.4	10.8	0.3
Gross profit:						
Packaging	3,693.8	5,753.0	10,016.9	4,625.8	6,255.4	180.3
Testing	1,484.6	3,105.2	5,294.4	782.8	841.2	24.2
Other	115.9	(208.2)	14.8	2.2	(2.0)	(0.0)
US GAAP:						
Income Statement Data:						
Net revenues			50,893.4	38,367.8	45,586.8	1,313.7
Cost of revenues			37,081.2	34,538.3	39,308.2	1,132.8
Gross profit			13,812.2	3,829.5	6,278.6	180.9
Total operating expenses			5,820.8	6,209.9	9,294.2	267.8
Operating income (loss)			7,991.4	(2,380.4)	(3,015.6)	(86.9)
Net non-operating income (expense)			(1,502.5)	(2,511.8)	(2.747.7)	(79.2)
Income tax benefit (expense)			(1,059.2)	206.2	1,151.1	33.2
Extraordinary loss				(144.6)	(34.6)	(1.0)
Minority interest in net loss (income) of subsidiary			(1,499.7)	784.0	1,572.5	45.3
Net income (loss)			3,930.0	(4,046.6)	(3,074.3)	(88.6)
Earnings per common share:						
Basic(1)			1.34	(1.32)	(0.99)	(0.03)
Diluted(1)			1.29	(1.32)	(0.99)	(0.03)
Earnings per pro forma equivalent ADS:						
Basic(1)			6.69	(6.59)	(4.97)	(0.14)
Diluted(1)			6.47	(6.59)	(4.97)	(0.14)
Number of common shares(8)			2,938,004,535	3,071,234,458	3,090,678,225	3,090,678,225
Number of pro forma equivalent ADSs			587,600,907	614,246,892	618,135,645	618,135,645
Balance Sheet Data:						
Current Assets						
Cash and cash equivalents				11,770.7	10.381.9	299.2
Short-term investments				4,642.1	2,040.0	58.8
Notes and accounts receivable				7,126.1	8,998.5	259.3
Inventories				2,768.4	3,131.7	90.3
Other				3,383.2	2,481.7	71.5

Total	29,690.5	27,033.8	779.1
Long-term investments	6,608.3	5,609.3	161.7
Properties	60,363.1	62,797.4	1,809.7
Other assets	1,371.0	2,679.7	77.2
Consolidated debits	4,331.6	3,227.0	93.0
Total assets	102,364.5	101,347.2	2,920.7
Short-term bank borrowings/loans(4)	13,983.1	13,453.8	387.7
Long-term bank borrowings/loans(5)	30,674.3	30,553.7	880.5
Other liabilities and minority interest	19,746.8	21,622.9	623.2
Total liabilities and minority interest	64,404.2	65,630.4	1,891.4
Shareholders equity	37,960.3	35,716.8	1,029.3

(1) The numerator of both basic and diluted earnings per share is calculated with consideration of the adjustment of ASE Test s basic and diluted earnings per share. See notes 19 and 27(i) to our consolidated financial statements.
(2) Dividends per common share issued as a stock dividend.
(3) Represents the weighted average number of shares after retroactive adjustments to give effect to stock dividends and employee stock bonuses. Beginning in 2002, common shares held by consolidated subsidiaries are classified for accounting purposes as treasury stock , and are deducted from the number of common shares outstanding.
(4) Includes current portions of long-term debt and long-term payable for investments.
(5) Excludes current portion of long-term debt and long-term payable for investments.
(6) Includes proceeds from the sale of common shares, including common shares represented by global depositary shares, by affiliates of ASE Inc. and proceeds from the sale of ordinary shares of ASE Test by ASE Inc.
(7) Includes proceeds from primary offerings of common shares represented by ADSs by ASE Inc., and of ordinary shares by ASE Test.
(8) Represents the weighted average number of shares after retroactive adjustments to give effect to stock dividends.

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Recent Developments

We regularly release unaudited summary consolidated financial information as of and for the three months ended March 31, June 30 and September 30. Such financial information is prepared in accordance with generally accepted accounting principles in the Republic of China, or ROC GAAP, which differ in some material respects from generally accepted accounting principles in the United States, or US GAAP. For a discussion of the principal differences between ROC GAAP and US GAAP, see notes 26 and 27 to our consolidated financial statements included elsewhere in this prospectus. Furthermore, the unaudited summary quarterly consolidated financial information is generated internally by us, is not subject to the same review and scrutiny, including internal auditing procedures and review by independent auditors, to which we subject our audited unconsolidated semiannual and annual financial statements and our audited consolidated annual financial statements. As the unaudited summary quarterly consolidated financial information is neither audited nor reviewed, it may vary materially from our audited consolidated financial information for the same period. Any evaluation of the unaudited summary consolidated financial information presented in this prospectus should also take into account our audited consolidated financial statements and the notes to those statements included elsewhere in this prospectus. In addition, the quarterly financial information presented is not necessarily indicative of our results for any future periods.

The following table sets forth certain unaudited summary consolidated income statement data for the three months ended March 31, 2002 and 2003 and unaudited summary consolidated balance sheet data as of March 31, 2002 and 2003.

Unaudited Summary Consolidated Financial Information

	Three Months Ended and as of March 31,	
	2002	2003
	NT$	NT$
	(unaudited) (in millions, except share, ADS and earnings per share and per ADS data)	
ROC GAAP:		
Income Statement Data:		
Net Revenues:		
Packaging	7,814.6	9,021.5
Testing	2,227.4	2,534.7
Others	1.7	28.2
Total net revenues	10,043.7	11,584.4
Cost of revenues	8,795.8	10,073.3
Gross Profit	1,247.9	1,511.1
Operating expenses:		
Selling	206.6	257.2
General and administrative(1)	640.3	705.8
Goodwill amortization(2)	204.9	206.4
Research and development	421.7	543.0
Total operating expenses	1,473.5	1,712.4
Operating income (loss)	(225.6)	(201.3)

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	Three Months Ended and as of March 31,	
	2002	2003
	NT$	NT$
	(unaudited) (in millions, except share, ADS and earnings per share and per ADS data)	
Net non-operating (income) expense:		
Interest expense net(3)	443.9	388.6
Foreign exchange loss (gain) net	3.2	14.2
Loss (income) on long-term investment net(1)(4)	71.0	95.9
Loss (gain) on disposal of assets net	16.4	53.5
Others net(5)	(143.0)	(43.0)
Total net non-operating expense	391.5	509.2
Income (loss) before tax	(617.1)	(710.5)
Income tax expense (benefit)	(109.3)	(7.6)
Income (loss) before minority interest	(507.8)	(702.9)
Minority interest	(277.5)	(354.9)
Net income (loss)	(230.3)	(348.0)
Per share data:		
Earnings per common share Basic(6)	(0.07)	(0.11)
Earnings per common share Diluted(6)	(0.07)	(0.11)
Earnings per pro forma equivalent ADS Basic(6)	(0.37)	(0.56)
Earnings per pro forma equivalent ADS Diluted(6)	(0.37)	(0.56)
Number of common shares(7)	3,090,678	3,090,678
Number of pro forma equivalent ADSs	618,136	618,136
Balance Sheet Data:		
Current assets:		
Cash and cash equivalents	10,079.8	12,019.1
Short-term investments	5,344.2	2,578.3
Notes and accounts receivable	7,360.0	8,353.5
Inventories	2,640.6	3,169.9
Other	3,621.1	1,971.7
Total	29,045.7	28,092.5
Long-term investments	6,834.0	6,471.4
Properties	59,850.9	64,503.6
Other assets	7,449.5	8,362.1
Total assets	103,180.1	107,429.6

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	Three Months Ended and as of March 31,	
	2002	2003
	NT$	NT$
	(unaudited) (in millions, except share, ADS and earnings per share and per ADS data)	
Current liabilities:		
Short-term debt revolving credit	8,006.1	6,719.9
Short-term debt current portion of long-term debt	3,268.5	5,996.4
Convertible bond payable current portion	3,140.9	
Notes and accounts payable	3,069.3	3,823.7
Other	5,635.4	8,735.9
Total	23,120.2	25,275.9
Long-term debt(8)	21,256.6	25,236.0
Convertible bond payable	4,908.3	5,303.7
Other liabilities	3,216.2	2,814.4
Total liabilities	52,501.3	58,630.0
Minority interest	11,612.2	9,694.8
Shareholders equity	39,066.6	39,104.8
Total liabilities and shareholders equity	103,180.1	107,429.6

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

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

(3) Derived by netting interest in non-operating income and interest in non-operating expenses in our consolidated financial statements.

(4) Derived by netting investment income under equity method in non-operating income and investment loss under equity method in non-operating expenses in our consolidated financial statements.

(5) Derived by netting others in non-operating income and others in non-operating expenses in our consolidated financial statements.

(6) The numerator of both basic and diluted earnings per share is calculated with consideration of the adjustment of ASE Test s basic and diluted earnings per share. See notes 19 and 27(i) to our consolidated financial statements.

(7) Represents the weighted average number of shares. Beginning in 2002, common shares held by consolidated subsidiaries are classified for accounting purposes as treasury stock , and are deducted from the number of common shares outstanding.

(8) Excludes current portion of long-term debt and long-term payable for investments.

Three Months Ended March 31, 2003 (unaudited) Compared to Three Months Ended March 31, 2002 (unaudited)

Net Revenues. Net revenues increased 15.3% to NT$11,584.4 million in the three months ended March 31, 2003 from NT$10,043.7 million in the comparable period in 2002. Packaging revenues increased 15.4% to NT$9,021.5 million in the three months ended March 31, 2003 from NT$7,814.6 million in the comparable period in 2002. Testing revenues increased 13.8% to NT$2,534.7 million in the

three months ended March 31, 2003 from NT$2,227.4 million in the comparable period in 2002. The increase in packaging revenues was primarily due to an increase in packaging volume as well as an increase in the average selling prices for packaging services. The increase in testing revenues was primarily due to an increase in testing volume, which was partially offset by a decrease in the average selling prices for testing services. The increase in packaging and testing volume resulted primarily from the modest recovery in the semiconductor

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industry since the second quarter of 2002, tempered in part by adverse global political and economic conditions in the first quarter of 2003.

Gross Profit. Gross profit increased 21.1% to NT$1,511.1 million in the three months ended March 31, 2003 from NT$1,247.9 million in the comparable period in 2002. Our gross margin increased to 13.0% in the three months ended March 31, 2003 compared to 12.4% in the comparable period in 2002, primarily as a result of a decrease in depreciation expense partially offset by increases in raw material and labor costs, all as a percentage of net revenues. Our gross margin for packaging decreased to 12.9% in the three months ended March 31, 2003 from 16.4% in the comparable period in 2002, primarily due to increases in labor and raw material costs all as a percentage of packaging revenues. Our gross margin for testing increased to 14.0% in the three months ended March 31, 2003 from a negative 1.5% in the comparable period in 2002, primarily due to a decrease in depreciation expense as a percentage of testing revenues. Raw material costs in the three months ended March 31, 2003 were NT$3,582.7 million, or 30.9% of net revenues, compared to NT$2,995.1 million, or 29.8% of net revenues, in the comparable period in 2002. The increase in raw material costs was primarily due to the increased portion of our packaging revenues accounted for by more advanced package types that carry proportionately higher material costs per package. Labor costs in the three months ended March 31, 2003 were NT$1,924.5 million, or 16.6% of net revenues, compared to NT$1,501.9 million, or 15.0% of net revenues, in the comparable period in 2002. The increase in labor costs was largely a result of an increase in the number of our employees for both direct and indirect labor in anticipation of increased packaging and testing volume. Depreciation expense in the three months ended March 31, 2003 was NT$2,891.3 million, compared to NT$2,809.7 million in the comparable period in 2002. As a percentage of net revenues, depreciation expense decreased to 25.0% in the three months ended March 31, 2003 from 28.0% in the comparable period in 2002, principally as a result of increased net revenues.

Operating Income (Loss). We incurred an operating loss of NT$201.3 million in the three months ended March 31, 2003, compared to an operating loss of NT$225.6 million in the comparable period in 2002. Operating margin increased to a negative 1.7% in the three months ended March 31, 2003, compared to a negative 2.2% in the comparable period in 2002. Operating expenses increased 16.2% to NT$1,712.4 million in the three months ended March 31, 2003, compared to NT$1,473.5 million in the comparable period in 2002. The increase in operating expenses was primarily due to higher research and development, selling, and general and administrative expenses. Research and development expenses increased 28.8% to NT$543.0 million in the three months ended March 31, 2003 from NT$421.7 million in the comparable period in 2002. This increase was primarily a result of an increase in the number of our research and development employees. Research and development expenses accounted for 4.7% of our net revenues in the three months ended March 31, 2003, compared to 4.2% of our net revenues in the comparable period in 2002. Selling expense increased 24.5% to NT$257.2 million in the three months ended March 31, 2003 from NT$206.6 million in the comparable period in 2002. This increase was primarily due to increased commission and fee payments to our sales and customer service agents. Selling expense represented 2.2% of our net revenues in the three months ended March 31, 2003, compared to 2.1% in the comparable period in 2002. General and administrative expense, excluding goodwill amortization, increased 10.2% to NT$705.8 million in the three months ended March 31, 2003 from NT$640.3 million in the comparable period in 2002, primarily due to increased salaries and bonuses. General and administrative expense, excluding goodwill amortization, represented 6.1% of our net revenues in the three months ended March 31, 2003, compared to 6.4% in the comparable period in 2002. Goodwill amortization expense remained relatively unchanged at NT$206.4 million in the three months ended March 31, 2003 compared to NT$204.9 million in the comparable period in 2002. Goodwill amortization expense represented 1.8% of our net revenues in the three months ended March 31, 2003, compared to 2.0% in the comparable period in 2002.

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Net Non-Operating Income (Expense). We recorded a net non-operating loss of NT$509.2 million in the three months ended March 31, 2003, compared to a net non-operating loss of NT$391.5 million in the comparable period in 2002, primarily a result of a decrease in other net non-operating income and increases in net loss on disposal of assets and net loss on long-term investment, partially offset by a decrease in net interest expense. Other non-operating income decreased 69.9% to NT$43.0 million in the three months ended March 31, 2003 from NT$143.0 million in the comparable period in 2002. This decrease was primarily due to a decrease in gain on short-term investments. We recorded a net loss of NT$53.5 million on disposal of assets in the three months ended March 31, 2003, compared to NT$16.4 million in the comparable period in 2002, primarily due to a provision of NT$62.3 million for idle assets of ASE Korea. Net loss on long-term investment increased 35.1% to NT$95.9 million in the three months ended March 31, 2003 from NT$71.0 million in the comparable period in 2002, primarily as a result of a loss of NT$82.7 million in our investment in Hung Ching, partially offset by a decrease of investment loss of NT$39.3 million from Universal Scientific. Net interest expense decreased 12.5% to NT$388.6 in the three months ended March 31, 2003 from NT$443.9 million in the comparable period in 2002, primarily due to lower interest rates achieved through the refinancing of certain of our bank loans.

Net Income (Loss). As a result of the foregoing, we had a loss before minority interest of NT$702.9 million in the three months ended March 31, 2003, compared to a loss before minority interest of NT$507.8 million in the comparable period in 2002. After excluding minority interest in the net losses of our subsidiaries of NT$354.9 million, we had a net loss of NT$348.0 million in the three months ended March 31, 2003. In the three months ended March 31, 2002, we recorded a net loss, after excluding minority interest in the net loss of our subsidiaries of NT$277.5 million, of NT$230.3 million. The net loss per ADS was NT$0.56 in the three months ended March 31, 2003 compared with a net loss of NT$0.37 per ADS in the comparable period in 2002. We had an income tax benefit of NT$7.6 million in the three months ended March 31, 2003, compared to an income tax benefit of NT$109.3 million in the comparable period in 2002, primarily as a result of reduced tax credits for losses incurred by ISE Labs.

Liquidity and Capital Resources

As of March 31, 2003, we had an aggregate of NT$14,597.4 million in cash and cash equivalents and short-term investments, compared to NT$15,424.0 million as of March 31, 2002. As of March 31, 2003, we had total bank borrowings of NT$37,952.3 million, comprising NT$6,719.9 million of revolving working capital loans, NT$5,996.4 million of current portion of long-term debt and NT$25,236.0 million of long-term debt, less current portion. As of March 31, 2003, we had unused lines of credit of NT$13,527.7 million, including NT$10,255.8 million in short term lines of credit.

Quarterly Net Revenues, Gross Profit and Gross Margin

Our results of operations for the three months ended March 31, 2003 were adversely affected by global political and economic conditions and, to a lesser extent, seasonality when compared to the immediately preceding quarter. Our quarterly results of operations are subject to significant fluctuations. See Risk Factors Risks Relating to Our Business Our operating results are subject to significant fluctuations, which could adversely affect the value of your investment and Management s Discussion and Analysis of Financial Condition and Results of Operations Quarterly Net Revenues, Gross Profit and Gross Margin .

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RISK FACTORS

You should carefully consider the risks described below before making an investment decision. In particular, as we are a non-U.S. company, there are risks associated with investing in our ADSs that are not typical with investments in the shares of U.S. companies. Before making an investment decision, you should carefully consider all of the information contained in this prospectus, including the following risk factors.

Risks Relating to Our Business

Since we are dependent on the highly cyclical semiconductor industry and conditions in the markets for the end-use applications of our products, our revenues and earnings may fluctuate significantly.

Our semiconductor packaging and testing business is affected by market conditions in the highly cyclical semiconductor industry. All of our customers operate in this industry, and variations in order levels from our customers and service fee rates may result in volatility in our revenues and earnings. From time to time, the semiconductor industry has experienced significant, and sometimes prolonged, downturns. As our business is, and will continue to be, dependent on the requirements of semiconductor companies for independent packaging and testing services, any future downturn in the semiconductor industry would reduce demand for our services. For example, a worldwide slowdown in demand for semiconductors led to excess capacity and increased competition beginning in early 1998. As a result, price declines in 1998 accelerated more rapidly and, together with a significant decrease in demand, adversely affected our operating results in 1998. Prices for packaging and testing services improved due to an upturn in the industry in the second half of 1999 that continued through the third quarter of 2000, but have fallen since an industry downturn that commenced in the fourth quarter of 2000. This most recent worldwide downturn resulted in an even more significant deterioration in the average selling prices, as well as demand, for our services in 2001, and significantly and adversely affected our operating results in 2001. Although there has been a modest recovery in the semiconductor industry during 2002, we expect the market conditions to continue to exert downward pressure on the average selling prices for our packaging and testing services. If we cannot reduce our costs to sufficiently offset any decline in average selling prices, our profitability will suffer and we may incur losses.

Market conditions in the semiconductor industry depend to a large degree on conditions in the markets for the end-use applications of semiconductor products, such as communications, personal computer and consumer electronics products. Any deterioration of conditions in the markets for the end-use applications of the semiconductors we package and test would reduce demand for our services, and would likely have a material adverse effect on our financial condition and results of operations. In 2001 and 2002, approximately 71.5% and 69.8% of our net revenues, respectively, were attributable to the packaging and testing of semiconductors used in personal computer and communications applications. Both industries are subject to intense competition and significant shifts in demand, which could put pricing pressure on the packaging and testing services provided by us and adversely affect our revenues and earnings.

A reversal or slowdown in the outsourcing trend for semiconductor packaging and testing services could adversely affect our growth prospects and profitability.

In recent years, semiconductor manufacturers that have their own in-house packaging and testing capabilities, known as integrated device manufacturers, have increasingly outsourced stages of the semiconductor production process, including packaging and testing, to independent companies to reduce costs and shorten production cycles. In addition, the availability of advanced independent semiconductor manufacturing services has also enabled the growth of so-called fabless semiconductor companies that focus exclusively on design and marketing, and

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that outsource their manufacturing, packaging and testing requirements to independent companies. We cannot assure you that these integrated device manufacturers and fabless semiconductor companies will continue to outsource their packaging and testing requirements to third parties like us. A reversal of, or a slowdown in, this outsourcing trend could result in reduced demand for our services and adversely affect our growth prospects and profitability.

If we are unable to compete favorably in the highly competitive semiconductor packaging and testing markets, our revenues and earnings may decrease.

The semiconductor packaging and testing markets are very competitive. We face competition from a number of sources, including other independent semiconductor packaging and testing companies, especially those which offer turnkey packaging and testing services. We believe that the principal competitive factors in the markets for our products and services are:

ability to provide total solutions to customers;

technological expertise;

range of package types and testing platforms available;

ability to work closely with customers at the product development stage;

responsiveness and flexibility;

capacity;

production cycle time;

production yield; and

price.

We face increasing competition from other packaging and testing companies, as most of our customers obtain packaging or testing services from more than one source. In addition, some of our competitors may have access to more advanced technologies and greater financial and other resources than we do. Many of our competitors have shown a willingness to quickly and sharply reduce prices, as they did in 1998 and in 2001, in order to maintain capacity utilization in their facilities during periods of reduced demand. Although prices have stabilized, any renewed erosion in the prices for our packaging and testing services could cause our revenues and earnings to decrease and have a material adverse effect on our financial condition and results of operations.

Our profitability depends on our ability to respond to rapid technological changes in the semiconductor industry.

The semiconductor industry is characterized by rapid increases in the diversity and complexity of semiconductors. As a result, we expect that we will need to constantly offer more sophisticated packaging and testing technologies and processes in order to respond to competitive industry conditions and customer requirements. If we fail to develop, or obtain access to, advances in packaging or testing technologies or processes, we may become less competitive and less profitable. In addition, advances in technology typically lead to declining average selling prices for semiconductors packaged or tested with older technologies or processes. As a result, if we cannot reduce the costs associated with our services, the profitability on a given service, and our overall profitability, may decrease over time.

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Our operating results are subject to significant fluctuations, which could adversely affect the market value of your investment.

Our operating results have varied significantly from period to period and may continue to vary in the future. Downward fluctuations in our operating results may result in decreases in the market price of our ADSs and common shares. Among the more important factors affecting our quarterly and annual operating results are the following:

- changes in general economic and business conditions, particularly given the cyclical nature of the semiconductor industry and the markets served by our customers;
- our ability to quickly adjust to unanticipated declines or shortfalls in demand and market prices for our packaging and testing services, due to our high percentage of fixed costs;
- timing of capital expenditures in anticipation of future orders;
- changes in prices of our packaging and testing services;
- volume of orders relative to our packaging and testing capacity;
- our ability to obtain adequate packaging and testing equipment on a timely basis;
- changes in costs and availability of raw materials, equipment and labor; and
- earthquakes, drought and other natural disasters, as well as industrial accidents.

Due to the factors listed above, it is possible that our future operating results or growth rates may be below the expectations of research analysts and investors. If so, the market price of our ADSs and common shares, and thus the market value of your investment, may fall.

Due to our high percentage of fixed costs, we will be unable to maintain our gross margin at past levels if we are unable to achieve relatively high capacity utilization rates.

Our operations, in particular our testing operations, are characterized by relatively high fixed costs. We expect to continue to incur substantial depreciation and other expenses as a result of our previous acquisitions of packaging and testing equipment and facilities. Our profitability depends in part not only on absolute pricing levels for our services, but also on utilization rates for our packaging and testing equipment, commonly referred to as capacity utilization rates . In particular, increases or decreases in our capacity utilization rates can have a significant effect on gross margins since the unit cost of packaging and testing services generally decreases as fixed costs are allocated over a larger number of units. In periods of low demand, we experience relatively low capacity utilization rates in our operations due to relatively low growth in demand, which leads to reduced margins during that period. During 2001, we experienced lower than anticipated utilization rates in our operations due to a significant decline in worldwide demand for our packaging and testing services, which led to reduced margins during that period. Although our capacity utilization rates have improved recently, we cannot assure you that we will be able to maintain or surpass our past gross margin levels if we cannot consistently achieve or maintain relatively high capacity utilization rates.

If we are unable to manage our expansion effectively, our growth prospects may be limited and our future profitability may be affected.

We have significantly expanded our packaging and testing operations in recent years, and expect to continue to expand our operations in the future, including the expansion of our interconnect materials operations. In particular, we intend to provide total solutions covering all stages of the semiconductor manufacturing process to attract new customers and broaden our product range to include products packaged and tested for a variety of end-use applications. In the past, we have expanded through both internal growth and the acquisition of new operations.

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Rapid expansion puts strain on our managerial, technical, financial, operational and other resources. As a result of our expansion, we have implemented and will continue to need to implement additional operational and financial controls and hire and train additional personnel. Any failure to manage our growth effectively could lead to inefficiencies and redundancies and result in reduced growth prospects and profitability.

Because of the highly cyclical nature of our industry, our capital requirements are difficult to plan. If we cannot obtain additional capital when we need it, our growth prospects and future profitability may be adversely affected.

Our capital requirements are difficult to plan in our highly cyclical and rapidly changing industry. We will need capital to fund the expansion of our facilities as well as research and development activities in order to remain competitive. 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. However, future capacity expansions or market or other developments may cause us to require additional funds. Our ability to obtain external financing in the future is subject to a variety of uncertainties, including:

our future financial condition, results of operations and cash flows;

general market conditions for financing activities by semiconductor companies; and

economic, political and other conditions in Taiwan and elsewhere.

If we are unable to obtain funding in a timely manner or on acceptable terms, our growth prospects and future profitability may decline.

Restrictive covenants and broad default provisions in the agreements governing our existing debt may materially restrict our operations as well as adversely affect our liquidity, financial condition and results of operations.

We are a party to numerous loan and other agreements relating to the incurrence of debt, many of which include restrictive covenants and broad default provisions. 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. In the event of a prolonged downturn in the demand for our services as a result of a downturn in the worldwide semiconductor industry or otherwise, we cannot assure you that we will be able to remain in compliance with our financial covenants which, as a result, may lead to a default. Furthermore, a default under one agreement by us or one of our subsidiaries may also trigger cross-defaults under other agreements. In the event of default, we may not be able to cure the default or obtain a waiver on a timely basis, and our operations would be significantly disrupted or harmed and our liquidity would be adversely affected. An event of default under any agreement governing our existing or future debt, if not cured or waived, would have a material adverse effect on our liquidity, financial condition and results of operations.

As a result of the reduced levels of operating cash flow due primarily to the recent downturn in the worldwide semiconductor industry, we had on occasion during 2001 failed to comply with certain financial covenants in some of our loan agreements. Such non-compliance may also have, through broadly worded cross-default provisions, resulted in default under some of the agreements governing our other existing debt. We have obtained waivers from the relevant lenders relating specifically to such non-compliance. In addition, we have repaid or refinanced all amounts owed under agreements containing cross-default provisions that we have identified which may have been triggered by such non-compliance. Such non-compliance has not had any

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significant effect on our ability to repay or refinance amounts due in respect of our existing debt. For these and other reasons, including our financial condition and our relationship with our lenders, no lender has to date sought and we do not believe that any of our lenders would seek to declare a default or enforce remedies in respect of our existing debt, as a result of cross-default provisions or otherwise, although we cannot provide any assurance in this regard.

We depend on select personnel and could be affected by the loss of their services.

We depend on the continued service of our executive officers and skilled technical and other personnel. Our business could suffer if we lose the services of any of these personnel and cannot adequately replace them. Although some of these management personnel have entered into employment agreements with us, they may nevertheless leave before the expiration of these agreements. We are not insured against the loss of any of our personnel. In particular, we may be required to increase substantially the number of these employees in connection with our expansion plans, and there is intense competition for their services in the semiconductor industry. We may not be able to either retain our present personnel or attract additional qualified personnel as and when needed. In addition, we may need to increase employee compensation levels in order to attract and retain our existing officers and employees and the additional personnel that we expect to require. A portion of the workforce at our facilities in Taiwan are foreign workers employed by us under work permits which are subject to government regulations on renewal and other terms. Consequently, our business could also suffer if the Taiwan regulations relating to the import of foreign workers were to become significantly more restrictive or if we are otherwise unable to attract or retain these workers at reasonable cost.

Criminal charges were brought in December 1998 by the district attorney for Taipei against Jason C.S. Chang, our Chairman, Richard H.P. Chang, our Vice Chairman, Chief Executive Officer and President, and Chang Yao Hung-ying, our director, and others for alleged breach of fiduciary duties owed to Hung Ching Development & Construction Co. Ltd., or Hung Ching, an affiliate of ASE Inc., in their capacity as directors and officer of Hung Ching relating to a sale of land. ASE Inc. is not a party to these proceedings and we do not expect that these charges will result in any liability to us. In January 2001, the District Court of Taipei rendered a judgment finding Jason C.S. Chang and Chang Yao Hung-ying guilty of forgery of corporate and other documents and breach of fiduciary duties and Richard H.P. Chang not guilty. In January 2002, the High Court of Taiwan, the Republic of China, or ROC, rendered a judgment relating to the appeal of the judgment by the District Court, and found Jason C.S. Chang and Chang Yao Hung-ying guilty and Richard H.P. Chang not guilty. In order to comply with the Singapore Companies Act, Jason C.S. Chang and Chang Yao Hung-ying have both resigned as directors of our subsidiary, ASE Test. Neither Jason C.S. Chang nor Chang Yao Hung-ying believes that he or she committed any offense in connection with such transactions, and they appealed the decision to the Supreme Court of Taiwan, ROC. On January 23, 2003, the Supreme Court reversed the judgment of the High Court with respect to Jason C.S. Chang and Chang Yao Hung-ying and remanded the case to the High Court for retrial. If a final adverse judgment is rendered against Jason C.S. Chang and Chang Yao Hung-ying, they may be required under ROC law to resign as directors of ASE Inc. and Jason C.S. Chang may be required to resign as Chairman of ASE Inc. See Business Legal Proceedings .

If we are not successful in developing and enhancing our in-house interconnect materials capabilities, our margins and profitability may be adversely affected.

We expect that we will need to offer more advanced interconnect materials designs and production processes in order to respond to competitive industry conditions and customer requirements. In particular, our competitive position will depend to a significant extent on our ability to design and produce interconnect materials that are comparable to or better than those produced by independent suppliers and others. Many of these independent suppliers have

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dedicated greater resources than we have for the research and development and design and production of interconnect materials. In addition, we may not be able to acquire the technology and personnel that would enable us to further develop our in-house expertise and enhance our design and production capabilities. We expect to continue making investments in our subsidiary ASE Material Inc., or ASE Material, which focuses on the design and production of interconnect materials. In particular, we intend to further develop our in-house interconnect materials capabilities with a view to sourcing a majority of our substrate requirements by value from ASE Material by the end of 2003. If we are unable to maintain and enhance our in-house interconnect materials expertise to offer advanced interconnect materials that meet the requirements of our customers, we may become less competitive and our margins and profitability may suffer as a result.

If we are unable to obtain additional packaging and testing equipment or facilities in a timely manner and at a reasonable cost, our competitiveness and future profitability may be adversely affected.

The semiconductor packaging and testing business is capital intensive and requires significant investment in expensive equipment manufactured by a limited number of suppliers. The market for semiconductor packaging and testing equipment is characterized, from time to time, by intense demand, limited supply and long delivery cycles. Our operations and expansion plans depend on our ability to obtain a significant amount of such equipment from a limited number of suppliers, including, in the case of wire bonders, Kulicke & Soffa Industries Inc., and in the case of testers, Advantest Corporation, Agilent Technologies, Inc., Credence Systems Corporation, LTX Corporation, NP Test Inc. and Teradyne, Inc. We have no binding supply agreements with any of our suppliers and acquire our packaging and testing equipment on a purchase order basis, which exposes us to changing market conditions and other substantial risks. For example, shortages of capital equipment could result in an increase in the price of equipment and longer delivery times. Semiconductor packaging and testing also requires us to operate sizeable facilities. If we are unable to obtain equipment or facilities in a timely manner, we may be unable to fulfill our customers orders, which could adversely affect our growth prospects as well as financial condition and results of operations.

Fluctuations in exchange rates could result in foreign exchange losses.

Currently, the majority of our revenues from packaging and testing services are denominated in U.S. dollars and NT dollars. Our costs of revenues and operating expenses associated with packaging and testing services, on the other hand, are incurred in several currencies, primarily in NT dollars and U.S. dollars, as well as, to a lesser extent, Malaysian ringgit, Korean won, Japanese yen and Philippine pesos. In addition, a substantial portion of our capital expenditures, primarily for the purchase of packaging and testing equipment, has been, and is expected to continue to be, denominated in U.S. dollars with much of the remainder in Japanese yen. Fluctuations in exchange rates, primarily among the U.S. dollar, the NT dollar and the Japanese yen, will affect our costs and operating margins. In addition, these fluctuations could result in exchange losses and increased costs in NT dollar and other local currency terms. Despite hedging and mitigating techniques implemented by us, fluctuations in exchange rates have affected, and may continue to affect, our financial condition and results of operations.

The loss of a major customer or termination of our strategic alliance and other commercial arrangements with semiconductor foundries and providers of other complementary semiconductor manufacturing services may result in a decline in our revenues and profitability.

Although we have over 200 customers, due in part to the concentration of market share in the semiconductor industry, we have derived and expect to continue to derive a large portion of

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our revenues from a small group of customers during any particular period. Our five largest customers together accounted for approximately 44%, 41% and 40% of our net revenues in 2000, 2001 and of 2002, respectively. Other than Motorola, Inc. and VIA Technologies, Inc. in 2000 and 2001, and Motorola, Inc. in 2002, no other customer accounted for more than 10% of our net revenues in 2000, 2001 and 2002. The demand for our services from each customer is directly dependent upon that customer s level of business activity, which could vary significantly from year to year. The loss of a major customer may adversely affect our revenues and profitability.

Our strategic alliance with TSMC, the world s largest dedicated semiconductor foundry, as well as our other commercial arrangements with providers of other complementary semiconductor manufacturing services, enable us to offer total semiconductor manufacturing solutions to our customers. This strategic alliance and any of our other commercial arrangements may be terminated at any time. A termination of this strategic alliance and other commercial arrangements, and our failure to enter into substantially similar alliances and commercial arrangements, may adversely affect our competitiveness and our revenues and profitability.

All of our key customers operate in the cyclical semiconductor business and have varied in the past, and may vary in the future, order levels significantly from period to period. Some of these companies are relatively small, have limited operating histories and financial resources, and are highly exposed to the cyclicality of the industry. We cannot assure you that these customers or any other customers will continue to place orders with us in the future at the same levels as in prior periods. The loss of one or more of our significant customers, or reduced orders by any one of them, and our inability to replace these customers or make up for such orders could reduce our profitability. In addition, we have in the past reduced, and may in the future be requested to reduce, our prices to limit the level of order cancellations. Any price reduction would likely reduce our margins and profitability.

We depend on our agents for sales and customer service in North America and Europe. Any serious interruption in our relationship with these agents, or substantial loss in their effectiveness, could significantly reduce our revenues and profitability.

We depend on non-exclusive agents for sales and customer service in North America and Europe. Our sales agents help us identify customers, monitor delivery acceptance and payment by customers and, within parameters set by us, help us negotiate price, delivery and other terms with our customers. Purchase orders are placed directly with us by our customers. Our customer service agents provide customer service and after-sales support to our customers.

Currently, our sales and customer service agents perform services only for us and our subsidiaries but they are not owned or controlled by us. These agents are free to perform sales and support services for others, including our competitors. In particular, we may not be able to find an adequate replacement for these agents or to develop sufficient capabilities internally on a timely basis. Any serious interruption in our relationship with these agents or substantial loss in their effectiveness in performing their sales and customer service functions could significantly reduce our revenues and profitability.

Our revenues and profitability may decline if we are unable to obtain adequate supplies of raw materials in a timely manner and at a reasonable price.

Our packaging operations require that we obtain adequate supplies of raw materials on a timely basis. Shortages in the supply of raw materials experienced by the semiconductor industry have in the past resulted in occasional price increases and delivery delays. For example, in 1999 and the first half of 2000, the industry experienced a shortage in the supply of advanced substrates used in ball grid array, or BGA, packaging. We established ASE Material in 1997 to partially reduce this risk. However, we do not expect ASE Material to supply all of our raw materials requirements. Consequently, we will remain dependent on market supply and demand

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for our raw materials. We cannot assure you that we will be able to obtain adequate supplies of raw materials in a timely manner and at a reasonable price. Our revenues and earnings could decline if we were unable to obtain adequate supplies of high quality raw materials in a timely manner or if there were significant increases in the costs of raw materials that we could not pass on to our customers.

Any environmental claims or failure to comply with any present or future environmental regulations may require us to spend additional funds and may materially and adversely affect our financial condition and results of operations.

We are subject to a variety of laws and regulations relating to the use, storage, discharge and disposal of chemical by-products of, and water used in, our packaging and interconnect materials production process. Although we have not suffered material environmental claims in the past, the failure to comply with any present or future regulations could result in the assessment of damages or imposition of fines against us, suspension of production or a cessation of our operations. New regulations could require us to acquire costly equipment or to incur other significant expenses. Any failure on our part to control the use of, or adequately restrict the discharge of, hazardous substances could subject us to future liabilities that may have a material adverse effect on our financial condition and results of operations.

Our controlling shareholders may take actions that are not in, or may conflict with, our public shareholders best interest.

Members of the Chang family own, directly or indirectly, a controlling interest in our outstanding common shares. See Principal Shareholders . Accordingly, these shareholders will continue to have the ability to exercise a controlling influence over our business, including matters relating to:

our management and policies;

the timing and distribution of dividends; and

the election of our directors and supervisors.

Members of the Chang family may take actions that you may not agree with or that are not in our or our public shareholders best interests.

We are a ROC company and, because the rights of shareholders under ROC law differ from those under U.S. law, you may have difficulty protecting your shareholder rights.

Our corporate affairs are governed by our Articles of Incorporation and by the laws governing corporations incorporated in the Republic of China. The rights of shareholders and the responsibilities of management and the members of the board of directors under ROC law are different from those applicable to a corporation incorporated in the United States. As a result, public shareholders of ROC companies may have more difficulty in protecting their interest in connection with actions taken by management or members of the board of directors than they would as public shareholders of a U.S. corporation.

Any impairment charges required under US GAAP may have a material adverse effect on our financial condition and results of operations on a US GAAP reconciled basis.

Under currently effective US GAAP, we are required to evaluate our equipment, goodwill and other long-lived assets for impairment whenever there is an indication of impairment. If certain criteria are met, we are required to record an impairment charge. We can give no assurance that impairment charges will not be required in periods subsequent to December 31, 2002.

As a result of new standards under US GAAP that became effective on January 1, 2002, we are no longer permitted to amortize remaining goodwill. Total goodwill amortization expense

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amounted to NT$815.6 million (US$23.5 million) under ROC GAAP for the year ended December 31, 2002. Starting from January 2002, all goodwill must be periodically tested for impairment under US GAAP. As a result of our impairment test as of December 31, 2002, we wrote off the remaining goodwill associated with our purchase of shares of ASE Test of NT$2,213.0 million (US$63.8 million) under US GAAP. As of December 31, 2002, goodwill under US GAAP amounted to NT$3,227.1 million (US$93.0 million). We currently are not able to estimate the extent and timing of any goodwill impairment charge for future years. Any goodwill impairment charge required under US GAAP may have a material adverse effect on our financial condition and results of operations on a US GAAP reconciled basis.

The determination of an impairment charge at any given time is based significantly on our expected results of operations over a number of years subsequent to that time. As a result, an impairment charge is more likely to occur during a period when our operating results are otherwise already depressed.

Risks Relating to Taiwan, Republic of China

Strained relations between the Republic of China and the People s Republic of China could negatively affect our business and the market value of your investment.

Our principal executive offices and our principal packaging and testing facilities are located in Taiwan and approximately 77% of our net revenues in 2002 were derived from our operations in Taiwan. The Republic of China has a unique international political status. The People s Republic of China asserts sovereignty over all of China, including Taiwan. The People s Republic of China government does not recognize the legitimacy of the Republic of China government. Although significant economic and cultural relations have been established in recent years between the Republic of China and the People s Republic of China, relations have often been strained and the government of the People s Republic of China has indicated that it may use military force to gain control over Taiwan in some circumstances, such as the declaration of independence by the Republic of China. Relations between the Republic of China and the People s Republic of China have been particularly strained in recent years. Past developments in relations between the Republic of China and the People s Republic of China have on occasion depressed the market price of the securities of ROC companies. Relations between the Republic of China and the People s Republic of China and other factors affecting the political or economic conditions in Taiwan could have a material adverse effect on our financial condition and results of operations, as well as the market price and the liquidity of our ADSs and common shares.

In July 2000, our shareholders approved a resolution which authorized our board of directors to make investments in the People s Republic of China. However, the Republic of China government currently restricts certain types of investments by ROC companies in the People s Republic of China, including investments in facilities for the packaging and testing of semiconductors. We do not know when or if such laws and policies governing investment in the People s Republic of China will be amended, and we cannot assure you that any such amendments to the Republic of China investment laws and policies will permit us to make an investment that we consider beneficial to us in the People s Republic of China in the future. As a result, our growth prospects and profitability may be adversely affected if we are restricted from making certain investments in the People s Republic of China and are not able to fully capitalize on the growth of the semiconductor industry in the People s Republic of China.

As a substantial portion of our business and operations are located in Taiwan, we are vulnerable to earthquakes, typhoons, drought and other natural disasters, which could severely disrupt the normal operation of our business and adversely affect our earnings.

Taiwan is susceptible to earthquakes and has experienced severe earthquakes which caused significant property damage and loss of life, particularly in the central and eastern parts of Taiwan. These earthquakes damaged production facilities and adversely affected the

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operations of many companies involved in the semiconductor and other industries. We experienced no structural damage to our facilities and no damage to our machinery and equipment as a result of these earthquakes. There were, however, interruptions to our production schedule primarily as a result of power outage caused by the earthquakes.

Taiwan is also susceptible to typhoons, which may cause damage and business interruption to companies with facilities located in Taiwan. In 2001, Taiwan experienced severe damage from typhoons, including a typhoon on September 16 that caused over 100 deaths, severe flooding and extensive damage to property and businesses. We have not experienced any material damage or business interruption from the increased typhoon activity in Taiwan.

In May 2002, Taiwan experienced a severe drought. Although our manufacturing process does not rely on an adequate supply of water and we were not affected by the May 2002 drought directly, a drought may interrupt the manufacturing process of the foundries located in Taiwan, in turn disrupting some of our customers production, and this could result in a decline in the demand for our services. In addition, any temporary or sustained adverse impact from any future droughts may adversely affect Taiwan s economic, social or political conditions and may lead to fluctuations in the market price of our ADSs.

While we maintain several insurance policies relating to our business, we do not currently carry any insurance coverage for interruptions in public utility services or any other business interruption insurance except in connection with fire. Should these interruptions occur, we will be exposed to substantial risks and may be liable for the full amount of any losses.

Our production facilities as well as many of our suppliers and customers and providers of complementary semiconductor manufacturing services, including foundries, are located in Taiwan. If our customers are affected by an earthquake, a typhoon, a drought or other natural disasters, it could result in a decline in the demand for our packaging and testing services. If our suppliers and providers of complementary semiconductor manufacturing services are affected, our production schedule could be interrupted or delayed. As a result, a major earthquake, typhoon, drought, or other natural disasters in Taiwan could severely disrupt the normal operation of business and have a material adverse effect on our financial condition and results of operations.

Risks Relating to Ownership of ADSs

If an active market for our ADSs fails to be sustained, the price of our ADSs may fall.

Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors, compared to less active and less liquid markets. Liquidity of a securities market is often a function of the volume of the underlying shares that are publicly held by unrelated parties. Although ADS holders are entitled to withdraw the common shares underlying the ADSs from the depositary at any time, ROC law requires that the common shares be held in an account in the ROC or sold for the benefit of the holder on the Taiwan Stock Exchange. In connection with any withdrawal of common shares from our ADR facility, the ADSs evidencing these common shares will be cancelled. Unless additional ADSs are issued, the effect of withdrawals will be to reduce the number of outstanding ADSs. If a significant number of withdrawals are effected, the liquidity of our ADSs will be substantially reduced. We cannot assure you that the ADS depositary will be able to arrange for a sale of deposited shares in a timely manner or at a specified price, particularly during periods of illiquidity or volatility.

As a holder of ADSs, your voting rights are limited by the terms of the deposit agreement. You will not be able to exercise your voting rights on an individual basis.

As a holder of ADRs evidencing ADSs, you will not be able to exercise voting rights on an individual basis. You may exercise your voting rights with respect to the underlying common shares only in accordance with the provisions of the deposit agreement. In particular, for any

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resolution to be proposed at a shareholders meeting, only holders who (1) have provided voting instructions in a timely manner in accordance with the provisions of the deposit agreement, and (2) together own at least 51% of the outstanding ADSs voting in the same manner, will be able to vote the common shares representing their ADSs in the manner set forth in their voting instructions. In all other cases, holders will be deemed to have authorized and directed the depositary to give a discretionary proxy to our Chairman or his designee to vote the common shares represented by their ADSs in any manner he or his designee may wish, which may not be in the interests of the holders.

You may not be able to participate in rights offerings and may experience dilution of your holdings.

We may, from time to time, distribute rights to our shareholders, including rights to acquire securities. Under the deposit agreement, the depositary will not distribute rights to holders of ADSs unless the distribution and sale of rights and the securities to which these rights relate are either exempt from registration under the U.S. Securities Act of 1933, as amended, or the Securities Act, with respect to all holders of ADSs, or are registered under the provisions of the Securities Act. We can give no assurances that we can establish an exemption from registration under the Securities Act, and we are under no obligation to file a registration statement with respect to these rights or underlying securities or to endeavor to have a registration statement declared effective. Accordingly, holders of ADSs may be unable to participate in our rights offerings and may experience dilution of their holdings as a result.

If the depositary is unable to sell rights that are not exercised or not distributed or if the sale is not lawful or reasonably practicable, it will allow the rights to lapse, in which case you will receive no value for these rights.

Restrictions on the ability to deposit our common shares into our ADR facility may adversely affect the liquidity and price of our ADSs.

The ability to deposit our common shares into our ADR facility is restricted by ROC law. A significant number of withdrawals of our common shares underlying our ADSs would reduce the liquidity of our ADSs by reducing the number of ADRs outstanding. As a result, the prevailing market price of our ADSs may differ from the prevailing market price of our common shares on the Taiwan Stock Exchange. Under current ROC law, no person or entity, including you and us, may deposit our common shares into our ADR facility without specific approval of the ROC Securities and Futures Commission except where:

(1) we pay stock dividends on our common shares;

(2) we make a free distribution of our common shares;

(3) you exercise preemptive rights in the event of a capital increase for cash; or

(4) you purchase our common shares, directly or through the depositary, on the Taiwan Stock Exchange, and deliver our common shares to the custodian for deposit into our ADR facility. The depositary may issue ADSs against the deposit of our common shares only if the total number of ADSs outstanding following the deposit will not exceed the number of ADSs previously approved by the ROC Securities and Futures Commission, plus any additional ADSs issued pursuant to the events described in (1) through (3) above.

In addition, in the case of a deposit of common shares requested as described above, the depositary may refuse to accept our common shares for deposit if such deposit is not permitted under any restriction notified by us to the depositary from time to time. These restrictions may include blackout periods during which deposits may not be made and as well as limitations on the size and frequencies of deposits.

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The value of your investment may be reduced by possible future sales of ADSs or common shares by us or our shareholders.

The selling shareholders have agreed with the underwriters not to dispose of any of our common shares or securities convertible into or exchangeable for common shares, including ADSs, during the period beginning from the date of this prospectus continuing through the date 90 days after the date of this prospectus, except with the prior written consent of the representative of the underwriters. Each of Jason C.S. Chang, Richard H.P. Chang, Chang Yao Hung-ying, Feng Mei-Jean and Hung Ching has also entered into a similar 90-day lock-up agreement. In addition, we have agreed, subject to certain exceptions, not to issue any of our common shares, including common shares represented by ADSs, during the period beginning from the date of this prospectus continuing through the date 90 days after the date of this prospectus, except with the prior written consent of the representative. We have also agreed to cause each of our subsidiaries and controlled affiliates not to dispose of any of our common shares or securities convertible into or exchangeable for common shares, including ADSs, during the period beginning from the date of the prospectus continuing through the date 90 days after the date of this prospectus, except with the written consent of the representative. These restrictions do not apply to, among other things, the sale of any of our common shares held by the selling shareholders subsequent to 30 days after the date of this prospectus. The representative may, in its discretion, waive or terminate these restrictions. See Common Shares Eligible for Future Sale for a more detailed discussion of restrictions that may apply to future sales of our ADSs or common shares.

While we are not aware of any plans by any major shareholders to dispose of significant numbers of common shares, we cannot assure you that one or more existing shareholders or owners of securities convertible or exchangeable into or exercisable for our common shares or ADSs will not dispose of significant numbers of common shares or ADSs. In addition, following completion of this offering, several of our subsidiaries and affiliates will continue to hold common shares, depositary shares representing common shares and options to purchase common shares or ADSs. We or they may decide to sell those securities in the future. See Principal Shareholders for a description of our significant shareholders and affiliates that hold our common shares. We cannot predict the effect, if any, that future sales of ADSs or common shares, or the availability of ADSs or common shares for future sale, will have on the market price of ADSs or common shares prevailing from time to time. Sales of substantial amounts of ADSs or common shares in the public market, or the perception that such sales may occur, could depress the prevailing market prices of our ADSs or common shares.

Changes in exchange controls which restrict your ability to convert proceeds received from your ownership of ADSs may have an adverse effect on the value of your investment.

Under current ROC law, the depositary, without obtaining further approvals from the Central Bank of China or any other governmental authority or agency of the ROC, may convert NT dollars into other currencies, including U.S. dollars, for:

- the proceeds of the sale of common shares represented by ADSs or received as stock dividends from the common shares and deposited into the depositary receipt facility; and
- any cash dividends or distributions received from the common shares.

In addition, the depositary may also convert into NT dollars incoming payments for purchases of common shares for deposit in the ADR facility against the creation of additional ADSs. The depositary may be required to obtain foreign exchange approval from the Central Bank of China on a payment-by-payment basis for conversion from NT dollars into foreign currencies of the proceeds from the sale of subscription rights for new common shares. Although it is expected that

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the Central Bank of China will grant this approval as a routine matter, we cannot assure you that in the future any approval will be obtained in a timely manner, or at all.

Under current ROC law, a holder, without obtaining further approval from the Central Bank of China, may convert from NT dollars into other currencies, including U.S. dollars, the following:

- the proceeds of the sale of any underlying common shares withdrawn from the depositary receipt facility or received as a stock dividend; and
- any cash dividends or distribution received.

However, such holder may be required to obtain foreign exchange approval from the Central Bank of China on a payment-by-payment basis for conversion from NT dollars to foreign currencies of the proceeds from the sale of subscription rights for new common shares. Although the Central Bank of China is generally expected to grant this approval as a routine matter, we cannot assure you that you will actually obtain this approval in a timely manner, or at all.

Under the ROC Foreign Exchange Control Law, the Executive Yuan of the ROC government may, without prior notice but subject to subsequent legislative approval, impose foreign exchange controls in the event of, among others, a material change in international economic conditions. We cannot assure you that foreign exchange controls or other restrictions will not be introduced in the future.

The market value of your investment may fluctuate due to the volatility of the ROC securities market.

The ROC securities market is smaller and more volatile than the securities markets in the United States and in other European countries. The Taiwan Stock Exchange has experienced substantial fluctuations in the prices and volumes of sales of listed securities and there are currently limits on the range of daily price movements on the Taiwan Stock Exchange. The Taiwan Stock Exchange Index peaked at 12,495.3 in February 1990, and subsequently fell to a low of 2,560.5 in October 1990. On April 29, 2003, the Taiwan Stock Exchange Index closed at 4,200.3. The Taiwan Stock Exchange has experienced problems such as market manipulation, insider trading and payment defaults. The recurrence of these or similar problems could have a material adverse effect on the market price and liquidity of the securities of ROC companies, including our ADSs and common shares, in both the domestic and the international markets. In addition, the recent outbreak of severe acute respiratory syndrome may cause a significant decrease in the level of economic activity and adversely affect economic growth in Taiwan, which could have a material adverse effect on the market price of the securities of ROC companies, including our ADSs and common shares.

Purchasers of ADSs may incur dilution as a result of the practice among ROC technology companies of issuing stock bonuses and stock options to employees.

Similar to other ROC technology companies, we issue from time to time bonuses in the form of common shares valued at par under our employee stock bonus plan. In addition, under the revised ROC Company Law we may, upon approval from our board of directors and the ROC Securities and Futures Commission, establish employee stock option plan. On August 13, 2002, we adopted an employee stock option plan pursuant to which our full-time employees and the full-time employees of our domestic and foreign subsidiaries are eligible to receive stock option grants. As of December 31, 2002, 145,989,000 options have been issued. See Management Compensation of Directors, Supervisors and Executive Officers ASE Inc. Employee Bonus and Stock Option Plans . The issuance of our shares pursuant to stock bonuses or stock options may have a dilutive effect on your ADSs.

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FORWARD-LOOKING STATEMENTS

This prospectus and information incorporated by reference includes forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act. Our forward-looking statements contain information regarding, among other things, our financial condition, results of operations, future expansion plans and business strategy. We have based these forward-looking statements on our current expectations about future events. Although we believe these expectations are reasonable, these forward-looking statements are inherently subject to risks, uncertainties and assumptions about us and events and circumstances that affect our business, including:

- the highly competitive semiconductor industry;
- our ability to introduce new packaging and testing technologies in order to remain competitive;
- our ability to successfully integrate future acquisitions;
- risks associated with international business activities;
- our business strategy;
- general economic and political conditions;
- possible disruptions in commercial activities caused by natural disasters or industrial accidents;
- our future expansion plans and capital expenditures;
- fluctuations in foreign currency exchange rates; and
- other risks identified in the Risk Factors section of this prospectus.

The words anticipate , believe , estimate , expect , intend , plan and similar expressions, as they relate to us, are intended to identify the forward-looking statements in this prospectus. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus. These forward-looking statements are based on our own information and on information from other sources we believe to be reliable. Some of these forward-looking statements are derived from projections made and published by Gartner Dataquest and Semiconductor Industry Association. We were not involved in the preparation of these projections. Our actual results may be materially less favorable than those expressed or implied by these forward-looking statements as a result of risks and other factors noted above and throughout this prospectus. We do not intend to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

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USE OF PROCEEDS

ASE Investment and ASE Capital, the selling shareholders named in the Selling Shareholders section of this prospectus, are our wholly-owned subsidiaries. The net proceeds to us from the sale of ADSs will be approximately US$70.7 million (assuming an offering price of US$2.69 per ADS, which is based on the closing price of the ADSs on the New York Stock Exchange on April 29, 2003), after deducting underwriting and estimated offering expenses. ASE Capital has also granted the underwriters an option to purchase additional ADSs, solely to cover overallotments, if any. If the underwriters overallotment option is exercised in full, the net proceeds to us from the sale of additional ADSs will be approximately US$10.0 million (assuming an offering price of US$2.69 per ADS, which is based on the closing price of the ADSs on the New York Stock Exchange on April 29, 2003), after deducting underwriting and estimated offering expenses.

We intend to use the net proceeds from the sale of ADSs by ASE Investment to repay ASE Investment s borrowings. The following table sets forth the principal amount, the interest rate and the maturity of each borrowing to be repaid using the net proceeds from the sale of ADSs.

Principal Amount	Interest Rate	Maturity
NT$ (in millions)		
200.0	5.40%	within one year
300.0	5.00%	within one year
300.0	5.30%	within one year
70.0	5.40%	within one year
250.0	5.30%	within one year

We also intend to use the net proceeds from the sale of the ADSs by ASE Capital and the net proceeds from the sale of additional ADSs by ASE Capital, if the underwriters overallotment option is exercised in full, to repay ASE Capital s borrowings. The following table sets forth the principal amount, the interest rate and the maturity of the borrowing to be repaid using the net proceeds from the sale of ADSs.

Principal Amount	Interest Rate	Maturity
NT$ (in millions)		
140.0	5.00%	within one year

The remainder of the net proceeds from the sale of ADSs by the selling shareholders, and if the underwriters overallotment option is exercised in full, the net proceeds from the sale of additional ADSs by ASE Capital, will be used to reduce the indebtedness of ASE Inc. The following table sets forth the principal amount, the interest rate and maturity of the borrowing we intend to reduce.

Principal Amount	Interest Rate	Maturity
NT$ (in millions)		
6,000.0	5.51%	within two years

Pending these uses, we expect to invest the net proceeds in short-term, interest-bearing securities or may use a portion of the funds temporarily for working capital or general corporate purposes.

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MARKET PRICE INFORMATION FOR OUR COMMON SHARES

Our common shares were first issued in March 1984 and have been listed on the Taiwan Stock Exchange since July 1989. The Taiwan Stock Exchange is an auction market where the securities traded are priced according to supply and demand through announced bid and ask prices. As of March 31, 2003, there were an aggregate of 3,254,800,000 of our common shares outstanding. The following table sets forth, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the Taiwan Stock Exchange for the common shares and the high and low of the daily closing values of the Taiwan Stock Exchange Index. The closing price for our common shares on the Taiwan Stock Exchange on April 29, 2003 was NT$18.1 per share.

	Closing Price per Share		Adjusted Closing Price per Share(1)		Average Daily Trading Volume	Taiwan Stock Exchange Index	
	High	Low	High	Low	(in thousands of shares)	High	Low
1998	191.00	47.00	65.76	27.60	54,727	9,277.1	6,251.4
1999	117.00	51.00	72.80	29.94	43,438	8,608.9	5,474.8
2000	123.00	22.60	79.95	19.32	22,279	10,202.2	4,614.6
2001	38.80	14.00	34.20	14.00	22,799	6,104.2	3,446.3
First Quarter	38.80	22.50	33.16	19.23	34,321	6,104.2	4,743.9
Second Quarter	29.60	21.00	25.30	17.95	16,275	5,797.9	4,768.5
Third Quarter	22.60	14.00	20.20	14.00	14,249	4,886.9	3,493.8
Fourth Quarter	34.20	14.40	34.20	14.40	27,237	5,551.2	3,446.3
2002	38.50	15.90	38.50	15.90	22,543	6,462.3	3,850.0
First Quarter	35.80	26.00	35.80	26.00	32,486	6,242.6	5,488.3
Second Quarter	38.50	20.80	38.50	20.80	17,708	6,462.3	5,071.8
Third Quarter	24.50	17.10	24.50	17.10	15,666	5,416.5	4,185.9
Fourth Quarter	24.30	15.90	24.30	15.90	25,694	4,823.7	3,850.0
October	20.80	15.90	20.80	15.90	27,986	4,601.4	3,850.0
November	22.90	19.00	22.90	19.00	29,572	4,813.5	4,500.5
December	24.30	20.30	24.30	20.30	20,665	4,823.7	4,452.4
2003 (through April 29)	22.50	16.90	22.50	16.90	14,493	5,078.8	4,139.5
First Quarter	22.50	16.90	22.50	16.90	14,929	5,078.8	4,260.4
January	22.50	19.80	22.50	19.80	18,052	5,078.8	4,524.4
February	20.00	17.50	20.00	17.50	14,036	5,015.2	4,432.5
March	20.20	16.90	20.20	16.90	12,785	4,599.3	4,260.4
April (through April 29)	21.00	18.10	21.00	18.10	13,330	4,658.3	4,139.5

(1) As adjusted retroactively by the Taiwan Stock Exchange to give effect to stock dividends paid in the periods indicated. See Dividends and Dividend Policy .

The performance of the Taiwan Stock Exchange has in recent years been characterized by extreme price volatility. There are currently limits on the range of daily price movements on the Taiwan Stock Exchange. See Annex A The Securities Markets of the ROC The Taiwan Stock Exchange .

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MARKET PRICE INFORMATION FOR OUR ADSs

Our ADSs have been listed on the New York Stock Exchange under the symbol ASX since September 26, 2000. The outstanding ADSs are identified by the CUSIP number 00756M404. As of March 31, 2003, a total of 10,323,893 ADSs were outstanding. The table below shows, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the New York Stock Exchange for our ADSs and the highest and lowest of the daily closing values of the New York Stock Exchange Index. The closing price for our ADSs on the New York Stock Exchange on April 29, 2003 was US$2.69 per ADS.

	Closing Price per ADS		Adjusted Closing Price per ADS(1)		Average Daily Trading Volume	New York Stock Exchange Index	
	High	Low	High	Low	(In thousands of ADSs)	High	Low
	US$	US$	US$	US$			
2000	6.75	3.06	5.77	2.62	28	7,164.55	6,094.91
Fourth Quarter	6.75	3.06	5.77	2.62	28	7,061.88	6,599.28
2001	6.05	1.75	5.17	1.75	97	7,048.13	5,331.38
First Quarter	6.05	3.06	5.17	2.62	90	7,048.13	5,998.43
Second Quarter	4.55	2.99	3.89	2.56	128	7,016.30	6,049.02
Third Quarter	3.25	1.75	3.00	1.75	47	6,632.58	5,331.38
Fourth Quarter	5.07	2.15	5.07	2.15	114	6,284.81	5,731.49
2002	5.54	2.21	5.54	2.21	101	6,445.01	4,452.49
First Quarter	5.35	3.75	5.35	3.75	122	6,445.01	5,894.75
Second Quarter	5.54	3.05	5.54	3.05	118	6,327.11	5,543.28
Third Quarter	3.70	2.39	3.70	2.39	100	5,598.68	4,549.66
Fourth Quarter	3.50	2.21	3.50	2.21	66	5,247.64	4,452.49
October	2.98	2.21	2.98	2.21	45	5,093.26	4,452.49
November	3.27	2.78	3.27	2.78	45	5,247.64	4,947.98
December	3.50	2.89	3.50	2.89	79	5,236.85	4,958.02
2003 (through April 29)	3.23	2.45	3.23	2.45	36	5,255.39	4,486.70
First Quarter	3.23	2.45	3.23	2.45	37	5,255.39	4,486.70
January	3.23	2.80	3.23	2.80	50	5,255.39	4,486.70
February	2.84	2.50	2.84	2.50	14	4,884.79	4,649.71
March	2.93	2.45	2.93	2.45	44	4,970.94	4,486.70
April (through April 29)	3.08	2.64	3.08	2.64	33	5,135.12	4,793.56

(1) As adjusted retroactively to give effect to stock dividends paid in the periods indicated. See Dividends and Dividend Policy .

The ADSs offered in this offering will be fully fungible with, will be identified by the same CUSIP number and will be eligible for trading under the same New York Stock Exchange trading symbol as, the existing ADSs.

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DIVIDENDS AND DIVIDEND POLICY

To date we have not paid cash dividends on our common shares, and we expect that we will continue to pay a substantial portion, if not all, of our dividends in the form of shares. We have paid annual stock dividends on our common shares since 1989 except in 2002, in which we did not pay any dividend due to the losses we incurred in the 2001 fiscal year.

The following table sets forth the aggregate number of outstanding common shares entitled to dividends, as well as the stock dividends paid during each of the years indicated. The stock dividends per common share represent dividends paid in the fiscal year for common shares outstanding on the record date applicable to the payment of these dividends.

	Stock Dividends Per Common Share(1)		Total Common Shares Issued as Stock Dividends	Outstanding Common Shares on Record Date(2)	Percentage of Outstanding Common Shares Represented by Stock Dividends
	NT$	US$			
1995	3.60	0.14	93,600,000	260,000,000	36.0%
1996	8.00	0.29	319,840,000	399,800,000(3)	80.0
1997	3.80	0.14	277,020,000	729,000,000	38.0
1998	7.20	0.21	732,240,000	1,017,000,000	72.0
1999	1.07	0.03	190,460,000	1,780,000,000	10.7
2000	3.15	0.10	623,811,852	1,980,355,086	31.5
2001	1.70	0.05	467,840,000	2,752,000,000	17.0
2002				3,254,800,000	

(1) Holders of common shares receive as a stock dividend the number of common shares equal to the NT dollar value per common share of the dividend declared multiplied by the number of common shares owned and divided by the par value of NT$10 per share. Fractional shares are not issued but are paid in cash.

(2) Aggregate number of common shares outstanding on the record date applicable to the dividend payment. Includes common shares issued in the previous year under our employee bonus plan.

(3) Includes 43,000,000 common shares issued in connection with an offering of global depositary shares in July 1995.

On March 28, 2003, our board of directors approved a resolution to distribute 325,480,000 common shares to our shareholders with respect to the results of 2002. The proposed distribution of stock dividends is subject to approval by our shareholders at the annual meeting of shareholders, currently scheduled to take place on June 19, 2003. If approved by our shareholders, the stock dividends to be paid would represent 10.0% of our outstanding common shares as of the record date and would be the equivalent of NT$1.00 (US$0.03) per common share.

We have historically paid stock dividends on our common shares with respect to the results of the preceding year after approval by our shareholders at the annual general meeting of shareholders. The form, frequency and amount of future cash or stock dividends on our common shares and ADSs will depend upon our earnings, cash flow, financial condition and other factors. See Description of Common Shares Dividends and Distributions .

In general, we are not permitted to distribute dividends or make other distributions to shareholders for any year where we did not record net income or retained earnings (excluding reserves). The ROC Company Law also requires that 10% of annual net income (less prior years losses, if any) be set aside as a legal reserve until the accumulated legal reserve equals our paid-in capital. In addition, our Articles of Incorporation require that before a dividend is paid out of our annual net income:

- up to 2% of our annual net income (less prior years losses and legal and special reserves, if any) should be paid to our directors and supervisors as compensation; and

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between 5% and 7% of the annual net income (less prior years losses and legal and special reserves, if any) should be paid to our employees as bonuses; the 5% portion is to be distributed to all employees in accordance with our employee bonus plan, while any portion exceeding 5% is to be distributed in accordance with rules established by our board of directors to individual employees who have been recognized as having made special contributions to our company.

In order to meet the needs of our present and future capital expenditures, our dividend distribution will be primarily in the form of common shares. Cash dividends may also be distributed in certain circumstances. However, the percentage of cash dividends generally will not exceed 20% in any dividend distribution, provided further that cash dividends will not be paid if the dividend per share is less than NT$0.1.

Holders of ADSs will be entitled to receive dividends, subject to the terms of the deposit agreement, to the same extent as the holders of the common shares. Cash dividends will be paid to the depositary in NT dollars and, except as otherwise described under Description of American Depositary Receipts Dividends and Distributions Distributions of Cash , will be converted by the depositary into U.S. dollars and paid to holders of ADSs according to the terms of the deposit agreement. Stock dividends will be distributed to the depositary and, except as otherwise described under Description of American Depositary Receipts Dividends and Distributions Distributions of Shares , will be distributed by the depositary, in the form of additional ADSs, to holders of ADSs according to the terms of the deposit agreement.

Holders of outstanding common shares on a dividend record date will be entitled to the full dividend declared without regard to any prior or subsequent transfer of common shares. Accordingly, purchasers of ADSs holding outstanding ADSs on the relevant dividend record date will, subject to the terms of the deposit agreement, be entitled to the full amount of any dividend declared at our next general meeting of the shareholders.

For information relating to ROC withholding taxes payable on dividends, see Taxation ROC Taxation Dividends . For information relating to ROC foreign exchange approvals required for the conversion by the depositary of dividends on common shares from NT dollars into U.S. dollars for the payment to holders of ADSs, see Annex B Foreign Investment and Exchange Controls in the ROC Depositary Receipts .

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EXCHANGE RATES

Fluctuations in the exchange rate between NT dollars and U.S. dollars will affect the U.S. dollar equivalent of the NT dollar price of the common shares on the Taiwan Stock Exchange and, as a result, will likely affect the market price of the ADSs. Fluctuations will also affect the U.S. dollar conversion by the depositary of cash dividends paid in NT dollars on, and the NT dollar proceeds received by the depositary from any sale of, common shares represented by ADSs, in each case, according to the terms of the deposit agreement.

The following table sets forth, for the fiscal years indicated, information concerning the number of NT dollars for which one U.S. dollar could be exchanged based on the noon buying rate for cable transfers in NT dollars as certified for customs purposes by the Federal Reserve Bank of New York.

	NT Dollars per U.S. Dollar Noon Buying Rate			
	Average	High	Low	Period-End
1998	33.50	35.00	32.05	32.27
1999	32.28	33.40	31.39	31.39
2000	31.37	33.25	30.35	33.17
2001	33.91	35.13	32.23	35.00
2002	34.53	34.79	34.70	34.70
October	34.96	35.16	34.75	34.75
November	34.67	34.82	34.46	34.76
December	34.80	34.89	34.70	34.70
2003 (through April 29)	34.71	34.98	34.40	34.89
January	34.57	34.76	34.40	34.61
February	34.74	34.82	34.61	34.78
March	34.72	34.80	34.58	34.75
April (through April 29)	34.83	34.98	34.79	34.89

Source: Federal Reserve Statistical Release H10(512), 1997-2002, Board of Governors of the Federal Reserve System.

On April 29, 2003, the noon buying rate was NT$34.89 to US$1.00.

For information relating to ROC foreign exchange approvals required for the conversion by the depositary of dividends on common shares or proceeds from the sale of common shares from NT dollars into U.S. dollars and the payment to holders of ADSs, see Annex B Foreign Investment and Exchange Controls in the ROC Depositary Receipts .

We publish our financial statements in NT dollars, the lawful currency of the ROC. This prospectus contains translations of NT dollar amounts into U.S. dollars at specific rates solely for the convenience of the reader. Unless otherwise noted, all translations from NT dollars to U.S. dollars and from U.S. dollars to NT dollars were made at the noon buying rate in The City of New York for cable transfers in NT dollars per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York as of December 31, 2002, which was NT$34.70 to US$1.00 on that date. No representation is made that the NT dollar or U.S. dollar amounts referred to in this prospectus could have been or could be converted into U.S. dollars or NT dollars, as the case may be, at any particular rate or at all.

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CAPITALIZATION

The following table sets forth our consolidated short-term debt and capitalization as of December 31, 2002 and as adjusted to give effect to the net proceeds received by us from the sale of ADSs by ASE Investment and ASE Capital (assuming an offering price of US$2.69 per ADS, which is based on the closing price of the ADSs on the New York Stock Exchange on April 29, 2003) after deducting underwriting and estimated offering expenses. Except as set forth below, there has been no material change in our consolidated short-term debt and capitalization since December 31, 2002. This table should be read in conjunction with our consolidated financial statements.

	As of December 31, 2002			
	Actual		As Adjusted	
	NT$	US$	NT$	US$
	(in millions)			
Short-term debt (including current portions of long-term debt and long-term payable for investments)	13,453.8	387.8	12,193.8	351.4
Long-term debt (excluding current portion of long-term debt)				
Unguaranteed and unsecured long-term debt	18,385.5	529.9	18,385.5	529.9
Unguaranteed and secured long-term debt	4,616.6	133.0	4,616.6	133.0
Guaranteed and unsecured long-term debt	3,549.1	102.3	3,549.1	102.3
Guaranteed and secured long-term debt	1,638.1	47.2	1,638.1	47.2
Long-term payable for investments	2,364.4	68.1	2,364.4	68.1
Shareholders equity:				
Capital stock, par value NT$10, 4,550.0 million shares authorized, 3,254.8 million shares issued and outstanding	32,548.0	938.0	32,548.0	938.0
Capital surplus	6,925.5	199.6	7,599.9	219.0
Retained earnings	1,173.6	33.8	1,133.7	32.7
Unrealized loss on long-term investments in shares of stock	(423.6)	(12.2)	(400.1)	(11.5)
Treasury stock	(2,639.8)	(76.1)	(613.6)	(17.7)
Cumulative translation adjustments	1,847.0	53.2	1,847.0	53.2
Total shareholders equity	39,430.7	1,136.3	42,114.9	1,213.7
Total capitalization	83,438.2	2,404.6	84,862.4	2,445.6

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SELLING SHAREHOLDERS

All of the ADSs being offered in this offering are being offered by the selling shareholders listed below. As of March 31, 2003, the selling shareholders held an aggregate of 163,789,144 of our common shares, representing 5.1% of the total common shares outstanding. Following this offering, the selling shareholders will own an aggregate of 20,001,144 of our common shares, representing 0.6% of the total common shares outstanding (assuming the underwriters do not exercise the overallotment option). The table below sets forth the beneficial ownership of our common shares of each of the selling shareholders prior to this offering and after giving effect to the sale of all of the ADSs offered in this offering.

	Before This Offering (as of March 31, 2003)		After This Offering (Assuming the Underwriters Do Not Exercise the Overallotment Option		After This Offering (Assuming the Underwriters Fully Exercise the Overallotment Option	
Name	Number of Common Shares	Percentage of Total Outstanding Common Shares	Number of Common Shares	Percentage of Total Outstanding Common Shares	Number of Common Shares	Percentage of Total Outstanding Common Shares
ASE Investment	142,368,827	4.4%	827	0.0%	827	0.0%
ASE Capital	21,420,317	0.7%	20,000,317	0.6%	317	0.0%

In the event the underwriters exercise their overallotment option, ASE Capital will sell up to a total of 4,000,000 additional ADSs, and ASE Capital will, after such sale, own 317 of our common shares, representing less than 0.01% of the total common shares outstanding.

On July 17, 2002, ASE Inc., ASE Investment and ASE Capital entered into a merger agreement relating to the merger of ASE Investment and ASE Capital into ASE Inc. The merger is conditioned upon the approval of the board of directors of each of ASE Inc., ASE Investment and ASE Capital. The merger is expected to close shortly following the completion of this offering. Upon the effectiveness of the merger, ASE Inc. will assume all of the assets and liabilities of both ASE Investment and ASE Capital.

The principal executive offices of ASE Investment and ASE Capital are located at TWTC International Trade Building, 19th Floor, No. 333, Keelung Rd., Sec. 1, Taipei, Taiwan.

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SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated income statement data and cash flow data for the years ended December 31, 2000, 2001 and 2002 and the selected consolidated balance sheet data as of December 31, 2001 and 2002 set forth below are derived from our audited consolidated financial statements included in this prospectus and should be read in conjunction with, and are qualified in their entirety by reference to, these consolidated financial statements, including the notes to these consolidated financial statements. These consolidated financial statements have been audited by T.N. Soong & Co., independent public auditors, an associate member firm of Deloitte Touche Tohmatsu. The selected consolidated income statement data and cash flow data for the years ended December 31, 1998 and 1999 and the selected consolidated balance sheet data as of December 31, 1998, 1999 and 2000 set forth below are derived from our audited consolidated financial statements not included in this prospectus. These consolidated financial statements have been audited by T.N. Soong & Co., independent public auditors, an associate member firm of Deloitte Touche Tohmatsu. The consolidated financial statements have been prepared and presented in accordance with ROC GAAP, which differ in some material respects from US GAAP. Please see notes 26 and 27 to our consolidated financial statements for a description of the principal differences between ROC GAAP and US GAAP for the periods covered by these consolidated financial statements.

	Year Ended and as of December 31,					
	1998	1999	2000	2001	2002	2002
	NT$	NT$	NT$	NT$	NT$	US$
	(in millions, except share, ADS and earnings per share and per ADS data)					
ROC GAAP:						
Income Statement Data:						
Net revenues	20,762.4	32,609.6	50,893.4	38,367.8	45,586.8	1,313.7
Cost of revenues	(15,468.1)	(23,959.6)	(35,567.3)	(32,957.0)	(38,492.2)	(1,109.2)
Gross profit	5,294.3	8,650.0	15,326.1	5,410.8	7,094.6	204.5
Operating expenses:						
Selling	(744.7)	(924.3)	(1,020.5)	(877.9)	(909.4)	(26.2)
General and administrative(1)	(909.4)	(1,655.0)	(2,606.2)	(2,797.6)	(4,005.8)	(115.4)
Goodwill amortization(2)	(345.7)	(507.8)	(559.8)	(692.9)	(815.6)	(23.5)
Research and development	(453.6)	(714.3)	(1,262.5)	(1,504.5)	(2,049.0)	(59.0)
Operating income (loss)	2,840.9	4,848.6	9,877.1	(462.1)	(685.2)	(19.7)
Net non-operating income (expense):						
Investment income (loss) on long-term investment net(1)(3)	54.6	329.9	195.7	(868.8)	(162.4)	(4.7)
Goodwill amortization(4)	(155.1)	(279.3)	(363.0)	(378.0)	(247.9)	(7.2)
Gain (loss) on sale of investments net	606.9	5,544.2	91.7	50.7	120.7	3.5
Foreign exchange gain (loss) net	(935.5)	(538.4)	302.7	247.5	(397.9)	(11.5)
Interest income (expense) net(5)	(380.4)	(1,046.6)	(1,538.0)	(1,739.3)	(1,578.6)	(45.5)
Others net(6)	(50.1)	204.0	(162.6)	164.5	241.6	7.0
Income (loss) before tax	1,981.3	9,062.4	8,403.6	(2,985.5)	(2,709.7)	(78.1)
Income tax benefit (expense)	150.8	(459.5)	(1,065.8)	199.2	1,140.3	32.9
Income (loss) before minority interest	2,132.1	8,602.9	7,337.8	(2,786.3)	(1,569.4)	(45.2)
Income before acquisition		(65.1)				
Extraordinary loss				(144.6)	(34.6)	(1.0)
Minority interest in net loss (income) of subsidiary	(528.1)	(743.1)	(1,500.6)	788.7	1,733.0	49.9
Net income (loss)	1,604.0	7,794.7	5,837.2	(2,142.2)	129.0	3.7

Earnings per common share:						
Basic(7)	0.51	2.49	1.84	(0.66)	0.04	0.00
Diluted(7)	0.49	2.45	1.80	(0.66)	0.04	0.00
Dividends per common share(8)	7.20	1.07	3.15	1.70		
Earnings per pro forma equivalent ADS:						
Basic(7)	2.56	12.43	9.22	(3.29)	0.21	0.01
Diluted(7)	2.43	12.27	9.01	(3.29)	0.21	0.01
Number of common shares(9)	3,135,196,466	3,135,196,466	3,166,809,827	3,254,800,000	3,090,678,225	3,090,678,225
Number of pro forma equivalent ADSs	627,039,293	627,039,293	633,361,965	650,960,000	618,135,645	618,135,645

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	Year Ended and as of December 31,					
	1998	1999	2000	2001	2002	2002
	NT$	NT$	NT$	NT$	NT$	US$
	(in millions, except share, ADS and earnings per share and per ADS data)					
Balance Sheet Data:						
Current assets:						
Cash and cash equivalents	8,173.9	11,809.1	14,166.5	11,770.7	10,381.9	299.2
Short-term investments	647.2	216.3	1,682.7	4,601.2	2,038.0	58.7
Notes and accounts receivable	3,636.7	7,463.4	9,260.6	7,126.1	8,998.5	259.3
Inventories	1,744.8	2,449.7	3,246.3	2,768.4	3,131.7	90.3
Other	771.9	1,411.8	2,431.6	3,383.2	2,481.7	71.5
Total	14,974.5	23,350.3	30,787.7	29,649.6	27,031.8	779.0
Long-term investments	7,317.0	9,674.4	10,712.2	9,530.4	6,566.7	189.3
Properties	20,356.8	38,107.5	60,566.2	60,555.1	63,088.9	1,818.1
Other assets	1,125.9	952.8	1,275.6	1,342.3	2,640.2	76.1
Consolidated debits	3,237.3	5,245.8	4,999.5	5,248.9	5,541.8	159.7
Total assets	47,011.5	77,330.8	108,341.2	106,326.3	104,869.4	3,022.2
Short-term bank borrowings/loans(10)	6,810.2	9,868.2	13,768.0	13,983.1	13,453.8	387.8
Long-term bank borrowings/loans(11)	12,235.0	24,551.5	25,976.9	30,674.3	30,553.7	880.5
Other liabilities and minority interest	6,091.5	12,854.1	24,927.1	19,722.6	21,431.2	617.6
Total liabilities and minority interest	25,136.7	47,273.8	64,672.0	64,380.0	65,438.7	1,885.9
Shareholders equity	21,874.8	30,057.0	43,669.2	41,946.3	39,430.7	1,136.3
Other Data:						
Net cash outflow from acquisition of fixed assets	(6,945.0)	(9,869.2)	(30,063.6)	(11,565.7)	(12,657.9)	(364.8)
Depreciation and amortization	3,237.2	5,554.4	8,593.8	11,127.3	12,286.3	354.1
Net cash inflow (outflow) from operations	5,194.2	7,017.2	17,459.9	11,578.4	11,313.8	326.0
Net cash inflow (outflow) from sale of investments	290.5	7,889.3				
Net cash inflow (outflow) from investing activities(12)	(8,558.3)	(11,782.7)	(33,392.0)	(15,051.2)	(13,167.2)	(379.5)
Net cash inflow (outflow) from financing activities(13)	589.3	8,569.0	17,607.3	603.5	530.5	15.3
Segment Data:						
Net revenues:						
Packaging	16,867.4	24,523.0	38,028.8	28,898.2	35,515.4	1,023.5
Testing	3,131.3	7,793.2	12,768.4	9,459.2	10,060.6	289.9
Other	763.7	293.4	96.2	10.4	10.8	0.3
Gross profit:						
Packaging	3,693.8	5,753.0	10,016.9	4,625.8	6,255.4	180.3
Testing	1,484.6	3,105.2	5,294.4	782.8	841.2	24.2
Other	115.9	(208.2)	14.8	2.2	(2.0)	(0.0)

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	Year Ended and as of December 31,					
	1998	1999	2000	2001	2002	2002
	NT$	NT$	NT$	NT$	NT$	US$
	(in millions, except share, ADS and earnings per share and per ADS data)					
US GAAP:						
Income Statement Data:						
Net revenues			50,893.4	38,367.8	45,586.8	1,313.7
Cost of revenues			37,081.2	34,538.3	39,308.2	1,132.8
Gross profit			13,812.2	3,829.5	6,278.6	180.9
Total operating expenses			5,820.8	6,170.9	9,294.2	267.8
Operating income (loss)			7,991.4	(2,341.4)	(3,015.6)	(86.9)
Net non-operating income (expense)			(1,502.5)	(2,511.8)	(2,747.4)	(79.2)
Income tax benefit (expense)			(1,059.2)	206.2	1,151.1	33.2
Extraordinary loss				(144.6)	(34.6)	(1.0)
Minority interest in net loss (income) of subsidiary			(1,499.7)	784.0	1,572.5	45.3
Net income (loss)			3,930.0	(4,046.6)	(3,074.3)	(88.6)
Earnings per common share:						
Basic(7)			1.34	(1.32)	(0.99)	(0.03)
Diluted(7)			1.29	(1.32)	(0.99)	(0.03)
Earnings per pro forma equivalent ADS:						
Basic(7)			6.69	(6.59)	(4.97)	(0.14)
Diluted(7)			6.47	(6.59)	(4.97)	(0.14)
Number of common shares(14)			2,938,004,535	3,071,234,458	3,090,678,225	3,090,678,225
Number of pro forma equivalent ADSs			587,600,907	614,246,892	618,135,645	618,135,645
Balance Sheet Data:						
Current assets						
Cash and cash equivalents				11,770.7	10.381.9	299.2
Short-term investments				4,642.1	2,040.0	58.8
Notes and accounts receivable				7,126.1	8,998.5	259.3
Inventories				2,768.4	3,131.7	90.3
Other				3,383.2	2,481.7	71.5
Total				29,690.5	27,033.8	779.1
Long-term investments				6,608.3	5,609.3	161.7
Properties				60,363.1	62,797.4	1,809.7
Other assets				1,371.0	2,679.7	77.2
Consolidated debits				4,331.6	3,227.0	93.0
Total assets				102,364.5	101,347.2	2,920.7
Short-term bank borrowings/loans(10)				13,983.1	13,453.8	387.7
Long-term bank borrowings/loans(11)				30,674.3	30,553.7	880.5
Other liabilities and minority interest				19,746.8	21,622.9	623.2

Total liabilities and minority interest	64,404.2	65,630.4	1,891.4
Shareholders equity	37,960.3	35,716.8	1,029.3

(1) Excludes goodwill amortization for purposes of this table only.
(2) Included in general and administrative expenses in our consolidated financial statements.
(3) Derived by netting investment income under equity method in non-operating income and investment loss under equity method in non-operating expenses in our consolidated financial statements.
(4) Included in investment loss under equity method in non-operating expenses in our consolidated financial statements.
(5) Derived by netting interest in non-operating income and interest in non-operating expenses in our consolidated financial statements.
(6) Derived by netting others in non-operating income and others in non-operating expenses in our consolidated financial statements.
(7) The numerator of both basic and diluted earnings per share is calculated with consideration of the adjustment of ASE Test s basic and diluted earnings per share. See notes 19 and 27(i) to our consolidated financial statements.
(8) Dividends per common share issued as a stock dividend.
(9) Represents the weighted average number of shares after retroactive adjustments to give effect to stock dividends and employee stock bonuses. Beginning in 2002, common shares held by consolidated subsidiaries are classified for accounting purposes as treasury stock , and are deducted from the number of common shares outstanding.
(10) Includes current portions of long-term debt and long-term payable for investments.
(11) Excludes current portion of long-term debt and long-term payable for investments.
(12) Includes proceeds from the sale of common shares, including common shares represented by global depositary shares, by affiliates of ASE Inc. and proceeds from the sale of ordinary shares of ASE Test by ASE Inc.
(13) Includes proceeds from primary offerings of common shares represented by ADSs by ASE Inc., and of ordinary shares by ASE Test.
(14) Represents the weighted average number of shares after retroactive adjustments to give effect to stock dividends.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 prospectus. 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, such as those set forth under Risk Factors and elsewhere in this prospectus. See Forward-Looking Statements .

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 decreased from NT$50,893.4 million in 2000 to NT$38,367.8 million in 2001, primarily as a result of a severe downturn in the semiconductor industry, but increased to NT$45,586.8 million (US$1,313.7 million) in 2002, reflecting a modest recovery in the semiconductor industry and increased outsourcing of the packaging of advanced package types such as ball grid array, or BGA. The decrease in our net revenues from 2000 to 2001 was across each of the principal end-use applications of the semiconductors that we packaged and tested communications, personal computers and consumer electronics. In 2002, we experienced a gradual improvement in our net revenues compared to 2001 across each of the end-use applications of the semiconductors that we packaged and tested. 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.

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 average selling prices which resulted in our company incurring a net loss in 2001 and a significant decrease in net income in 2002, as compared with the years prior to 2001.

In 2000, 2001 and 2002, packaging revenues accounted for 74.7%, 75.3% and 77.9% while testing revenues accounted for 25.1%, 24.7% and 22.1%, respectively, of our net revenues. Testing revenues as a percentage of our net revenues have decreased in 2001 and 2002 as the average selling prices of our testing services are more severely affected by the downturn in the semiconductor industry than the average selling prices of our packaging services. In periods of an industry downturn, the decline in the average selling prices of our testing services is often exacerbated by the decrease in demand from our integrated device manufacturer customers, who

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typically maintain larger in-house testing capacity than in-house packaging capacity. These price declines are also exacerbated by the intense price competition from other independent testing service providers, who typically offer large price discounts during periods of depressed demand, such as in 2001, in order to maintain higher capacity utilization rates to defray the high fixed costs associated with testing operations.

The growth rate for outsourced semiconductor testing services has slowed as a result of the industry downturn in 2000 and 2001. However, we believe that the market for outsourced semiconductor testing services has more potential for growth than the market for outsourced semiconductor packaging services over the long term for two reasons. First, the portion of the semiconductor testing market that is currently accounted for by independent testing service providers is smaller than that for packaging. Second, the large capital expenditures needed for increasingly sophisticated testing equipment, as compared to less expensive packaging equipment, are also a driver for further outsourcing of testing services by integrated device manufacturers.

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 BGA, 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 focusing on packaging more advanced package types, such as BGA and flip-chip BGA, developing and offering new technologies in packaging and testing services and expanding our capacity to achieve economies of scale, as well as improving production efficiencies for older technology, in order to mitigate the effects of declining average selling prices on our profitability.

High Fixed Costs

Our operations, in particular our testing operations, are characterized by relatively high fixed costs. We expect to continue to incur substantial depreciation and other expenses as a result of our previous acquisitions of packaging and testing equipment and facilities. Our profitability depends in part not only on absolute pricing levels for our services, but also on utilization rates for our packaging and testing equipment, commonly referred to as capacity utilization rates . In particular, increases or decreases in our capacity utilization rates could have a significant effect on gross margins since the unit cost of packaging and testing services generally decreases as fixed costs are allocated over a larger number of units.

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 2000, 2001 and 2002, our depreciation expense as a percentage of net revenues was 15.7%, 27.0% and 25.0%, respectively. The significant increase in depreciation expense as a percentage of net revenues in 2001 and 2002 compared to 2000 was primarily a result of the lower net revenues during 2001 and 2002 compared to 2000 and 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 and 2002, we may experience lower than expected demand from customers and a sharp decline in the average selling price of our testing services, resulting in an increase in depreciation expense relative to net revenues. In particular, the capacity utilization rates for our testing equipment are more severely affected during an industry downturn as a result of the decrease in outsourcing demand from integrated device manufacturers, which typically maintain larger in-house testing capacity than in-house packaging capacity.

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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 2000, 2001 and 2002, raw material cost as a percentage of our net revenues was 28.7%, 30.7% and 30.2%, 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.

Goodwill Amortization

Our operating income and non-operating income in recent years have been affected by goodwill amortization charges in connection with 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 amortization from the purchases of shares of consolidated subsidiaries are recognized under general and administrative expense. Goodwill amortization from on the purchases of shares of companies accounted for using the equity method are recognized as a debit under investment income. Transactions which created significant goodwill charges were (1) the purchase of additional ordinary shares of ASE Test in the open market in 2002, (2) the purchase of additional ordinary shares of ASE Test in 2001 from two of our directors at the prevailing market price, (3) the purchase of a total of 26,250,000 shares of ISE Labs in 1999, 2000 and 2002 and (4) the open market purchase of shares of Universal Scientific between 1999 and 2000. See Related Party Transactions and 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 in applying our critical accounting policies which have a significant impact on the results we report in our consolidated financial statements. We continually evaluate these estimates, including those related to allowances for doubtful accounts, inventories, allowances for deferred income tax assets, useful lives of properties, realizability of long-term assets, goodwill and the valuation of marketable securities and long-term investments. 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 exist, (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

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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, and is estimated based on historical experience.

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 experience, we currently maintain an allowance for the account receivables of these other customers which average between 3% and 4%, on a consolidated basis, of our 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.

Inventories. Inventories are recorded at cost when acquired and stated at the lower of weighted average cost or market value. Market value for finished goods and work in process is the net realized value. Market value for raw materials, supplies and spare parts is the replacement cost. An allowance for loss on decline in market value and obsolescence is provided based on the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. An additional inventory provision may be required if actual market conditions are less favorable than those projected.

Allowances for Deferred Income Tax Assets. Tax benefits arising from deductible temporary differences, unused tax credits and net operating loss carryforwards are recognized as deferred tax assets. We record a valuation allowance to reduce our deferred income tax assets to an amount that we believe will more likely than not be realized. We have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need and amount for the valuation allowance. In the event we were to determine that we would be able to realize our deferred income tax assets in the future in excess of our net recorded amount, an adjustment to our deferred income tax assets would increase income in the period such determination was made. Alternatively, should we determine that we would not be able to realize all or part of our net deferred income tax assets in the future, an adjustment to our deferred income tax assets would decrease income in the period such determination was made.

Useful Lives of Properties. Our operations are capital intensive and we have significant investments in expensive packaging and testing equipment. Properties represented 55.9%, 57.0% and 60.2% of our total assets as of December 31, 2000, 2001 and 2002, 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 are 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.

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Realizability of Long-Term Assets. We are required to evaluate our equipment, goodwill and other long-lived assets for impairment whenever there is an indication of impairment. If certain criteria are met, we are required to record an impairment charge. We have adopted U.S. Statement of Financial Accounting Standards, or U.S. SFAS, No. 144, Accounting for the Impairment for Disposal of Long-Lived Assets to account for the impairment of our long-lived assets under both ROC GAAP and US GAAP. In accordance with U.S. SFAS No. 144, long-lived assets held and used by us 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. For example, in 2002, we took a NT$1,225.6 million (US$35.3 million) impairment charge against some of our testing equipment to reflect the decline in economic value of these equipment.

Goodwill. Under US GAAP, goodwill recognized prior to June 30, 2001 is recognized as an asset and amortized over its estimated useful life. Goodwill is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The U.S. Financial Accounting Standards Board, or FASB, recently issued U.S. SFAS No. 142, Goodwill and Other Intangible Assets . U.S. SFAS No. 142 requires the use of a nonamortization approach to account for purchased goodwill and certain intangibles. Under U.S. SFAS No. 142, goodwill and intangibles are evaluated at least annually to determine if an impairment writedown is required. Under US GAAP, we realized an impairment charge at December 31, 2002 related to the goodwill from the acquisition of ASE Test. See US GAAP Reconciliation . We continue to carry goodwill resulting from the acquisition of ASE Korea and the purchase of shares of ISE Labs and Universal Scientific, and will have to assess such goodwill for impairment on at least an annual basis in the future. If events and circumstances deteriorate in the future, the value of the goodwill could be further impaired under US GAAP.

Valuation of Marketable Securities and Long-term Investments. Under ROC GAAP, marketable equity securities are carried at the lower of aggregate cost or market value and are classified as trading or long-term investments depending on management s intent to hold the security for long-term investment purposes. Trading securities are primarily mutual funds with readily determinable market values. We hold significant long-term investments in public and non-public entities. We periodically evaluate these long-term investments based on market prices, if available, the financial condition of the investee company, economic conditions in the industry, and our intent and ability to hold the investment for a long period of time. These assessments usually require a significant amount of judgment as a significant decline in the market price may not be the best indicator of impairment. Under US GAAP, we evaluate long-term investments using the above mentioned criteria and to the extent any decline in the value of a long-term investment is determined to be other than temporary, an impairment charge is recorded in the current period. The methods to measure the amount of impairment under ROC GAAP and US GAAP may be based on different estimates of fair value depending on the circumstances. Under US GAAP, market price is to be used, if available, to determine the fair value. Under ROC GAAP, however, if the market price is deemed to be a result of an inactive market, other measures of fair value may be used. Several of the long-term investments held by us are accounted for under the equity method. Any significant decline in the operations of an equity-method investee could affect the value of the long-term investment and an impairment charge may occur.

In determining whether an other-than-temporary impairment occurred in our long-term investments as of December 31, 2002, no amount was recorded under ROC GAAP based on the difference between the carrying value and the net-asset value of the investee with adjustments made to significant assets of the investee using appraised values and other appropriate

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information. The amount recorded under US GAAP was based on the market price of the stock of the investee at December 31, 2002. The difference resulted in an additional impairment charge for 2002 under US GAAP. See US GAAP Reconciliation .

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,		
	2000	2001	2002
		(percentage of net revenues)	
ROC GAAP:			
Net revenues	100.0%	100.0%	100.0%
Packaging	74.7	75.3	77.9
Testing	25.1	24.7	22.1
Other	0.2	0.0	0.0
Cost of revenues	(69.9)	(85.9)	(84.4)
Gross profit	30.1	14.1	15.6
Operating expenses	(10.7)	(15.3)	(17.1)
Operating income (loss)	19.4	(1.2)	(1.5)
Non-operating income (expenses)	(2.9)	(6.6)	(4.4)
Income (loss) before income tax and minority interest	16.5	(7.8)	(5.9)
Income tax benefit (expense)	(2.1)	0.5	2.5
Income (loss) before minority interest	14.4	(7.3)	(3.4)
Extraordinary loss		(0.4)	(0.1)
Minority interest in net (income) loss of subsidiary	(2.9)	2.1	3.8
Net income (loss)	11.5%	(5.6)%	0.3%

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,		
	2000	2001	2002
ROC GAAP:			
Gross margin			
Packaging	26.3%	16.0%	17.6%
Testing	41.5%	8.3%	8.4%
Total	30.1%	14.1%	15.6%

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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,		
	2000	2001	2002
		(percentage of net revenues)	
ROC GAAP:			
Cost of revenues			
Raw materials	28.7%	30.7%	30.2%
Labor	12.9	14.6	14.8
Depreciation	15.7	27.0	25.0
Other	12.6	13.6	14.4
Total cost of revenues	69.9%	85.9%	84.4%
Operating expenses			
Selling	2.0%	2.3%	2.0%
General and administrative(1)	5.1	7.3	8.8
Goodwill amortization(2)	1.1	1.8	1.8
Research and development	2.5	3.9	4.5
Total operating expenses	10.7%	15.3%	17.1%

(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, 2002 Compared to Year Ended December 31, 2001

Net Revenues. Net revenues increased 18.8% to NT$45,586.8 million (US$1,313.7 million) in 2002 from NT$38,367.8 million in 2001. Packaging revenues increased 22.9% to NT$35,515.4 million (US$1,023.5 million) in 2002 from NT$28,898.2 million in 2001. Testing revenues increased 6.4% to NT$10,060.6 million (US$289.9 million) in 2002 from NT$9,459.3 million in 2001. The increase in packaging and testing revenues was primarily due to an increase in packaging and testing volume, which was partly offset by a decrease in the average selling prices for packaging and testing services. The increase in volume resulted primarily from the modest recovery in the semiconductor industry and the increase in outsourcing of the packaging and testing of semiconductor devices. The decrease in the average selling prices reflected the general trend in the semiconductor industry of declining prices for each input/output lead on a semiconductor device. 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 complicated semiconductor devices, which generally command higher prices.

Gross Profit. Gross profit increased 31.1% to NT$7,094.6 million (US$204.5 million) in 2002 from NT$5,410.8 million in 2001. Our gross margin increased to 15.6% in 2002 compared to 14.1% in 2001, primarily as a result of decreased depreciation expense as a percentage of net revenues. Our gross margin for packaging increased to 17.6% in 2002 from 16.0% in 2001. This increase was primarily due to a decrease in depreciation expense as a percentage of packaging revenues as a result of improved capacity utilization rates, as well as a decrease in raw material costs as a result of an increase in our sourcing of packaging materials from ASE Material. Our gross margin for testing increased to 8.4% in 2002 from 8.3% in 2001. This slight increase was primarily due to higher capacity utilization rates, which was partially offset by a decrease in average selling prices. Depreciation expense in 2002 was NT$11,398.3 million (US$328.5 million), compared to NT$10,375.0 million in 2001. This increase was due to

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increased capital expenditures in 2002. As a percentage of net revenues, depreciation expense decreased to 25.0% in 2002 from 27.0% in 2001, reflecting higher capacity utilization rates in 2002.

Operating Income (Loss). We had an operating loss of NT$685.2 million (US$19.7 million) in 2002 compared to operating loss of NT$462.1 million in 2001. Operating margin decreased to negative 1.5% in 2002 compared to negative 1.2% in 2001. This decrease was primarily due to an asset impairment charge of NT$1,225.6 million (US$35.3 million) booked under general and administrative expenses. Operating expenses increased 32.5% to NT$7.779.8 million (US$224.2 million) in 2002 compared to NT$5,872.9 million in 2001. The increase in operating expenses was primarily due to higher general and administrative, goodwill amortization and research and development expenses. Selling expense increased 3.6% to NT$909.4 million (US$26.2 million) in 2002 from NT$877.9 million in 2001. Selling expense amounted to 2.0% of our net revenues in 2002 compared to 2.3% in 2001. General and administrative expenses, excluding goodwill amortization, increased 43.2% to NT$4,005.8 million (US$115.4 million) in 2002 from NT$2,797.6 million in 2001. This increase was primarily due to the asset impairment charge of NT$1,225.6 million (US$35.3 million) booked under general and administrative expenses. General and administrative expense, excluding goodwill amortization, amounted to 8.8% of our net revenues in 2002 compared to 7.3% in 2001. Goodwill amortization expense increased 17.7% to NT$815.6 million (US$23.5 million) in 2002 from NT$692.9 million in 2001. This increase was primarily due to additional goodwill amortization expense resulting from our purchase of shares of ASE Test and ISE Labs in 2001 and 2002. Goodwill amortization expense amounted to 1.8% of our net revenues in 2002 compared to 1.8% in 2001. Research and development expense increased 36.2% to NT$2,049.0 million (US$59.0 million) in 2002 from NT$1,504.5 million in 2001. This increase was largely a result of an increase in the number of research and development employees, an increase in factory supplies expense as well as an increase in depreciation charges associated with testers and other equipment dedicated to research and development uses. Research and development expense amounted to 4.5% of our net revenues in 2002 compared to 3.9% in 2001.

Net Non-Operating Income (Expense). We recorded a net non-operating loss of NT$2,024.5 million (US$58.3 million) in 2002 compared to a net non-operating loss of NT$2,523.4 million in 2001. This decrease was primarily a result of a decrease in net long-term investment loss and a decrease in net interest expense, which were partially offset by our incurring of a net foreign exchange loss. Net investment loss decreased 67.1% to NT$410.3 million (US$11.8 million) in 2002 from NT$1,246.8 million in 2001. The significantly larger net investment loss in 2001 was primarily due to a one-time write down of goodwill arising from our investment in Hung Ching as a result of the prolonged weakness of Hung Ching s stock price, as well as the improvement in the financial performance of Hung Ching and Universal Scientific in 2002 compared to 2001. Net interest expense decreased 9.2% to NT$1,578.6 million (US$45.5 million) in 2002 from NT$1,739.3 million in 2001, primarily due to lower market interest rates in 2002 as well as the refinancing of certain of our long-term debt. We recorded a net foreign exchange loss of NT$397.9 million (US$11.5 million) in 2002 compared to net foreign exchange gain of NT$247.5 million in 2001. The net foreign exchange loss in 2002 was primarily due to the depreciation of the NT dollar, which had a negative impact on our U.S. dollar-denominated and Japanese yen-denominated liabilities.

Net Income (Loss). As a result of the foregoing, we had a loss before minority interest of NT$1,569.4 million (US$45.2 million) in 2002 compared to a loss before minority interest of NT$2,786.3 million in 2001. After excluding minority interest in the net losses of our subsidiaries of NT$1,733.0 million (US$49.9 million) and taking into account an extraordinary loss of NT$34.6 million (US$1.0 million) due to our repurchase of US$68 million in aggregate principal amount of our US$200 million zero coupon convertible bonds due 2002, we had net income of NT$129.0 million (US$3.7 million) in 2002. In 2001, we recorded a net loss, after excluding

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minority interest in the net loss of our subsidiaries of NT$788.7 million and taking into account an extraordinary loss of NT$144.6 million due to our repurchase of US$131 million in aggregate principal amount of our US$200 million zero coupon convertible bonds due 2002, of NT$2,142.2 million. The net income per ADS was NT$0.21 in 2002 compared with net loss per ADS of NT$3.29 in 2001. We had an income tax benefit of NT$1,140.3 million (US$32.9 million) in 2002 compared to an income tax benefit of NT$199.2 million in 2001, primarily as a result of the additional tax credits generated by ASE Inc. in 2002 from qualifying equipment purchases. See Taxation .

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 in 2001 from NT$50,893.4 million in 2000. Packaging revenues decreased 24.0% to NT$28,898.2 million in 2001 from NT$38,028.8 million in 2000. Testing revenues decreased 25.9% to NT$9,459.2 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. 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 in 2001 from NT$15,326.1 million in 2000. Our gross margin 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, 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, 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 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 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 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 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 in 2001 from NT$559.8 million in 2000. This increase was primarily due to additional goodwill amortization expense resulting from our

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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 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 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 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$1,246.8 million in 2001 as compared to a net investment loss of NT$167.3 million in 2000. The loss was principally a result of a one-time write down of goodwill in the amount of NT$475.6 million arising from our investment in Hung Ching 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 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 had a loss before minority interest of NT$2,786.3 million in 2001 compared to income before minority interest of NT$7,337.8 million in 2000. After excluding minority interest in the net losses of our subsidiaries of NT$788.7 million and taking into account an extraordinary loss of NT$144.6 million due to our repurchase of US$131 million in aggregate principal amount of our US$200 million zero coupon bonds due 2002, we had a net loss of NT$2,142.2 million in 2001. In 2000, we recorded net income, after excluding minority interest in the net income of our subsidiaries of NT$1,500.6 million, of NT$5,837.2 million. The net loss per ADS was NT$3.29 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$199.2 million in 2001 compared to an income tax expense of NT$1,065.8 million in 2000.

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 prospectus. 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.

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	Quarter Ended							
	Jun. 30, 2001	Sept. 30, 2001	Dec. 31, 2001	Mar. 31, 2002	Jun. 30, 2002	Sept. 30, 2002	Dec. 31, 2002	Mar. 31, 2003
	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$
	(in millions)							
Consolidated Net Revenues:								
Packaging	6,273.5	6,406.8	8,075.5	7,814.6	8,437.5	9,205.8	10,057.5	9,021.5
Testing	2,204.3	1,970.3	2,179.1	2,227.4	2,390.4	2,654.8	2,788.0	2,534.7
Other	4.6	3.7		1.7	0.6	0.3	8.2	28.2
Total	8,482.4	8,380.8	10,254.6	10,043.7	10,828.5	11,860.9	12,853.7	11,584.4
Consolidated Gross Profit:								
Packaging	779.0	846.7	1,493.5	1,281.9	1,507.5	1,598.2	1,867.8	1,159.9
Testing	103.5	(138.9)	(57.7)	(34.2)	132.4	287.1	455.9	355.3
Other	(0.1)	0.6	1.4	0.2		(0.1)	(2.1)	(4.1)
Total	882.4	708.4	1,437.2	1,247.9	1,639.9	1,885.2	2,321.6	1,511.1
Consolidated Gross Margin:								
Packaging	12.4%	13.2%	18.5%	16.4%	17.9%	17.4%	18.6%	12.9%
Testing	4.7%	(7.0)%	(2.6)%	(1.5)%	5.5%	10.8%	16.4%	14.0%
Total	10.4%	8.5%	14.0%	12.4%	15.1%	15.9%	18.1%	13.0%

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 the fourth quarter of 2001. Beginning the second quarter of 2002, we experienced an improvement in our net revenues as a result of a modest recovery in the semiconductor industry. However, in the first quarter of 2003, our net revenues were adversely affected by global political and economic conditions. 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. See Risk Factors Risks Relating to Our Business Our operating results are subject to significant fluctuations, which could adversely affect the value of your investment .

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 and the full year of 2002, our testing operations have experienced lower gross margins than our packaging 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. See Risk Factors Risks Relating to Our Business Our operating results are subject to significant fluctuations, which would adversely affect the market value of your investment . The average selling prices of our packaging and testing services are likely to

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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.

Net cash provided by operating activities amounted to NT$11,313.8 million (US$326.0 million) for 2002, partly as a result of adjusting for non-cash depreciation and amortization, including amortization of consolidated debits, of NT$13,101.9 million (US$377.6 million). Our net cash provided by operating activities amounted to NT$11,578.4 million for 2001, partly as a result of adjusting for non-cash depreciation and amortization, including amortization of consolidated debits, of NT$11,820.2 million. Our net cash provided by operating activities amounted to NT$17,459.9 million for 2000, partly as a result of adjusting for non-cash depreciation and amortization, including amortization of consolidated debits, of NT$9,153.6 million. The decline in net cash generated by operating activities in 2002 and 2001 compared to 2000 was primarily due to the significant decreases in our net income in 2002 and 2001 compared to a net profit of NT$5,837.2 million in 2000. Depreciation and amortization increased in 2002 compared to 2001, primarily due to an increase in capital expenditures in 2002. Depreciation and amortization increased in 2001 compared to 2000, primarily as a result of the full-year effect of our capacity expansion in 2000.

Net cash used in investing activities decreased to NT$13,167.2 million (US$379.5 million) for 2002 from NT$15,051.2 million in 2001. This decrease reflected a decrease in short-term investments, which was partially offset by the purchase of the shares of ISE Labs and an increase in acquisition of fixed assets. Net cash used in investing activities decreased to NT$15,051.2 million in 2001 from NT$33,392.0 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 in 2001 from NT$27,154.2 million in 2000.

Net cash provided by financing activities for 2002 amounted to NT$530.5 million (US$15.3 million). This amount reflected proceeds from short-term and long-term debt of NT$1,797.5 million (US$51.8 million), which was partially offset by the payment of NT$1,674.1 million (US$48.2 million) for the repurchase of the remaining outstanding portion of our US$200 million zero coupon convertible bonds due 2002. Net cash provided by financing activities in 2001 amounted to NT$603.5 million. This amount primarily reflected proceeds from long-term debt of NT$9,746.6 million, which was partially offset by the payment of NT$1,568.1 million to a sinking fund in connection with our US$200 million zero coupon convertible bonds due 2002 and by the payment of NT$6,066.0 million for the repurchase 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.

As of December 31, 2002, our primary source of liquidity was NT$10,381.9 million (US$299.2 million) of cash and cash equivalents and NT$2,038.0 million (US$58.7 million) of short-term investments. Our short-term investments primarily consisted of investments in fixed income mutual funds. As of December 31, 2002, we had total availability under existing short-term lines of credit of NT$12,764.6 million (US$367.9 million), of which we had borrowed NT$6,288.6 million (US$181.2 million). The interest rate for borrowings under these facilities ranged from 0.88% to 7.00% per year as of December 31, 2002, as compared to 0.85% to 7.30% per year as of December 31, 2001. 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

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from our operations, are sufficient to finance our working capital needs for the next 12 months. As of December 31, 2002, we had working capital of NT$2,641.8 million (US$76.1 million).

Our long-term liabilities consist primarily of bank loans. As of December 31, 2002, we had outstanding long-term bank loans, less current portion, of NT$23,009.6 million (US$663.1 million). These long-term bank loans carried variable interest rates which ranged between 0.88% and 7.92% per year as of December 31, 2002, as compared to 0.86% to 7.92% per year as of December 31, 2001. We have pledged a portion of our assets, with a carrying value of NT$15,823.8 million (US$456.0 million) as of December 31, 2002, to secure our obligations under our short-term and long-term facilities.

In December 2002, we entered into a NT$7.0 billion three-year syndicated credit facility, for which Citibank N.A., Taipei Branch acted as the lead arranger. We used NT$5.2 billion (US$149.9 million) of the amount available under the facility to refinance a NT$5.2 billion syndicated credit facility, for which Citibank, N.A., Taipei Branch acted as the lead arranger, entered into on June 22, 2001. The remaining NT$1.8 billion (US$51.9 million) was used to repay a portion of our existing revolving credit lines.

In November 1997, we issued US$200 million in aggregate principal amount of zero coupon convertible bonds due 2002. These bonds had an implied interest rate of 6.37%, and were convertible into our common shares. These bonds, which matured in November 2002, were convertible at the option of the holders from December 1997 through October 2002. As of November 2002, we had repurchased in the open market all of the outstanding bonds.

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 credit facility. 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. We cannot assure you that we will be able to remain in compliance with our financial covenants under our loan 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. See Risk Factors Risks Relating to Our Business Restrictive covenants and broad default provisions in the agreements governing our existing debt may materially restrict our operations as well as adversely affect our liquidity, financial condition and results of operations .

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The following table sets forth the maturity of our contractual obligations as of December 31, 2002.

	Payments Due by Period				
Contractual Obligations	Total	Under 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years
	NT$	NT$	NT$ (in millions)	NT$	NT$
Long-term debt	33,924.4	6,008.7	26,821.4	1,067.6	26.7
Capital lease obligations	467.4	193.7	273.7		
Operating leases	1,707.9	317.4	554.7	461.9	373.9
Payable for investment	3,327.1	962.8	2,364.3		
Total	39,426.8	7,482.6	30,014.1	1,529.5	400.6

The payable for investment category set forth above relates to our earn-out arrangement with Motorola in connection with our acquisition of ASE Chung Li and ASE Korea in 1999. Under the arrangement, a portion of the purchase price would be paid in installments ending in July 2004 contingent upon certain targets of revenues from packaging and testing services provided to Motorola being met. See note 25 to our consolidated financial statements included in this prospectus. In addition to the contractual obligations set forth above, as of December 31, 2002, we had made commitments to purchase approximately NT$3,462.6 million (US$99.8 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$199.8 million, NT$151.2 million and NT$176.7 million (US$5.1 million) in 2000, 2001 and 2002, respectively.

Our contingent obligations consist of guarantees provided by us to our subsidiaries. As of December 31, 2002, we endorsed and guaranteed the promissory notes of our subsidiaries in the amount of NT$6,341.4 million (US$182.7 million). Other than such guarantees, we have no other contingent obligations. See note 21 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,			
	2000	2001	2002	
	NT$	NT$	NT$	US$
		(in millions)		
Machinery and equipment	27,154.2	8,024.9	13,786.8	397.3
Building and improvements	4,309.3	3,540.8	1,963.0	56.6

We have budgeted capital expenditures of approximately NT$13,880.0 million (US$400.0 million) to NT$17,350.0 million (US$500.0 million) for 2003, 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. See Risk Factors Risks Relating to Our Business Because of the highly cyclical nature of our industry, our capital requirements

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are difficult to plan. If we cannot obtain additional capital when we need it, our growth prospects and future profitability may be adversely affected .

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$37,496.7 million (US$1,080.6 million) due in the next three years. We intend to meet our payment obligations through the expected cash flow from operations, long-term borrowings 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 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. However, the ROC government currently restricts certain types of investments by ROC companies in the People s Republic of China. We intend to consider establishing semiconductor packaging, testing and interconnect materials operations in the People s Republic of China if ROC investment law and policy is amended to permit such investments, and if suitable opportunities are available at that time.

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, 2002, 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, 2002, we had US$20.0 million outstanding in foreign currency option contracts and US$10.0 million outstanding in forward exchange contracts. See Market Risk .

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 have obtained 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 have 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$700.7 million, NT$26.4 million and NT$52.1 million (US$1.5 million) in 2000, 2001 and 2002, respectively.

We also have tax credits under the ROC Statute of Upgrading Industries. Under the previous tax credit rules, we obtained a tax credit of 20% for the purchase of equipment manufactured in Taiwan and 10% for the purchase of equipment manufactured outside Taiwan. In

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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 18 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 12.7%, 0% and 0% in 2000, 2001 and 2002, respectively. The effective tax rate was significantly lower in 2001 and 2002 because we incurred a net loss before income tax, minority interests acquisition and extraordinary loss in those periods, which resulted in income tax benefits of NT$247.3 million and NT$1,151.9 million (US$33.2 million) in 2001 and 2002, respectively.

The net deferred tax assets in 2001 consisted primarily of tax credit that we utilized in 2002 and expect to utilize thereafter. These tax credits were generated primarily as a result of our purchase of packaging equipment for our facilities in Kaohsiung, Taiwan. In 2002, we generated sufficient taxable income to utilize these tax credits, and thus realized the current portion of the net deferred tax assets recorded at December 31, 2001. We generated additional tax credits in 2002 and believe that the future estimated taxable income will be sufficient to realize the current and long-term portion of our net deferred tax assets recorded as of December 31, 2002.

In 1997, the ROC Income Tax Law was amended whereby, effective from January 1, 1998, all retained earnings generated in a year which are not distributed to shareholders as dividends in the following year will be assessed a 10% retained earnings tax. As a result, if we do not distribute all of our annual retained earnings generated after January 1, 1998 as either cash or stock dividends in the following year, these earnings will be subject to the 10% retained earnings tax.

Market Risk

Our exposure to financial market risks relates primarily to changes in interest rates and foreign currency exchange rates. To mitigate these risks, we utilize derivative financial instruments, the application of which is primarily to manage these exposures, and not for speculative purposes.

Interest Rate Risk. Our exposure to interest rate risks relates primarily to our long-term floating rate debt, which is normally incurred to support our corporate activities and capital expenditures. We currently do not enter into derivative transactions with regard to interest rates, but would consider engaging in currency interest rate swaps to lock in favorable currency and interest rate levels from time to time, if available, on terms considered attractive by us. No interest rate derivative contracts were outstanding as of December 31, 2002.

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The following table provides information about our significant obligations that are sensitive to interest rate fluctuations.

	As of December 31, 2002						
	Expected Maturity Date						
	2003	2004	2005	2006	2007	Total	Fair Value
	(in millions)						
Short-term debt:							
Variable rate (NT$)	3,152.4					3,152.4	3,152.4
Average interest rate	2.70%						
Variable rate (US$)	52.5					52.5	52.5
Average interest rate	2.60%						
Variable rate (JP¥)	1,608.7					1,608.7	1,608.7
Average interest rate	1.44%						
Variable rate (KRW)	21,726.8					21,726.8	21,726.8
Average interest rate	5.96%						
Variable rate (EUR)	0.5					0.5	0.5
Average interest rate	5.31%						
Variable rate (RMB)	47.0					47.0	47.0
Average interest rate	5.96%						
Long-term debt:							
Variable rate (NT$)	5,315.1	11,691.5	6,283.7	811.5		24,101.8	24,101.8
Average interest rate	5.19%	4.07%	4.50%	4.01%			
Fixed rate (NT$)	18.6	2.1	0.4			21.1	21.1
Average interest rate	8.53%	3.23%	3.23%				
Variable rate (US$)	1.6	49.7	6.6	4.5	3.6	66.0	66.0
Average interest rate	4.22%	3.45%	5.17%	5.59%	5.93%		
Fixed rate (US$)	23.4	153.7	3.0	0.1		180.2	180.2
Average interest rate	5.98%	7.32%	9.50%	7.75%			
Variable rate (JP¥)		5,460.4				5,460.4	5,460.4
Average interest rate		1.00%					
Variable rate (EUR)		3.0				3.0	3.0
Average interest rate		4.53%					

Foreign Currency Exchange Rate Risk. Our foreign currency exposures give rise to market risk associated with exchange rate movements against the NT dollar, our functional currency. Currently, the majority of our revenues from packaging and testing services are denominated in U.S. dollars, with a portion denominated in NT dollars. Our costs of revenues and operating expenses associated with packaging and testing services are incurred in several currencies, primarily in NT dollars and U.S. dollars, as well as, to a lesser extent, Malaysian ringgit, Korean won, Japanese yen and Philippine pesos. Fluctuations in exchange rates, primarily among the U.S. dollar, the NT dollar and the Japanese yen, will affect our costs and operating margins and could result in exchange losses and increased costs in NT dollar and other local currency terms. In 2000, 2001 and 2002, the average exchange rate of the NT dollar to the U.S. dollar was 31.37, 33.91 and 34.53, respectively. In addition, a substantial portion of our capital expenditures, primarily for the purchase of packaging and testing equipment, has been, and is expected to continue to be, denominated primarily in U.S. dollars with the remainder in Japanese yen.

Foreign currency denominated liabilities as of December 31, 2002 include U.S. dollar debt and Japanese yen debt. As of December 31, 2002, approximately 66.8% of our cash and accounts receivable were denominated in U.S. dollars, with a substantial portion of the remainder denominated in NT dollars. As of December 31, 2002, approximately 75.4% of our accounts payable and payable for fixed assets were denominated in currencies other than the NT dollar. To protect against reductions in value and the volatility of future cash flows caused by changes in foreign currency exchange rates, we may utilize currency forward contracts from time to time to reduce the impact of foreign currency fluctuations on our results of operations. Our policy is to account for these contracts on a mark-to-market rate basis, and the premiums are amortized on a straight-line basis over the life of the contract.

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The table below presents our outstanding foreign currency option contracts and forward exchange contracts as of December 31, 2002.

Foreign Currency Option Contracts	Amount	Maturity
	US$ (in millions)	
Contracts to buy US$ call/NT$ put	5.0	January 2003
Contracts to buy US$ call/NT$ put	5.0	February 2003
Contracts to sell US$ call/NT$ put	10.0	January 2003

Forward Exchange Contracts	Amounts	Maturity
	US$ (in millions)	
Contracts to buy NT$/sell US$	5.0	January 2003
Contracts to buy NT$/sell US$	5.0	February 2003

US GAAP Reconciliation

Our financial statements are prepared in accordance with ROC GAAP, which differ in significant 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,			
	2000	2001	2002	2002
	NT$	NT$	NT$	US$
	(in millions)			
Net income (loss) in accordance with:				
ROC GAAP	5,837.2	(2,142.2)	129.0	3.7
US GAAP	3,930.0	(4,046.6)	(3,074.3)	(88.6)
Shareholders equity in accordance with:				
ROC GAAP	43,669.2	41,946.3	39,430.7	1,136.3
US GAAP	40,729.1	37,960.3	35,716.8	1,029.3

Note 26 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 primarily affect our net income as reported under ROC GAAP, relate to impairment of goodwill and long-term investments and compensation expense pertaining to bonuses to employees, directors and supervisors.

Effective January 1, 2002, we adopted U.S. SFAS No. 142, Goodwill and Other Intangible Assets , which requires that goodwill no longer be amortized, and instead, be tested for impairment on a periodic basis. In conjunction with the implementation of U.S. SFAS No. 142, we completed a goodwill impairment review as of January 1, 2002 using a fair value based approach in accordance with the provision of the standard and found no impairment. Based on acquisitions completed as of June 30, 2001, application of the goodwill non-amortization provisions resulted in a decrease in amortization of approximately NT$815.6 million (US$23.5 million) for 2002 which continues to be recorded for ROC GAAP purposes. We completed our annual goodwill impairment test at December 31, 2002 and determined impairment of NT$2,213.0 million (US$63.8 million) of the remaining goodwill associated with our purchase of shares of ASE Test.

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ROC GAAP and US GAAP require an assessment of impairment of long-term investments whenever events or circumstances indicate a decline in value may be other-than-temporary. The criteria for determination are similar under ROC GAAP and US GAAP. However, the methods to measure the amount of impairment may be based on different estimates of fair values depending on the circumstances. When impairment is determined to have occurred, US GAAP requires the market price to be used, if available, to determine the fair value of the long-term investment and measure the amount of impairment at the reporting date. Under ROC GAAP, if the market price is deemed to be a result of an inactive market, another measure of fair value may be used. As such, when determining whether an other-than-temporary impairment occurred in our long-term investment in Hung Ching at December 31, 2002, the fair value, under ROC GAAP, was based on the difference between the carrying value and the net-asset value of Hung Ching with adjustments made to significant assets of Hung Ching using appraised values and other appropriate information. Using this method under ROC GAAP, we determined that no impairment occurred in our long-term investment in Hung Ching in 2002. Under US GAAP, we determined an other-than-temporary impairment occurred in our long-term investment in Hung Ching as of December 31, 2002 in the amount of NT$883.6 million (US$25.5 million).

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 equals 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 increase in ASE Inc. s compensation expense. See Related Party Transactions .

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 are 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. Effective January 1, 2002, we adopted the ROC Statement of Financial Accounting Standards No. 30, Accounting for Treasury Stock , which is similar to the accounting and financial statement presentation under US GAAP except the minority ownership portion is deducted from the gross amount of treasury stock for ROC GAAP reporting purposes.

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 did not 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

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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 employee compensation expense. Under US GAAP, however, we are required to charge the market value of the employee bonus shares to employee compensation expense in the period to which they relate, and correspondingly reduce our net income and income per common share. See Management Compensation of Directors, Supervisors and Executive Officers ASE Inc. Employee Bonus Plan and Stock Option Plans .

The amount and the form of the payment of this compensation is subject to approval at our annual general 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. 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 required from employees who received the special stock bonus.

Recent US GAAP Accounting Pronouncements

In July 2001, the FASB issued U.S. SFAS No. 141, Business Combinations , and U.S. SFAS No. 142, Goodwill and Other Intangible Assets . Beginning in the first quarter of 2002, we no longer amortized goodwill and other indefinite-lived intangible assets, but perform impairment tests annually, or earlier if indicators of potential impairment exist. All other intangible assets will continue to be amortized over their estimated useful lives and reviewed for impairment in accordance with U.S. SFAS No. 142.

U.S. SFAS No. 142 requires that goodwill and other indefinite-lived intangible assets be tested for impairment at the reporting unit level upon adoption and at least annually thereafter, utilizing a two-step methodology. The initial step requires us to determine the fair value of each reporting unit and compare it to the carrying value, including goodwill and other indefinite-lived intangible assets, of such unit. If the fair value exceeds the carrying value, no impairment loss is to be recognized. However, if the carrying value of the reporting unit exceeds its fair value, the goodwill and other indefinite-lived intangible assets of the unit may be impaired. The amount, if any, of the impairment is then measured in the second step. As a result of adopting U.S. SFAS No. 142 in February 2002, we realized an impairment of goodwill at December 31, 2002 of NT$2,213.0 million (US$63.8 million) relating to the goodwill associated with our purchase of shares of ASE Test.

In June 2001, the FASB issued U.S. SFAS No. 143, Accounting for Asset Retirement Obligations . This statement 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. We adopted U.S. SFAS No. 143 on January 1, 2003 and we do not expect U.S. SFAS No. 143 will have a material impact on our US GAAP financial results.

In June 2002, the FASB issued U.S. SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities . U.S. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity should be measured at fair value and recorded when it meets the definition of a liability in FASB Concepts Statement No. 6, Elements of Financial Statements . U.S. SFAS No. 146 superceded EITF No. 94-3, Liability Recognition for Certain Employee

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Termination Benefits and Other Costs to Exit and Activity (Including Certain Costs Incurred in Restructuring) , which required recognition of a liability for costs associated with an exit or disposal activity when the company committed to an exit/disposal plan. U.S. SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002. Restatement of prior periods is not required. U.S. SFAS No. 146 applies to future restructuring activities and the application of U.S. SFAS No. 146 has no impact on our US GAAP financial results.

In December 2002, the FASB issued U.S. SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure , and amended U.S. SFAS No. 123, Accounting for Stock Based Compensation . This statement provides alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of that statement to require prominent disclosure about the effects on reported net income of an entity s accounting policy decisions with respect to stock-based employee compensation. This statement is effective January 1, 2003. We have elected not to account for stock-based employee compensation using the fair value based method of accounting set forth in U.S. SFAS No. 123 and U.S. SFAS No. 128, but to continue to provide the disclosure requirements under U.S. SFAS No. 123. Accordingly, this statement will not affect our consolidated financial statements until we decide to adopt the fair value based method of accounting set forth in U.S. SFAS No. 123 and U.S. SFAS No. 128.

In November 2002, the FASB issued FASB Interpretation, or FIN, No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others . The interpretation elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under the guarantee and must disclose that information on its interim and annual financial statements. The provisions related to recognizing a liability at inception of the guarantee for the fair value of the guarantor s obligations does not apply to product warranties or to guarantees accounted for as derivatives. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. We are in the process of assessing the impact and currently believe the adoption of recognition and initial measurement requirements of FIN No. 45 will not have a material effect on our financial condition and results of operations.

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities An Interpretation of Accounting Research Bulletin No. 51 . FIN No. 46 requires a primary beneficiary to consolidate a variable interest entity, or VIE, if it has a VIE that will absorb a majority of the entity s expected losses if they occur, receive a majority of the entity s expected residual returns if they occur, or both. FIN No. 46 applies immediately to VIEs created after January 31, 2003, and to VIEs in which the entity obtains an interest after that date. For VIEs acquired before February 1, 2003, the effective date for compliance is July 1, 2003. We are currently in the process of determining the impact of this statement on our results of operations, financial position and cash flows.

In November 2002, the FASB Emerging Issues Task Force, or EITF, reached a consensus on EITF No. 21, Revenue Arrangements with Multiple Deliverables , related to the timing of revenue recognition for arrangements in which goods or services or both are delivered separately in a bundled sales arrangement. The EITF requires that when the deliverables included in this type of arrangement meet certain criteria, they should be individually accounted for as separate units of accounting. This may result in a difference in the timing of revenue recognition but will not result in a change in the total amount of revenue recognized in a bundled sales arrangement. The allocation of revenue to the separate deliverables is based on the relative fair value of each item. If the fair value is not available for the delivered items, a residual method must then be used. This method requires the full fair value amount to be allocated to the undelivered items.

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This would result in a discount, if any, being allocated to the delivered items. This consensus is effective for bundled sales arrangements entered into in fiscal periods beginning after June 15, 2003. We do not believe that the consensus will have a significant impact on our results of operations, financial position and cash flows.

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BUSINESS

We are one of the world s largest independent providers of semiconductor packaging services and, together with our subsidiary ASE Test, the world s largest independent provider of semiconductor testing services. Our services include semiconductor packaging, design and production of interconnect materials, front-end engineering testing, wafer probing and final testing services. We believe that we are better positioned than our competitors to meet the requirements of semiconductor companies worldwide for outsourced packaging and testing services across a wide range of end-use applications because of:

- our ability to provide a broad range of advanced semiconductor packaging and testing services on a large scale turnkey basis;
- our expertise in developing and providing advanced packaging and testing technologies and solutions;
- our scale of operations and financial position which enable us to make significant investments in capacity expansion and research and development as well as to make selective acquisitions;
- our geographic presence in key centers of outsourced semiconductor and electronics manufacturing; and
- our long-term relationships with providers of complementary semiconductor manufacturing services, including our strategic alliance with TSMC, the world s largest dedicated semiconductor foundry.

We believe that the trend for semiconductor companies to outsource their packaging and testing requirements is accelerating as semiconductor companies increasingly rely on independent providers of foundry and advanced packaging and testing services. In response to the increased pace of new product development and shortened product life and production cycles, semiconductor companies are increasingly seeking independent packaging and testing companies that can provide turnkey services in order to reduce time-to-market. We believe that our expertise and scale in advanced technology and our ability to integrate our broad range of solutions into turnkey services allow us to benefit from the accelerated outsourcing trend and better serve our existing and potential customers.

We believe that we have benefited, and will continue to benefit, from our geographic location in Taiwan. Taiwan is currently the largest center for outsourced semiconductor manufacturing in the world and, in addition, has a high concentration of electronics manufacturing service providers, which are the end users of our customers products. Our close proximity to foundries and other providers of complementary semiconductor manufacturing services is attractive to our customers who wish to take advantage of the efficiencies of a total semiconductor manufacturing solution by outsourcing several stages of their manufacturing requirements. Our close proximity to end users of our customers products is attractive to our customers who wish to take advantage of the logistical efficiencies of direct shipment services that we offer. We believe that, as a result, we are well positioned to meet the advanced semiconductor engineering requirements of our customers.

Our global base of over 200 customers includes leading semiconductor companies across a wide range of end-use applications:

- Advanced Micro Devices, Inc.
- Altera Corporation
- ATI Technologies Inc.
- Conexant Systems, Inc.
- NVIDIA Corporation
- ON Semiconductor Corp.
- Qualcomm Incorporated
- RF Micro Devices, Inc.

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IBM Corporation

Koninklijke Philips Electronics N.V.

LSI Logic Corporation

Motorola, Inc.

Silicon Integrated Systems Corp.

STMicroelectronics N.V.

VIA Technologies, Inc.

Industry Background

General

Semiconductors are the basic building blocks used to create an increasing variety of electronic products and systems. Continuous improvements in semiconductor manufacturing processes and design technologies have led to smaller, more complex and more reliable semiconductors at a lower cost per function. These improvements have resulted in significant performance and price benefits to manufacturers of electronic systems. As a result, semiconductor demand has grown substantially in our primary markets of communications, personal computers and consumer electronics, and has experienced increased growth in other markets such as automotive products, industrial automation and control systems.

The semiconductor industry is characterized by strong long-term growth, with periodic and sometimes severe cyclical downturns. The Semiconductor Industry Association estimates that worldwide sales of semiconductors increased from approximately US$50.5 billion in 1990 to US$140.7 billion in 2002. The semiconductor industry experienced strong growth between 1992 and 1995 and between 1998 and 2000, with declines between 1996 and first half of 1997 as well as in 1998. Starting from the fourth quarter of 2000, the semiconductor industry experienced a severe downturn due to a slowdown in the global economy, overcapacity in the semiconductor industry and worldwide inventory adjustment. The semiconductor industry started to show signs of a modest recovery in 2002, primarily as a result of inventory replenishment and the introduction of new products. We believe that the pattern of long-term growth and cyclical fluctuations will continue in the semiconductor industry.

Outsourcing Trends in Semiconductor Manufacturing

Historically, semiconductor companies designed, manufactured, packaged and tested semiconductors primarily in their own facilities. Over the past several years, there has been a trend in the industry to outsource stages in the manufacturing process. Virtually every significant stage of the manufacturing process can be outsourced. Wafer foundry services and semiconductor packaging services are currently the largest segments of the independent semiconductor manufacturing services market. Most of the world s major integrated device manufacturers use some independent manufacturing services to maintain a strategic mix of internal and external manufacturing capacity.

The availability of technologically advanced independent manufacturing services has also enabled the growth of fabless semiconductor companies that focus on semiconductor design and marketing and outsource their fabrication, packaging and testing requirements to independent semiconductor manufacturing companies. The growth in the number and scale of fabless semiconductor companies that rely solely on independent companies to meet their manufacturing requirements will continue to be a driver of growth in the market for independent foundry, packaging and testing services. Similarly, the availability of technologically advanced independent manufacturing services has encouraged integrated device manufacturers, which had traditionally relied on in-house semiconductor manufacturing capacity, to increasingly outsource their manufacturing requirements to independent semiconductor manufacturing companies.

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We believe the outsourcing of semiconductor manufacturing services will increase in the future from current levels for many reasons, including the following:

Technological Expertise and Significant Capital Expenditure. Semiconductor manufacturing processes have become highly complex, requiring substantial investment in specialized equipment and facilities and sophisticated engineering and manufacturing expertise. Technical expertise becomes increasingly important as the industry transitions from one generation of technology to another, as evidenced by the current migration of fabrication technology from 8-inch to 12-inch wafers. In addition, product life cycles have been shortening, magnifying the need to continuously upgrade or replace manufacturing equipment to accommodate new products. As a result, new investments in in-house packaging, testing and fabrication facilities are becoming less desirable to integrated device manufacturers because of the high investment costs as well as the inability to achieve sufficient economies of scale and utilization rates necessary to be competitive with the independent service providers. Independent packaging, testing and foundry companies, on the other hand, are able to realize the benefits of specialization and achieve economies of scale by providing services to a large base of customers across a wide range of products. This enables them to reduce costs and shorten production cycles through high capacity utilization and process expertise. In the process, they are also able to focus on discrete stages of semiconductor manufacturing and deliver services of superior quality.

Since the recent industry downturn in 2001, semiconductor companies have significantly reduced their investment in in-house packaging and testing technologies and capacity. As a result, some semiconductor companies may have limited in-house expertise and capacity to accommodate large orders following a recovery in demand, particularly in the area of advanced technology. We expect semiconductor companies to increasingly outsource their packaging and testing requirements to take advantage of the advanced technology and scale of operations of independent packaging and testing companies.

Focus on Core Competencies. As the semiconductor industry becomes more competitive, semiconductor companies are expected to further outsource their semiconductor manufacturing requirements in order to focus their resources on core competencies, such as semiconductor design and marketing.

Time-to-Market Pressure. The increasingly short product life cycle has accelerated time-to-market pressure for semiconductor companies, leading them to rely increasingly on outsourced suppliers as a key source for effective manufacturing solutions.

Gartner Dataquest forecasts that the total outsourced semiconductor packaging market will grow from US$6.8 billion in 2002 to US$14.2 billion in 2005. Gartner Dataquest also forecasts that the total outsourced semiconductor testing market will grow from US$1.6 billion in 2002 to US$3.9 billion in 2005.

The Semiconductor Industry in Taiwan

The semiconductor industry in Taiwan has been a leader in, and a major beneficiary of, the trend in outsourcing. The growth of the semiconductor industry in Taiwan has been the result of several factors. First, semiconductor manufacturing companies in Taiwan typically focus on one or two stages of the semiconductor manufacturing process. As a result, these companies tend to be more efficient and are better able to achieve economies of scale and maintain higher capacity utilization rates. Second, semiconductor manufacturing companies in Taiwan that provide the major stages of the manufacturing process are located close to each other and typically enjoy close working relationships. This close network is attractive to customers who wish to outsource several stages of the semiconductor manufacturing process. For instance, a customer could reduce production cycle time and unit cost and streamline logistics by outsourcing its foundry, packaging, testing and drop shipment services to semiconductor manufacturing companies in

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Taiwan. Third, Taiwan also has an educated labor pool and a large number of engineers suitable for sophisticated manufacturing industries such as semiconductors.

As a result of the growth of the global semiconductor market, the semiconductor industry in Taiwan has in recent years made significant capital expenditures to expand capacity and technological capabilities. The ROC government has also provided tax incentives, long-term loans at favorable rates and research and development support, both directly and indirectly through support of research institutes and universities. As a result of investments made in recent years, Taiwan has achieved substantial market share in the outsourced semiconductor manufacturing industry. Furthermore, the growth of Taiwan s electronics manufacturing industry, particularly in personal computer design and manufacturing, has created substantial local demand for semiconductors.

The Semiconductor Industry in Other Asian Regions

Many of the factors that contributed to the growth of the semiconductor industry in Taiwan have also contributed to the recent development of the semiconductor industry in Southeast Asia. Access to expanding semiconductor foundry services in Singapore, convenient proximity to major downstream electronics manufacturing operations in Malaysia, Singapore and Thailand, government sponsored infrastructure support, tax incentives and pools of skilled engineers and labor at relatively low cost have all encouraged the development of back-end semiconductor service operations in Southeast Asia. The downstream electronics manufacturers in Southeast Asia have typically focused on products used in the communications, industrial and consumer electronics and personal computer peripheral sectors. The proximity to both semiconductor foundries and end users has influenced local and international semiconductor companies increasingly to obtain packaging, testing and drop shipment services from companies in Southeast Asia.

In addition, the world s leading electronics manufacturing service providers, many of them from Taiwan, are increasingly establishing manufacturing facilities in the People s Republic of China in order to take advantage of lower labor costs, government incentives for investment and the potential size of the domestic market for end users of electronics products. Many of the factors that contributed to the growth of the semiconductor industry in Taiwan are beginning to emerge in the People s Republic of China and may play an increasingly important role in the growth of its semiconductor industry over the long term.

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Overview of Semiconductor Manufacturing Process

The manufacturing of semiconductors is a complex process that requires increasingly sophisticated engineering and manufacturing expertise. The manufacturing process may be divided into the following stages from circuit design to shipment:

We are involved in all stages of the semiconductor manufacturing process except circuit design and wafer fabrication.

Process	Description
Circuit Design	The design of a semiconductor is developed by laying out circuit components and interconnections. A complex circuit may be designed with as many as 20 layers of patterns or more.
Front-End Engineering Test	Throughout and following the design process, prototype semiconductors undergo front-end engineering testing, which involves software development, electrical design validation, reliability and failure analysis.
Wafer Fabrication	Process begins with the generation of a photomask through the definition of the circuit design pattern on a photographic negative, known as a mask, by an electron beam or laser beam writer. These circuit patterns are transferred to the wafers using various advanced processes.
Wafer Probe	Each individual die is electrically tested, or probed, for defects. Dies that fail this test are marked to be discarded.
Packaging	Packaging, also called assembly, is the processing of bare semiconductors into finished semiconductors and serves to protect the die and facilitate electrical connections and heat dissipation. The patterned silicon wafer received from our customers are diced by means of diamond saws into separate dies, also called chips. Each die is attached to a leadframe or a laminate (plastic or tape) substrate by epoxy resin. A leadframe is a miniature sheet of metal, generally made of copper and silver alloys, on which the pattern of input/output leads has been cut. On a laminate substrate, typically used in ball grid array packages, the leads take the shape of small bumps or balls. Leads on the leadframe or the substrate are connected by extremely fine gold wires or bumps to the input/output terminals on the chips, through the use of automated machines known as wire bonders . Each chip is then encapsulated, generally in a plastic casing molded from a molding compound, with only the leads protruding from the finished casing, either from the edges of the package as in the case of the leadframe-based packages, or in the form of small bumps on a surface of the package as in the case of ball grid array or other substrate-based packages.
Final Test	Final testing is conducted to ensure that the packaged semiconductor meets performance specifications. Final testing involves using sophisticated testing equipment and customized software to electrically test a number of attributes of packaged semiconductors, including functionality, speed, predicted endurance and power consumption. The final testing of

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Process	Description
	semiconductors is categorized by the functions of the semiconductors tested into logic/mixed-signal final testing and memory final testing. Memory final testing typically requires simpler test software but longer testing time per device tested.

Strategy

Our objective is to provide advanced semiconductor packaging and testing services which set industry standards and to lead and facilitate the industry trend towards outsourcing semiconductor manufacturing requirements. The principal elements of our strategy are to:

Maintain Our Focus on Providing a Complete Range of Semiconductor Packaging and Testing Services

We believe that an important factor in our ability to attract leading semiconductor companies as our customers has been our ability to provide turnkey services on a large scale. Turnkey services consist of the integrated packaging, testing and direct shipment of semiconductors to end users designated by our customers. As a result of our technical expertise and large production capacity in both packaging and testing, we are able to provide turnkey services on a large scale. As product lives and production cycles shorten and packaging and testing technologies advance more rapidly, our customers increasingly value our ability, as a downstream service provider, to work with them as an integral and strategic partner in the upstream development of their products. We intend to enhance and expand our expertise in both the upstream and downstream semiconductor manufacturing processes in order to better serve our customers in providing our core services of packaging and testing. The front-end engineering testing expertise of ISE Labs has greatly enhanced our ability to participate in the earlier stages of circuit design and the semiconductor manufacturing process. Our establishment of ASE Material in 1997 for the design and production of interconnect materials, such as substrates and leadframes, has provided us with expertise in interconnect technology, which has become increasingly critical for our customers both in terms of cost and production cycle time.

Continue to Focus on Advanced Technological, Processing and Materials Capabilities

We intend to continue our focus on developing advanced process and product technologies in order to meet the advanced packaging and testing requirements of our customers. Our expertise in packaging technology has enabled us to develop advanced solutions such as fine-pitch bonding, stacked die packaging and bump chip carrier packaging. We are continuously investing in research and development in response to and in anticipation of migrations in

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technology and intend to continue to acquire access to new technologies through strategic alliances and licensing arrangements.

We intend to continue to focus on developing and enhancing our existing interconnect materials capabilities through ASE Material. We expect that interconnect materials will become an increasingly important value-added component of the semiconductor packaging business as packaging technology migrates from the traditional wirebonding process towards the flip-chip wafer bumping process. As a result, we expect high density interconnect materials to be a core element for the next generation of semiconductor packaging technology. By focusing on the design and production of interconnect materials, we plan to capture most of the value-added components of the packaging business and lead the migration in packaging technology. In 2002, ASE Material supplied approximately one-third of our substrate requirements by value. We intend to continue to invest in ASE Material in order to further develop and enhance our existing capabilities in interconnect materials with a view to sourcing a majority of our substrate requirements by value from ASE Material by the end of 2003.

We intend to continue to strengthen our capabilities in testing complex, high-performance semiconductors. In particular, we plan to focus on testing logic/mixed-signal semiconductors that are characterized by very high clock speeds, high pin count and high levels of integration.

The increasing miniaturization of semiconductors and the growing complexity of interconnect technology have also resulted in the blurring of the traditional distinctions among assembly at different (that is, upstream and downstream) levels of integration: chip, module, board and system. Our controlling interest in Universal Scientific has provided us with access to process and product technologies at the levels of module, board and system assembly and test, which helps us to better anticipate industry trends and take advantage of potential growth opportunities.

Strategically Expand Production Capacity

We intend to strategically expand our production capacity, both through internal growth and through selective acquisitions, with a focus on providing more advanced packaging and testing services, which we believe present greater opportunities to achieve higher growth in our revenues and higher margins. We believe that the demand for advanced semiconductor packaging and testing services will grow at a faster pace than demand for traditional packaging and testing services. Packaging and testing services for more advanced semiconductors also generally have higher margins for two reasons. First, as the packaging and testing of advanced semiconductors become more complex, requiring greater expertise in process and technology, such services typically command higher average selling prices. Second, we have been able to achieve higher utilization rates for the equipment we use for more advanced packaging and testing, compared to other equipment that we maintain. We believe that our technical expertise, as well as our scale of operations and financial position, which had enabled us to continue to make investments in more advanced packaging and testing equipment even in times of market downturn, have enabled us to attract a greater proportion of the demand for more advanced packaging and testing services.

We evaluate acquisition opportunities on the basis of access to new markets and technology, the enhancement of our production capacity, economies of scale and management resources, and closer proximity to existing and potential customers. In 1999, we acquired ISE Labs, an independent testing company with operations in California, Hong Kong and Singapore. Through combining the front-end engineering testing capabilities of ISE Labs with our existing final testing capabilities, we are able to provide our customers with complete semiconductor testing solutions. We acquired ASE Chung Li and ASE Korea in 1999, formerly the semiconductor packaging and testing operations of Motorola, Inc. located in Chung Li, Taiwan and Paju, South

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Korea, which allowed us to expand our capacity and gain access to specialized packaging and testing technologies with a focus on wireless communications and automotive end-products.

Continue to Leverage Our Presence in Key Centers of Semiconductor and Electronics Manufacturing

We intend to continue leveraging our presence in key centers of semiconductor and electronics manufacturing to further grow our business. We have significant packaging and testing operations in Taiwan, currently the largest center for outsourced semiconductor manufacturing in the world. This presence enables our engineers to work closely with our customers as well as foundries and other providers of complementary semiconductor manufacturing services early in the semiconductor design process, enhances our responsiveness to the requirements of our customers and shortens production cycles. In addition, as a provider of turnkey services, we are able to offer in Taiwan packaging and testing services, including interconnect materials solutions, all within relatively close geographic proximity to our customers, other service providers and the end users of our customers products. In addition to our expansion plans in Kaohsiung, Taiwan, we intend to expand our packaging, testing and interconnect materials operations in Chung Li, Taiwan to better serve our customers located in northern Taiwan and customers who request that we maintain the capability of packaging and testing their products at more than one location in Taiwan.

In addition to our locations in Taiwan, we have operations in the following locations:

Korea a center for the manufacturing of memory devices and semiconductors for communications applications with a concentration of integrated device manufacturers specializing in these products;

Malaysia and Singapore an emerging center for outsourced semiconductor manufacturing in Southeast Asia with a concentration of integrated device manufacturers; and

Silicon Valley in California the preeminent center for semiconductor design with a concentration of fabless customers.

Strengthen and Develop Strategic Relationships with Providers of Complementary Semiconductor Manufacturing Services

We intend to strengthen existing and develop new strategic relationships with providers of other complementary semiconductor manufacturing services, such as foundries, as well as equipment vendors, raw material suppliers and technology research institutes, in order to offer our customers total semiconductor manufacturing solutions covering all stages of the manufacturing of their products from design to shipment.

Since 1997, we have maintained a strategic alliance with TSMC, the world s largest dedicated semiconductor foundry, which designates us as the non-exclusive preferred provider of packaging and testing services for semiconductors manufactured by TSMC. Through our strategic alliance with and close geographic proximity to TSMC, we are able to offer our customers a total semiconductor manufacturing solution that includes access to foundry services in addition to our packaging, testing and direct shipment services.

We are developing similar strategic relationships with other major foundries and providers of other complementary semiconductor manufacturing services in Taiwan and Southeast Asia with which we already have close business relationships.

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Principal Products and Services

We offer a broad range of advanced semiconductor packaging and testing services. Our package types employ either leadframes or substrates as interconnect materials. The semiconductors we package are used in a wide range of end-use applications, including communications, personal computers, consumer electronics, industrial, automotive and other applications. Our testing services include front-end engineering testing, which is performed during and following the initial circuit design stage of the semiconductor manufacturing process; wafer probe; final testing and other related semiconductor testing services. We focus on packaging and testing logic semiconductors. We offer our customers turnkey services which consist of packaging, testing and direct shipment of semiconductors to end users designated by our customers. In 2001 and 2002, our packaging revenues accounted for 75.3% and 77.9% of our net revenues, respectively, and our testing revenues accounted for 24.7% and 22.1% of our net revenues, respectively.

Packaging Services

We offer a broad range of package types to meet the requirements of our customers, with a focus on advanced packaging solutions. Within our portfolio of package types, we focus on the packaging of semiconductors for which there is expected to be strong demand. These include advanced leadframe-based package types such as quad flat package, thin quad flat package, bump chip carrier and quad flat no-lead package, and package types based on substrates, such as BGA, including flip-chip BGA. We are among the leaders in such advanced packaging process and technologies and are well-positioned to lead the technology migration in the semiconductor packaging industry.

The semiconductor packaging industry has evolved to meet the advanced packaging requirements of high-performance semiconductors. The development of high-performance electronics products has spurred the innovation of semiconductor packages that have higher interconnect density and better electrical performance. As a part of this technology migration, semiconductor packages have evolved from leadframe-based packages to substrate-based packages. The key differences of these package types are:

the size of the package;

the density of electrical connections the package can support; and

the thermal and electrical characteristics of the package.

Leadframe-Based Packages. Leadframe-based packages are packaged by connecting the die, using wire bonders, to the leadframe with gold wire. As packaging technology improves, the number of leads per package increases. Packages have evolved from the lower pin-count plastic dual in-line packages to higher pin-count quad flat packages. In addition, improvements in leadframe-based packages have reduced the footprint of the package on the circuit board and

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improved the electrical performance of the package. The following table sets forth our principal leadframe-based packages.

Package Types	Number of Leads	Description	End-Use Applications
Quad Flat Package (QFP)/ Thin Quad Flat Package (TQFP)	44-304	Designed for advanced processors and controllers, application specific integrated circuits and digital signal processors.	Multimedia applications, cellular phones, personal computers, automotive and industrial products, hard disk drives, communication boards such as ethernet, integrated services digital network, and notebook computers.
Quad Flat No-Lead Package (QFN)/ Microchip Carrier(MCC)	16-88	QFN or MCC uses half- encapsulation technology to expose the rear side of the die pad and the tiny fingers, which are used to connect the chip and bonding wire with printed circuit boards.	Cellular phones, wireless LAN, personal digital assistant devices and digital cameras.
Bump Chip Carrier (BCC)	16-116	BCC packages use plating metal pads to connect with printed circuit boards, creating enhanced thermal and electrical performance.	Cellular phones, wireless LAN, personal digital assistant devices and digital cameras.
Small Outline Plastic Package (SOP)/ Thin Small Outline Plastic Package (TSOP)	8-56	Designed for memory devices including static random access memory, or SRAM, dynamic random access memory, or DRAM, fast static RAM, also called FSRAM, and flash memory devices.	Consumer audio/video and entertainment products, cordless telephones, pagers, fax machines, printers, copiers, personal computer peripherals, automotive parts, telecommunications products, recordable optical disks and hard disk drives.
Small Outline Plastic J-Bend Package (SOJ)	20-44	Designed for memory and low pin-count applications.	DRAM memory devices, microcontrollers, digital analog conversions and audio/video applications.
Plastic Leaded Chip Carrier (PLCC)	28-84	Designed for applications that do not require low profile package with high density of interconnects.	Personal computers, scanners, electronic games and monitors.
Plastic Dual In-line Package (PDIP)	8-56	Designed for consumer electronic products.	Telephones, televisions, audio/video applications and computer peripherals.

Substrate-Based Packages. Substrate-based packages generally employ the ball grid array design which utilizes a substrate rather than a leadframe. Whereas traditional leadframe technology places the electrical connection around the perimeter of the package, the BGA package type places the electrical connection at the bottom of the package surface in the form of small bumps or balls. These small bumps or balls are typically distributed evenly across the bottom surface of the package, allowing greater distance between individual leads and higher pin-counts.

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The BGA package type was developed in response to the requirements of advanced semiconductors. The benefits of the BGA package type include:

smaller package size;

higher pin-count;

greater reliability;

superior electrical signal transmission; and

better heat dissipation.

The industry demand for BGA packages has grown significantly in recent years. BGA packages are generally used in applications where size, density and performance are important considerations, such as cellular handsets and high pin-count graphic chipsets. Our expertise in BGA packages also includes capabilities in stacked-die BGA, which assembles multiple dies into a single package. As an extension to stacked-die BGA, we also assemble systems-in-a-package products, which involve the integration of more than one chip into the same package. We believe that we are among the leaders in these packaging technologies.

We believe that there will continue to be growing demand for packaging solutions with increased input/output density, smaller size and better heat dissipation characteristics. In anticipation of this demand, we have focused on developing our capabilities in some advanced packaging solutions, such as flip-chip BGA. Flip-chip BGA technology replaces wire bonding with wafer bumping for interconnections within the package. Wafer bumping involves the placing of tiny solder balls, instead of wires, on top of dies for connection to substrates. As compared with more traditional packages which allow input/output connection only on the boundaries of the dies, flip-chip packages significantly enhance the input/output flow by allowing input/output connection over the entire surface of the dies. We commenced volume production of flip-chip packages in July 2000.

The following table sets forth our principal substrate-based packages.

Package Types	Number of Leads	Description	End-Use Applications
Plastic BGA	5-1152	Designed for semiconductors which require the enhanced performance provided by plastic BGA, including personal computer chipsets, graphic controllers and microprocessors, application specific integrated circuits, digital signal processors and memory devices.	Wireless products, cellular phones, global positioning systems, notebook computers, disk drives and video cameras.
Film BGA	96-280	Substrate-based package that has higher performance and lower profile than plastic BGA.	Cellular phones, pagers, wireless communications, digital signal processors and micro-controller applications and high performance disk drives.

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Package Types	Number of Leads	Description	End-Use Applications
Cavity Down BGA	256-854	Designed for memory devices such as flash memory devices, SRAM, DRAM and FSRAM, microprocessors/controllers and high value application specific integrated circuits requiring a low profile, light and small package.	Cellular and other telecommunications products, wireless and consumer systems, PDAs, disk drives, notebook computers and memory boards.
Stacked-Die BGA	48-341	Combination of multiple dies in a single package enables package to have multiple functions within a small surface area.	Cellular phones, local area networks, graphic processors, digital cameras and pagers.
Flip-Chip BGA	16-1681	Using advanced interconnect technology, flip-chip BGA package allows higher density of input/output connection over the entire surface of the dies. Designed for high-performance semiconductors that require high density of interconnects in a small package.	High-performance networking, graphics and processor applications.
System-in-Package	256-972	Integrated combination of microprocessor, logic controller and memory chips assembled in one package.	Digital televisions, fax modems, personal computer peripherals, compact disc players and copiers.
Land Grid Array	32-78	Leadless package which is essentially a BGA package without the solder balls. Based on laminate substrate, land grid array packages allow flexible routing and are capable of multichip module functions.	High frequency integrated circuits such as wireless communications products, computer servers and personal computer peripherals.
Tape Carrier Package	51-384	The light-weight tape carrier package uses a labor-saving reel-to-reel bonding technique to facilitate high input/output and frequency as well as flexible interconnections.	Liquid crystal displays, ink printers, cellular phones, PDA and notebook computers.

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The following table sets forth, for the periods indicated, the percentage of our packaging revenues accounted for by each package type.

	Year Ended December 31,		
	2000	2001	2002
	(percentage of packaging revenues)		
Package Types:			
BGA and other substrate-based package types	44.2%	52.0%	53.5%
TQFP/LQFP	18.2	14.3	15.2
QFP	14.6	12.7	12.1
SOJ/SOP	9.9	6.7	5.8
PLCC	3.0	2.1	1.8
PDIP	3.0	3.0	3.4
Other	7.1	9.2	8.2
Total	100.0%	100.0%	100.0%

Interconnect Materials. Interconnect materials connect the input/output on the semiconductor dies to the printed circuit board. Interconnect materials include leadframe, which is a miniature sheet of metal, generally made of copper and silver alloys, on which the pattern of input/output leads has been cut, and substrate, which is a multi-layer miniature printed circuit board. Interconnect materials are an important element of the electrical characteristics and overall performance of semiconductors. We produce both leadframes and substrates for our packaging operations through ASE Material. In 2002, ASE Material supplied approximately one-quarter, by value, of the leadframes and one-third, by value, of the substrates used in our operations.

We expect substrates will become an increasingly important value-added component of the semiconductor packaging business. The demand for higher performance semiconductors in smaller packages will continue to spur the development of advanced substrates that can support the advancement in circuit design and fabrication. As a result, we believe that the market for substrates will grow and the cost of substrates as a percentage of the total packaging process will increase, especially for advanced packages such as flip-chip BGA packages. In the past, substrates we designed for our customers were produced by independent substrate manufacturers. In anticipation of the migration in packaging technology, we established ASE Material in 1997 to develop our capabilities in the design and production of interconnect materials for use in our packaging operations. Through ASE Material, we believe we can capture the growth opportunities in the interconnect materials business as well as reduce the production cycle time for our customers by integrating substrate design and production into our packaging services. See Risk Factors Risk Relating to Our Business If we are not successful in developing and enhancing our in-house interconnect materials capabilities, our margins and profitability may be adversely affected .

Testing

We provide a complete range of semiconductor testing services, including front-end engineering testing, wafer probing, final testing of logic/mixed-signal and memory semiconductors and other test-related services.

The testing of semiconductors requires technical expertise and knowledge of the specific applications and functions of the semiconductors tested as well as the testing equipment utilized. We believe that our testing services employ technology and expertise which are among the most advanced in the semiconductor industry. In addition to maintaining different types of testing equipment, which enables us to test a variety of semiconductor functions, we work closely with

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our customers to design effective testing and conversion programs on multiple equipment platforms for particular semiconductors.

In recent years, complex, high-performance logic/mixed-signal semiconductors have accounted for an increasing portion of our testing revenues. As the testing of complex, high-performance semiconductors requires a large number of functions to be tested using more advanced testing equipment, these products generate higher revenues per unit of testing time, as measured in central processing unit seconds.

Front-End Engineering Testing. We provide front-end engineering testing services, including customized software development, electrical design validation, and reliability and failure analysis.

Customized Software Development. Test engineers develop customized software to test the semiconductor using advanced testing equipment. A customized software, developed on specific testing platforms, is required to test the conformity of each particular semiconductor type to its unique functionality and specification.

Electrical Design Validation. A prototype of the designed semiconductor is subjected to electrical tests using advanced test equipment and customized software. These tests assess whether the prototype semiconductor complies with a variety of different operating specifications, including functionality, frequency, voltage, current, timing and temperature range.

Reliability Analysis. Reliability analysis is designed to assess the long-term reliability of the semiconductor and its suitability of use for intended applications. Reliability testing can include burn-in services, which electrically stress a device, usually at high temperature and voltage, for a period of time long enough to cause the failure of marginal devices.

Failure Analysis. In the event that the prototype semiconductor does not function to specifications during either the electrical design validation or reliability testing processes, it is typically subjected to failure analysis to determine why it did not perform as anticipated. As part of this analysis, the prototype semiconductor may be subjected to a variety of analyses, including electron beam probing and electrical testing.

Wafer Probing. Wafer probing is the step immediately before the packaging of semiconductors and involves visual inspection and electrical testing of the processed wafer for defects to ensure that it meets our customers specifications. Wafer probing services require expertise and testing equipment similar to that used in final testing, and most of our testers can also be used for wafer probing.

Logic/ Mixed-Signal Final Testing. We conduct final tests of a wide variety of logic/mixed-signal semiconductors, with the number of leads ranging from the single digits to over one thousand and operating frequencies of up to 800 MHz for digital semiconductors and 6 GHz for radio frequency semiconductors, which are at the high end of the range for the industry. The products we test include semiconductors used for networking and wireless communications, graphics and disk controllers for home entertainment and personal computer applications, as well as a variety of application specific integrated circuits for various specialized applications.

Memory Final Testing. We provide final testing services for a variety of memory products, such as SRAM, DRAM, single-bit erasable programmable read-only memory semiconductors and flash memory semiconductors.

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Other Test-Related Services. We provide a broad range of additional test-related services, including:

Burn-in Testing. Burn-in testing is the process of electrically stressing a device, usually at high temperature and voltage, for a period of time to simulate the continuous use of the device to determine whether this use would cause the failure of marginal devices.

Dry Pack. Process which involves heating semiconductors in order to remove moisture before packaging and shipping to customers.

Tape and Reel. Process which involves transferring semiconductors from a tray or tube into a tape-like carrier for shipment to customers.

Drop Shipment Services. We offer drop shipment services for shipment of semiconductors directly to end users designated by our customers. Drop shipment services are provided mostly in conjunction with logic/mixed-signal testing. We provide drop shipment services to a significant percentage of our testing customers. A substantial portion of our customers at each of our facilities have qualified these facilities for drop shipment services. Since drop shipment eliminates the additional step of inspection by the customer before shipment to the end user, quality of service is a key consideration. We believe that our ability to successfully execute our full range of services, including drop shipment services, is an important factor in maintaining existing customers as well as attracting new customers.

The following table sets forth, for the periods indicated, the percentage of our testing revenues accounted for by each type of testing service.

	Year Ended December 31,		
	2000	2001	2002
	(percentage of testing revenues)		
Testing Services:			
Front-end engineering test	4.5%	8.7%	7.4%
Wafer probe	9.9	9.0	8.9
Final test	85.6	82.3	83.7
Total	100.0%	100.0%	100.0%

Facilities

We operate a number of packaging and testing facilities in Asia and the United States. Our facilities provide varying types or levels of services with respect to different end-product focus, customers, technologies and geographic locations. Our facilities range from our large-scale turnkey facilities in Taiwan and Malaysia to our specialized Korea facility dedicated to wireless communications and automotive end-products. With our diverse facilities we are able to tailor our packaging and testing solutions closely to our customers needs. The following table sets forth the location, commencement of operation, primary use, approximate floor space of our facilities as of December 31, 2002.

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Facility	Location	Commencement of Operation	Primary Use	Approximate Floor Space (in sq. ft.)
ASE Inc. s facility in Kaohsiung, Taiwan	Kaohsiung, Taiwan	March 1984	Our primary packaging facility. Offers complete semiconductor manufacturing solutions in conjunction with ASE Test Taiwan and foundries located in Taiwan. Focuses primarily on advanced BGA and quad flat packages for integrated device manufacturers, fabless design companies and system companies.	2,160,000
ASE Test, Inc.	Kaohsiung, Taiwan Chung Li, Taiwan	December 1987	Our primary testing facility. Offers complete semiconductor solutions in conjunction with ASE Inc. s facility in Kaohsiung and foundries located in Taiwan. Focuses primarily on advanced logic/mixed-signal testing for integrated device manufacturers, fabless design companies and system companies.	750,000
ASE Material	Kaohsiung, Taiwan Chung Li, Taiwan	December 1997	Design and production of interconnect materials such as leadframes and substrates used in packaging of semiconductors.	690,000
ASE Test Malaysia	Penang, Malaysia	February 1991	An integrated packaging and testing facility which focuses primarily on the requirements of integrated device manufacturers and system companies.	650,000
ASE Chung Li[(1)]	Chung Li, Taiwan	April 1985	An integrated packaging and testing facility which specializes in semiconductors for communications applications, particularly those incorporating Motorola s proprietary Map BGA technology.	900,000
ASE Korea[(2)]	Paju, Korea	March 1967	An integrated packaging and testing facility which specializes in semiconductors for radio frequency, sensor and automotive applications.	470,000
ISE Labs[(3)]	Fremont, California Hong Kong Singapore	November 1983	Front-end engineering and final testing facilities located in northern California in close proximity to several of the world s largest fabless design companies. Testing facilities located in close proximity to integrated device manufacturers and fabless companies in Hong Kong and Southeast Asia.	370,000
ASE Holding Electronics (Philippines) Inc., also called ASE Philippines	Cavite, Philippines	November 1995	Focuses primarily on the packaging of commodity semiconductor products for integrated device	130,000

	manufacturers in the Philippines.

(1) We acquired a 70.0% interest in ASE Chung Li and ASE Test acquired the remaining 30.0% interest in July 1999. As of March 31, 2003, we held a 72.4% interest in ASE Chung Li and ASE Test held a 27.6% interest in ASE Chung Li.

(2) We acquired a 70.0% interest in ASE Korea and ASE Test acquired the remaining 30.0% interest in July 1999.

(3) We acquired a 70.0% interest in ISE Labs in May 1999, which was subsequently increased to 80.4% following ASE Test s purchase of additional shares of ISE Labs in 2000. In January 2002, we purchased the remaining outstanding shares of ISE Labs.

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Our Consolidated Subsidiaries

ASE Test

ASE Test is the largest independent testing company in the world, providing a complete range of semiconductor testing services to leading international semiconductor companies. ASE Test also provides semiconductor packaging services. ASE Test has testing operations in Taiwan, the United States, Hong Kong and Singapore, and also maintains testing and packaging operations in Malaysia.

ASE Test was incorporated in 1995 and its ordinary shares have been quoted for trading on the Nasdaq National Market since June 1996 under the symbol ASTSF . ASE Test s Taiwan depositary shares representing its ordinary shares have been listed for trading on the Taiwan Stock Exchange under the symbol 9101 since January 1998. As of March 31, 2003, we held 50.5% of the outstanding shares of ASE Test.

ASE Test is a holding company incorporated in Singapore whose significant assets are its ownership interests in the following operating companies as of March 31, 2003:

100% of ASE Test, Inc., also called ASE Test Taiwan;

100% of ASE Test Malaysia;

100% of ISE Labs;

27.6% of ASE Chung Li (the remaining 72.4% of which is owned by ASE Inc.); and

30% of ASE Korea (the remaining 70% of which is owned by ASE Inc.).

In 2002, ASE Test recorded net revenues of US$302.0 million, an operating loss of US$76.0 million and a net loss of US$81.3 million. In 2001, ASE Test recorded net revenues of US$298.5 million, an operating loss of US$24.1 million and a net loss of US$45.8 million.

ASE Material

ASE Material, which is a ROC company, was established in 1997 for the design and production of interconnect materials, such as leadframes and substrates, used in the packaging of semiconductors. See Business Strategy Continue to Focus on Advanced Technological, Processing and Materials Capabilities . ASE Material currently supplies our packaging facilities in Kaohsiung, Taiwan with a substantial portion of our leadframe and substrate requirements. See Raw Materials and Suppliers Packaging . As of March 31, 2003, we held 60.6% of the outstanding shares of ASE Material, comprising 56.6% held by ASE Inc. and 4.0% held by ASE Test Taiwan. The remaining shares of ASE Material are owned by the management and employees of ASE Material, the management and employees of ASE Inc. and its affiliates, as well as a strategic investor. The supervisor and two of the five directors of ASE Material are representatives of ASE Inc. and one director is a representative of ASE Test Taiwan. The remaining two directors of ASE Material are Jason C.S. Chang, our Chairman, and Richard H.P. Chang, our Vice Chairman, Chief Executive Officer and President, serving in their individual capacities.

ASE Material s facilities are located in the Nantze Export Processing Zone near our packaging and testing facilities in Kaohsiung, and in Chung Li, Taiwan. In 2002, ASE Material recorded net revenues of NT$3,136.4 million (US$90.4 million), an operating loss of NT$583.6 million (US$16.8 million) and a net loss of NT$854.3 million (US$24.6 million). In 2001, ASE Material recorded net revenues of NT$2,458.4 million, operating income of NT$273.5 million and net income of NT$181.6 million. Substantially all of ASE Material s sales are to us and our affiliates. Accordingly, substantially all of its sales and net income are eliminated in the preparation of our consolidated financial statements.

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Our Unconsolidated Affiliates

As of March 31, 2003, we held approximately 23.5% of the outstanding shares of Universal Scientific and 26.4% of the outstanding shares of Hung Ching.

Universal Scientific

Universal Scientific, which is a ROC company, manufactures electronics products in varying degrees of system integration principally on a contract basis for original equipment manufacturers, including:

- electronic components such as thick film mixed-signal devices, thick film resistors, high frequency devices and automotive and power electronic devices;
- board and sub-system assemblies such as customized surface mount technology board assemblies, mother boards for personal computers, wireless local area network cards and fax control boards; and
- system assemblies such as portable computers, desktop personal computers, network computers and servers.

We are the largest shareholder in Universal Scientific and six out of the nine directors on its board of directors, including the chairman, are representatives of ASE Inc.

Universal Scientific s principal manufacturing facilities are located in Nantou, Taiwan. In 2002, Universal Scientific recorded net revenues of NT$28,310.0 million (US$815.9 million), operating income of NT$638.5 million (US$18.4 million) and net income of NT$276.0 million (US$8.0 million). In 2001, Universal Scientific recorded net revenues of NT$28,866.6 million, operating income of NT$1,157.7 million and a net loss of NT$163.1 million. The shares of Universal Scientific are listed on the Taiwan Stock Exchange. As of March 31, 2003, Universal Scientific had a market capitalization of NT$6,644.0 million (US$191.4 million).

Hung Ching

Hung Ching, which is a ROC company, is engaged in the development and management of commercial, residential and industrial real estate properties in Taiwan. Hung Ching s completed development projects include the ASE Design Center commercial project and the Earl Village residential project, both located in Hsichih, Taiwan. Hung Ching was founded in 1986 by Chang Yao Hung-ying. Chang Yao Hung-ying is the mother of both Jason C.S. Chang, our Chairman, and Richard H.P. Chang, our Vice Chairman, Chief Executive Officer and President, and is a director of ASE Inc. Jason C.S. Chang, Richard H.P. Chang, Chang Yao Hung-ying and other members of the Chang family are controlling shareholders of Hung Ching.

In 2002, Hung Ching recorded net revenues of NT$235.1 million (US$6.8 million), an operating loss of NT$177.8 million (US$5.1 million) and a net loss of NT$512.7 million (US$14.8 million). In 2001, Hung Ching recorded net revenues of NT$1,784.1 million, an operating income of NT$12.2 million and a net loss of NT$811.3 million. The shares of Hung Ching are listed on the Taiwan Stock Exchange. As of March 31, 2003, Hung Ching had a market capitalization of NT$1,046.8 million (US$30.2 million).

Sales and Marketing

Sales and Marketing Offices

We maintain sales and marketing offices in Taiwan, the United States, Europe and Malaysia. Our Hsinchu and Kaohsiung offices in Taiwan are staffed with employees from both ASE Inc. and ASE Test Taiwan. In addition, the sales agent for our packaging and testing services maintains sales and marketing offices in Austria, Belgium, Germany, Japan, Korea, Malaysia and the United

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States. We conduct marketing research through our customer service personnel and those of our sales agent and through our relationships with our customers and suppliers to keep abreast of market trends and developments. We also provide advice in the area of production process technology to our major customers planning the introduction of new products. In placing orders with us, our customers specify which of our facilities these orders will go to. Our customers conduct separate qualification and correlation processes for each of our facilities that they use. See Sales and Marketing Qualification and Correlation by Customers .

Sales and Customer Service Agents

Under commission agreements, each of ASE Inc., ASE Test Taiwan, ASE Korea, ASE Chung Li and ASE Test Malaysia has appointed Gardex International Limited, or Gardex, as the non-exclusive sales agent for its services and products worldwide, excluding Asia. Gardex helps us identify customers, monitor delivery acceptance and payment by customers and, within parameters set by us, negotiate price, delivery and other terms with our customers. Purchase orders are placed directly with us by our customers. We pay Gardex a commission of between 0.5% and 1.0% of our sales outside of Asia, payable monthly, depending on the amount of these sales. In 2001 and 2002, we paid US$5.9 million and US$5.6 million, respectively, in commission to Gardex.

Under service agreements, each of ASE Inc., ASE Test Taiwan, ASE Korea, ASE Chung Li and ASE Test Malaysia has appointed ASE (U.S.) Inc. as its non-exclusive agent to provide customer service and after-sales support to its customers in Europe and North America. We pay ASE (U.S.) Inc. a monthly fee based on its monthly associated costs and expenses plus a commission set by reference to the lower of a percentage of sales or a fixed fee. In 2001 and 2002, we paid US$15.8 million and US$15.6 million, respectively, in fees and service charges to ASE (U.S.) Inc.

Both Gardex and ASE (U.S.) Inc. are wholly owned by Y.C. Hsu, who has had a long personal relationship with Jason C.S. Chang, our Chairman, that pre-dates the founding of our company. We have maintained business relationships with Gardex, ASE (U.S.) Inc. and their predecessors since 1985. Gardex and ASE (U.S.) Inc. currently perform services only for us.

Customers

Our global base of over 200 customers includes leading semiconductor companies across a wide range of end-use applications:

Advanced Micro Devices, Inc.
Altera Corporation
ATI Technologies Inc.
Conexant Systems, Inc.
IBM Corporation
Koninklijke Philips Electronics N.V.
LSI Logic Corporation
Motorola, Inc.
NVIDIA Corporation
ON Semiconductor Corp.
Qualcomm Incorporated
RF Micro Devices, Inc.
Silicon Integrated Systems Corp.
STMicroelectronics N.V.
VIA Technologies, Inc.

Our five largest customers together accounted for approximately 44%, 41% and 40% of our net revenues in 2000, 2001 and 2002, respectively. Other than Motorola, Inc. and VIA Technologies, Inc. in 2000 and 2001 and Motorola, Inc. in 2002, no customer accounted for more than 10% of our net revenues in 2000, 2001 and 2002.

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We package and test for our customers a wide range of products with end-use applications in the communications, personal computers, consumer electronics, industrial and automotive sectors. The following table sets forth a breakdown of the percentage of our net revenues, for the periods indicated, by the principal end-use applications of the products which we packaged and tested.

	Year Ended December 31,	
	2001	2002
End-Use Applications:		
Communications	36.0%	34.4%
Personal computers	35.5	35.4
Consumer electronics/industrial/automotive	27.7	28.8
Other	0.8	1.4
Total	100.0%	100.0%

Many of our customers are leaders in their respective end-use markets. For example, we provide Motorola, an industry leader in automotive and wireless communications semiconductor products, with most of its outsourced packaging and testing requirements. The following table sets forth some of our largest customers, in alphabetical order, categorized by the principal end-use applications of the products which we package and test for them.

Communications	Personal Computers	Consumer Electronics/ Industrial/Automotive
Advanced Micro Devices, Inc.	Advanced Micro Devices, Inc.	Altera Corporation
Conexant Systems, Inc.	ATI Technologies, Inc.	LSI Logic Corporation
Koninklijke Philips Electronics N.V.	IBM Corporation	Motorola, Inc.
Motorola, Inc.	NVIDIA Corporation	ON Semiconductor Corp.
Qualcomm Incorporated	Silicon Integrated Systems Corp.	STMicroelectronics N.V.
RF Micro Devices, Inc.	VIA Technologies, Inc.	
STMicroelectronics N.V.	Winbond Electronics Corporation	

We categorize our packaging and testing revenues geographically based on the country in which the customer is headquartered. The following table sets forth, for the periods indicated, the percentage breakdown by geographic regions of our packaging and testing revenues.

	Year Ended December 31,		
	2000	2001	2002
North America	65.0%	65.0%	59.1%
Taiwan	24.8	26.7	24.9
Europe	3.8	3.9	6.1
Others	6.4	4.4	9.9
Total	100.0%	100.0%	100.0%

In 2002, approximately 83% of the testing revenues of ASE Test Taiwan and 79% of the testing revenues of ASE Test Malaysia were accounted for by the testing of semiconductors packaged at our packaging facilities in Kaohsiung, Taiwan and Malaysia, respectively. The balance represented testing revenues from customers who delivered packaged semiconductors directly to ASE Test Taiwan or ASE Test

Malaysia for testing. In 2002, approximately 34% of our packaging revenues in Kaohsiung, Taiwan and 62% of our packaging revenues in Malaysia were accounted for by the packaging of semiconductors which were subsequently tested at ASE Test Taiwan and ASE Test Malaysia, respectively. We expect that more customers of our packaging

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facilities in Kaohsiung, Taiwan and Malaysia will begin to contract for our packaging and testing services on a turnkey basis.

Qualification and Correlation by Customers

Customers generally require that our facilities undergo a stringent qualification process during which the customer evaluates our operations and production processes, including engineering, delivery control and testing capabilities. The qualification process typically takes up to eight weeks, but can take longer depending on the requirements of the customer. In the case of our testing operations, after we have been qualified by a customer and before the customer delivers semiconductors to us for testing in volume, a process known as correlation is undertaken. During the correlation process, the customer provides us with sample semiconductors to be tested and either provides us with the test program or requests that we develop a conversion program. In some cases, the customer also provides us with a data log of results of any testing of the semiconductors which the customer may have conducted previously. The correlation process typically takes up to two weeks, but can take longer depending on the requirements of the customer. We believe our ability to provide turnkey services reduces the amount of time spent by our customers in the qualification and correlation process. As a result, customers utilizing our turnkey services are able to achieve shorter production cycles.

Pricing

We price our packaging services primarily on a cost-plus basis with reference to prevailing market prices. We price our testing services primarily on the basis of the amount of time, measured in central processing unit seconds, taken by the automated testing equipment to execute the test programs specific to the products being tested, as well as the cost of the equipment, with reference to prevailing market prices. Prices for our packaging and testing services are confirmed at the time firm orders are received from customers, which is typically four to eight weeks before delivery.

Raw Materials and Suppliers

Packaging

The principal raw materials used in our packaging processes are interconnect materials such as leadframes and substrates, gold wire and molding compound. Interconnect materials, such as leadframes and substrates, gold wire and molding compound represented approximately 57.5%, 21.2% and 9.6%, respectively, of our total cost of packing materials in 2002.

The silicon die, which is the functional unit of the semiconductor to be packaged, is supplied in the form of silicon wafers. Each silicon wafer contains a number of identical dies. We receive the wafers from the customers or the foundries on a consignment basis. Consequently, we generally do not incur inventory costs relating to the silicon wafers used in our packaging process.

We do not maintain large inventories of leadframes, substrates, gold wire or molding compound, but generally maintain sufficient stock of each principal raw material for approximately one month s production based on blanket orders and rolling forecasts of near-term requirements received from customers. In addition, several of our principal suppliers dedicate portions of their inventories, typically in amounts equal to the average monthly amounts supplied to us, as reserves to meet our production requirements. However, shortages in the supply of materials experienced by the semiconductor industry have in the past resulted in occasional price adjustments and delivery delays. For example, in 1999 and first half of 2000, the industry experienced a shortage in the supply of advanced substrates used in BGA packages, which, at the time, were only available from a limited number of suppliers located primarily in Japan. In these instances, we generally negotiate an extension of the delivery date from our

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customers. See Strategy Continue to Focus on Advanced Technological, Processing and Materials Capabilities .

Testing

Apart from packaged semiconductors, no other raw materials are needed for the functional and burn-in testing of semiconductors. For the majority of our testing equipment, we often base our purchases on prior discussions with our customers about their forecast requirements. The balance consists of testing equipment on consignment from customers and which are dedicated exclusively to the testing of these customers specific products.

Equipment

Packaging

The most important equipment used in the semiconductor packaging process is the wire bonder. The number of wire bonders at a given facility is commonly used as a measure of the packaging capacity of the facility. The wire bonders connect the input/output terminals on the silicon die using extremely fine gold wire to leads on leadframes or substrates. Typically, wire bonders may be used, with minor modifications, for the packaging of different products. We purchase our wire bonders principally from Kulicke & Soffa Industries Inc. As of December 31, 2002, we operated an aggregate of 4,393 wire bonders, of which 3,109 were fine-pitch wire bonders and 21 were consigned by customers, respectively. In addition to wire bonders, we maintain a variety of other types of packaging equipment, such as wafer grind, wafer mount, wafer saw, die bonders, automated molding machines, laser markers, solder plate, pad printers, dejunkers, trimmers, formers, substrate saw and scanners.

Testing

Testing equipment is the most capital intensive component of the testing process. We generally seek to purchase testers from different suppliers with similar functionality and the ability to test a variety of different semiconductors. We purchase testing equipment from major international manufacturers, including Advantest Corporation, Agilent Technologies, Inc., Credence Systems Corporation, LTX Corporation, NP Test Inc. and Teradyne, Inc. Upon acquisition of new testing equipment, we install, configure, calibrate, perform burn-in diagnostic tests on and establish parameters for the testing equipment based on the anticipated requirements of existing and potential customers and considerations relating to market trends. As of December 31, 2002, we operated an aggregate of 1,066 testers, 162 of which were consigned by customers. In addition to testers, we maintain a variety of other types of testing equipment, such as automated handlers and probers (special handlers for wafer probing), scanners, re-formers and computer workstations for use in software development. Each tester may be attached to a handler or prober. Handlers attach to testers and transport individual packaged semiconductor to the tester interface. Probers similarly attach to the tester and align each individual die on a wafer with the interface to the tester.

Test programs, which are the software that drive the testing of specific semiconductors, are written for a specific testing platform. We often perform test program conversions that enable us to test semiconductors on multiple test platforms. This portability between testers enables us to allocate semiconductors tested across our available test capabilities and thereby improve capacity utilization rates. In cases where a customer requires the testing of a semiconductor product that is not yet fully developed, the customer may provide personal computer workstations to us to test specific functions. In cases where a customer has specified testing equipment that was not widely applicable to other products which we test, we have required the customer to furnish the equipment on a consignment basis.

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Research and Development

For 2000, 2001 and 2002, our research and development expenditures totaled approximately NT$1,262.5 million, NT$1,504.5 million and NT$2,049.0 million (US$59.0 million), respectively. These expenditures represented approximately 2.5%, 3.9% and 4.5% of net revenues in 2000, 2001 and 2002, respectively. We have historically expensed all research and development costs as incurred and none is currently capitalized. As of December 31, 2002, we employed 1,561 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 2002, ASE Material supplied approximately one-third 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.

Intellectual Property

As of December 31, 2002, we held 220 Taiwan patents and 88 U.S. patents related to various semiconductor packaging technologies. In addition, we registered ASE as a trademark and as a servicemark in Taiwan.

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We have also entered into various non-exclusive technology license agreements with other companies involved in the semiconductor manufacturing process, including Tessera Inc., Fujitsu Limited, Flip Chip Technologies, Motorola, Inc. and LSI Logic Corporation. We paid royalties under these license agreements in the amount of NT$199.8 million, NT$151.2 million and NT$176.7 million (US$5.1 million) in 2000, 2001 and 2002, respectively. The technology we license from these companies includes solder bumping, redistribution, ultraCSP assembly and other technologies used in the production of package types, such as BCC, flip-chip BGA and film BGA. The license agreement with Tessera Inc. will not expire until the expiration of the Tessera Inc. patents licensed by the agreement. The license agreements with Motorola and Fujitsu Limited expired on December 31, 2002 and April 13, 2003, respectively, and we are in the process of negotiating the renewal of these license agreements with Motorola and Fujitsu, respectively. The license agreements with Flip Chip Technologies and LSI Logic Corporation will expire on March 1, 2009 and January 1, 2010, respectively.

Quality Control

We believe that our advanced process technology and reputation for high quality and reliable services have been important factors in attracting and retaining leading international semiconductor companies as customers for our packaging and testing services. We have maintained an average packaging yield rate of 99.8% or greater in each of the last three years. We maintain a quality control staff at each of our facilities. Our quality control staff typically includes engineers, technicians and other employees who monitor packaging and testing processes in order to ensure high quality. Our quality assurance systems impose strict process controls, statistical in-line monitors, supplier control, data review and management, quality controls and corrective action systems. Our quality control employees operate quality control stations along production lines, monitor clean room environment and follow up on quality through outgoing product inspection and interaction with customer service staff. We have established quality control systems which are designed to ensure high quality service to customers, high product and testing reliability and high production yields at our facilities. In addition, our packaging and testing facilities have been qualified by all of our major customers after satisfying stringent quality standards prescribed by these customers.

Our packaging and testing operations are undertaken in clean rooms where air purity, temperature and humidity are controlled. To ensure stability and integrity of our operations, we maintain clean rooms at our facilities that meet U.S. Federal 209E class 1,000, 10,000 and 100,000 standards. All of our facilities have been certified as meeting the ISO 9002 quality standards by the International Standards Organization, or ISO. In addition, our packaging facilities in Kaohsiung and Chung Li have been certified as meeting the ISO 9001 quality standards and our facilities in Taiwan, Korea, Malaysia and the Philippines have been certified as meeting the ISO 14001 quality standards. The ISO certifications are required by many countries in connection with sales of industrial products in these countries. Our facilities in Taiwan, Korea, Malaysia and the Philippines have also been certified as meeting the Quality System 9000, also known as QS-9000, quality standards. The QS-9000 quality standards provide for continuous improvement with an emphasis on the prevention of defects and reduction of variation and waste in the supply chain. Like the ISO 9002 certification, the QS-9000 certification is required by some semiconductor manufacturers as a threshold indicating a company s quality control standards. Furthermore, our testing and packaging facilities in Kaohsiung have received the SAC Level-1 certification for quality assurance from the Semiconductor Assembly Council. The Semiconductor Assembly Council is an organization of semiconductor manufacturers, subcontractors, end-users, materials and service providers established to certify subcontract quality systems and process control practices. In addition, we have received various vendor awards from our customers for the quality of our products and services.

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Competition

We compete in the highly competitive independent semiconductor packaging and testing markets. We face competition from a number of sources, including other independent semiconductor packaging and testing companies, especially those that also offer turnkey packaging and testing services. More importantly, we compete for the business of integrated device manufacturers with in-house packaging and testing capabilities and fabless semiconductor design companies with their own in-house testing capabilities. Some of these integrated device manufacturers have commenced, or may commence, in-house packaging and testing operations in Asia. Furthermore, several independent packaging and testing companies have established their packaging operations in Taiwan.

Integrated device manufacturers that use our services continuously evaluate our performance against their own in-house packaging and testing capabilities. These integrated device manufacturers may have access to more advanced technologies, and greater financial and other resources than we do. We believe, however, that we can offer greater efficiency and lower costs while maintaining equivalent or higher quality for several reasons. First, as we benefit from specialization and economies of scale by providing services to a large base of customers across a wide range of products, we are better able to reduce costs and shorten production cycles through high capacity utilization and process expertise. Second, as a result of our customer base and product offerings, our equipment generally has a longer useful life. Third, as a result of the continuing reduction of investments in in-house packaging and testing capacity and technology at integrated device manufacturers, we are better positioned to meet the advanced packaging and testing requirements on a large scale.

Environmental Matters

Our packaging and interconnect materials operations generate environmental wastes, including gaseous chemical, liquid and solid industrial wastes. We have installed various types of anti-pollution equipment for the treatment of liquid and gaseous chemical waste, generated at all of our semiconductor packaging facilities. We believe that we have adopted adequate anti-pollution measures for the effective maintenance of environmental protection standards that are consistent with the industry practice in the countries in which our facilities are located. In addition, we believe we are in compliance in all material respects with present environmental laws and regulations applicable to our operations and facilities.

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Employees

The following table sets forth certain information concerning our employees for the dates indicated:

	As of December 31,		
	2000	2001	2002
Total	18,121	15,681	20,401
Function			
Direct labor	12,011	9,690	13,059
Indirect labor (manufacturing)	3,577	3,366	4,264
Indirect labor (administration)	1,370	1,350	1,517
Research and development	1,163	1,275	1,561
Location			
Taiwan	12,430	10,811	15,061
Malaysia	3,407	2,854	3,140
Korea	965	885	1,305
United States	523	438	361
Philippines	568	571	461
Singapore	104	68	65
Hong Kong	124	54	8

Eligible employees may participate in the ASE Inc. Employee Share Bonus Plan and the ASE Test Share Option Plans. See Management Compensation of Directors, Supervisors and Executive Officers ASE Inc. Employee Bonus Plan and Stock Option Plans and Management Compensation of Directors, Supervisors and Executive Officers ASE Test Share Option Plans .

With the exception of ASE Korea s employees, our employees are not covered by any collective bargaining arrangements. We believe that our relationship with our employees is good.

Legal Proceedings

We are not involved in material legal proceedings the outcome of which we believe would have a material adverse effect on us.

Criminal charges were brought in December 1998 by the district attorney for Taipei against Jason C.S. Chang, Richard H.P. Chang, Chang Yao Hung-ying and four others for alleged breach of fiduciary duties owed to Hung Ching, an affiliate of ASE Inc., in their capacity as directors and officer of Hung Ching in connection with a land sale transaction in 1992 valued at approximately NT$1.7 billion. ASE Inc. is not a party to these proceedings and we do not expect that these charges will result in any liability to us. It was alleged that the transaction in which Jason C.S. Chang sold the land to Hung Ching unfairly benefited Jason C.S. Chang to the detriment of Hung Ching. Hung Ching at that time was a privately-owned company whose principal shareholders were members of the Chang family. Ancillary charges were brought against Jason C.S. Chang, Chang Yao Hung-ying and another person for alleged forgery of Hung Ching board resolutions relating to that transaction. In January 2001, the District Court of Taipei rendered a judgment finding Jason C.S. Chang and Chang Yao Hung-ying guilty of forgery of corporate and other documents and breach of fiduciary duties and Richard H.P. Chang not guilty. In January 2002, the High Court of Taiwan, ROC rendered a judgment relating to the appeal of the judgment by the District Court, and found Jason C.S. Chang and Chang Yao Hung-ying guilty and Richard H.P. Chang not guilty, and reduced the sentences rendered by the District Court relating to Jason C.S. Chang and Chang Yao Hung-ying from six years to four years and three years, respectively. In order to comply with the particular requirements of the Singapore Companies Act, Jason C.S. Chang and Chang Yao Hung-ying have both resigned as directors of ASE Test.

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Neither Jason C.S. Chang nor Chang Yao Hung-ying believes that he or she committed any offense in connection with such transactions, and they appealed the decision to the Supreme Court of Taiwan, ROC. On January 23, 2003, the Supreme Court reversed the judgment of the High Court with respect to Jason C.S. Chang and Chang Yao Hung-ying and remanded the case to the High Court for retrial. If a final adverse judgment is rendered against Jason C.S. Chang and Chang Yao Hung-ying, they may be required under ROC law to resign as directors of ASE Inc., and Jason C.S. Chang may be required to resign as Chairman of ASE Inc. See Risks Factors Risks Relating to Our Business We depend on select personnel and could be affected by the loss of their services .

Insurance

We have insurance policies covering property damage and damage to our production facilities, buildings and machinery due to fire. In addition, we have insurance policies covering our liabilities in connection with certain accidents. Significant damage to any of our production facilities, whether as a result of fire or other causes, would have a material adverse effect on our results of operations. We are not insured against the loss of key personnel.

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MANAGEMENT

Directors

Our board of directors is elected by our shareholders in a general meeting at which a quorum, consisting of a majority of all issued and outstanding common shares, is present. The Chairman is elected by the board from among the directors. Our seven-member board of directors is responsible for the management of our business.

The term of office for our directors is three years from the date of election. The current board of directors began serving on July 11, 2000. The terms of the current directors will expire on July 10, 2003. Directors may serve any number of consecutive terms and may be removed from office at any time for a valid reason by a resolution adopted at a general meeting of shareholders. Normally, all board members are elected at the same time, except where the posts of one-third or more of the directors are vacant, at which time a special meeting of shareholders shall be convened to elect directors to fill the vacancies.

The following table sets forth the name of each of our directors, his or her position in ASE Inc., the year they were elected as director and other significant positions of our affiliates held by them.

Name	Position	Director Since	Age	Other Significant Positions Held
Jason C.S. Chang(1)	Director and Chairman	1984	58	Chairman of ASE Test Taiwan
Richard H.P. Chang(1)	Director, Vice Chairman, Chief Executive Officer and President	1984	56	Chairman of ASE Test; Chairman of Universal Scientific
Leonard Y. Liu(2)	Director	2000	61	Director of ASE Test and Universal Scientific
Joseph Tung(2)	Director and Chief Financial Officer	1997	44	Supervisor of Universal Scientific; Director of ASE Test
Chang Yao Hung-ying(1)(2)	Director	1984	80	Director of ASE Test Taiwan
Chin Ko-Chien(2)	Director and Executive Vice President	1997	56	Director of ASE Test
David Pan(2)	Director	1997	58	Director and President of ASE Test

(1) Chang Yao Hung-ying is the mother of both Jason C.S. Chang and Richard H.P. Chang.

(2) Representative of ASE Enterprises Limited, a company organized under the laws of Hong Kong, which held 19.3% of our outstanding common shares as of December 31, 2002. All of the outstanding shares of ASE Enterprises Limited are held by a company organized under the laws of the British Virgin Islands in trust for the benefit of Chang Yao Hung-ying, the mother of Jason C.S. Chang, our Chairman, and Richard H.P. Chang, our Vice Chairman, Chief Executive Officer and President. Jason C.S. Chang is the sole shareholder and director of that company.

Supervisors

We currently have five supervisors, each serving a three-year term. Supervisors are typically elected at the time that directors are elected. The current supervisors began serving on June 1, 2001, and their terms will expire on May 31, 2004. The supervisors duties and powers include investigation of our business condition, inspection of our corporate records, verification and review of financial statements presented by our board of directors at shareholders meetings, convening of shareholders meetings, representing us in negotiations with our directors and notification, when appropriate, to the board of directors to cease acting in contravention of any applicable law or regulation or in contravention of our Articles of Incorporation. Each supervisor

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is elected by our shareholders and cannot concurrently serve as a director, managerial officer or other staff member. The ROC Company Law requires at least one supervisor be appointed at all times, or two supervisors for a company with publicly issued equity shares, and that a supervisor s term of office be no more than three years.

The following table sets forth the name of each of our supervisors, the year they were elected as supervisor and other significant positions of our affiliates held by them.

Name	Position	Supervisor Since	Age	Other Significant Positions Held
Feng Mei-Jean(1)	Supervisor	1984	48	Supervisor of ASE Chung Li
Yen-Yi Tseng(2)	Supervisor	2000	61	Chairman of Hung Ching
Alan Cheng(2)	Supervisor	1997	57	Director of ASE Test
John Ho(2)	Supervisor	1998	47	Director of Universal Scientific
Raymond Lo(2)	Supervisor	2000	48	President of ASE Test Taiwan

(1) Feng Mei-Jean is the wife of Richard H.P. Chang.
(2) Representative of ASE Enterprises Limited.

In accordance with ROC law, each of our directors and supervisors is elected either in the capacity as an individual or as an individual representative of a corporation or government. Persons designated to represent corporate or government shareholders as directors are typically nominated by such shareholders at the annual general meeting. Of the current directors and supervisors, nine represent ASE Enterprises Limited. The remaining directors