NATIONAL AUSTRALIA BANK LTD
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON DC 20549

FORM 6-K

REPORT OF FOREIGN ISSUER

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

For the month of March 2007

National Australia Bank Limited

ACN 004 044 937
(Registrant s Name)

Level 24
500 Bourke Street
MELBOURNE VICTORIA 3000
AUSTRALIA

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F x Form 40-F o

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No x

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82

Group Corporate Affairs
500 Bourke Street, Melbourne
Victoria 3000
Australia

www.nabgroup.com

ABN 12 004 044 937

ASX Announcement

Thursday 22 February 2007

Bank of New Zealand General Disclosure Statement

National Australia Bank Ltd today released the General Disclosure Statement for the Bank of New Zealand. This is prepared quarterly to meet a regulatory requirement.

For further information:

Brandon Phillips
Group Manager, External Relations
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Bank of New Zealand

General Short Form Disclosure Statement

For the three months ended 31 December 2006

No. 44

General Short Form Disclosure Statement

For the three months ended 31 December 2006

This General Short Form Disclosure Statement has been issued by Bank of New Zealand for the three months ended 31 December 2006 in accordance with the Registered Bank Disclosure Statement (Off-Quarter New Zealand Incorporated Registered Banks) Order 2005 (the Order).

In this General Short Form Disclosure Statement, unless the context otherwise requires:

a) Banking Group means Bank of New Zealand and all of its controlled entities; and

b) Words and phrases defined by the Order have the same meanings.

Contents

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Bank of New Zealand Corporate Information

Address for Service

The name of the Registered Bank is Bank of New Zealand (referred to either by its full name or as the Bank or the Company) and its address for service is Level 14, BNZ Tower, 125 Queen Street, Auckland, New Zealand.

Details of Incorporation

The Bank was incorporated on 29 July 1861 under The New Zealand Bank Act 1861. On 14 March 1989, the Bank became, by virtue of an Order in Council made pursuant to section 4 of the Bank of New Zealand Act 1988, a company limited by shares incorporated and registered under the Companies Act 1955. On 24 March 1997, the Bank was reregistered under the Companies Act 1993.

Voting Securities and Power to Appoint Directors

National Australia Group (NZ) Limited, National Australia Bank Limited and National Equities Limited are the only holders of a direct or indirect qualifying interest in the voting securities of the Bank. There are 2,470,997,499 voting securities of the Bank. National Australia Group (NZ) Limited is the registered and beneficial holder of 2,470,997,499 voting securities. Neither National Australia Bank Limited (the ultimate parent company) nor National Equities Limited (the immediate parent company of National Australia Group (NZ) Limited) is the registered or the beneficial holder of any of the voting securities of the Bank but each has a relevant interest in all of such securities by virtue of National Australia Group (NZ) Limited being related to them in terms of section 5(7) of the Securities Markets Act 1988.

The ultimate parent company has the power under the Bank s constitution to appoint any person as Director of the Bank or to remove any person from the office of Director, from time to time by giving written notice to the Bank. All appointments of Directors must be approved by the Reserve Bank of New Zealand.

Guarantors

The material obligations of the Bank are not guaranteed.

Insurance Business

The Banking Group does not conduct any Insurance Business, as defined in clause 3(i) of Bank of New Zealand s Conditions of Registration set out on pages 31 and 32.

Ultimate Parent Bank

Ultimate Parent Bank and Address for Service

The ultimate parent bank of Bank of New Zealand is National Australia Bank Limited whose address for service is Level 35, 500 Bourke Street, Melbourne, Victoria 3000, Australia.

Legally Enforceable Restrictions that may Materially Inhibit National Australia Bank Limited s Legal Ability to Provide Material Financial Support to Bank of New Zealand

National Australia Bank Limited does not guarantee the obligations of Bank of New Zealand.

Pursuant to the Banking Act 1959 (Cth), the Australian Prudential Regulation Authority has issued a legally enforceable prudential standard which restricts associations between an authorised deposit-taking institution (such as National Australia Bank Limited) and its related entities.

Any provision of material financial support to Bank of New Zealand by National Australia Bank Limited would need to comply with the following pertinent requirements of the prudential standard:

1. National Australia Bank Limited should not undertake any third-party dealings with the prime purpose of supporting the business of Bank of New Zealand. National Australia Bank Limited must avoid giving any impression of its support unless there are formal legal arrangements in place providing for such support.

2. National Australia Bank Limited should not hold unlimited exposures to Bank of New Zealand.

3. National Australia Bank Limited should not enter into cross-default clauses whereby a default by Bank of New Zealand on an obligation (whether financial or otherwise) is deemed to trigger a default of National Australia Bank Limited in its obligations.

4. In determining limits on acceptable levels of exposure to Bank of New Zealand, the Board of Directors of National Australia Bank Limited should have regard to the level of exposures which would be approved for unrelated entities of broadly equivalent credit status, and the impact on National Australia Bank Limited s stand-alone capital and liquidity positions, as well as its ability to continue operating, in the event of a failure of any related entity to which National Australia Bank Limited is exposed.

5. National Australia Bank Limited s exposure to Bank of New Zealand cannot exceed 50% of National Australia Bank Limited s stand-alone capital base, and its aggregate exposure to all related authorised deposit-taking institutions cannot exceed 150% of that capital base. Exposures in excess of these limits require the prior approval of the Australian Prudential Regulation Authority.

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The Australian Prudential Regulation Authority has broad powers under the Banking Act 1959 (Cth) to give legally enforceable directions to National Australia Bank Limited in circumstances, for example, where it considers that National Australia Bank Limited has not complied with prudential standards or that it is in the interests of National Australia Bank Limited s deposit holders to do so. In the event that National Australia Bank Limited becomes unlikely to be able to meet its obligations or is about to suspend payments, the Australian Prudential Regulation Authority has the power to take control of National Australia Bank Limited s business or appoint an administrator to National Australia Bank Limited s affairs.

The priority of the creditors of National Australia Bank Limited in the event that National Australia Bank Limited is unable to meet its obligations is governed by various Australian laws, including the Banking Act 1959 (Cth). That Act provides that the assets of National Australia Bank Limited in Australia are to be available to meet its deposit liabilities in Australia in priority to all other liabilities.

Directorate

Communications addressed to the Directors and responsible persons, or any of them, may be sent to Level 14, BNZ Tower, 125 Queen Street, Auckland, New Zealand.

Responsible Persons

Messrs. Thomas Kirriemuir McDonald and Peter Leonard Thodey, whose occupations, professional qualifications, countries of residence, and directorships are disclosed in the General Disclosure Statement for the year ended 30 September 2006, have been authorised in writing to sign this Disclosure Statement in accordance with section 82 of the Reserve Bank of New Zealand Act 1989, on behalf of the other Directors, being:

Cameron Anthony Clyne
Edwin Gilmour Johnson
Dr. Susan Carrel Macken
Heughan Bassett Rennie, C.B.E., Q.C.
Janine Laurel Smith
John Douglas Storey, O.N.Z.M.

Income Statement

For the three months ended 31 December 2006

Dollars in Millions	**Note**	**Consolidated Unaudited 3 Months 31/12/06**	**Unaudited 3 Months 31/12/05**	**Audited 12 Months 30/9/06**
Interest income		**1,038**	881	3,803
Interest expense		**743**	620	2,701
Net interest income		**295**	261	1,102
Gains less losses on financial instruments at fair value	2	**63**	27	155
Other operating income		**104**	93	364
Total operating income		**462**	381	1,621
Operating expenses		**182**	175	746
Total operating profit before impairment losses on credit exposures and income tax expense		**280**	206	875
Impairment losses on credit exposures	11	**5**	9	53
Total operating profit before income tax expense		**275**	197	822
Income tax expense		**89**	60	262
Net profit from continuing activities		**186**	137	560
Net profit from discontinued operations	4		2	45
Net profit attributable to shareholder of Bank of New Zealand		**186**	139	605

The accounting policies and other notes form part of, and should be read in conjunction with, these interim financial statements.

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Statement of Recognised Income and Expense

For the three months ended 31 December 2006

Dollars in Millions	Note	Consolidated Unaudited 3 Months 31/12/06	Unaudited 3 Months 31/12/05	Audited 12 Months 30/9/06
Changes in items recognised directly in equity during the period:				
Net actuarial losses on defined benefit pension plan				(1)
Net transfer from asset revaluation reserve to retained profits				2
Net change in asset revaluation reserve				(2)
Net change in foreign currency translation reserve		**(4)**		6
Net change in cash flow hedge reserve		**(2)**	(1)	(5)
Total changes in items recognised directly in equity during the period		**(6)**	(1)	
Net profit attributable to shareholder of Bank of New Zealand		**186**	139	605
Total recognised income and expense for the period	16	**180**	138	605

The accounting policies and other notes form part of, and should be read in conjunction with, these interim financial statements.

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Balance Sheet

As at 31 December 2006

Dollars in Millions	Note	Consolidated Unaudited 31/12/06	Unaudited 31/12/05	Audited 30/9/06
Assets				
Cash and balances with central banks	5	**849**	403	3,270
Due from other financial institutions	6	**825**	1,098	743
Trading securities	7	**2,732**	1,918	1,143
Other money market placements	8	**1,058**	727	891
Investments available for sale			50	
Investments held to maturity	9	**50**	467	55
Loans and advances to customers	10	**42,875**	39,454	42,032
Derivative financial instruments		**1,962**	972	1,536
Amounts due from related entities		**107**	161	64
Property, plant and equipment		**74**	573	74
Current tax assets				10
Deferred tax assets		**101**	99	111
Goodwill and other intangible assets		**65**	112	63
Other assets		**545**	527	532
Total assets		**51,243**	46,561	50,524
Financed by:				
Liabilities				
Due to central banks and other financial institutions	13	**1,296**	1,683	1,568
Other money market deposits	14	**11,140**	10,768	10,994
Trading liabilities		**120**	307	158
Deposits from customers	15	**22,862**	20,912	22,421
Derivative financial instruments		**2,143**	1,147	1,635
Bonds and notes		**4,591**	1,861	3,786
Amounts due to related entities		**4,067**	5,132	4,838
Current tax liabilities		**78**	41	
Deferred tax liabilities		**56**	51	67
Subordinated loans from related entities		**1,205**	1,205	1,205
Other liabilities		**588**	614	720
Total liabilities		**48,146**	43,721	47,392
Shareholder s equity				
Contributed equity		**1,451**	1,451	1,451
Reserves	17	**(11)**	(5)	(5)
Retained profits		**1,657**	1,394	1,686
Total shareholder s equity	16	**3,097**	2,840	3,132
Total liabilities and shareholder s equity		**51,243**	46,561	50,524

Each of the 2,470,997,499 ordinary shares entitles the shareholder to one vote at any meeting of shareholders.

The contributed equity is included in tier one capital of the Banking Group.

The accounting policies and other notes form part of, and should be read in conjunction with, these interim financial statements.

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Cash Flow Statement

For the three months ended 31 December 2006

Dollars in Millions	Consolidated Unaudited 3 Months 31/12/06	Unaudited 3 Months 31/12/05	Audited 12 Months 30/9/06
Cash flows from operating activities			
Cash was provided from:			
Dividend income			1
Interest income	**1,012**	840	3,727
Net trading income and derivative financial instruments	**124**		
Other income	**104**	141	519
Cash was applied to:			
Interest expense	**(749)**	(622)	(2,611)
Net trading income and derivative financial instruments		(127)	(83)
Operating expenses	**(200)**	(199)	(740)
Net cash flows from operating activities before changes in operating assets and liabilities	**291**	33	813
Changes in operating assets and liabilities arising from cash flow movements			
Cash was provided from:			
Decrease in due from other financial institutions (term)*	**130**	223	239
Decrease in other assets	**8**		
Increase in deposits from customers*	**441**	227	1,736
Increase in due to central banks and other financial institutions (term)*			62
Increase in other liabilities		129	137
Cash was applied to:			
Decrease in due to central banks and other financial institutions (term)*	**(1)**	(49)	
Decrease in other liabilities	**(100)**		
Increase in balances with central banks (term)*	**(55)**	(142)	(150)
Increase in loans and advances to customers*	**(835)**	(1,596)	(4,221)
Increase in other money market placements*	**(167)**	(112)	(276)
Increase in other assets		(10)	(50)
Increase in trading securities and trading liabilities*	**(1,627)**	(693)	(67)
Net changes in operating assets and liabilities	**(2,206)**	(2,023)	(2,590)
Net cash flows from operating activities before income tax	**(1,915)**	(1,990)	(1,777)
Cash was applied to:			
Taxes and subvention payments		(23)	(267)
Net cash flows from operating activities	**(1,915)**	(2,013)	(2,044)

* The amounts shown represent the net cash flows for the interim financial period.

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For the three months ended 31 December 2006

Dollars in Millions	Note	Consolidated Unaudited 3 Months 31/12/06	Unaudited 3 Months 31/12/05	Audited 12 Months 30/9/06
Cash flows from investing activities				
Cash was provided from:				
Proceeds on maturity of investments held to maturity		**5**	622	1,037
Proceeds related to sale of controlled entities	4			646
Proceeds from sale of property, plant and equipment			46	141
Cash was applied to:				
Acquisition of intangible assets		**(5)**	(8)	(23)
Purchase of property, plant and equipment		**(5)**	(99)	(248)
Net cash flows from investing activities		**(5)**	561	1,553
Cash flows from financing activities				
Cash was provided from:				
Increase in bonds and notes*		**805**	1,278	3,203
Increase in other money market deposits*		**151**	2,690	2,922
Increase in subordinated loans from related entities			300	300
Cash was applied to:				
Ordinary dividend		**(215)**	(160)	(335)
Other related entity funding*		**(814)**	(1,973)	(2,170)
Net cash flows from financing activities		**(73)**	2,135	3,920
Net (decrease)/increase in cash and cash equivalents		**(1,993)**	683	3,429
Cash and cash equivalents at beginning of period		**2,367**	(1,062)	(1,062)
Cash and cash equivalents at end of period		**374**	(379)	2,367
Cash and cash equivalents at end of period comprised:				
Cash and balances with central banks (call)	5	**644**	261	3,120
Due from other financial institutions (call)	6	**565**	692	353
Due to central banks and other financial institutions (call)	13	**(835)**	(1,332)	(1,106)
Total cash and cash equivalents		**374**	(379)	2,367

* The amounts shown represent the net cash flows for the interim financial period.

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For the three months ended 31 December 2006

Dollars in Millions	Note	Consolidated Unaudited 3 Months 31/12/06	Unaudited 3 Months 31/12/05	Audited 12 Months 30/9/06
Reconciliation of net profit attributable to shareholder of Bank of New Zealand to net cash flows from operating activities				
Net profit attributable to shareholder of Bank of New Zealand		**186**	139	605
Add back non-cash items in net profit:				
Depreciation and amortisation expense		**8**	37	88
Impairment losses on non-financial assets				2
Increase in accrued interest payable				89
Increase in other operating provisions				2
Increase in provision for tax		**89**	38	10
Movement in allowance for impairment losses on credit exposures	11	**5**	9	53
Unrealised gains less losses on financial instruments at fair value		**61**		
Deduct non-cash items in net profit:				
Decrease in accrued interest payable		**(6)**	(2)	
Decrease in other operating provisions		**(26)**	(23)	
Increase in accrued interest receivable		**(26)**	(23)	(36)
Other non-cash interest items			(11)	(14)
Unrealised gains less losses on financial instruments at fair value			(154)	(238)
Deduct operating cash flows not included in profit:				
Net change in operating assets and liabilities		**(2,206)**	(2,023)	(2,590)
Deduct investing or financing cash flows included in profit:				
Gain on sale of controlled entity	4			(15)
Net cash flows from operating activities		**(1,915)**	(2,013)	(2,044)

Netting of cash flows

Certain cash flows (as indicated by *) are shown net as these cash flows are received and disbursed on behalf of customers and therefore reflect the activities of customers rather than those of the Bank.

Cash and cash equivalents consist of cash and short-term, highly liquid investments that are readily convertible to known amounts of cash, and are subject to insignificant risk of changes in value and are held for the purpose of meeting short-term cash commitments.

Movements in cash and cash equivalents do not represent a cash inflow in the normal sense. Rather, they represent changes in the net inter-bank funding on the balance sheet dates. These balances fluctuate widely in the normal course of business.

The accounting policies and other notes form part of, and should be read in conjunction with, these interim financial statements.

Notes to and Forming Part of the Interim Financial Statements

For the three months ended 31 December 2006

Note 1 Principal Accounting Policies

There have been no material changes in accounting policies during the interim financial period. The accounting policies used in the preparation of these interim financial statements are consistent with the accounting policies used in the preparation of the General Disclosure Statement for the year ended 30 September 2006.

These interim financial statements are general purpose financial reports prepared in accordance with the requirements of the NZ IAS 34 Interim Financial Reporting and the Registered Bank Disclosure Statement (Off-Quarter New Zealand Incorporated Registered Banks) Order 2005, and should be read in conjunction with the General Disclosure Statement for the year ended 30 September 2006.

Comparative amounts

Comparative amounts have been restated to disclose the results arising from Custom Fleet (NZ) Limited as discontinued operations. Further details in relation to the sale of this controlled entity are provided in note 4.

Income Statement Notes

Dollars in Millions	Consolidated Unaudited 3 Months 31/12/06	Unaudited 3 Months 31/12/05	Audited 12 Months 30/9/06
Note 2 Gains less Losses on Financial Instruments at Fair Value			
Net gain in the fair value of financial assets designated at fair value through profit or loss	**13**	8	13
Net gain in the fair value of financial liabilities designated at fair value through profit or loss	**5**		6
Ineffectiveness arising from hedging relationships	**32**	(10)	35
Net gain attributable to other derivatives used for hedging purposes that do not qualify as designated and effective hedging instruments	**1**	1	
Bid/offer adjustment			(1)
Other trading income:			
Foreign exchange trading derivatives	**12**	24	65
Interest rate related trading derivatives		8	35
Net (loss)/gain in the fair value of financial assets and liabilities held for trading		(4)	2
Total gains less losses on financial instruments at fair value	**63**	27	155

Included in the net gain in the fair value of financial assets designated at fair value through profit or loss for the three months ended 31 December 2006 is a $20 million gain relating to the movement in the fair value of derivatives used for hedging purposes that do not qualify as designated and effective hedging instruments (31 December 2005: $4 million loss; 30 September 2006: $4 million gain).

Note 3 Segment Analysis

Business segments

For the purposes of this note a business segment is a distinguishable component of the entity that is engaged in providing groups of related products and services and that is subject to risks and returns that are different from those of other business segments. Separate financial information for each segment is reported to the Board of Directors and Managing Director for the purposes of evaluating performance.

The Banking Group s business is organised into three operating segments: Financial Services New Zealand, Corporate and Institutional Banking and Other. Financial Services New Zealand is the retailing arm of the Banking Group, providing a full range of financial services to customers. Corporate and Institutional Banking is responsible for the Banking Group s relationships with large corporations and institutions. It comprises Corporate Banking, Financial Institutions, Markets, Specialised Finance and a services unit. Other includes segments which are not considered to be separate reportable operating segments. Discontinued Operations refer to the Banking Group s fleet management and car leasing business, which was sold on 31 July 2006. Refer to note 4 for details on the sale of these operations.

Revenues and expenses directly associated with each business segment are included in determining their result. Transactions between business segments are based on agreed recharges between segments. Segment revenue represents revenue directly attributable to a segment and a portion of the Banking Group s revenue that can be allocated to a segment on a reasonable basis. Segment result represents segment revenue less segment expenses and impairment losses on credit exposures and before income taxes.

Dollars in Millions	Consolidated Financial Services New Zealand	Corporate and Institutional Banking	Other	Discontinued Operations	Total
For the three months ended 31 December 2006 (Unaudited)					
Segment revenue	**369**	**61**	**32**		**462**
Segment result	**205**	**43**	**27**		**275**
For the three months ended 31 December 2005 (Unaudited)					
Segment revenue	302	54	25		381

Segment result	145	36	16	3	200
For the year ended 30 September 2006 (Audited)					
Segment revenue	1,301	219	101		1,621
Segment result	616	138	68	60	882

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Asset Notes

Note 4 Investments in Controlled Entities

Incorporation of controlled entities

BNZ Facilities Management Limited, a wholly owned controlled entity of Bank of New Zealand, was incorporated on 10 August 2006.

Sale of controlled entities

On 31 July 2006, the Bank sold 100% of the share capital in Custom Fleet (NZ) Limited to an unrelated party for consideration of $142 million. During the quarter ended 31 December 2006, an additional amount of $5 million was received in relation to the sale and was included in Other operating income.

On 26 September 2006, BNZ Investments Limited sold 100% of the share capital in Screen Holdings No. 4 Limited to an unrelated party for consideration of $50 million.

The disposal of the controlled entities had the following impact on the Banking Group s consolidated balance sheet:

Dollars in Millions	Consolidated Unaudited 31/12/06	Unaudited 31/12/05	Audited 30/9/06
Net cash proceeds from sale of controlled entities			187
Repayment of related party loans and advances			459
Total impact on cash and cash equivalents			646
Impact on net assets			
Loans and advances to customers			(4)
Property, plant and equipment			(495)
Goodwill and other intangible assets			(54)
Other assets and liabilities			(78)
Total impact on net assets			(631)
Gain on sale of controlled entities			15

Winding up of controlled entities

The following controlled entities were wound up during the year ended 30 September 2006:

Name	Country of Incorporation	Principal Activities	Date of Winding Up
Quill Financing Limited	New Zealand	Non-trading	17 February 2006
Peterel Financing Limited	New Zealand	Non-trading	17 February 2006
Maroro Leasing Limited	New Zealand	Non-trading	17 February 2006
Screen Holdings No. 5 Limited	New Zealand	Non-trading	7 April 2006
Screen Holdings No. 6 Limited	New Zealand	Non-trading	7 April 2006
Flamingo Holdings Incorporated	United States	Non-trading	19 June 2006

The winding up of these companies had no impact on the Banking Group s consolidated balance sheet.

Discontinued operations

On 31 July 2006, the Bank sold 100% of the share capital in Custom Fleet (NZ) Limited. The results arising from Custom Fleet (NZ) Limited have been classified as discontinued operations.

Dollars in Millions	Consolidated Unaudited 3 Months 31/12/06	Unaudited 3 Months 31/12/05	Audited 12 Months 30/9/06
The net profit from discontinued operations shown in the income statement comprised:			
Interest income			1
Interest expense		7	26
Net interest expense		(7)	(25)
Other operating income		48	156
Total operating income		41	131
Operating expenses		38	86
Total operating profit before impairment losses on credit exposures and income tax expense		3	45
Impairment losses on credit exposures			
Total operating profit before income tax expense		3	45
Income tax expense		1	15
Net operating profit from discontinued operations		2	30
Gain on sale of controlled entities			15
Net profit from discontinued operations		2	45
Cash flows from discontinued operations comprised:			
Cash flows from operating activities		30	97
Cash flows from investing activities		(22)	(92)
Net cash flows from discontinued operations		8	5

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Dollars in Millions	Consolidated Unaudited 31/12/06	Unaudited 31/12/05	Audited 30/9/06
Note 5 Cash and Balances with Central Banks			
Notes and coins	**267**	261	132
Transaction balances with central banks	**377**		2,988
Loans and advances to central banks	**205**	142	150
Total cash and balances with central banks	**849**	403	3,270
Cash and balances with central banks comprised:			
Call	**644**	261	3,120
Term	**205**	142	150
Total cash and balances with central banks	**849**	403	3,270
Cash and balances with central banks were recorded as:			
At amortised cost	**644**	262	3,120
Designated at fair value through profit or loss	**205**	141	150
Total cash and balances with central banks	**849**	403	3,270
Note 6 Due from Other Financial Institutions			
Transaction balances with other financial institutions	**68**	224	352
Securities purchased under agreements to resell with other financial institutions	**166**	265	276
Loans and advances due from other financial institutions	**591**	609	115
Total amounts due from other financial institutions	**825**	1,098	743
Due from other financial institutions comprised:			
Call advances	**565**	692	353
Term advances	**260**	406	390
Total amounts due from other financial institutions	**825**	1,098	743
Due from other financial institutions were recorded as:			
At amortised cost	**321**	585	734
Designated at fair value through profit or loss	**504**	513	9
Total amounts due from other financial institutions	**825**	1,098	743
Note 7 Trading Securities			
Treasury bills	**932**	907	298
Government securities	**115**	159	208
Bank bills	**1,405**	444	534
Promissory notes	**242**	380	34
Other securities	**38**	28	69
Total trading securities	**2,732**	1,918	1,143

Included in trading securities as at 31 December 2006 were assets of $89 million encumbered through repurchase agreements (31 December 2005: $65 million; 30 September 2006: $109 million) and $45 million used to secure deposit obligations (31 December 2005: $499 million; 30 September 2006: nil).

Dollars in Millions	Consolidated Unaudited 31/12/06	Unaudited 31/12/05	Audited 30/9/06
Note 8 Other Money Market Placements			
Money market placements with non-financial institutions	**681**	727	675
Securities purchased under agreements to resell with non-financial institutions	**377**		216
Total other money market placements	**1,058**	727	891
Other money market placements were recorded as:			
At amortised cost	**377**		216
Designated at fair value through profit or loss	**681**	727	675
Total other money market placements	**1,058**	727	891
Note 9 Investments Held to Maturity			
Treasury bills		417	5
Other securities	**50**	50	50
Total investments held to maturity	**50**	467	55

Within held to maturity investments of the Bank as at 31 December 2006 were no assets encumbered through repurchase agreements (31 December 2005: nil; 30 September 2006: nil) and no assets used to secure deposit obligations (31 December 2005: $51 million; 30 September 2006: nil).

Dollars in Millions	Consolidated Unaudited 31/12/06	Unaudited 31/12/05	Audited 30/9/06
Note 10 Loans and Advances to Customers			
Overdrafts	**1,706**	1,569	1,695
Credit card outstandings	**1,301**	1,259	1,213
Lease finance		27	11
Housing loans	**20,999**	18,731	20,429
Other term lending	**18,973**	18,003	18,757
Other lending	**132**	122	142
Total gross loans and advances to customers	**43,111**	39,711	42,247
Deduct:			
Allowance for impairment losses on loans and advances to customers	**143**	150	149
Unearned future income on lease finance		3	1
Deferred income	**23**	23	22
Hedge adjustment on fair value instruments	**70**	81	43
Total deductions	**236**	257	215
Total net loans and advances to customers	**42,875**	39,454	42,032
Total net loans and advances to customers were recorded as:			
At amortised cost	**29,634**	27,814	29,099
Designated at fair value through profit or loss	**13,241**	11,640	12,933
Total net loans and advances to customers	**42,875**	39,454	42,032

Dollars in Millions	Consolidated Other Impaired Assets Unaudited 31/12/06	Restructured Assets Unaudited 31/12/06	Other Assets Under Administration Unaudited 31/12/06	Past Due Assets Unaudited 31/12/06	Total Unaudited 31/12/06
Note 11 Allowance for Impairment Losses on Credit Exposures					
Allowance for impairment losses on individual financial assets					
Balance at beginning of period	**21**				**21**
Charge to income statement	**1**				**1**
Amounts written off	**(13)**				**(13)**
Recovery of amounts written off in previous periods	**2**				**2**
Balance at end of period	**11**				**11**
Allowance for impairment losses on groups of financial assets					
Balance at beginning of period					**128**
Charge to income statement					**4**
Balance at end of period					**132**
Total allowance for impairment losses on credit exposures					**143**
	31 December 2005 (Unaudited)				
Allowance for impairment losses on individual financial assets					
Balance of specific provisions at beginning of period under previous NZ GAAP	37			2	39
Adjustments required upon transition to NZ IFRS	(2)			(2)	(4)
Balance at beginning of period under NZ IFRS	35				35
Charge to income statement	4				4
Amounts written off	(6)				(6)
Recovery of amounts written off in previous periods	2				2
Balance at end of period	35				35
Allowance for impairment losses on groups of financial assets					
Balance of general provision at beginning of period under previous NZ GAAP					175
Adjustments required for collective impairment upon transition to NZ IFRS					(65)
Balance of collective impairment at beginning of period under NZ IFRS					110
Charge to income statement					5
Balance at end of period					115
Total allowance for impairment losses on credit exposures					150

	30 September 2006 (Audited)		
Allowance for impairment losses on individual financial assets			
Balance of specific provisions at beginning of year under previous NZ GAAP	37	2	39
Adjustments required upon transition to NZ IFRS	(2)	(2)	(4)
Balance at beginning of year under NZ IFRS	35		35
Charge to income statement	34		34
Amounts written off	(52)		(52)
Recovery of amounts written off in previous years	9		9
Disposal of controlled entities	(5)		(5)
Balance at end of year	21		21
Allowance for impairment losses on groups of financial assets			
Balance of general provision at beginning of year under previous NZ GAAP			175
Adjustments required upon transition to NZ IFRS			(65)
Balance of collective impairment at beginning of year under NZ IFRS			110
Charge to income statement			19
Disposal of controlled entities			(1)
Balance at end of year			128
Total allowance for impairment losses on credit exposures			149

The above tables reflect allowances for impairment losses on financial assets held at amortised cost. Since 1 October 2005, credit adjustments on financial assets designated at fair value through profit or loss have been incorporated into the carrying value of those assets and charged to the income statement within Gains less losses on financial instruments at fair value. These credit adjustments are analysed in the table below:

Dollars in Millions	Consolidated Unaudited 31/12/06	Unaudited 31/12/05	Audited 30/9/06
Credit risk adjustments for loans designated at fair value through profit or loss			
On individual financial assets			
Balance at beginning of period under NZ IFRS	**2**	2	2
Charge to income statement		(1)	2
Amounts written off			(2)
Balance at end of period	**2**	1	2
On groups of financial assets			
Balance at beginning of period under NZ IFRS	**27**	15	15
Charge to income statement	**4**	1	12
Balance at end of period	**31**	16	27
Total credit risk adjustments for loans designated at fair value through profit or loss	**33**	17	29

Note 12 Asset Quality

The Banking Group provides for impairment losses on credit exposures as disclosed in note 11. Accordingly, when management determines that recovery of a loan is doubtful, the principal amount and accrued interest on the obligation are written down to estimated net realisable value and interest charges are no longer recognised in the income statement.

Pre-allowance balances at end of period

Dollars in Millions	Consolidated Unaudited 31/12/06	Unaudited 31/12/05	Audited 30/9/06
Other impaired assets	**24**	81	44
Restructured assets			
Other assets under administration	**1**	1	2
Past due assets	**34**	43	35
Total pre-allowance balances	**59**	125	81

Past due loans are not necessarily doubtful. Gross amounts for the Banking Group have been stated without taking into account security available for such loans. The Banking Group did not have any assets acquired through security enforcement as at 31 December 2006 (31 December 2005: nil; 30 September 2006: nil).

As at 31 December 2006, the Banking Group had $9 million of loans that were deemed to be impaired, but are not included in the above table as they have been designated at fair value through profit or loss (31 December 2005: $2 million; 30 September 2006: $9 million).

Off-balance sheet impaired assets

There were no off-balance sheet facilities included in the above end of period balance as at 31 December 2006 (31 December 2005: nil; 30 September 2006: $1 million). No allowance for impairment losses on individual off-balance sheet credit related commitments had been made as at 31 December 2006 (31 December 2005: nil; 30 September 2006: nil).

Liability Notes

Dollars in Millions	Consolidated Unaudited 31/12/06	Unaudited 31/12/05	Audited 30/9/06
Note 13 Due to Central Banks and Other Financial Institutions			
Transaction balances with other financial institutions	**372**	554	819
Securities sold under agreements to repurchase from other financial institutions	**298**	68	209
Deposits from central banks	**126**	404	5
Deposits from other financial institutions	**500**	657	535
Total amounts due to central banks and other financial institutions	**1,296**	1,683	1,568
Due to central banks and other financial institutions comprised:			
Call	**835**	1,332	1,106
Term	**461**	351	462
Total amounts due to central banks and other financial institutions	**1,296**	1,683	1,568
Due to central banks and other financial institutions were recorded as:			
At amortised cost	**1,144**	1,312	1,111
Designated at fair value through profit or loss	**152**	371	457
Total amounts due to central banks and other financial institutions	**1,296**	1,683	1,568
Note 14 Other Money Market Deposits			
Money market deposits from non-financial institutions	**2,868**	2,716	2,522
Certificates of deposit	**3,770**	4,373	3,278
Commercial paper	**4,502**	3,679	5,194
Total other money market deposits	**11,140**	10,768	10,994
Total other money market deposits were recorded as:			
Designated at fair value through profit or loss	**11,140**	10,768	10,994
Total other money market deposits	**11,140**	10,768	10,994
Note 15 Deposits from Customers			
Demand deposits not bearing interest	**595**	586	544
Demand deposits bearing interest	**8,485**	8,311	8,437
Term deposits	**13,782**	12,015	13,440
Total deposits from customers	**22,862**	20,912	22,421

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Shareholder s Equity Notes

Dollars in Millions	Consolidated Unaudited 31/12/06	Unaudited 31/12/05	Audited 30/9/06
Note 16 Shareholder s Equity			
Total shareholder s equity at beginning of period	**3,132**	2,788	2,788
Adjustments required as a result of transition to NZ IFRS			
Cash flow hedge reserve		(6)	(6)
Retained profits		80	80
Total adjustments required as a result of transition to NZ IFRS		74	74
Total adjusted shareholder s equity at beginning of period	**3,132**	2,862	2,862
Total recognised income and expense for the period	**180**	138	605
Transactions with owner during the period			
Ordinary dividend	**(215)**	(160)	(335)
Total transactions with owner during the period	**(215)**	(160)	(335)
Movement in shareholder s equity for the period	**(35)**	(22)	270
Total shareholder s equity at end of period	**3,097**	2,840	3,132
Note 17 Reserves			
Asset revaluation reserve		2	
Foreign currency translation reserve	**2**		6
Cash flow hedge reserve	**(13)**	(7)	(11)
Total reserves	**(11)**	(5)	(5)

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Other Notes

Dollars in Millions	Consolidated Unaudited 31/12/06	Unaudited 31/12/05	Audited 30/9/06
Note 18 Interest Earning and Discount Bearing Assets and Liabilities and Ranking of Liabilities			
Interest earning and discount bearing assets	**48,441**	44,190	48,237
Interest and discount bearing liabilities	**44,686**	41,282	44,426

Ranking of liabilities

The deposit liabilities reported in these interim financial statements by the Banking Group are unsecured and rank equally with the Banking Group s other unsecured liabilities. Other liabilities totalling $82 million as at 31 December 2006 (31 December 2005: $69 million; 30 September 2006: $97 million) rank in priority to general creditors claims in a winding up of the Bank. Subordinated loans from related entities totalling $1,205 million as at 31 December 2006 (31 December 2005: $1,205 million; 30 September 2006: $1,205 million) rank behind the claims of all other creditors in a winding up. Included in liabilities are obligations of the Bank under repurchase agreements where the Bank has agreed to repurchase Government stock totalling $298 million as at 31 December 2006 (31 December 2005: $68 million; 30 September 2006: $209 million). The Bank held secured deposits of $45 million as at 31 December 2006 (31 December 2005: $535 million; 30 September 2006: nil).

Note 19 Forward Commitments to Purchase Securities

Dollars in Millions	Consolidated Unaudited 31/12/06	Unaudited 31/12/05	Audited 30/9/06
Forward purchases of securities	**34**	139	124

Note 20 Contingent Liabilities and Credit Commitments

Bank of New Zealand and other income tax group members have a joint and several liability for the income tax liability of the income tax group. Bank of New Zealand is not expected to incur any additional tax liability as a result of this joint and several liability.

Contingent liabilities and credit commitments exist in respect of commitments to extend credit, letters of credit and financial guarantees, as well as claims, potential claims and court proceedings against entities in the Banking Group. With the exception of the amended assessments from the Inland Revenue Department (the IRD) in relation to structured finance transactions disclosed below, the potential liability arising in respect of these claims cannot be accurately assessed. Where some loss is probable appropriate provisions have been made.

On 31 July 2006, the Bank sold 100% of the share capital in Custom Fleet (NZ) Limited. The Bank provided limited indemnities regarding certain sale-related warranties and the performance of Custom Fleet (NZ) Limited prior to 31 July 2006. Further details in relation to the sale of this controlled entity are provided in note 4.

The principal amount of the Banking Group s derivative and off-balance sheet exposures as at 31 December 2006 (excluding sold puts and sold calls on foreign exchange option contracts, interest rate contracts and other option contracts) is disclosed in note 23.

The notional amount of sold puts and sold calls outstanding as at the off-quarter balance sheet date comprised:

Dollars in Millions	Consolidated Unaudited 31/12/06	Unaudited 31/12/05	Audited 30/9/06
Foreign exchange option contracts	**1,259**	598	963

Interest rate option contracts	**661**	877	726
Other option contracts		8	

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New Zealand structured finance transactions

The New Zealand IRD is carrying out a review of certain structured finance transactions in the banking industry.

As part of this review, the Bank and one of its wholly owned controlled entities have received amended tax assessments for the 1998 to 2002 years from the IRD with respect to certain structured finance transactions. The amended assessments are for income tax of approximately $256 million. Interest will be payable on this amount, and the possible application of penalties has yet to be considered by the IRD.

The New Zealand Government introduced new legislation, effective 1 July 2005, which addresses their concerns with banks entering into these transactions. All of the structured finance transactions of the Banking Group that are the subject of the IRD s review were terminated by that date.

If the IRD issues amended assessments for all transactions for periods up to 30 June 2005, the maximum sum of primary tax which the IRD might claim for all years is approximately $416 million. In addition, as at 31 December 2006, interest of $157 million (net of tax) will be payable.

The Banking Group is confident that its position in relation to the application of the taxation law is correct and it is disputing the IRD s position with respect to these transactions. The Banking Group has obtained independent legal opinions that confirm that the transactions complied with New Zealand tax law. The transactions are similar to transactions undertaken by other New Zealand banks. The Banking Group has commenced legal proceedings to challenge the IRD s assessments.

The financial effect of the unpaid balance of the amounts owing under the amended assessments has not been brought to account in the interim financial statements for the three months ended 31 December 2006.

Commerce Commission

In November 2006, the New Zealand Commerce Commission filed civil proceedings against a number of financial institutions, including the Bank, for alleged breaches of the Commerce Act 1986 relating to credit card interchange fees and other related practices. This follows an industry-wide investigation into arrangements supporting the functioning of payment systems operated in New Zealand and internationally by Visa and MasterCard. This was followed by a claim for damages by some retailers. Both matters are being defended. As at the date of signing of this General Short Form Disclosure Statement, the possible liability the Bank may face cannot be reliably measured. No provision has been made in relation to these matters in the General Short Form Disclosure Statement for the three months ended 31 December 2006.

Note 21 Credit Exposures to Connected Persons and Non-Bank Connected Persons

The Reserve Bank of New Zealand defines Connected Persons to be other members of the National Australia Bank Limited Group and Directors of the Bank. Controlled entities of the Bank are not connected persons. Credit exposures to connected persons are based on actual credit exposures rather than internal limits, net of allowance for impairment losses on individual financial assets and exclude advances of a capital nature. Credit exposures to connected persons reported in the table below are on a gross basis.

Dollars in Millions	Consolidated Unaudited As At 31/12/06	Unaudited As At 31/12/05	Audited As At 30/9/06	Unaudited Peak for the 3 Months Ended 31/12/06	Unaudited Peak for the 3 Months Ended 31/12/05	Audited Peak for the 3 Months Ended 30/9/06
Credit exposure to connected persons	**527**	335	466	**784**	963	911
Credit exposure to connected persons expressed as a percentage of tier one capital of the Banking Group at end of period	**17.5%**	12.4%	15.3%	**26.0%**	35.6%	29.9%
Credit exposure to non-bank connected persons						
Credit exposure to non-bank connected persons expressed as a percentage of tier one capital of the Banking Group at end of period	**0.0%**	0.0%	0.0%	**0.0%**	0.0%	0.0%

As at 31 December 2006, the Banking Group s rating-contingent limit was 70% of the Banking Group s tier one capital. There were no changes to this limit during the three months ended 31 December 2006. Within the overall rating-contingent limit, there is a sublimit of 15% of tier one capital which applies to aggregate credit exposure to non-bank connected persons.

The rating-contingent limit on lending to connected persons as set out in the Bank s Conditions of Registration has been complied with at all times during the three months ended 31 December 2006.

Where a bank is funding a large loan it is common practice to share the risk of a customer default with the connected banks. These arrangements are called risk lay-off arrangements. As at 31 December 2006, the Banking Group had contingent credit exposures of $262 million (31 December 2005: nil; 30 September 2006: $372 million) arising from risk lay-off arrangements with connected persons. There were no allowances for impairment losses on individual financial assets against credit exposures to connected persons as at 31 December 2006 (31 December 2005: nil; 30 September 2006: nil).

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Note 22 Concentrations of Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties

The Banking Group s disclosure of concentrations of credit exposures to individual counterparties and groups of closely related counterparties is based on actual credit exposures, and excludes credit exposures to connected persons and OECD governments. Peak credit exposures to individual counterparties are calculated using the Banking Group s end of period shareholder s equity.

	Consolidated Peak End of Day Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties					
	Number of Non-Banks			**Number of Banks**		
Percentage of Shareholder s Equity %	**Unaudited For the 3 Months Ended 31/12/06**	**Unaudited For the 3 Months Ended 31/12/05**	**Audited For the 3 Months Ended 30/9/06**	**Unaudited For the 3 Months Ended 31/12/06**	**Unaudited For the 3 Months Ended 31/12/05**	**Audited For the 3 Months Ended 30/9/06**
10 - 19	**3**	3	5	**5**	5	6
20 - 29		2		**2**	3	3
30 - 39				**1**		2
40 - 49						1

	Consolidated Balance Sheet Date Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties					
	Number of Non-Banks			**Number of Banks**		
Percentage of Shareholder s Equity%	**Unaudited As At 31/12/06**	**Unaudited As At 31/12/05**	**Audited As At 30/9/06**	**Unaudited As At 31/12/06**	**Unaudited As At 31/12/05**	**Audited As At 30/9/06**
10 - 19	**1**	2	2	**2**	4	1
20 - 29		2				

Large exposure credit ratings

Dollars in Millions	**Consolidated Unaudited As At 31/12/06 $**	**Unaudited As At 31/12/06 %**	**Unaudited As At 31/12/05 $**	**Unaudited As At 31/12/05 %**	**Audited As At 30/9/06 $**	**Audited As At 30/9/06 %**
Non-banks						
Exposures of investment grade credit rating	**550**	**100**	1,137	55	559	62
Exposures that are unrated or that do not meet a specified ratings criterion			942	45	349	38
Total non-banks exposures	**550**	**100**	2,079	100	908	100
Banks						
Exposures of investment grade credit rating	**1,127**	**100**	1,494	100	586	100
Total banks exposures	**1,127**	**100**	1,494	100	586	100

Where the Banking Group is making large loans it is common practice to share the risk of a customer default with other connected banks or enter into other risk lay-off arrangements. The above tables have been compiled using gross exposures before risk lay-offs.

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Note 23 Capital Adequacy

The Bank is subject to the capital requirements for registered banks as specified by the Reserve Bank of New Zealand.

Regulatory capital

Dollars in Millions	Consolidated Unaudited 31/12/06		Unaudited 31/12/05		Audited 30/9/06	
Qualifying capital						
Tier one capital						
Contributed equity	**1,451**		1,451		1,451	
Audited retained profits (gross of ordinary dividend paid)	**1,686**		1,554		2,021	
Deduct: Ordinary dividend paid	**29**		160		335	
Deductions from tier one capital:						
Advances of a capital nature to connected parties	**24**		25		26	
Intangible assets	**65**		112		63	
Total tier one capital	**3,019**		2,708		3,048	
Upper tier two capital						
Unaudited retained profits (gross of ordinary dividend paid)	**186**					
Revaluation reserves	**2**		2		6	
Subordinated loans from related entities	**190**		190		190	
Deduct: Ordinary dividend paid	**186**					
Total upper tier two capital	**192**		192		196	
Lower tier two capital						
Subordinated loans from related entities	**1,015**		1,015		1,015	
Total lower tier two capital	**1,015**		1,015		1,015	
Total tier two capital	**1,207**		1,207		1,211	
Total tier one and tier two capital	**4,226**		3,915		4,259	
Deductions from total capital						
Total qualifying capital	**4,226**		3,915		4,259	
Total risk-weighted exposures	**38,542**		36,253		36,943	
Regulatory capital ratios						
Total tier one capital of the Banking Group expressed as a percentage of total risk-weighted exposures	**7.83**	**%**	7.47	%	8.25	%
Minimum percentage of tier one capital to risk-weighted exposures permitted under Bank of New Zealand s Conditions of Registration	**4.00**	**%**	4.00	%	4.00	%
Total qualifying capital of the Banking Group expressed as a percentage of total risk-weighted exposures	**10.96**	**%**	10.80	%	11.53	%
Minimum percentage of qualifying capital to risk-weighted exposures permitted under Bank of New Zealand s Conditions of Registration	**8.00**	**%**	8.00	%	8.00	%

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Calculation of balance sheet exposures

	Consolidated			
Dollars in Millions	**Principal Amount Unaudited 31/12/06**	**Risk Weighting Unaudited 31/12/06**		**Risk-Weighted Exposure Unaudited 31/12/06**
Cash and claims on qualifying central banks and governments with maturity within one year	**2,468**	**0**	%	
Claims on qualifying governments with maturity over one year	**136**	**10**	%	**14**
Claims on banks and New Zealand local authorities	**2,753**	**20**	%	**551**
Loans secured by residential mortgages	**20,973**	**50**	%	**10,487**
All other assets	**22,862**	**100**	%	**22,862**
Non-risk-weighted assets	**2,051**	**0**	%	
Total assets	**51,243**			**33,914**

Calculation of off-balance sheet exposures

Dollars in Millions	**Principal Amount Unaudited 31/12/06**	**Credit Conversion Factor Unaudited 31/12/06**	**Credit Equivalent Amount Unaudited 31/12/06**	**Average Counterparty Risk Weight Unaudited 31/12/06**	**Risk-Weighted Exposure Unaudited 31/12/06**
Direct credit substitutes	**361**	**100**	% **361**	**100**	% **361**
Commitments with certain drawdown	**8**	**100**	% **8**	**100**	% **8**
Transaction related contingent liabilities	**353**	**50**	% **177**	**100**	% **177**
Short term, self liquidating trade related contingencies	**57**	**20**	% **11**	**100**	% **11**
Commitments for financial services:					
Maturity is greater than one year	**7,520**	**50**	% **3,760**	**87**	% **3,273**
Maturity is less than one year or can be cancelled at any time	**7,019**	**0**	%		
Market related contracts:*					
Foreign exchange contracts	**51,736**		**1,917**	**26**	% **496**
Interest rate contracts	**177,027**		**1,414**	**21**	% **295**
Other	**671**		**36**	**19**	% **7**
Total off-balance sheet items	**244,752**		**7,684**		**4,628**
Total risk-weighted exposures					**38,542**

* The Banking Group uses the Current Exposure Method under the Reserve Bank of New Zealand s capital adequacy guidelines to calculate the credit equivalent of derivative financial instruments.

Calculation of balance sheet exposures

Dollars in Millions	Consolidated Principal Amount Unaudited 31/12/05	Risk Weighting Unaudited 31/12/05		Risk-Weighted Exposure Unaudited 31/12/05
Cash and claims on qualifying central banks and governments with maturity within one year	2,150	0	%	
Claims on qualifying governments with maturity over one year	78	10	%	8
Claims on banks and New Zealand local authorities	1,909	20	%	382
Loans secured by residential mortgages	18,717	50	%	9,359
All other assets	22,598	100	%	22,598
Non-risk-weighted assets	1,109	0	%	
Total assets	46,561			32,347

Calculation of off-balance sheet exposures

Dollars in Millions	Principal Amount Unaudited 31/12/05	Credit Conve Factor Unaud 31/12/
Direct credit substitutes	270	100
Commitments with certain drawdown	23	100
Transaction related contingent liabilities	242	

On May 5, 2004, ChipMOS Taiwan acquired a 30% interest in Ultima Technology for US$11,250 thousand (NT$374,625 thousand).

During 2004, impairment losses of NT$89,850 thousand, NT$83,217 thousand and NT$41,336 thousand have been recognized in respect of investments in Best Home, Sun Fund and Vigour.

The investments in Best Home and Vigour were fully impaired as of December 31, 2004.

In April 2005, ChipMOS Taiwan acquired additional interest in DigiMedia for NT$116,400 thousand.

In June 2005, G-Link reduced its issued capital by 50%, and as a result, a loss of NT$4,854 thousand was recognized in respect of the reduction in capital in G-Link.

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7. LONG-TERM INVESTMENTS (continued)

During 2005, impairment losses of NT$188,310 thousand, NT$4,855 thousand and NT$17,829 thousand have been recognized in respect of investments in Ultima Technology, G-Link and Sun Fund, respectively.

During 2006, impairment losses of NT$57,779 thousand have been recognized in respect of investment in Ultima Technology. The investment in Ultima Technology was fully impaired as of December 31, 2006.

In February and November 2006, the Company disposed of its interest in ISSI and G-Link and recorded a gain of NT$1,059 thousand.

In July 2006, the Company exchanged its 14,550 thousand shares of DigiMedia for 8,184 thousand shares of DigiMedia Cayman.

8. PROPERTY, PLANT AND EQUIPMENT NET

Accumulated depreciation consists of the following:

	December 31,		
	2005	2006	
	NT$	NT$	US$
	(in thousands)		
Buildings and auxiliary equipment	1,577,159	1,826,799	56,054
Machinery and equipment	12,952,966	16,801,332	515,536
Furniture and fixtures	369,881	416,719	12,787
Transportation equipment	18,061	17,146	526
Tools	861,707	1,157,591	35,520
Leasehold improvements	1,383	828	26
	15,781,157	20,220,415	620,449

As of December 31, 2006, certain of the above buildings and machinery were mortgaged as collateral for long-term loans (Note 15).

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9. INTANGIBLE ASSETS NET

	December 31, 2005 NT$	2006 NT$	2006 US$
	(in thousands)		
Cost			
Technology know-how	750,000	750,000	23,013
Technology license fees	59,912	59,912	1,838
Software	6,791	14,930	458
Bond issuance costs and others	354,139	417,528	12,811
Trademarks	1,430	1,430	44
Land use rights	180,122	184,708	5,668
	1,352,394	1,428,508	43,832
Accumulated amortization			
Technology know-how	(750,000)	(750,000)	(23,013)
Technology license fees	(48,312)	(53,578)	(1,644)
Software	(1,355)	(3,814)	(117)
Bond issuance costs and others	(214,871)	(254,401)	(7,806)
Trademarks	(1,430)	(1,430)	(44)
Land use rights	(9,326)	(12,314)	(377)
	(1,025,294)	(1,075,537)	(33,001)
Carrying value			
Technology know-how			
Technology license fees	11,600	6,334	194
Software	5,436	11,116	341
Bond issuance costs and others	139,268	163,127	5,005
Trademarks			
Land use rights	170,796	172,394	5,291
	327,100	352,971	10,831

The amortization charge for 2006 amounted to NT$81,325 thousand (2005: NT$49,265 thousand, 2004: NT$53,902 thousand). The weighted average amortization period is 8 years (2005: 12 years). The estimated aggregate amortization charge for the five years ending December 31, 2007, 2008, 2009, 2010 and 2011 amounts to approximately NT$70,000 thousand, NT$50,000 thousand, NT$27,000 thousand, NT$26,000 thousand and NT$21,000 thousand, respectively.

Pursuant to a Joint Venture Agreement entered into between MVI and SPIL on July 28, 1997, MVI and SPIL contributed, as payment for their subscription to shares of stock of ChipMOS Taiwan, technologies related to testing and assembly of semiconductors at an agreed valuation of NT$750,000 thousand.

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10. BANK LOANS

	December 31, 2005	2006	
	NT$	NT$	US$
	(in thousands)		
Unsecured loans:			
Working capital loans:			
NT$100,000 thousand, repayable by January 2006, annual interest at 2.2%	100,000		
NT$100,000 thousand, repayable by January 2006, annual interest at 1.55%	100,000		
NT$50,000 thousand, repayable by December 2006, annual interest at 3.75%	50,000		
Loans for import of machinery:			
JPY779,090 thousand, repayable by June 2006, annual interest at 0.7505% 0.90%	217,834		
US$11,040 thousand, repayable by February 2007, annual interest at 6.35%		359,849	11,042
US$2,019 thousand, repayable by May 2007, annual interest at 6.224% 6.24%		65,799	2,019
US$13,122 thousand, repayable by June 2007, annual interest at 6.02% 6.205074%		427,712	13,124
Secured loans:			
Working capital loans:			
US$300 thousand, repayable by July 2007, annual interest at 6.0%, collateralized by land and buildings		9,779	300
US$700 thousand, repayable by October 2007, annual interest at 6.0%, collateralized by land and buildings		22,817	700
US$200 thousand, repayable by November 2007, annual interest at 6.0%, collateralized by land and buildings		6,519	200
US$200 thousand, repayable by November 2007, annual interest at 6.0%, collateralized by land and buildings		6,519	200
US$200 thousand, repayable by December 2007, annual interest at 6.0%, collateralized by land and buildings		6,519	200
Loans for import of machinery:			
US$4,090 thousand, repayable by January 2007, annual interest at 6.0% 6.03%, collateralized by land and buildings		133,303	4,090
US$283 thousand, repayable by February 2007, annual interest at 6.02535%, collateralized by land and buildings		9,211	283
US$223 thousand, repayable by March 2007, annual interest at 6.0125% 6.02%, collateralized by land and buildings		7,283	223
	467,834	1,055,310	32,381

Unused credit lines of short-term bank loans, as of December 31, 2006, totaled approximately NT$8,206,275 thousand, which will expire from January 2007 to December 2007.

The weighted average interest rate for bank loans was 3.2% per annum in 2006 (2005: 2.4% per annum).

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11. COMMERCIAL PAPER PAYABLE

	December 31,		
	2005	2006	
	NT$	NT$	US$
	(in thousands)		
Commercial paper	150,000		
Discount on par value	(587)		
	149,413		

The commercial paper s actual interest rate was 1.55%-1.662% in 2005, and it expired in February 2006.

12. OTHER PAYABLES THIRD PARTIES

	December 31,		
	2005	2006	
	NT$	NT$	US$
	(in thousands)		
Miscellaneous factory expenses	173,448	205,624	6,309
Others	231,499	343,973	10,555
	404,947	549,597	16,864

13. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	December 31,		
	2005	2006	
	NT$	NT$	US$
	(in thousands)		
Accrued bonus	352,946	489,291	15,014
Others	121,180	224,290	6,882
	474,126	713,581	21,896

14. CONVERTIBLE NOTES

	December 31,		
	2005	2006	
	NT$	NT$	US$
	(in thousands)		
Convertible notes	2,769,288	5,133,837	157,528
Less: current portion	(2,769,288)		
		5,133,837	157,528

On November 3, 2004, ChipMOS Bermuda issued US$85,000 thousand (NT$2,770,150 thousand) convertible notes due 2009 (CN due 2009). The CN due 2009 bear interest at 1.75% per annum. The noteholders may convert any outstanding notes into common shares of ChipMOS Bermuda, initially at the conversion price of US$7.85 at any time during the period from the 41st day after the latest original issuance date of the notes to the close of business on the fifth business day before the stated maturity date, subject to prior repurchase or redemption. The conversion price was subject to certain adjustments. On November 3, 2005, the conversion price was adjusted to US$6.28 per share from the initial conversion price of US$7.85 per share, pursuant to the terms of the CN due 2009. The market price on November 3, 2005 was US$6.00. There is no fixed discount to the common shares market price in relation to conversion. On December 20, 2004, ChipMOS Bermuda repurchased US$699 thousand (NT$22,780 thousand) of the CN due 2009. No conversion had taken place during 2005.

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14. CONVERTIBLE NOTES (continued)

On October 18, 2006, noteholders of CN due 2009 converted US$7,000 thousand (NT$228,130 thousand) in aggregate principal amount of the CN due 2009 into 1,114,649 common shares of ChipMOS Bermuda pursuant to ChipMOS Bermuda s induced conversion offer, dated October 17, 2006. Pursuant to the induced conversion offer, ChipMOS Bermuda paid approximately US$490 thousand (NT$15,969 thousand) to the converting noteholders.

The CN due 2009 had been classified as current liabilities as of December 31, 2005 as the noteholders had an option to cause ChipMOS Bermuda to repurchase for cash all or a portion of the notes on November 3, 2006 at a repurchase price equal to 100% of the principal amount of the notes plus any accrued and unpaid interest to, but excluding, the date of repurchase (put option). On November 3, 2006, ChipMOS Bermuda repurchased US$6,300 thousand (NT$205,317 thousand) CN due 2009 pursuant to the put option. After November 3, 2006, noteholders may cause ChipMOS Bermuda to repurchase the CN due 2009 only upon the occurrence of certain fundamental changes. Thus, the CN due 2009 have been reclassified as long-term liabilities as of December 31, 2006.

At any time on or after November 3, 2006, the Company may also at its option redeem the notes for cash at a price equal to 100% of the principal amount of the notes plus accrued and unpaid interest, (a) in whole or in part, if the market price of the Company s common shares has been at least 130% of the conversion price for at least 20 trading days during any 30 consecutive trading day period, or (b) in whole only, if at least 90% of the initial aggregate principal amount of the notes have been converted, repurchased or redeemed (call option).

On September 29, 2006, ChipMOS Bermuda issued US$100,000 thousand (NT$3,259,000 thousand) convertible notes due 2011 (CN due 2011). The CN due 2011 bear interest at 3.375% per annum. The noteholders may convert any outstanding notes into common shares of ChipMOS Bermuda, initially at the conversion price of US$6.85, at any time during the period from the 41st day after the latest original issuance date of the notes to the close of business on the fifth business day before the stated maturity date, subject to prior repurchase or redemption. The conversion price will be subject to certain adjustments. No conversion had taken place during 2006.

The noteholders of CN due 2011 have an option to cause ChipMOS Bermuda to repurchase for cash all or a portion of the notes on September 29, 2008 at a repurchase price equal to 100% of the principal amount of the notes plus any accrued and unpaid interest to, but excluding, the date of repurchase (put option).

At any time on or after September 29, 2008, the Company may also at its option redeem the notes for cash at a price equal to 100% of the principal amount of the notes plus accrued and unpaid interest, (a) in whole or in part, if the market price of the Company s common shares has been at least 130% of the conversion price for at least 20 trading days during any 30 consecutive trading day period, or (b) in whole only, if at least 90% of the initial aggregate principal amount of the notes have been converted, repurchased or redeemed (call option).

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15. LONG-TERM LOANS

	December 31,		
	2005	2006	
	NT$	NT$	US$
	(in thousands)		
Syndicated bank loans collateralized by equipment, repayable quarterly from December 2004 to September 2008, interest at floating rate (3.075% and 3.45% as of December 31, 2005 and 2006, respectively)	234,972	149,528	4,588
Syndicated bank loans collateralized by equipment, repayable semi-annually from September 2004 to September 2007, interest at floating rate (4.72% and 5.03% as of December 31, 2005 and 2006, respectively)	1,142,840	571,400	17,533
Syndicated bank loans, repayable semi-annually from September 2004 to September 2007, interest at floating rate (4.845% and 5.155% as of December 31, 2005 and 2006, respectively)	285,710	142,850	4,383
Bank loans, repayable quarterly from November 2004 to February 2007, interest at fixed rate of 3.4%	150,000	30,000	920
Syndicated bank loans collateralized by equipment, repayable quarterly from June 2004 to March 2008, interest at floating rate (3.97% and 4.24% as of December 31, 2005 and 2006, respectively)	1,277,308	709,615	21,774
Bank loans collateralized by equipment, repayable quarterly from December 2004 to September 2007, interest at floating rate (3.89% and 4.25% as of December 31, 2005 and 2006, respectively)	103,000	39,000	1,197
Bank loans, repayable semi-annually from March 2005 to September 2006, interest at floating rate (3.645% as of December 31, 2005)	134,000		
Bank loans collateralized by equipment, repayable quarterly from February 2005 to November 2008, interest at floating rate (2.9% and 3.14% as of December 31, 2005 and 2006, respectively)	262,505	175,005	5,370
Syndicated bank loans collateralized by equipment, repayable quarterly from April 2005 to January 2011, interest at floating rate (3.075% and 3.45% as of December 31, 2005 and 2006, respectively)	539,131	431,305	13,234
Syndicated bank loans collateralized by equipment, repayable semi-annually from November 2006 to May 2010, interest at floating rate (3.72% and 3.99% as of December 31, 2005 and 2006, respectively)	1,000,000	875,000	26,849
Syndicated bank loans collateralized by buildings, repayable in September 2009, interest at floating rate (3.195% and 3.505% as of December 31, 2005 and 2006, respectively)	500,000	500,000	15,342
Bank loans, repayable quarterly from February 2006 to November 2009, interest at fixed rate of 4.69%	500,000	375,000	11,507
Bank loans collateralized by equipment, repayable quarterly from March 2006 to December 2010, interest at floating rate (3.2% and 3.08% as of December 31, 2005 and 2006, respectively)	440,000	352,000	10,801
Bank loans collateralized by land and buildings, repayable monthly from May 2008 to April 2020, interest at floating rate (2.5% as of December 31, 2005)	130,000		
Research and development subsidy loan, collateralized by time deposits in amounts of NT$25,000 thousand, repayable quarterly from July 2003 to July 2006, with zero interest rate	6,181		

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15. LONG-TERM LOANS (continued)

	December 31, 2005 NT$	2006 NT$	2006 US$
		(in thousands)	
Industrial research and development advancement loan, collateralized by time deposits in amounts of NT$29,633 thousand, repayable quarterly from January 2006 to April 2010, interest at fixed rate of 1%	29,120	22,649	695
Syndicated bank loans, repayable in April 2008, interest at floating rate (3.655% as of December 31, 2006)		500,000	15,342
Bank loans, repayable in April 2009, interest at fixed rate of 2.89%		200,000	6,137
Syndicated bank loans collateralized by equipment, repayable semi-annually from April 2008 to April 2011, interest at floating rate (3.14% as of December 31, 2006)		6,000,000	184,106
Bank loans collateralized by equipment, repayable quarterly from July 2006 to April 2008, interest at fixed rate of 3.2%		150,000	4,603
Bank loans, repayable quarterly from September 2007 to June 2009, interest at floating rate (3.24% as of December 31, 2006)		200,000	6,137
Bank loans, repayable quarterly from December 2007 to December 2009, interest at floating rate (3.01% as of December 31, 2006)		400,000	12,274
Bank loans collateralized by buildings, repayable semi-annually from June 2009 to December 2013, interest at floating rate (3.09% as of December 31, 2006)		450,000	13,808
Bank loans collateralized by equipment, repayable quarterly from May 2007 to February 2012, interest at floating rate (2.75% as of December 31, 2006)		264,000	8,101
Bank loans collateralized by land and buildings, repayable quarterly from September 2008 to June 2009, interest at floating rate (6.12375% as of December 31, 2006)		65,190	2,000
Bank loans collateralized by land and buildings, repayable quarterly from December 2008 to July 2009, interest at floating rate (6.35% as of December 31, 2006)		13,038	400
Bank loans collateralized by land and buildings, repayable quarterly from December 2008 to September 2009, interest at floating rate (6.22063% as of December 31, 2006)		130,380	4,001
Bank loans collateralized by land and buildings, repayable quarterly from December 2008 to August 2009, interest at floating rate (6.26063% as of December 31, 2006)		24,446	750
Bank loans collateralized by land and buildings, repayable quarterly from March 2009 to September 2009, interest at floating rate (6.22% as of December 31, 2006)		55,411	1,700
Bank loans collateralized by land and buildings, repayable in October 2009, interest at floating rate (6.20688% as of December 31, 2006)		1,304	40
Bank loans collateralized by land and buildings, repayable in November 2009, interest at floating rate (6.17063% as of December 31, 2006)		3,223	99

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15. LONG-TERM LOANS (continued)

	December 31,		
	2005	2006	
	NT$	NT$	US$
		(in thousands)	
Bank loans collateralized by land and buildings, repayable quarterly from March 2009 to November 2009, interest at floating rate (6.18063% as of December 31, 2006)		32,595	1,000
Bank loans collateralized by land and buildings, repayable quarterly from March 2009 to November 2009, interest at floating rate (6.16875% as of December 31, 2006)		88,007	2,700
Bank loans collateralized by land and buildings, repayable quarterly from March 2009 to December 2009, interest at floating rate (6.17% as of December 31, 2006)		60,301	1,850
Bank loans collateralized by land and buildings, repayable quarterly from June 2009 to December 2009, interest at floating rate (6.17% as of December 31, 2006)		8,149	250
Bank loans collateralized by land and buildings, repayable in December 2009, interest at floating rate (6.16% as of December 31, 2006)		2,380	73
Bank loans collateralized by land and buildings, repayable in December 2009, interest at floating rate (6.16063% as of December 31, 2006)		2,288	70
	6,734,767	13,024,064	399,634
Less current portion	(2,300,916)	(2,335,284)	(71,657)
	4,433,851	10,688,780	327,977

As of December 31, 2006, there was no unused credit line for the research and development subsidy loan. The line expires upon completion of the research project. Also, pursuant to the agreement signed by ChipMOS Taiwan with the Industrial Development Bureau (IDB) in respect to the research and development subsidy loan, ChipMOS Taiwan is obligated to pay a maximum of NT$4,919 thousand or a certain percentage (2%) of sales of products developed for 3 years after completing the project. In 2004, ChipMOS Taiwan paid NT$4,919 thousand to IDB.

Unused credit lines of long-term bank loans as of December 31, 2006 totaled approximately NT$3,123,974 thousand.

Under one of the syndicated bank loan facility agreements, ChipMOS Taiwan is required to:

(1) Ensure that ChipMOS Bermuda and SPIL maintain a percentage of direct ownership in ChipMOS Taiwan of at least 50% of outstanding shares and have control over its operation.

(2) Maintain certain financial ratios.

As of December 31, 2006, ChipMOS Bermuda and SPIL have 99.18% of direct ownership in ChipMOS Taiwan and have control over its operations.

ChipMOS Taiwan was in compliance with the financial ratio requirements as of December 31, 2006.

As of December 31, 2006, certain land and buildings (including land use rights) and machinery with an aggregate net book value of NT$2,139,452 thousand and NT$13,444,477 thousand, respectively, and time deposits in an aggregate amount of NT$29,633 thousand were mortgaged as collateral for the long-term loans.

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15. LONG-TERM LOANS (continued)

Future minimum principal payments under the long-term loans as of December 31, 2006 are as follows:

	Amount NT$	US$
	(in thousands)	
2007	2,335,284	71,657
2008	3,540,446	108,636
2009	3,774,024	115,803
2010	2,181,138	66,927
2011	999,972	30,683
Thereafter	193,200	5,928
	13,024,064	399,634

16. PENSION PLAN

ChipMOS Taiwan, ThaiLin, ChipMOS Logic and CHANTEK have established defined benefit pension plans for all of their regular employees, which provide benefits based on the length of service and the average monthly salary for the six-month period immediately before retirement.

ChipMOS Taiwan, ThaiLin, ChipMOS Logic and CHANTEK make monthly contributions, equal to 2% of salaries and wages, to a pension fund that is administered by a pension fund monitoring committee and deposited in the Central Trust of China in the Republic of China.

Taiwan has a new pension scheme law effective July 1, 2005. The new pension scheme is a defined contribution scheme. All new employees who join or joined ChipMOS Taiwan and ThaiLin after July 1, 2005 must participate in the new scheme. Existing employees can choose to stay with the old scheme or to join the new scheme. Under the new scheme, ChipMOS Taiwan and ThaiLin are required to contribute 6% of the employees salary into the employees own pension fund accounts managed by the government.

Before the consummation of the mergers of CHANTEK into ChipMOS Taiwan and ChipMOS Logic into ThaiLin, CHANTEK and ChipMOS Logic requested a refund of the money deposited in the Central Trust of China. After the mergers, ChipMOS Taiwan and ThaiLin made monthly contributions to the pension fund for the employees transferred from CHANTEK and ChipMOS Logic as well.

The employees of ChipMOS Shanghai are required to participate in a central pension scheme operated by the local municipal government. Contributions are made based on a percentage of the employees salaries and bonuses, if applicable, and are charged to the income statement as incurred.

Certain pension information is as follows:

a. Net pension cost

	Year Ended December 31, 2004	2005	2006	
	NT$	NT$	NT$	US$

		(in thousands)		
Service cost	56,065	30,021	1,688	52
Interest cost	8,038	8,159	7,790	239
Projected return on plan assets	(5,304)	(4,500)	(4,740)	(145)
Amortization	(143)	53	53	2
Curtailment gain	655	1,031	780	24
	59,311	34,764	5,571	172

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16. PENSION PLAN (continued)

b. Reconciliation of the fund status of the plan and accrued pension cost

	Year Ended December 31,			
	2004	2005	2006	
	NT$	NT$	NT$	US$
	(in thousands)			
Actuarial present value of benefit obligations				
Vested benefit obligation	374	415	1,028	32
Nonvested benefit obligation	169,835	142,011	141,408	4,339
Accumulated benefit obligation	170,209	142,426	142,436	4,371
Additional benefits based on future salaries	143,915	140,827	175,209	5,376
Projected benefit obligation	314,124	283,253	317,645	9,747
Plan assets at fair value	(174,349)	(157,043)	(199,991)	(6,137)
Projected benefit obligation in excess of plan assets	139,775	126,210	117,654	3,610
Unrecognized net transition obligation	(3,043)	(663)	(610)	(19)
Unrecognized net gain	(34,058)	(43,889)	(69,472)	(2,131)
Accrued pension cost	102,674	81,658	47,572	1,460

c. Actuarialassumptions

	Year Ended December 31,		
	2004	2005	2006
Discount rate used in determining present values	3.25%	2.75%	2.75%
Future salary increase rate	3.25%	3.25%	4.25%
Expected rate of return on plan assets	3.25%	2.75%	2.75%

d. Changes in pension fund

	Year Ended December 31,			
	2004	2005	2006	
	NT$	NT$	NT$	US$
	(in thousands)			
Company contributions	32,160	29,892	39,656	1,217
Payment of benefits				

17. SHAREHOLDERS EQUITY

Under ROC Company Law, capital surplus can only be used to offset deficits, except that capital surplus generated from (1) donations (donated capital) or (2) the excess of the issue price over the par value of capital stock (including stocks issued for new capital and mergers, and the purchase of treasury stock) can be transferred to capital as stock dividends when no deficit remains and shareholders approve such distribution.

ChipMOS Taiwan s Articles of Incorporation provide that the following may be appropriated from the accumulated net income, after deducting any previously accumulated deficit and 10% legal reserve, subject to shareholders approval: (a) 10% as bonuses to employees, (b) not more than 2% as remuneration to directors and supervisors, (c) a special reserve, if deemed necessary, and (d) dividends to shareholders.

These appropriations and the disposition of the remaining net income shall be resolved by the shareholders in the following year and given effect in the financial statements of that year.

The aforementioned appropriation for legal reserve shall be made until the reserve equals the aggregate par value of ChipMOS Taiwan s outstanding capital stock. The reserve can only be used to offset a deficit, or when its balance has reached 50% of the aggregate par value of the outstanding capital stock of ChipMOS Taiwan, and up to 50% thereof can be distributed as stock dividends.

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17. SHAREHOLDERS EQUITY (continued)

Stock Options

The Share Option plan provides that the directors, officers, employees and consultants of ChipMOS Bermuda and its affiliates may be granted options to purchase common shares of ChipMOS Bermuda at specified exercise prices.

The following table summarizes information about stock options outstanding at December 31, 2006.

Name	Date of grant	Exercise Price US$	Number outstanding	Market Price at grant US$	Market Price at Year End US$	Number Exercisable on or after	Number Exercisable on or after	Number Exercisable on or after	Number Exercisable on or after	N Exer o
020403ESOP	April 3, 2002	4.0375	870,450	4.75	6.79	April 3, 2003	131,225 April 3, 2004	358,621 April 3, 2005	380,604 April 3, 2006	
030613ESOP	June 13, 2003	0.7650	1,060,050	1.09	6.79	December 13, 2003	258,999 December 13, 2004	312,463 December 13, 2005	488,588 December 13, 2006	
031001ESOP	October 1, 2003	1.7425	502,001	2.05	6.79	71,001 October 1, 2004	92,000 October 1, 2005	160,750 October 1, 2006	178,250 October 1, 2007	
031103ESOP	November 3, 2003	1.7425	26,300	3.70	6.79	2,750 November 3, 2004	3,750 November 3, 2005	9,900 November 3, 2006	9,900 November 3, 2007	
040430ESOPA	April 30, 2004	6.6300	1,035,925	7.8	6.79	249,800 April 30, 2005	256,925 April 30, 2006	264,600 April 30, 2007	264,600 April 30, 2008	
040430ESOPB	April 30, 2004	5.6400		7.8	6.79	April 30, 2005	April 30, 2006	April 30, 2007	April 30, 2008	
040813ESOP	August 13, 2004	3.6000	934,200	3.6	6.79	135,850 August 13, 2005	249,700 August 13, 2006	274,325 August 13, 2007	274,325 August 13, 2008	
060831ESOPB	August 31, 2006	5.1425	315,000	6.05	6.79	63,000 August 31, 2006	63,000 August 31, 2007	63,000 August 31, 2008	63,000 August 31, 2009	6 Au 2
060831ESOPA	August 31, 2006	5.1425	1,640,060	6.05	6.79	410,303 August 31, 2007	409,919 August 31, 2008	409,919 August 31, 2009	409,919 August 31, 2010	
060920ESOP	September 20, 2006	5.2190	36,000	6.14	6.79	9,000 September 20, 2007	9,000 September 20, 2008	9,000 September 20, 2009	9,000 September 20, 2010	
061020ESOP	October 20, 2006	5.1000	23,000	6.00	6.79	5,750 October 20, 2007	5,750 October 20, 2008	5,750 October 20, 2009	5,750 October 20, 2010	
061120ESOP	November 20, 2006	4.8110	69,000	5.66	6.79	17,250 November 20,	17,250 November 20,	17,250 November 20,	17,250 November 20,	

						2007	2008	2009	2010
061220ESOP	December 20, 2006	5.7205	46,750	6.73	6.79	11,689	11,687	11,687	11,687
						December 20, 2007	December 20, 2008	December 20, 2009	December 20, 2010
			6,558,736						

The Company has applied APB Opinion No. 25 Accounting for Stock Issued to Employees and related interpretations, for stock options issued to employees in accounting for its stock option plans. Therefore, NT$136,154 thousand (US$4,178 thousand) of compensation expense has been recognized with NT$18,623 thousand (US$571 thousand) (2005: NT$28,006 thousand) being accounted for through the statement of operations. The Company issued 2,170,510 (2005: nil) stock options in 2006 to its employees. In 2006, 319,200 (2005: 312,750) were forfeited and 1,322,143 (2005: 441,094) were exercised, leaving 6,558,736 (2005: 6,029,569) stock options outstanding at December 31, 2006.

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17. SHAREHOLDERS EQUITY (continued)

Share Appreciation Rights

The share appreciation rights plan provides that the directors, officers and employees of ChipMOS Bermuda and its affiliates may be granted cash-settled share appreciation rights.

The following table summarizes information about share appreciation rights outstanding at December 31, 2006.

Name	Date of grant	Exercise Price	Number outstanding	Market Price at grant	Market Price at Year End	Number Exercisable on or after	Number Exercisable on or after	Number Exercisable on or after	Number Exercisabl on or after
060831SARs	September 20, 2006	5.1425	926,110	6.14	6.79	231,553 August 31, 2007	231,519 August 31, 2008	231,519 August 31, 2009	231,519 August 31 2010
060920SARs	September 20, 2006	5.2190	75,000	6.14	6.79	18,750 September 20, 2007	18,750 September 20, 2008	18,750 September 20, 2009	18,750 September 2010
061020SARs	October 20, 2006	5.1000	42,000	6.00	6.79	10,500 October 20, 2007	10,500 October 20, 2008	10,500 October 20, 2009	10,500 October 2 2010
061120SARs	November 20, 2006	4.8110	93,000	5.66	6.79	23,250 November 20, 2007	23,250 November 20, 2008	23,250 November 20, 2009	23,250 November 2010
061220SARs	December 20, 2006	5.7205	66,000	6.73	6.79	16,500 December 20, 2007	16,500 December 20, 2008	16,500 December 20, 2009	16,500 December 2010
			1,202,110						

During the year, 1,229,110 rights were granted and 27,000 rights were forfeited. As of December 31, 2006, there were 1,202,110 (2005: nil) share appreciation rights outstanding.

The Company recognized compensation expense of NT$24,684 thousand (2005: nil) in respect of share appreciation rights at fair value.

18. INCOME TAX EXPENSE (BENEFIT)

a. A reconciliation of income tax expense current before tax credits and income tax expense on income before income tax at statutory rates is shown below:

	Year Ended December 31,		
	2004	2005	2006

	NT$	NT$	NT$	US$
		(in thousands)		
Tax on pretax income at 0%				
Tax on pre tax income at applicable statutory rates	677,744	752,862	1,354,892	41,573
Tax effect:				
Losses carried forward	(274,373)	(476,206)	(246,352)	(7,559)
Tax exempt income	(174,756)	(136,122)	(165,760)	(5,086)
Permanent differences	(10,400)	42,486	(106,793)	(3,277)
Temporary differences	112,515	44,167	(108,075)	(3,316)
Income tax expense current before tax credits	330,730	227,187	727,912	22,335

The ROC statutory tax rates for 2004, 2005 and 2006 were 25%.

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18. INCOME TAX EXPENSE (BENEFIT) (continued)

b. Income tax expense (benefit) consists of:

	Year Ended December 31,			
	2004	2005	2006	
	NT$	NT$	NT$	US$
	(in thousands)			
Income tax expense current before tax Credits	402,554	227,187	727,912	22,335
Additional 10% on the unappropriated Earnings		163,838	111,066	3,408
Income tax credits	(355,923)	(218,672)	(506,285)	(15,535)
Separate and foreign income tax	86	746		
Income tax for the current year	46,717	173,099	332,693	10,208
Net change in deferred income tax assets (liabilities) for the year				
Tax credits	(82,277)	76,611	(206,923)	(6,349)
Temporary differences	(165,509)	(237,161)	94,547	2,901
Losses recognized		(13,174)	6,764	208
Valuation allowances	(461,529)	(405,487)	280,359	8,603
Losses carried forward	523,549	517,738	133,732	4,103
Adjustment of prior years taxes	(2,755)	323	(4,673)	(143)
Income tax expense (benefit)	(141,804)	111,949	636,499	19,531

Since the Company is an exempted company incorporated in Bermuda, a tax-free country, tax on pretax income is calculated at the Bermuda statutory rate of 0% for each year.

ChipMOS Taiwan, under Science Park Regulations, is entitled to an exemption from ROC income taxes for a period of four years on income attributable to the expansion of its production capacity as a result of purchases of new equipment funded by capital increases. Such tax exemption will expire on December 31, 2008.

In accordance with the relevant tax rules and regulations in the PRC, ChipMOS Shanghai enjoys income tax exemptions for the first two profitable years and 50% reductions for the following three years. Tax losses can only be carried forward for five years. The PRC statutory rates for 2004 and 2005 were 33%. ChipMOS Shanghai is subject to PRC income tax at 27%.

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

	December 31,		
	2005	2006	
	NT$	NT$	US$
	(in thousands)		
Net current deferred income tax assets:			
Unrealized foreign exchange losses	3,496	3,679	113
Tax credits	110,103	491	15
Loss of market price decline and obsolete and slow-moving inventories	20,616	19,026	584
Unrealized loss on sale allowances	9,455	21,912	672
Others	95,532	89,229	2,738

	239,202	134,337	4,122
Net non-current deferred income tax liabilities:			
Losses carried forward	147,132	62,396	1,915
Tax credits	801,450	1,117,985	34,305
Depreciation differences	(556,316)	(627,613)	(19,258)
Unrealized impairment loss on idle fixed Assets	12,586	12,586	386
Others	296,394	273,676	8,397
	701,246	839,030	25,745
Less: Valuation allowances	(793,874)	(1,079,494)	(33,123)
	(92,628)	(240,464)	(7,378)

The deferred income tax components are measured at respective applicable statutory rates as of December 31, 2005 and 2006.

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18. INCOME TAX EXPENSE (BENEFIT) (continued)

d. The balance and year of expiry of unused investment tax credits and losses carried forward as of December 31, 2006 are as follows:

Year of expiry	R & D expenditures NT$	Machinery and equipment NT$	Losses carried forward NT$
		(in thousands)	
2007	34,184	267,082	
2008		254,505	
2009	42,732	43,416	
2010		476,557	
After 2011			62,396
	76,916	1,041,560	62,396

The deferred tax assets relate to investment tax credits on research and development expenditure and purchases of machinery and equipment which will expire from 2007 to 2010. Under ROC tax regulations, tax credits can be utilized to reduce current income tax obligations only to the extent of 50% of such income tax obligations except in the year when such tax credits will expire, in which case, the entire amount of expiring tax credits may be utilized to reduce the current income tax obligation. The foregoing limitation on the utilization of tax credits, the expiry dates of the tax credits, the level of tax credits expected to be generated from future operations and the level of non-taxable income attributable to the four-year income tax holiday on capacity expansion led management to conclude that it is unlikely that these investment tax credits will be fully realized. Losses carried forward can be used to deduct current income tax obligations up to the extent of taxable income and will expire after five years if not fully utilized by the Company. Accordingly, a valuation allowance on deferred tax assets is recognized as of December 31, 2005 and 2006.

e. According to ROC tax law, ChipMOS Taiwan s, ThaiLin s, ChipMOS Logic s and CHANTEK s unappropriated earnings generated in 1998 and thereafter are subject to a tax of 10% in the year when the shareholders resolve that such earnings shall be retained. The retained earnings as of December 31, 2005 and 2006 consist of:

	December 31, 2005 NT$	2006 NT$	2006 US$
		(in thousands)	
Before 1998			
1998 and thereafter	3,626,488	6,930,120	212,646
	3,626,488	6,930,120	212,646

The income tax returns of ChipMOS Taiwan and ThaiLin through 2003 and 2004, respectively, have been assessed by the tax authorities (Note 22h).

19. RELATED PARTY TRANSACTIONS

The Company engages in business transactions with the following related parties:

a. MVI: A major shareholder.

b. DenMOS Technology Inc. (DenMOS): An investee of MVI.

c. ProMOS: An investee of MVI.

d. SPIL: A major shareholder of ChipMOS Taiwan.

e. CHANTEK: A former subsidiary of ChipMOS Taiwan. It merged with ChipMOS Taiwan on November 21, 2005.

f. PlusMOS: A former 25% owned investee of ChipMOS Taiwan. It merged with CHANTEK in April 2004.

g. Best Home: A 19% owned investee of ChipMOS Taiwan; ChipMOS Taiwan is a major shareholder.

h. Jesper: The legal owner of the stock in Modern Mind.

i. Prudent Holdings Group Ltd (Prudent): A 3.4% shareholder.

j. Mou-Fu: An investee of MVI.

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19. RELATED PARTY TRANSACTIONS (continued)

The significant transactions with the aforementioned parties, other than those disclosed in other notes, are summarized as follows:

	Year Ended December 31,			
	2004	2005	2006	
	NT$	NT$	NT$	US$
	(in thousands)			
During the year				
Revenue				
ProMOS	4,231,658	4,332,058	5,529,273	169,662
MVI	14,273	6		
DenMOS	567,043	271,393	125,040	3,837
PlusMOS	16,751			
SPIL			83	2
CHANTEK	14,699			
	4,844,424	4,603,457	5,654,396	173,501
Rental revenue				
MVI	4,800	4,800	2,160	66
DenMOS	455	30		
ProMOS	14,057	9,371	9,371	288
	19,312	14,201	11,531	354
Purchases of materials				
MVI	637,089	11,964		
SPIL		75		
	637,089	12,039		
Operating expenses:				
Management expenses				
MVI	1,950			
Mou-Fu	2,275	3,900	1,950	60
	4,225	3,900	1,950	60
Rental expenses				
MVI	2,218	593		
ProMOS		1,245		
	2,218	1,838		
Other expenses				
Jesper	4,136			
ProMOS	1,027			
MVI	148	148	144	4

PlusMOS	88			
	5,399	148	144	4
Other revenue				
SPIL			62	2
PlusMOS	41			
ProMOS	507	522	73	2
	548	522	135	4
Fee for shareholders services				
Mou-Fu	4,051	2,667	2,520	77

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19. RELATED PARTY TRANSACTIONS (continued)

	December 31,		
	2005	2006	
	NT$	NT$	US$
		(in thousands)	
At the end of year			
Financial assets at fair value through profit and loss			
Stock			
MVI	16,792		
ProMOS	7,630	110,778	3,399
	24,422	110,778	3,399
Accounts receivable			
ProMOS	1,372,950	1,851,469	56,811
DenMOS	54,901	10,498	322
MVI			
Less: Allowances for doubtful receivables	(9,429)	(22,837)	(701)
	1,418,422	1,839,130	56,432
Other receivables			
ProMOS	3,174	13,118	403
MVI	852	613	19
SPIL		65	2
DenMOS	317	162	5
	4,343	13,958	429
Other payables			
MVI	28	25	1
Mou-Fu	348		
ProMOS	781		
SPIL	79		
	1,236	25	1

On August 10, 2000, ChipMOS Taiwan entered into a service agreement with MVI pursuant to which ChipMOS Taiwan is obligated to provide testing and assembly services to MVI (or its customers) whenever requested. This service agreement was amended on September 1, 2002 to change the terms of the storage services ChipMOS Taiwan provides to MVI.

In the period from July to December 2003, MVI transferred its DRAM business to ProMOS. As a result, 28%, 28% and 27% of the Company s 2004, 2005 and 2006 sales were made to ProMOS. The price was agreed upon quarterly, based on the then fair market price. Payments are made by remittance. The collection term for ProMOS is 75 days after month end, while other related parties have normal collection terms of 60 days after month end. The selling price is the same as for other customers.

On October 11, 2002, ChipMOS Taiwan signed an agreement with Best Home for the construction of a central kitchen in Taiwan and paid NT$216,000 thousand as an advance to Best Home for the purpose of acquiring a suitable site. Best Home did not proceed in a timely manner and on December 17, 2003, the advance was assigned to Prudent, who agreed to pay NT$216,000 thousand back to ChipMOS Taiwan by June 30, 2004. On June 25, 2004, a supplementary agreement was signed with Prudent whereby the payment date was extended to September 30, 2004, and on

September 24, 2004, another supplementary agreement was signed with Prudent for the extension of the payment date to December 30, 2004. Prudent also entered into a pledge agreement on the same day whereby the advance of NT$216,000 thousand has been secured by Prudent s shareholding in ChipMOS Bermuda to the extent of 2,360,000 common shares in favour of ChipMOS Taiwan. ChipMOS Taiwan received full refund of the prepayment from Prudent on November 19, 2004.

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19. RELATED PARTY TRANSACTIONS (continued)

In 2004, ChipMOS Taiwan purchased machinery from ProMOS at a cost of NT$46,284 thousand.

In 2006, ThaiLin acquired motor vehicles from its president Lafair Cho at NT$1,400 thousand.

The payment terms for purchases from related parties are the same as those from other suppliers.

The Company consults its ROC counsel on certain related party transactions and obtains legal opinions, as appropriate, to ensure that such transactions do not violate relevant ROC laws and regulations.

20. RESTRICTED CASH AND CASH EQUIVALENTS

	December 31,		
	2005	2006	
	NT$	NT$	US$
	(in thousands)		
Current:			
Time deposits (maturing from January 2007 to October 2007)	96,091	51,650	1,585
Deposit for letters of credit	73,218	13,410	411
	169,309	65,060	1,996
Non-current:			
Time deposits (matured in March 2007)	29,356	29,633	909
	198,665	94,693	2,905

Time deposits are pledged as collateral for the Company s customs duties payable, letters of credit and research and development subsidy loans.

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21. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

a. Acquisition of subsidiaries

	Year Ended December 31,			
	2004	2005	2006	
	NT$	NT$	NT$	US$
	(in thousands)			
Net assets acquired:				
Cash and bank balances	129,342			
Restricted cash and cash equivalent	1,000			
Short term investments	299,439			
Notes receivable	38,364			
Accounts receivable	319,648			
Other receivables	15,237			
Inventories	245,114			
Prepayment and other assets	64,808			
Long-term investment	46,231			
Property, plant and equipment	1,999,717			
Intangible assets	600			
Refundable deposits	54,458			
Other assets	1,294			
Bank loans	(219,752)			
Long-term loans	(759,302)			
Capital lease payable	(13,933)			
Notes payable	(2,479)			
Accounts payable	(291,648)			
Payable to contractor	(1,650)			
Other payables	(650,000)			
Income tax payable	(3)			
Accrued and other liabilities	(105,791)			
Accrued pension	(25,709)			
Other non-current liabilities	(1,115)			
Minority interest	(833,878)			
	309,992			
Goodwill on acquisition	5,450			
	315,442			
Satisfied by:				
Cash	67,533			
Reclassification to interest in subsidiary	247,909			
	315,442			

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

Cash and bank balances acquired	129,342
Less: cash consideration	(67,533)
	61,809

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21. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

b. Disposal of a subsidiary

	Year Ended December 31,			
	2004	2005	2006	
	NT$	NT$	NT$	US$
	(in thousands)			
Net assets disposed:				
Cash and bank balances		46,674		
Accounts receivable		7,115		
Inventories		38		
Prepayment and other assets		3,064		
Property, plant and equipment		50,505		
Intangible assets		2,099		
Capital lease payable		(12,400)		
Accounts payable		(794)		
Accrued and other liabilities		(514)		
Minority interest		(29,429)		
		66,358		
Loss on disposal of a subsidiary		(2,603)		
		63,755		
Cash consideration		63,755		

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

Cash consideration	63,755
Less: cash and bank balances disposed	(46,674)
	17,081

22. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

a. As of December 31, 2006, ChipMOS Taiwan leased parcels of land from the Hsinchu and Tainan Science Park under several agreements expiring on various dates from 2008 to 2017, with renewal options.

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

Year	Amount	
	NT$	US$
	(in thousands)	
2007	17,362	533
2008	17,362	533
2009	17,362	533

2010	17,362	533
2011	17,362	533
Thereafter	104,174	3,196
Total minimum lease payments	190,984	5,861

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22. SIGNIFICANT COMMITMENTS AND CONTINGENCIES (continued)

b. As of December 31, 2006, ChipMOS USA leased its office under an agreement expiring in 2010. The future minimum lease payments under the above-mentioned lease as of December 31, 2006 are as follows:

Year	Amount NT$	US$
	(in thousands)	
2007	3,455	106
2008	3,553	109
2009	3,651	112
2010	3,129	96
Total minimum lease payments	13,788	423

c. As of December 31, 2006, ChipMOS Shanghai leased land under an agreement expiring in August 2052. The future minimum lease payments under the above-mentioned lease as of December 31, 2006 are as follows:

Year	Amount NT$	US$
	(in thousands)	
2007	1,192	37
2008	1,192	37
2009	1,192	37
2010	1,192	37
2011	1,192	37
Thereafter	48,463	1,486
Total minimum lease payments	54,423	1,671

d. As of December 31, 2006, ChipMOS HK leased its office under an agreement expiring on June 14, 2010. The future minimum lease payments under the above-mentioned leases as of December 31, 2006 are as follows:

Year	Amount NT$	US$
	(in thousands)	
2007	1,775	54
2008	1,775	54
2009	1,775	54
2010	740	23
Total minimum lease payments	6,065	185

e. As of December 31, 2006, ChipMOS Taiwan leased machinery under an agreement expiring in 2009. The future minimum lease payments under the above-mentioned leases as of December 31, 2006 are as follows:

Year	**Amount**	
	NT$	**US$**
	(in thousands)	
2007	44,376	1,362
2008	44,376	1,362
2009	33,282	1,021
Total minimum lease payments	122,034	3,745

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22. SIGNIFICANT COMMITMENTS AND CONTINGENCIES (continued)

f. On April 20, 1999, ChipMOS Taiwan entered into a semiconductor packaging technology license agreement with Tessera Technologies, Inc. (Tessera). Under this agreement, ChipMOS Taiwan agreed to pay a license fee of US$500 thousand and a royalty fee at a certain percentage of the net sales of certain products. ChipMOS Taiwan paid the total license fee of approximately US$500 thousand (NT$15,888 thousand) in 1999 and amortized the amount over 5 years using the straight-line method. ChipMOS Taiwan also paid approximately US$500 thousand (NT$16,708 thousand) in 2004 as the cumulative production and sales quantity of products bearing Tessera Compliant Chip packages did not meet the commitment schedule as set forth in the agreement. In February 2006, ChipMOS Taiwan and ChipMOS USA received notice of a patent infringement lawsuit brought by Tessera, alleging infringement of several Tessera patents and breach of an existing license agreement with ChipMOS Taiwan. According to Company s counsel, fact discovery has been ongoing and is scheduled to close on March 31, 2007, although it may be extended beyond that date by order of the Court. Therefore, expert discovery will be continued and the trial date could be moved to April 2008. The Company s counsel has not formed an opinion as to the outcome of the case.

g. The Company has unused letters of credit aggregating approximately US$18,168 thousand, Euro 202 thousand, JPY1,768,452 thousand and GBP16 thousand, as of December 31, 2006.

h. In 2003, tax authorities assessed and adjusted by way of increase the income taxes of ChipMOS Taiwan for 2000 by NT$30,526 thousand. The Company filed an appeal against the assessment. In April 2006, the tax authorities requested the payment of NT$1,786 thousand. The Company paid the tax in May 2006 and the case was closed.

i. As of December 31, 2006, Modern Mind had a capital commitment in relation to capital contribution to ChipMOS Shanghai of US$127,500 thousand (NT$4,155,000 thousand), which was due on June 6, 2005. On March 21, 2005, Modern Mind obtained approval from the Shanghai Foreign Investment Committee to extend the capital contribution due date to December 6, 2007.

j. As of December 31, 2006, ChipMOS Shanghai had capital commitments in relation to construction of factories, dormitories and purchase of plant and machinery in the amount of NT$76,901 thousand (US$2,360 thousand).

k. As of December 31, 2006, ChipMOS Taiwan had capital commitments in relation to purchase of machinery in the amount of approximately US$7,000 thousand (2005: US$110,000 thousand).

l. On October 16, 2006, Freescale Semiconductor, Inc. (Freescale) unilaterally terminated an Immunity Agreement (the Agreement), ChipMOS Taiwan and Freescale, formerly part of Motorola, Inc. (Motorola), entered into in 1999 for ChipMOS Taiwan s alleged breach of the Agreement. Under the Agreement, ChipMOS Taiwan promised to pay royalties and licensee fees to Motorola for using certain patents owned by Motorola. Freescale replaced Motorola as a party to the Agreement, after Freescale was spun off from Motorola. Freescale has alleged that ChipMOS Taiwan breached the Agreement by failing to pay royalties on certain packages assembled by ChipMOS Taiwan. Freescale claims that such packages are covered by one or more Freescale patents identified in the Agreement while ChipMOS Taiwan contends that such packages are not covered by any patents in the Agreement, or, if covered, those patents are invalid. As such, ChipMOS Taiwan argues Freescale s unilateral termination of the Agreement has no legal effect. ChipMOS Taiwan has continued to make royalty payments for products it believes are covered by the Agreement. Any payments returned by Freescale have been deposited in a separate escrow account. If Freescale initiates a lawsuit, ChipMOS Taiwan expect to vigorously defend itself. The Company s counsel has not formed any opinion as to the outcome of the case.

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23. POST BALANCE SHEET EVENTS

Subsequent to the year end on February 13, 2007, the Company agrees to purchase and SPIL (see Notes 1 and 19) agrees to sell all of SPIL s equity interest in ChipMOS Taiwan at US$0.75 per share, for an aggregate amount of approximately US$191,000 thousand (NT$6,225,000 thousand), and SPIL agrees to subscribe for 12,174,998 newly issued common shares of ChipMOS Bermuda through a private placement, at a price per share of US$6.28, for an aggregate amount of approximately US$76,000 thousand (NT$2,477,000 thousand). Closing of the above transactions is subject to the receipt of certain regulatory approvals in Taiwan and satisfaction of other customary closing conditions. Upon closing of the transactions, ChipMOS Taiwan will become a 99%-owned subsidiary of ChipMOS Bermuda with SPIL owning approximately 14.7% of ChipMOS Bermuda s outstanding common shares.

24. DERIVATIVE FINANCIAL INSTRUMENTS

ChipMOS Taiwan has entered into forward exchange contracts and foreign currency options for the years ended December 31, 2004, 2005 and 2006 to hedge its exchange rate risk on foreign-currency assets or liabilities and anticipated transactions. Information on the derivative transactions is as follows:

a. Forward exchange contracts

As of December 31, 2005 and 2006, there were no outstanding forward contracts.

Net exchange gains on forward exchange contracts were NT$4,710 thousand, NT$1,528 thousand and NT$2,257 thousand for the years ended December 31, 2004, 2005 and 2006, respectively.

b. European option

ChipMOS Taiwan expects to receive U.S. dollars from its export sales and to pay Japanese yen for its importation of materials, machinery and equipment. It has entered into European-style foreign currency option contracts with banks to hedge exchange rate risks. As of December 31, 2006, ChipMOS Taiwan had no outstanding foreign currency option contracts. For the years ended December 31, 2004, 2005 and 2006, ChipMOS Taiwan realized premium income of nil, NT$36 thousand and nil, respectively.

c. Interest rate risks

ChipMOS Taiwan has entered into interest rate swap agreements to manage interest rate risk by exchanging a fixed quanto stepping interest rate for a floating rate. The difference in interest rates is calculated quarterly and is credited or charged to income in the current period. The benefit of interest rate swaps recognized was NT$151 thousand as non-operating income in 2004, NT$11,190 thousand as non-operating expenses in 2005 and nil in 2006, respectively.

d. Transaction risks

1) Credit risk. The banks with which the Company has entered into the above contracts are reputable and, therefore, the Company is not expected to be exposed to significant credit risks.

2) Market risk and hedge strategy. The Company is exposed to market risks arising from changes in currency exchange rates due to U.S. dollar denominated accounts receivable, Yen denominated accounts payable and U.S. dollar denominated debt. In order to manage these exposures, the Company sometimes

enters into forward contracts and option contracts.

3) Liquidity and cash requirements. The cash flow requirements with respect to the Company s forward contracts are limited to the periodic premium payments and the net differences of the contracted settlement rates. On the other hand, call/put options may not have to be exercised at all in cases where the strike price is higher/lower than the related market price at exercise dates.

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24. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

e. The estimated fair values of the Company s financial instruments are as follows:

	December 31,				
	2005		2006		
	Carrying Value NT$	Fair Value NT$	Carrying Value NT$	Fair Value NT$	Fair Value US$
			(in thousands)		
Assets					
Cash and cash equivalents	4,607,003	4,607,003	5,895,904	5,895,904	180,911
Restricted cash and cash equivalents	169,309	169,309	65,060	65,060	1,996
Financial assets at fair value through profit and loss	186,136	186,136	1,929,123	1,929,123	59,194
Notes receivable	30,580	30,580	31,103	31,103	954
Accounts receivable:					
Related parties	1,418,422	1,418,422	1,839,130	1,839,130	56,432
Third parties	2,525,864	2,525,864	3,190,520	3,190,520	97,899
Other receivables:					
Related parties	4,343	4,343	13,958	13,958	429
Third parties	161,894	161,894	31,812	31,812	976
Long-term investments	404,124	404,124	366,742	366,742	11,253
Restricted cash and cash equivalents	29,356	29,356	29,633	29,633	909
Refundable deposits	18,290	18,290	30,604	30,604	939
Liabilities					
Bank loans	467,834	467,834	1,055,310	1,055,310	32,381
Commercial notes payable	149,413	149,413			
Accounts payable:					
Third parties	728,709	728,709	803,026	803,026	24,640
Other payables:					
Related parties	1,236	1,236	25	25	1
Third parties	404,947	404,947	549,597	549,597	16,864
Payables to contractors and equipment suppliers	465,918	465,918	993,191	993,191	30,475
Convertible notes	2,769,288	2,546,494	5,133,837	4,894,399	150,181
Long-term loans (including current portion)	6,734,767	6,734,767	13,024,064	13,024,064	399,634
Guarantee deposits	1,438	1,438	5,834	5,834	179

Fair values of financial instruments were determined as follows:

1) Short-term financial instruments market values.

2) Financial assets at fair value through profit and loss market values.

3) Long-term investments market value for listed companies and net equity value for the others.

4) Refundable deposits and guarantee deposits future values.

5) Long-term liabilities based on forecasted cash flows discounted at current interest rates of similar long-term liabilities. The fair value of convertible notes in 2005 was determined by discounted at present value, using an annual interest rate of 1.75%. The fair value of convertible notes in 2006 is determined by an option pricing model. Other long-term liabilities are their carrying values as they use floating interest rates.

The fair value of non-financial instruments was not included in the fair values disclosed above. Accordingly, the sum of the fair values of the financial instruments listed above does not equal the fair value of the Company.

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25. SEGMENT AND GEOGRAPHIC INFORMATION

The Company engages mainly in the research and development, manufacturing, assembly, testing and turnkey of semiconductors. In accordance with Statement of Financial Accounting Standards (SFAS) No. 131, Disclosure About Segments of an Enterprise and Related Information , the Company s chief operating decision maker has been identified as the Chief Executive Officer, who reviews these segment results by Testing, Assembly, Testing and Assembly for LCD and other Flat-Panel Display Driver Semiconductors and Turnkey when making decisions about allocating resources and assessing the performance of the Company. Due to the increasing importance of the LCD and other flat-panel display driver semiconductor services and the fact that those services include a combination of testing and assembly, commencing from 2003, the Company views LCD and other flat-panel display driver semiconductor services as a separate, distinct segment of its business. Financial segment information required by SFAS No. 131 is as follows:

a. Semiconductor testing, assembly, turnkey services and LCD and other flat-panel display driver semiconductors services.

2004	Testing NT$	Assembly NT$	Turnkey NT$	LCD NT$	Segment Totals NT$	Corporate & Other Assets NT$	Consolidated Totals NT$
	(in thousands)						
Revenue from customers	6,021,603	5,790,844	473,588	2,749,776	15,035,811		15,035,811
Cost of revenues	3,793,499	4,817,792	466,676	1,779,542	10,857,509		10,857,509
Segment gross Profit	2,228,104	973,052	6,912	970,234	4,178,302		4,178,302
Depreciation and amortization	2,463,661	432,076		602,900	3,498,637	38,200	3,536,837
Segment assets	12,553,449	4,905,247		3,493,695	20,952,391	10,218,051	31,170,442
Expenditure for Segment assets	5,058,814	1,214,331		1,907,084	8,180,229	6,917	8,187,146

2005	Testing NT$	Assembly NT$	Turnkey NT$	LCD NT$	Segment Totals NT$	Corporate & Other Assets NT$	Consolidated Totals NT$
	(in thousands)						
Revenue from customers	6,459,876	5,655,924		3,098,181	15,213,981		15,213,981
Cost of revenues	4,422,189	4,611,166		2,229,276	11,262,631		11,262,631
Segment gross Profit	2,037,687	1,044,758		868,905	3,951,350		3,951,350
Depreciation and amortization	2,674,907	721,366		928,256	4,324,529	14,601	4,339,130

Segment assets	10,752,571	3,820,493		5,839,945	20,413,009	11,286,897	31,699,906
Expenditure for Segment assets	3,749,482	1,538,969		2,384,250	7,672,701	4,532	7,677,233

	2006							
	Testing NT$	Assembly NT$	Turnkey NT$	LCD NT$	Segment Totals NT$	Corporate & Other Assets NT$	Consolidated Totals NT$	US$
				(in thousands)				
Revenue from customers	9,340,098	6,589,568		4,445,521	20,375,187		20,375,187	625,198
Cost of revenues	5,561,129	5,141,192		3,551,024	14,253,345		14,253,345	437,353
Segment gross Profit	3,778,969	1,448,376		894,497	6,121,842		6,121,842	187,845
Depreciation and amortization	3,199,756	941,499		1,402,828	5,544,083	14,758	5,558,841	170,569
Segment assets	16,032,994	6,232,564		8,223,913	30,489,471	15,522,394	46,011,865	1,411,840
Expenditure for Segment assets	8,654,928	3,171,805		3,888,814	15,715,547	2,213	15,717,760	482,288

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25. SEGMENT AND GEOGRAPHIC INFORMATION (continued)

In providing turnkey services, the Company purchases fabricated wafers and sells tested and assembled semiconductors. The process of conducting testing and assembly of fabricated wafers is at a very limited level, which only uses a very small portion of the Company s facility capacity. Therefore, the Company has allocated no specific assets to the turnkey segment and accordingly, no related depreciation and amortization have been allocated.

The corporate and other assets consist of the total current assets, long-term investments, property and equipment located in the U.S. and Japan, long-term restricted cash equivalents, intangible assets of bond issuance costs, employee dormitory building and refundable deposits.

b. Net revenue:

	Year Ended December 31,			
	2004	2005	2006	
	NT$	NT$	NT$	US$
	(in thousands)			
Area				
ROC	12,153,303	11,953,905	15,870,717	486,981
U.S.	1,686,641	1,702,629	3,061,059	93,927
Korea	126,971	535,134	660,738	20,274
Japan	541,747	482,587	541,961	16,630
Others	527,149	539,726	240,712	7,386
	15,035,811	15,213,981	20,375,187	625,198

c. Net sales to customers representing at least 10% of net total sales:

	Year Ended December 31,						
	2004		2005		2006		
	Amount NT$	%	Amount NT$	%	Amount NT$	%	Amount US$
	(in thousands)						
Customer							
ProMOS	4,231,658	28	4,332,058	28	5,529,273	27	169,662
Powerchip	1,721,993	11	2,233,504	15	2,834,956	14	86,989
Himax Technologies Inc.	912,079	6	1,325,766	9	2,245,355	11	68,897

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

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

Adoption of SFAS No. 123(R) Share-Based Payment

Prior to January 1, 2006, the Company had elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25) and Financial Accounting Standards Board (FASB) Interpretation No. 44

Accounting for Certain Transactions Involving Stock Compensation (FIN No. 44) in accounting for its employee stock option plans. Under APB No. 25, when the exercise price of the Company s stock options is less than the market price of the underlying shares on the date of grant, compensation expense is recognized.

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26. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE COMPANY AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES (continued)

The Company adopted the disclosure provisions of Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (SFAS No. 148), which amended certain provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS No. 123) by providing alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation.

Pro forma information regarding the Company s net income and net earnings per share is required by SFAS No. 123(R) and has been determined as if the Company had accounted for its employee stock options under the fair value method prescribed by SFAS No. 123 as disclosed in note 28i to the 2005 audited consolidated financial statements.

The fair value for options granted has been estimated at the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Risk free interest rate	Expected life	Expected volatility	Expected dividend yield
020403ESOP	4.75%	5 years	114.91%	0%
030613ESOP	4.75%	3 years	148.73%	0%
031001ESOP	4.75%	3 years	118.07%	0%
031103ESOP	4.75%	3 years	120.72%	0%
040430ESOPA	1.75%	3 years	123.07%	0%
040430ESOPB	1.75%	3 years	123.07%	0%
040813ESOP	1.75%	3 years	112.40%	0%

The following table illustrates the effect on net income and net earnings per share, assuming that the Company had applied the fair value recognition provision of SFAS No. 123 on its stock-based employee compensation:

	Year Ended December 31, 2005	
	NT$	US$
	(in thousands)	
Net income based on US GAAP	805,383	24,713
Add: Compensation expenses as reported	28,006	859
Less: Compensation expenses determined under fair value based method	(171,377)	(5,259)
Adjusted net income, fair value based method	662,012	20,313
Basic earnings per share		
As reported	11.92	0.37
SFAS 123 adjusted	9.80	0.30
Diluted earnings per share		
As reported	11.21	0.34
SFAS 123 adjusted	9.48	0.29

The Company applies SFAS No. 123 and Emerging Issues Task Force No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services (EITF

No. 96-18), with respect to options and warrants issued to non-employees. SFAS No. 123 requires the use of option valuation models to measure the fair value of the options and warrants at the measurement date as defined in EITF No. 96-18.

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26. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE COMPANY AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES (continued)

Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R) Share-Based Payments (SFAS No. 123(R)). For grants where the Company had previously presented the required SFAS 123 pro forma disclosures, using a fair value method (Black-Scholes), the Company adopted the new standard using the modified prospective method. Under this method, the Company will record the fair value of all new awards and any awards modified, repurchased or cancelled after January 1, 2006. The Company also will recognize compensation cost for those awards granted prior to January 1, 2006 that were measured at fair value for pro forma disclosure purposes, to the extent that those awards continue to vest after January 1, 2006. For grants where the Company had previously presented the required SFAS 123 pro forma disclosures using the minimum value method, the Company adopted the new standard using the prospective transition method. As such, for those awards, the Company will continue to apply APB 25 in future periods.

As a result of adopting SFAS No. 123(R) on January 1, 2006, the Company s net income for the year ended December 31, 2006, is NT$90,870 thousand (US$2,788 thousand) lower and the effect on basic and diluted earnings per share, respectively, is a decrease of NT$1.32 (US$0.04) and NT$1.27 (US$0.04), lower than if it had continued to account for share-based compensation under APB No. 25. If the Company had not adopted Statement 123(R), pro forma basic and diluted earnings per share for the year ended December 31, 2006 would have been NT$19.54 (US$0.60) and NT$18.79 (US$0.58), compared to reported basic and diluted earnings per share of NT$18.22 (US$0.56) and NT$17.52 (US$0.54).

The total stock-based compensation expense resulting from stock options was included in general and administrative expenses in the consolidated statements of operations.

Please refer to note 27i below for additional disclosure required by SFAS No. 123(R).

Adoption of SFAS No. 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans

The Company adopted SFAS No. 158 effective December 31, 2006. The adoption of SFAS No. 158 resulted in a decrease in total shareholders equity of NT$63,395 thousand (US$1,945 thousand) as of December 31, 2006. For further information regarding the impact of the adoption of SFAS 158, refer to Notes 27a and 27e.

a. Bonuses to employees, directors and supervisors

According to ROC regulations and the Articles of Incorporation of ChipMOS Taiwan, a portion of distributable earnings should be appropriated as bonuses to employees and remuneration to directors and supervisors of ChipMOS Taiwan. The remuneration to directors and supervisors is paid in cash, while bonuses to employees may be granted in cash or stock or both. ChipMOS Bermuda s portion of these appropriations is charged to earnings of ChipMOS Bermuda under ROC GAAP based on the amount to be paid as provided by ChipMOS Taiwan s Articles of Incorporation and is presented as a separate line item below minority interest in the accompanying consolidated statements of operations. No bonuses were paid to employees, directors and supervisors for the year ended December 31, 2004. During 2006, ChipMOS Taiwan and ThaiLin paid NT$241,734 thousand (2005: NT$165,744 thousand) and NT$73,552 thousand (2005: NT$56,622 thousand), respectively, in bonuses to directors, supervisors and employees.

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26. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE COMPANY AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES (continued)

b. Financial assets

Prior to January 1, 2006, under ROC GAAP, marketable equity securities were carried at the lower of aggregate cost or market value, and debt securities at cost, with only unrealized losses recognized when losses are irrecoverable. Under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities , debt and equity securities that have readily determinable fair values are to be classified as either trading, available-for-sale or held-to-maturity securities. Debt securities that the Company has the positive intent and ability to hold-to-maturity are classified as held-to-maturity securities and reported at amortized cost. Debt and equity securities that are bought and traded for short-term profit are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings. Debt and equity securities not classified as either held-to-maturity or trading are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of shareholders equity; however, unrealized losses relating to declines in fair value deemed to be other than temporary are recorded in earnings. The 2004 and 2005 adjustments in the reconciliations below relate to the Company s equity securities that are classified as trading and available-for-sale securities under U.S. GAAP. There is no difference between ROC GAAP and U.S. GAAP effective January 1, 2006.

c. Long-term investments

Under both ROC and U.S. GAAP, investments in shares of companies wherein the Company owns over 20% but not more than 50% of the outstanding common stock and exercises significant influence over operating and financial policies of the investee companies are generally accounted for under the equity method. However, there are differences in applying equity accounting under ROC GAAP and U.S. GAAP. The Company s proportionate share of the income (loss) from an equity investee may differ if the equity investee s net income (loss) under ROC GAAP differs from that under U.S. GAAP. The differences between ROC GAAP and U.S. GAAP for the equity investees are nominal and thus do not appear in the reconciliations below.

Under the equity method, the Company s proportionate share of the income (loss) of the investee is generally recognized in the year the income (loss) is earned. However, under ROC GAAP, if audited financial statements of an investee were not available for the Company to apply the equity method due to time constraints and such equity interests were below a certain materiality threshold, the Company was permitted to delay the recognition of income (loss) until the following year. Under U.S. GAAP, there are no provisions that allow the investor company to delay recognition of its equity in the investee s income or loss. The 2004 and 2006 U.S. GAAP adjustments represent the proportionate share of loss of long-term investment in 2004 and 2006. In 2005, there was no such difference.

d. Technologies transferred in payment of capital stock

As discussed in Note 9, MVI and SPIL contributed, as payment for their subscription in the shares of stock of ChipMOS Taiwan, technologies relating to the testing and assembly of semiconductors at an agreed value of NT$750,000 thousand. Under ROC GAAP, such technology transfers in payment of capital stock are recorded as an intangible asset, and amortized by systematic charges to income over the periods estimated to be benefited. As permitted under ROC GAAP, the Company uses a 5-year amortization period. Under U.S. GAAP, the technology contribution cannot be recognized due to the unavailability of a fair value for the technologies. Therefore, the carrying value of the technologies has been adjusted to zero under U.S. GAAP.

e. Start-up costs

ROC GAAP requires start-up costs to be deferred and amortized in a systematic manner over its estimated useful beneficial life. Start-up costs include all costs incurred prior to production readiness. On the other hand, U.S. GAAP primarily requires that start-up costs be expensed as incurred.

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26. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE COMPANY AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES (continued)

f. Depreciation of property, plant and equipment and employee dormitory building

Under ROC GAAP, the estimated life of a building can be as long as 55 years based on the ROC Internal Revenue Code. For U.S. GAAP purposes, building lives are estimated to be 25 years.

g. Transfer of building and facilities from MVI

The Company purchased buildings and facilities from MVI in 1997. The costs of assets purchased from MVI were based on MVI s book value of such building and facilities on a specified cut-off date plus an additional payment of NT$173,174 thousand representing compensation to MVI. This additional payment of NT$173,174 thousand was capitalized by the Company as allowed under ROC GAAP. Under U.S. GAAP, assets acquired are recorded at amounts that do not exceed their fair values. Also, generally under U.S. GAAP, the transferee should record the assets transferred from related parties with significant influence at the predecessor s basis. Therefore, the transfer of assets from MVI was recorded at MVI s predecessor cost basis and NT$173,174 thousand was deducted from the capital surplus and building and facilities for the purposes of U.S. GAAP.

h. Inventory

As discussed in paragraphs e., f. and g., the amortization of start-up costs, the depreciation of property, plant and equipment and employee dormitory building, and depreciation on the assets transferred from MVI were reconciled for U.S. GAAP purposes. Some of such expenses were recorded in manufacturing expenses and therefore affect ending inventory balances under U.S. GAAP.

i. Capital surplus

Under ROC GAAP, the following items are treated as capital surplus: (a) premium on issuance of common stock and (b) gain, net of applicable income tax, on disposal of properties. Under U.S. GAAP, item (a) is the same as in ROC GAAP; and item (b) is recorded as part of net income, which is then included as a component of retained earnings. However, starting in 2001, the treatment of item (b) under ROC GAAP became the same as that under U.S. GAAP.

j. Impairment of long-lived assets

Under U.S. GAAP, impairment losses for assets to be held and used are recorded in current period earnings and create a new cost basis for related assets going forward, and cannot be reversed subsequently. Under U.S. GAAP, in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets , long-lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of evaluating the recoverability of long-lived assets, the recoverability test is performed by comparing undiscounted net cash flows of the assets to the net book value of the assets. If the recoverability test indicates that impairment has occurred, the impairment loss is the amount of the asset s net book value in excess of the related fair value. Prior to January 1, 2005, there is no requirement to provide for impairment of long-lived assets under ROC GAAP. Therefore, the Company applied U.S. GAAP to evaluate the long-lived assets for impairment purposes in 2004. In 2005, the adjustment for impairment of long-term investment represented the additional impairment to be recognized after the reversal of amortization of goodwill in respect of the long-term investment. In 2006, the adjustment represents the reversal of impairment loss recognized under ROC GAAP that was already recognized under U.S. GAAP in 2005.

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26. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE COMPANY AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES (continued)

k. Stock bonus and dividends

Under ROC GAAP, stock bonus and dividends are recorded at par value with a charge to retained earnings. Under U.S. GAAP, if the distribution is less than 25 percent of the same class of shares outstanding, the fair value of the shares issued should be charged to retained earnings and capital surplus. Accordingly, in 2005, an adjustment of NT$61,632 thousand was included in the reconciliation, representing the difference between the fair value and the par value of ThaiLin stock.

l. Earnings per share (EPS)

In calculating the weighted average number of shares outstanding for EPS purposes under ROC GAAP, employee bonus shares have been treated as outstanding for all periods in a manner similar to a stock split or stock dividend. Under U.S. GAAP, employee bonus shares have been considered separately from the stock dividend or split and have been treated as outstanding from the date of shareholder approval.

m. Interest capitalization

Under ROC GAAP, interest on borrowings during construction conceptually should be capitalized in the assets that are constructed or produced for a company s own use. However, if equity capital is raised during a year, no capitalization interest is recorded for the amount of property acquired up to the equity capital raised in that year. Under U.S. GAAP, SFAS No. 34 Capitalization of Interest Cost , interest is generally capitalized on assets until they are available and ready for use.

n. Goodwill and negative goodwill

Prior to January 1, 2006, under ROC GAAP, goodwill arises as the difference between acquisition cost and the proportionate equity of the investee company acquired and was amortized over a five-year period, whereas under U.S. GAAP such goodwill is not amortized, but is subject to impairment tests.

Negative goodwill arises when the fair values of the net assets acquired exceed the purchase price. Prior to January 1, 2006, under ROC GAAP, negative goodwill was amortized over a five-year period whereas, under U.S. GAAP, that negative goodwill is firstly allocated pro rata to reduce amounts assigned to acquired assets. If negative goodwill still remains, it is recognized as extraordinary gain in the period in which the business combination is initially recognized. The negative goodwill of NT$20,275 thousand arising from the merger of CHANTEK into ChipMOS Taiwan was credited to property, plant and equipment under U.S. GAAP.

There is no difference between ROC GAAP and U.S. GAAP since January 1, 2006.

o. Allowance for loss and scrap loss on inventories

ROC GAAP does not specify the classification of allowance for loss on inventories, therefore, the recovery of allowance for loss on inventories of NT$67,002 thousand and NT$74,581 thousand (US$2,274 thousand) for 2004 and 2005 has been classified under non-operating income. Under U.S. GAAP, the allowance for loss on inventories should be classified in the income statement as a component of cost of revenue.

ROC GAAP does not specify the classification of scrap loss on inventories, therefore in 2005, NT$75,602 thousand (US$2,305 thousand) has been classified under non-operating expense. Under U.S. GAAP, the scrap of inventories should be classified in the income statement as a component of cost of revenue.

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26. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE COMPANY AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES (continued)

p. Convertible notes

Under ROC GAAP, there is no requirement to account for the fair value of a conversion feature embedded in CN due 2009 as it was issued before January 1, 2006. Under U.S. GAAP, the Company accounts for the fair value of the conversion feature of its convertible notes in accordance with SFAS No. 133 Accounting For Derivative Instruments And Hedging Activities and related pronouncements, which require the Company to bifurcate and separately account for the conversion feature as embedded derivatives contained in the Company s convertible notes. The Company carried these embedded derivatives on its balance sheet at fair value and changes in fair values of these embedded derivatives are reflected in the consolidated statement of operations. Commencing January 1, 2006, ROC GAAP requires the Company to bifurcate and separately account for put and call option features contained in the Company s convertible notes issued after 2005. The Company issued convertible notes (CN due 2011) on September 29, 2006. The Company carried the put and call options of the CN due 2011 on the balance sheet at fair value with changes in fair values reflected in the consolidated statement of operations. The other conversion features are recorded in equity. (see Note 27 j.)

Commencing from January 1, 2006, under ROC GAAP, the issue costs of convertible notes are recorded as a reduction of the convertible notes. Under U.S. GAAP the issue costs are capitalized as deferred assets and amortized over the period of the convertible notes.

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26. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE COMPANY AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES (continued)

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

	Year Ended December 31,			
	2004	2005	2006	
	NT$	NT$	NT$	US$
		(in thousands)		
Net income				
Net income based on ROC GAAP	1,675,882	928,203	2,121,342	65,092
Adjustments:				
Amortization of deferred charge			(4,935)	(151)
Amortization of start-up costs	9,916	2,305	2,237	68
Depreciation of property, plant and equipment and employee dormitory building	(14,444)	(14,957)	(22,200)	(681)
Transfer of building and facilities from MVI	1,299	1,075	741	23
Marketable securities trading	10,567	(9,604)	2,613	80
Interest capitalization	(3,130)	(33,858)	(19,793)	(607)
Accrual for bonuses to employees, directors and supervisors		(269,003)	(314,485)	(9,650)
Reversal of goodwill amortization		62,362		
(Impairment loss) reversal of impairment loss on long-term investment		(79,363)	33,130	1,016
Stock bonus		(61,632)		
Depreciation of interest capitalization	(5,728)			
Effect of U.S. GAAP adjustments on income taxes		13,598	10,512	323
Stock-based compensation			(90,870)	(2,788)
Amortization of discount on convertible notes		(72,480)	(237,497)	(7,287)
Gain (loss) on embedded derivative liabilities		149,732	(394,646)	(12,109)
Loss on redemption of convertible notes			(10,549)	(324)
Minority interests	(6,508)	186,643	193,635	5,941
Equity accounting for long-term investment	(2,362)	2,362	(16,129)	(495)
Net decrease in net income	(10,390)	(122,820)	(868,236)	(26,641)
Net income based on U.S. GAAP	1,665,492	805,383	1,253,106	38,451
Earnings per share basic	26.38	11.92	18.22	0.56
Earnings per share diluted	26.22	11.21	17.52	0.54
Number of weighted average shares outstanding Basic	63,141	67,546	68,781	68,781
Number of weighted average shares outstanding diluted	63,517	82,572	71,504	71,504

The following table reconciles the denominator to calculate basic and diluted earnings per share:-

	December 31,		
	2004	2005	2006

	(in thousands)		
Basic number of shares	63,141	67,546	68,781
Add: stock options	376	1,602	2,723
convertible notes		13,424	
Diluted number of shares	63,517	82,572	71,504

The following table reconciles the numerator to calculate basic and diluted earnings per share:-

	Year Ended December 31,			
	2004	2005	2006	
	NT$	NT$	NT$	US$
	(in thousands)			
Net income based on U.S. GAAP	1,665,492	805,383	1,253,106	38,451
Add: amortization of discount on convertible notes		72,480		
interest expense (net of tax)		48,062		
Income available to common stockholders adjusted for the effects of assumed exercise of options and conversion of notes	1,665,492	925,925	1,253,106	38,451

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26. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE COMPANY AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES (continued)

	Year Ended December 31,			
	2004	2005	2006	
	NT$	NT$	NT$	US$
		(in thousands)		
Shareholders equity				
Shareholders equity based on ROC GAAP	17,253,117	19,091,961	22,884,867	702,205
Adjustments:				
Technology transfer in payment of capital Stock				
Original cost	(750,000)	(750,000)	(750,000)	(23,013)
Accumulated amortization of technology transfer in payment of capital stocks	750,000	750,000	750,000	23,013
Start-up costs				
Original cost	(61,124)	(61,107)	(60,151)	(1,846)
Accumulated amortization of start- up costs	51,193	53,400	54,668	1,677
Net effect on inventories	(134)	(53)	(40)	(1)
Depreciation of property, plant and equipment and employee dormitory building	(85,431)	(100,388)	(122,589)	(3,762)
Transfer of building and facilities from MVI				
Original cost	(173,174)	(173,174)	(173,174)	(5,314)
Depreciation and gain on disposal of building and facilities from MVI	168,076	169,155	169,883	5,213
Net effect on inventories	(22)	(26)	(13)	
Unrealized holding gain on available-for- sale securities		5,648		
Accrual for bonuses to employees, directors and supervisors		(269,003)	(459,539)	(14,101)
Pension expenses	(1,898)	(1,898)	(65,293)	(2,003)
Marketable securities trading	6,991	(2,613)		
Long-term investments	(5,562)			
Reversal of goodwill amortization		62,362		
Impairment loss on long-term investment		(79,363)		
Interest capitalization	118,757	118,757	118,757	3,644
Amortization of interest capitalization	(42,935)	(76,793)	(96,586)	(2,964)
Effect of U.S. GAAP adjustments on income taxes	(2,297)	11,301	21,813	670
Equity component of convertible notes			(271,509)	(8,331)
Loss on redemption of convertible notes			(10,549)	(324)
Amortization of deferred charge			(4,935)	(151)
Amortization of discount on convertible notes		(72,480)	(309,977)	(9,511)
Gain on embedded derivative liabilities		149,732	(244,914)	(7,515)
Net decrease in shareholders equity	(27,560)	(266,543)	(1,454,148)	(44,619)
Shareholders equity based on U.S. GAAP	17,225,557	18,825,418	21,430,719	657,586
Changes in shareholders equity based on U.S. GAAP				
Balance, beginning of the year	11,649,297	17,225,557	18,825,418	577,644
Issuance of capital	1,154,444			
Issuance of option warrants	19,673		(1,088)	(33)
Effect of merger		(39,768)		
Exercise of option warrants	90,414	40,418	131,268	4,028
Forfeiture of option warrants		21,477		
		(26,046)	86,316	2,649

Adjustment arising from change in ownership percentage in subsidiaries				
Reversal of unrealized loss (gain) on available-for-sale securities	12,507	5,648	(5,648)	(173)
Stock-based compensation			90,870	2,788
Cumulative translation adjustments	(164,684)	186,313	78,345	2,404
Net income for the year	1,665,492	805,383	1,253,106	38,451
Adjustment of equity method for long-term Investment	133,452	(54,178)	1,178	36
Unrecognized pension expenses			(44,643)	(1,370)
Adjustment for stock bonus		12,827		
Conversion of convertible notes			225,840	6,929
Minority interests	2,664,962	647,787	789,757	24,233
Balance, end of the year	17,225,557	18,825,418	21,430,719	657,586

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26. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE COMPANY AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES (continued)

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

	December 31,		
	2005	2006	
	NT$	NT$	US$
	(in thousands)		
Current assets			
As reported	10,046,913	14,232,559	436,716
U.S. GAAP adjustments			
Marketable securities trading	3,035		
Effect of inventory adjustments:			
Start-up costs	(53)	(40)	(1)
Depreciation of fixed assets	322	371	11
Transfer of building and facilities from MVI	(26)	(13)	
As adjusted	10,050,191	14,232,877	436,726
Long-term investments			
As reported	404,124	366,742	11,253
U.S. GAAP adjustments			
Reversal of goodwill amortization	62,362		
Impairment loss on long-term investments	(79,363)		
As adjusted	387,123	366,742	11,253
Property, plant and equipment net			
As reported	20,420,066	30,494,323	935,696
U.S. GAAP adjustments			
Start-up costs	(7,707)	(5,483)	(168)
Depreciation of fixed assets	(114,202)	(134,821)	(4,137)
Transfer of building and facilities from MVI	(4,019)	(3,291)	(101)
Interest capitalization	66,988	47,195	1,448
Negative goodwill	(20,275)	(20,275)	(622)
As adjusted	20,340,851	30,377,648	932,116
Other assets			
As reported	559,827	565,270	17,344
U.S. GAAP adjustments			
Depreciation of employee dormitory building	(11,532)	(13,163)	(404)
As adjusted	548,295	552,107	16,940
Current liabilities			
As reported	7,857,499	6,747,480	207,041
U.S. GAAP adjustments			

Fair value of embedded derivative liabilities	160,899		
Discount on convertible notes	(310,631)		
Amortization of discount on convertible notes	72,480		
Accrual for bonuses to employees, directors and supervisors	269,003	459,539	14,101
As adjusted	8,049,250	7,207,019	221,142

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26. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE COMPANY AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES (continued)

	December 31,		
	2005	2006	
	NT$	NT$	US$
	(in thousands)		
Long-term liabilities			
As reported	4,433,851	15,900,519	487,896
U.S. GAAP adjustments			
Loss on redemption of convertible notes		10,549	324
Equity component of convertible notes		370,209	11,359
Fair value of embedded derivative liabilities		244,914	7,515
Amortization of discount on convertible notes		309,977	9,511
As adjusted	4,433,851	16,836,168	516,605
Other liabilities			
As reported	374,719	478,999	14,698
U.S. GAAP adjustments			
Pension expense	1,898	65,293	2,003
Effect of U.S. GAAP adjustments on income taxes	(11,301)	(21,813)	(670)
Negative goodwill	(20,275)	(20,275)	(622)
As adjusted	345,041	502,204	15,409

As a result of the adjustments presented above, the approximate amounts of total assets under U.S. GAAP were NT$31,653,560 thousand and NT$45,976,110 thousand as of December 31, 2005, and 2006, respectively.

The following U.S. GAAP condensed statements of operations for the years ended December 31, 2004, 2005 and 2006 have been derived from the audited financial statements and reflect the adjustments presented above. Certain accounts have been reclassified to conform to U.S. GAAP.

	Year Ended December 31,			
	2004	2005	2006	
	NT$	NT$	NT$	US$
	(in thousands)			
Net revenue	15,035,811	15,213,981	20,375,187	625,198
Cost of revenue	10,792,445	11,273,617	14,270,950	437,894
Gross profit	4,243,366	3,940,364	6,104,237	187,304
Operating expenses	1,283,895	1,837,689	1,769,838	54,306
Income from operations	2,959,471	2,102,675	4,334,399	132,998
Non-operating income (expenses) net	(459,011)	(478,833)	(849,536)	(26,067)
Income before income tax	2,500,460	1,623,842	3,484,863	106,931
Net income	1,665,492	805,383	1,253,106	38,451

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27. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP

a. Recent accounting pronouncements

The Company is required by U.S. SEC Staff Accounting Bulletin No. 74 to make certain disclosures about the effect that recently issued accounting standards will have on the financial statements adopted for future periods.

On September 29, 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS No. 158). SFAS No. 158 requires an employer that sponsors one or more defined benefit pension plans or other postretirement plans to 1) recognize the funded status of a plan, measured as the difference between plan assets at fair value and the benefit obligation, in the balance sheet; 2) recognize in shareholders equity as a component of accumulated other comprehensive loss, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not yet recognized as components of net periodic benefit cost; 3) measure defined benefit plan assets and obligations as of the date of the employer s fiscal year-end balance sheet; and 4) disclose in the notes to the financial statements additional information about the effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation.

The FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments (SFAS No. 155) in February 2006. SFAS No. 155 amends SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities , and SFAS No. 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities and addresses the application of SFAS No. 133 to beneficial interests in securitized financial assets. SFAS No. 155 establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. Additionally, SFAS No. 155 permits fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS No. 155 is effective for fiscal years beginning after September 15, 2006. The Company is currently assessing the impact SFAS No. 155 will have on the consolidated financial statements but does not anticipate it will be material.

The FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140 (SFAS No. 156) in March 2006. SFAS No. 156 requires a company to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset. A company would recognize a servicing asset or servicing liability initially at fair value. A company will then be permitted to choose to subsequently recognize servicing assets and liabilities using the amortization method or fair value measurement method. SFAS No. 156 is effective for fiscal years beginning after September 15, 2006. The Company is currently assessing the impact SFAS No. 156 will have on the consolidated financial statements but does not anticipate it will be material.

On July 13, 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an Interpretation of FASB Statement No. 109 (FIN No. 48). FIN No. 48 clarifies what criteria must be met prior to recognition of the financial statement benefit of a position taken in an income tax return. FIN No. 48 will require companies to include additional qualitative and quantitative disclosures within their financial statements. The disclosures will include potential tax benefits from positions taken for tax return purposes that have not been recognized for financial reporting purposes and a tabular presentation of significant changes during each period. The disclosures will also include a discussion of the nature of uncertainties, factors which could cause a change, and an estimated range of reasonably possible changes in tax uncertainties. FIN No. 48 will also require a company to recognize a financial statement benefit for a position taken for tax return purposes when it will be more-likely-than-not that the position will be sustained. FIN No. 48 will be effective for fiscal years beginning after December 15, 2006. The Company is currently assessing the impact FIN No. 48 will have on the consolidated financial statements but does not anticipate it will be material.

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27. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

On September 15, 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 addresses the way companies should measure fair value when they are required to use a fair value measure for recognition and disclosure purposes under generally accepted accounting principles. SFAS No. 157 will require the fair value of an asset or liability to be based on a market based measure which will reflect the credit risk of the company. SFAS No. 157 will also require expanded disclosure requirements which will include the methods and assumptions used to measure fair value and the effect of fair value measures on earnings. SFAS No. 157 will be applied prospectively and will be effective for fiscal years beginning after November 15, 2007 and to interim periods within those fiscal years. The Company is currently assessing the impact SFAS No. 157 will have on the consolidated financial statements.

In September 2006, the U.S. SEC staff issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). SAB 108 was issued to provide interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The Company adopted the provisions of SAB 108 effective December 31, 2006. The adoption of SAB 108 did not have an impact on the consolidated financial statements.

b. Financial assets at fair value through profit and loss

On December 31, 2005 and 2006, certain investments carried at cost under ROC GAAP were revalued for purposes of U.S. GAAP presentation:

	(ROC GAAP)		(U.S. GAAP)		
	Carrying Value		Fair Value		
	2005	2006	2005	2006	
	NT$	NT$	NT$	NT$	US$
	(in thousands)				
Investment in trading securities (Note 4)	186,136	1,929,123	189,171	1,929,123	59,194

Prior to January 1, 2006, the Company used the weighted-average cost method for trading securities and available-for-sale securities when determining the cost basis under ROC GAAP.

The following table shows the gross unrealized losses and fair value of short-term investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category that individual securities have been in a continuous unrealized loss position, at December 31, 2005 and 2006.

	December 31, 2006							
	Less than 12 months				12 months or greater			
	Fair value		Unrealized losses		Fair value		Unrealized losses	
	NT$	US$	NT$	US$	NT$	US$	NT$	US$
	(in thousands)							
Stock	257,652	7,906						
Open-ended funds	1,671,471	51,288						
	1,929,123	59,194						

	December 31, 2005							
	Less than 12 months				12 months or greater			
	Fair value		Unrealized losses		Fair value		Unrealized losses	
	NT$	US$	NT$	US$	NT$	US$	NT$	US$
	(in thousands)							
Stock					156,338	4,766	18,078	551
Open-ended funds	32,833	1,001	167	5				
	32,833	1,001	167	5	156,338	4,766	18,078	551

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27. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

c. Goodwill

	December 31, 2006	
	NT$	US$
	(in thousands)	
Balance, January 1, 2006	127,567	3,914
Arising from acquisition of additional interest in a subsidiary	888	27
Balance, December 31, 2006	128,455	3,941

d. Income tax expense (benefit)

Income (loss) before income tax, minority interest and interest in bonuses paid by subsidiaries consists of the following:

	Year Ended December 31,			
	2004	2005	2006	
	NT$	NT$	NT$	US$
	(in thousands)			
Bermuda	(168,257)	(104,290)	(1,000,678)	(30,705)
ROC	2,766,458	1,995,544	4,839,755	148,504
Others	(97,741)	(267,412)	(354,214)	(10,868)
	2,500,460	1,623,842	3,484,863	106,931

Income tax expense (benefit) consists of:-

	Year Ended December 31,			
	2004	2005	2006	
	NT$	NT$	NT$	US$
	(in thousands)			
Income tax for the current year				
Bermuda		81,909	89,895	2,758
ROC	46,671	90,756	296,878	9,109
Others	46	434	262	8
	46,717	173,099	387,035	11,875
Deferred income tax				
Bermuda				
ROC	(174,527)	(59,424)	243,625	7,476
Others	(11,239)	(15,647)		
	(185,766)	(75,071)	243,625	7,476
Adjustment of prior years income taxes	(2,755)	323	(4,673)	(143)
Income tax expense (benefit)	(141,804)	98,351	625,987	19,208

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27. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

d. Income tax expense (benefit) (continued)

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

	Year Ended December 31,			
	2004	2005	2006	
	NT$	NT$	NT$	US$
	(in thousands)			
Tax on pretax income at 0%				
Tax on pretax income at applicable statutory rates	677,744	637,616	1,350,042	41,425
Additional 10% on the unappropriated earnings		163,838	111,066	3,408
Other tax and assessed additional income tax	86	746		
Tax paid by subsidiaries				
Tax effects of:				
Tax-exempt income	(174,756)	(175,422)	(196,026)	(6,015)
Permanent differences				
Non-taxable (gain)/loss on sales of investment	14,057	(11,106)	32,130	986
Non-deductible investment losses	(24,501)	104,639	(117,131)	(3,594)
Non-deductible expense		70,580	(1,221)	(37)
Temporary differences	(52,950)	(173,673)		
Tax credits utilized	(355,923)	(218,672)	(506,285)	(15,535)
deferred	(82,277)	76,611	(206,923)	(6,349)
Valuation allowance	(461,529)	(405,487)	284,392	8,726
Loss recognized			(6,764)	(207)
Losses carried forward	321,000	28,358	(246,352)	(7,559)
Losses carried forward deferred			133,732	4,103
Adjustment of prior year s income tax	(2,755)	323	(4,673)	(144)
Income tax expense (benefit)	(141,804)	98,351	625,987	19,208

The components of net deferred income tax assets (liabilities) were as follows:

	December 31,		
	2005	2006	
	NT$	NT$	US$
	(in thousands)		
Deferred income tax assets			
Current			
Unrealized foreign exchange loss	3,496	3,679	113
Tax credits	110,103	491	15
Loss of market price decline and obsolescence and slow-moving inventories	20,616	19,026	584
Unrealized loss on sale allowances	9,455	21,912	672
Others	95,532	89,229	2,738
	239,202	134,337	4,122
Non-current			
Unrealized impairment loss on idle fixed assets	12,586	12,586	386
Tax credits	801,450	1,117,985	34,305

Losses carried forward	147,132	62,396	1,915
Building	1,011	826	25
Start-up costs	1,940	1,381	42
Others	296,394	274,434	8,421
	1,260,513	1,469,608	45,094
Valuation allowances	(793,874)	(1,079,494)	(33,123)
	466,639	390,114	11,971

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27. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

d. Income tax expense (benefit) (continued)

	December 31,		
	2005	2006	
	NT$	NT$	US$
	(in thousands)		
Deferred income tax liabilities			
Non-current			
Depreciation differences	(531,219)	(596,966)	(18,317)
Interest capitalization	(16,747)	(11,799)	(362)
	(547,966)	(608,765)	(18,679)
	157,875	(84,314)	(2,586)

e. Pension plans

On September 29, 2006, the FASB issued SFAS No. 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans . The Company adopted SFAS. No. 158 effective December 31, 2006. The impact of the adoption of SFAS No. 158 has been reflected within the consolidated financial statements as of December 31, 2006. The incremental effect of applying SFAS No. 158 has been disclosed as part of this footnote.

	Year Ended December 31,			
	2004	2005	2006	
	NT$	NT$	NT$	US$
	(in thousands)			
Components of net periodic benefit cost				
Service cost	56,065	30,021	1,688	52
Interest cost	8,038	8,159	7,790	239
Project return on plan assets	(5,304)	(4,500)	(4,740)	(145)
Net amortization and deferral:				
Unrecognized net transition Obligation	(143)	53	53	2
Curtailment gain	655	1,031	780	24
Net periodic benefit cost	59,311	34,764	5,571	172
Recognized in other comprehensive Income:				
Unrecognized net transition obligation			5	
Unrecognized actuarial loss			44,638	1,370
Total recognized in other comprehensive income			44,643	1,370
Total recognized in total benefit cost and other comprehensive income			50,214	1,542

The estimated net transition obligation and actuarial loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into benefits cost in 2007 is NT$1 thousand (US$nil) and NT$3,233 thousand (US$99 thousand), respectively.

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27. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

e. Pension plans (continued)

	Year Ended December 31, 2004 NT$	2005 NT$	2006 NT$	2006 US$
	(in thousands)			
Changes in benefit obligation				
Benefit obligation at beginning of Year	187,657	314,124	283,253	8,691
Effect of merger		(63,064)		
Acquisition of subsidiary	46,147			
Service cost	51,970	30,021	1,688	52
Interest cost	7,599	8,713	7,781	239
Actuarial loss	20,751	(6,541)	24,924	765
Benefit obligation at end of year	314,124	283,253	317,646	9,747
Changes in plan assets				
Fair value of plan assets at beginning of year	98,063	174,349	156,171	4,792
Effect of merger		(49,169)		
Acquisition of subsidiary	42,330			
Actual return on plan assets	1,796	1,971	4,165	128
Employer contribution	32,160	29,892	39,656	1,217
	174,349	157,043	199,992	6,137
Funds status	(139,775)	(126,210)	(117,654)	(3,610)
Unrecognized actuarial loss	35,203	42,654	68,184	2,092
Net amount recognized (recognized as accrued pension cost)	(104,572)	(83,556)	(49,470)	(1,518)

Amounts recognized in accumulated other comprehensive income, net of minority interests, consist of:-

	2005 NT$	2006 NT$	2006 US$
	(in thousands)		
Unrecognized net transition obligation		7	
Unrecognized loss		63,388	1,945
Gross amount recognized		63,395	1,945
Minority interests		(18,752)	(575)
Total recognized in total benefit cost and other comprehensive income		44,643	1,370

The following table is required as part of adopting SFAS No. 158.

Incremental effect of applying SFAS No. 158 on individual line items in the consolidated balance sheet as of December 31, 2006:

	Before application of SFAS No. 158 NT$	Adjustments NT$	After application of SFAS No. 158 NT$	US$
		(in thousands)		
Accrued pension cost	49,470	63,395	112,865	3,463
Total other liabilities	438,809	63,395	502,204	15,409
Minority interests	8,549,229	(18,752)	8,530,477	261,751
Accumulated other comprehensive income	68,074	(44,643)	23,431	719
Total shareholders equity	21,494,114	(63,395)	21,430,719	657,586

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27. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

e. Pension plans (continued)

Actuarial assumptions	2004	2005	2006
Discount rate	3.25%	2.75%	2.75%
Rate of compensation increase	3.25%	3.25%	4.25%
Expected return on plan assets	3.25%	2.75%	2.75%

The accumulated benefit obligation for all defined benefit pension plans was NT$142,426 thousand and NT$142,436 thousand at December 31, 2005 and 2006, respectively.

There were no pension plans with an accumulated benefit obligation in excess of plan assets as of December 31, 2005 and 2006.

The plan assets are all invested in the Central Trust of China. The plan benefits are based on employees years of service and compensation. The plan assets primarily consist of cash, government loans, equity securities, notes and bonds.

The fair value of the plan assets was NT$156,990 thousand and NT$199,992 thousand (US$6,167 thousand) at December 31, 2005 and 2006. As of December 31, 2005 and 2006, these assets were allocated among asset categories as follows:

Asset category	2005	2006	Current minimum, target and maximum allocation policy
Equity securities	20%	22%	11%
Bonds	11%	10%	2%
Notes	14%	20%	2%
Government loans	6%	3%	2%
Cash	49%	45%	2%
Total	100%	100%	

Under ROC regulation, government authority will collect the fund as Labor Retirement Fund and determine the assets allocation and investment policy.

ChipMOS Taiwan and ThaiLin anticipate contributing NT$39,155 thousand to their pension plans during 2007.

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

f. Statements of cash flows

ROC SFAS No. 17, Statement of Cash Flows has been applied. Its objectives and principles are similar to those set out in SFAS No. 95, Statement of Cash Flows . The principal differences between the standards relate to classification. Summarized cash flow data by operating, investing and financing activities in accordance with SFAS No. 95 are as follows:

	Year Ended December 31,			
	2004	2005	2006	
	NT$	NT$	NT$	US$

	(in thousands)			
Net cash inflow (outflow) from:				
Operating activities	7,645,619	5,904,713	6,271,447	192,435
Investing activities	(10,155,947)	(4,963,293)	(15,086,913)	(462,931)
Financing activities	5,696,974	(1,261,258)	9,881,178	303,197
	3,186,646	(319,838)	1,065,712	32,701
Effect of changes in foreign exchange rate	(68,464)	77,695	12,848	394
Cash and cash equivalents at the beginning of year	1,730,964	4,849,146	4,607,003	141,362
Cash and cash equivalents at the end of year	4,849,146	4,607,003	5,685,563	174,457

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27. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

g. Statements of comprehensive income

	Year Ended December 31,			
	2004	2005	2006	
	NT$	NT$	NT$	US$
	(in thousands)			
Net income based on U.S. GAAP	1,665,492	805,383	1,253,106	38,451
Other comprehensive income (loss):				
Unrealized gain on available-for-sale security		5,648	(5,648)	(173)
Unrecognized pension costs			(44,643)	(1,370)
Translation adjustment	(164,684)	186,313	78,345	2,404
Comprehensive income	1,500,808	997,344	1,281,160	39,311

Components in other comprehensive income refer to investments in MVI and ProMOS. Under ROC laws, those losses and gains are not subject to income tax. Therefore, no tax expense or benefit is allocated to such investments.

h. Statements of accumulated comprehensive income (loss)

	Unrecognized Pension Costs NT$	Unrealized Holding Gain on Available-for-sale Securities NT$	Translation Adjustment NT$	Accumulated Other Comprehensive Income (loss) NT$
	(in thousands)			
December 31, 2004			(196,584)	(196,584)
Addition in 2005		5,648	186,313	191,961
December 31, 2005		5,648	(10,271)	(4,623)
Addition in 2006	(44,643)	(5,648)	78,345	28,054
December 31, 2006	(44,643)		68,074	23,431

i. Shareholders equity

Employee stock-based compensation has been accounted for under the intrinsic value based method as prescribed by APB Opinion No. 25. The disclosure provisions of SFAS No. 123 Accounting for Stock-Based Compensation have been applied to employee stock-based compensation.

The Company has in place a Share Option Plan (2001 Plan). Under the terms of the plan, the exercise price set on the grant of share options may not be less than the par value of a Company Share on the date of grant of such option. In August 2006, the Company adopted a second share option plan (2006 Plan). As at December 31, 2006, the number of shares that may be issued under the two plans is 16,000,000 shares and may consist in whole or part of authorized but unissued shares of the Company which are not reserved for any other purpose. No consideration is payable for the grant of an option.

Under the plans, options may be granted to all directors, officers, employees and consultants of the Company and its affiliates. Options are exercisable for a maximum of ten years from the date on which such option is granted and five years from the date on which such option is granted if the holder of the option owns more than 10% of the combined voting power of the Company at the time the option is granted.

In September 2006, the Company adopted a share appreciation rights plan. The share appreciation rights plan provides that the directors, officers and employees of the Company and its affiliates may be granted cash-settled share appreciation rights.

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27. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

i. Shareholders equity (continued)

The fair value for options granted has been estimated at the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Risk free interest rate	Expected life	Expected volatility	Expected dividend yield
020403ESOP	4.75%	5 years	114.91%	0%
030613ESOP	4.75%	3 years	148.73%	0%
031001ESOP	4.75%	3 years	118.07%	0%
031103ESOP	4.75%	3 years	120.72%	0%
040430ESOPA	1.75%	3 years	123.07%	0%
040430ESOPB	1.75%	3 years	123.07%	0%
040813ESOP	1.75%	3 years	112.40%	0%
060831ESOPA	4.62%	3 years	133.21%	0%
060831ESOPB	4.62%	3 years	133.21%	0%
060920ESOP	4.62%	3 years	130.07%	0%
061020ESOP	4.74%	3 years	117.04%	0%
061120ESOP	4.74%	3 years	107.42%	0%
061220ESOP	4.74%	3 years	102.67%	0%

The following table presents the stock option activity for the year ended December 31, 2006. The information for the year ended December 31, 2005 was not presented since options granted through December 31, 2005 were presented in the pro forma above.

	Number of Options	Weighted Average Exercise Price US$	Aggregate Intrinsic Value US$ (in thousands)
Outstanding at December 31, 2005	6,029,569	3.33	
Granted	2,170,510	5.15	
Forfeited	319,200	4.30	
Exercised	1,322,143	2.61	
Outstanding at December 31, 2006	6,558,736	4.03	18,098
Exercisable at December 31, 2006	3,225,926	3.10	11,914
Vested and expected to vest	6,392,096	4.01	17,789

The aggregate intrinsic value in the table above represents the total intrinsic value (i.e., the difference between the Company s closing stock price of US$6.79 on December 29, 2006 and the exercise price, times the number of options) that would have been received by the option holders had all option holders exercised their options on December 31, 2006. The total intrinsic value of options exercised during the year ended December 31, 2006 was NT$179,962 thousand (US$5,522 thousand). The total fair value of options vested and forfeited during the year ended December 31, 2006 was NT$144,048 thousand (US$4,420 thousand). The number of options vested during the year ended December 31, 2006 was 1,322,143. The weighted-average remaining contractual term of the outstanding options at December 31, 2006 was 7 years.

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27. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

i. Shareholders equity (continued)

As of December 31, 2006, NT$303 million of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 2 years.

The Company s employees have the ability to exercise a stock option (i.e., remit cash consideration to the Company for the exercise price) in exchange for stock during the vesting period of the award. The Company recognizes the consideration received for the exercise of the options into a restricted stock as a liability until it is vested. Once the restricted stock is vested the liability is converted into shares of common stock in the shareholders equity.

The following table presents a summary of the number of and weighted average grant date fair values regarding the unvested share options as of December 31, 2006 and changes during the year then ended:

	Number of Options	**Weighted Average Fair Value US$**
Unvested options outstanding at December 31, 2005	3,333,467	3.22
Granted	2,170,510	4.73
Vested	1,851,967	2.88
Forfeited	319,200	3.70
Unvested options outstanding at December 31, 2006	3,332,810	4.34

The Company s determination of fair value of employee share options on the date of grant using the Black Scholes Option Pricing Model is affected by the Company s stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to the Company s expected stock price volatility over the term of the awards. Option pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because the Company s employee stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management s opinion, the existing valuation models may not provide an accurate measure of the fair value of the Company s employee stock options. Although the fair value of employee stock options is determined in accordance with SFAS 123(R) using an option pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

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27. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

j. Convertible notes

The Company accounts for the conversion option in the convertible notes as derivative liabilities in accordance with SFAS No. 133 Accounting For Derivative Instruments And Hedging Activities and Emerging Interpretation Task Force (EITF) Issue No. 00-19 Accounting For Derivative Financial Instruments Indexed To And Potentially Settled In A Company s Own Stock . The discount attributable to the issuance date aggregate fair value of the conversion option, totaling NT$1,198,510 thousand (US$36,775 thousand), is being amortized using the effective interest method over the term of the convertible notes.

The change in fair value on revaluation of the embedded derivative liabilities represents the difference between the fair value of the embedded derivative liabilities at their original issue date and their fair value on December 31, 2006 using an option pricing model. As of December 31, 2006, the fair value of the embedded derivative liabilities amounted to NT$1,379,518 thousand (US$42,329 thousand). The effect of the fair market value adjustment of NT$339,436 (US$10,415 thousand) was recorded in the consolidated statement of operations.

The following assumptions were applied to the convertible notes using the option pricing model:-

	December 31, 2006	**December 31, 2006**
	CN due 2009	CN due 2011
Market price	US$6.79	US$6.79
Conversion price	US$6.28	US$6.85
Term	5 years	5 years
Volatility	32.9789%	33.3128%
Risk-free interest rate	4.5%	4.5%

Please refer to Note 14 for details of the terms of the convertible notes.

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EXHIBIT INDEX

Exhibits	Description
1.1	Memorandum of Association of ChipMOS TECHNOLOGIES (Bermuda) LTD.(1)
1.2	Bye-laws of ChipMOS TECHNOLOGIES (Bermuda) LTD.(2)
2.1	Certificate of Incorporation of ChipMOS TECHNOLOGIES (Bermuda) LTD., dated August 15, 2000.(1)
4.1	Joint Venture Agreement, dated July 14, 1997, between Mosel Vitelic Inc. and Siliconware Precision Industries Co., Ltd.(1)
4.2	Asset Sales Agreement, dated June 14, 1999, between Microchip Technology Taiwan and ChipMOS TECHNOLOGIES INC.(1)
4.3	Tessera Compliant Chip License Agreement, dated April 20, 1999, between Tessera Inc. and ChipMOS TECHNOLOGIES INC.(1)
4.4	License Agreement, dated April 1, 1999, between Fujitsu Ltd. and ChipMOS TECHNOLOGIES INC.(1)
4.5	Sales Agreement, dated February 10, 2000, between Sharp Corp. and ChipMOS TECHNOLOGIES INC.(1)
4.6	Raw Materials Processing Agreement, dated August 10, 2000, between Mosel Vitelic Inc. and ChipMOS TECHNOLOGIES INC.(1)
4.7	Raw Materials Processing Agreement, dated January 1, 2001, between Siliconware Precision Co. Ltd. and ChipMOS TECHNOLOGIES INC.(1)
4.8	Integrated Circuit Processing Agreement, dated January 1, 2001, between Siliconware Precision Co. Ltd. and ChipMOS TECHNOLOGIES INC.(1)
4.9	Integrated Circuit Processing and Warehousing Management Agreement, dated August 10, 2000, between Mosel Vitelic Inc. and ChipMOS TECHNOLOGIES INC.(1)
4.10	Land Lease Agreement, dated November 26, 1997, between Science Based Industrial Park Administration and ChipMOS TECHNOLOGIES INC.(1)
4.11	Land Lease Agreement, dated November 26, 1997, between Science Based Industrial Park Administration and ChipMOS TECHNOLOGIES INC.(1)
4.12	Land Lease Agreement, dated September 1, 1997, between Science Based Industrial Park Administration and ChipMOS TECHNOLOGIES INC.(1)
4.13	Purchase Agreement, dated July 31, 1997, between ChipMOS TECHNOLOGIES INC. and Mosel Vitelic Inc.(1)
4.14	Form of Share Exchange Covenant Letter from the Company to the Shareholders.(1)
4.15	Amendment to the Integrated Circuit Processing and Warehousing Management Agreement, dated August 10, 2000, between Mosel Vitelic Inc. and ChipMOS TECHNOLOGIES INC, dated September1, 2001.(3)
4.16	Purchase Agreement, dated October 15, 2003, between ChipMOS TECHNOLOGIES INC. and DenMOS Technology Inc.(3)
4.17	Sale and Purchase Agreement, dated April 25, 2003, between ChipMOS TECHNOLOGIES INC. and Ron How Investment Corp. (English Translation)(4)
4.18	Sale and Purchase Agreement, dated April 25, 2003, between ChipMOS TECHNOLOGIES INC. and Yuan Shan Investment Corp. (English Translation)(4)
4.19	Sale and Purchase Agreement, dated April 25, 2003, between ChipMOS TECHNOLOGIES INC. and Mosel Vitelic Inc. (English Translation)(4)

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4.20 Laser Stamping Machine Lease Agreement, dated November 1, 2002, between ChipMOS TECHNOLOGIES INC. and CHANTEK ELECTRONIC CO., LTD. (English Translation)(4)

4.21 Automatic Stamping Machine Lease Agreement, dated December 1, 2002, between ChipMOS TECHNOLOGIES INC. and CHANTEK ELECTRONIC CO., LTD. (English Translation)(4)

4.22 Raw Materials Processing Agreement, dated January 1, 2003, between ChipMOS TECHNOLOGIES INC. and CHANTEK ELECTRONIC CO., LTD. (English Translation)(4)

4.23 Integrated Circuit Processing Agreement, dated January 1, 2003, between ChipMOS TECHNOLOGIES INC. and CHANTEK ELECTRONIC CO., LTD. (English Translation)(4)

4.24 Technology Transfer Agreement, dated December 24, 2002, between ChipMOS TECHNOLOGIES INC. and ThaiLin Semiconductor Corp. (English Translation)(4)

4.25 Tester Equipment Lease Agreement, dated November 14, 2002, between ChipMOS TECHNOLOGIES INC. and ThaiLin Semiconductor Corp. (English Translation)(4)

4.26 Tester Equipment Lease Agreement, dated December 3, 2002, between ChipMOS TECHNOLOGIES INC. and ThaiLin Semiconductor Corp. (English Translation)(4)

4.27 Joint Engagement Letter, undated, by and among Ultima Electronics Corp., ChipMOS TECHNOLOGIES INC. and Sun-Fund Securities Ltd. (English Translation)(4)

4.28 Lease Agreement, dated June 1, 2002, between ChipMOS TECHNOLOGIES INC. and SyncMOS Technologies, Inc. (English Translation)(4)

4.29 Technology Transfer Agreement, dated August 1, 2002, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES (Shanghai) LTD.(4)

4.30 Promissory Note from Modern Mind Technology Limited to Jesper Limited, dated November 4, 2002.(4)

4.31 Deed of Variation, dated December 2, 2002, between Modern Mind Technology Limited and Jesper Limited.(4)

4.32 Deed of Assignment, dated December 27, 2002, between Jesper Limited and ChipMOS TECHNOLOGIES (Bermuda) LTD.(4)

4.33 Deed of Assignment, dated June 25, 2003, between Jesper Limited and ChipMOS TECHNOLOGIES INC.(4)

4.34 Agreement, dated May 3, 2003, between Jesper Limited and Modern Mind Technology Limited.(4)

4.35 Master loan agreement, dated July 12, 2004, among ChipMOS TECHNOLOGIES (Bermuda) LTD., Modern Mind Technology Limited, and Jesper Limited.(6)

4.36 Cooperation Agreement, dated March 27, 2002, between Shanghai Qingpu Industrial Zone Development (Group) Company and ChipMOS TECHNOLOGIES (Bermuda) LTD. (English Translation)(4)

4.37 Deed of assignment, dated December 17, 2003, between ChipMOS TECHNOLOGIES INC. and ChipMOS TECHNOLOGIES (Bermuda) LTD.(5)

4.38 Supplemental deed of assignment, dated May 14, 2004 between ChipMOS TECHNOLOGIES INC. and ChipMOS TECHNOLOGIES (Bermuda) LTD. (5)

4.39 Second supplemental deed of assignment, dated October 11, 2004, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC.(6)

4.40 Assignment agreement, dated April 7, 2004, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC. (5)

4.41 Supplemental assignment agreement, dated May 14, 2004, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC. (5)

4.42 Second supplemental assignment agreement, dated October 11, 2004, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC.(6)

4.43	Patent license agreement, dated April 7, 2004, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC.(5)
4.44	Supplemental patent license agreement dated July 8, 2004, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC.(6)
4.45	Second supplemental patent license agreement dated October 11, 2004, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC.(6)
4.46	Third supplemental patent license agreement dated December 30, 2004, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC.(6)
4.47	Assembly and Testing Service Agreement, dated November 27, 2005, between ChipMOS TECHNOLOGIES INC. and Spansion LLC.(7)
4.48	Share Purchase and Subscription Agreement, dated February 13, 2007, among ChipMOS TECHNOLOGIES (Bermuda) LTD., ChipMOS TECHNOLOGIES INC. and Siliconware Precision Industries Co., Ltd. (8)
4.49	Registration Rights Agreement, dated March 27, 2007, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and Siliconware Precision Industries Co., Ltd. (8)
4.50	Assignment Agreement, dated April 12, 2007, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC.
8.1	List of subsidiaries of ChipMOS TECHNOLOGIES (Bermuda) LTD.
11.1	Code of Business Conduct and Ethics. (5)
12.1	Certification of Chief Executive Officer required by Rule 13a-14(a) under the Exchange Act.
12.2	Certification of Chief Financial Officer required by Rule 13a-14(a) under the Exchange Act.
13.1	Certification of Chief Executive Officer required by Rule 13a-14(b) under the Exchange Act.
13.2	Certification of Chief Financial Officer required by Rule 13a-14(b) under the Exchange Act.
23.1	Consent of independent registered public accounting firm.

(1) Incorporated by reference to our Registration Statement on Form F-1 (File No. 333-13218), filed on February 28, 2001.
(2) Incorporated by reference to our report on Form 6-K, dated February 19, 2002.
(3) Incorporated by reference to our Annual Report on Form 20-F (File No. 0-31106), filed on June17, 2002.
(4) Incorporated by reference to our Annual Report on Form 20-F (File No. 0-31106), filed on June 30, 2003.
(5) Incorporated by reference to our Annual Report on Form 20-F (File No. 0-31106), filed on June 17, 2004.
(6) Incorporated by reference to our Annual Report on Form 20-F (File No. 0-31106), filed on June 29, 2005.
(7) Incorporated by reference to our Registration Statement on Form F-3 (File No. 333-130230), filed on December 9, 2005.
(8) Incorporated by reference to Schedule 13D filed with the United States Securities and Exchange Commission by Siliconware Precision Industries Co., Ltd. on April 4, 2007.