CHIPMOS TECHNOLOGIES BERMUDA LTD
Form 424B4
May 26, 2006
Table of Contents

Registration No. 333-130230
Filed pursuant to Rule 424(b)(4)

Prospectus supplement to prospectus dated March 7, 2006

ChipMOS TECHNOLOGIES (Bermuda) LTD.

6,956,522

Common Shares

This is a public offering of common shares of ChipMOS TECHNOLOGIES (Bermuda) LTD. All of the 6,956,522 common shares offered by this prospectus supplement are being offered by Mosel Vitelic Inc., which is referred to in this prospectus supplement as Mosel or the selling shareholder, through its wholly-owned subsidiary, Giant Haven Investments Limited. We will not receive any proceeds from the sale of common shares by the selling shareholder.

Our common shares are traded on the Nasdaq National Market under the symbol IMOS. On May 25, 2006, the last reported sale price of our common shares was US$6.59 per common share.

Investing in our common shares involves risks. See Risk Factors beginning on page S-11 of this prospectus supplement and in the documents we incorporated by reference.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$6.00	$41,739,132
Underwriting discounts and commissions	$0.25	$1,739,130
Proceeds, before expenses, to the selling shareholder	$5.75	$40,000,002

The selling shareholder has granted Deutsche Bank Securities Inc. the right to purchase up to 1,043,478 additional common shares to cover over-allotments.

Deutsche Bank Securities

The date of this prospectus supplement is May 25, 2006.

Table of Contents

THESE SECURITIES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, IN THE REPUBLIC OF CHINA, EXCEPT AS PERMITTED BY APPLICABLE LAW OF THE REPUBLIC OF CHINA.

This prospectus supplement, including the information summarized below, contains translations of New Taiwan dollar, or NT dollar, or NT$, amounts into United States dollars, or US dollars, or US$, at specified rates solely for the convenience of the reader. Unless otherwise noted, all translations from NT dollars to US dollars and from US dollars to NT dollars were made at the noon buying rate in New York City for cable transfers in NT dollars per US dollar as certified for customs purposes by the Federal Reserve Bank of New York, or the noon buying rate, as of March 31, 2006, which was NT$32.42 to US$1.00. We make no representation that the NT dollar or US dollar amounts referred to in this prospectus supplement could have been or could be converted into US dollars or NT dollars, as the case may be, at any particular rate or at all. On May 25, 2006, the noon buying rate was NT$32.09 to US$1.00.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some of the information contained or incorporated by reference in this prospectus supplement constitute statements that are, or may be deemed to be, forward-looking statements within the meaning of U.S. securities laws. The terms anticipates, expects, may, will, should and other similar expressions identify forward-looking statements. These statements appear in a number of places throughout this prospectus supplement and the documents incorporated by reference in this prospectus supplement and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industries in which we operate.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance and our actual results of operations, financial condition and liquidity, and the development of the industries in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this prospectus supplement. Important factors that could cause those differences include, but are not limited to:

- the volatility of the semiconductor industry and the market for end-user applications for semiconductor products;
- overcapacity in the semiconductor testing and assembly markets;
- the increased competition from other companies and our ability to retain and increase our market share;
- our ability to successfully develop new technologies and remain a technological leader;
- our ability to maintain control over capacity expansion and facility modifications;
- our ability to generate growth or profitable growth;
- our ability to hire and retain qualified personnel;
- our ability to acquire required equipment and supplies to meet customer demand;

our ability to raise capital as required to meet certain existing obligations;

the pending criminal indictment of our Chairman and Chief Executive Officer;

Table of Contents

our reliance on certain major customers;

the implementation of the assembly and testing services agreements between Spansion LLC and us;

our major customers willingness to purchase our services or to provide the minimum agreed compensation as provided under any long-term agreement with us, if applicable;

the political stability of our local region; and

general local and global economic conditions.

Forward-looking statements include, but are not limited to, statements regarding our strategy and future plans, future business condition and financial results, our capital expenditure plans, our capacity expansion plans, our expansion plans in Mainland China, technological upgrades, investment in research and development, future market demand, future regulatory or other developments in our industry. Please see Risk Factors for a further discussion of certain factors that may cause actual results to differ materially from those indicated by our forward-looking statements.

Table of Contents

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights selected information contained in greater detail elsewhere in this prospectus supplement. This summary does not contain all of the information that you should consider before investing in our common shares. You should carefully read the entire prospectus supplement and the documents incorporated by reference herein, including Risk Factors and our Form 20-F for the year ended December 31, 2005, before making an investment decision.

When we refer to the capacity of our semiconductor testing and assembly equipment, we are referring to capacity assessed by our internal personnel based on the specifications and the repair and maintenance frequency of the relevant equipment. Unless otherwise noted, in this prospectus supplement, we refers to ChipMOS TECHNOLOGIES (Bermuda) LTD., or ChipMOS Bermuda, and its subsidiaries, and Mainland China refers to the People s Republic of China, excluding Hong Kong, Macau and Taiwan.

ChipMOS TECHNOLOGIES (Bermuda) LTD. and its Subsidiaries

Overview

We believe that we are one of the leading independent providers of semiconductor testing and assembly services. Specifically, we believe that we are the largest independent provider of testing and assembly services for LCD and other flat-panel display driver semiconductors globally and a leading provider of testing and assembly services for advanced memory products in Taiwan. The depth of our engineering expertise and the breadth of our testing and assembly technologies enable us to provide our customers with advanced and comprehensive solutions. In addition, our geographic presence in Taiwan and Mainland China is attractive to customers wishing to take advantage of the logistical and cost efficiencies stemming from our close proximity to foundries and producers of consumer electronic products in Taiwan and Mainland China. Our production facilities are located in Hsinchu and Tainan, Taiwan and Shanghai, Mainland China.

We provide a broad range of back-end testing services, including engineering testing, wafer probing and final testing of memory and mixed-signal semiconductors. We also offer a broad selection of leadframe-based and organic substrate-based package assembly services for memory and mixed-signal semiconductors. Our advanced leadframe-based packages include thin small outline packages, or TSOPs, and our advanced organic substrate-based packages include fine-pitch ball grid array, or fine-pitch BGA, packages. In addition, we provide gold bumping, testing and assembly services for LCD and other flat-panel display driver semiconductors by employing tape carrier package, or TCP, chip-on-film, or COF, and chip-on-glass, or COG, technologies. We also provide semiconductor turnkey services by purchasing fabricated wafers and then selling tested and assembled semiconductors, primarily memory products.

Semiconductors tested and assembled by us are used in personal computers, graphics applications, such as game consoles and personal digital assistants, or PDAs, communications equipment, such as cellular handsets, and consumer electronic products and display applications, such as flat-panel displays. In 2005, 43% of our net revenue was derived from testing services for memory and mixed-signal semiconductors, 37% from assembly services for memory and mixed-signal semiconductors, and 20% from LCD and other flat-panel display driver semiconductor testing and assembly services.

Table of Contents

Industry Overview

Historically, integrated device manufacturers, or IDMs, designed, manufactured, tested and assembled semiconductors primarily at their own facilities. In recent years, there has been a trend in the industry to outsource stages in the manufacturing process to reduce the high fixed costs resulting from the increasingly complex manufacturing process. Virtually every significant stage of the manufacturing process can be outsourced. The independent semiconductor manufacturing services market currently consists of wafer fabrication and probing services and semiconductor testing and assembly services. Most of the world s major IDMs now use some independent semiconductor manufacturing services to maintain a strategic mix of internal and external manufacturing capacity. We believe that many of these IDMs are significantly reducing their investments in new semiconductor testing and assembly facilities. The availability of technologically advanced independent semiconductor manufacturing services has also enabled the growth of fabless semiconductor companies that focus exclusively on semiconductor design and marketing and outsource their fabrication, testing and assembly requirements to independent companies.

We believe the outsourcing of semiconductor manufacturing services, and in particular of testing and assembly services, will increase for many reasons, including the following:

Significant Capital Expenditure Requirements. Driven by increasingly sophisticated technological requirements, wafer fabrication, testing and assembly processes have become highly complex, requiring substantial investment in specialized equipment and facilities and sophisticated engineering and manufacturing expertise. In addition, product life cycles have been shortening, magnifying the need to continually upgrade or replace manufacturing, testing and assembly equipment to accommodate new products. As a result, new investments in in-house fabrication, testing and assembly facilities are becoming less desirable for IDMs because of the high investment costs, as well as difficulties in achieving sufficient economies of scale and utilization rates to be competitive with the independent service providers. Independent foundry, testing and assembly companies, on the other hand, are able to realize the benefits of specialization and achieve economies of scale by providing services to a large base of customers across a wide range of products. This enables them to reduce costs and shorten production cycles through high capacity utilization and process expertise.

Increasing Focus on Core Competencies. As the costs of semiconductor manufacturing facilities increase, semiconductor companies are expected to further outsource their wafer fabrication, testing and assembly requirements to focus their resources on core competencies, such as semiconductor design and marketing.

Time-to-Market Pressure. Increasingly short product life cycles have amplified time-to-market pressure for semiconductor companies, leading them to rely increasingly on independent companies as a key source for effective wafer fabrication, testing and assembly services.

The Semiconductor Industry and Conditions of Outsourcing in Taiwan and Mainland China

Taiwan is one of the world s leading locations for outsourced semiconductor manufacturing. The semiconductor industry in Taiwan has developed such that the various stages of the semiconductor manufacturing process have been disaggregated, thus allowing for specialization. The disaggregation of the semiconductor manufacturing process in Taiwan permits these semiconductor manufacturing service providers to focus on particular parts of the production process, develop economies of scale, maintain higher capacity utilization rates and

Table of Contents

remain flexible in responding to customer needs. There are several leading service providers in Taiwan, each of which offers substantial capacity, high-quality manufacturing, leading semiconductor wafer fabrication, test, assembly and process technologies, and a full range of services. These service providers have access to an educated labor pool and a large number of engineers suitable for sophisticated manufacturing industries. As a result, many of the world s leading semiconductor companies outsource some or all of their semiconductor manufacturing needs to Taiwan s semiconductor manufacturing service providers and take advantage of the close proximity among facilities. In addition, companies located in Taiwan are very active in the design and manufacture of electronic systems, which has created significant local demand for semiconductor devices.

Mainland China has emerged as a similarly attractive location for outsourced semiconductor manufacturing. Mainland China is an attractive manufacturing location for electronic products because companies can take advantage of a well-educated yet low-cost labor force, cost savings due to tax benefits and a large domestic market. These factors have driven a rapid relocation of much of the electronics industry manufacturing and supply chain to Mainland China. An increasing number of global electronic systems manufacturers and contract manufacturers are relocating production facilities to Mainland China. We believe that these electronic product manufacturers and contract manufacturers will source an increasing portion of their demand for semiconductors from semiconductor suppliers located in Mainland China in order to reduce production cycle times, decrease costs, simplify supply chain logistics and meet local content requirements. In line with this trend, we have in recent years expanded our operations in Mainland China.

Our Strategy

Our goal is to reinforce our position as a leading independent provider of semiconductor testing and assembly services, concentrating principally on memory, mixed-signal and LCD and other flat-panel display driver semiconductors. The principal components of our business strategy are set forth below.

Focus on Providing Our Services to the High-Growth Segments of the Semiconductor Industry.

We intend to continue our focus on developing and providing advanced testing and assembly services for high-growth segments of the semiconductor industry, such as memory, mixed-signal and LCD and other flat-panel display driver semiconductors. In 2005, our revenue from testing and assembly of semiconductors for these segments accounted for 100% of our net revenue. We believe that our investments in equipment and research and development in some of these areas allow us to offer a differentiated service from our competition. In order to continue to benefit from the expected growth in these segments, we intend to continue to invest in capacity to meet the testing and assembly requirements of these key semiconductor market segments.

Continue to Invest in the Research and Development of Advanced Testing and Assembly Technologies.

We believe that our ability to provide progressively more advanced testing and assembly services to customers is critical to our business. In addition, advanced semiconductor testing and assembly services typically generate higher margins due to the greater expertise required and the more sophisticated technologies used. We will continue to invest in the research and development of advanced testing and assembly technologies. For example, we are expanding

Table of Contents

our capabilities in fine-pitch BGA and the testing and assembly of COFs. We have also introduced fine-pitch COF based on our proprietary technology and COG testing and assembly services for LCD and other flat-panel display driver semiconductors.

In addition, we will continue to pursue the development of new testing and assembly technologies jointly with domestic and foreign research institutions and universities. We expect to focus our research and development efforts in the following areas:

- developing new software conversion programs to increase the capabilities of our testers;
- developing technologies for wafer-level burn-in and testing before assembly;
- developing advanced assembly technologies for high speed memory devices;
- developing fine-pitch bumping, chip probing and bonding technologies for LCD drivers;
- improving manufacturing yields for new assembly technologies;
- developing environmentally friendly assembly services that focus on eliminating the lead and halogen elements from the materials employed in the package and reducing the toxicity of gaseous chemical wastes; and
- implementation of radio frequency identification (RFID) on wafer probing process.

In 2005, we spent approximately 2% of our net revenue on research and development. We will continue to invest our resources to recruit and retain experienced research and development personnel. As of March 31, 2006, our research and development team comprised 225 persons.

Build on Our Strong Presence in Taiwan and Expand Our Operations in Mainland China.

We intend to build on our strong presence in key centers of semiconductor and electronics manufacturing to further grow our business. Currently, most of our operations are in Taiwan, one of the world s leading locations for outsourced semiconductor manufacturing. This presence provides us with several advantages. First, our proximity to other semiconductor companies is attractive to customers who wish to outsource various stages of the semiconductor manufacturing process. Second, our proximity to many of our suppliers, customers and the end-users of our customers products enables us to be involved in the early stages of the semiconductor design process, enhances our ability to quickly respond to our customers changing requirements and shortens our customers time-to-market. Third, we have access to an educated labor pool and a large number of engineers who are able to work closely with our customers and other providers of semiconductor manufacturing services.

As with our operations in Taiwan, we intend to similarly benefit from our operations in Mainland China through ChipMOS Shanghai. We intend to invest in and expand our operations in Mainland China, increasing our testing and assembly services for memory semiconductors. We also plan to expand our testing and assembly services in our Shanghai facility to include LCD and other flat-panel display driver semiconductors.

Expand Our Offering of Vertically Integrated Services.

We believe that one of our competitive strengths is our ability to provide vertically integrated services to our customers. Vertically integrated services consist of the integrated testing, assembly and direct shipment of semiconductors to end-users designated by our

Table of Contents

customers. Providing vertically integrated services enables us to shorten lead times for our customers. As time-to-market and cost increasingly become sources of competitive advantage for our customers, they increasingly value our ability to provide them with comprehensive back-end services. Through ChipMOS Taiwan, ThaiLin and ChipMOS Shanghai, we are able to offer vertically integrated services for a broad range of products, including memory, mixed-signal and LCD and other flat-panel display driver semiconductors. We believe that these affiliations, which offer complementary technologies, products and services as well as additional capacity, will continue to enhance our own development and expansion efforts into new and high-growth markets. We intend to establish new alliances with leading companies and, if suitable opportunities arise, engage in merger and acquisition activities that will further expand the services we can provide.

Focus on Increasing Sales through Long-Term Agreements with New and Existing Customers.

From time to time, we strategically agree to commit a portion of our testing and assembly capacity to certain of our customers. We intend to enter into long-term capacity agreements with more of our existing customers, as well as diversify our customer base by entering into long-term agreements with new customers. The customers we currently have long-term agreements with include ProMOS, DenMOS, Himax, Novatek and Oki. In addition, we have entered into an assembly and testing services agreement with Spansion, pursuant to which we agreed to install equipment and reserve capacity for wafer sorting services for Spansion and Spansion undertakes to compensate us for failure to sufficiently utilize equipment installed and qualified in accordance with the agreement. The initial term of the first statement of work is three years from the date of installation of the relevant equipment. We believe that these long-term agreements help to insulate us from volatility in our capacity utilization rates and help us develop close relationships with our customers. As of March 31, 2006, 34% of our total current capacity was reserved under these long-term agreements.

Recent Developments

The unaudited consolidated statement of income data and the unaudited consolidated balance sheet data presented below have been prepared in accordance with generally accepted accounting principles in the Republic of China, or ROC GAAP, and a reconciliation has been made to generally accepted accounting principles in the United States, or US GAAP.

The unaudited consolidated statement of income data and the unaudited consolidated balance sheet data as of and for the three months ended March 31, 2006 in accordance with US GAAP presented below are different from those included in our Form 6-K furnished to the SEC on May 3, 2006, because the unaudited consolidated financial data includes the effects of a change in the fair value of the conversion feature of our 1.75% convertible notes due 2009, or convertible notes, which is accounted for as an embedded derivative, and which increased by NT$364 million in the three months ended March 31, 2006. See Notes 27r and 28j to our audited consolidated financial statements included in our Form 20-F for the year ended December 31, 2005 incorporated by reference herein. Under ROC GAAP, there is no requirement to account for the fair value of the conversion feature embedded in any convertible securities issued prior to January 1, 2006, including our convertible notes.

Results for the three months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

Table of Contents

	ROC GAAP (unaudited) Three months ended March 31,				US GAAP (unaudited) Three months ended March 31,	
	2006		2005		2006	
	NT$	US$	NT$	US$	NT$	US$
	(in millions, except per share data)					
Consolidated Statement of Operations Data:						
Net revenue	4,367.1	134.7	3,339.5	103.0	4,367.1	134.7
Cost of revenue	2,993.0	92.3	2,662.5	82.1	2,997.2	92.4
Gross profit	1,374.1	42.4	677.0	20.9	1,369.9	42.3
Operating expenses:						
Research and development	59.3	1.8	67.3	2.1	59.3	1.8
Sales and marketing	25.3	0.8	21.7	0.7	25.3	0.8
General and administrative	178.5	5.5	155.6	4.8	196.8	6.1
Total operating expenses	263.1	8.1	244.6	7.6	281.4	8.7
Income from operations	1,111.0	34.3	432.4	13.3	1,088.5	33.6
Non-operating income (expenses), net	(17.2)	(0.5)	(71.6)	(2.2)	(374.7)	(11.6)
Income before income tax and minority interests	1,093.8	33.8	360.8	11.1	713.8	22.0
Income tax expense	(129.5)	(4.0)	(24.4)	(0.7)	(127.1)	(3.9)
Income before minority interests	964.3	29.8	336.4	10.4	586.7	18.1
Cumulative effect of changes in accounting principles	3.3	0.1				
Minority interests	(366.0)	(11.3)	(162.9)	(5.0)	(370.6)	(11.4)
Net income	601.6	18.6	173.5	5.4	216.1	6.7
Earnings per share basic	8.86	0.27	2.58	0.08	3.18	0.10
Shares outstanding (in thousands) basic	67,924	67,924	67,363	67,363	67,924	67,924

	ROC GAAP			US GAAP		
	(unaudited)		(audited)	(unaudited)		(audited)
	As of March 31, 2006		As of December 31, 2005	As of March 31, 2006		As of December 31, 2005
	NT$	US$	NT$	NT$	US$	NT$
	(in millions)					
Consolidated Balance Sheet Data:						
Cash and cash equivalents	3,871.4	119.4	4,607.0	3,871.4	119.4	4,607.0
Total current assets	9,712.1	299.6	10,046.9	9,712.5	299.6	10,050.2
Property, plant and equipment, net	22,235.9	685.9	20,420.1	22,147.4	683.1	20,340.9
Total assets	33,166.9	1,023.0	31,758.0	33,066.8	1,020.0	31,653.6
Current liabilities	9,068.4	279.7	7,857.5	9,640.2	297.4	8,049.3

Long term liabilities	3,706.2	114.3	4,433.9	3,706.2	114.3	4,433.9
Stockholders equity	11,921.7	367.7	11,213.8	11,414.8	352.1	11,084.7

Table of Contents

Corporate Information

We are a holding company incorporated in August 2000 under the Companies Act 1981 of Bermuda. We provide most of our services in Taiwan through our majority-owned subsidiary ChipMOS TECHNOLOGIES INC., or ChipMOS Taiwan, and its subsidiaries and investees. We also provide services in Mainland China through ChipMOS TECHNOLOGIES (Shanghai) LTD., or ChipMOS Shanghai, a wholly-owned subsidiary of MODERN MIND TECHNOLOGY LIMITED, or Modern Mind, which is one of our controlled consolidated subsidiaries.

Our principal executive offices are located at 11F, No. 3, Lane 91, Dongmei Rd, Hsinchu, Taiwan, Republic of China and our telephone number is (886-3) 571-6088. Our website is http://www.chipmos.com.tw. The information on our website does not constitute part of this document.

Table of Contents

The Offering

Selling shareholder	Mosel Vitelic Inc., through its wholly-owned subsidiary Giant Haven Investments Limited. See Selling Shareholder .
Common shares offered by the selling shareholder	6,956,522
Public offering price	US$6.00 per common share
Common shares to be outstanding after this offering	68,072,524
Over-allotment option	The selling shareholder has granted to Deutsche Bank Securities Inc. an option, exercisable not later than 30 days after the date of this prospectus supplement, to purchase up to 1,043,478 additional common shares at the public offering price, less the underwriting discounts and commissions, to cover over-allotments.
Use of proceeds	We will not receive any proceeds from the sale of our common shares by the selling shareholder.
Trading market	The only trading market for the common shares is the Nasdaq National Market.
Nasdaq National Market symbol	IMOS

The number of our common shares to be outstanding after this offering is based upon 68,072,524 shares outstanding as of March 31, 2006. This number does not include:

- 5,654,881 common shares subject to outstanding options with a weighted average exercise price of approximately $3.39 per share;
- 612,883 common shares reserved for future issuance under our stock option plans; and
- 13,423,726 common shares issuable upon conversion of our 1.75% convertible notes due 2009.

Unless otherwise indicated, all information in this prospectus supplement assumes no exercise of the over-allotment option by Deutsche Bank Securities Inc.

Table of Contents

RISK FACTORS

This offering involves a high degree of risk. You should carefully consider the risks described below before you decide to buy our common shares. In particular, as we are a non-U.S. company, there are risks associated with investing in our common shares that are not typical with investments in shares of U.S. companies. If any of the following risks actually occurs, our business, financial condition and results of operations would likely suffer, in which case, the trading price of our common shares could decline, and you could lose all or part of your investment.

Risk Relating to Our Industry

Because we depend on the highly cyclical semiconductor industry, which is characterized by significant and sometimes prolonged downturns from time to time, our net revenue and earnings may fluctuate significantly, which in turn could cause the market price of our common shares to decline.

Because our business is, and will continue to be, dependent on the requirements of semiconductor companies for independent testing and assembly services, any downturn in the highly cyclical semiconductor industry may reduce demand for our services and adversely affect our results of operations. All of our customers operate in this industry and variations in order levels from our customers and in service fee rates may result in volatility in our net revenue and earnings. For instance, during periods of decreased demand for assembled semiconductors, some of our customers may even simplify or forego final testing of certain types of semiconductors, such as dynamic random access memory, or DRAM, further intensifying our difficulties. From time to time, the semiconductor industry has experienced significant, and sometimes prolonged, downturns, which have adversely affected our results of operations. For example, the semiconductor industry experienced a downturn beginning in the fourth quarter of 2000 until late 2002. As a result of the downturn, our net revenue and net income for 2001 decreased 36% and 219% from 2000 levels, respectively. Although the semiconductor industry has recovered from the downturn since late 2002, we cannot give any assurances that there will not be any downturn in the future or that any future downturn will not affect our results of operations.

Any deterioration in the market for end-user applications for semiconductor products would reduce demand for our services and may result in a decrease in our earnings.

Market conditions in the semiconductor industry track, to a large degree, those for their end-user applications. Any deterioration in the market conditions for the end-user applications of semiconductors we test and assemble could reduce demand for our services and, in turn, materially adversely affect our financial condition and results of operations. Our net revenue is largely attributable to fees derived from testing and assembling semiconductors for use in personal computers, consumer electronic products, display applications and communications equipment. A significant decrease in demand for products in these markets could put pricing pressure on our testing and assembly services and negatively affect our net revenue and earnings. The decrease in market demand for personal computers and communications equipment that began in the fourth quarter of 2000 adversely affected our results of operations in 2000, 2001 and 2002. While the market demand for personal computers and communications equipment has recovered since the beginning of 2003, a significant decrease in demand could again negatively affect our net revenue and earnings.

A decline in average selling prices for our services could result in a decrease in our earnings.

Historically, prices for our testing and assembly services in relation to any given semiconductor tend to decline over the course of its product and technology life cycle. The

Table of Contents

average selling prices for our testing and assembly services for synchronous dynamic random access memory, or SDRAM, and liquid crystal display, or LCD, and other flat-panel display driver semiconductors decreased in 2005, compared to the average selling prices for these services in 2004 and we cannot assure you that there will be no further reduction in average selling prices for these services in the future. See also A decrease in market demand for LCD and other flat-panel display driver semiconductors may adversely affect our capacity utilization rates and thereby negatively affect our profitability. If we cannot reduce the cost of our testing and assembly services, or introduce higher-margin testing and assembly services for new package types, to offset the decrease in average selling prices for our services, our earnings could decrease.

A reversal or slowdown in the outsourcing trend for semiconductor testing and assembly services could reduce our profitability.

In recent years, integrated device manufacturers, or IDMs, have increasingly outsourced stages of the semiconductor production process, including testing and assembly, to independent companies like us to shorten production cycles. In addition, the availability of advanced independent semiconductor manufacturing services has also enabled the growth of so-called fabless semiconductor companies that focus exclusively on design and marketing and outsource their manufacturing, testing and assembly requirements to independent companies. Our net revenue indirectly generated from these IDMs and fabless companies generally constitutes a substantial portion of our net revenue. We cannot assure you that these companies will continue to outsource their testing and assembly requirements to independent companies like us. A reversal of, or a slowdown in, this outsourcing trend could result in reduced demand for our services, which in turn could reduce our profitability.

Risks Relating to Our Business

If we are unable to compete effectively in the highly competitive semiconductor testing and assembly markets, we may lose customers and our income may decline.

The semiconductor testing and assembly markets are very competitive. We face competition from a number of IDMs with in-house testing and assembly capabilities and other independent semiconductor testing and assembly companies. Our competitors may have access to more advanced technologies and greater financial and other resources than we do. Many of our competitors have shown a willingness to reduce prices quickly and sharply in the past to maintain capacity utilization in their facilities during periods of reduced demand. In addition, an increasing number of our competitors conduct their operations in lower cost centers in Asia such as Mainland China, Thailand, Vietnam and the Philippines. Any renewed or continued erosion in the prices or demand for our testing and assembly services as a result of increased competition could adversely affect our profits.

We are highly dependent on the market for memory products. A downturn in the market for these products could significantly reduce our net revenue and net income.

A significant percentage of our net revenue is derived from testing and assembling memory semiconductors. Our net revenue derived from the testing and assembly of memory semiconductors accounted for 62%, 71% and 73% of our net revenue in 2003, 2004 and 2005, respectively. In the past, our service fees for testing and assembling memory semiconductors were sharply reduced in tandem with the decrease in the average selling price of DRAM. For example, the weighted average selling price for DRAM decreased by approximately 76% in 2005. We cannot assure you that there will not be additional reductions in DRAM prices in the

Table of Contents

future. Any failure of the demand for DRAM to increase or any further decrease in the demand for memory products may decrease demand for our services and significantly reduce our net revenue and net income.

A decrease in market demand for LCD and other flat-panel display driver semiconductors may adversely affect our capacity utilization rates and thereby negatively affect our profitability.

We began offering testing and assembly services for LCD and other flat-panel display driver semiconductors in the second quarter of 2000. Our testing and assembly services for LCD and other flat-panel display driver semiconductors generated net revenue NT$1,683 million, NT$2,750 million and NT$3,098 million (US$96 million) in 2003, 2004 and 2005, respectively. We spent NT$1,255 million, NT$1,380 million and NT$1,803 million (US$56 million) in 2003, 2004 and 2005, respectively, on equipment for tape carrier package, or TCP, chip-on-film, or COF, and chip-on-glass, or COG, technologies, which are used in testing and assembly services for LCD and other flat-panel display driver semiconductors. Most of these equipments may not be used for technologies other than TCP, COF or COG. Although the market demand for LCD and other flat-panel display driver semiconductor testing and assembly services in 2005 increased compared to the market demand in 2004, any future decrease in demand for our LCD and other flat-panel display driver semiconductor testing and assembly services would significantly impair our capacity utilization rates and may result in our inability to generate sufficient revenue to cover the significant depreciation expenses for the equipment used in testing and assembling LCD and other flat-panel display driver semiconductors, thereby negatively affecting our profitability. See also Because of our high fixed costs, if we are unable to achieve relatively high capacity utilization rates, our earnings and profitability may be adversely affected.

Our significant amount of indebtedness and interest expense will limit our cash flow and could adversely affect our operations.

We have a significant level of debt and interest expense. We had approximately NT$5,687 million (US$175 million) and NT$4,434 million (US$137 million) in short- and long-term indebtedness, respectively, outstanding as of December 31, 2005, including NT$2,769 million (US$84 million) of convertible notes due 2009, which bear interest at an annual rate of 1.75%. As of March 31, 2006, the notes are convertible into our common shares at a conversion price of US$6.28, which was adjusted from the initial conversion price of US$7.85 pursuant to the terms of the convertible notes. The holders of the convertible notes have the right to cause ChipMOS Bermuda to repurchase the notes on November 3, 2006 at a repurchase price equal to 100% of the principal amount thereof plus any accrued but unpaid interest up to, but excluding, the date of repurchase.

Our significant indebtedness poses risks to our business, including the risks that:

- we could use a substantial portion of our consolidated cash flow from operations to pay principal and interest on our debt, thereby reducing the funds available for working capital, capital expenditures, acquisitions and other general corporate purposes;
- insufficient cash flow from operations may force us to sell assets, or seek additional capital, which we may be unable to do at all or on terms favorable to us;
- our level of indebtedness may make us more vulnerable to economic or industry downturns; and
- our debt service obligations increase our vulnerabilities to competitive pressures, because many of our competitors may be less leveraged than we are.

Table of Contents

The indenture governing the convertible notes we issued in November 2004 does not limit our ability to incur additional indebtedness in the future. As we incur additional indebtedness, the risks that we face could intensify. Our ability to make required payments on the convertible notes and to satisfy any other debt obligations will depend on our future operating performance and our ability to obtain additional debt or equity financing on commercially reasonable terms.

Our results of operations may fluctuate significantly and may cause the market price of our common shares to be volatile.

Our results of operations have varied significantly from period to period and may continue to vary in the future. Among the more important factors affecting our quarterly and annual results of operations are the following:

- our ability to accurately predict customer demand, as we must commit significant capital expenditures in anticipation of future orders;
- our ability to quickly adjust to unanticipated declines or shortfalls in demand and market prices for our testing and assembly services, due to our high percentage of fixed costs;
- changes in prices for our testing and assembly services;
- volume of orders relative to our testing and assembly capacity;
- capital expenditures and production uncertainties relating to the roll-out of new testing or assembly services;
- our ability to obtain adequate testing and assembly equipment on a timely basis;
- changes in costs and availability of raw materials, equipment and labor;
- changes in our product mix; and