CHIPMOS TECHNOLOGIES BERMUDA LTD
Form F-3/A
January 10, 2006
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As filed with the Securities and Exchange Commission on January 10, 2006

Registration No. 333-130230

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Amendment No. 1 to

FORM F-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

ChipMOS TECHNOLOGIES (Bermuda) LTD.

(Exact Name of Registrant as Specified in Its Charter)

N/A

(Translation of Registrant s Name into English)

Bermuda	**N/A**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

11F, No. 3, Lane 91, Dongmei Road

Hsinchu, Taiwan

Republic of China

(886-3) 571-6088

(Address and Telephone Number of Registrant s Principal Executive Offices)

CT Corporation System

111 Eighth Avenue, New York, New York 10011

Tel: (212) 894-8600

(Name, Address and Telephone Number of Agent for Service)

Copies to:

Michael G. DeSombre, Esq.

Sullivan & Cromwell LLP

28th Floor

Nine Queen s Road Central

Hong Kong

(852) 2826-8688

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

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

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

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

If this Form is a registration statement pursuant to General Instruction I.C. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, please check the following box. ¨

If the Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.C. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, please check the following box. ¨

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Primary Offering:				
Common shares, par value US$0.01 per share	(2)(3)	(2)(3)	(2)(3)	
Debt securities	(2)(3)	(2)(3)	(2)(3)	
Total			US$170,000,000(4)	US$18,190(4)
Secondary Offering:				
Common shares, par value US$0.01 per share	(5)	(5)	US$80,000,000(4)	US$8,560(4)
Total Primary and Secondary Offerings:			US$250,000,000	US$26,750(6)

(1) Includes common shares and debt securities which may be initially offered and sold outside the United States and may be resold from time to time in the United States either as part of their distribution or within 40 days after the later of the effective date of this registration statement and the date the securities are first bona fide offered to the public. The securities are not being registered for the purpose of sales outside of the United States.

(2) There is being registered an indeterminate principal amount of debt securities and an indeterminate number of common shares, as may be issued in primary offerings from time to time by the registrant, including issuances of debt securities and common shares upon the conversion of debt securities to the extent any such debt securities are, by their terms, convertible into debt securities or common shares.

(3) The proposed maximum aggregate offering price of each class of securities will be determined from time to time by the registrant in connection with the issuance by the registrant of the securities registered hereunder and is not specified as to each class of securities pursuant to the General Instruction II.C. of Form F-3 under the Securities Act of 1933.

(4) Estimated solely for the purpose of determining the amount of the registration fee pursuant to Rule 457(o) under the Securities Act of 1933.

(5)

There is being registered an indeterminate number of common shares, as may be issued in secondary offerings from time to time by certain unnamed selling securities holders in reliance on Rule 430B(b)(2) under the Securities Act of 1993.

(6) The registration fee was paid by wire transfer to the Securities and Exchange Commission in connection with the initial registration statement.

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

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This information contained in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell securities, and we are not soliciting offers to buy these securities, in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JANUARY 10, 2006

Prospectus

US$250,000,000

Common Shares

Debt Securities

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission using the shelf registration or continuous offering process. This means:

We may offer and sell the common shares or debt securities covered by this prospectus from time to time in one or more offerings, which may be through one or more underwriters, dealers and agents, or directly to the purchasers. The names of any underwriters, dealers or agents, if any, will be included in a supplement to this prospectus;

The selling shareholders may also use this prospectus to offer and sell common shares of our Company from time to time in one or more offerings. Should selling shareholders sell their securities, we will not receive any of the proceeds from such sale;

This prospectus provides you with a general description of the securities we and/or the selling shareholders may offer; and

We will provide a prospectus supplement each time we and/or the selling shareholders sell the securities that will provide specific information about the terms of that offering and that also may add to, update or change information contained in this prospectus. The prospectus supplement may also incorporate by reference certain of our other filings with the Securities and Exchange Commission. You should carefully read this prospectus and any future prospectus supplements (including any of our filings incorporated by reference therein) before you invest in any of our securities.

Our common shares are quoted on the Nasdaq National Market under the symbol IMOS. The price of our common shares on the Nasdaq National Market on January 9, 2006 was US$6.57 per common share.

Investing in our common shares involves risks. See *Risk Factors* *beginning on page 9.*

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This prospectus may not be used to sell securities unless it is accompanied by a prospectus supplement or the applicable information is included in our filings with, or submission to, the Securities and Exchange Commission.

The date of this prospectus is , 2006

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This prospectus, 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 September 30, 2005, which was NT$33.18 to US$1.00. We make no representation that the NT dollar or US dollar amounts referred to in this prospectus 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 January 9, 2006, the noon buying rate was NT$31.90 to US$1.00.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some of the information contained or incorporated by reference in this prospectus and accompanying prospectus supplements 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 and accompanying prospectus supplements and the documents incorporated by reference in this prospectus and accompanying prospectus supplements 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 and accompanying prospectus supplements. 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 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.

PROSPECTUS SUMMARY

This summary highlights selected information from this prospectus or incorporated by reference into this prospectus and may not contain all information that is important to you. This summary does not contain all the information that you should consider before investing in the securities being offered by this prospectus. You should carefully read the entire prospectus, the documents incorporated by reference into this prospectus and the prospectus supplement relating to the securities that you propose to buy, especially any description of investment risks that we may include in the prospectus supplement.

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, we refers to ChipMOS TECHNOLOGIES (Bermuda) LTD., or ChipMOS Bermuda, and its subsidiaries in this prospectus, and Mainland China refers to the People s Republic of China, excluding Hong Kong, Macau and Taiwan.

CHIPMOS TECHNOLOGIES (BERMUDA) LTD.

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 liquid crystal display, or LCD, and other flat-panel display driver semiconductors globally, and a leading provider of testing and assembly services for advanced memory products in Taiwan.

We provide a broad range of semiconductor testing and assembly services primarily for memory, mixed-signal, and LCD and other flat-panel display driver semiconductors. We also provide, from time to time, semiconductor turnkey services by purchasing fabricated wafers and selling tested and assembled semiconductors.

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, we believe our geographic presence in Taiwan and Mainland China, two of the world s leading locations for outsourced semiconductor manufacturing, 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.

Our Business 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 to:

- focus on providing our services to the high-growth segments of the semiconductor industry;
- continue to invest in the research and development of advanced testing and assembly technologies;

build on our strong presence in Taiwan and expand our operations in Mainland China;

expand our offering of vertically integrated services; and

focus on increasing sales through long-term agreements with new and existing customers.

Our Corporate Structure and Other Information

We are a holding company, incorporated under the laws of Bermuda in August 2000. We provide most of our services in Taiwan through our majority-owned subsidiary, ChipMOS TECHNOLOGIES INC., or ChipMOS

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Taiwan, and its subsidiaries and investees. ChipMOS Taiwan was founded in 1997 as a joint-venture between Mosel Vitelic Inc., or Mosel, and Siliconware Precision Industries Co., Ltd., or Siliconware Precision, and with the participation of other investors. As of September 30, 2005, we held 70.3% of the outstanding common shares of ChipMOS Taiwan, and Siliconware Precision held 28.7%. In Taiwan, we conduct testing operations in our facilities at the Hsinchu Science Park and the Hsinchu Industrial Park and testing and assembly operations in our facility at the Southern Taiwan Science Park. We also conduct operations 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. ChipMOS Shanghai operates a testing and assembly facility at the Qingpu Industrial Zone in Shanghai. Through our subsidiaries, we also have equity interests in other companies that are engaged in the semiconductor industry. As of September 30, 2005, Mosel indirectly owned approximately 38.6% of our common shares. See Business Overview of the Company for more details.

Our principal executive office is located at 11F, No. 3, Lane 91, Dongmei Road, Hsinchu, Taiwan, Republic of China, and our telephone number at this location is (886-3) 571-6088. Our website address is www.chipmos.com.tw. Information contained on our website does not constitute part of this prospectus.

You should rely only on the information contained in this prospectus. Neither we nor the underwriters have authorized anyone to provide you with information different from that contained in this prospectus. This prospectus is not an offer to sell or a solicitation of an offer to buy our common shares in any jurisdiction where it is unlawful. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our securities.

THE SECURITIES WE ARE OFFERING

We may offer any of the following securities from time to time:

- Common shares; and
- Debt securities.

USE OF PROCEEDS

We intend to use the net proceeds from the sale of securities for general corporate purposes, including, without limitation, capital expenditures, working capital and/or acquisitions. If we intend to use the net proceeds from a particular offering of securities for a specific purpose, we will describe such intended use in the applicable prospectus supplement.

We will not receive any of the proceeds from the sale of securities sold by any selling shareholders.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth our selected consolidated financial data. The selected consolidated balance sheet data as of December 31, 2003 and 2004 and our consolidated statement of operations and cash flows data for 2002, 2003 and 2004 are derived from our audited consolidated financial statements included in this prospectus, and should be read in conjunction with the section of this prospectus entitled Management s Discussion and Analysis of Financial Condition and Results of Operations and our audited consolidated financial statements and related notes beginning on page F-1 of this prospectus. These audited consolidated financial statements have been audited by Moore Stephens. The selected consolidated balance sheet data as of December 31, 2000, 2001 and 2002 and the consolidated statement of operations and cash flows data for the years ended December 31, 2000 and 2001 are derived from our audited consolidated financial statements not included in this prospectus. The selected consolidated balance sheet data as of September 30, 2005 and our consolidated statement of operations and cash flows data for the nine months ended September 30, 2004 and 2005 are derived from our unaudited consolidated financial statements included in this prospectus, and should be read in conjunction with the section of this prospectus entitled Management s Discussion and Analysis of Financial Condition and Results of Operations , our audited consolidated financial statements and the related notes and our unaudited consolidated financial statements and the related notes beginning on page F-1 of this prospectus. Our consolidated financial statements have been prepared and presented in accordance with ROC GAAP, which differs in some material respects from US GAAP. Please see Note 27 to our audited consolidated financial statements and Note 15 to our unaudited consolidated financial statements for a description of the principal differences between ROC GAAP and US GAAP for the periods covered by the audited consolidated financial statements and the unaudited consolidated financial statements, respectively. The financial data set forth below have been presented as if (1) we had been in existence since July 28, 1997, and (2) we acquired our interest in ChipMOS Taiwan on July 28, 1997.

	Year ended December 31					Nine Months ended September 30, (unaudited)		
	2000	2001	2002	2003	2004	2004(1)	2005(2)	2005(2)
	NT$	NT$	NT$	NT$	NT$	NT$	NT$	US$
	(in millions, except for share data)							
Consolidated Statement of Operation Data:								
ROC GAAP:								
Net revenue:	$ 8,224.2	$ 5,245.1	$ 6,525.9	$ 9,026.5	$ 15,035.8	$ 11,357.1	$ 10,931.1	$ 329.4
Gross profit (loss)	2,713.2	(784.2)	(185.8)	1,567.0	4,178.3	3,332.6	2,602.9	78.4
Income (loss) from operations	1,979.3	(1,475.8)	(860.1)	766.7	2,900.1	2,558.0	1,770.6	53.4
Net income(loss)	957.4	(1,134.9)	(970.3)	482.4	1,675.9	1,569.5	452.4	13.6
Earning (loss) per share:								
Basic	$ 17.76	$ (19.45)	$ (16.49)	$ 8.19	$ 26.54	$ 25.39	$ 6.70	$ 0.20
Diluted	$ 17.76	$ (19.45)	$ (16.49)	$ 8.12	$ 26.38	$ 25.17	$ 6.56	$ 0.20
Weighted-average number of shares outstanding:								
Basic	53.9	58.3	58.8	58.9	63.1	61.8	67.5	67.5
Diluted	53.9	58.3	58.8	59.4	63.5	62.4	68.9	68.9
US GAAP:(3)								
Net income (loss)	$ 879.8	$ (993.5)	$ (913.4)	$ 485.3	$ 1,665.5	$ 1,549.1	$ 446.8	$ 13.5
Earning (loss) per share:								
Basic	$ 16.42	$ (17.03)	$ (15.52)	$ 8.24	$ 26.38	$ 25.06	$ 6.62	$ 0.20
Diluted	$ 16.42	$ (17.03)	$ (15.52)	$ 8.17	$ 26.22	$ 24.84	$ 6.48	$ 0.20
Weighted-average number of shares outstanding:								
Basic	53.6	58.3	58.8	58.9	63.1	61.8	67.5	67.5
Diluted	53.6	58.3	58.8	59.4	63.5	62.4	68.9	68.9

(1) For the nine months ended September 30, 2004, we consolidated the financial results of ChipMOS TECHNOLOGIES INC., or ChipMOS Taiwan, ChipMOS Japan, Inc., or ChipMOS Japan, ChipMOS U.S.A., Inc., or ChipMOS USA, ChipMOS TECHNOLOGIES (H.K.) Limited (formerly ChipMOS Far East Limited), or ChipMOS Hong Kong, Modern Mind Technology Limited, or Modern Mind, and its wholly-owned subsidiary, ChipMOS TECHNOLOGIES (Shanghai) LTD., or ChipMOS Shanghai, and ThaiLin Semiconductor Corp., or ThaiLin, and from January 12 and 28, 2004 and April 1, 2004, onwards, the financial results of Advanced Micro Chip Technology Co., Ltd., or AMCT (which was liquidated in October 2004), ChipMOS Logic TECHNOLOGIES

INC., or ChipMOS Logic and CHANTEK ELECTRONIC CO. LTD., or Chantek, respectively. Starting from April 30, 2004, our financial results also include the financial results of WORLD-WIDE TEST Technology Inc., or WWT, which was subsequently merged into ChipMOS Logic.

(2) For the nine months ended September 30, 2005, we consolidated the financial results of ChipMOS Taiwan, ChipMOS Japan, ChipMOS USA, ChipMOS Hong Kong, ChipMOS Logic, Chantek, Modern Mind, and its wholly-owned subsidiary, ChipMOS Shanghai, and ThaiLin.

(3) Reflects the US GAAP adjustments as described in Note 27 of the notes to the audited consolidated financial statements and in Note 15 of the notes to the unaudited consolidated financial statements.

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	As of December 31,					As of September 30,(1) (unaudited)	
	2000	2001	2002	2003	2004	2005	2005
	NT$	NT$	NT$	NT$ (in millions)	NT$	NT$	US$
Consolidated Balance Sheet Data:							
ROC GAAP:							
Cash and cash equivalents	$ 1,190.5	$ 1,181.1	$ 2,487.5	$ 1,731.0	$ 4,849.1	$ 5,320.2	$ 160.4
Property, plant and equipment, net	12,428.8	10,799.6	10,043.6	11,086.8	17,426.6	18,414.4	555.0
Total assets	18,963.0	16,101.3	17,953.7	19,665.7	31,545.1	30,539.9	920.5
Total liabilities	6,515.8	5,165.4	8,353.3	7,989.5	14,292.0	12,385.3	373.2
Minority interests	3,738.4	3,336.7	2,887.1	4,428.0	7,092.5	7,365.8	222.0
Total shareholders equity	8,708.8	7,599.2	6,713.3	7,248.2	10,160.6	10,788.8	325.3
US GAAP(2):							
Cash and cash equivalents	$ 1,190.5	$ 1,181.1	$ 2,487.5	$ 1,731.0	$ 4,849.1	$ 5,320.2	$ 160.4
Property, plant and equipment, net	12,288.6	10,762.5	10,062.8	11,082.4	17,411.7	18,363.5	553.5
Total assets	18,554.2	16,123.5	18,020.9	19,633.5	31,521.7	30,476.1	918.5
Total liabilities	6,486.6	5,127.6	8,353.6	7,993.7	14,296.2	12,336.5	371.7
Minority interests	3,590.1	3,354.9	2,907.1	4,418.5	7,092.9	7,375.1	222.3
Total shareholders equity	8,477.5	7,641.0	6,760.2	7,221.3	10,132.6	10,764.5	324.5

(1) For the nine months ended September 30, 2005, we consolidated the financial results of ChipMOS Taiwan, ChipMOS Japan, ChipMOS USA, ChipMOS Hong Kong, ChipMOS Logic, Chantek, Modern Mind, and its wholly-owned subsidiary, ChipMOS Shanghai, and ThaiLin.

(2) Reflects the US GAAP adjustments as described in Note 27 of the notes to the audited consolidated financial statements and in Note 15 of the notes to the unaudited consolidated financial statements.

	Year ended December 31					Nine Months ended September 30, (unaudited)		
	2000	2001	2002	2003	2004	2004(1)	2005(2)	2005(2)
	NT$	NT$	NT$	NT$ (in millions)	NT$	NT$	NT$	US$
Consolidated Statement of Cash Flows Data:								
ROC GAAP:								
Capital expenditures	$ 7,022.0	$ 992.0	$ 2,091.3	$ 2,508.2	$ 8,282.6	$ 5,821.3	$ 4,304.0	$ 129.7
Depreciation and amortization	2,013.1	2,815.4	2,820.6	2,715.0	3,536.8	2,567.4	3,200.9	96.5
Net cash provided by (used in):								
Operating activities	4,295.4	1,620.5	1,463.7	1,877.1	7,623.0	5,319.8	3,758.7	113.3
Investing activities	(7,548.4)	(1,409.7)	(3,135.9)	(760.8)	(10,037.9)	(8,124.7)	(1,973.9)	(59.5)
Financing activities	4,294.2	(219.8)	2,978.6	(1,841.5)	5,694.6	2,627.8	(1,388.6)	(41.9)
Effect of exchange rate changes on cash	(0.4)	(0.4)		(31.4)	(161.5)	0.6	74.9	2.3
Net increase (decrease) in cash	1,040.8	(9.4)	1,306.4	(756.6)	3,118.2	(176.5)	471.1	14.2

(1) For the nine months ended September 30, 2004, we consolidated the financial results of ChipMOS Taiwan, ChipMOS Japan, ChipMOS USA, ChipMOS Hong Kong, Modern Mind, and its wholly-owned subsidiary, ChipMOS Shanghai, and ThaiLin, and from January 12 and 28, 2004 and April 1, 2004, onwards, the financial results of AMCT (which was liquidated in October 2004), ChipMOS Logic and Chantek, respectively. Starting from April 30, 2004, our financial results also include the financial results of WWT, which was subsequently merged into ChipMos Logic.

(2) For the nine months ended September 30, 2005, we consolidated the financial results of ChipMOS Taiwan, ChipMOS Japan, ChipMOS USA, ChipMOS Hong Kong, ChipMOS Logic, Chantek, Modern Mind, and its wholly-owned subsidiary, ChipMOS Shanghai, and ThaiLin.

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RISK FACTORS

You should carefully consider the risks described below before you make your investment decisions. In particular, as we are a non-U.S. company, there are risks associated with investing in our common shares or other securities that are not typical with investments in shares of U.S. companies. Any of these risks could affect our business, financial condition and results of operations. Additionally, some risks may be unknown to us and other risks, currently believed to be immaterial, could turn out to be material. They should be considered in connection with any forward-looking statements made in this prospectus and the documents incorporated by reference.

Risks 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 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 during the nine months ended September 30, 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 price 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 56%, 62%, 71% and 75% of our net revenue in 2002, 2003, 2004 and the nine months ended September 30, 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 20% for the nine months ended September 30, 2005. We cannot assure you that there will not be additional reductions in DRAM prices in the 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 of NT$992 million, NT$1,683 million, NT$2,750 million and NT$2,024 million (US$61 million) in 2002, 2003, 2004 and the nine months ended September 30, 2005, respectively. We spent NT$1,232 million, NT$1,255 million, NT$1,380 million and NT$1,190 million (US$36 million) in 2002, 2003, 2004 and the nine months ended September 30, 2005, respectively, on equipment for tape

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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. The market demand for LCD and other flat-panel display driver semiconductors testing and assembly services for the nine months ended September 30, 2005 decreased compared to the market demand for the same period 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$2,790 million (US$84 million) and NT$7,293 million (US$220 million) in short- and long-term indebtedness outstanding as of September 30, 2005 including NT$2,797 million (US$84 million) of convertible notes due 2009, which bear interest at an annual rate of 1.75%. As of November 3, 2005, 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.

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.

The indenture governing the convertible notes we issued in November 2004 does not limit our ability to incur additional indebtedness in the future. If new indebtedness is incurred, 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. For additional information on our indebtedness, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Capital Resources.

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;

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- 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
- earthquakes, drought and other natural disasters, as well as industrial accidents.

Because of the factors listed above, our future results of operations or growth rates may be below the expectations of research analysts and investors. If so, the market price of our shares, and the market value of your investment, may fall.

We depend on key customers for a substantial portion of our net revenue and a loss of, or deterioration of the business from, any one of these customers could result in decreased net revenue and materially adversely affect our results of operations.

We depend on a small group of customers for a substantial portion of our business. In 2004 and the nine months ended September 30, 2005, our five largest customers accounted for 55% and 63% of our net revenue, respectively. Our two largest customers, ProMOS Technologies, or ProMOS, and Powerchip Semiconductor Corp, or Powerchip, accounted for 28% and 11%, respectively, of our net revenue in 2004, and 30% and 16%, respectively, of our net revenue in the nine months ended September 30, 2005. ProMOS is an affiliate of Mosel Vitelic Inc., or Mosel, which, as of September 30, 2005, indirectly owned approximately 38.6% of our outstanding common shares. In addition, in November 2005, we entered into an assembly and testing services agreement with Spansion LLC, or Spansion. We currently anticipate that Spansion may become one of our five largest customers and account for a significant portion of our net revenue in 2006.

We expect that we will continue to depend on a relatively limited number of customers for a significant portion of our net revenue. Any adverse development in our key customers operations, competitive position or customer base could materially reduce our net revenue and adversely affect our business and profitability. Since new customers usually require us to pass a lengthy and rigorous qualification process, if we lose any of our key customers, we may not be able to replace them in a timely manner. Also, semiconductor companies generally rely on service providers with whom they have established relationships to meet their testing and assembly needs for existing and future applications. If any of our key customers reduces, delays or cancels its orders, and if we are unable to attract new key customers or use our excess capacity to service our remaining customers, our net revenue could be reduced and our business and results of operations materially adversely affected.

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 operations are characterized by a high proportion of fixed costs. For memory and mixed-signal semiconductor testing services, our fixed costs represented 53%, 53%, 58% and 69% of our total cost of revenue in 2002, 2003, 2004 and the nine months ended September 30, 2005, respectively. For memory and mixed-signal semiconductor assembly services, our fixed costs represented 44%, 28%, 22% and 25% of our total cost of revenue in 2002, 2003, 2004 and the nine months ended September 30, 2005, respectively. For LCD and other flat-panel display driver semiconductor testing and assembly services, our fixed costs represented 52%, 50%, 48% and 51% of our total cost of revenue in 2002, 2003, 2004 and the nine months ended September 30, 2005, respectively. Our profitability depends in part not only on absolute pricing levels for our services, but also on the utilization rates for our testing and assembly equipment, commonly referred to as capacity utilization rates .

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Increases or decreases in our capacity utilization rates can significantly affect our gross margins as unit costs generally decrease as the fixed costs are allocated over a larger number of units. In the past, our capacity utilization rates have fluctuated significantly as a result of the fluctuations in the market demand for semiconductors. If we fail to increase or maintain our capacity utilization rates, our earnings and profitability may be adversely affected. In addition, we have recently entered into an assembly and testing services agreement with Spansion, which we currently anticipate, based on forecasts provided by Spansion, will require us to incur additional capital expenditures of approximately US$12 million in the fourth quarter of 2005 and US$110 million in 2006 to purchase equipment based on a rolling forecast currently provided by Spansion. If we are unable to achieve high capacity utilization rates for the equipment purchased pursuant to this agreement, our gross margins may be materially and adversely affected. For more information on the agreement with Spansion, see Business Material Contracts.

The testing and assembly process is complex and our production yields and customer relationships may suffer as a result of defects or malfunctions in our testing and assembly equipment and the introduction of new packages.

Semiconductor testing and assembly are complex processes that require significant technological and process expertise. Semiconductor testing involves sophisticated testing equipment and computer software. We develop computer software to test our customers semiconductors. We also develop conversion software programs that enable us to test semiconductors on different types of testers. Similar to most software programs, these software programs are complex and may contain programming errors or bugs. In addition, the testing process is subject to human error by our employees who operate our testing equipment and related software. Any significant defect in our testing or conversion software, malfunction in our testing equipment or human error could reduce our production yields and damage our customer relationships.

The assembly process involves a number of steps, each of which must be completed with precision. Defective packages primarily result from:

- contaminants in the manufacturing environment;
- human error;
- equipment malfunction;
- defective raw materials; or
- defective plating services.

These and other factors have, from time to time, contributed to lower production yields. They may do so in the future, particularly as we expand our capacity or change our processing steps. In addition, to be competitive, we must continue to expand our offering of packages. Our production yields on new packages typically are significantly lower than our production yields on our more established packages. Our failure to maintain high standards or acceptable production yields, if significant and prolonged, could result in a loss of customers, increased costs of production, delays, substantial amounts of returned goods and related claims by customers. Further, to the extent our customers have set target production yields, we may be required to compensate our customers in a pre-agreed manner. Any of these problems could materially adversely affect our business reputation and result in reduced net revenue and profitability.

Because of the highly cyclical nature of our industry, our capital requirements are difficult to plan. If we cannot obtain additional capital when we need it, we may not be able to maintain or increase our current growth rate and our profits will suffer.

Our capital requirements are difficult to plan as our industry is highly cyclical and rapidly changing. To remain competitive, we will need capital to fund the expansion of our facilities as well as to fund our equipment purchases and research and development activities. We believe that our current cash and cash equivalents, cash

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flow from operations and available credit facilities will be sufficient to meet our working capital and capital expenditure requirements under our existing arrangements through the end of June 2007, except for our commitments to invest in ChipMOS Shanghai, a wholly owned subsidiary of our controlled consolidated subsidiary, Modern Mind, and to purchase wafer sorting testers and probers as requested by Spansion under our agreement with Spansion. See If Modern Mind fails to invest an additional US$137.5 million into ChipMOS Shanghai by December 6, 2007, ChipMOS Shanghai s business license may become automatically void and ChipMOS Shanghai may have to be liquidated, which could hurt our growth prospects and potential future profitability and If we fail to obtain sufficient capital to purchase equipment meeting the forecasted capacity requirement under our agreement with Spansion, we will be in breach of the agreement. In addition, future capacity expansions or market or other developments may require additional funding. Our ability to obtain external financing in the future depends on a number of factors, many of which are beyond our control. They include:

- our future financial condition, results of operations and cash flows;
- general market conditions for financing activities by semiconductor testing and assembly companies; and
- economic, political and other conditions in Taiwan and elsewhere.

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

If Modern Mind fails to invest an additional US$137.5 million into ChipMOS Shanghai by December 6, 2007, ChipMOS Shanghai s business license may become automatically void and ChipMOS Shanghai may have to be liquidated, which could hurt our growth prospects and potential future profitability.

Under applicable regulations of the People s Republic of China, or PRC, and the terms of the business license of ChipMOS Shanghai, a wholly-owned subsidiary of our controlled consolidated subsidiary, Modern Mind, the business license of ChipMOS Shanghai may automatically become void and ChipMOS Shanghai may have to be liquidated if Modern Mind fails to invest an additional US$137.5 million by December 6, 2007, unless an additional extension has been obtained from the relevant PRC regulatory authorities. We may not have sufficient financial resources to meet ChipMOS Shanghai s investment commitments without obtaining additional financing. Even if we have the financial resources available, we may decide not to fund the investment if it would cause Mosel to violate applicable ROC laws and regulations. See Risks Relating to Countries in Which We Conduct Operations The investment in Mainland China by our controlled consolidated subsidiary, Modern Mind, through ChipMOS Shanghai, and the related contractual arrangements may result in Mosel violating ROC laws governing investments in Mainland China by ROC companies or persons. Any sanctions on Mosel as a result of any violation of ROC laws may cause Mosel to decrease its ownership in us significantly or cause Mosel to take other actions that may not be in the best interest of our other shareholders.

We understand that the relevant PRC regulatory authority is not legally obligated to, but in practice may, grant Modern Mind a grace period if it submits in advance an application for extending the deadlines for making the remaining investments in ChipMOS Shanghai. In March 2005, Modern Mind was granted an extension of the investment deadline from December 6, 2005 to December 6, 2007 by the relevant PRC regulatory authority. If we are unable to obtain the funding in a timely manner or on acceptable terms or if we are unwilling to provide funding to ChipMOS Shanghai through Modern Mind, ChipMOS Shanghai may lose its business license and may have to be liquidated and our growth prospects and potential future profitability may suffer.

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Disputes over intellectual property rights could be costly, deprive us of technologies necessary for us to stay competitive, render us unable to provide some of our services and reduce our opportunities to generate revenue.

Our ability to compete successfully and achieve future growth will depend, in part, on our ability to protect our proprietary technologies and to secure, on commercially acceptable terms, critical technologies that we do not own. We cannot assure you that we will be able to independently develop, or secure from any third party, the technologies required for our testing and assembly services. Our failure to successfully obtain these technologies may seriously harm our competitive position and render us unable to provide some of our services.

Our ability to compete successfully also depends on our ability to operate without infringing upon the proprietary rights of others. The semiconductor testing and assembly industry is characterized by frequent litigation regarding patent and other intellectual property rights. We may incur legal liabilities if we infringe upon the intellectual property or other proprietary rights of others. The situation is exacerbated by our inability to ascertain what patent applications have been filed in the United States or elsewhere until they are granted. If any third party succeeds in its intellectual property infringement claims against us or our customers, we could be required to:

- discontinue using the disputed process technologies, which would prevent us from offering some of our testing and assembly services;
- pay substantial monetary damages;
- develop non-infringing technologies, which may not be feasible; or
- acquire licenses to the infringed technologies, which may not be available on commercially reasonable terms, if at all.

Any one of these developments could impose substantial financial and administrative burdens on us and hinder our business. Any litigation, whether as plaintiff or defendant, is costly and diverts our resources. If we fail to obtain necessary licenses or if litigation relating to patent infringement or other intellectual property matters occurs, it could prevent us from testing and assembling particular products or using particular technologies, which could reduce our opportunities to generate revenue.

If we are unable to obtain raw materials and other necessary inputs from our suppliers in a timely and cost- effective manner, our production schedules would be delayed and we may lose customers and growth opportunities and become less profitable.

Our operations require us to obtain sufficient quantities of raw materials at acceptable prices in a timely and cost-effective manner. We source most of our raw materials, including critical materials like leadframes, organic substrates, epoxy, gold wire and molding compound for assembly, and tapes for TCP/COF, from a limited group of suppliers. We purchase all of our materials on a purchase order basis and have no long-term contracts with any of our suppliers. From time to time, suppliers have extended lead times, increased the price or limited the supply of required materials to us because of market shortages. Consequently, we may, from time to time, experience difficulty in obtaining sufficient quantities of raw materials on a timely basis. In addition, from time to time, we may reject materials that do not meet our specifications, resulting in declines in output or yield. Although we typically maintain at least two suppliers for each key raw material, we cannot assure you that we will be able to obtain sufficient quantities of raw materials and other supplies of an acceptable quality in the future. It usually takes from three to six months to switch from one supplier to another, depending on the complexity of the raw material. If we are unable to obtain raw materials and other necessary inputs in a timely and cost-effective manner, we may need to delay our production and delivery schedules, which may result in the loss of business and growth opportunities and could reduce our profitability.

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If we are unable to obtain additional testing and assembly equipment or facilities in a timely manner and at a reasonable cost, we may be unable to fulfill our customers orders and may become less competitive and less profitable.

The semiconductor testing and assembly business is capital intensive and requires significant investment in expensive equipment manufactured by a limited number of suppliers. The market for semiconductor testing and assembly equipment is characterized, from time to time, by intense demand, limited supply and long delivery cycles. Our operations and expansion plans depend on our ability to obtain equipment from a limited number of suppliers in a timely and cost-effective manner. We have no binding supply agreements with any of our suppliers and we acquire our testing and assembly equipment on a purchase order basis, which exposes us to changing market conditions and other significant risks. Semiconductor testing and assembly also requires us to operate sizeable facilities. If we are unable to obtain equipment or facilities in a timely manner, we may be unable to fulfill our customers orders, which could negatively impact our financial condition and results of operations as well as our growth prospects. In addition, we have committed to purchase wafer sorting testers and probers as requested by Spansion under the assembly and testing services agreement with Spansion, and any shortage of wafer sorting testers and probers may affect our ability to perform our obligations under the agreement.

If we are unable to manage the expansion of our operations and resources effectively, our growth prospects may be limited and our future profitability may be reduced.

We expect to continue to expand our operations and increase the number of our employees. Rapid expansion puts a strain on our managerial, technical, financial, operational and other resources. As a result of our expansion, we will need to implement additional operational and financial controls and hire and train additional personnel. We cannot assure you that we will be able to do so effectively in the future, and our failure to do so could jeopardize our expansion plans and seriously harm our operations.

Bermuda law may be less protective of shareholder rights than laws of the United States or other jurisdictions.

Our corporate affairs are governed by our memorandum of association, our bye-laws and laws governing corporations incorporated in Bermuda. Shareholder suits such as class actions (as these terms are understood with respect to corporations incorporated in the United States) are generally not available in Bermuda. Therefore, our shareholders may be less able under Bermuda law than they would be under the laws of the United States or other jurisdictions to protect their interests in connection with actions by our management, members of our board of directors or our controlling shareholder.

It may be difficult to bring and enforce suits against us in the United States.

We are incorporated in Bermuda and a majority of our directors and most of our officers are not residents of the United States. A substantial portion of our assets is located outside the United States. As a result, it may be difficult for our shareholders to serve notice of a lawsuit on us or our directors and officers within the United States. Because most of our assets are located outside the United States, it may be difficult for our shareholders to enforce in the United States judgments of United States courts. Appleby Spurling Hunter, our Bermuda counsel, has advised us that there is some uncertainty as to the enforcement in Bermuda, in original actions or in actions for enforcement of judgments of United States courts, of liabilities predicated upon United States federal securities laws.

Investor confidence and the market prices of our shares may be adversely impacted if we or our independent public registered accounting firm is unable to conclude our internal control over our financial reporting is effective as of December 31, 2006 as required by Section 404 of the Sarbanes-Oxley Act of 2002.

We are subject to the SEC s reporting obligations, and will be required by the SEC, as directed by Section 404 of the Sarbanes-Oxley Act of 2002, to include a report of management on our internal control over financial reporting in our Annual Report on Form 20-F, that contains an assessment by management of the effectiveness of our internal control over financial reporting. In addition, our independent public registered

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accounting firm must attest to and report on management s assessment of the effectiveness of our internal control over financial reporting. In October 2004, we engaged Diwan, Ernst & Young, or Ernst & Young, to advise on the internal control over financial reporting requirements under Section 404 of the Sarbanes-Oxley Act of 2002. These requirements will first apply to our Annual Report on Form 20-F for the fiscal year ending December 31, 2006. Our management may not conclude that our internal controls are effective. Moreover, even if our management concludes that our internal controls over our financial reporting is effective, our independent public registered accounting firm may disagree. If our independent public registered accounting firm is not satisfied with our internal controls over our financial reporting or the level at which our controls are documented, designed, operated or reviewed, or if the independent public registered accounting firm interprets the requirements, rules or regulations differently from us, then it may decline to attest to our management s assessment or may issue an adverse opinion. Any of these possible outcomes could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our consolidated financial statements, which ultimately could negatively impact the market prices of our common shares.

Any environmental claims or failure to comply with any present or future environmental regulations, or any new environmental regulations, may require us to spend additional funds, may impose significant liability on us for present, past or future actions, and may dramatically increase the cost of providing our services to our customers.

We are subject to various laws and regulations relating to the use, storage, discharge and disposal of chemical by-products of, and water used in, our assembly and gold bumping processes. Although we have not suffered material environmental claims in the past, a failure or a claim that we have failed to comply with any present or future regulations could result in the assessment of damages or imposition of fines against us, suspension of production or a cessation of our operations or negative publicity. New regulations could require us to acquire costly equipment or to incur other significant expenses. Any failure on our part to control the use of, or adequately restrict the discharge of, hazardous substances could subject us to future liabilities that may materially reduce our earnings.

Fluctuations in exchange rates could result in foreign exchange losses.

Currently, most of our net revenue is denominated in NT dollars. Our cost of revenue and operating expenses, on the other hand, are incurred in several currencies, including NT dollars, Japanese yen, US dollars and Renminbi, or RMB. In addition, a substantial portion of our capital expenditures, primarily for the purchase of testing and assembly equipment, has been, and is expected to continue to be, denominated in Japanese yen with much of the remainder in US dollars. We also have debt denominated in NT dollars, Japanese yen, US dollars and RMB. Fluctuations in exchange rates, primarily among the US dollar, the NT dollar and the Japanese yen, will affect our costs and operating margins in NT dollar terms. In addition, these fluctuations could result in exchange losses and increased costs in NT dollar terms. Despite selective hedging and other techniques implemented by us, fluctuations in exchange rates have affected, and may continue to affect, our financial condition and results of operations.

We may not be successful in our acquisitions of and investments in other companies and businesses, and may therefore be unable to implement fully our business strategy.

As part of our growth strategy, from time to time, we make acquisitions and investments in companies or businesses. For example, on November 21, 2005, we merged Chantek into ChipMOS Taiwan, and on December 1, 2005, we merged ChipMOS Logic into ThaiLin. In 2004, we acquired certain testing and assembly equipment from First International Computer Testing and Assembly, or FICTA, as well as a 67.8% stake in First Semiconductor Technology Inc., which interest we transferred to First Semiconductor Technology Inc. in April 2005. For details, see Business Our Structure and History. below. The success of our acquisitions and investments depends on a number of factors, including:

our ability to identify suitable opportunities for investment or acquisition;

- our ability to reach an acquisition or investment agreement on terms that are satisfactory to us or at all;
- the extent to which we are able to exercise control over the acquired company;
- the economic, business or other strategic objectives and goals of the acquired company compared to those of our company; and
- our ability to successfully integrate the acquired company or business with our company.

If we are unsuccessful in our acquisitions and investments, we may not be able to implement fully our business strategy to maintain or grow our business.

Potential conflicts of interest with Siliconware Precision could interfere with our ability to conduct the operations of ChipMOS Taiwan and could result in the loss of our customers to Siliconware Precision.

As of September 30, 2005, Siliconware Precision owned 28.7% of the outstanding equity securities of ChipMOS Taiwan. Siliconware Precision provides testing and assembly services for logic and mixed-signal semiconductors. Under the terms of the joint venture agreement between Mosel and Siliconware Precision regarding the operation of ChipMOS Taiwan, Siliconware Precision is entitled to nominate two of the seven board members of ChipMOS Taiwan. As of September 30, 2005, Siliconware Precision has only one representative on ChipMOS Taiwan s board of directors, who is also a director of ChipMOS Bermuda. As a result, conflicts of interest between this director s duty to Siliconware Precision and to us may arise. We cannot assure you that when such conflicts of interest arise, this director will act completely in our interests or that conflicts of interest will be resolved in our favor. These conflicts may result in the loss by us of existing or potential customers to Siliconware Precision.

We depend on key personnel, and our revenue could decrease and our costs could increase if we lose their services.

We depend on the continued service of our executive officers and skilled engineering, technical and other personnel. We will also be required to hire a substantially greater number of skilled employees in connection with our expansion plans. In particular, we depend on a number of skilled employees in connection with our LCD and other flat-panel display driver semiconductor testing and assembly services, and the competition for such employees in Taiwan and Mainland China is intense. We may not be able to either retain our present personnel or attract additional qualified personnel as and when needed. Moreover, we do not carry key person insurance for any of our executive officers nor do we have employment contracts with any of our executive officers or employees, and, as a result, none of our executive officers or employees is bound by any non-competition agreement. If we lose any of our key personnel, it could be very difficult to find and integrate replacement personnel, which could affect our ability to provide our services, resulting in reduced net revenue and earnings. In addition, we may need to increase employee compensation levels in order to retain our existing officers and employees and to attract additional personnel. As of December 1, 2005, ten percent of the workforce at our facilities in Taiwan are foreign workers employed by us under work permits that are subject to government regulations on renewal and other terms. Consequently, if the regulations in Taiwan relating to the employment of foreign workers were to become significantly more restrictive or if we are otherwise unable to attract or retain these workers at reasonable cost, we may be unable to maintain or increase our level of services and may suffer reduced net revenue and earnings.

If we are required to make significant capital expenditures pursuant to our recent agreement with Spansion and we are unable to maintain, or be compensated in lieu of, a high capacity utilization rate for the equipment purchased, our business, financial condition and results of

operations may be adversely affected.

We have recently entered into an assembly and testing services agreement with Spansion. Under the agreement, ChipMOS Taiwan and Spansion will enter into one or more statements of work, pursuant to which ChipMOS Taiwan will install equipment in its facilities and reserve capacity for assembly and testing services

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for Spansion. Under the first statement of work, ChipMOS Taiwan has committed to purchase and install wafer sorting testers and probers for Spansion and Spansion has undertaken to compensate us for failure to sufficiently utilize wafer sorting testers and probers installed and qualified in accordance with the agreement. We currently anticipate, based on forecasts provided by Spansion, to incur additional capital expenditures of approximately US$12 million in the fourth quarter of 2005 and US$110 million in 2006 to purchase wafer sorting testers and probers. If Spansion fails to purchase our services to ensure a high capacity utilization rate of the equipment or to provide the minimum agreed compensation, our results of operations may be adversely affected. Furthermore, our gross margins may be adversely affected during the implementation of any statement of work due to the incurrence of upfront capital expenditures for the equipment before generating any revenue for services provided to Spansion. See Business Material Contracts.

If we fail to obtain sufficient capital to purchase equipment meeting the forecasted capacity requirement under our agreement with Spansion, we will be in breach of the agreement.

Our current cash and cash equivalents, cash flow from operations and available credit facilities, based on the current rolling capacity forecasts provided by Spansion, will not be sufficient for us to purchase wafer sorting testers and probers as required under our agreement with Spansion. We currently anticipate obtaining a syndicated loan from a group of financial institutions to fund these purchases, although we may seek other capital, if available, including through the sale of additional common shares or debt securities which may be convertible into common shares. Any failure to obtain sufficient funding to meet Spansion s requirements under the agreement will cause us to be in breach of the agreement. If such breach constitutes a material breach, Spansion may terminate the agreement, including any applicable purchase order or statement of work, if such breach has not been cured within a certain period of time, and we may also be liable to Spansion for additional costs and expenses incurred by Spansion in procuring substitute services.

Risks Relating to Our Relationship with Mosel

Mosel exercises significant control over our company and could cause us to take actions that may not be, or refrain from taking actions that may be, in our best interest or the best interest of our other shareholders.

Mosel indirectly owned approximately 38.6% of our common shares as of September 30, 2005. As our largest shareholder, Mosel exercises significant control over all matters submitted to our shareholders for approval and other corporate actions, such as:

- election of directors;
- timing and manner of dividend distributions;
- approval of contracts between us and Mosel or its affiliates, which could involve conflicts of interest; and
- open market purchase programs or other purchases of our common shares.

Mosel s substantial interests in our company could also: