

CHIPMOS TECHNOLOGIES BERMUDA LTD  
Form 20-F  
June 06, 2008  
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As filed with the Securities and Exchange Commission on June 6, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 20-F**

“ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2007

OR

“ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from            to

OR

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report

Commission file number 0 31106

# **ChipMOS TECHNOLOGIES (Bermuda) LTD.**

(Exact Name of Registrant as Specified in Its Charter)

**Bermuda**

(Jurisdiction of Incorporation or Organization)

**No. 1, R&D Road 1, Hsinchu Science Park**

**Hsinchu, Taiwan**

**Republic of China**

(Address of Principal Executive Offices)

**Shou-Kang Chen**

**Chief Financial Officer**

**ChipMOS TECHNOLOGIES (Bermuda) LTD.**

**No. 1, R&D Road 1, Hsinchu Science Park**

**Hsinchu, Taiwan**

**Republic of China**

**Telephone: (886) 3 563 3988**

**Facsimile: (886) 3 571 6070**

(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contract Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

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| <b>Title of Each Class</b>             | <b>Name of Each Exchange<br/>on Which Registered</b> |
|--|--|
| Common Shares, par value US\$0.01 each | The NASDAQ Global Select Market                      |

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**Securities registered or to be registered pursuant to Section 12(g) of the Act:**

None

(Title of Class)

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2007, 83,843,162 Common Shares, par value US\$0.01 each, were outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or (15)(d) of the Securities Exchange Act of 1934. Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing.

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17.  Item 18.

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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**CAUTIONARY STATEMENT FOR PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

Except for historical matters, the matters discussed in this Annual Report on Form 20-F are forward-looking statements that are subject to significant risks and uncertainties. These statements are generally indicated by the use of forward-looking terminology such as the words anticipate, believe, estimate, expect, intend, may, plan, project, will or other similar words that express an indication of actions or events that may or are expected to occur in the future. These statements appear in a number of places throughout this Annual Report on Form 20-F 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 Annual Report on Form 20-F. 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 debt or equity financing as required to meet certain existing obligations;

the pending criminal indictment of our chairman and chief executive officer;

our reliance on the business and financial condition of certain major customers;

the implementation of long-term customer agreements that require us to incur significant capital expenditures;

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 success of any of our future acquisitions, investments or joint ventures;

the outcome of any pending litigation;

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the occurrence of earthquakes, drought and other natural disasters, as well as industrial accidents;

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 Item 3. Key Information 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****PART I****Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information****Selected Financial Data**

The following tables set forth our selected consolidated financial data. The selected consolidated balance sheet data as of December 31, 2006 and 2007 and our consolidated statement of operations and cash flows data for 2005, 2006 and 2007 are derived from our audited consolidated financial statements included herein, and should be read in conjunction with, and are qualified in their entirety by reference to, these audited consolidated financial statements and related notes beginning on page F-1 of this Annual Report on Form 20-F. These audited consolidated financial statements have been audited by Moore Stephens. The selected consolidated balance sheet data as of December 31, 2003, 2004 and 2005 and the consolidated statement of operations and cash flows data for the years ended December 31, 2003 and 2004 are derived from our audited consolidated financial statements not included herein. 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 24 to our audited consolidated financial statements for a description of the principal differences between ROC GAAP and US GAAP for the periods covered by these financial statements.

|   | Year ended December 31,              |            |            |            |            |          |
|---|--------------------------------------|------------|------------|------------|------------|----------|
|   | 2003                                 | 2004       | 2005       | 2006       | 2007       | 2007     |
|   | NT\$                                 | NT\$       | NT\$       | NT\$       | NT\$       | US\$     |
|   | (in millions, except per share data) |            |            |            |            |          |
| <b>Consolidated Statement of Operations Data:</b> |                                      |            |            |            |            |          |
| <b>ROC GAAP:</b>                                  |                                      |            |            |            |            |          |
| Net revenue:                                      |                                      |            |            |            |            |          |
| Related parties <sup>(1)</sup>                    | \$ 5,072.9                           | \$ 4,844.4 | \$ 4,603.5 | \$ 5,654.4 | \$ 6,915.9 | \$ 213.2 |
| Others  | 3,953.6                              | 10,191.4   | 10,610.5   | 14,720.8   | 16,681.7   | 514.4    |
| Total net revenue                                 | 9,026.5                              | 15,035.8   | 15,214.0   | 20,375.2   | 23,597.6   | 727.6    |
| Cost of revenue                                   | 7,459.5                              | 10,857.5   | 11,262.6   | 14,253.4   | 17,444.1   | 537.9    |
| Gross profit                                      | 1,567.0                              | 4,178.3    | 3,951.4    | 6,121.8    | 6,153.5    | 189.7    |
| Operating expenses:                               |                                      |            |            |            |            |          |
| Research and development                          | 295.0                                | 296.4      | 274.4      | 274.8      | 322.3      | 9.9      |
| General and administrative                        | 439.9                                | 673.3      | 793.3      | 813.0      | 1,070.5    | 33.0     |
| Sales and marketing                               | 65.4                                 | 308.5      | 232.9      | 107.4      | 98.3       | 3.0      |
| Total operating expenses                          | 800.3                                | 1,278.2    | 1,300.6    | 1,195.2    | 1,491.1    | 45.9     |
| Income from operations                            | 766.7                                | 2,900.1    | 2,650.8    | 4,926.6    | 4,662.4    | 143.8    |

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|  |          |            |          |            |            |         |
|--|----------|------------|----------|------------|------------|---------|
| Other expenses, net  | (77.1)   | (395.8)    | (506.5)  | (223.2)    | (669.2)    | (20.7)  |
| Income before income tax, minority interests and interest in bonuses paid by subsidiaries <sup>(2)</sup> | 689.6    | 2,504.3    | 2,144.3  | 4,703.4    | 3,993.2    | 123.1   |
| Income tax benefit (expense)   | 29.0     | 141.8      | (112.0)  | (636.5)    | (768.2)    | (23.7)  |
| Income before minority interests and interest in bonuses paid by subsidiaries <sup>(2)</sup>             | 718.6    | 2,646.1    | 2,032.3  | 4,066.9    | 3,225.0    | 99.4    |
| Minority interests   | (256.9)  | (997.9)    | (977.0)  | (1,799.4)  | (720.0)    | (22.2)  |
| Interest in bonuses paid by subsidiaries <sup>(2)</sup>  |          |            | (127.1)  | (149.5)    | (285.8)    | (8.8)   |
| Cumulative effect of changes in accounting principles  |          |            |          | 3.3        |            |         |
| Pre-acquisition earnings <sup>(3)</sup>  | 20.7     | 27.7       |          |            |            |         |
| Net income   | \$ 482.4 | \$ 1,675.9 | \$ 928.2 | \$ 2,121.3 | \$ 2,219.2 | \$ 68.4 |
| Earning per share:   |          |            |          |            |            |         |
| Basic  | \$ 8.19  | \$ 26.54   | \$ 13.74 | \$ 30.84   | \$ 27.63   | \$ 0.85 |
| Diluted  | \$ 8.12  | \$ 26.38   | \$ 11.82 | \$ 25.00   | \$ 24.24   | \$ 0.75 |
| Weighted-average number of shares outstanding:   |          |            |          |            |            |         |
| Basic  | 58.9     | 63.1       | 67.5     | 68.8       | 80.3       | 80.3    |
| Diluted  | 59.4     | 63.5       | 82.6     | 88.3       | 108.2      | 108.2   |

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|  | Year ended December 31, |              |              |              |              |              |
|--|-------------------------|--------------|--------------|--------------|--------------|--------------|
|  | 2003<br>NT\$            | 2004<br>NT\$ | 2005<br>NT\$ | 2006<br>NT\$ | 2007<br>NT\$ | 2007<br>US\$ |
| (in millions, except per share data)           |                         |              |              |              |              |              |
| <b>US GAAP:<sup>(4)</sup></b>                  |                         |              |              |              |              |              |
| Net income                                     | \$ 485.3                | \$ 1,665.5   | \$ 805.4     | \$ 1,253.1   | \$ 2,901.7   | \$ 89.5      |
| Earning per share:                             |                         |              |              |              |              |              |
| Basic  | \$ 8.24                 | \$ 26.38     | \$ 11.92     | \$ 18.22     | \$ 36.13     | \$ 1.11      |
| Diluted  | \$ 8.17                 | \$ 26.22     | \$ 11.21     | \$ 17.52     | \$ 21.07     | \$ 0.65      |
| Weighted-average number of shares outstanding: |                         |              |              |              |              |              |
| Basic  | 58.9                    | 63.1         | 67.5         | 68.8         | 80.3         | 80.3         |
| Diluted  | 59.4                    | 63.5         | 82.6         | 71.5         | 108.2        | 108.2        |

- (1) Related parties include Mosel Vitelic Inc., or Mosel, Siliconware Precision Industries Co. Ltd., or Siliconware Precision, PlusMOS Technologies Inc., or PlusMOS, Ultima Electronics Corp., or Ultima, ProMOS Technologies Inc., or ProMOS, ThaiLin Semiconductor Corp., or ThaiLin, CHANTEK ELECTRONIC CO., LTD., or Chantek, Best Home Corp. Ltd., or Best Home, DenMOS Technology Inc., or DenMOS, Sun-Fund Securities Ltd., or Sun-Fund, Advanced Micro Chip Technology Co., Ltd., or AMCT, Jesper Limited, Prudent Holdings Group Ltd. and Mou-Fu Investment Ltd. See Note 18 of the notes to the consolidated financial statements contained in this Annual Report on Form 20-F. Effective April 1, 2004, PlusMOS was merged into Chantek with Chantek as the surviving entity. See Item 4. Information on the Company Our Structure and History CHANTEK ELECTRONIC CO., LTD. AMCT was liquidated in October 2004. See Item 4. Information on the Company Our Structure and History Advanced Micro Chip Technology Co., Ltd. On November 21, 2005, Chantek was merged into ChipMOS Taiwan, with ChipMOS Taiwan as the surviving company. See Item 4. Information on the Company Our Structure and History ChipMOS TECHNOLOGIES INC.
- (2) Refers to bonuses to directors, supervisors and employees paid by subsidiaries.
- (3) For 2003, represents our share of pre-acquisition profits of ThaiLin prior to December 1, 2003, the date when we began to consolidate the accounts of ThaiLin. For 2004, represents our share of pre-acquisition profits of Chantek prior to April 1, 2004, the date when we began to consolidate the accounts of Chantek, the surviving entity after the merger of Chantek and PlusMOS.
- (4) Reflects the US GAAP adjustments as described in Note 24 of the notes to the consolidated financial statements contained in this Annual Report on Form 20-F.

|  | 2003 <sup>(1)</sup> | 2004 <sup>(1)</sup> | As of December 31,  |                     | 2007       | 2007     |
|--|---------------------|---------------------|---------------------|---------------------|------------|----------|
|  | NT\$                | NT\$                | 2005 <sup>(1)</sup> | 2006 <sup>(1)</sup> | NT\$       | US\$     |
| (in millions)  |                     |                     |                     |                     |            |          |
| <b>Consolidated Balance Sheet Data:</b>                |                     |                     |                     |                     |            |          |
| <b>ROC GAAP:</b>                                       |                     |                     |                     |                     |            |          |
| Current assets:  |                     |                     |                     |                     |            |          |
| Cash and cash equivalents                              | \$ 1,731.0          | \$ 4,849.1          | \$ 4,607.0          | \$ 5,895.9          | \$ 5,133.6 | \$ 158.3 |
| Restricted cash and cash equivalents                   | 282.4               | 87.0                | 169.3               | 65.1                | 87.0       | 2.7      |
| Financial assets at fair value through profit and loss | 664.3               | 2,832.6             | 186.1               | 1,929.1             | 555.6      | 17.1     |
| Notes receivable                                       | 11.7                | 62.2                | 30.6                | 31.1                | 28.0       | 0.9      |
| Accounts receivable                                    |                     |                     |                     |                     |            |          |
| related parties  | 1,342.4             | 1,411.0             | 1,418.4             | 1,839.1             | 1,498.8    | 46.2     |
| third parties  | 1,290.7             | 1,926.1             | 2,525.9             | 3,190.5             | 3,795.9    | 117.0    |
| Other receivables                                      |                     |                     |                     |                     |            |          |
| related parties  | 266.2               | 6.6                 | 4.3                 | 14.0                | 11.9       | 0.4      |
| third parties  | 866.6               | 164.6               | 161.9               | 31.8                | 31.2       | 1.0      |
| Inventories  | 335.5               | 661.0               | 627.5               | 945.8               | 1,043.6    | 32.2     |
| Prepaid expenses and other current assets              | 422.2               | 116.9               | 76.7                | 155.8               | 334.5      | 10.3     |
| Total current assets                                   | 7,479.7             | 12,707.7            | 10,046.9            | 14,232.6            | 12,605.2   | 388.7    |
| Long-term investments                                  | 640.5               | 642.4               | 404.1               | 366.7               | 358.0      | 11.0     |
| Property, plant and equipment, net                     | 11,086.8            | 17,426.6            | 20,420.1            | 30,494.3            | 30,020.4   | 925.7    |
| Intangible assets net                                  | 177.4               | 163.3               | 170.8               | 172.4               | 180.4      | 5.6      |
| Other assets   | 281.3               | 605.1               | 716.1               | 745.9               | 2,152.1    | 66.4     |
| Total assets   | 19,665.7            | 31,545.1            | 31,758.0            | 46,011.9            | 45,316.1   | 1,397.4  |
| Current liabilities:                                   |                     |                     |                     |                     |            |          |

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|   |          |          |          |          |          |       |
|---|----------|----------|----------|----------|----------|-------|
| Short-term bank loans                                     | 1,566.8  | 800.6    | 467.8    | 1,055.3  | 1,249.2  | 38.5  |
| Current portion of long-term loans                        | 692.8    | 1,821.8  | 2,300.9  | 2,335.3  | 3,686.2  | 113.7 |
| Current portion of long-term bonds payable                |          | 1,200.0  |          |          |          |       |
| Convertible notes   | 267.6    |          | 2,769.3  |          | 3,014.9  | 93.0  |
| Derivative liabilities                                    |          |          |          |          | 96.0     | 3.0   |
| Deferred credit   |          | 28.0     | 3.5      | 3.6      | 3.9      | 0.1   |
| Notes payable   | 27.3     | 49.1     | 3.9      |          |          |       |
| Accounts payable  | 345.4    | 607.8    | 728.7    | 803.0    | 976.1    | 30.1  |
| Other payables  |          |          |          |          |          |       |
| related parties   | 1.0      | 2.8      | 1.2      |          |          |       |
| third parties   | 263.8    | 324.7    | 404.9    | 549.6    | 604.1    | 18.6  |
| Accrued expenses and other current liabilities            | 438.0    | 608.6    | 474.1    | 713.6    | 886.7    | 27.3  |
| Total current liabilities                                 | 3,951.1  | 5,915.4  | 7,857.5  | 6,747.5  | 11,374.2 | 350.7 |
| Long-term liabilities                                     | 3,438.9  | 7,608.1  | 4,433.9  | 15,900.5 | 11,323.7 | 349.2 |
| Other liabilities   | 599.5    | 768.5    | 374.7    | 479.0    | 370.1    | 11.4  |
| Total liabilities   | 7,989.5  | 14,292.0 | 12,666.1 | 23,127.0 | 23,068.0 | 711.3 |
| Total shareholders' equity (including minority interests) | 11,676.2 | 17,253.1 | 19,091.9 | 22,884.9 | 22,248.1 | 686.1 |

(1) As a result of the adoption of ROC Statements of Financial Accounting Standard No. 37, Intangible Assets, the balances in 2003 to 2006 were reclassified to be consistent with the classification used in our consolidated balance sheets for 2007 included herein.

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|   | 2003<br>NT\$ | 2004<br>NT\$ | As of December 31, |              | 2007<br>NT\$ | 2007<br>US\$ |
|---|--------------|--------------|--------------------|--------------|--------------|--------------|
|   |              |              | 2005<br>NT\$       | 2006<br>NT\$ |              |              |
| (in millions)   |              |              |                    |              |              |              |
| <b>US GAAP<sup>(1)</sup>:</b>                             |              |              |                    |              |              |              |
| Current assets:   |              |              |                    |              |              |              |
| Cash and cash equivalents                                 | \$ 1,731.0   | \$ 4,849.1   | \$ 4,607.0         | \$ 5,895.9   | \$ 5,133.6   | \$ 158.3     |
| Restricted cash and cash equivalents                      | 282.4        | 87.0         | 169.3              | 65.1         | 87.0         | 2.7          |
| Financial assets at fair value through profit and loss    | 660.7        | 2,839.6      | 189.2              | 1,929.1      | 555.6        | 17.1         |
| Notes receivable  | 11.7         | 62.2         | 30.6               | 31.1         | 28.0         | 0.9          |
| Accounts receivable                                       |              |              |                    |              |              |              |
| related parties   | 1,342.4      | 1,411.0      | 1,418.4            | 1,839.1      | 1,498.8      | 46.2         |
| third parties   | 1,290.7      | 1,926.1      | 2,525.9            | 3,190.5      | 3,795.9      | 117.0        |
| Other receivables   |              |              |                    |              |              |              |
| related parties   | 266.2        | 6.6          | 4.3                | 14.0         | 11.9         | 0.4          |
| third parties   | 866.6        | 164.6        | 161.9              | 31.8         | 31.2         | 1.0          |
| Inventories   | 335.5        | 661.0        | 627.7              | 946.1        | 1,044.3      | 32.2         |
| Prepaid expenses and other current assets                 | 422.2        | 116.9        | 76.7               | 155.8        | 334.5        | 10.3         |
| Total current assets                                      | 7,476.1      | 12,714.7     | 10,050.2           | 14,232.9     | 12,603.4     | 388.6        |
| Long-term investments                                     | 625.1        | 636.8        | 387.1              | 366.7        | 358.0        | 11.0         |
| Property, plant and equipment, net                        | 11,082.4     | 17,411.7     | 20,340.9           | 30,377.7     | 29,861.6     | 920.8        |
| Intangible assets net                                     | 177.4        | 163.3        | 170.8              | 172.4        | 180.4        | 5.6          |
| Other assets  | 272.5        | 595.2        | 704.6              | 826.4        | 2,262.6      | 69.8         |
| Total assets  | 19,633.5     | 31,521.7     | 31,653.6           | 45,976.1     | 45,266.0     | 1,395.8      |
| Current liabilities:                                      |              |              |                    |              |              |              |
| Short-term bank loans                                     | 1,566.8      | 800.6        | 467.8              | 1,055.3      | 1,249.2      | 38.5         |
| Current portion of long-term loans                        | 692.8        | 1,821.8      | 2,300.9            | 2,335.3      | 3,686.2      | 113.7        |
| Current portion of long-term bonds payable                |              | 1,200.0      |                    |              |              |              |
| Convertible notes   | 267.6        |              | 2,531.1            |              | 3,056.4      | 94.2         |
| Derivative liabilities                                    |              |              | 160.9              |              | 85.4         | 2.6          |
| Deferred credit   |              | 28.0         | 3.5                | 3.6          | 3.9          | 0.1          |
| Notes payable   | 27.3         | 49.1         | 3.9                |              |              |              |
| Accounts payable  | 345.4        | 607.8        | 728.7              | 803.0        | 976.1        | 30.1         |
| Other payable   |              |              |                    |              |              |              |
| related parties   | 1.0          | 2.8          | 1.2                |              |              |              |
| third parties   | 263.8        | 324.7        | 404.9              | 549.6        | 604.1        | 18.6         |
| Accrued expenses and other current liabilities            | 438.0        | 608.6        | 743.1              | 1,173.1      | 1,321.0      | 40.7         |
| Total current liabilities                                 | 3,951.1      | 5,915.4      | 8,049.3            | 7,207.0      | 11,839.3     | 365.1        |
| Long-term liabilities                                     | 3,438.9      | 7,608.1      | 4,433.9            | 16,836.2     | 11,179.3     | 344.7        |
| Other liabilities   | 603.7        | 772.7        | 345.0              | 502.2        | 596.5        | 18.4         |
| Total liabilities   | 7,993.7      | 14,296.2     | 12,828.2           | 24,545.4     | 23,615.1     | 728.2        |
| Total shareholders' equity (including minority interests) | 11,639.8     | 17,225.5     | 18,825.4           | 21,430.7     | 21,650.9     | 667.6        |

(1) Reflects the US GAAP adjustments as described in Note 24 of the notes to the consolidated financial statements contained in this Annual Report on Form 20-F.

|   | 2003 <sup>(1)</sup><br>NT\$ | 2004 <sup>(1)</sup><br>NT\$ | Year ended December 31,     |              | 2007<br>NT\$ | 2007<br>US\$ |
|---|-----------------------------|-----------------------------|-----------------------------|--------------|--------------|--------------|
|   |                             |                             | 2005 <sup>(1)</sup><br>NT\$ | 2006<br>NT\$ |              |              |
| (in millions)                                     |                             |                             |                             |              |              |              |
| <b>Consolidated Statement of Cash Flows Data:</b> |                             |                             |                             |              |              |              |
| <b>ROC GAAP:</b>                                  |                             |                             |                             |              |              |              |
| Capital expenditures                              | \$ 2,477.9                  | \$ 8,331.0                  | \$ 7,677.2                  | \$ 15,717.8  | \$ 6,093.8   | \$ 187.9     |
| Depreciation and amortization                     | 2,715.0                     | 3,536.8                     | 4,339.1                     | 5,558.8      | 6,834.8      | 210.8        |
| Net cash provided by (used in):                   |                             |                             |                             |              |              |              |
| Operating activities                              | 2,281.2                     | 4,915.7                     | 8,822.6                     | 7,316.4      | 10,882.9     | 335.6        |
| Investing activities                              | (1,444.7)                   | (8,273.3)                   | (7,622.5)                   | (14,988.2)   | (12,212.1)   | (376.6)      |
| Financing activities                              | (1,488.0)                   | 6,544.3                     | (1,519.9)                   | 8,947.9      | 528.1        | 16.3         |
| Effect of exchange rate changes on cash           | (105.1)                     | (68.5)                      | 77.7                        | 12.8         | 38.8         | 1.2          |

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|                                 |         |         |         |         |         |        |
|---------------------------------|---------|---------|---------|---------|---------|--------|
| Net increase (decrease) in cash | (756.6) | 3,118.2 | (242.1) | 1,288.9 | (762.3) | (23.5) |
|---------------------------------|---------|---------|---------|---------|---------|--------|

- (1) As a result of the adoption of the ROC Statements of Financial Accounting Standards No. 34, Financial Instruments: Recognition and Measurement (ROC SFAS No. 34), and the ROC Statements of Financial Accounting Standards No. 36, Financial Instruments: Disclosure and Presentation (ROC SFAS No. 36), the balances in 2003 to 2005 were reclassified to be consistent with the classification used in our consolidated statements of cash flows for 2006 and 2007 included herein.

**Table of Contents****Exchange Rates**

References to US\$ and US dollars are to United States dollars and references to NT\$ and NT dollars are to New Taiwan dollars. This Annual Report on Form 20-F contains translations of certain NT dollar amounts into US dollars 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 The City of New York for cable transfers in NT dollars per US dollar as certified for customs purposes by the Federal Reserve Bank of New York as of December 31, 2007, which was NT\$32.43 to US\$1.00. We make no representation that the NT dollar or US dollar amounts referred to in this Annual Report on Form 20-F 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 June 4, 2008, the noon buying rate was NT\$30.35 to US\$1.00.

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

|                                  | NT dollars per US dollar noon buying rate |       |       |            |
|----------------------------------|---|-------|-------|------------|
|                                  | Average                                   | High  | Low   | Period-end |
| 2003                             | 34.41                                     | 34.98 | 33.72 | 33.99      |
| 2004                             | 33.37                                     | 34.16 | 31.74 | 31.74      |
| 2005                             | 32.16                                     | 33.77 | 30.65 | 32.80      |
| 2006                             | 32.51                                     | 33.31 | 31.28 | 32.59      |
| 2007                             | 32.85                                     | 33.41 | 32.26 | 32.43      |
| December 2007                    | 32.41                                     | 32.53 | 32.30 | 32.43      |
| January 2008                     | 32.36                                     | 32.49 | 32.15 | 32.15      |
| February 2008                    | 31.61                                     | 32.03 | 30.90 | 30.92      |
| March 2008                       | 30.58                                     | 31.09 | 29.99 | 30.37      |
| April 2008                       | 30.36                                     | 30.52 | 30.24 | 30.47      |
| May 2008                         | 30.59                                     | 30.99 | 30.36 | 30.37      |
| June 2008 (through June 4, 2008) | 30.29                                     | 30.37 | 30.15 | 30.35      |

Sources: Federal Reserve Statistical Release H.10 (512), 2003-2008, Board of Governors of the Federal Reserve System.

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### **Risk Factors**

#### **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, delay 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. In addition, beginning in 2007, the semiconductor industry commenced a significant downturn which has adversely affected our business, particularly our assembly and testing services for DRAM products. This industry downturn is still continuing and we cannot give any assurances that industry conditions will improve or 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, communications equipment, consumer electronic products and display applications. 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. The weak demand for LCD and other flat-panel display products that began in 2007 also adversely affected our operating results in 2007 and the first half of 2008. Any significant decrease in demand for end-user applications of semiconductors will 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. 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



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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. A substantial portion of our net revenue is indirectly generated from providing semiconductor assembly and testing services to these IDMs and fabless companies. 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 or prices for these products could significantly reduce our net revenue and net income.***

A significant portion 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 73%, 74% and 78% of our net revenue in 2005, 2006 and 2007, 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 in the semiconductor industry. The oversupply of DRAM products in the second half of 2007 and the weak demand in the DRAM market in first quarter of 2008 resulted in significant reductions in the price of DRAM products, which in turn drove down the average prices for our testing and assembly services for DRAM products in these periods. We cannot assure you that there will not be further downturns in DRAM prices in the future. Any failure of the demand for DRAM to increase or any decrease in the demand or prices for memory products may decrease the demand for our services and our service fees 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.***

Our testing and assembly services for LCD and other flat-panel display driver semiconductors generated net revenue of NT\$3,098 million, NT\$4,446 million and NT\$3,996 million (US\$123 million) in 2005, 2006 and 2007, respectively. We spent NT\$1,803 million, NT\$2,418 million and NT\$714 million (US\$22 million) in 2005, 2006 and 2007, 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 this equipment may not be used for technologies other than TCP, COF or COG. In 2007, our gross margin for LCD and other flat-panel display driver semiconductor testing and assembly services decreased significantly to 8% from 20% in 2006 primarily as a result of the weak demand for LCD and other flat-panel display products, which in turn significantly decreased our capacity utilization rates and average selling prices. 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 further 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.**

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### ***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\$8,046 million (US\$248 million) and NT\$11,324 million (US\$349 million) in short- and long-term indebtedness, respectively, outstanding as of December 31, 2007, including NT\$2,076 million (US\$64 million) of the 1.75% convertible notes due 2009 issued in November 2004, or the 2004 notes, and NT\$3,211 million (US\$99 million) of the 3.375% convertible notes due 2011 issued in September 2006, or the 2006 notes. In addition, ThaiLin, our 38.2% owned consolidated subsidiary, holds US\$7 million in aggregate principal amount of the 2004 notes. The holders of the 2006 notes have the right to cause ChipMOS Bermuda to repurchase the notes on September 29, 2008 at a repurchase price equal to 100% of the principal amount thereof plus any accrued and unpaid interest.

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

we may have to 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 indentures governing the 2004 notes and the 2006 notes do 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 2004 notes and the 2006 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 Item 5. Operating and Financial Review and Prospects 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;

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;

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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 common shares, and the market value of your investment, may fall.

***The ongoing criminal proceeding involving Mr. Shih-Jye Cheng, our Chairman and Chief Executive Officer, and Mr. Hung-Chiu Hu, our former director, could have a material adverse effect on our business and cause our stock price to decline.***

Mr. Shih-Jye Cheng, our chairman and chief executive officer, was indicted by the Taipei District Prosecutor's Office, or the prosecutor, in December 2005. Based upon information released by the prosecutor, the indictment alleges that Mr. Shih-Jye Cheng, as instructed by Mr. Hung-Chiu Hu, purchased repurchase notes on January 6, January 13, and January 28, 2004 from Founder Associates Limited, a British Virgin Islands company affiliated with Mega Securities Co., Ltd. (formerly known as Barits International Securities Co., Ltd.), with an aggregate principal amount of approximately US\$29 million, by using corporate funds from ChipMOS Taiwan and ThaiLin. The indictment further alleges that these repurchase notes were used as a cover to misuse the corporate funds of Mosel, and its affiliated entities, including ChipMOS Taiwan and ThaiLin, in violation of ROC law. In addition, the indictment alleges that Mr. Hu and others were engaged in the insider trading of the securities of Mosel in violation of ROC law, but none of the current officers at ChipMOS Taiwan or ThaiLin was indicted in this regard.

On January 5, 2006, our board established a special committee, comprised solely of Messrs. Yeong-Her Wang, Rong Hsu and Pierre Laflamme, three of our independent directors, to evaluate the circumstances surrounding the indictment of Mr. Cheng. The special committee engaged Kirkpatrick & Lockhart Preston Gates Ellis LLP (formerly Preston Gates & Ellis LLP) as its independent international legal counsel, Baker & McKenzie as its independent ROC legal counsel, and Ernst & Young (formerly Diwan, Ernst & Young) as its financial advisor to assist in its investigation.

The special committee's investigation focused on (1) the probability that Mr. Shih-Jye Cheng would be convicted on the charges described in the indictment, (2) whether the indictment resulted in any pecuniary or other damage to us, (3) whether there were any internal control weaknesses related to the investments in repurchase notes within ChipMOS Bermuda and its subsidiaries and (4) whether ChipMOS Bermuda is required by applicable laws or the Nasdaq Global Select Market listing requirements to take any action in connection with the indictment. The special committee did not attempt to independently determine whether Mr. Cheng had engaged in any wrongdoing in connection with the investments in repurchase notes, irrespective of whether such wrongdoing would lead to a conviction on the charges under the indictment.

On June 28, 2006, the special committee issued its report, including its findings and recommendations. Based upon the results of its investigation, it found that (1) Mr. Shih-Jye Cheng has declared himself not guilty of the charges described in the indictment, (2) Baker & McKenzie, after reviewing the indictment and the prosecutor's exhibits, has found that the evidence produced by the prosecutor seems to be inadequate and that there is a low probability of the charges in the indictment being founded, (3) the financial advisor to the special committee has found that we suffered no loss (not taking into account exchange rate factors) and that all monies (capital and interest) were remitted back to our subsidiaries involved, (4) we have suffered no identifiable harm to our reputation or business and (5) Mr. Cheng has not been impaired by the indictment to perform as our chairman and chief executive officer. The special committee recommended that our board maintain Mr. Cheng as our chairman and chief executive officer with full responsibilities and our board unanimously (with Mr. Cheng having recused himself) resolved to accept and adopt the special committee's recommendation with regard to Mr. Cheng. Our board of directors also resolved to continue the role of the special committee for the duration of the ongoing criminal proceeding involving Mr. Cheng to actively monitor any developments of the criminal investigation and take or recommend any appropriate action in light of such developments.

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On October 1, 2007, the Taipei District Court found Mr. Shih-Jye Cheng not guilty, and on October 22, 2007, the prosecutor appealed the Taipei District Court decision at the Taiwan High Court. The Taiwan High Court held three pre-trial hearings in 2008 and may in its discretion request additional pre-trial hearings. No trial date has been set.

As a result of prosecutor's appeal, Mr. Cheng may still be convicted of one or more charges in the indictment. In addition, new evidence that leads to additional criminal charges and/or an adverse judgment against Mr. Cheng may be produced during the ongoing criminal investigation, and the special committee may make recommendations to our board in respect of Mr. Cheng's positions with us or our subsidiaries. If Mr. Cheng is convicted, or in light of any new developments, the special committee recommends or our board of directors otherwise decides that it is in our best interests that Mr. Cheng no longer serves in all or some of his current capacities with us or our subsidiaries, or if Mr. Cheng resigns as a result of a final adverse judgment rendered against him by the court, or otherwise, the public perception of us may be seriously harmed and we would lose some or all of the services of Mr. Cheng. Mr. Cheng is very important to our current on-going business operations and our relationships with our customers and financing sources, and our loss of his services could materially and adversely affect our business, reputation and prospects and therefore cause our stock price to decline. In addition, if Mr. Cheng is convicted and sentenced to imprisonment, the ROC Financial Supervisory Commission may subject ChipMOS Taiwan or ThaiLin to certain restrictions on financing activities if Mr. Cheng continues to serve as the chairman or president of ChipMOS Taiwan or ThaiLin.

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

We depend on a small group of customers for a substantial portion of our business. In 2007, our five largest customers accounted for 71% of our net revenue. Our two largest customers, ProMOS and Spansion LLC, or Spansion, accounted for 29% and 16%, respectively, of our net revenue in 2007. ProMOS is an affiliate of Mosel, which, as of March 31, 2008, indirectly owned approximately 13.4% of our outstanding common shares.

As part of our strategy, we have been focusing on increasing sales to key customers through long-term agreements, with less focus on our business with smaller customers and customers who do not place orders on a regular basis. As a result, we expect that we will increasingly 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 may be materially adversely affected.

We submit invoices at the time of shipment or delivery and generally require customers to pay within 60 days after the last day of the month during which the invoice was sent, except that we require ProMOS, our largest customer, to pay within 75 days. In addition, we extended the invoice settlement cycle for Spansion, our second largest customer, from 60 days to 90 days at their request, commencing in March 2008. Longer payment terms could adversely affect our account receivable turnovers, allowance for doubtful receivables and financial condition. Furthermore, in January 2008, at the request of ProMOS, we agreed to permit ProMOS to defer payment of aggregate service fees of NT\$450 million (US\$14 million) to February 15, 2009. These service fees were accounts payable to us as of December 31, 2007. The deferred service fees, which were paid in full by ProMOS in March and April 2008, bore interest at a rate of 4.69% per annum, and were recorded as long-term accounts receivables. See Note 18 to our audited consolidated financial statements. We cannot assure you that similar requests by our key customers due to their financial condition or other reasons will not occur in the future, and if we agree to such payment deferral that our financial condition will not be materially and adversely affected.

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***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 69%, 70% and 75% of our total cost of revenue in 2005, 2006 and 2007, respectively. For memory and mixed-signal semiconductor assembly services, our fixed costs represented 25%, 24% and 24% of our total cost of revenue in 2005, 2006 and 2007, respectively. For LCD and other flat-panel display driver semiconductor testing and assembly services, our fixed costs represented 50%, 50% and 54% of our total cost of revenue in 2005, 2006 and 2007, 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. 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 entered into various long-term assembly and testing services agreements with certain of our customers that may require us to incur significant capital expenditures. If we are unable to achieve high capacity utilization rates for the equipment purchased pursuant to these agreements, our gross margins may be materially and adversely affected.

***We are required to make significant capital expenditures in connection with our long-term customer agreements, and our business and results of operations would be adversely affected if we are unable to obtain sufficient funding or if our customers do not fulfill their purchase commitments.***

As part of our strategy, we have from time to time entered into long-term agreements with certain of our customers, and we intend to continue to do so in the future. Please see Item 4. Information on the Company Our Strategy Focus on Increasing Sales through Long-Term Agreements with Key Customers. These long-term agreements may require us to acquire new equipment or construct new facilities in Taiwan and as well as outside Taiwan. In order to meet the requirements of our customers under our long-term agreements, we may have to incur significant capital expenditures and ensure we have sufficient capacity. For example, we entered into an assembly and testing services agreement with Spansion in November 2005 pursuant to which ChipMOS Taiwan agreed to install equipment and reserve capacity for assembly and testing services for Spansion, and Spansion agreed to place purchase orders and compensate us for failure to sufficiently utilize equipment installed and qualified in accordance with the agreement. We incurred approximately US\$7 million in 2007 in capital expenditures in connection with requirements under our current long-term customer agreements. Although we believe we have sufficient funding to meet our capital expenditures requirements in connection with our long-term customer agreements through the end of June 2009, we cannot assure you that we will be able to obtain sufficient funding thereafter. If we are unable to obtain sufficient funding, we may not be able to meet our obligations under our long-term customer agreements, and our customer relationships, business reputation and results of operations may be materially and adversely affected.

A significant amount of capital expenditures related to long-term agreements may have to be incurred up front prior to generating any significant revenue under these agreements. As a result, our gross margins may be adversely affected whenever we enter into a new long-term agreement or implement a new statement of work under an existing agreement. Also, if the customers under our long-term agreements do not meet their contractual commitments or otherwise fail to make sufficient purchases for us to maintain a high capacity utilization rate, our results of operations may be adversely affected.

***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.

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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 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 2009, except for our commitments to invest in ChipMOS Shanghai, a wholly-owned subsidiary of our controlled consolidated subsidiary, MODERN MIND TECHNOLOGY LIMITED, or Modern Mind, and our potential obligation to repurchase the 2006 notes on September 29, 2008. See Our significant amount of indebtedness and interest expense will limit our cash flow and could adversely affect our operations, If Modern Mind fails to invest an additional US\$127.5 million into ChipMOS Shanghai by December 7, 2008, 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 We are required to make significant capital expenditures in connection with our long-term customer agreements, and our business and results of operations would be materially and adversely affected if we are unable to obtain sufficient funding or if our customers do not fulfill their purchase commitments. 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.





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***If Modern Mind fails to invest an additional US\$127.5 million into ChipMOS Shanghai by December 7, 2008, 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 articles of association 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\$127.5 million by December 7, 2008, unless an additional extension is 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 or Siliconware Precision 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 or Siliconware Precision violating ROC laws governing investments in Mainland China by ROC companies or persons. Any sanctions on Mosel or Siliconware Precision as a result of any violation of ROC laws may cause Mosel or Siliconware Precision to decrease its ownership in us significantly or cause Mosel or Siliconware Precision 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 deadline for making the remaining investments in ChipMOS Shanghai. In November 2007, Modern Mind was granted an extension of the investment deadline from December 6, 2007 to December 7, 2008 by the relevant PRC regulatory authority. In May 2008, ChipMOS Shanghai received a written consent-in-principle from the relevant PRC regulatory authority to decrease the registered capital of ChipMOS Shanghai from US\$250 million to US\$130 million in response to an application by us in March 2008. If we obtain the final approval for the decrease in the registered capital of ChipMOS Shanghai, Modern Mind's obligation for contribution of the unpaid registered capital of ChipMOS Shanghai would be reduced from US\$127.5 million to US\$7.5 million. However, such final approval is subject to the relevant PRC regulatory authority's further review of ChipMOS Shanghai's financial condition. In making the final decision, the relevant PRC regulatory authority will also consider any objection received during a 45-day public comment period beginning May 23, 2008. Therefore, there can be no assurance that ChipMOS Shanghai will obtain such approval. If ChipMOS Shanghai is unable to obtain such approval and we fail to secure the funding for such capital requirement 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.

***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

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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. We are, from time to time, involved in litigation in respect of intellectual property rights. Any litigation, whether as plaintiff or defendant, is costly and diverts our resources. If we fail to obtain necessary licenses on commercially reasonable terms or if litigation, regardless of the outcome, relating to patent infringement or other intellectual property matters occurs, our costs could be substantially increased to impact our margins. Any such litigation could also prevent us from testing and assembling particular products or using particular technologies, which could reduce our opportunities to generate revenue. For more information on litigation in respect of intellectual property rights, see Item 8. Financial Information Legal Proceedings.

***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.

***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 our assembly and testing services agreement, and any shortage of wafer sorting testers and probers may affect our ability to perform our obligations under the agreement.

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***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, 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 price of our common shares may be adversely impacted if we or our independent public registered accounting firm is unable to conclude that our internal control over our financial reporting is effective as required by Section 404 of the Sarbanes-Oxley Act of 2002.***

We are subject to the SEC's reporting obligations, and beginning in our Annual Report on Form 20-F for the year ended December 31, 2006, we have been 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, beginning in this Annual Report on Form 20-F, our independent public registered accounting firm must audit the effectiveness of our internal control over financial reporting. In October 2004, we engaged Ernst & Young to advise us on the internal control over financial reporting requirements under Section 404 of the Sarbanes-Oxley Act of 2002. Although our management concluded that our internal controls are effective in this Annual Report on Form 20-F, and our independent public registered accounting firm has rendered its opinion that we maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria set forth in Internal Control – Integrated Framework issued by the Treadway Commission (COSO), our management may not conclude that our internal controls are effective in the future. Moreover, even if our management concludes that our internal controls over our financial reporting are 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, it may decline to attest to our management's assessment or may issue an adverse opinion in the future. 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.

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***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. During the three months ended March 31, 2008, the US dollars depreciated against the NT dollar by 6.4%. 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, investments and joint ventures, and may therefore be unable to implement fully our business strategy.***

As part of our growth strategy, we may make acquisitions and investments in companies and businesses or establish joint ventures. For example, on November 21, 2005, we merged Chantek into ChipMOS Taiwan, and on December 1, 2005, we merged ChipMOS Logic TECHNOLOGIES INC., or ChipMOS Logic, into ThaiLin Semiconductor Corp., or ThaiLin. In November 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 approximately US\$2 million. In September 2007, we acquired all outstanding common shares of ChipMOS Taiwan through a share exchange transaction with ChipMOS Taiwan. The success of our acquisitions, investments and joint ventures depends on a number of factors, including:

our ability to identify suitable investment, acquisition or joint venture opportunities;

our ability to reach an agreement for an acquisition, investment or joint venture opportunity on terms that are satisfactory to us or at all;

the extent to which we are able to exercise control over the acquired or joint venture company;

our ability to align the economic, business or other strategic objectives and goals of the acquired company with those of our company; and

our ability to successfully integrate the acquired or joint venture company or business with our company.

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



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*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 March 31, 2008, 13% of the workforce at our facilities is 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.

*Adverse publicity about our current or former directors, executive officers or other key personnel could have a material adverse effect on our business.*

Adverse publicity about our current or former directors, executive officers or other key personnel could have a material adverse effect on our business. Mr. Shih-Jye Cheng, our chairman and chief executive officer, was indicted by the Taipei District Prosecutor's Office in December 2005. See The ongoing criminal proceeding involving Mr. Shih-Jye Cheng, our Chairman and Chief Executive Officer, and Mr. Hung-Chiu Hu, our former director, could have a material adverse effect on our business and cause our stock price to decline. Moreover, two of our former directors, Messrs. Hung-Chiu Hu and Jwo-Yi Miao, are currently on criminal trial in the Taipei District Court, and another former director, Mr. Robert Ma Kam Fook, is under criminal investigation by the Taipei Prosecutor's Office, in connection with alleged embezzlement during the 1990s at Pacific Electric Wire & Cable Co., Ltd., or Pacific Electric, a company incorporated in Taiwan and, until April 28, 2004, listed on the Taiwan Stock Exchange. Messrs. Hu and Miao have been indicted for offenses including breach of trust and violation of the Taiwan Commercial Accounting Law and the Taiwan Securities and Exchange Law. Mr. Ma is under investigation in connection with alleged money laundering activities related to the alleged offenses of Mr. Hu. Any adverse publicity from the investigation, trial or conviction of Messrs. Cheng, Hu, Miao or Ma could have a material adverse effect on our business and reputation or cause the market price of our common shares to decline.

**Risk Relating to Our Relationship with Mosel**

*ChipMOS Taiwan entered into certain transactions that, if determined to have constituted impermissible financings or purchases of assets or equity of Mosel under ROC law, could result in the resignations of members of our management. As a result, our business operations could be disrupted and the market price of our common shares could decline.*

ROC law limits the ability of a company incorporated in Taiwan to purchase any equity interest in companies, directly or indirectly, holding more than 50% of its issued and outstanding voting securities or registered capital or to provide loans or other financing to any company. ChipMOS Taiwan purchased NT\$242 million worth of Mosel shares in 2002. Lee and Li, our ROC special counsel, has advised us that these purchases do not violate relevant ROC law that prohibits a subsidiary from buying or taking collateral in shares of companies holding, directly or indirectly, more than 50% of its issued and outstanding voting securities or registered capital, because Mosel's indirect interest (calculated as the product of (i) Mosel's percentage interest in ChipMOS Bermuda and (ii) ChipMOS Bermuda's percentage interest in ChipMOS Taiwan) in ChipMOS Taiwan was less than 50% and ChipMOS Bermuda is incorporated outside of Taiwan. In 2005, ChipMOS Taiwan disposed of NT\$84 million of Mosel shares, and

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in August 2006, ChipMOS Taiwan further disposed of the remaining Mosel shares for approximately NT\$30 million. ChipMOS Taiwan no longer owns any Mosel shares. Lee and Li has advised that under relevant ROC law, there is no similar restriction or limitation on a subsidiary's disposal of its parent's equity shares, if the previous acquisitions of such shares complied with relevant ROC law. See Notes 4 and 18 to our consolidated financial statements contained in this Annual Report on Form 20-F for details. However, we understand that there is no applicable judicial precedent and there is some doubt as to how a court would rule if presented with the situation.

If it were to be determined that any of the transactions described above constituted an impermissible financing or purchase of assets of Mosel by ChipMOS Taiwan or an impermissible purchase of Mosel's equity by ChipMOS Taiwan, then ChipMOS Taiwan's then chairman and any responsible officers would be jointly and severally liable to ChipMOS Taiwan for any losses suffered by ChipMOS Taiwan and may also be severally liable criminally for any breach of fiduciary duties that resulted in losses and damages suffered by ChipMOS Taiwan. Moreover, certain of these transactions may not have been in full compliance with ChipMOS Taiwan's then applicable internal procedures due to the failure to have received an appropriate valuation opinion prior to entering into such purchases. The failure to comply fully with ChipMOS Taiwan's then applicable internal procedures could constitute evidence of a failure by the then chairman of ChipMOS Taiwan and responsible officers to comply fully with their fiduciary duties, which could result in them being held criminally liable for any breach of fiduciary duties that resulted in losses and damages to ChipMOS Taiwan. If members of our current management were held to have breached their fiduciary duties or become criminally liable for the transactions described above, they may become obliged, whether under law or otherwise, to resign from their respective positions at ChipMOS Bermuda and our affiliates. Any loss of the services of these persons could disrupt our business, damage our reputation, and cause the market price of our common shares to decline.

### **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 or Siliconware Precision violating ROC laws governing investments in Mainland China by ROC companies or persons. Any sanctions on Mosel or Siliconware Precision as a result of any violation of ROC laws may cause Mosel or Siliconware Precision to decrease its ownership in us significantly or cause Mosel or Siliconware Precision to take other actions that may not be in the best interest of our other shareholders.*

ROC laws and regulations generally prohibit investment by ROC entities in Mainland China in most aspects of the semiconductor testing and assembly industry. Investment is defined for this purpose to mean:

establishing a new company or enterprise in Mainland China;

increasing one's equity interest in an existing company or enterprise in Mainland China;

acquiring shares of an existing company or enterprise in Mainland China (other than shares of publicly traded companies, acquisition of which is prohibited under current policy of the Investment Commission of the ROC Ministry of Economic Affairs, or the Investment Commission); or

establishing or expanding a branch office in Mainland China.

We provide our services in Mainland China through ChipMOS Shanghai, a company incorporated under the laws of the PRC and a wholly-owned subsidiary of Modern Mind. Modern Mind is a company incorporated under the laws of the British Virgin Islands and is wholly-owned by Jesper Limited, a company incorporated under the laws of the British Virgin Islands. While we do not own any equity interest in Modern Mind, we control Modern Mind through our ownership of a demand note issued by Modern Mind, convertible into common shares with a controlling equity interest in Modern Mind at a conversion rate of one common share of Modern Mind for every US\$1.00 if repayment is not made when due. Under accounting principles that are applicable to us, Modern Mind is our controlled consolidated subsidiary. In addition, we have obtained from Jesper Limited an irrevocable option to acquire the common shares of Modern Mind then owned by Jesper Limited. Payment under the demand notes is fully and unconditionally





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guaranteed by Jesper Limited and secured by a pledge agreement in respect of the entire equity interest in Modern Mind and ChipMOS Shanghai. We have also entered into other contractual arrangements with regard to ChipMOS Shanghai. For more information, see Item 4. Information on the Company Our Structure and History MODERN MIND TECHNOLOGY LIMITED and ChipMOS TECHNOLOGIES (Shanghai) LTD.

As the regulations described above are applicable only to entities organized within the ROC with respect to specified investments in Mainland China made by these entities, in the opinion of Lee and Li, our ROC special counsel, ChipMOS Bermuda's indirect control over ChipMOS Shanghai through the ownership of demand notes issued by Modern Mind and the above contemplated contractual arrangements are in compliance with all existing ROC laws and regulations. There are, however, substantial uncertainties regarding the interpretation and application of ROC laws and regulations, including the laws and regulations governing the enforcement and performance of our contractual arrangements. Accordingly, we cannot assure you that ROC regulatory authorities will not take a view contrary to the opinion of our ROC special counsel.

In addition, under current applicable ROC regulations, if a company incorporated in the ROC has directly or indirectly invested in a company incorporated outside of the ROC and has controlling power over the management and operations of such non-ROC company, any investment by such non-ROC company in the PRC will constitute an investment by the controlling ROC company that is subject to ROC laws and regulations. As a result, for the purposes of these regulations, any investment (within the meaning of the ROC laws regulating investments in Mainland China) by ChipMOS Bermuda in ChipMOS Shanghai may be deemed to be an investment in Mainland China by Mosel and/or Siliconware Precision, if Mosel and/or Siliconware Precision is determined to have controlling power over our management and operations. While the regulations do not define what constitutes controlling power over management and operations, we understand from our ROC special counsel, Lee and Li, that, due to Mosel's and/or Siliconware Precision's equity interest in us and representatives on our board of directors, any conversion of the convertible notes or demand notes into shares of Modern Mind or other acquisition of shares of Modern Mind or ChipMOS Shanghai by ChipMOS Bermuda may be deemed an investment in Mainland China by Mosel and/or Siliconware Precision and require approval by the Investment Commission, and be subject to the prohibitions described in the first paragraph of this risk factor. As a result, so long as Mosel and/or Siliconware Precision is deemed to have controlling power over ChipMOS Bermuda's management and operations, ChipMOS Bermuda may have to choose not to convert its convertible notes or demand notes into common shares of Modern Mind in order to avoid any violations by Mosel and/or Siliconware Precision under these regulations. As a result, any significant ownership of our common shares by Mosel and/or Siliconware Precision could materially and adversely restrict our ability and flexibility in structuring our investment in Mainland China and thereby affect our business prospects.

If Mosel or Siliconware Precision were determined to be in violation of the applicable ROC laws and regulations governing investments in Mainland China, Mosel or Siliconware Precision may be ordered by the Investment Commission to cease such investment activities in Mainland China within a specified period of time and may be subject to a fine of between NT\$50 thousand and NT\$25 million. Mosel or Siliconware Precision could comply with the order of the Investment Commission either by causing us to terminate our investment activities in Mainland China or by taking actions that will cause Mosel or Siliconware Precision to cease having controlling power over our management and operations. If Mosel or Siliconware Precision does not comply with the order of the Investment Commission, the ROC government can impose on the chairman of Mosel or Siliconware Precision up to two years' imprisonment, a fine of up to NT\$25 million, or both. We cannot provide any assurance that any actions taken by Mosel or Siliconware Precision to address any orders by the Investment Commission will be in the best interest of our other shareholders. See Risks Relating to Our Relationship with Mosel Potential conflicts of interest with our major shareholder and its affiliates may cause us to turn down orders from other customers. Any termination or disposal of ChipMOS Shanghai's operations in Mainland China could have a material adverse effect on our financial condition, results of operations or prospects, as well as the market price of our common shares.

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***ROC laws and regulations prohibit certain technology cooperation between ROC persons or entities with PRC persons or entities, and our current technology transfer arrangements between ChipMOS Bermuda and ChipMOS Shanghai may be found to be in violation of such prohibition, which may result in the termination of such technology transfer arrangements and therefore have a material adverse effect on the operations of ChipMOS Shanghai and our financial condition and results of operations.***

ROC laws and regulations prohibit any transfer of semiconductor testing and assembly technologies to any person or entity located in Mainland China, except for transfers involving certain low-end semiconductor testing and assembly technologies, such as conventional wire bond assembly technology, if certain requirements are met. The ROC Ministry of Economic Affairs has the ultimate administrative authority in interpreting such laws and regulations. Under a technology transfer agreement, dated August 1, 2002, ChipMOS Bermuda licensed to ChipMOS Shanghai certain testing and assembly-related technologies that were then controlled by ChipMOS Bermuda, which included technologies that were licensed to ChipMOS Bermuda by ChipMOS Taiwan. ChipMOS Bermuda also provided ChipMOS Taiwan with technical support and consulting services under this agreement. On April 7, 2004, ChipMOS Bermuda entered into an assignment agreement with ChipMOS Taiwan, pursuant to which ChipMOS Taiwan transferred all of the technologies it owned as of that date to ChipMOS Bermuda, including those previously licensed to ChipMOS Bermuda. On April 12, 2007, ChipMOS Bermuda entered into an assignment agreement with ChipMOS Taiwan, pursuant to which ChipMOS Taiwan assigned and transferred fifty percent of the title to ownership of and interest in all of the technologies and intellectual property it owned as of that date to ChipMOS Bermuda. ChipMOS Bermuda will continue to license such technologies to ChipMOS Shanghai pursuant to the above mentioned technology transfer agreement dated August 1, 2002.

In the opinion of Lee and Li, our ROC special counsel, our technology transfer arrangements as described above are in compliance with all applicable ROC laws and regulations. However, substantial uncertainties regarding the interpretation and application of those laws and regulations exist. Accordingly, we cannot assure you that ROC regulatory authorities will not take a view contrary to the opinion of our ROC special counsel. If ChipMOS Taiwan were determined to be in violation of applicable ROC laws and regulations governing technology cooperation with PRC persons and entities, ChipMOS Taiwan may be ordered by the Investment Commission to terminate such activity within a specified period of time and may be subject to a fine of between NT\$50 thousand and NT\$25 million. In addition, if ChipMOS Taiwan does not comply with the order of the Investment Commission, the ROC government can impose on the chairman of ChipMOS Taiwan up to two years imprisonment, a fine of up to NT\$25 million, or both. Any termination of our current technology transfer to ChipMOS Shanghai could materially adversely affect our Mainland China operations and our financial condition, results of operations or prospects, as well as the market price of our common shares.

***Our current ownership structure and contractual arrangements with Jesper Limited, Modern Mind and ChipMOS Shanghai may not be effective in providing operational control of our Mainland China operations.***

We provide our services in Mainland China through ChipMOS Shanghai, a wholly-owned subsidiary of Modern Mind. While we do not own any equity interest in Modern Mind, we have a controlling interest in Modern Mind through our ownership of a demand note issued by Modern Mind. In 2004, we restructured our control of ChipMOS Shanghai and the way we provide our services in Mainland China through contractual arrangements with Jesper Limited, Modern Mind, and ChipMOS Shanghai. See The investment in Mainland China by our controlled consolidated subsidiary, Modern Mind, through ChipMOS Shanghai, and the related contractual arrangements may result in Mosel or Siliconware Precision violating ROC laws governing investments in Mainland China by ROC companies or persons. Any sanctions on Mosel or Siliconware Precision as a result of any violation of ROC laws may cause Mosel or Siliconware Precision to decrease its ownership in us significantly or cause Mosel or Siliconware Precision to take other actions that may not be in the best interest of our other shareholders for further details on these contractual arrangements. These contractual arrangements, however, may not be as effective in providing control over our Mainland China operations as would direct ownership in ChipMOS Shanghai.

***Our ability to direct the operations we conduct through our subsidiaries and affiliated companies that we do not fully own may be limited by legal duties owed to other shareholders of such companies.***

Certain of our operations are conducted through companies that we do not fully own. For example, certain current consolidated operations are conducted through ThaiLin, our 38.2% subsidiary as of March 31, 2008, and ChipMOS Shanghai, in which we exercise control without holding any direct or indirect equity interest. We also conduct other activities through our affiliated entities.

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In accordance with the various laws of the relevant jurisdictions in which our subsidiaries and affiliates are organized, each of our subsidiaries and affiliates and their respective directors owe various duties to their respective shareholders. As a result, the actions we wish our subsidiaries or affiliates to take could be in conflict with their or their directors' legal duties owed to their other shareholders. When those conflicts arise, our ability to cause our subsidiaries or affiliates to take the action that we desire may be limited.

### ***Any future outbreak of avian influenza, severe acute respiratory syndrome or other new or unusual diseases may materially affect our operations and business.***

An outbreak of a contagious disease such as avian influenza or severe acute respiratory syndrome, for which there is inadequate treatment or no known cure or vaccine, may potentially result in a quarantine of infected employees and related persons, and adversely affect our operations at one or more of our facilities or the operations of our customers or suppliers. We cannot predict at this time the impact any future outbreak could have on our business and results of operations.

### ***We face substantial political risk associated with doing business in Taiwan, particularly due to recent domestic political events and the strained relations between the Republic of China and the People's Republic of China, that could negatively affect our business and the market price of our common shares.***

Our principal executive offices and most of our testing and assembly facilities are located in Taiwan. As a result, our business, financial condition and results of operations and the market price of our common shares may be affected by changes in ROC governmental policies, as well as social instability and diplomatic and social developments in or affecting Taiwan which are outside our control. For example, the ROC has a unique international political status. The PRC government regards Taiwan as a renegade province and does not recognize the legitimacy of the ROC. Although significant economic and cultural relations have been established during recent years between the ROC and the PRC, relations have often been strained. In March 2005, the PRC government enacted an Anti-Secession Law codifying its policy of retaining the right to use military force to gain control over Taiwan, particularly under what it considers as highly provocative circumstances, such as a declaration of independence by Taiwan or the refusal by the ROC to accept the PRC's stated "one China" policy. Past developments in relations between the ROC and the PRC have on occasion depressed the market prices of the securities of Taiwanese or Taiwan-related companies, including our own. Relations between the ROC and the PRC and other factors affecting military, political or economic conditions in Taiwan could have a material adverse effect on our financial condition and results of operations, as well as the market price and the liquidity of our common shares.

### ***We are vulnerable to natural disasters and other events disruptive to our business and operations.***

We currently provide most of our testing services through our facilities in the Hsinchu Industrial Park and the Hsinchu Science Park in Taiwan and the Shanghai Qingpu Industrial Zone, and all of our assembly services through our facilities in the Southern Taiwan Science Park in Taiwan and the Shanghai Qingpu Industrial Zone. Significant damage or other impediments to these facilities as a result of natural disasters, industrial strikes or industrial accidents could significantly increase our operating costs.

Taiwan is particularly susceptible to earthquakes and typhoons. For example, in late 1999, Taiwan suffered severe earthquakes that caused significant property damage and loss of life, particularly in the central part of Taiwan. These earthquakes damaged production facilities and adversely affected the operations of many companies involved in the semiconductor and other industries. We experienced NT\$1 million in damages to our machinery and equipment, NT\$6 million in damages to our facilities, NT\$1 million in damages to our inventory and five days of delay in our production schedule as a result of these earthquakes.

In January and February 2008, certain parts of Mainland China, particularly in the southern, central and eastern regions, experienced reportedly the most severe winter weather in the country in recent decades, which resulted in significant and extensive damages to factories, power lines, homes, automobiles, crops and other properties, blackouts, transportation and communications disruptions and other losses in the affected areas. In addition, in May 2008, certain semiconductor companies with facilities in eastern Mainland China have experienced production disruption reportedly due to power stoppages caused by the failure of certain electricity

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supply system in the area where the plant located. We cannot assure you that our facilities in the Shanghai Qingpu Industrial Zone will not be adversely affected by future snowstorms, power shortages, earthquake or other similar events.

In addition, the production facilities of many of our suppliers and customers and providers of complementary semiconductor manufacturing services, including foundries, are located in Taiwan and Mainland China. If our customers are affected, it could result in a decline in the demand for our testing and assembly services. If our suppliers and providers of complementary semiconductor manufacturing services are affected, our production schedule could be interrupted or delayed. As a result, a major earthquake, snowstorm, other natural disaster or other disruptive event in Taiwan or Mainland China could severely disrupt the normal operation of business and have a material adverse effect on our financial condition and results of operations.

### **Risks Relating to Our Corporate Structure**

*Our ability to receive dividends and other payments from our subsidiaries may be restricted by commercial, statutory and legal restrictions, and thereby materially adversely affect our ability to grow, fund investments, make acquisitions, pay dividends, repay or repurchase outstanding indebtedness and otherwise fund and conduct our business.*

We are a holding company, and our most significant asset is our ownership interest in ChipMOS Taiwan. Although we control ChipMOS Shanghai through Modern Mind, we do not hold any equity interest in these entities due to ROC regulatory restrictions on investments in Mainland China. As long as we do not hold any equity interest in these entities, we are not entitled to any dividends distributed by these entities and our contractual arrangements may not effectively prevent these entities from declaring any dividends to their shareholders. Dividends we receive from our subsidiaries, if any, will be subject to taxation.

The ability of our subsidiaries to pay dividends, repay intercompany loans from us or make other distributions to us is restricted by, among other things, the availability of funds and the terms of various credit arrangements entered into by our subsidiaries, as well as statutory and other legal restrictions. In addition, although there are currently no foreign exchange control regulations which restrict the ability of our subsidiaries located in Taiwan to distribute dividends to us, we cannot assure you that the relevant regulations will not be changed and that the ability of our subsidiaries to distribute dividends to us will not be restricted in the future. A Taiwan company is generally not permitted to distribute dividends or to make any other distributions to shareholders for any year in which it did not have either earnings or retained earnings (excluding reserves). In addition, before distributing a dividend to shareholders following the end of a fiscal year, the company must recover any past losses, pay all outstanding taxes and set aside 10% of its annual net income (less prior years' losses and outstanding taxes) as a legal reserve until the accumulated legal reserve equals its paid-in capital, and may set aside a special reserve.

In addition, PRC law requires that our PRC-incorporated subsidiary only distributes dividends out of its net income, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, it is also required to set aside at least 10% of its after-tax net income each year into its reserve fund until the accumulated legal reserve amounts to 50% of its registered capital. PRC-incorporated companies are further required to maintain a bonus and welfare fund at percentages determined at their sole discretion. The reserve fund and the bonus and welfare fund are not distributable as dividends. Moreover, a ROC-incorporated company is only able to declare dividends at its annual general meeting of shareholders, which cannot occur until after completion of its annual financial statements. Any limitation on dividend payments by our subsidiaries could materially adversely affect our ability to grow, fund investments, make acquisitions, pay dividends, repay or repurchase outstanding indebtedness, and otherwise fund and conduct our business.

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*Siliconware Precision and Mosel, our two largest shareholders, have significant influence over our company and may 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.*

Siliconware Precision and Mosel directly and indirectly owned approximately 14.5% and 13.4% of our common shares as of March 31, 2008, respectively. As the two largest shareholders that own more than 10% of our common shares respectively, Siliconware Precision and Mosel have significant influence 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 Siliconware Precision or Mosel or their respective affiliates, which could involve conflicts of interest; and

open market purchase programs or other purchases of our common shares.  
Siliconware Precision and Mosel's substantial interests in our company could also:

delay, defer or prevent a change in who controls us;

discourage bids for our shares at a premium over the market price; and

adversely affect the market price of our common shares.

In addition, one of our directors, Mr. Hsing-Ti Tuan, also acts as a director of ProMOS, a subsidiary of Mosel. As a result, conflicts of interest between Mr. Tuan's duty to us and ProMOS and/or Mosel may arise. For an example of such a conflict of interest, 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 or Siliconware Precision violating ROC laws governing investments in Mainland China by ROC companies or persons. Any sanctions on Mosel or Siliconware Precision as a result of any violation of ROC laws may cause Mosel or Siliconware Precision to decrease its ownership in us significantly or cause Mosel or Siliconware Precision to take other actions that may not be in the best interest of our other shareholders. We cannot give any assurances that when conflicts of interest arise, Mr. Tuan will act in our interests, or that conflicts of interest will be resolved in our favor.

Moreover, because Siliconware Precision and Mosel have potential power to direct or influence our corporate actions, we may be required to engage in transactions that may not be agreeable to our other shareholders or that may not be in the best interest of our other shareholders.

***Our ability to make further investments in ChipMOS Taiwan may be dependent on regulatory approvals. If ChipMOS Taiwan is unable to receive the equity financing it requires, its ability to grow and fund its operations may be materially adversely affected.***

As ChipMOS Taiwan is not a listed company, it generally depends on us to meet its equity financing requirements. Any capital contribution by us to ChipMOS Taiwan may require the approval of the relevant ROC authorities. For example, any capital contribution by us to ChipMOS Taiwan will require the approval of the authorities of the Science Park Administration. We may not be able to obtain any such approval in the future in a timely manner, or at all. If ChipMOS Taiwan is unable to receive the equity financing it requires, its ability to grow and fund its operations may be materially adversely affected.



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### **Risks Relating to Our Common Shares**

*Volatility in the price of our common shares may result in shareholder litigation that could in turn result in substantial costs and a diversion of our management's attention and resources.*

The financial markets in the United States and other countries have experienced significant price and volume fluctuations, and market prices of technology companies have been and continue to be extremely volatile. Volatility in the price of our common shares may be caused by factors outside of our control and may be unrelated or disproportionate to our results of operations. In the past, following periods of volatility in the market price of a public company's securities, shareholders have frequently instituted securities class action litigation against that company. Litigation of this kind could result in substantial costs and a diversion of our management's attention and resources.

*Certain provisions in our constitutive documents and in our severance agreements with our executive officers make the acquisition of us by another company more difficult and costly and therefore may delay, defer or prevent a change of control.*

Our bye-laws provide that our board of directors is divided into three classes of directors, each class to be re-elected only once every three years. As a result, shareholders would not generally be able to replace a majority of the directors until after two annual general meetings. In addition, any extraordinary corporate transaction such as a merger, amalgamation or consolidation, or a sale or transfer of all or substantially all of our assets, cannot be done without the approval of shareholders representing 70% of the total voting rights of all shareholders having the right to vote at such general meeting called to consider such extraordinary transaction. These provisions in our constitutive documents may increase the difficulty faced by a party which seeks to acquire control of our board or to approve an extraordinary transaction.

In 2007, we entered into change in control severance agreements with certain executive officers pursuant to which we agreed to pay certain severance payments if a change in control event (as defined in the change in control severance agreements) occurs and the employment of such executive officer is terminated by our company other than for cause or by such executive officer for good reasons within two years following the occurrence of the change in control event. These change in control agreements may increase the cost of a party seeking to effect a change in control of our company.

*Future sales, pledge or issuance of common shares by us or our current shareholders could depress our share price and you may suffer dilution.*

Sales of substantial amounts of shares in the public market, the perception that future sales may occur, or the pledge of a substantial portion of our common shares could depress the prevailing market price of our shares. As of March 31, 2008, we had approximately 84 million shares outstanding, including approximately 48 million shares of which are freely tradable within the United States without restriction or further registration under the Securities Act. Siliconware Precision, Mosel, Trivium Capital Management LLC, or Trivium Capital, Powertech Technology and ProMOS, our five largest shareholders, owned 12,174,998, 11,194,644, 9,618,815, 4,060,633 and 4,060,633 common shares as of March 31, 2008, respectively, representing in the aggregate 49.0% of our outstanding common shares as of March 31, 2008. As of March 31, 2008, we had US\$71 million aggregate principal amount of the 2004 notes outstanding (including US\$7 million aggregate principal amount held by ThaiLin, our 38.2% owned consolidated subsidiary) and US\$99 million aggregate principal amount of the 2006 notes outstanding. The 2004 notes and the 2006 notes are convertible into our common shares at the conversion price of US\$6.28 per share and US\$6.85 per share, respectively, in each case subject to certain adjustments.

Mosel in the past decided to sell a significant portion of our common shares in order to raise funds. On December 9, 2005, we filed a shelf registration statement on Form F-3, pursuant to which we may offer up to approximately US\$194 million of additional common shares or debt securities which may be convertible into common shares. We have included 8,000,000 common shares held by Mosel in our shelf registration statement filed on December 9, 2005. In June 2006, Mosel sold 6,956,522 common shares through its wholly-owned subsidiary, Giant Haven, under our shelf registration statement and, as a result, the number of remaining common shares held by Mosel included in our shelf registration statement is 1,043,478. In addition, in March 2007, we issued 12,174,998 common shares pursuant to a share purchase and subscription agreement with ChipMOS Taiwan and Siliconware Precision, and we entered into a registration rights agreement in March 2007 with Siliconware Precision, pursuant to which we granted to Siliconware Precision certain rights to require us to register these common shares for sale under the Securities Act. In July 2007, Mosel sold 8,121,266 common shares through Giant Haven to ProMOS and Powertech Technology, and we then granted Giant Haven, ProMOS and Powertech Technology certain rights to require us to register these common shares for sale under the Securities Act. Furthermore, Siliconware Precision, Mosel, ProMOS and Powertech Technology may be able to sell, in any three-month period, such number of





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common shares up to the greater of (i) one percent of our outstanding common shares or (ii) the average weekly trading volume of our common shares as reported on the Nasdaq Global Select Market during the four calendar weeks prior to any such sales pursuant to Rule 144 under the Securities Act.

On September 14, 2007, ChipMOS Bermuda issued 604,124 common shares pursuant to a share exchange transaction with ChipMOS Taiwan, under which ChipMOS Bermuda exchanged one common share for every 8.4 ChipMOS Taiwan shares then outstanding. Following the completion of the share exchange transaction, ChipMOS Taiwan became our wholly-owned subsidiary. We plan to issue, from time to time, additional shares in connection with employee compensation and to finance possible future capital expenditures, investments or acquisitions. See Item 6. Directors, Senior Management and Employees Share Option Plan and Share Appreciation Rights Plan for a discussion of the Share Option Plan that we have adopted for the benefit of all of our directors, officers, employees and consultants. The issuance of additional shares may have a dilutive effect on other shareholders and may cause the price of our common shares to decrease.

In addition, the indictment relating to Mr. Hung-Chiu Hu alleges that embezzled funds were used in investments by PacMOS, which, as of March 31, 2008, owned 3.8% of our outstanding common shares. As a result, PacMOS may be ordered by relevant authorities to dispose of its investments made with any embezzled funds, which may result in a sale of our shares by PacMOS. A sale of a significant number of our shares by PacMOS or our other current shareholders could depress our share price.

***Conversion of our outstanding convertible notes will dilute the ownership interest of existing shareholders and future issuances of our securities could dilute your ownership.***

In November 2004, we issued US\$85 million of the 2004 notes, which bear interest at an annual rate of 1.75%. In December 2004, we repurchased and cancelled US\$699,000 of the 2004 notes. As of March 31, 2008, the 2004 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. In September 2006, we issued US\$100 million of the 2006 notes, which bear interest at an annual rate of 3.375% and have an initial conversion price of US\$6.85 per share, subject to certain adjustments. The conversion of some or all of these convertible notes will dilute the ownership interest of existing shareholders. Any sales in the public market of the common shares issuable upon such conversion could adversely affect prevailing market prices of our common shares. In addition, the existence of these convertible notes may encourage short selling by market participants because the conversion of the notes could depress the price of our common shares. In October 2006, we made an induced conversion offer to the holders of our 2004 notes pursuant to which we offered to each holder, as incentive for such holder to convert its 2004 notes, a cash payment equal to 7% of the principal amount of the 2004 notes converted by such holder. Pursuant to the induced conversion offer, noteholders converted US\$7,000,000 in aggregate principal amount of the 2004 notes into 1,114,649 common shares and received from us aggregate cash consideration of approximately US\$490,000. On November 3, 2006, we repurchased US\$6,300,000 in aggregate principal amount of the 2004 notes pursuant to the noteholders' put option under the indenture. In November 2007, ThaiLin, our 38.2% owned consolidated subsidiary, purchased US\$7 million in aggregate principal amount of the 2004 note. In addition, on November 29, 2007, we repurchased US\$1,000,000 in aggregate principal amount of the 2006 notes. Under the indenture, each noteholder of the 2006 notes will have the right to require us to repurchase its notes on September 29, 2008 at a repurchase price equal to 100% of the principal amount plus accrued and unpaid interest. As of March 31, 2008, no other conversion of these convertible notes had taken place.

**Item 4. Information on the Company  
Overview**

We believe that we are one of the leading independent providers of semiconductor testing and assembly services. Specifically, we believe that we are one of the leading independent providers of testing and assembly services for LCD and other flat-panel display driver semiconductors globally and 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 testing and assembly services. 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.

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### **Industry background**

#### *Semiconductor Industry Trends*

Growth in the semiconductor industry is largely driven by end-user demand for consumer electronics, communications equipment and computers, for which semiconductors are critical components. Highly cyclical, the worldwide semiconductor industry has experienced peaks and troughs over the last decade, with a severe downturn at the end of 2000 that was followed by a modest recovery in late 2002. Since then, the industry expanded until 2007, when the industry commenced another downturn that is still continuing.

#### *Selected Key Semiconductor Markets*

Various sectors of the semiconductor industry are expected to benefit from the anticipated growth in demand for new and improved electronic products and applications. These sectors include the memory semiconductor market, the LCD and other flat-panel display driver semiconductor market and the mixed-signal semiconductor market.

#### *Memory Semiconductor Market*

The memory market is expected to grow in the medium to long term as memory content in consumer electronics and PC applications increases due to increasing operating system requirements, increasing use of graphics in gaming and other applications, continued growth of broadband content and a transition to 64-bit PC architecture. The memory market is dominated by two segments – DRAM and flash memory. Growth in the DRAM market is expected to be driven by the increases in average memory size per PC and PC unit shipment resulting from the launch of Microsoft's Vista operating system and the introduction of new DRAM technology. The flash memory market is expected to continue to experience in the medium to long term strong growth due to increasing memory requirements for cellular handsets, digital cameras and digital audio and video devices.

#### *LCD and Other Flat-Panel Display Driver Semiconductor Market*

Flat-panel displays are used in applications such as PC monitors, notebook computers, television sets, cellular handsets and digital cameras. Thin-film-transistor LCDs, or TFT-LCDs, account for about three-fourths of the flat-panel display market. The end-user demand for LCD and other flat-panel display driver semiconductor experienced a significant downturn in 2007. However, we currently expect the market for LCD and other flat-panel display driver semiconductors to recover in the second half of 2008.

#### *Mixed-Signal Semiconductor Market*

The communications market is one of the main drivers of growth in the semiconductor industry. Mixed-signal semiconductors, which are chips with analog functionality covering more than half of the chip area, are largely used in the communications market. The increasing use of digital technology in communications equipment requires chips with both digital and analog functionality for applications such as modems, network routers, switches, cable set-top boxes and cellular handsets. As the size and cost of cellular handsets and other communications-related devices have decreased, components have increased in complexity. Mixed-signal semiconductors, such as LCD controllers and DVD controllers, are also used in consumer electronic products.

#### *Overview of the Semiconductor Manufacturing Process*

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

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| <b>Process</b>    | <b>Description</b>   |
|-------------------|--|
| Circuit Design    | The design of a semiconductor is developed by laying out circuit patterns and interconnections.  |
| Wafer Fabrication | Wafer fabrication begins with the generation of a photomask, a photographic negative onto which a circuit design pattern is etched or transferred by an electron beam or laser beam writer. Each completed wafer contains many fabricated chips, each known as a die.  |
| Wafer Probe       | Each individual die is then electrically tested, or probed, for defects. Dies that fail this test are discarded, or, in some cases, salvaged using laser repair.   |
| Assembly          | The assembly of semiconductors serves to protect the die, facilitates its integration into electronic systems and enables the dissipation of heat. The process begins with the dicing of the wafers into chips. Each die is affixed to a leadframe-based or organic substrate-based package. Then, electrical connections are formed, in many cases by connecting the terminals on the die to the inner leads of the package using fine metal wires. Finally, each chip is encapsulated for protection, usually in a molded epoxy enclosure. |
| Final Test        | Assembled semiconductors are tested to ensure that the device meets performance specifications. Testing takes place on specialized equipment using software customized for each application. For memory semiconductors, this process also includes burn-in testing to screen out defective devices by applying very high temperatures and voltages.  |

*Outsourcing Trends in Semiconductor Manufacturing*

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.

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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.

### *Semiconductor Testing and Assembly Services Industry*

Growth in the semiconductor testing and assembly services industry is driven by increased outsourcing of the various stages of the semiconductor manufacturing process by IDMs and fabless semiconductor companies.

### *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 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

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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.

### **Overview of the Company**

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 TCP, COF and COG, technologies.

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 2007, 48.8% of our net revenue was derived from testing services for memory and mixed-signal semiconductors, 34.3% from assembly services for memory and mixed-signal semiconductors, and 16.9% from LCD and other flat-panel display driver semiconductor testing and assembly services.

### **Our Structure and History**

We are a holding company, incorporated in August 2000 under the Companies Act 1981 of Bermuda, as amended. We provide most of our services in Taiwan through our wholly-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. As of March 31, 2008, Siliconware Precision Industries Co. Ltd., or Siliconware Precision, owned approximately 14.5% of our common shares, and Mosel Vitelic Inc., or Mosel, indirectly owned approximately 13.4% of our common shares.

The following chart illustrates our corporate structure and our equity interest in each of our principal subsidiaries and affiliates as of March 31, 2008.<sup>(1)</sup>

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- (1) Under ROC Financial Accounting Standards and the regulations of the Taiwan Securities and Futures Bureau, we are required to consolidate the financial results of any subsidiaries in which we hold a controlling interest or voting interest in excess of 50%. In 2003, we consolidated the financial results of ChipMOS Taiwan, ChipMOS Japan, ChipMOS USA, ChipMOS TECHNOLOGIES (H.K.) Limited, or ChipMOS Hong Kong, Modern Mind and its wholly-owned subsidiary, ChipMOS Shanghai, and ThaiLin. From January 12 and 28, 2004 onwards, we also consolidated the financial results of Advanced Micro Chip Technology Co., Ltd. (which was liquidated in October 2004) and ChipMOS Logic (which was merged into ThaiLin in December 2005), respectively, and from April 1, 2004 onwards, we also consolidated the financial results of Chantek (which was merged into ChipMOS Taiwan in November 2005). Starting from April 30, 2004, our financial results also included the financial results of WWT, which was subsequently merged into ChipMOS Logic. Starting from November 1, 2004, our financial statements also included the results of First Semiconductor Technology, Inc. in which ChipMOS Taiwan acquired a 67.8% equity interest on November 1, 2004 and transferred back this interest to First Semiconductor Technology, Inc. on April 29, 2005.
- (2) As of March 31, 2008, 3,899,999 shares of ChipMOS Hong Kong were issued to us and one share was issued to Shih-Jye Cheng, our chairman and chief executive officer, representing 100% of the then issued share capital of ChipMOS Hong Kong. Shih-Jye Cheng holds the one share issued to him as trustee for and on behalf of our company.
- (3) On March 27, 2007, we completed a share purchase and subscription transaction with ChipMOS Taiwan and Siliconware Precision, under which we and ChipMOS Taiwan purchased all of Siliconware Precision's equity interest in ChipMOS Taiwan, and Siliconware Precision subscribed to 12,174,998 of our newly issued common shares through a private placement. Following such transaction, on September 14, 2007, we completed a share exchange transaction with ChipMOS Taiwan pursuant to which we exchanged one common share for every 8.4 ChipMOS Taiwan shares. Following the completion of the share exchange transaction, ChipMOS Taiwan became our wholly-owned subsidiary.
- (4) We control Modern Mind through our ownership of a convertible note issued by Modern Mind that may be converted into a controlling equity interest in Modern Mind. We do not currently own any equity interest in Modern Mind. ChipMOS Shanghai is a wholly-owned subsidiary of Modern Mind.

Below is a description of our principal consolidated subsidiaries:

**ChipMOS TECHNOLOGIES INC.** ChipMOS Taiwan was incorporated in Taiwan in July 1997 as a joint venture company of Mosel and Siliconware Precision and with the participation of other investors. Its operations consist of the testing and assembly of semiconductors as well as gold bumping and memory module manufacturing. We acquired our interest in ChipMOS Taiwan by issuing our common shares to ChipMOS Taiwan's shareholders in exchange for their 70.3% shareholding in ChipMOS Taiwan in January 2001. In October 2001, ChipMOS Taiwan issued 6,911,732 common shares as employee bonuses. In December 2002, we issued 531,175 common shares in exchange for 5,633,442 ChipMOS Taiwan common shares held by these employees.

On June 16, 2005, ChipMOS Taiwan and Chantek, a 68.0% subsidiary of ChipMOS Taiwan, agreed to merge in a stock-for-stock transaction. Under the merger agreement, as amended on September 2, 2005, shareholders of Chantek (other than ChipMOS Taiwan) were entitled to elect to receive cash or ChipMOS Taiwan shares in exchange for their Chantek shares at the ratio of 3.6 to 1. As a result, ChipMOS Taiwan paid NT\$81 million in cash and issued 6 million (which represented approximately 0.7% of ChipMOS Taiwan's outstanding shares immediately after the completion of the transaction) shares to Chantek shareholders pursuant to the merger agreement. The transaction closed on November 21, 2005.

On March 27, 2007, we completed a share purchase and subscription transaction with ChipMOS Taiwan and Siliconware Precision, under which we and ChipMOS Taiwan purchased all of Siliconware Precision's equity interest in ChipMOS Taiwan, and Siliconware Precision subscribed to 12,174,998 of our newly issued common shares through a private placement. As of March 31, 2007, we held 99.1% of the outstanding common shares of ChipMOS Taiwan.

On September 14, 2007, we completed a share exchange transaction with ChipMOS Taiwan pursuant to which we exchanged one common share for every 8.4 ChipMOS Taiwan shares. In connection with the share exchange transaction, ChipMOS Bermuda and ChipMOS Taiwan paid in the aggregate NT\$ 53 million (US\$ 2 million) in cash to purchase fractional shares and shares held by dissenting shareholders, and ChipMOS Bermuda issued 604,124 new common shares. Following the completion of the share exchange transaction, ChipMOS Taiwan became our wholly-owned subsidiary.

**ChipMOS TECHNOLOGIES (H.K.) Limited.** ChipMOS Hong Kong (formerly ChipMOS Far East Limited) was incorporated in Hong Kong in November 2002. It is engaged in semiconductor testing and assembly services and trading of spare parts and tools. Effective May 31, 2005, the name of ChipMOS Far East Limited was changed to ChipMOS TECHNOLOGIES (H.K.) Limited. As of March 31, 2008, we held 100% of the outstanding common shares of ChipMOS Hong Kong.



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**MODERN MIND TECHNOLOGY LIMITED and ChipMOS TECHNOLOGIES (Shanghai) LTD.** Modern Mind was incorporated in the British Virgin Islands in January 2002. Modern Mind conducts its operations through ChipMOS Shanghai, a wholly-owned subsidiary incorporated in Mainland China in June 2002. ChipMOS Shanghai is engaged in wafer testing and semiconductor assembly and testing. We acquired a 100% equity interest in Modern Mind on December 12, 2002, and then transferred it to Jesper Limited on December 31, 2002. In 2003, we acquired from Jesper Limited a convertible note in the amount of US\$37.5 million issued by Modern Mind that may be converted into a controlling equity interest in Modern Mind at a conversion rate of one ordinary share of Modern Mind for every US\$1.00 if the repayment is not made when due. In 2004, we restructured our control of ChipMOS Shanghai and our Mainland China operations. On July 29, 2004, we replaced the US\$37.5 million convertible note previously issued by Modern Mind in its entirety with a US\$62.8 million demand note issued by Modern Mind, with the difference representing a US\$25 million loan that we extended to Modern Mind from the net proceeds of our July 2004 offering of common shares. In addition, we extended a loan in the aggregate amount of US\$50 million to Modern Mind from the net proceeds of our November 2004 convertible debt offering in exchange for demand notes issued by Modern Mind in the same aggregate amount. As of March 31, 2008, the aggregate amount of total loans we extended to Modern Mind was US\$122.8 million. The demand notes are convertible at any time into common shares representing, immediately after the conversion, almost 100% of the then outstanding common shares of Modern Mind at a conversion rate of US\$1.00 for each common share of Modern Mind. Payment under the demand notes are fully and unconditionally guaranteed by Jesper Limited and secured by a pledge agreement in respect of the entire equity interest in Modern Mind and ChipMOS Shanghai. We have obtained from Jesper Limited an irrevocable option to acquire at any time the common shares of Modern Mind then owned by Jesper Limited.

In addition, on April 22, 2004, ChipMOS Hong Kong and ChipMOS Shanghai entered into an exclusive services agreement, pursuant to which ChipMOS Shanghai will provide its services exclusively to ChipMOS Hong Kong or customers designated by ChipMOS Hong Kong. Under the exclusive services agreement, ChipMOS Hong Kong will purchase and consign to ChipMOS Shanghai all of the equipment required to render those services. The exclusive services agreement has a term of ten years, which is automatically renewable for an additional ten-year period unless either party provides written notice of intention to terminate at least 30 days prior to the expiration of such ten-year term. In addition, ChipMOS Hong Kong may terminate the exclusive services agreement at any time by giving 30 days prior written notice.

For risks associated with our investment in Mainland China and these contractual arrangements, see Item 3. Key Information Risk Factors Risks Relating to Countries in Which We Conduct Operations. The investments in Mainland China by our controlled consolidated subsidiary, Modern Mind, through ChipMOS Shanghai, and the related contractual arrangements may result in Mosel or Siliconware Precision violating ROC laws governing investments in Mainland China by ROC companies or persons. Any sanctions on Mosel or Siliconware Precision as a result of any violation of ROC laws may cause Mosel or Siliconware Precision to decrease its ownership in us significantly or cause Mosel or Siliconware Precision to take other actions that may not be in the best interest of our other shareholders and Item 3. Key Information Risk Factors Risks Relating to Countries in Which We Conduct Operations. Our current ownership structure and contractual arrangements with Jesper Limited, Modern Mind and ChipMOS Shanghai may not be effective in providing operational control of our Mainland China operations.

**ThaiLin Semiconductor Corp.** ThaiLin was incorporated in Taiwan in May 1996, and is listed on the GreTai Securities Market in Taiwan. It is engaged in the provision of semiconductor testing services. ChipMOS Taiwan acquired a 41.8% interest in ThaiLin in December 2002. Under applicable accounting principles, ThaiLin was consolidated into our consolidated financial statements in 2003 because ChipMOS Taiwan was deemed to exert significant control over ThaiLin through common directors and management.

In August 2004, ThaiLin completed a NT\$1,000 million convertible bond offering, and ChipMOS Taiwan purchased bonds in an amount of NT\$100 million in that offering to maintain its percentage ownership in ThaiLin. ChipMOS Taiwan converted these convertible bonds in March 2005.

On August 15, 2005, ThaiLin entered into a merger agreement with ChipMOS Logic, whereby ChipMOS Logic agreed to be merged into ThaiLin, with ThaiLin as surviving entity. Under the merger agreement, shareholders of ChipMOS Logic received one common share of ThaiLin in exchange for 2.8 common shares of ChipMOS Logic. As a result, ThaiLin issued approximately



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43 million shares (which represented approximately 14.4% of ThaiLin's outstanding shares immediately after the completion of the transaction) to ChipMOS Logic shareholders. The transaction closed on December 1, 2005.

On March 4, 2008, ChipMOS Taiwan made a loan in an amount of NT\$145 million (US\$4 million) to Taiwan Kolin Co. Ltd., or Kolin, a major shareholder of ThaiLin. The loan is repayable within one year and bears interest at a rate of 4.69% per annum. The loan is secured by a pledge by Kolin of 11 million common shares of ThaiLin.

As of March 31, 2008, ChipMOS Taiwan held (excluding the ThaiLin common shares pledged to us in connection with the loan to Kolin) a 38.2% interest in ThaiLin. Mr. S.J. Cheng, our chairman and chief executive officer and the director and chairman of ChipMOS Taiwan, is also a director and the chairman of ThaiLin. In addition, four of the seven directors of ThaiLin are appointed by ChipMOS Taiwan.

**Advanced Micro Chip Technology Co., Ltd.** AMCT was incorporated in Taiwan in March 2000. It provided gold bumping services, which are used in connection with the assembly of LCD and other flat-panel display driver semiconductors. In February 2003, ChipMOS Taiwan acquired a 23.1% interest in AMCT and increased its ownership during 2003 to 30.8% as of December 31, 2003. ChipMOS Taiwan purchased additional interests in AMCT in January, February and March 2004. As a result, ChipMOS Taiwan held a 99.7% equity interest in AMCT as of April 30, 2004. ChipMOS Taiwan completed the integration of all of AMCT's business operations into ChipMOS Taiwan in April 2004 and completed the liquidation of AMCT in October 2004.

**CHANTEK ELECTRONIC CO., LTD.** Chantek was incorporated in Taiwan in May 1989 and was listed on the GreTai Securities Market in Taiwan until November 16, 2005. It provides semiconductor assembly services for low-density volatile and non-volatile memory semiconductors, consumer semiconductors and microcontroller semiconductors. ChipMOS Taiwan acquired its ownership interest in Chantek in September 2002.

PlusMOS was incorporated in Taiwan in March 2000 as a joint venture between ChipMOS Taiwan and Mosel for the manufacture, design and sale of DRAM modules. On April 1, 2004, PlusMOS was merged into Chantek in a stock-for-stock merger pursuant to which shareholders of PlusMOS received 1.1 common shares of Chantek in exchange for one common share of PlusMOS. The merger was approved by the shareholders of Chantek and PlusMOS in December 2003. Upon consummation of this merger, ChipMOS Taiwan directly held a 34.2% interest in Chantek, which is the surviving entity. As a result, ChipMOS Taiwan became the controlling shareholder of Chantek. Starting from April 1, 2004, we began consolidating Chantek into our consolidated financial results and increased our interest in Chantek to 68.0% on November 30, 2004.

On November 21, 2005, Chantek was merged into ChipMOS Taiwan, with ChipMOS Taiwan as the surviving entity. For additional information regarding the merger agreement, see [ChipMOS TECHNOLOGIES INC.](#) above.

**ChipMOS Logic TECHNOLOGIES INC.** ChipMOS Logic was incorporated in Taiwan in January 2004, with ChipMOS Taiwan holding a 62.5% interest and ThaiLin holding a 37.5% interest. ChipMOS Logic is engaged in logic testing services. On April 30, 2004, WWT, a Taiwan-based company engaged in logic testing services, merged into ChipMOS Logic, with ChipMOS Logic as the surviving entity, in a stock-for-stock merger pursuant to which shareholders of WWT received one common share of ChipMOS Logic in exchange for 10 common shares of WWT. Upon consummation of the merger between WWT and ChipMOS Logic, ChipMOS Taiwan and ThaiLin owned approximately 52.9% and 24.6%, respectively, of ChipMOS Logic, with the original management team of WWT, two original shareholders of WWT, including one creditor bank, and the management team of ChipMOS Logic owning the remaining interest.

On December 1, 2005, ChipMOS Logic was merged into ThaiLin, with ThaiLin as the surviving entity. For additional information regarding the merger agreement, see [ThaiLin Semiconductor Corp.](#) above.

**First Semiconductor Technology, Inc.** First Semiconductor Technology, Inc. was incorporated in the United States of America in June 1998 and engages in IC logic testing services. ChipMOS Taiwan acquired a 67.8% ownership interest in First Semiconductor

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Technology, Inc. on November 1, 2004 in connection with the purchase of certain assets and equipment from First International Computer Testing and Assembly, and transferred this interest to First Semiconductor Technology, Inc. on April 29, 2005 pursuant to a share repurchase agreement.

### **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 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 2007, our revenue from testing and assembly of semiconductors for these segments accounted for all 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 progressively provide 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 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

implementing of radio frequency identification (RFID) logistics management system for the wafer probing process.

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In 2007, we spent approximately 1.4% 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, 2008, our research and development team comprised 291 persons.

**Table of Contents*****Build on Our Strong Presence in Taiwan and Expand Our Operations Outside Taiwan.***

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. We intend to invest in and expand our operations in Mainland China, increasing our testing and assembly services for memory semiconductors.

Depending on customers demands, market conditions and other relevant considerations, we may from time to time look into other opportunities to expand our operations outside Taiwan.

***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 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 Key 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 focus on increasing sales to key customers through long-term capacity agreements, with less focus on our business with smaller customers or customers who do not place orders on a regular basis. The customers with which we currently have long-term agreements include ProMOS, Himax Technologies, Inc., or Himax, Novatek Microelectronics Corp., Ltd., or Novatek, a leading NOR flash maker in the U.S., and a leading PC peripheral chip provider in the U.S. See Customers below for a more detailed discussion of these long-term agreements. Under certain of those long-term agreements, we have agreed to reserve capacity for our customers and our customers have agreed to place orders in the amount of the reserved capacity (which is subject in certain cases to reduction by the customers). As of March 31, 2008, approximately 25.7% of our total capacity was reserved under this type of agreement. Under certain other long-term agreements, we have agreed to acquire equipment or reserve capacity for our customers and our customers have undertaken to compensate us to a certain extent if they fail to sufficiently utilize the acquired equipment or reserved capacity. As of March 31, 2008, approximately 18.5% of our total capacity was reserved under this type of agreement. 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.

***Principal Products and Services***

The following table presents, for the periods shown, revenue by service segment as a percentage of our net revenue.

|                              | Year ended December 31, |       |       |
|------------------------------|-------------------------|-------|-------|
|                              | 2005                    | 2006  | 2007  |
| Testing                      |                         |       |       |
| Memory testing revenue       | 39.4%                   | 43.0% | 46.1% |
| Mixed-signal testing revenue | 3.1                     | 2.9   | 2.7   |
| Total testing revenue        | 42.5                    | 45.9  | 48.8  |
| Assembly                     |                         |       |       |

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|  |        |        |        |
|--|--------|--------|--------|
| Memory assembly revenue  | 33.9   | 30.6   | 32.1   |
| Mixed-signal assembly revenue  | 3.2    | 1.7    | 2.2    |
| Total assembly revenue   | 37.1   | 32.3   | 34.3   |
| LCD and other flat-panel display driver semiconductor testing and assembly revenue | 20.4   | 21.8   | 16.9   |
| Total net revenue  | 100.0% | 100.0% | 100.0% |

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### **Memory and Mixed-Signal Semiconductors**

#### ***Testing***

We provide testing services for memory and mixed-signal semiconductors:

*Memory.* We provide testing services for a variety of memory semiconductors, such as SRAM, DRAM and flash memory. To speed up the time-consuming process of memory product testing, we provide multi-site testing, which can test up to 256 devices simultaneously. The memory semiconductors we test are used primarily in desktop computers, notebook computers and handheld consumer electronic devices and wireless communication devices.

*Mixed-Signal.* We conduct tests on a wide variety of mixed-signal semiconductors, with lead counts ranging from the single digits to over 1024 and operating frequencies of up to 600 MHz. The semiconductors we test include those used for networking and wireless communications, data communications, graphics and disk controllers for home entertainment and personal computer applications. We also test a variety of application specific integrated circuits, or ASICs, for applications such as cellular handsets, digital still cameras and personal digital assistants.

The following is a description of our pre-assembly testing services:

*Engineering Testing.* We provide engineering testing services, including software program development, electrical design validation, reliability and failure analyses.

*Software Program Development.* Design and test engineers develop a customized software program and related hardware to test semiconductors on advanced testing equipment. A customized software program is required to test the conformity of each particular semiconductor to its particular function and specification.

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

*Reliability Analysis.* Reliability analysis is designed to assess the long-term reliability of the semiconductor and its suitability of use for its intended applications. Reliability testing may include operating-life evaluation, during which the semiconductor is subjected to high temperature and voltage tests.

*Failure Analysis.* If the prototype semiconductor does not perform to specifications during either the electrical validation or reliability analysis process, failure analysis is performed to determine the reasons for the failure. As part of this analysis, the prototype semiconductor may be subjected to a variety of tests, including electron beam probing and electrical testing.

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*Wafer Probing.* Wafer probing is the step immediately before the assembly of semiconductors and involves visual inspection and electrical testing of the processed wafer for defects to ensure that it meets our customers' specifications. Wafer probing employs sophisticated design and manufacturing technologies to connect the terminals of each chip for testing. Defective chips are marked on the surface or memorized in an electronic file, known as a mapping file, to facilitate subsequent processing.

*Laser Repairing.* In laser repairing of memory products, specific poly or metal fuses are blown after wafer probing to enable a spare row or column of a memory cell to replace a defective memory cell.

After assembly, we perform the following testing services:

*Burn-In Testing.* This process screens out unreliable products using high temperature, high voltage and prolonged stress to ensure that finished products will survive a long period of end-user service. This process is used only for memory products.

*Top Marking.* By using either a laser marker or an ink marker, we mark products according to our customers' specifications, including the logo, product type, date code and lot number.

*Final Testing.* Assembled semiconductors are tested to ensure that the devices meet performance specifications. Tests are conducted using specialized equipment with software customized for each application in different temperature conditions ranging from minus 45 degrees celsius to 85 degrees celsius. One of the tests includes speed testing to classify the parts into different speed grades.

*Final Inspection and Packing.* Final inspection involves visual or auto-inspection of the devices to check for any bent leads, inaccurate markings or other construction defects. Packing involves dry packing, packing-in-tube and tape and reel. Dry pack involves heating semiconductors in a tray at 125 to 150 degrees celsius for about two hours to remove the moisture before the semiconductors are vacuum-sealed in an aluminum bag. Packing-in-tube involves packing the semiconductors in anti-static tubes for shipment. Tape and reel pack involves transferring semiconductors from a tray or tube onto an anti-static embossed tape and rolling the tape onto a reel for shipment to customers.

***Assembly***

Our assembly services generally involve the following steps:

|                               |   |
|-------------------------------|---|
| <i>Wafer Lapping</i>          | The wafers are ground to their required thickness.  |
| <i>Die Saw</i>                | Wafers are cut into individual dies, or chips, in preparation for the die-attach process.                                   |
| <i>Die Attach</i>             | Each individual die is attached to the leadframe or substrate.  |
| <i>Wire Bonding</i>           | Using gold wires, the I/O pads on the die are connected to the package inner leads.   |
| <i>Molding</i>                | The die and wires are encapsulated to provide physical support and protection.  |
| <i>Marking</i>                | Each individual package is marked to provide product identification.  |
| <i>Dejunking and Trimming</i> | Mold flash is removed from between the lead shoulders through dejunking, and the dambar is cut during the trimming process. |

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|                              |  |
|------------------------------|--|
| <i>Electrical Plating</i>    | A solderable coating is added to the package leads to prevent oxidization and to keep solder wettability of the package leads.   |
| <i>Ball Mount and Reflow</i> | Each electrode pad of the substrate is first printed with flux, after which solder balls are mounted, heated and attached to the electrode pad of the substrate through a reflow oven. |
| <i>Forming/Singulation</i>   | Forming involves the proper configuration of the device packages leads, and singulation separates the packages from each other.  |

We offer a broad range of package formats designed to provide our customers with a broad array of assembly services. The assembly services we offer customers are leadframe-based packages, which include thin small outline packages, and organic substrate-based packages, including fine-pitch BGA.

The differentiating characteristics of these packages include:

the size of the package;

the number of electrical connections which the package can support;

the electrical performance and requirements of the package; and

the heat dissipation requirements of the package.

As new applications for semiconductor devices require smaller components, the size of packages has also decreased. In leading-edge packages, the size of the package is reduced to just slightly larger than the size of the individual chip itself in a process known as chip scale packaging.

As semiconductor devices increase in complexity, the number of electrical connections required also increases. Leadframe-based products have electrical connections from the semiconductor device to the electronic product through leads on the perimeter of the package. Organic substrate-based products have solder balls on the bottom of the package, which create the electrical connections with the product and can support large numbers of electrical connections.

*Leadframe-Based Packages.* These are generally considered the most widely used package category. Each package consists of a semiconductor chip encapsulated in a plastic molding compound with metal leads on the perimeter. This design has evolved from a design plugging the leads into holes on the circuit board to a design soldering the leads to the surface of the circuit board.

The following diagram presents the basic components of a standard leadframe-based package for memory semiconductors:



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To satisfy the demand for miniaturization of portable electronic products, we are currently developing and will continue to develop increasingly smaller versions of leadframe-based packages to keep pace with continually shrinking semiconductor device sizes. Our advanced leadframe-based packages generally are thinner and smaller, have more leads and have advanced thermal and electrical characteristics when compared to traditional packages. As a result of our continual product development, we offer leadframe-based packages with a wide range of lead counts and sizes to satisfy our customers' requirements.

The following table presents our principal leadframe-based packages, including the number of leads in each package, commonly known as lead-count, a description of each package and the end-user applications of each package.

| <b>Package</b>                                   | <b>Lead-count</b> | <b>Description</b>   | <b>End-User Applications</b>  |
|--|-------------------|--|---|
| Plastic Leaded Chip Carrier (PLCC)               | 32-44             | Package with leads on four sides used in consumer electronics products in which the size of the package is not vital   | Copiers, printers, scanners, personal computers, electronic games, monitors   |
| Plastic Dual-in-line Package (PDIP)              | 16-56             | Package with insertion leads on longer sides used in consumer electronics products   | Electronic games, monitors, copiers, printers, audio and video products, personal computers   |
| Thin Small Outline Package I (TSOP I)            | 28-56             | Designed for high volume production of low lead-count memory devices, including flash memory, SRAM and MROM  | Notebook computers, personal computers, still and video cameras and standard connections for peripherals for computers              |
| Thin Small Outline Package II (TSOP II)          | 24-86             | Designed for memory devices, including flash memory, SRAM, SDRAM and DDR DRAM  | Disk drives, recordable optical disk drives, audio and video products, consumer electronics, communication products                 |
| Quad Flat Package (QFP)                          | 44-208            | Flat structure with 4-sided peripheral leads designed for SRAM, graphic processors, personal computer chipsets and mixed-signal devices  | Wireless communication products, notebook computers, personal computers, consumer electronics                                       |
| Quad Flat No Lead (QFN)                          | 8-68              | Thermal enhanced quad flat no lead package providing small footprint (chip scale), light weight with good thermal and electrical performance   | Wireless communication products, notebook computers, PDAs, consumer electronics   |
| Low-Profile Quad Flat Package (LQFP)             | 80-128            | Low-profile and light weight package designed for ASICs, digital signal processors, microprocessors/controllers, graphics processors, gate arrays, SSRAM, SDRAM, personal computer chipsets and mixed-signal devices | Wireless communication products, notebook computers, digital cameras, cordless/radio frequency devices                              |
| Thin Quad Flat Package (TQFP)                    | 64-128            | Designed for lightweight portable electronics requiring broad performance characteristics and mixed-signal devices   | Notebook computers, personal computers, disk drives, office equipment, audio and video products and wireless communication products |
| Small Outline Package (SOP)                      | 8-44              | Designed for low lead-count memory and logic semiconductors, including SRAM and micro-controller units   | Personal computers, consumer electronics, audio and video products, communication products  |
| Multi-Chip Package (TSOP with organic substrate) | 24-86             | Our patented design for memory devices, including SRAM, DRAM and SDRAM   | Notebook computers, personal computers, disk drives, audio and video products, consumer products, communication products            |



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*Organic Substrate-based Packages.* As the number of leads surrounding a traditional leadframe-based package increases, the leads must be placed closer together to reduce the size of the package. The close proximity of one lead to another can create electrical shorting problems and requires the development of increasingly sophisticated and expensive techniques to accommodate the high number of leads on the circuit boards.

The BGA format solves this problem by effectively creating external terminals on the bottom of the package in the form of small bumps or balls. These balls are evenly distributed across the entire bottom surface of the package, allowing greater pitch between the individual terminals. The ball grid array configuration enables high-pin count devices to be manufactured less expensively with less delicate handling at installation.

Our organic substrate-based packages employ a fine-pitch BGA design, which uses a plastic or tape laminate rather than a leadframe and places the electrical connections, or leads, on the bottom of the package rather than around the perimeter. The fine-pitch BGA format was developed to address the need for the smaller footprints required by advanced memory devices. Benefits of ball grid array assembly over leadframe-based assembly include:

smaller size;

smaller footprint on a printed circuit board;

better electrical signal integrity; and

easier attachment to a printed circuit board.

The following diagram presents the basic component parts of a fine-pitch BGA package:

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The following table presents the ball-count, description and end-user applications of organic substrate-based packages we currently assemble:

| <b>Package</b>           | <b>Connections</b> | <b>Description</b>  | <b>End-User Applications</b>   |
|--------------------------|--------------------|---|--|
| Mini BGA                 | 36-208             | Low-cost and space-saving assembly designed for low input/output count, suitable for semiconductors that require a smaller package size than standard BGA                                   | Memory, analog, flash memory, ASICs, radio frequency devices, personal digital assistants, cellular handsets, communication products, notebook computers, wireless systems |
| Fine-Pitch BGA           | 54-119             | Our patented design for DRAM products that require high performance and chip scale package (CSP)  | Notebook computers, cellular handsets, global positioning systems, personal digital assistants, wireless systems   |
| Very Thin Fine-Pitch BGA | 48-176             | Similar structure of Mini BGA package with thinner and finer ball pitch that is designed for use in a wide variety of applications requiring small size, high reliability and low unit cost | Handheld devices, notebook computers, disk drives, wireless and mobile communication products  |
| Land Grid Array (LGA)    | 44-53              | Thinner and lighter assembly designed essential to standard BGA without solder balls, suitable for applications that require high electrical performance                                    | Disk drives, memory controllers, wireless, mobile communication products   |
| Multi-Chip BGA           | 36-208             | Designed for assembly of two or more memory chips (to increase memory density) or combinations of memory and logic chips in one BGA package   | Notebook computers, digital cameras, personal digital assistants, global positioning systems, sub-notebooks, board processors, wireless systems                            |
| Stacked-Chip BGA         | 66-208             | Designed for assembly of two or more memory chips or logic and memory chips in one CSP, reducing the space required for memory chips  | Cellular handsets, digital cameras, personal digital assistants, wireless systems, notebook computers, global positioning systems  |

***LCD and Other Flat-Panel Display Driver Semiconductors***

We also offer testing and assembly services for LCD and other flat-panel display driver semiconductors. We employ TCP, COF and COG technologies for testing and assembling LCD and other flat-panel display driver semiconductors. In addition, we offer gold bumping services to our customers.

Gold bumping technology, which can be used in TCP, COF and COG technologies, is a necessary interconnection technology for LCD and other flat-panel display driver semiconductors. Most gold bumping services are performed on six- or eight-inch wafers. Gold bumping technology provides the best solution for fine-pitch chips and is able to meet the high production requirement for LCD and other flat-panel display driver semiconductors or other chips that require thin packaging profiles.

The gold bumping fabrication process uses thin film metal deposition, photolithography and electrical plating technologies. A series of barrier and seed metal layers are deposited over the surface of the wafer. A layer of thick photoresist material is spin-coated over these barrier and seed layers. A photomask is used to pattern the locations over each of the bond pads that will be bumped. UV exposure and developing processes open the photoresist material, which defines the bump shape. The gold bump is then electroplated over the pad and the deposited barrier metal layers. Once the plating is complete, a series of etching steps are used to remove the photoresist material and the metal layers that are covering the rest of the wafer. The gold bump protects the underlying materials from being etched. The gold bumped wafers will go through an annealing furnace to soften the gold bumps to fit the hardness requirement of TCP, COF and COG assembly processes.

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### ***Tape Carrier Package Technology***

TCPs offer a high number of inputs and outputs, a thin package profile and a smaller footprint on the circuit board, without compromising performance. Key package features include surface mount technology design, fine-pitch tape format and slide carrier handling. Because of their flexibility and high number of inputs and outputs, TCPs are primarily employed either for STN-LCD or TFT-LCD driver semiconductors.

*Testing of TCPs.* We conduct full function testing of LCD and other flat-panel display driver semiconductors with a specially designed probe handler to ensure reliable contact to the test pads on the TCP tape. We can test STN-LCD or TFT-LCD driver semiconductors with frequencies of up to 750 MHz and at voltages up to 40V. The test is performed in a temperature-controlled environment with the device in tape form. The assembled and tested LCD and other flat-panel display driver semiconductors in tape form are packed between spacer tapes together with a desiccant in an aluminum bag to avoid contact during shipment.

*Assembly of TCPs.* TCPs use a tape-automated bonding process to connect die and tape. The printed circuit tape is shipped with a reel. The reel is then placed onto an inner lead bonder, where the LCD or other flat-panel display driver semiconductor is configured onto the printed circuit tape. The resulting TCP component consists of the device interconnected to a three-layer tape, which includes a polyamide-down carrier film, an epoxy-based adhesive layer and a metal layer. The tape metallization area of the interconnections is tin plated over a metal layer. The silicon chip and inner lead area is encapsulated with a high temperature thermoset polymer after inner lead bonding. The back face of the chip is left un-sealed for thermal connection to the printed circuit board.

The following diagram presents the basic components of a TCP:

### ***Chip-on-Film Technology***

In 2001, we commenced testing and assembly services using COF technology. We have developed this proprietary technology from our existing TCP technology, and it has been widely accepted by our customers. The primary use of the COF module is to replace the liquid crystal module, or LCM, in certain applications. LCM is mainly employed in handheld electronics, such as PDAs and cellular handsets.

COF technology provides several additional advantages. For example, COF is able to meet the size, weight and higher resolution requirements in electronic products, such as flat-panel displays. This is because of its structural design, including an adhesive-free two-layer tape that is highly flexible, bending strength and its capacity to receive finer patterning pitch.

The TCP and COF assembly process involves the following steps:

|                      |   |
|----------------------|---|
| <i>Wafer Lapping</i> | Wafers are ground to their required thickness.  |
| <i>Die Saw</i>       | Wafers are cut into individual dies, or chips, in preparation for inner lead bonding. |

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|  |  |
|--|--|
| <i>Inner Lead Bonding</i>              | An inner lead bonder machine connects the chip to the printed circuit tape.                            |
| <i>Potting</i>                         | The package is sealed with an epoxy.   |
| <i>Potting Cure</i>                    | The potting cure process matures the epoxy used during the potting stage with high temperatures.       |
| <i>Marking</i>                         | A laser marker is used to provide product identification.  |
| <i>Marking Cure</i>                    | The marking cure process matures the marking ink by subjecting the semiconductor to high temperatures. |
| <b><i>Chip-on-Glass Technology</i></b> |  |

COG technology is an electronic assembly technology that is used increasingly in assembling LCD and other flat-panel display driver semiconductors for communications equipment. Compared to the traditional bonding process for TCP or COF, the new COG technology requires lower bonding temperature. In addition, the COG technology reduces assembly cost as it does not use tapes for interconnection between the LCD panel and the printed circuit board.

The COG assembly technology involves the following steps:

|                               |   |
|-------------------------------|---|
| <i>Wafer Lapping</i>          | Wafers are ground to their required thickness.  |
| <i>Die Saw</i>                | Wafers are cut into individual dies, or chips, in preparation for the pick and place process.   |
| <i>Pick and Place</i>         | Each individual die is picked and placed into a chip tray.  |
| <i>Inspection and Packing</i> | Each individual die in a tray is visually or auto-inspected for defects. The dies are packed within a tray in an aluminum bag after completion of the inspection process. |

***Other Services***

***Drop Shipment***

We offer drop shipment of semiconductors directly to end-users designated by our customers. We provide drop shipment services, including assembly in customer-approved and branded boxes, to a majority of our testing and assembly customers. Since drop shipment eliminates the additional step of inspection by the customer prior to shipment to end-users, quality of service is a key to successful drop shipment service. We believe that our ability to successfully execute our full range of services, including drop shipment services, is an important factor in maintaining existing customers as well as attracting new customers.

***Software Development, Conversion and Optimization Program***

We work closely with our customers to provide sophisticated software engineering services, including test program development, conversion and optimization, and related hardware design. Generally, testing requires customized testing software and related hardware to be developed for each particular product. Software is often initially provided by the customer and then converted by us at our facilities for use on one or more of our testing machines and contains varying functionality depending on the specified testing procedures. Once a conversion test program has been developed, we perform correlation and trial tests on the semiconductors.

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Customer feedback on the test results enables us to adjust the conversion test programs prior to actual testing. We also typically assist our customers in collecting and analyzing the test results and recommend engineering solutions to improve their design and production process.

### ***Customers***

We believe that the following factors have been, and will continue to be, important factors in attracting and retaining customers:

our advanced testing and assembly technologies;

our strong capabilities in testing and assembling LCD and other flat-panel display driver semiconductors;

our focus on high-density memory products and mixed-signal communications products; and

our reputation for high quality and reliable customer-focused services.

As part of our strategy, we have been focusing on increasing sales to key customers through long-term agreements, with less focus on our business with smaller customers and customers who do not place orders on a regular basis. The number of our customers as of March 31, 2006, 2007 and 2008 were 110, 130 and 90, respectively. Our top 15 customers in terms of revenue in 2007 included (in alphabetical order):

Cypress Semiconductor Corp.

Elite Semiconductor Memory Technology Inc.

Etron Technology, Inc.

FIDELIX CO., LTD.

Hynix Semiconductor Inc.

Himax Technologies, Inc.

Integrated Circuit Solution Inc.

Macronix International Co., Ltd.

Micron Semiconductor Asia Pte. Ltd.

Novatek Microelectronics Corp., Ltd.

Powerchip Semiconductor Corp.

ProMOS Technologies Inc.

Sandisk Global Ltd.

Standard Microsystems Corp.

Spansion LLC





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In 2005, our largest customer was ProMOS, our second-largest customer was Powerchip Semiconductor Corp., or Powerchip, and our third-largest customer was Himax, accounting for 28%, 15% and 9% of our net revenue, respectively. In 2006, our largest customer was ProMOS, our second-largest customer was Powerchip and our third-largest customer was Himax, accounting for approximately 27%, 14% and 11% of our net revenue, respectively. In 2007, our largest customer was ProMOS, our second-largest customer was Spansion, and our third-largest customer was Powerchip, accounting for approximately 29%, 16% and 10% of our net revenue, respectively. As of March 31, 2008, ProMOS owned approximately 4.8% of our common shares.

The majority of our customers does not enter into long-term contracts with us, and instead purchase our services through purchase orders and provide us every month with three-month non-binding rolling forecasts. The price for our services is typically agreed upon at the time when a purchase order is placed.

As part of our strategy, we have been focusing on increasing sales to key customers through long-term agreements, with less focus on our business with smaller customers and customers who do not place orders on a regular basis. In 2005, 2006 and 2007, we strategically entered into or extended several long-term agreements with some of our key customers, including ProMOS, Himax, Novatek, a leading NOR flash maker in the U.S., and a leading PC peripheral chip provider in the U.S., under which we reserved capacity for the customers primarily through 2006 to 2012 and the customers committed to place orders in the amount of the reserved capacity (which is subject in certain cases to reduction by the customers). These agreements generally provide that the price of our services will be agreed upon at the time our customers place the orders under the agreement. If we are unable to test and assemble the agreed number of semiconductors in any given month, such customers may generally use a third party to cover the shortfall. However, under these agreements, we are generally entitled to cure any shortfall in the following month. If we fail to do so, we may generally be liable for damages up to the amount equal to the number of shortfall units in the given month multiplied by the average selling price per unit in that month. If a customer fails to place orders according to the reserved capacity, we are generally entitled to damages based on our costs for the equipment, tooling costs, costs for personnel dedicated to the provisions of capacity to such customer, and the costs for raw materials. As of March 31, 2008, 25.7% of our total capacity was reserved pursuant to this type of agreement. Pursuant to the long-term agreement we have entered into with ProMOS in July 2007, ProMOS agreed to provide ChipMOS with six month rolling forecast on testing and assembly service orders to be placed to us, and ProMOS guarantees that such orders will represent no less than certain percentage of ProMOS total production volume of these products (excluding OEM products). In March 2008, ProMOS failed to place orders in the amount of the reserved capacity. We are currently evaluating whether or not to seek compensation from ProMOS.

Under certain other long-term agreements, including our agreement with a leading NOR flash maker in the U.S., we have agreed to acquire equipment or reserve capacity for our customers and our customers have agreed to compensate us to a certain extent if they fail to sufficiently utilize the installed equipment or reserved capacity. As of March 31, 2008, approximately 18.5% of our total capacity was reserved under this type of agreement.

The following table sets forth, for the periods indicated, the percentage breakdown of our net revenue, categorized by geographic region based on the jurisdiction in which each customer is headquartered.

|               | Year ended December 31, |      |      |
|---------------|-------------------------|------|------|
|               | 2005                    | 2006 | 2007 |
| Taiwan        | 79%                     | 78%  | 72%  |
| United States | 11                      | 15   | 21   |
| Korea         | 4                       | 3    | 3    |
| Japan         | 3                       | 3    | 1    |
| Hong Kong SAR | 1                       | 1    | 1    |
| Others        | 2                       | (1)  | 2    |
| Total         | 100%                    | 100% | 100% |

(1) Less than 1%.

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### *Qualification and Correlation by Customers*

Our customers generally require that our facilities undergo a stringent qualification process during which the customer evaluates our operations, production processes and product reliability, including engineering, delivery control and testing capabilities. The qualification process typically takes up to eight weeks, or longer, depending on the requirements of the customer. For test qualification, after we have been qualified by a customer and before the customer delivers semiconductors to us for testing in volume, a process known as correlation is undertaken. During the correlation process, the customer provides us with test criteria, information regarding process flow and sample semiconductors to be tested and either provides us with the test program or requests that we develop a new or conversion program. In some cases, the customer also provides us with a data log of results of any testing of the semiconductor that the customer may have conducted previously. The correlation process typically takes up to two weeks, but can take longer depending on the requirements of the customer.

### **Sales and Marketing**

We maintain sales and marketing offices in Taiwan, Hong Kong, Japan, Mainland China and the United States. Our sales and marketing strategy is to focus on memory semiconductors in Taiwan, Japan, Korea and the United States, mixed-signal semiconductors in Taiwan, Japan and the United States, LCD and other flat-panel display driver semiconductors in Japan, Taiwan, Hong Kong and Mainland China, and module manufacturing in Taiwan and Mainland China. As of March 31, 2008, our sales and marketing efforts were primarily carried out by teams of sales professionals, application engineers and technicians, totaling 42 staff members. Each of these teams focuses on specific customers and/or geographic regions. As part of our emphasis on customer service, these teams:

actively participate in the design process at the customers' facilities;

resolve customer testing and assembly issues; and

promote timely and individualized resolutions to customers' issues.

We conduct marketing research through our in-house customer service personnel and through our relationships with our customers and suppliers to keep abreast of market trends and developments. Furthermore, we do product and system benchmarking analyses to understand the application and assembly technology evolution, such as analysis on mobile handsets and CD-/DVD-ROM players. In addition, we regularly collect data from different segments of the semiconductor industry and, when possible, we work closely with our customers to design and develop testing and assembly services for their new products. These co-development or sponsorship projects can be critical when customers seek large-scale, early market entry with a significant new product.

We have appointed a non-exclusive sales agent for promoting our services for memory semiconductors in the United States, Japan and Korea. Our sales agent helps us promote and market our services, maintain relations with our existing and potential customers and communicate with our customers on quality, specific requirements and delivery issues. We generally pay our sales agent a commission of 2.5% to 3% of our revenue from services for memory semiconductors in the United States, Japan and Korea. In 2005, 2006 and 2007, we paid approximately NT\$42 million, NT\$36 million and NT\$25 million (US\$1 million), respectively, in commissions to our sales agent.

### **Research and Development**

We believe that research and development is critical to our future success. In 2005, 2006 and 2007, we spent approximately NT\$274 million, or 2%, NT\$275 million, or 1%, NT\$322 million (US\$10 million), or 1%, respectively, of our net revenue on research and development. We intend to sustain these efforts.

Our research and development efforts have focused primarily on improving the efficiency, production yields and technologies of our testing and assembly services. From time to time, we jointly develop new technologies with universities and research institutions. For testing, our research and development efforts focus particularly on complex, high-speed, high-parallel, high-pin count, high-density, and fine-pitch semiconductor wafers and packages. Our projects include:

development of testing environments for simultaneous wafer probing and package testing;

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development/conversion of test programs;

development of wafer-level burn-in;

development of wafer-level testing;

development of multi-chip testing;

implementation of a radio frequency identification (RFID) logistics management system to monitor the wafer probing process;

testing new products using existing machines; and

providing customers remote access to monitor test results.

We are also continuing development of interface designed to provide for high frequency testing by minimizing electrical noise.

For assembly, our research and development efforts focus on:

high performance;

fine pitch;

miniaturization;

multi-chip assembly;

multi-chip modules;

stacked-dice chip scale package;

thinner and more flexible assembly such as COF packages;

three-dimensional assembly; and

developing environmentally friendly assembly services.

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Our projects include developing multi-chip package, flip-chip technologies, environmentally friendly products, 12-inch wafer technologies, fine-pitch wire bonding technologies, 50-micron wafer thinning technology, advanced packages for DDR III, COF modules, fine-pitch LCD driver bumping, testing and assembly technologies, and advanced probe card technologies. We work closely with our customers to design and modify testing software and with equipment vendors to increase the efficiency and reliability of testing and assembly equipment. Our research and development operations also include a mechanical engineering group, which currently designs handler kits for semiconductor testing and wafer probing, as well as software to optimize capacity utilization.

As of March 31, 2008, we employed 291 employees in our research and development activities. In addition, other management and operational personnel are also involved in research and development activities but are not separately identified as research and development professionals.

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We maintain laboratory facilities to analyze the characteristics of semiconductor packages by computer simulation, and verify their performance by measurement tools. The implementation of computer simulation substantially reduces the time required to validate the feasibility of a package design for a given application, as compared with physical testing methods.

### **Quality Control**

We believe that our reputation for high quality and reliable services has been an important factor in attracting and retaining leading international semiconductor companies as customers for our testing and assembly services. We are committed to delivering semiconductors that meet or exceed our customers' specifications on time and at a competitive cost. We maintain quality control staff at each of our facilities.

As of March 31, 2008, we employed 443 personnel for our quality control activities. Our quality control staff typically includes engineers, technicians and other employees who monitor testing and assembly processes in order to ensure high quality. We employ quality control procedures in the following critical areas:

sales quality assurance: following market trends to anticipate customers' future needs;

design quality assurance: when developing new testing and assembly processes;

supplier quality assurance: consulting with our long-term suppliers;

manufacturing quality assurance: through a comprehensive monitoring program during mass production; and

service quality assurance: quickly and effectively responding to customers' claims after completion of sale.

All of our facilities have been QS 9000 certified by the International Automotive Sector Group. In addition, our facilities in Hsinchu and Tainan have been ISO 9002 certified. With respect to our quality management system, on November 26, 2003, ChipMOS Taiwan obtained ISO/TS 16949:2002 quality system certification. ThaiLin and ChipMOS Shanghai also obtained ISO/TS 16949:2002 quality system certification on September 6, 2005 and January 28, 2006, respectively.

QS 9000 quality standards provide for continual improvement with an emphasis on the prevention of defects and reduction of variation and waste in the supply chain, and a QS 9000 certification is required by certain semiconductor manufacturers as a threshold indicator of a company's quality control standards. An ISO 9002 certification is required by many countries for sales of industrial products. ISO/TS 16949:2002 certification system seeks to integrate quality management standards into the operation of a company, and emphasizes the supervision and measurement of process and performance.

In addition to the quality management system, we also earned the 1998 QC Group Award from The Chinese Society of Quality, which is equivalent to the similar award from the American Society of Quality. Our laboratories have also been awarded Chinese National Laboratory accreditation under the categories of reliability test, electricity and temperature calibration.

Our testing and assembly operations are carried out in clean rooms where air purity, temperature and humidity are controlled. To ensure the stability and integrity of our operations, we maintain clean rooms at our facilities that meet U.S. federal 209E class 100, 1,000, 10,000 and 100,000 standards. A class 1,000 clean room means a room containing less than 1,000 particles of contaminants per cubic foot.

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We have established manufacturing quality control systems that are designed to ensure high-quality services to our customers and maintain reliability and high production yields at our facilities. We employ specialized equipment for manufacturing quality and reliability control, including:

Joint Electron Device Engineering Council (JEDEC) standardized temperature cycling, thermal shock and pressure cook reliability tests;

high and low temperature storage life tests, temperature and humidity bias and highly accelerated temperature/humidity stress test (HAST); and

high resolution scanning acoustic tomography, scanning electronic microscope and X-Ray microscopy for physical failure analysis, curve tracer and semi-probe station for electrical failure analysis.

In addition, to enhance our performance and our research and development capabilities, we also installed a series of high-cost equipment, such as temperature humidity bias testers, low temperature storage-life testers and highly accelerated stress testers. We believe that many of our competitors do not own this equipment.

As a result of our ongoing focus on quality, we achieved monthly assembly yields of an average of 99.96% for our memory and mixed-signal assembly packages, 99.86% for our COF packages and 99.74% for our COG packages in 2007. The assembly yield, which is the industry standard for measuring production yield, is equal to the number of integrated circuit packages that are shipped back to customers divided by the number of individual integrated circuits that are attached to leadframes or organic substrate.

## **Facilities**

We provide testing services through our four facilities in Taiwan and one facility in Shanghai, with one facility at each of the following locations: Chupei, the Hsinchu Industrial Park, the Hsinchu Science Park, the Southern Taiwan Science Park and the Shanghai Qingpu Industrial Zone. We provide assembly services through our facility at the Southern Taiwan Science Park and our facility at the Shanghai Qingpu Industrial Zone. We own the land for our Hsinchu Industrial Park testing facility and Chupei facility and possess the land use right to the land on which our Shanghai Qingpu Industrial Zone facility is located until 2052, and we lease the land for our Hsinchu Science Park testing facility and Southern Taiwan Science Park facility from the Science Park Administration under three 20-year leases. Three leases for our Hsinchu Science Park facility will expire in 2008, 2017 and 2026, respectively, and the lease for our Southern Taiwan Science Park facility will expire in 2017.

In March 2002, Modern Mind entered into a cooperation agreement with the Shanghai Qingpu Industrial Zone Development Group Company under which Modern Mind has agreed to construct a permanent wholly-owned facility in the Shanghai Qingpu Industrial Zone to provide testing and assembly services. Modern Mind commenced construction of the facility in Shanghai in June 2002 and moved into the new facility in August 2005, with the grand opening of the new facility in November 2005. Modern Mind currently offers testing and assembly services of memory semiconductors. In connection with the Shanghai operations, Modern Mind has invested US\$122.5 million in ChipMOS Shanghai for the new facility and related equipment and Modern Mind has committed to invest an additional US\$127.5 million by December 7, 2008 in the facility and related equipment. In May 2008, ChipMOS Shanghai received a written consent-in-principle from the relevant PRC regulatory authority to decrease the registered capital of ChipMOS Shanghai from US\$250 million to US\$130 million in response to an application by us in March 2008. If we obtain the final approval for the decrease in the registered capital of ChipMOS Shanghai, Modern Mind's obligation for contribution of the unpaid registered capital of ChipMOS Shanghai would be reduced from US\$127.5 million to US\$7.5 million. There is no assurance, however, that we will obtain such final approval.

On August 24, 2004, we, through ThaiLin and ChipMOS Taiwan, entered into an agreement for the acquisition of certain testing and assembly assets of FICTA, including 52 testers, 133 wire bonders, machinery, equipment, raw materials, spare parts and related patents.

In December 2004, we sold our Kaohsiung testing facility to Radiant Opto-Electronics Corporation.

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The following table shows the location, primary use and size of each of our facilities, and the principal equipment installed at each facility, as of March 31, 2008.

| <b>Location of Facility</b>                        | <b>Primary Use</b>   | <b>Floor Area</b>     | <b>Principal Equipment</b>                             |
|--|--|-----------------------|--|
| Chupei, Hsinchu                                    | Wafer Testing/Gold Bumping                                 | 25,954 square meters  | 3 steppers<br>9 sputters<br>257 testers                |
| Hsinchu Industrial Park, Taiwan<br>ThaiLin         | Testing  | 27,124 square meters  | 140 testers<br>32 burn-in ovens                        |
| Hsinchu Science Park, Taiwan                       | Testing/Module   | 40,294 square meters  | 129 testers<br>92 burn-in ovens                        |
| Southern Taiwan Science Park,<br>Taiwan            | Assembly/Testing   | 109,676 square meters | 424 wire bonders<br>140 inner-lead bonders 195 testers |
| Shanghai Qingpu Industrial Zone,<br>Mainland China | Assembly/Testing/Modules<br>and Subsystem<br>Manufacturing | 66,817 square meters  | 15 testers<br>148 wire bonders<br>19 burn-in ovens     |

**Raw Materials**

Semiconductor testing requires minimal raw materials. Substantially all of the raw materials used in our memory and mixed-signal semiconductor assembly processes are interconnect materials such as leadframes, organic substrates, gold wire and molding compound. Raw materials used in the LCD and other flat-panel display driver semiconductor testing and assembly process include carrier tape, resin, spacer tape, plastic reel, aluminum bags, and inner and outer boxes. Cost of raw materials represented 15%, 13% and 15% of our net revenue in 2005, 2006 and 2007, respectively.

We do not maintain large inventories of leadframes, organic substrates, gold wire or molding compound, but generally maintain sufficient stock of each principal raw material for approximately one to two months' production based on blanket orders and rolling forecasts of near-term requirements received from customers. In addition, several of our principal suppliers dedicate portions of their inventories, typically in amounts equal to the average monthly amounts supplied to us, as reserves to meet our production requirements. However, shortages in the supply of materials experienced by the semiconductor industry have in the past resulted in occasional price adjustments and delivery delays. See Item 3. Key Information Risk Factors Risks Relating to Our Business. 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 for a discussion of the risks associated with our raw materials purchasing methods. For example, with the exception of aluminum bags and inner and outer boxes, which we acquire from local sources, the raw materials used in our TCP/COF process and for modules are obtained from a limited number of Japanese suppliers.

**Equipment****Testing of Memory and Mixed-Signal Semiconductors**

Testing equipment is the most capital-intensive component of the memory and mixed-signal semiconductors testing business. Upon the acquisition of new testing equipment, we install, configure, calibrate and perform burn-in diagnostic tests on the equipment. We also establish parameters for the testing equipment based on anticipated requirements of existing and potential customers and considerations relating to market trends. As of March 31, 2008, we operated 541 testers for testing memory and mixed-signal semiconductors. We generally seek to purchase



testers with similar functionality that are able to test a variety of different semiconductors. We purchase testers from major international manufacturers, including Advantest Corporation, Verigy Ltd. and Credence Systems Corporation.

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In general, particular semiconductors can be tested using a limited number of specially designed testers. As part of the qualification process, customers will specify the machines on which their semiconductors may be tested. We often develop test program conversion tools that enable us to test semiconductors on multiple equipment platforms. This portability among testers enables us to allocate semiconductor testing across our available testing capacity and thereby improve capacity utilization rates. If a customer requires the testing of a semiconductor that is not yet fully developed, the customer consigns its testing software programs to us to test specific functions. If a customer specifies testing equipment that is not widely applicable to other semiconductors we test, we require the customer to furnish the equipment on a consignment basis.

We will continue to acquire additional testing equipment in the future to the extent market conditions, cash generated from operations, the availability of financing and other factors make it desirable to do so. Some of the equipment and related spare parts that we require have been in short supply in recent years. Moreover, the equipment is only available from a limited number of vendors or is manufactured in relatively limited quantities and may have lead time from order to delivery in excess of six months.

### **Assembly of Memory and Mixed-Signal Semiconductors**

The number of wire bonders at a given facility is commonly used as a measure of the assembly capacity of the facility. Typically, wire bonders may be used, with minor modifications, for the assembly of different products. We purchase wire bonders principally from Shinkawa Co., Ltd. and Kulicke & Soffa Industries Inc. As of March 31, 2008, we operated 572 wire bonders. In addition to wire bonders, we maintain a variety of other types of assembly equipment, such as wafer grinders, wafer mounters, wafer saws, die bonders, automated molding machines, laser markers, solder platers, pad printers, dejunkers, trimmers, formers, substrate saws and lead scanners.

### **Gold Bumping, Testing and Assembly of LCD and Other Flat-Panel Display Driver Semiconductors**

We acquired TCP-related equipment from Sharp to begin our TCP-related services. We subsequently purchased additional TCP-related testers from Yokogawa Electric Corp. and Advantest Corporation and assembly equipment from Shibaura Mechatronics Corp., Athlete FA Corp. and Sharp Takaya Electronics Corp. As of March 31, 2008, we operated three steppers and nine sputters for gold bumping and 140 inner-lead bonders for assembly and 195 testers for LCD and other flat-panel display driver semiconductors. We are currently in the process of purchasing additional testing equipment. The testing equipment can be used for the TCP, COF and COG processes, while the inner-lead bonders are only used in the TCP and COF processes. The same types of wafer grinding, auto wafer mount and die saw equipment is used for the TCP, COF and COG processes. In addition, auto inspection machines and manual work are used in the COG process, which is more labor-intensive than the TCP and COF processes.

### **Competition**

The independent testing and assembly markets are very competitive. Our competitors include large IDMs with in-house testing and assembly capabilities and other independent semiconductor testing and assembly companies, especially those offering vertically integrated testing and assembly services, such as Advanced Semiconductor Engineering Inc., Amkor Technology, Inc., ASE Test Limited, International Semiconductor Technology Ltd., King Yuan Electronics Co., Ltd., Powertech Technology Inc., Siliconware Precision, STATS ChipPAC Ltd. and United Test and Assembly Center Ltd. We believe that the principal measures of competitiveness in the independent semiconductor testing industry are:

engineering capability of software development;

quality of service;

flexibility;

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capacity;

production cycle time; and

price.

In assembly services, we compete primarily on the basis of:

production yield;

production cycle time;

process technology, including our COF technology for LCD and other flat-panel display driver semiconductor assembly services;

quality of service;

capacity;

location; and

price.

IDMs that use our services continually evaluate our performance against their own in-house testing and assembly capabilities. These IDMs may have access to more advanced technologies and greater financial and other resources than we do. We believe, however, that we can offer greater efficiency and lower costs while maintaining an equivalent or higher level of quality for three reasons:

first, we offer a broader and more complex range of services as compared to the IDMs, which tend to focus their resources on improving their front-end operations;

second, we generally have lower unit costs because of our higher utilization rates; and

finally, we offer a wider range of services in terms of complexity and technology.

**Intellectual Property**

As of March 31, 2008, we held 431 patents in Taiwan, one patent in the United Kingdom, one patent in France, one patent in Germany, 24 patents in the United States and 15 patents in the People's Republic of China relating to various semiconductor testing and assembly technologies. These patents will expire at various dates through 2026. As of March 31, 2008, we also had a total of 95 pending patent applications in the United States, 176 in Taiwan, and 199 in the People's Republic of China. In addition, we have registered ChipMOS and its logo and InPack as trademarks in Taiwan, and ChipMOS and its logo as trademarks in the United States, the People's Republic of China, Singapore, Hong Kong, Korea, Japan and in the European Community.

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We expect to continue to file patent applications where appropriate to protect our proprietary technologies. We may need to enforce our patents or other intellectual property rights or to defend ourselves against claimed infringement of the rights of others through litigation, which could result in substantial costs and a diversion of our resources. See Item 3. Key Information Risk Factors Risks Relating to Our Business 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 and Item 8. Financial Information Legal Proceedings.

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On April 7, 2004, ChipMOS Bermuda entered into an assignment agreement with ChipMOS Taiwan, as amended on May 14 and October 11, 2004, pursuant to which ChipMOS Taiwan transferred all of the technologies it owned as of that date to ChipMOS Bermuda for a purchase price of US\$19.7 million, which was paid in November 2004.

On April 7, 2004, ChipMOS Bermuda entered into a patent license agreement with ChipMOS Taiwan, which was amended on July 8, 2004, October 11, 2004 and December 30, 2004, pursuant to which ChipMOS Bermuda grants to ChipMOS Taiwan a non-exclusive royalty-bearing license with respect to certain patents and patent applications until the last expiration date of the term of these patents. Under the patent license agreement, ChipMOS Taiwan will pay ChipMOS Bermuda a royalty in the aggregate of US\$20 million, payable in 80 quarterly installments of US\$250 thousand each.

On June 3, 2006, ChipMOS Taiwan entered into a license agreement with Sharp Corporation, or Sharp, pursuant to which we acquired a perpetual license to use TCP testing and assembly technology for a lump sum royalty payment of 10 million Japanese yen (approximately US\$87,000), which we paid in July 2006. This license agreement superseded the previous license agreement with Sharp entered into in February 2000 pursuant to which Sharp licensed to us TCP-related technology and intellectual property rights for five years starting from February 10, 2000 for a royalty fee based on the service fees paid to us by our customers. Our royalty obligations under the February 2000 license agreement were fully paid.

On April 12, 2007, ChipMOS Bermuda entered into an assignment agreement with ChipMOS Taiwan, pursuant to which ChipMOS Taiwan assigned and transferred fifty percent of the title to, ownership of and interest in all of the technologies and intellectual property it owned as of that date to ChipMOS Bermuda for a purchase price of US\$6.4 million, which was paid in full in June 2007.

## **Environmental Matters**

Semiconductor testing does not generate significant pollutants. The semiconductor assembly process generates stationary acid and alkali pollution, principally at the plating stages. Liquid waste is produced when silicon wafers are ground thinner and diced into chips with the aid of diamond saws and cooled with running water and during the gold bumping process. In addition, excess material on leads and moldings are removed from assembled semiconductors in the trimming and dejunking processes, respectively. We have installed various types of liquid and gaseous chemical waste-treatment equipment at our semiconductor assembly and gold bumping facilities. Since 2001, we have adopted certain environmentally-friendly production management systems, and have implemented certain measures intended to bring our assembly process in compliance with the Restriction of Hazardous Substances Directive 2002/95/EC issued by the European Union. We believe that we have adopted adequate and effective environmental protection measures that are consistent with semiconductor industry practices in Taiwan and Mainland China. In addition, we believe we are in compliance in all material respects with current environmental laws and regulations applicable to our operations and facilities.

All of our facilities in Taiwan and Mainland China have been certified as meeting the ISO 14001 environmental standards of the International Organization for Standardization, and all of our facilities in Taiwan have been further certified as meeting the OHSAS18001 standards, of the International Organization for Standardization. Our testing facility at the Hsinchu Science Park won both the Plant Greenery and Beautification Award in 1999, 2000 and 2002 and the Safety & Health Excellent Personnel Award in 2001 from the Science Park Administration, the Green Office Award from the Environment Protection Administration of the ROC in 2000 and the Outstanding Voluntary Protection Program Award by the Labor Affairs Commission of the ROC in 1999. Our assembly facility at the Southern Taiwan Science Park won the Green Office Award from the Environment Protection Administration of the ROC in 2001. In 2003, we won several environmental awards, including the Environmental Protection Excellent Unit Award, the Plant Greenery and Beautification Award, the Environment Maintain Award and the Safety & Health Excellent Personnel Award, each awarded by the Science Park Administration. We will continue to implement programs, measures and related training to reduce industrial waste, save energy and control pollution. In 2001, ChipMOS Taiwan completed a lead-free process control program, which offers a lead-free method in a semiconductor package, a lead-free plating, a lead-free solder ball and a lead-free reliability method and specification. In 2005, ChipMOS Shanghai completed a similar lead-free process control program.

## **Insurance**

We maintain insurance policies on our buildings, equipment and inventories. These insurance policies cover property damages due to all risks, including but not limited to, fire, lightning and earthquakes. The maximum coverage of property insurance for ChipMOS Taiwan and ThaiLin is approximately NT\$47,396 million and NT\$5,936 million, respectively. ChipMOS Shanghai also maintains property insurance policies for a maximum coverage of approximately RMB911 million.

Insurance coverage on facilities under construction is maintained by us and our contractors, who are obligated to procure necessary insurance policies and bear the relevant expenses of which we are the beneficiary.

We also maintain insurance on the wafers delivered to us while these wafers are in our possession and during transportation from suppliers to us and from us to our customers.

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### **Employees**

See Item 6. Directors, Senior Management and Employees Employees for certain information relating to our employees.

### **Taxation**

See Item 5. Operating and Financial Review and Prospects Taxation for certain information regarding the effect of PRC and ROC tax regulations on our operations.

### **Item 4A. Unresolved Staff Comments**

Not applicable.

### **Item 5. Operating and Financial Review and Prospects Overview**

We provide a broad range of back-end testing services, including 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 TCP, COF and COG, technologies. In 2007, our consolidated net revenue was NT\$23,598 million (US\$728 million) and our net income was NT\$2,219 million (US\$68 million).

We are a holding company, incorporated in Bermuda on August 1, 2000. We provide most of our services through our wholly-owned subsidiary, ChipMOS Taiwan, and its subsidiaries and investees. ChipMOS Taiwan was incorporated in Taiwan in July 1997 as a joint venture company of Mosel and Siliconware Precision and with the participation of other investors. Following the completion of the share exchange transaction between our company and ChipMOS Taiwan on September 14, 2007, ChipMOS Taiwan became a wholly-owned subsidiary of our company. In Taiwan, we conduct testing operations in our facilities at the Hsinchu Science Park and the Hsinchu Industrial Park, gold bumping and wafer testing in our facility at Chupei, and testing and assembly operations in our facility at the Southern Taiwan Science Park. We also conduct operations in Mainland China through ChipMOS Shanghai, a wholly-owned subsidiary of 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. See Item 4. Information on the Company Overview of the Company for more details.

The following key trends are important to understanding our business:

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

The current generation of advanced testers typically cost between US\$2 million and US\$5 million each, while wire bonders used in assembly typically cost approximately US\$65,000 each and inner-lead bonders for TCP and COF assembly cost approximately US\$300,000 each and COG chip sorters cost approximately US\$140,000 each. We begin depreciating our equipment when it is placed into commercial operation. There may be a time lag between the time when our equipment is placed into commercial operation and when it achieves high levels of utilization. In periods of depressed semiconductor industry conditions, we may experience lower than expected demand from our customers and a sharp decline in the average selling prices of our testing and assembly services, resulting in an increase in depreciation expenses relative to net revenue. In particular, the capacity utilization rates for our testing equipment may be severely affected during a semiconductor industry downturn as a result of the decrease in outsourcing demand from integrated device manufacturers, or IDMs, which typically maintain larger in-house testing capacity than in-house assembly capacity.

*Highly Cyclical Nature of the Semiconductor Industry.* Highly cyclical, the worldwide semiconductor industry has experienced peaks and troughs over the last decade, with a severe downturn beginning in the fourth quarter of 2000 that was followed by a recovery in early 2003. The significant decrease in market demand for semiconductors that began in 2000 adversely affected our results of operations for 2001 and 2002. Beginning in 2007, the semiconductor industry commenced another significant downturn which is still continuing. During periods of decreased demand for assembled semiconductors, some of our customers may forego, delay or simplify final testing of certain types of semiconductors, such as DRAM, which may further decrease demand and average selling prices for our services and intensify our difficulties.



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*Declining Average Selling Prices of Our Testing and Assembly Services.* The semiconductor industry is characterized by a general decrease in prices for products and services over the course of their product and technology life cycles. The rate of decline is particularly steep during periods of intense competition and adverse market conditions. The average selling prices of our testing and assembly services experienced sharp declines during such periods as a result of intense price competition from other independent testing and assembly companies that attempt to maintain high capacity utilization levels in the face of reduced demand.

To offset the effects of decreasing average selling prices, we will continue to seek to:

improve production efficiency and maintain high capacity utilization rates;

concentrate on testing of high-demand, high-growth semiconductors;

develop new assembly technologies; and

implement new technologies and platforms to shift into higher margin services.

*Market Conditions for the End-User Applications for Semiconductors.* Market conditions in the semiconductor industry, to a large degree, track those for their end-user applications. Any deterioration in the market conditions for the end-user applications of semiconductors that we test and assemble may 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 from testing and assembling semiconductors for use in personal computers, consumer and portable electronic products, display applications and communications equipment. The markets for these products are intensely competitive, and a significant decrease in demand could put pricing pressure on our testing and assembly services and negatively affect our earnings. The oversupply of DRAM products in the second half of 2007 and the weak demand in the DRAM market in the first quarter of 2008 resulted in significant reductions in the price of DRAM products, which in turn drove down the average selling prices for our testing and assembly services for DRAM products in the second half of 2007 and the first quarter of 2008.

*Change in Product Mix.* Declines in average selling prices have been partially offset over the last three years by a change in our revenue mix. In particular, revenue from testing and assembly of LCD and other flat-panel display driver semiconductors and 12-inch wafer processing have increased as a percentage of our total net revenue. We intend to continue focusing on testing and assembling more semiconductors that provide higher margins and developing and offering new technologies in testing and assembly services, in order to mitigate the effects of declining average selling prices on our profitability.

## **Recent Acquisitions**

On June 16, 2005, ChipMOS Taiwan and Chantek entered into a merger agreement, whereby Chantek agreed to be merged into ChipMOS Taiwan, with ChipMOS Taiwan as the surviving entity. Under the merger agreement, as amended on September 2, 2005, shareholders of Chantek (other than ChipMOS Taiwan) were entitled to elect to receive cash or ChipMOS Taiwan shares in exchange for their Chantek shares at the ratio of 3.6 to 1. As a result, ChipMOS Taiwan paid NT\$81 million in cash and issued 6 million shares to Chantek shareholders pursuant to the merger agreement. The transaction closed on November 21, 2005.

On August 15, 2005, ThaiLin entered into a merger agreement with ChipMOS Logic, whereby ChipMOS Logic agreed to be merged into ThaiLin, with ThaiLin as surviving entity. Under the merger agreement, shareholders of ChipMOS Logic received one common share of ThaiLin in exchange for 2.8 common shares of ChipMOS Logic. The transaction closed on December 1, 2005, and as of March 31, 2008, ChipMOS Taiwan held a 38.2% interest in ThaiLin.

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On February 13, 2007, we entered into a share purchase and subscription agreement with ChipMOS Taiwan and Siliconware Precision under which we and ChipMOS Taiwan agreed to purchase all of Siliconware Precision's equity interest in ChipMOS Taiwan, and Siliconware Precision agreed to subscribe for 12,174,998 of our newly issued common shares through a private placement. The transaction closed on March 27, 2007, and as of March 31, 2007, we held 99.1% of the outstanding common shares of ChipMOS Taiwan.

On April 12, 2007, we entered into a share exchange agreement with ChipMOS Taiwan pursuant to which we agreed to exchange one common share for every 8.4 ChipMOS Taiwan shares outstanding. The transaction closed on September 14, 2007, and we issued 604,124 common shares to the holders of the ChipMOS Taiwan common shares in exchange for their ChipMOS Taiwan shares, and we and ChipMOS Taiwan paid NT\$53 million in cash to purchase fractional shares and shares held by dissenting shareholders. Following the completion of the share exchange transaction on September 14, 2007, ChipMOS Taiwan became our wholly-owned subsidiary.

**Net Revenue**

We conduct our business according to the following main business segments: (1) testing services for memory and mixed-signal semiconductors; (2) assembly services for memory and mixed-signal semiconductors; and (3) LCD and other flat-panel display driver semiconductor testing and assembly services. The following table sets forth, for the periods indicated, our consolidated net revenue for each segment.

|  | Year ended December 31, |              |              |              |
|--|-------------------------|--------------|--------------|--------------|
|  | 2005<br>NT\$            | 2006<br>NT\$ | 2007<br>NT\$ | 2007<br>US\$ |
|  | (in millions)           |              |              |              |
| Testing  |                         |              |              |              |
| Memory   | \$ 5,996.4              | \$ 8,759.5   | \$ 10,856.2  | \$ 334.8     |
| Mixed-signal   | 463.5                   | 580.6        | 646.2        | 19.9         |
| Total testing  | 6,459.9                 | 9,340.1      | 11,502.4     | 354.7        |
| Assembly   |                         |              |              |              |
| Memory   | 5,166.4                 | 6,240.2      | 7,576.0      | 233.6        |
| Mixed-signal   | 489.5                   | 349.4        | 523.6        | 16.1         |
| Total assembly   | 5,655.9                 | 6,589.6      | 8,099.6      | 249.7        |
| LCD and other flat-panel display driver semiconductor testing and assembly | 3,098.2                 | 4,445.5      | 3,995.6      | 123.2        |
| Total  | \$ 15,214.0             | \$ 20,375.2  | \$ 23,597.6  | \$ 727.6     |

Our net revenue consists primarily of service fees for testing and assembling semiconductors, and to a lesser extent, fees from equipment rentals to semiconductor manufacturers for engineering testing, less allowances for product returns. We offer testing and assembly services for memory semiconductors, mixed-signal semiconductors and testing and assembly services for LCD and other flat-panel display driver semiconductors.

Most of our customers do not place purchase orders far in advance and our contracts with customers generally do not require minimum purchases of our products or services. Our customers' purchase orders have varied significantly from period to period because demand for their products is often volatile. We have strategically entered into long-term capacity agreements with some of our customers. Under certain of those long-term agreements, we have agreed to reserve capacity for our customers and our customers have agreed to place orders in the amount of the reserved capacity (which is subject in certain cases to reduction by the customers). As of March 31, 2008, approximately 25.7% of our total capacity was reserved under this type of agreement. Under certain other long-term agreements, we have agreed to install equipment or reserve capacity for our customers and our customers have undertaken to compensate us to a certain extent if they fail to sufficiently utilize the installed equipment or reserved capacity. As of March 31, 2008, approximately 18.5% of our total capacity was reserved under this type of agreement. As part of our strategy, we intend to enter into additional long-term capacity agreements in the future. Depending on customer demands, market conditions and other considerations, we may explore opportunities to expand our operations outside Taiwan and Mainland China in connection with future long-term capacity agreements.

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Our financial condition and results of operations have also been, and are likely to continue to be, affected by price pressures on our service fees, which tend to decline in tandem with the declining average selling prices of the products we test and assemble over the course of their product and technology life cycles. In order to maintain our margins, it is necessary to offset the fee erosion by continually improving our production efficiency and maintaining high capacity utilization rates. We also plan to continue to develop and implement new technologies and expand our services into potentially higher-margin segments. These efforts require significant up front investment in advance of incremental revenue, which could impact our margins.

### **Pricing**

We price our testing fees primarily based on the cost of testing the products to our customers' specifications, including the costs of the required material and components, the depreciation expenses relating to the equipment involved and our overhead expenses, and with reference to prevailing market prices. Accordingly, the testing fee for a particular product would principally depend on the time taken to perform the tests, the complexity of the product and the testing process, and the cost of the equipment used to perform the test. For example, testing fees for memory semiconductors are significantly higher than those for other products because of the longer time required and the need for burn-in testing.

We price our assembly services on a per unit basis, taking into account the complexity of the package, our costs, including the costs of the required material and components, the depreciation expenses relating to the equipment involved and our overhead expenses, prevailing market conditions, the order size, the strength and history of our relationship with the customer and our capacity utilization.

We price our testing and assembly services for LCD and other flat-panel display driver semiconductors on the basis of our costs, including the costs of the required material and components, the depreciation expenses relating to the equipment involved and our overhead expenses, and the price for comparable services.

We offer volume discounts to all customers who purchase large quantities of our services and special discounts to customers who use our vertically integrated services. We also may offer special payment terms, including longer payment cycles, to key customers during downturns in the market so as to retain business from such key customers.

### *Revenue Recognition*

We generally recognize our revenue upon shipment of tested and assembled semiconductors to locations designated by our customers, including our internal warehouse for customers using our warehousing services. Revenue from product sales is recognized when risks of ownership are transferred to customers, generally upon shipment of the products. We submit invoices at the time of shipment or delivery and generally require customers to pay within 60 days after the last day of the month during which the invoice was sent, except that we require ProMOS, our largest customer, to pay within 75 days. In addition, we extended the invoice settlement cycle for Spansion, our second largest customer, from 60 days to 90 days at their request, commencing in March 2008. We have not experienced any significant collection problems for our services, except for NT\$277 million (US\$9 million) of receivables from Ultima. We received from Ultima 4,250,000 and 4,190,000 shares of Ultima Technology Corp. (BVI) common stock on September 24 and December 18, 2004, respectively, as collateral for the outstanding receivables. We provided an allowance of NT\$194 million and NT\$83 million for these doubtful receivables in 2004 and 2005 respectively. These doubtful receivables were fully written off during 2006. In April 2007, we settled the civil proceedings related to these doubtful receivables with Ultima for NT\$700 thousand (US\$22 thousand) and recorded such amount as other income.

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In January 2008, at the request of ProMOS, we agreed to permit ProMOS to defer payment of aggregate service fees of NT\$450 million (US\$14 million) to February 15, 2009. These service fees were accounts payable to us as of December 31, 2007. The deferred service fees, which were paid in full by ProMOS in March and April 2008, bore interest at a rate of 4.69% per annum, and were recorded as long-term accounts receivables. See Note 18 to our audited consolidated financial statements. Currently all of the service fees payable to us by ProMOS are due within 75 days after the last day of the month during which our invoice was sent.

### *Related Party Revenues*

In 2005, 2006 and 2007, 30%, 28% and 29%, respectively, of our net revenue were derived from related parties. While we believe that our transactions with related parties were entered into on an arm's length basis, we extended them favorable payment terms, as discussed in the preceding paragraph. See Item 7. Major Shareholders and Related Party Transactions for more information concerning our related party transactions.

### *Geography and Currency*

The majority of our net revenue is generated from customers headquartered in Taiwan, which represented 79%, 78% and 72% of our net revenue in 2005, 2006 and 2007, respectively. We also generate net revenue from customers in the United States, Korea, Japan and other countries. Our service fees and revenue are generally denominated in the currency of the jurisdiction in which our facilities are located, for example NT dollars for our Taiwan operations and RMB for our Mainland China operations. As we generate most of our net revenue from Taiwanese customers using our Taiwanese operations, and since most of our labor and overhead costs are denominated in NT dollars, we consider the NT dollar to be our functional currency.

See Note 22 to our audited consolidated financial statements and Item 11. Quantitative and Qualitative Disclosure about Market Risk - Market Risks - Foreign Currency Exchange Rate Risks for certain information on our exchange rate risks.

### **Cost of Revenue and Gross Profit (Loss)**

Our cost of revenue consists primarily of the following: depreciation and amortization expenses, raw material costs, and labor and overhead expenses, which primarily include expensable equipments, sub-contracting fees and rental expenses. Our operations, in particular our testing operations, are characterized by relatively high fixed costs. We expect to continue to incur substantial depreciation and other expenses as a result of our previous and future acquisitions of testing and assembly equipment and facilities, including our investment in our Mainland China operations. Our profitability depends in part not only on absolute pricing levels for our services, but also on our capacity utilization rates. As of March 31, 2008, we had 736 testers, 143 burn-in ovens, 572 wire bonders, 140 inner-lead bonders, three steppers and nine sputters. We use inner-lead bonders for the assembly of LCD and other flat-panel display driver semiconductors using TCP or COF technology, and wire bonders for TSOP, BGA, and some other package assembly technologies. Our average capacity utilization rate for testing of memory and mixed-signal semiconductors was 81% in 2005, 86% in 2006 and 78% in 2007. Our average capacity utilization rate for assembly of memory and mixed-signal semiconductors was 79% in 2005, 75% in 2006 and 86% in 2007. In addition, our average capacity utilization rate for LCD and other flat-panel display driver semiconductor testing and assembly was 83% in 2005, 79% in 2006 and 71% in 2007.

Most of our labor and overhead costs are denominated in NT dollars. However, we also incur costs of revenues and operating expenses associated with testing and assembly services in several other currencies, including Japanese yen, US dollars and 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 denominated in US dollars.

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The following table sets forth, for the periods indicated, our gross profit (loss) and our gross profit (loss) margin as a percentage of net revenue.

|  | Year ended December 31, |              |              |              |
|--|-------------------------|--------------|--------------|--------------|
|  | 2005<br>NT\$            | 2006<br>NT\$ | 2007<br>NT\$ | 2007<br>US\$ |
| (in millions)  |                         |              |              |              |
| <b>Gross profit (loss):</b>  |                         |              |              |              |
| Testing  |                         |              |              |              |
| Memory   | \$ 2,186.6              | \$ 3,779.3   | \$ 4,200.6   | \$ 129.5     |
| Mixed-signal   | (148.9)                 | (0.4)        | 174.4        | 5.4          |
| Total testing  | 2,037.7                 | 3,778.9      | 4,375.0      | 134.9        |
| Assembly   |                         |              |              |              |
| Memory   | 1,203.3                 | 1,430.0      | 1,452.5      | 44.8         |
| Mixed-signal   | (158.5)                 | 18.4         | 19.7         | 0.6          |
| Total assembly   | 1,044.8                 | 1,448.4      | 1,472.2      | 45.4         |
| LCD and other flat-panel display driver semiconductor testing and assembly | 868.9                   | 894.5        | 306.3        | 9.4          |
| Total  | \$ 3,951.4              | \$ 6,121.8   | \$ 6,153.5   | \$ 189.7     |
| <b>Gross profit (loss) margin:</b>   |                         |              |              |              |
| Testing  |                         |              |              |              |
| Memory   | 36.5%                   | 43.1%        | 38.7%        | 38.7%        |
| Mixed-signal   | (32.1)                  | (0.1)        | 27.0         | 27.0         |
| Total testing  | 31.6                    | 40.5         | 38.0         | 38.0         |
| Assembly   |                         |              |              |              |
| Memory   | 23.3                    | 22.9         | 19.2         | 19.2         |
| Mixed-signal   | (32.4)                  | 5.3          | 3.8          | 3.8          |
| Total assembly   | 18.5                    | 22.0         | 18.2         | 18.2         |
| LCD and other flat-panel display driver semiconductor testing and assembly | 28.0                    | 20.1         | 7.7          | 7.7          |
| Overall  | 26.0%                   | 30.0%        | 26.1%        | 26.1%        |
| <b>Operating Expenses</b>  |                         |              |              |              |

*Research and Development*

Research and development expenses consist primarily of personnel expenses, amortization expenses relating to technology, expenditures to qualify our services for specific customers and other consulting fees and certification fees paid to third parties. Research and development expenses are recognized as they are incurred. We currently expect that research and development expenses will increase in the future as we continue to explore new technologies and service offerings. We also expect to hire additional employees in our research and development department.

*Sales and Marketing*

Sales and marketing expenses consist primarily of shipping and handling expenses incurred in delivering products to our customers designated locations, advertising, corporate communications and other marketing expenses, salary expenses for sales and marketing personnel, sales commission, professional service fees, bad debt provision and service support expenses.

*General and Administrative*

General and administrative expenses consist of salaries and related expenses for executive, finance and accounting, and management information systems personnel, professional service fees, and other corporate expenses. They also include stock-based

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compensation that is expensed using the intrinsic value-based method. See Item 6. Directors, Senior Management and Employees Share Option Plan and Share Appreciation Rights Plan for more information concerning our share option plan. We expect general and administrative expenses to increase in absolute terms as we add personnel and incur additional expenses related to the growth of our business and operations, particularly our Mainland China operations.

### **Other Income (Expenses), Net**

Our other income principally consists of interest income, foreign exchange gains, warehouse space rental revenue, gains on sale of investments, gains on disposal of property, plant and equipment, fair value gains on financial assets and gains on embedded derivative. In 2008, our other income may also include certain interest income, including the interest payable by Kolin under a loan repayable to ChipMOS Taiwan in March 2009 that bears interest at a rate of 4.69% per annum. The loan is secured by a pledge by Kolin of 11 million common shares of ThaiLin. See

Item 7. Major Shareholders and Related Party Transactions Related Party Transactions ThaiLin Semiconductor Corp. Our other expenses principally consist of interest expense, investment losses recognized by equity method, fair value loss on financial assets, financing costs, impairment losses, losses on disposal of property, plant and equipment, loss on redemption of convertible notes and foreign exchange losses.

### **Minority Interests and Interest in Bonuses Paid by Subsidiaries**

Minority interests represent the portion of our income that is attributable to the shareholding in our consolidated subsidiaries that we do not own. In 2005, 2006 and 2007, our minority interests were attributable to the minority interests owned by Siliconware Precision and other investors in ChipMOS Taiwan prior to the completion of the share exchange transaction between ChipMOS Bermuda and ChipMOS Taiwan on September 14, 2007, and the public shareholders' interest in ThaiLin. In 2005, minority interests also included the portion of our income attributable to the shareholdings in ChipMOS Logic and Chantek that we did not own before ChipMOS Logic was merged into ThaiLin on December 1, 2005 and Chantek was merged into ChipMOS Taiwan on November 21, 2005. Since ChipMOS Taiwan became our wholly-owned subsidiary as a result of the completion of the share exchange transaction we entered into with ChipMOS Taiwan, we expect minority interests to be substantially less in future periods.

Interest in bonuses paid by subsidiaries represents our portion of ChipMOS Taiwan's and ThaiLin's distributable earnings that are appropriated as bonuses to employees and remuneration to directors and supervisors of ChipMOS Taiwan and ThaiLin, as required by ROC regulations and ChipMOS Taiwan's and ThaiLin's articles of incorporation. ChipMOS Taiwan and ThaiLin paid bonuses to directors, supervisors and employees of NT\$166 million and NT\$57 million, respectively, in 2005, NT\$242 million and NT\$74 million, respectively, in 2006, and NT\$391 million (US\$12 million) and NT\$82 million (US\$3 million), respectively, in 2007. Please see US GAAP Reconciliation for a discussion of the significant impact such bonuses had on our net income under US GAAP.

### **Net Income**

Our net income was NT\$928 million, NT\$2,121 million and NT\$2,219 million (US\$68 million) in 2005, 2006 and 2007, respectively. We believe our future results will be dependent upon the overall economic conditions in the markets we serve, the competitive environment in which we operate, and our ability to successfully implement our strategy, among other things. For additional information on factors that will affect our future performance, see Item 3. Key Information Risk Factors.

**Table of Contents****Results of Operations**

The following table presents selected operating data as a percentage of net revenue for the periods indicated:

|  | Year ended December 31, |        |        |
|--|-------------------------|--------|--------|
|  | 2005                    | 2006   | 2007   |
| <b>ROC GAAP:</b>   |                         |        |        |
| Net revenue  | 100.0%                  | 100.0% | 100.0% |
| Cost of revenue  | 74.0                    | 70.0   | 73.9   |
| Gross profit margin  | 26.0                    | 30.0   | 26.1   |
| <b>Operating expenses:</b>   |                         |        |        |
| Research and development   | 1.8                     | 1.3    | 1.4    |
| Sales and marketing  | 1.6                     | 0.5    | 0.4    |
| General and administrative   | 5.2                     | 4.0    | 4.5    |
| Total operating expenses   | 8.6                     | 5.8    | 6.3    |
| Income from operations   | 17.4                    | 24.2   | 19.8   |
| Other expenses, net  | (3.3)                   | (1.1)  | (2.8)  |
| Income before income tax, minority interests and interest in bonuses paid by subsidiaries <sup>(1)</sup> | 14.1                    | 23.1   | 17.0   |
| Income tax expense   | (0.7)                   | (3.1)  | (3.3)  |
| Income before minority interests and interest in bonuses paid by subsidiaries                            | 13.4                    | 20.0   | 13.7   |
| Minority interests   | (6.4)                   | (8.8)  | (3.1)  |
| Interest in bonuses paid by subsidiaries <sup>(1)</sup>  | (0.9)                   | (0.8)  | (1.2)  |
| Net income   | 6.1%                    | 10.4%  | 9.4%   |

(1) Refers to bonuses to directors, supervisors and employees.  
Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

**Net Revenue.** Our net revenue increased by NT\$3,223 million, or 16%, to NT\$23,598 million (US\$728 million) in 2007 from NT\$20,375 million in 2006.

Net revenue from testing services for memory and mixed-signal semiconductors increased by NT\$2,162 million, or 23%, to NT\$11,502 million (US\$355 million) in 2007 from NT\$9,340 million in 2006, mainly due to an increase in net revenue from testing services for memory semiconductor. Net revenue from testing services for memory semiconductors increased by NT\$2,096 million, or 24%, to NT\$10,856 million (US\$335 million) in 2007 from NT\$8,760 million in 2006, principally due to increased capacity, which was partially offset by lower average selling prices for our DRAM products and decreased capacity utilization rates. Net revenue from testing services for mixed-signal semiconductors increased by NT\$65 million, or 11%, to NT\$646 million (US\$20 million) in 2007 from NT\$581 million in 2006, principally due to increased capacity and increased capacity utilization rates.

Net revenue from assembly services for memory and mixed-signal semiconductors, which includes revenue from assembly services for memory and mixed-signal semiconductors and revenue from our memory module manufacturing business, increased by NT\$1,510 million, or 23%, to NT\$8,100 million (US\$250 million) in 2007 from NT\$6,590 million in 2006. This increase was primarily the result of an increase in net revenue from assembly services for memory semiconductors. Net revenue from assembly services for memory semiconductors increased by NT\$1,336 million, or 21%, to NT\$7,576 million (US\$234 million) in 2007 from NT\$6,240 million in 2006, primarily as a result of increased capacity and increased sales of products with higher average selling prices, such as certain BGA packages for DDR II SDRAM products. Net revenue from assembly services for mixed-signal semiconductors increased by NT\$175 million, or 50%, to NT\$524 million (US\$16 million) in 2007 from NT\$349 million in 2006, principally as a result of the increased capacity utilization rate that resulted from higher customer demand, particularly

in the third quarter of 2007.



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Net revenue from LCD and other flat-panel display driver semiconductor testing and assembly services decreased by NT\$450 million, or 10%, to NT\$3,996 million (US\$123 million) in 2007 from NT\$4,446 million in 2006. This decrease was principally as a result of the weak demand for LCD and other flat-panel display products in 2007, which in turn led to decreased capacity utilization rates as well as decreased average selling prices for our services.

**Cost of Revenue and Gross Margin.** Cost of revenue increased by NT\$3,191 million, or 22%, to NT\$17,444 million (US\$538 million) in 2007 from NT\$14,253 million in 2006, primarily due to the increased overhead expenses of NT\$2,342 million (US\$72 million). Overhead expenses increased principally as a result of an increase in depreciation expenses, an increase in rental expenses, as well as an increase in re-tooling and equipment spare part expenses that resulted from our change in product mix.

Our gross profit increased to NT\$6,154 million (US\$190 million) in 2007 from NT\$6,122 million in 2006. Our gross margin was 26% in 2007, compared to 30% in 2006.

Our gross margin for testing services for memory and mixed-signal semiconductors decreased to 38% in 2007 from 41% in 2006, primarily due to a lower capacity utilization rate, which decreased to 78% in 2007 from 86% in 2006.

Our gross margin for assembly services for memory and mixed-signal semiconductors decreased to 18% in 2007 from 22% in 2006, mainly due to a pricing pressure resulted from the decreasing price of end products and the change of our TSOP product mix.

Our gross margin for LCD and other flat-panel display driver semiconductor testing and assembly services decreased significantly to 8% in 2007 from 20% in 2006, primarily as a result of a decrease in capacity utilization rate from 79% in 2006 to 71% in 2007 as well as decreased average selling prices for our services.

**Research and Development Expenses.** Research and development expenses increased by NT\$47 million, or 17%, to NT\$322 million (US\$10 million) in 2007 from NT\$275 million in 2006. This increase was primarily due to higher salary expenses associated with an increase in research and development personnel. We currently expect our research and development expenses will increase in the future due to our focus on research and development projects relating to advanced applications, such as multi-chip packages for DDR III SDRAM, low temperature assembly technologies for LCD driver IC, fine pitch LCD driver IC testing and assembly technologies, and radio frequency identification (RFID) logistics management system implementation.

**General and Administrative Expenses.** General and administrative expenses increased by NT\$257 million, or 32%, to NT\$1,070 million (US\$33 million) in 2007 from NT\$813 million in 2006, primarily due to higher salary expenses that resulted from an increase in general and administrative personnel, as well as increased utilities expenses.

**Sales and Marketing Expenses.** Sales and marketing expenses decreased by NT\$9 million, or 8%, to NT\$98 million (US\$3 million) in 2007 from NT\$107 million in 2006, primarily due to a decrease of NT\$11 million (US\$339 thousand) in commission expenses. The decrease in commission expenses was mainly a result of our strategy to focus on increasing sales to key customers through long-term agreements.

**Other Expenses, Net.** Other expenses, net increased by NT\$446 million, or 200%, to NT\$669 million (US\$21 million) in 2007 from NT\$223 million in 2006. This increase was primarily due to the increase in our interest expenses to NT\$865 million (US\$27 million) in 2007 from NT\$399 million in 2006. The significant increase in interest expenses in 2007 was primarily due to the full-year effect of interest on the 2006 notes.

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**Income Before Income Tax, Minority Interests and Interest in Bonuses to Directors, Supervisors and Employees Paid by Subsidiaries.**

As a result of the foregoing, income before income tax, minority interests and interest in bonuses to directors, supervisors and employees paid by subsidiaries decreased by 15% to NT\$3,993 million (US\$123 million) in 2007 from NT\$4,703 million in 2006.

**Income Taxes.** Income tax expenses increased by NT\$132 million, or 21%, to NT\$768 million (US\$24 million) in 2007 from NT\$636 million in 2006, primarily due to a significant decrease in loss carry forwards and income tax credits.

**Minority Interests.** Minority interests decreased by NT\$1,079 million, or 60%, to NT\$720 million (US\$22 million) in 2007 from NT\$1,799 million in 2006, primarily as a result of ChipMOS Taiwan becoming our wholly-owned subsidiary in September 2007.

**Interest in Bonuses paid by subsidiaries.** Interest in bonuses paid by subsidiaries increased by 92% to NT\$286 million (US\$9 million) in 2007 from NT\$149 million in 2006 mainly due to increase in bonuses paid by ChipMOS Taiwan and the increase in our share of such bonus, as ChipMOS Taiwan became a wholly-owned subsidiary in 2007.

**Net Income.** As a result of the foregoing, our net income increased by NT\$98 million to NT\$2,219 million (US\$68 million) in 2007 from NT\$2,121 million in 2006.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

**Net Revenue.** Our net revenue increased by NT\$5,161 million, or 34%, to NT\$20,375 million in 2006 from NT\$15,214 million in 2005.

Net revenue from testing services for memory and mixed-signal semiconductors increased by NT\$2,880 million, or 45%, to NT\$9,340 million in 2006 from NT\$6,460 million in 2005, mainly due to an increase in net revenue from testing services for memory semiconductors. Net revenue from testing services for memory semiconductors increased by NT\$2,764 million, or 46%, to NT\$8,760 million in 2006 from NT\$5,996 million in 2005, principally due to capacity expansion and increased capacity utilization rates for our wafer testing and final testing services for DRAM and flash products.

Net revenue from assembly services for memory and mixed-signal semiconductors, which includes revenue from assembly services for memory and mixed-signal semiconductors and revenue from our memory module manufacturing business, increased by NT\$934 million, or 17%, to NT\$6,590 million in 2006 from NT\$5,656 million in 2005. This increase was primarily the result of an increase in net revenue from assembly services for memory semiconductors, partially offset by a decrease in net revenue from assembly services for mixed-signal semiconductors. Net revenue from assembly services for memory semiconductors increased by NT\$1,074 million, or 21%, to NT\$6,240 million in 2006 from NT\$5,166 million in 2005, primarily as a result of capacity expansion and increased sales of products with higher average selling prices, such as DDR II SDRAM products, which were partially offset by a decrease in net revenue from memory module manufacturing services. Net revenue from assembly services for mixed-signal semiconductors decreased by NT\$141 million, or 29%, to NT\$349 million in 2006 from NT\$490 million in 2005, principally because we reduced the volume of certain lower margin services in connection with the merger of Chantek into ChipMOS Taiwan.

Net revenue from LCD and other flat-panel display driver semiconductor testing and assembly services increased by NT\$1,348 million, or 44%, to NT\$4,446 million in 2006 from NT\$3,098 million in 2005. This increase was principally due to the increase in TCP, COF and COG products that resulted from our capacity expansion and slightly increased capacity utilization rates. The increase in net revenue from LCD and other flat-panel display driver semiconductor testing and assembly services was also a result of an increase in average selling prices for LCD and other flat-panel display driver semiconductor products.

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**Cost of Revenue and Gross Margin.** Cost of revenue increased by NT\$2,990 million, or 27%, to NT\$14,253 million in 2006 from NT\$11,263 million in 2005, primarily due to an increase of NT\$2,208 million in overhead expenses. Overhead expenses increased principally as a result of an increase in depreciation expenses and an increase in expenses related to tooling and equipment spare parts.

Our gross profit increased to NT\$6,122 million in 2006 from NT\$3,951 million in 2005. Our gross margin was 30% in 2006, compared to 26% in 2005.

Our gross margin for testing services for memory and mixed-signal semiconductors increased to 41% in 2006 from 32% in 2005, primarily due to a higher capacity utilization rate, which increased to 86% in 2006 from 81% in 2005.

Our gross margin for assembly services for memory and mixed-signal semiconductors increased to 22% in 2006 from 19% in 2005. This increase was primarily due to increased sales of higher margin memory semiconductor assembly services, such as fine-pitch BGA package for DDR II SDRAM.

Our gross margin for LCD and other flat-panel display driver semiconductor testing and assembly services decreased to 20% in 2006 from 28% in 2005, primarily due to a lower capacity utilization rate. The lower capacity utilization rate principally resulted from lower customer demand for our LCD and other flat-panel display driver semiconductor testing and assembly services, particularly in the second quarter of 2006.

**Research and Development Expenses.** Research and development expenses increased by NT\$1 million, or 0.4%, to NT\$275 million in 2006 from NT\$274 million in 2005. This increase was primarily due to the net effect of an increase in professional services fees and a decrease in salary expenses.

**Sales and Marketing Expenses.** Sales and marketing expenses decreased by NT\$126 million, or 54%, to NT\$107 million in 2006 from NT\$233 million in 2005. This decrease was primarily due to a decrease of NT\$117 million in bad debt provisions.

**General and Administrative Expenses.** General and administrative expenses increased by NT\$20 million, or 3%, to NT\$813 million in 2006 from NT\$793 million in 2005, primarily due to bank fees associated with the NT\$3 billion syndicated loan facility that we obtained in February 2006.

**Other Expenses, Net.** Other expenses, net decreased by NT\$284 million, or 56%, to NT\$223 million in 2006 from NT\$507 million in 2005. This decrease was primarily due to a decrease in impairment loss on property, plant and equipment and other assets, a decrease in impairment loss on long-term investment and a decrease in investment loss recognized by the equity method, which were partially offset by an increase in interest expense.

**Income Before Income Tax, Minority Interests and Interest in Bonuses to Directors, Supervisors and Employees Paid by Subsidiaries.**

As a result of the foregoing, income before income tax, minority interests and interest in bonuses to directors, supervisors and employees paid by subsidiaries increased by 119% to NT\$4,703 million in 2006 from NT\$2,144 million in 2005.

**Income Taxes.** Income tax expense increased by NT\$525 million, or 469%, to NT\$637 million in 2006 from NT\$112 million in 2005, primarily due to a significant increase in income before income tax, minority interests and interest in bonuses to directors, supervisors and employees paid by subsidiaries and a significant decrease in losses carried forward.

**Minority Interests.** Minority interests increased by NT\$822 million, or 84%, to NT\$1,799 million in 2006 from NT\$977 million in 2005, primarily due to the increased income of ChipMOS Taiwan and ThaiLin.

**Net Income.** As a result of the foregoing, our net income increased by NT\$1,193 million to NT\$2,121 million in 2006 from NT\$928 million in 2005.

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### **Critical Accounting Policies**

We prepare our consolidated financial statements in conformity with ROC GAAP. Under ROC GAAP, we are required to make certain estimates, judgments and assumptions about matters that are highly uncertain at the time those estimates, judgments and assumptions are made, and our financial condition or results of operations may be materially impacted if we use different but nonetheless reasonable estimates, judgments or assumptions about those matters for that particular period or if we change our estimates, judgments or assumptions from period to period.

Under ROC GAAP, the significant accounting policies are set forth in Note 2 of the notes to the consolidated financial statements contained in this Annual Report on Form 20-F. The significant accounting policies that require us to make estimates and assumptions about the effect of matters that are inherently uncertain are discussed below. In connection with the reconciliation of our consolidated financial statements to US GAAP, there are no additional accounting policies that we believe are critical to us except as described below under Convertible Notes and Share-Based Compensation.

#### ***Allowance for Doubtful Receivables and Sales Returns***

Our accounts receivable balance on our balance sheet is affected by our allowances for doubtful accounts and sales returns, which reflect our estimate of the expected amount of the receivables that we will not be able to collect and our estimate of the expected amount of sales returns.

Our determination of the allowance for doubtful receivables is based on our determination of two different types of reserves. The first type of reserve involves an individual examination of available information regarding any customer that we have reason to believe may have an inability to meet its financial obligations. For these customers, we use our judgment, based on the available facts and circumstances, and record a specific reserve for that customer against amounts due to reduce the receivable to the amount that is expected to be collected. These specific reserves are reevaluated and adjusted as additional information is received. The second type of reserve is a general reserve established for all customers based on a range of percentages applied to aging categories. These percentages are based on historical collection and write-off experience. If circumstances change, our estimates of the recoverability of amounts due to us could be reduced by a material amount. As of December 31, 2007, we provided NT\$14 million (US\$432 thousand) for the first type of reserve and NT\$33 million (US\$1 million) for the second type of reserve. As we extended the invoice settlement cycle for Spansion, our second largest customer, from 60 days to 90 days in March 2008, our allowance for doubtful receivables may increase in the future.

Our determination of the allowances for sales returns as of the end of any quarter is based upon calculating an average historical return rate, usually based on the previous three quarters, and multiplying this by the revenue of that quarter. As of December 31, 2007, we provided NT\$213 million (US\$7 million) for the allowance of sales returns.

The allowance we set aside for doubtful receivables and sales returns was NT\$401 million as of December 31, 2005, NT\$161 million as of December 31, 2006 and NT\$260 million (US\$8 million) as of December 31, 2007. The allowances as of December 31, 2005, 2006 and 2007 represented 9%, 3% and 5%, respectively, of our accounts receivable and other receivables as of those dates. The allowance in 2005, 2006 and 2007 reflected a reduction of NT\$118 million, NT\$884 thousand and NT\$5 million (US\$154 thousand), respectively, in accounts receivable that was charged to marketing expenses. If we were to change our estimate of the allowance for doubtful receivables and sales returns either upward or downward 10%, our operating income would be affected by NT\$6 million (US\$185 thousand) for 2007.

An increase in our allowance for doubtful receivables and sales returns would decrease our recorded revenue and our current assets.

**Table of Contents*****Inventory Valuation***

We state our inventories at the lower of cost or market value. Market value represents net realizable value for finished goods and work in process and replacement value for raw materials. We use the standard cost method to determine the cost of our inventories, adjusted to approximate weighted-average cost at the end of the period. We periodically evaluate the composition of our inventory and identify slow-moving inventories. Inventory items identified as slow-moving are evaluated to determine whether reserves are required.

In 2005, we did not record any inventory valuation allowance because the market price of our inventory was higher than cost in 2005. In 2006 and 2007, we reserved NT\$20 million and NT\$8 million (US\$247 thousand) of inventory valuation allowance, primarily due to the market price of tested and assembled DRAM and SDRAM inventory was below historical cost. In addition, we reserved NT\$94 million in 2005, NT\$88 million in 2006 and NT\$56 million (US\$2 million) in 2007 for identified slow-moving inventories.

As of December 31, 2007, we recorded NT\$64 million (US\$2 million) of inventory valuation allowances. If the prevailing market price of our testing and assembly services had been 10% lower, we would have been required to recognize a valuation allowance of approximately NT\$64 million (US\$2 million) in 2007. A valuation allowance of NT\$64 million in 2007 would have decreased our inventory value and net income by 6.1% and 2.9%, respectively.

***Valuation Allowance for Deferred Tax Assets***

When we have net operating loss carry forwards, investment tax credits or temporary differences in the amount of tax recorded for tax purposes and accounting purposes, we may be able to reduce the amount of tax that we would otherwise be required to pay in future periods. We recognize all existing future tax benefits arising from these tax attributes as deferred tax assets and then, based on our internal estimates of our future profits, establish a valuation allowance equal to the extent, if any, that it is more likely than not that deferred tax assets will not be realized. We record an income tax expense or benefit in our statement of operations when there is a net change in our total deferred tax assets and liabilities in a period. The ultimate realization of the deferred tax assets depends upon the generation of future taxable income during the periods in which the net operating losses and temporary differences become deductible or the investment tax credits may be utilized. Specifically, our valuation allowances are impacted by our expected future revenue growth and profitability, tax holidays, alternative minimum tax, and the amount of tax credits that can be utilized within the statutory period. In determining the amount of valuation allowance for deferred tax assets as of December 31, 2007, we considered past performance, the general outlook of the semiconductor industry, future taxable income and prudent and feasible tax planning strategies.

Because the determination of the amount of valuation allowance is based, in part, on our forecast of future profitability, it is inherently uncertain and subjective. Changes in market conditions and our assumptions may cause the actual future profitability to differ materially from our current expectation, which may require us to increase or decrease the amount of valuation allowance that we have recorded. Because our expectation for future profitability is generally less during periods of reduced revenue, we will be more likely to provide significant valuation allowances with respect to deferred tax assets during those periods of already reduced income.

As of December 31, 2005, 2006 and 2007, the ending balance for valuation allowances were NT\$794 million, NT\$1,079 million and NT\$834 million (US\$26 million), respectively.

***Impairment Loss of Long-Lived Assets***

We record impairment losses on long-lived assets used in operations if events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those items. Assumptions about the carrying value of the long-lived assets require significant judgment on our expected cash flow. Our cash flow estimates are based on historical results adjusted to reflect our best estimate of future market and operating conditions. The net carrying value of assets not recoverable is reduced to fair value. Our management periodically reviews the carrying value of our long-lived assets and this review is based upon our projections of anticipated future cash flows. Based on the assessment of our management, in 2007, we recognized NT\$9 million (US\$278 thousand) of impairment loss for long-term investments. While we believe that our estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect our evaluations.

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In determining whether any impairment charges were necessary as of December 31, 2007, we have assumed that the semiconductor industry will continue its growth in the next few years. Based upon our assumption of growth in the semiconductor industry and our other assumptions in our internal budget, for the purpose of determining whether any impairment charges are necessary as of December 31, 2007, we estimate that our future cash flows, on an undiscounted basis, are greater than our long-lived assets of NT\$30,919 million (US\$953 million) as of December 31, 2007. Any increases in estimated future cash flows would have no impact on the reported value of the long-lived assets. In contrast, if our current estimate of future cash flows had decreased, those cash flows would have been less than the reported amount of long-lived assets, and we would have been required to recognize an impairment loss that would have significantly decreased our net income before taxes in 2007.

### ***Goodwill***

Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the acquired net identified tangible and intangible assets. Under US GAAP, and effective on January 1, 2005 under ROC GAAP, we assess the impairment of goodwill on an annual basis, or more frequently whenever triggering events or changes in circumstances indicated that goodwill may be impaired and its carrying value may not be recoverable. Moreover, effective on January 1, 2006, goodwill is no longer amortizable under ROC GAAP. Factors we consider important which could trigger an impairment review include, without limitation, the following:

a significant decline in our stock price for a sustained period; and

a significant decline in our market capitalization relative to net book value.

Application of the goodwill impairment test is highly subjective and requires significant judgment, including the identification of cash generating units, assigning assets and liabilities to the relevant cash generating units, assigning goodwill to the relevant cash generating units, and determining the fair value of the relevant cash generating units. Under ROC GAAP, the fair value of the cash generating units is compared to the associated carrying value including goodwill, while under US GAAP, the fair value of the reporting units is compared to the associated carrying value including goodwill.

Under ROC GAAP, goodwill recorded from the acquisition of ChipMOS Taiwan and ThaiLin is evaluated for impairment on an annual basis. Based on our most recent evaluation, the fair value calculated by using the projected cash flow in the next five years was higher than the associated carrying value. As a result, we did not record any impairment charge under ROC GAAP. Under US GAAP, goodwill recorded from the acquisition of ChipMOS Taiwan and ThaiLin is evaluated for impairment on an annual basis. Based on our most recent evaluation, the fair value calculated by using the projected cash flow in the next five years was higher than the associated carrying value. As a result, we also did not record any impairment charge under US GAAP.

As of December 31, 2007, goodwill amounted to NT\$917 million (US\$28 million) and NT\$969 million (US\$30 million) under ROC GAAP and US GAAP, respectively.

### ***Convertible Notes***

Under US GAAP, we are required to account for the conversion option in the 2004 notes and the 2006 notes as derivative liabilities in accordance with SFAS No. 133 *Accounting For Derivative Instruments And Hedging Activities* and Emerging Interpretation Task Force ( EITF ) Issue No. 00-19 *Accounting For Derivative Financial Instruments Indexed To And Potentially Settled In A Company's Own Stock*. The discount attributable to the issuance date aggregate fair value of the conversion option, totaling NT\$1,199 million (US\$37 million), is amortized using the effective interest method over the term of the 2004 notes and the 2006 notes.

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The change in fair value on revaluation of the embedded derivative liabilities represents the difference between the fair value of the embedded derivative liabilities at the beginning of the reporting period and their fair value at the end of the reporting period. We are required to record the change in fair value as a loss or gain on embedded derivative liabilities in determining our net income under US GAAP. As of December 31, 2007, the fair value of the embedded derivative liabilities amounted to NT\$204 million (US\$6 million) which resulted in a gain on embedded derivative liabilities of NT\$1,157 million (US\$36 million). These gains and losses were taken into account when determining our net income under US GAAP for the year ended December 31, 2007.

The fair value of the embedded derivative is determined using an option pricing model, which requires us to make various assumptions, including among others, the expected volatility of our stock over the life of the option, market interest rates, credit spread and the expected life of the option. In determining these input assumptions, we consider historical trends and other relevant factors which may change from period to period. Because the option pricing model is sensitive to change in the input assumptions, different determinations of the required inputs may result in different fair value estimates of the options.

Under ROC GAAP, we are required to bifurcate and separately account for embedded put and call option features contained in our convertible notes issued after 2005 in accordance with SFAS No. 34 Financial Instruments: Recognition and Measurement . We issued the 2006 notes in September 2006 and carried the embedded put and call option features of the 2006 notes on the balance sheet at fair value with gains and losses reflected in our earnings. For more information, see Notes 24p and 25i to our audited consolidated financial statements contained in this Annual Report on Form 20-F.

### ***Share-Based Compensation***

Under US GAAP, we are required to account for our employee share option plans under the fair-value-based method and to recognize share-based compensation arrangements as expenses in the consolidated statements of operations, in accordance with SFAS No. 123(R) Share-Based Payments, which became effective for the first interim period beginning after December 15, 2005. The determination of the fair value of our share options on the date of grant under the Black Scholes Option Pricing Model is affected by the price of our common shares and assumptions of a number of variables, including the risk-free interest rate, the expected life of the options, the estimated fair value of our common shares and the expected price volatility of our common shares over the term of the options. In 2007, the share-based compensation expense amounted to NT\$211 million (US\$7 million), which was taken into account when determining our net income and shareholders' equity under US GAAP for the year ended December 31, 2007.

Prior to adopting SFAS No. 123(R), share-based compensation arrangements were accounted for under Accounting Principles Board Opinion No. 25, which utilized an intrinsic value approach to recognizing compensation expense. Under ROC GAAP, we continue to account for our share-based compensation arrangements under the intrinsic value method. For more information, see Notes 24q and 25h to our audited consolidated financial statements contained in this Annual Report on Form 20-F.

### ***Senior Management's Discussion with the Audit Committee***

Our management has discussed the critical accounting policies described above with the audit committee of our board of directors and the audit committee has reviewed our disclosure relating to the critical accounting policies in this section.

### ***Liquidity and Capital Resources***

Since our inception, we have funded our operations and growth primarily through the issuance of equity, a mixture of short- and long-term loans and cash flow from operations. As of December 31, 2007, our primary sources of liquidity were cash and cash equivalents (excluding restricted cash and cash equivalents) of NT\$5,134 million (US\$158 million), short-term loans of NT\$12,095 million (US\$373 million) available to us in undrawn facilities, which have expired or will expire before December 2008, and long-term loans of NT\$6,740 million (US\$208 million) available to us in undrawn facilities, which have expired or will expire before December 2013.

**Table of Contents****Liquidity**

The following table sets forth our cash flows with respect to operating activities, investing activities, financing activities and the effect of exchange rate changes on cash for the periods indicated.

|   | Year ended December 31, |              |              |              |
|---|-------------------------|--------------|--------------|--------------|
|   | 2005<br>NT\$            | 2006<br>NT\$ | 2007<br>NT\$ | 2007<br>US\$ |
|   | (in millions)           |              |              |              |
| Net cash provided by (used in):         |                         |              |              |              |
| Operating activities                    | \$ 8,822.6              | \$ 7,316.4   | \$ 10,882.9  | \$ 335.6     |
| Investing activities                    | (7,622.5)               | (14,988.2)   | (12,212.1)   | (376.6)      |
| Financing activities                    | (1,519.9)               | 8,947.9      | 528.1        | 16.3         |
| Effect of exchange rate changes on cash | 77.7                    | 12.8         | 38.8         | 1.2          |
| Net increase (decrease) in cash         | \$ (242.1)              | \$ 1,288.9   | \$ (762.3)   | \$ (23.5)    |

**Net Cash Provided by Operating Activities**

Net cash provided by operating activities totaled NT\$10,883 million (US\$336 million) in 2007, compared to NT\$7,316 million in 2006. The increase in net cash provided by operating activities primarily reflected a decrease in financial assets held at fair value through profit and loss and an increase in depreciation expenses, which were partially offset by a decrease in minority interests. The decrease in financial assets held at fair value through profit and loss was NT\$1,289 million (US\$40 million) in 2007, compared to an increase in financial assets held at fair value through profit and loss of NT\$1,743 million in 2006. The decrease in financial assets held at fair value through profit and loss in 2007 primarily resulted from a decrease in our holding of investment funds, as well as a decrease in the value of such holdings. Depreciation expenses increased to NT\$6,719 million (US\$207 million) in 2007 from NT\$5,489 million in 2006, primarily the result of additional equipment acquired in connection with our capacity expansion. Minority interests were NT\$720 million (US\$22 million) in 2007 compared to NT\$1,799 million in 2006, mainly because ChipMOS Taiwan became our wholly-owned subsidiary in 2007 as a result of the completion of our share purchase and subscription transaction with ChipMOS Taiwan and Siliconware Precision and our share exchange transaction with ChipMOS Taiwan.

Net cash provided by operating activities totaled NT\$7,316 million in 2006, compared to NT\$8,823 million in 2005. The decrease in net cash provided by operating activities primarily reflected an increase in financial assets held at fair value through profit and loss, which was NT\$1,743 million in 2006, compared to a decrease in financial assets held at fair value through profit and loss of NT\$2,646 million in 2005. The increase in financial assets held at fair value through profit and loss in 2006 primarily resulted from an increase in our holdings of investment funds, as well as an increase in the value of such holdings. The decrease in net cash provided by operating activities was also due to an increase in accounts receivable of NT\$1,118 million in 2006, compared to an increase in accounts receivables of NT\$713 million in 2005. The increase in accounts receivable in 2006 was primarily the result of increased sales. The decrease in net cash provided by operating activities was partially offset by an increase in net income, which was NT\$2,121 million in 2006 compared to NT\$928 million in 2005, as well as an increase in depreciation expenses, which was NT\$5,489 million in 2006 compared to NT\$4,241 million in 2005. The increase in depreciation expenses was primarily the result of additional equipment acquired in connection with our capacity expansion program.



**Table of Contents****Net Cash Used in Investing Activities**

Net cash used in investing activities totaled NT\$12,212 million (US\$377 million) in 2007, compared to NT\$14,988 million in 2006. The decrease in net cash used in investing activities was primarily the result of a decrease in capital expenditures, which was partially offset by an increase in cash payments incurred in connection with acquisitions of subsidiaries. Capital expenditures were NT\$6,633 million (US\$205 million) in 2007, compared to NT\$15,190 million in 2006. We incurred significantly higher capital expenditures in 2006 primarily due to the capacity expansion for our agreement with Spansion. Cash payments incurred in connection with acquisitions of subsidiaries, which were NT\$5,305 million (US\$164 million) in 2007 compared to nil in 2006, related primarily to our acquisition of Siliconware Precision's shares of ChipMOS Taiwan in March 2007 and our share exchange transaction with ChipMOS Taiwan on September 14, 2007. See Item 4. Information on the Company Our Structure and History.

Net cash used in investing activities totaled NT\$14,988 million in 2006, compared to NT\$7,623 million in 2005. The increase in net cash used in investing activities was primarily the result of an increase in capital expenditures. Capital expenditures were NT\$15,190 million in 2006, compared to NT\$7,651 million in 2005, primarily due to the acquisition of equipment required under our agreement with Spansion, as well as capacity expansion for our testing and assembly services for DDR II SDRAM and LCD and other flat-panel display driver semiconductors.

**Net Cash Provided by Financing Activities**

Net cash provided by financing activities totaled NT\$528 million (US\$16 million) in 2007, compared to NT\$8,948 million in 2006. Net cash provided by financing activities reflected the proceeds from new long-term loans of NT\$172 million (US\$5 million) in 2007, compared to the proceeds from long-term loans of NT\$6,279 million in 2006. In addition, net cash provided by financing activities in 2006 was significantly higher partly due to the proceeds from the issuance of the 2006 notes of NT\$3,191 million.

Net cash provided by financing activities totaled NT\$8,948 million in 2006, compared to net cash used in financing activities of NT\$1,520 million in 2005. Net cash provided by financing activities primarily reflected the proceeds from long-term loans of NT\$6,279 million and the proceeds from the issuance of the 2006 notes of NT\$3,191 million.

**Tabular Disclosure of Contractual Obligations and Commercial Commitments**

The following table summarizes our contractual obligations and commitments as of December 31, 2007 for the periods indicated:

| Contractual Obligations            | Total<br>NT\$ | Payments Due by Period      |                   |                   |                              |
|------------------------------------|---------------|-----------------------------|-------------------|-------------------|------------------------------|
|                                    |               | Less than<br>1 year<br>NT\$ | 2-3 years<br>NT\$ | 4-5 years<br>NT\$ | More than<br>5 years<br>NT\$ |
|                                    |               |                             |                   |                   |                              |
|                                    |               | (in millions)               |                   |                   |                              |
| Long-term debt <sup>(1)</sup>      | \$ 19,315.9   | \$ 7,455.5 <sup>(3)</sup>   | \$ 9,410.7        | \$ 2,285.5        | \$ 164.2                     |
| Short-term loans <sup>(1)</sup>    | 1,261.1       | 1,261.1                     |                   |                   |                              |
| Operating leases                   | 3,687.7       | 1,426.3                     | 2,025.8           | 49.4              | 186.2                        |
| Capital commitments                | 834.2         | 834.2                       |                   |                   |                              |
| Investment <sup>(2)</sup>          | 4,135.0       | 4,135.0                     |                   |                   |                              |
| Total contractual cash obligations | \$ 29,233.9   | \$ 15,112.1                 | \$ 11,436.5       | \$ 2,334.9        | \$ 350.4                     |

(1) Includes interest payments. Assumes level of relevant interest rates remains at December 31, 2007 level throughout all relevant periods.

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- (2) Represents Modern Mind's outstanding commitment to make equity investments of US\$127.5 million in ChipMOS Shanghai. In May 2008, ChipMOS Shanghai received a written consent-in-principle from the relevant PRC regulatory authority to decrease the registered capital of ChipMOS Shanghai from US\$250 million to US\$130 million. If we obtain the final approval for the decrease in the registered capital of ChipMOS Shanghai, Modern Mind's obligation for contribution of the unpaid registered capital of ChipMOS Shanghai would be reduced from US\$127.5 million to US\$7.5 million. See Item 4. Information on the Company Our Structure and History MODERN MIND TECHNOLOGY LIMITED and ChipMOS TECHNOLOGIES (Shanghai) LTD.
- (3) Includes potential obligation in connection with the right of the holders of the 2006 notes to cause ChipMOS Bermuda to repurchase the 2006 notes on September 29, 2008 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. If the holders of the 2006 notes do not exercise the right to cause the repurchase of the convertible notes, the notes will be due in 2011 subject to the terms and conditions of the notes. See Capital Resources.

In addition to the commitments set forth in the contractual obligations table above, we have certain outstanding purchase orders relating to the procurement of raw materials for which there are no definite delivery dates or deadlines.

**Capital Resources**

Capital expenditures in 2005 were funded by NT\$8,823 million in cash flows from operations. Capital expenditures in 2006 were funded by NT\$7,316 million in cash flows from operating activities and NT\$8,948 million in cash flows from financing activities, including proceeds from long-term debt facilities and the issuance of the 2006 notes. Capital expenditures in 2007 were funded by NT\$10,883 million (US\$336 million) in cash flows from operating activities and NT\$528 million (US\$16 million) in cash flows from financing activities, mainly comprising new bank borrowings.

We have budgeted capital expenditures of approximately US\$132 million for 2008 and US\$150 million for 2009. Our budgeted capital expenditures for 2008 include our currently anticipated capital expenditures to purchase equipment under our long-term customer agreements. See Item 3. Key Information Risk Factors Risks Relating to Our Business We are required to make significant capital expenditures in connection with our long-term customer agreements, and our business and results of operations would be adversely affected if we are unable to obtain sufficient funding or if our customers do not fulfill their purchase commitments. In June 2007, we obtained syndicated loan facilities of NT\$6,000 million (US\$185 million) from banks in Taiwan to fund our acquisition of new testing and assembly equipment. We anticipate, subject to market conditions, issuing additional debt, convertible debt or equity securities and raising short- or long-term borrowings to fund our capital expenditures.

Our budgeted capital expenditures for 2008 also include capital expenditures by ChipMOS Shanghai for its semiconductor testing and assembly services. ChipMOS Shanghai also has an outstanding unpaid registered capital of US\$127.5 million required to be fully paid by December 7, 2008. In May 2008, ChipMOS Shanghai received a written consent-in-principle from the relevant PRC regulatory authority to decrease the registered capital of ChipMOS Shanghai from US\$250 million to US\$130 million in response to an application by us in March 2008. If we obtain the final approval for the decrease in the registered capital of ChipMOS Shanghai, Modern Mind's obligation for contribution of the unpaid registered capital of ChipMOS Shanghai would be reduced from US\$127.5 million to US\$7.5 million. There is no assurance, however, that we will obtain the final approval. See Item 3. Key Information Risk Factors Risks Relating to Our Business If Modern Mind fails to invest an additional US\$127.5 million into ChipMOS Shanghai by December 7, 2008, 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. If we fail to obtain such approval, we plan to fund the payment of the remaining capital requirement by issuing additional debt or equity securities or obtaining long-term borrowings.

On September 29, 2008, the holders of the 2006 notes have the right to require us to repurchase the 2006 notes 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. We intend to fund our repurchase obligations with dividends from our subsidiaries and the issuance of additional debt or equity securities or long-term borrowings.

As of December 31, 2007, we had long-term loans of NT\$12,934 million (US\$399 million) (including current portions of such long-term loans of NT\$3,686 million (US\$114 million)). As of December 31, 2007, NT\$9,668 million (US\$298 million) of our long-term loans were collateralized by equipment, NT\$1,994 million (US\$61 million) were collateralized by land and buildings (including land use rights) and NT\$16 million (US\$493 thousand) were collateralized by time deposits. Of our long-term loans, in the aggregate:

NT\$11,924 million (US\$368 million) were floating rate loans with a rate between 2.945% and 4.58% as of December 31, 2007 repayable quarterly, semi-annually or totally until December 2013;



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NT\$316 million (US\$10 million) were fixed rate loans with a rate between 1% and 4.69% as of December 31, 2007 repayable quarterly until April 2010; and

US\$21 million (NT\$694 million) were floating rate loans with a rate between 5.5175% and 6.3725% as of December 31, 2007 repayable quarterly, or totally until April 2010.

Other than the NT\$16 million 1% fixed rate industrial research and development advancement loan, all of our outstanding long-term loans as of December 31, 2007 were drawdowns under various bank loans and syndicated loan facilities. As of December 31, 2007, we had entered into the following syndicated loan facilities:

On March 21, 2003, we obtained a syndicated loan facility in the amount of NT\$1,000 million. This loan facility is separated into two parts with its respective term of seven years and five years. This loan facility is secured by ThaiLin's facilities and the testing equipment at Chupei. As of December 31, 2007, this loan facility was fully drawn.

On December 31, 2003, we obtained a syndicated loan facility in the amount of NT\$2,000 million for a term of four years. This loan facility is secured by our facilities at the Southern Taiwan Science Park and our testing and assembly equipment located within our facilities at Chupei, the Hsinchu Science Park and the Southern Taiwan Science Park. As of December 31, 2007, this loan facility was fully drawn.

On July 27, 2004, we obtained a syndicated loan facility in the amount of NT\$1,000 million for a term of five years. This loan facility is secured by our facilities at the Southern Taiwan Science Park and our testing and assembly equipment located within our facilities at Chupei, the Hsinchu Science Park and the Southern Taiwan Science Park. As of December 31, 2007, this loan facility was fully drawn.

On June 7, 2005, we obtained a syndicated loan facility in the amount of NT\$1,000 million for a term of four years. This loan facility is secured by our facilities at the Hsinchu Science Park. As of December 31, 2007, this loan facility was fully drawn.

In January 2006, we obtained a syndicated loan facility from banks in Taiwan in the amount of NT\$6,000 million for a term of five years. This loan facility is secured by our facilities at the Hsinchu Science Park and our testing and assembly equipment located within our facilities at Chupei, the Hsinchu Science Park and the Southern Taiwan Science Park. As of December 31, 2007, this loan facility was fully drawn.

In February 2006, we obtained a syndicated loan facility from banks in Taiwan in the amount of NT\$3,000 million for a term of six years. This loan facility is secured by ThaiLin's facilities at Chupei. As of December 31, 2007, NT\$1,260 million (US\$39 million) was drawn under this loan facility.

In June 2007, we obtained a syndicated loan facility from banks in Taiwan in the amount of NT\$6,000 million (US\$185 million) for a term of five years. This loan facility is secured by our facilities at the Southern Taiwan Science Park and equipment located within our facilities at Chupei, the Hsinchu Science Park and the Southern Taiwan Science Park. As of December 31, 2007, NT\$1,000 million (US\$31 million) was drawn under this loan facility.

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On November 3, 2004, ChipMOS Bermuda issued US\$85 million in aggregate principal amount of the 2004 notes, which bear interest at 1.75% per annum, and on September 29, 2006, ChipMOS Bermuda issued US\$100 million in aggregate principal amount of the 2006 notes, which bear interest at 3.375% per annum. The noteholders may convert the 2004 notes and the 2006 notes into our common shares at the conversion price of US\$6.28 per share (adjusted down from the initial conversion price of US\$7.85 per share) and US\$6.85 per share, respectively, subject to certain adjustments. In December 2004, we repurchased and cancelled US\$699,000 of the 2004 notes. In October 2006, we made an induced conversion offer to the holders of the 2004 notes pursuant to which we offered to each holder, as incentive for such holder to convert its 2004 notes, a cash payment equal to 7% of the principal amount of the 2004 notes. Pursuant to the offer, noteholders converted US\$7,000,000 in aggregate principal amount of the 2004 notes into 1,114,649 common shares and received from us aggregate cash consideration of approximately US\$490,000. On November 3, 2006, we repurchased US\$6,300,000 in aggregate principal amount of the 2004 notes pursuant to the noteholders' put option under the indenture. On November 9, 2007, ThaiLin, our 38.2% owned consolidated subsidiary, purchased US\$7,000,000 in aggregate principal amount of the 2004 note. In addition, on November 29, 2007, we repurchased US\$1,000,000 in aggregate principal amount of the 2006 notes. As of March 31, 2008, we had US\$71 million aggregate principal amount of the 2004 notes outstanding (including the US\$7 million aggregate principal amount held by ThaiLin), and US\$99 million aggregate principal amount of the 2006 notes outstanding. For a discussion of the accounting for the conversion feature of the convertible notes under US GAAP, see Critical Accounting Policies Convertible Notes and US GAAP Reconciliation. Under the indenture, each noteholder of the 2006 notes has the right to require us to repurchase its 2006 notes on September 29, 2008 at a repurchase price equal to 100% of the principal amount plus accrued and unpaid interest.

In addition, if certain fundamental changes occur, the noteholders have the right to require us to purchase the 2004 notes and the 2006 notes at a repurchase price equal to 100% of the principal amount plus any accrued and unpaid interest on those notes to, but excluding, the repurchase date. Generally, a fundamental change will be deemed to have occurred if:

any person other than us and our subsidiaries is or becomes the beneficial owner of more than 50% of our common shares;

during any period of two consecutive years, individuals who at the beginning of such period constituted our board of directors cease for any reason to constitute a majority of our board of directors then in office;

the termination of trading of our common shares; or

certain mergers or consolidation involving us or the sale of all or substantially all of our assets.

The noteholders' right to require us to repurchase the 2004 notes and the 2006 notes upon the occurrence of a fundamental change is subject to a number of exceptions, including a trading price exception pursuant to which the repurchase right will not be exercisable if the trading price of our common shares exceeds a certain percentage of the conversion price.

The conversion prices of the 2004 notes and the 2006 notes are subject to customary anti-dilution adjustments upon the occurrence of certain events, including the declaration of stock dividends on our common shares and the repurchase of our common shares for consideration in excess of the market price.

Certain of our loan agreements and indentures contain covenants that, if violated, could result in the obligations under these agreements becoming due prior to the originally scheduled maturity dates. These covenants include financial covenants that require us to:

maintain a current assets to current liabilities ratio above 1:1;

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maintain total indebtedness to shareholders' equity (excluding goodwill and other intangible assets) ratio below 1.2:1;

maintain total indebtedness to shareholders' equity ratio below 1:1;

maintain the earnings before interest, taxes, depreciation and amortization to gross interest expense ratio above 2.5:1; and

maintain a guaranteed to issued capital ratio below 1:2.

As of December 31, 2007, we were in compliance with our financial covenants.

In addition, a substantial portion of our short-term and long-term borrowings may be subject to repayment upon a material deterioration of our financial condition, results of operations or our ability to perform under the loan agreements.

Set forth below are the maturities of our long-term bank loans outstanding as of December 31, 2007:

|                         | (in millions) |          |
|-------------------------|---------------|----------|
| During 2008             | NT\$ 3,686    | US\$ 114 |
| During 2009             | 3,865         | 119      |
| During 2010             | 3,009         | 93       |
| During 2011             | 1,647         | 51       |
| During 2012 and onwards | 727           | 22       |
|                         | NT\$ 12,934   | US\$ 399 |

As of December 31, 2007, certain of our land and buildings (including land use rights) and machinery with an aggregate net book value of NT\$3,872 million (US\$119 million) and NT\$12,293 million (US\$379 million), respectively, and time deposits in the aggregate amount of NT\$30 million (US\$925 thousand) were pledged as collateral in connection with our long-term borrowings. Approximately 53% of our net property, plant and equipment in terms of book value was pledged as collateral for our long-term loans.

Our unused credit lines for short-term loans, as of December 31, 2007, totaled NT\$12,095 million (US\$373 million), which will expire by December 2008. As of December 31, 2007, we had available undrawn long-term credit facilities totaling NT\$6,740 million (US\$208 million).

As of December 31, 2007, we had credit loans for imports of machinery in the total amount of NT\$1,106 million (US\$34 million), which are due between January 2008 and June 2008. We also had a short-term credit loan for importing raw materials in the total amount of NT\$143 million (US\$4 million), which is due in February 2008.

We believe our current cash and cash equivalents, cash flow from operations and available credit facilities will be sufficient to meet our capital spending and other capital needs through the end of June 2009, other than our commitments to invest in ChipMOS Shanghai, a wholly-owned subsidiary of our controlled consolidated subsidiary, Modern Mind, and our potential obligation to repurchase the 2006 notes on September 29, 2008. For more information on the potential obligation to repurchase the 2006 notes, see Item 3. Key Information Risk Factors Risks Relating to Our Business. Our significant amount of indebtedness and interest expense will limit our cash flow and could adversely affect our operations. In order to meet ChipMOS Shanghai's investment commitments and our potential repurchase obligation, we may borrow additional amounts or issue additional debt or equity securities, or both.

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From time to time, we evaluate possible investments and acquisitions in Taiwan, Mainland China and elsewhere and may, if a suitable opportunity arises, acquire additional capacity by making an investment or acquisition at an attractive price. We may finance these expenditures from cash flow from operations, amounts available under existing credit facilities, additional borrowing and the issuance of securities.

**Off-Balance Sheet Arrangements**

As of December 31, 2007, we had no off-balance sheet arrangements.

**US GAAP Reconciliation**

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

|   | Year ended as of December 31, |              |              |              |
|---|-------------------------------|--------------|--------------|--------------|
|   | 2005<br>NT\$                  | 2006<br>NT\$ | 2007<br>NT\$ | 2007<br>US\$ |
|   | (in millions)                 |              |              |              |
| Net income in accordance with:  |                               |              |              |              |
| ROC GAAP  | \$ 928.2                      | \$ 2,121.3   | \$ 2,219.2   | \$ 68.4      |
| US GAAP   | 805.4                         | 1,253.1      | 2,901.7      | 89.5         |
| Total assets in accordance with:  |                               |              |              |              |
| ROC GAAP  | 31,758.0                      | 46,011.9     | 45,316.1     | 1,397.4      |
| US GAAP   | 31,653.6                      | 45,976.1     | 45,266.0     | 1,395.8      |
| Shareholders' equity (including minority interests) in accordance with: |                               |              |              |              |
| ROC GAAP  | 19,091.9                      | 22,884.9     | 22,248.1     | 686.1        |
| US GAAP   | 18,825.4                      | 21,430.7     | 21,650.9     | 667.6        |

Note 24 to our audited financial statements describes the principal differences between ROC GAAP and US GAAP as they relate to us, and a reconciliation to US GAAP of certain items, including net income and shareholders' equity. Differences between ROC GAAP and US GAAP which have an effect on our net income as reported under ROC GAAP relate to, among other things, accrual for bonuses to employees, directors and supervisors, share-based compensation and accounting for our convertible notes.

Under Statement of Financial Accounting Standard No. 123R "Share-Based Payment" adopted by the Financial Accounting Standards Board and Staff Accounting Bulletin 107 "Share-Based Payment" by the SEC, share-based compensation transactions are generally required to be accounted for using a fair-value-based method and recognized as expenses in the consolidated statements of operations. The standards became effective for the first interim period beginning after December 15, 2005. For more information, see "Critical Accounting Policies" "Share-Based Compensation" and Notes 24q and 25h to our audited consolidated financial statements.

Under Statement of Financial Accounting Standard No. 133 "Accounting For Derivative Instruments And Hedging Activities" and EITF Issue No. 00-19 "Accounting For Derivative Financial Instruments Indexed To And Potentially Settled In A Company's Own Stock," we are required to bifurcate and separately account for the conversion feature of our convertible notes as embedded derivatives contained in the convertible notes. Under US GAAP, we are required to carry these embedded derivatives on our balance sheet at fair value and changes in fair values of these embedded derivatives are reflected in the consolidated statement of operations. The change in fair value for embedded derivative liabilities for the conversion feature for the year ended December 31, 2007 under US GAAP was approximately NT\$1,157 million (US\$36 million) and the resulting net income for the year ended December 31, 2007 under US GAAP was approximately NT\$2,902 million (US\$89 million). For more information, see Notes 24p and 25i to our audited consolidated financial statements.

**Table of Contents****Non-GAAP Financial Information Derived from US GAAP Measures**

To supplement our consolidated income statement for the year ended December 31, 2007 on a ROC GAAP basis, our management uses a non-GAAP measure of net income, which is net income pursuant to US GAAP adjusted to exclude two non-cash items referred to as special items. The two non-cash items excluded are changes in the fair value of the embedded derivative liabilities and amortization of discount on convertible notes. These items are considered by the management to be outside of our core operating results. For example, changes in the fair value of the embedded derivative liabilities relate heavily to the price of our company's common shares, interest rate and volatility, all of which are difficult to predict and outside of the control of our management.

For these reasons, our management uses non-GAAP adjusted measures of net income and non-GAAP net income per share, both derived from US GAAP measures to evaluate the performance of our core businesses and to estimate future core performance. In addition, this information facilitates our management's internal comparisons to our historical operating results as well as to the operating results of our competitors.

Our management finds these supplemental non-GAAP measures to be useful, and believes these non-GAAP measures are useful to investors in enabling them to perform additional analyses of past, present and future operating performance and as a supplemental means to evaluate our core operating results. However, readers are reminded that non-GAAP numbers are merely a supplement to, and not a replacement for, ROC GAAP or US GAAP financial measures. They should be read in conjunction with ROC GAAP and US GAAP financial measures. It should be noted as well that our non-GAAP information may be different from the non-GAAP information provided by other companies.

The following table sets forth, for the year ended December 31, 2007, reconciliation of US GAAP net income to non-GAAP net income:

|   | <b>Year ended December 31, 2007</b>             |               |
|---|---|---------------|
|   | <b>NT\$</b>                                     | <b>US\$</b>   |
|   | <b>(in millions, except for per share data)</b> |               |
| <b>US GAAP Net Income (Basic)<sup>(1)</sup></b>                                 | 2,901.7   | 89.5          |
| Special Items (in Non-Operating Income (Expenses), Net)                         |   |               |
| Changes in the fair value of the embedded derivative liabilities <sup>(2)</sup> | (1,156.8)                                       | (35.7)        |
| Amortization of discount on convertible notes <sup>(3)</sup>                    | 357.5   | 11.0          |
| <b>Total Special Items</b>  | <b>(799.3)</b>                                  | <b>(24.7)</b> |
| Non-GAAP Adjusted Net Income (Basic)  | 2,102.4   | 64.8          |
| <b>US GAAP Net Income Per Share (Basic)</b>                                     | <b>36.13</b>                                    | <b>1.11</b>   |
| Adjustment for special items  | (9.95)  | (0.30)        |
| <b>Non-GAAP Net Income Per Share (Basic)</b>                                    | <b>26.18</b>                                    | <b>0.81</b>   |
| US GAAP Net Income Per Share (Diluted)  | 21.07   | 0.65          |
| Adjustment for special items  |   |               |
| <b>Non-GAAP Net Income Per Share (Diluted)</b>                                  | <b>21.07</b>                                    | <b>0.65</b>   |

(1) Reflects the US GAAP adjustments as described in Note 24 of the notes to the consolidated financial statements contained in this Annual Report on Form 20-F.

(2) The management of our company believes excluding non-cash special item for the changes in the fair value of the embedded derivative liabilities from its non-GAAP financial measure of net income is useful for itself and investors as such gain does not have any impact on cash available to our company.



- (3) The management of our company believes excluding non-cash amortization expense of discount on convertible notes from its non-GAAP financial measure of net income is useful for itself and investors as such expense does not have any impact on cash available to our company.

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**Taxation**

ChipMOS Taiwan was granted a Republic of China income tax exemption for a period of four years on income attributable to the expansion of its production capacity as a result of purchases of new equipment funded by capital increases in 1998, 1999 and 2000. The tax exemption relating to the expansion of production capacity in 1998 and 1999 expired on December 31, 2002. The tax exemption relating to the expansion of production capacity in 2000 expired on December 31, 2005. The tax exemption relating to the expansion of production capacity in 2001 will expire on December 31, 2008, and has resulted in tax savings for ChipMOS Taiwan of approximately NT\$158 million in 2005, approximately NT\$235 million in 2006 and approximately NT\$135 million (US\$4 million) in 2007.

ChipMOS Taiwan is also entitled to other tax incentives generally available to Taiwan companies under the ROC Statute of Upgrading Industries, including tax credits of 30% for certain research and development and employee training expenses (and, if the amount of expenditure exceeds the average amount of expenditure for the preceding two years, 50% of the excess amount may be credited against tax payable) and from 5% to 7% for certain investments in automated equipment and technology. These tax credits must be utilized within five years from the date on which they were earned. In addition, except for the last year of the five-year period, the aggregate tax reduction from these tax credits for any year cannot exceed 50% of that year's income tax liability. In 2005, 2006 and 2007, tax credits resulted in tax savings for ChipMOS Taiwan of approximately NT\$135 million, NT\$295 million and NT\$623 million (US\$19 million), respectively.

ThaiLin was granted a ROC income tax exemption for a period of five years on income attributable to the expansion of its production capacity as a result of purchases of new equipment funded by capital increase in 2002, which will expire on December 31, 2009. It has resulted in tax savings for ThaiLin of approximately NT\$39 million in 2005, approximately NT\$30 million in 2006 and NT\$25 million (US\$771 thousand) in 2007.

ThaiLin is also entitled to other tax incentives generally available to Taiwan companies under the ROC Statute of Upgrading Industries, including tax credits of 5% to 7% for certain investment in automated equipment and technology. These tax credits must be utilized within five years from the date on which they were earned. In addition, except for the last year of the five-year period, the aggregate tax reduction from these tax credits for any year cannot exceed 50% of such year's income tax liability. In 2005, 2006 and 2007, tax credits resulted in tax savings for ThaiLin of approximately NT\$84 million, NT\$101 million and NT\$101 million (US\$3 million), respectively.

Net income generated by ChipMOS Taiwan and ThaiLin after January 1, 1998, which is not distributed in the year following the year the income was generated, is subject to income tax at the rate of 10%. If that net income is subsequently distributed, the income tax previously paid on that income is credited against the amount of withholding tax payable by shareholders, who are not individuals or entities of the Republic of China (for taxation purposes), in connection with the distribution.

The ROC government enacted the ROC Alternative Minimum Tax Act ( AMT Act ) that became effective on January 1, 2006. The alternative minimum tax ( AMT ) imposed under the AMT Act is a supplemental tax which is payable if the income tax payable pursuant to the ROC Income Tax Act is below the minimum amount prescribed under the AMT Act. The taxable income for calculating the AMT includes most income that is exempted from income tax under various legislations, such as tax holidays and investment tax credits. The AMT rate for business entities is 10%. However, the AMT Act grandfathered certain tax exemptions and tax credits granted prior to the enactment of the AMT. The effects of the AMT on the tax expenses of ChipMOS Taiwan and ThaiLin in 2007 were not significant.

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In accordance with the relevant tax rules and regulations of the PRC, ChipMOS Shanghai is entitled to an income tax exemption starting from the first profit making year, with a full exemption available for the first two years and a 50% exemption available for three additional years thereafter. As the first profit-making year for ChipMOS Shanghai was 2004, the profits made in the years 2004 and 2005 were fully exempt, and the profits made in the years 2006 through 2008 were subject to a 50% tax exemption. Any tax losses can only be carried forward for five years.

**Item 6. Directors, Senior Management and Employees**  
**Directors and Senior Management**

Our board of directors currently comprises nine directors, eight of whom were elected by our shareholders and one of whom was appointed by directors to fill a vacancy on our board. The number of directors, which must not be less than three nor greater than nine according to our by-laws, is set by our directors but so long as a quorum of directors remains in office, casual vacancies on the board may be filled by the board. The quorum for a meeting of the directors is set by the board and otherwise is two in number. The chairman of the board is appointed from among the members of the board.

There is no requirement under Bermuda law that a director be a shareholder.

The following table sets out the names of our directors and executive officers, their positions with our company and their ages as of March 31, 2008. The business address for our directors and executive officers is No.1, R&D Road 1, Hsinchu Science Park, Hsinchu, Taiwan, Republic of China.

| Name               | Age | Position  | Term Expires |
|--------------------|-----|---|--------------|
| Shih-Jye Cheng     | 50  | Chairman and Director/Chief Executive Officer                                 | 2008         |
| Antonio R. Alvarez | 52  | Independent Director  | 2008         |
| Rong Hsu           | 58  | Independent Director  | 2008         |
| Hsing-Ti Tuan      | 64  | Director  | 2009         |
| Yeong-Her Wang     | 52  | Independent Director  | 2009         |
| Shou-Kang Chen     | 47  | Chief Financial Officer and Director  | 2009         |
| Pierre Laflamme    | 62  | Deputy Chairman and Independent Director                                      | 2010         |
| Chao-Jung Tsai     | 54  | Director  | 2010         |
| Takaki Yamada      | 58  | Independent Director  | 2010         |
| Adam Hsien         | 49  | Acting President of ChipMOS Shanghai  |              |
| Lafair Cho         | 46  | President of ThaiLin  |              |
| F.J. Tsai          | 50  | President of ChipMOS USA/Vice President, Business Operation Management Center |              |
| Jessie Lin         | 43  | Vice President, Quality, Reliability & Assurance Center                       |              |
| Joyce Chang        | 47  | Vice President, LCDD Production Group   |              |
| Michael Lee        | 43  | Vice President, Wafer Sort Business Unit                                      |              |
| Ivan Hsu           | 42  | Vice President, Memory Production Group                                       |              |
| Jesse Huang        | 42  | Vice President, Assembly Production Group                                     |              |
| David W. Wang      | 60  | Vice President, Research & Strategy Development Center                        |              |

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*Shih-Jye Cheng* has served as one of our directors and chief executive officer since our inception. He was our deputy chairman from our inception to May 2004 and became our chairman in May 2004. He has also served as a director and president of ChipMOS Taiwan since 1997, the chairman of ChipMOS Taiwan since June 2003, the chairman of ThaiLin since 2002 and a director of Syntax-Brilliant Corporation since November 2005. He was the chairman of ChipMOS Shanghai from 2002 to June 2005, the chairman of Chantek from 2002 to November 2005, the chairman of ChipMOS Logic from January 2004 to November 2005, the chairman of Advanced Micro Chip Technology Co., Ltd. from 2003 to April 2004 and a director of Ultima Electronics Corp. from 2000 to June 2003. He was a division head of the back-end operation of Mosel from 1992 to 1997. Mr. Cheng has a master's degree in business administration from Saginaw Valley State University. Mr. Cheng is currently under indictment of the Taipei District Prosecutor's Office for matters relating to the purchase by ChipMOS Taiwan and ThaiLin of certain repurchase notes in 2004. Although Mr. Cheng was found not guilty by the Taipei District Court on October 1, 2007, the prosecutor appealed the Taipei District Court's decision on October 27, 2007. For more information, please see Item 3. Key Information Risk Factors Risks Relating to Our Business The ongoing criminal proceeding involving Mr. Shih-Jye Cheng, our Chairman and Chief Executive Officer, and Mr. Hung-Chiu Hu, our former director, could have a material adverse effect on our business and cause our stock price to decline.

*Antonio R. Alvarez* has served as one of our directors since July 2005. Mr. Alvarez has been the president and chief executive officer, and a director of Leadis Technology Inc. since November 2005. Since March 2006, he has been a member of the board of directors of Validity Sensors Inc. He was senior vice president and general manager of the memory products division of Cypress Semiconductor Corporation from 1998 to July 2005, and senior vice-president of research and development from 1991 to 2001. He holds master's and bachelor's degrees in electrical engineering from Georgia Institute of Technology, where he is a member of the advisory board of the Electrical Engineering Department. He is a member of the Institute for Electrical and Electronic Engineers.

*Rong Hsu* has served as one of our directors since July 2005. Mr. Hsu has been the vice president of Spatial Photonics Inc. since May 2006. He was a founder of eLCOS Microdisplay Technology Group where he was the president from April 2001 to December 2005, senior director of operations at Aurora Systems Co. from 1999 to March 2001, director of manufacturing for micro-display systems and testing at S-Vision Co. from 1996 to 1999, manager of manufacturing at nCHIP Co. from 1991 to 1996, research engineer at Lawrence Livermore National Laboratory from 1988 to 1991 and senior engineer at Intel Corporation from 1982 to 1988. He has a doctorate degree in material engineering from the University of Maryland, a master's degree in material science from Brown University and a bachelor's degree in mechanical engineering from National Taiwan University. He is a founding member and senior advisor of the Chinese American Semiconductor Professional Association.

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*Hsing-Ti Tuan* has served as one of our directors since August 2000. Mr. Tuan currently is the executive vice president and the deputy chairman of ProMOS Technologies Inc. Mr. Tuan has served as a director of ProMOS since 1997. He has been the president of Mosel Vitelec Corp., USA since 1994. He was the acting president of Mosel from November 2004 to December 2005 and previously served as the executive vice president of their research and development division. He was also the vice president of Mosel from 1992 to 1996. Mr. Tuan also serves as a director of Mosel and SyncMOS Technology International. Mr. Tuan holds a master's degree in electrical engineering from Utah State University and a bachelor's degree in electrical engineering from National Cheng Kung University in Taiwan.

*Yeong-Her Wang* has served as one of our directors since July 2004. He has been a professor in the Department of Electrical Engineering of National Cheng Kung University since 1992. He was also an associate dean of the College of Engineering between 1999 and 2003, chairman of the Department of Electrical Engineering between 1996 and 1999, associate director of the Department of Electrical Engineering between 1993 and 1996 and director of the Electrical Factory, College of Engineering of National Cheng Kung University between 1995 and 1996. Mr. Wang holds Ph.D., master's and bachelor's degrees from National Cheng Kung University in Taiwan.

*Shou-Kang Chen* has served as one of our directors since June 2005. He has served as our chief financial officer, investor relations officer and head of the finance division of ChipMOS Taiwan since 2002. He was the head of our strategy development department from 2000 to 2001. He was the department head of the quality lab of ChipMOS Taiwan from 1998 to 2000. Mr. Chen holds a bachelor's degree in mining and petroleum engineering and a master of science degree and a Ph.D. degree from the graduate school of mining, metallurgy and material science of National Cheng Kung University in Taiwan.

*Pierre Laflamme* has served as one of our directors since February 2001, and as our deputy chairman since June 2005. Since July 2003, he has been engaged in international consultancy works and also participated in developing new residential housing concepts and projects. Since April 2007, he has been the chairman of the board of Capital BLF Inc., a Capital Pool Company in Canada. He was the president and chief operating officer of SGF Tech Inc. from January 2000 to July 2003. Before that, he was the vice president of high technology investments of Société Générale de Financement du Québec from 1997 to 2000. He was the senior vice president of Solidarity Fund from 1996 to 1997 and a deputy minister of the Quebec Prime Minister's Department from 1994 to 1996. Mr. Laflamme holds a bachelor's degree in Architecture from Université de Montréal.

*Chao-Jung Tsai* has served as one of our directors since November 2004. Mr. Tsai was a director of ChipMOS Taiwan from January 2001 to December 2005, as a representative of Siliconware Precision, where he has been a director since June 2005 and served as a supervisor from June 2002 to June 2005. He has also been a supervisor of Phoenix Precision Technology Co. Ltd. since June 2005. He was previously president of Grand Cathay Securities Co., Ltd. and assistant vice president of China Trust Commercial Bank Co., Ltd. Mr. Tsai received his bachelor's degree in statistics from National Cheng Kung University and master's degree in management of technology from National Chiao Tung University in Taiwan. He holds Taiwan CPA and CFA licenses.

*Takaki Yamada* was appointed by our board of directors on July 10, 2006 to fill the vacancy resulting from the death of Mr. Tadao Higashi. Mr. Yamada is currently the president of OKI Semiconductor Manufacturing Company and assistant operation officer of OKI Semiconductor Group, as well as the president of Oki (Thailand) Co., Ltd. He joined OKI Semiconductor Group after graduating from Tokyo Keizai University in Japan, where he received a bachelor's degree in business administration. He was the vice president of OKI Semiconductor Manufacturing Company from April 2004 to March 2006, and was also the president of Silicon Manufacturing Co. Pte. Ltd. from April 2005 to March 2008.

*Adam Hsien* has served as the acting president of ChipMOS Shanghai since September 2006 and vice president since July 2006. He was executive vice president of Camtech Optronics Inc. from 2004 to 2006 and the director of the bumping operation division of He Jian Technology Inc. in Suzhou from 2003 to 2004. Mr. Hsien received a bachelor's degree in electrical engineering from Feng Chia University in Taiwan.

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*Lafair Cho* has served as ThaiLin's president since December 1, 2003 and a director since December 30, 2002. He was vice president of ThaiLin from February 1, 2003 to November 30, 2003. He has also served as vice president of the memory production group of ChipMOS Taiwan from July 2003 to August 2004 and as a director of ChipMOS Taiwan since October 2003. He served as a deputy assistant vice president of the IC testing division of ChipMOS Taiwan from April 2000 to December 2001 and as an assistant vice president of the IC testing division of ChipMOS Taiwan from January 2002 to January 2003. He served as manager of production material control of Mosel from 1993 to 1997. He holds a master's degree in industrial management from National Cheng Kung University in Taiwan.

*F.J. Tsai* has served as the President of ChipMOS USA since January 2008 and ChipMOS Taiwan's vice president of business operation management since November 2005. From 2003 to 2005, he served as the president of Chantek. He also served as an assistant vice president of the strategy development center of ChipMOS Taiwan from 1998 to 2003. He received a master's degree in business administration from National Sun Yat-Sen University in Taiwan.

*Jessie Lin* has served as ChipMOS Taiwan's vice president of quality, reliability and assurance center since June 2004. She was assistant vice president of ChipMOS Taiwan from 2002 to 2004 and deputy assistant vice president of ChipMOS Taiwan from 2000 to 2002. Ms. Lin received a master's degree in industrial engineering from Chung Yuan Christian University in Taiwan.

*Joyce Chang* has served as ChipMOS Taiwan's vice president of LCD Driver production group since June 2004. She was assistant vice president of ChipMOS Taiwan from 2002 to 2004 and manager of ChipMOS Taiwan from 2000 to 2002. Ms. Chang received a bachelor's degree from Chung Yuan Christian University in Taiwan.

*Michael Lee* has served as ChipMOS Taiwan's vice president of wafer sort business unit since June 2004. He was assistant vice president of ChipMOS Taiwan from 2003 to 2004 and assistant vice president of King Yuan ELECTRONIC CO., LTD. from 2000 to 2003. Mr. Lee received a master's degree from National Chiao Tung University in Taiwan.

*Ivan Hsu* has served as ChipMOS Taiwan's vice president of memory production group since December 2004. He was ChipMOS Taiwan's assistant vice president from 2003 to 2004 and deputy assistant vice president from 2002 to 2003. Mr. Hsu received a bachelor's degree from Feng Chia University in Taiwan.

*Jesse Huang* has served as ChipMOS Taiwan's vice president of assembly production group since April 2007. He was the assistant vice president of assembly engineering division formerly. He received a bachelor's degree in Physics from Soochow University in Taiwan.

*David W. Wang* joined ChipMOS as vice president of research and strategy development center in 2007. Prior to joining ChipMOS, he served as the president of Fibera, Inc. from 2001 to 2007. Mr. Wang also served as a senior director of Lam Research Corporation in charge of product introduction and regional support teams of its etch group from 1996 to 2001. Mr. Wang also served in the microelectronics division of IBM as a manager in the packaging engineering, materials and process development and marketing departments. He holds a Ph.D. degree from the University of Michigan and is a member of Phi Lambda Upsilon.

## **Board Practice and Terms of Directorship**

Our board of directors consists of three classes of directors. The first class of directors, consisting of Shih-Jye Cheng, Antonio R. Alvarez and Rong Hsu, is up for re-election at the annual general meeting in 2008 and then every third annual general meeting thereafter. The second class, consisting of Hsing-Ti Tuan, Yeong-Her Wang and Shou-Kang Chen, is up for re-election at the annual general meeting in 2009 and then every third annual general meeting thereafter. The third class, consisting of Pierre Laflamme, Chao-Jung Tsai and Takaki Yamada, is up for re-election at the annual general meeting in 2010 and then every third annual general meeting thereafter.

Any director vacates his or her office if he or she:

is prohibited by law from being a director or ceases to be a director by virtue of the Companies Act 1981 of Bermuda, as amended;

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resigns from his or her office;

becomes bankrupt under the laws of any country or compounds with his or her creditors;

becomes of unsound mind or a patient for the purpose of any statute or applicable law relating to mental health and the board resolves that his or her office is vacated; or

is removed by a resolution passed by our shareholders at a special general meeting called for that purpose.

**Share Ownership**

As of December 31, 2007, none of our directors or executive officers held, for his or her own account, 1% or more of our outstanding common shares.

**Compensation and Compensation Committee**

The aggregate compensation paid in 2007 to our directors and our executive officers, including cash and share bonuses, was approximately NT\$113 million (US\$3 million). In 2007, we granted options to purchase 389,500 of our common shares to our directors and executive officers as set forth in the table below. These options will vest over a period of four years, with an equal proportion vesting on each of August 31, 2008, 2009, 2010 and 2011, except for certain options granted on August 31, 2007 that vested on the date of grant.

| <b>Number of common shares issuable upon exercise of options</b> | <b>Expiration date</b> | <b>Exercise price</b> | <b>Considerations paid for options granted</b> |
|--|------------------------|-----------------------|--|
| 326,500  | August 31, 2013        | US\$5.3720            | None   |
| 63,000   | August 31, 2017        | US\$5.3720            | None   |

We do not provide our directors with any benefits upon termination of employment.

Our compensation committee currently consists of Antonio R. Alvarez, Pierre Laflamme and Yeong-Her Wang. This committee reviews and recommends to our board of directors the compensation of all our directors and officers on at least an annual basis.

**Audit Committee**

Under our audit committee charter adopted on February 28, 2001 and amended on May 14, 2004 and December 21, 2004, our audit committee:

is directly responsible for the appointment, compensation, retention and oversight of the work of our external auditors or any other public accounting firm engaged for the purpose of preparing or issuing an audit report or to perform audit, review or attestation services;

oversees our accounting principles and policies, financial reporting and internal control over financial reporting, internal audit controls and procedures, financial statements and independent audits;

meets with management, our external auditors and, if appropriate, the head of the auditing department to discuss audited financial statements, audit reports or other communications, including, without limitation, any audit problems or difficulties relating to our financial statements, any major issues regarding accounting principles and the adequacy of our internal control over financial reporting;

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pre-approves, or adopts appropriate procedures to pre-approve all audit and non-audit services, if any, provided to us by our external auditors;



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establishes our internal complaints procedure for the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls or auditing matters, and for the confidential, anonymous submission thereof by our employees;

evaluates the independence of and discuss with management the timing and process for implementing the rotation of the audit partners of the outside auditors; and

reviews and approves all our related party transactions.

The audit committee currently consists of Pierre Laflamme, Rong Hsu and Yeong-Her Wang all of whom are independent directors according to Nasdaq Marketplace Rules requirements. We do not have an audit committee financial expert serving on our audit committee.

### **Nominations Committee**

Under our nominations committee charter adopted on August 26, 2005, our nominations committee:

identifies individuals qualified to become members of the board of directors, selects or recommends nominees to the board of directors and, in the case of a vacancy of a director, recommends to the board of directors an individual to fill such vacancy;

develops and recommends to the board of directors standards to be applied in making determinations as to the absence of material relationships between us and a director;

identifies members of the board of directors qualified to fill vacancies on any committee thereof and recommends the appointment of the identified member(s) to the respective committee;

assists our management in the preparation of the disclosure in our annual proxy statement regarding the operations of the nominations committee; and

performs any other duties or responsibilities expressly delegated to the nominations committee by the board of directors from time to time relating to the nomination of members of the board of directors and any committee thereof.

Yeong-Her Wang, Rong Hsu and Pierre Laflamme are currently the members of our nominations committee.

### **Special Investigation Committee**

On December 21, 2004, in connection with alleged embezzlement at Pacific Electric by our former directors, Mr. Hung-Chiu Hu and Mr. Jwo-Yi Miao, and money laundering by our former director, Mr. Robert Ma Kam Fook, our board established a special investigation committee to identify and investigate any past and present dealings between ChipMOS Bermuda, including any of its subsidiaries and affiliates, and Messrs. Hu, Miao and Ma, and any companies or entities affiliated with them. For additional information on the allegations, see Item 3. Key Information Risk Factors Risks Relating to Our Business The ongoing criminal proceeding involving Mr. Shih-Jye Cheng, our Chairman and Chief Executive Officer, and Mr. Hung-Chiu Hu, our former director, could have a material adverse effect on our business and cause our stock price to decline.

The special investigation committee was solely comprised of Messrs. Pierre Laflamme and Yeong-Her Wang, two of our company's independent directors. Concurrent with the establishment of the special investigation committee, our board requested the resignations of Mr. Hu and Mr. Miao, who subsequently resigned from our board on June 2, 2005 and June 8, 2005, respectively. On December 21, 2004, our board also accepted the resignation of Mr. Ma. The special investigation committee engaged Ernst & Young as its forensic accounting advisor and Baker & McKenzie as its legal advisor to review transactions that were similar in nature to the



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transactions that allegedly implicated Messrs. Hu, Miao and Ma at Pacific Electric as well as significant related party transactions between ChipMOS Bermuda, including its subsidiaries and affiliates, and Messrs. Hu, Miao and Ma and any companies or entities affiliated with any of them. The special investigation committee also engaged Hong Kong counsel.

On June 23, 2005, the special investigation committee presented its final report to our board of directors. The special investigation committee concluded that the review conducted by Ernst & Young and Baker & McKenzie did not reveal previously unknown information regarding losses suffered by ChipMOS Bermuda, other than a potential liability relating to a credit facility entered into with Trident (Asia) Investments Limited, or Trident, and HSH Nordbank AG, Hong Kong Branch, or Nordbank. The special investigation committee noted that total losses from transactions reviewed by it in the amount of NT\$454 million (US\$14 million), relating to impairment losses and realized losses of certain investments, were reflected in our 2002, 2003 and 2004 financial statements, and a potential decline in the value of our investment in respect of Ultima Technology Corp. (BVI). In 2005, we recognized an impairment loss of NT\$188 million (US\$6 million) as a result of the decline in the value of our investment to Ultima Technology Corp. (BVI). See Note 7 to our audited consolidated financial statements contained in this Annual Report on Form 20-F and Item 7. Major Shareholders and Related Party Transactions Related Party Transactions. The special investigation committee did not make any factual findings as to the business purpose of the transactions reviewed or as to persons at our company responsible for such transactions. On August 26, 2005, our board dissolved the special investigation committee.

The Special Investigation Committee provided the following recommendations to our board of directors:

reinforce the internal controls related to our company's investment decisions, including the design and adoption of comprehensive internal control procedures for investments in connection with our company's implementation of the internal control procedures required to comply with Section 404 of the Sarbanes Oxley Act of 2002 ( "Section 404" );

strengthen the role of the board of directors in overseeing our company's investment activities;

develop an internal control mechanism applicable to our company's selection of banks that our company will use for deposits so as to address both commercial risks and reputational risks; and

develop more prudent and conservative procedures regarding the entry by our company into banking or other credit relationships. As of December 31, 2006, we had taken the following measures to implement the recommendations of the Special Investigation Committee:

engaged Ernst & Young to advise on the internal control over financial reporting requirements under Section 404, including testing and monitoring the effectiveness of our internal controls over financial reporting;

enhanced the board of directors' ability to oversee our financial activities by adopting new internal control procedures, pursuant to which decisions relating to derivatives, loans to others, endorsement and guarantee for third parties, and equity investments, exceeding certain limits, are subject to the board of directors' approval; and

reduced the risks inherent in banking or other credit activities by adopting new internal control procedures, under which the application for any credit line or the opening of any account at any overseas banks is required to be approved by the board of directors.

**Table of Contents****Special Committee**

In connection with the indictment of Mr. Shih-Jye Cheng by the Taipei District Prosecutor's Office, our board of directors formed a special committee to evaluate the circumstances surrounding the indictment. The special committee is comprised of three independent directors, Messrs. Yeong-Her Wang, Rong Hsu and Pierre Laflamme. It has engaged Kirkpatrick & Lockhart Preston Gates Ellis LLP (formerly Preston Gates & Ellis LLP) as its independent international legal counsel and Baker & McKenzie as its independent ROC legal counsel, and Ernst & Young (formerly know as Diwan, Ernest & Young) as its accounting advisor to assist in its evaluation and provide recommendations.

On June 28, 2006, the special committee issued its report, including its findings and recommendations. Based upon the results of its investigation, it found that: (1) Mr. Cheng has declared himself not guilty of the charges described in the indictment; (2) Baker & McKenzie, after reviewing the indictment and the prosecutor's exhibits, have found that the evidence produced by the prosecutor seems to be inadequate and that there is a low probability of the charges in the indictment being founded; (3) the financial advisor to the special committee have found that we suffered no loss (not taking into account exchange rate factors) and that all monies (capital and interest) were remitted back to our subsidiaries involved; (4) we have suffered no identifiable harm to our reputation or our business; and (5) Mr. Cheng has not been impaired by the indictment to perform as our chairman and chief executive officer. The special committee recommended that our board maintains Mr. Cheng as our chairman and chief executive officer with full responsibilities and our board unanimously (with Mr. Cheng having recused himself) resolved to accept and adopt the special committee's recommendation with regard to Mr. Cheng.

Our board of directors also resolved to continue the role of the special committee, for the duration of the ongoing criminal proceeding involving Mr. Cheng to actively monitor any developments of the criminal investigation and take or recommend any appropriate action in light of such developments.

During its engagement by the special committee, Ernst & Young identified certain internal control weaknesses that existed during the relevant period of the special committee's investigation within ChipMOS Taiwan, ThaiLin and ChipMOS Logic (which was merged into ThaiLin on December 1, 2005). These weaknesses were in areas related to segregation of duties and of corporate governance on investment authorizations, insufficiency of training for financial personnel in respect of derivative transactions, and non-compliance with the applicable ROC regulations. These identified internal control weaknesses have either been addressed previously or are in the process of being remedied by our company and our subsidiaries.

In light of the identification of these internal control weaknesses, the special committee recommended that the audit committee of the board of directors lead a special task force and report to the board of the directors as to the effectiveness of the implementation of internal control over financial reporting, with an aim to enhance our company's financial personnel's knowledge of derivative transactions. The board of directors unanimously resolved to accept and adopt the special committee's recommendation in this regard.

In August 2006, we engaged Ernst & Young to design certain employee training sessions regarding derivative transactions and the applicable accounting treatment for these transactions.

See Item 3. Key Information Risk Factors Risks Relating to Our Business The ongoing criminal proceeding involving Mr. Shih-Jye Cheng, our Chairman and Chief Executive Officer, and Mr. Hung-Chiu Hu, our former director, could have a material adverse effect on our business and cause our stock price to decline.

**Employees**

The following table sets forth, as of the dates indicated, the number of our full-time employees serving in the functions indicated:

| Function                          | As of December 31, |       |       | As of          |
|-----------------------------------|--------------------|-------|-------|----------------|
|                                   | 2005               | 2006  | 2007  | March 31, 2008 |
| General operations                | 2,632              | 3,312 | 3,601 | 3,390          |
| Quality control                   | 387                | 460   | 471   | 443            |
| Engineering                       | 1,125              | 1,447 | 1,580 | 1,533          |
| Research and development          | 224                | 253   | 296   | 291            |
| Sales, administration and finance | 202                | 218   | 225   | 227            |
| Others                            | 335                | 391   | 408   | 398            |

|              |       |       |       |       |
|--------------|-------|-------|-------|-------|
| <b>Total</b> | 4,905 | 6,081 | 6,581 | 6,282 |
|--------------|-------|-------|-------|-------|

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The following table sets forth, as of the dates indicated, a breakdown of the number of our full-time employees by geographic location:

| Location  | As of December 31, |              |              | As of             |
|---|--------------------|--------------|--------------|-------------------|
|   | 2005               | 2006         | 2007         | March 31,<br>2008 |
| ChipMOS H.K. Taiwan Branch (Hsinchu)            | 13                 | 14           | 15           | 15                |
| ThaiLin (Hsinchu Industrial Park)               | 516                | 783          | 763          | 748               |
| ThaiLin (Chupei City)                           | 236                |              |              |                   |
| ChipMOS Taiwan Hsinchu Production Group         | 1,484              | 1,870        | 2,013        | 1,935             |
| ChipMOS Taiwan Southern Taiwan Production Group | 2,103              | 2,757        | 3,052        | 2,922             |
| Shanghai  | 545                | 649          | 730          | 653               |
| Japan and the United States                     | 8                  | 8            | 8            | 9                 |
| <b>Total</b>                                    | <b>4,905</b>       | <b>6,081</b> | <b>6,581</b> | <b>6,282</b>      |

Our employees are not covered by any collective bargaining agreements. We have not experienced any strikes or work stoppages by our employees and believe that our relationship with our employees is good.

**Share Option Plan and Share Appreciation Rights Plan**

We adopted a broad-based share option plan in 2001, which was amended at a special general meeting on March 19, 2004 to increase the number of shares available for issuance under the share option plan from 5,800,000 to 9,000,000. In August 2006, we adopted a second broad-based share option plan, which has 7,000,000 shares available for issuance. Each share option plan provides that our directors, officers, employees and those of our affiliates may, at the discretion of our board of directors or a committee, be granted options to purchase our shares at an exercise price of no less than the par value of our common shares. The board or the committee has complete discretion to determine which eligible individuals are to receive option grants, the number of shares subject to each grant, the exercise price of all options granted, the vesting schedule to be in effect for each option grant and the maximum term for which each granted option is to remain outstanding, up to a maximum term of ten years.

In 2005, we did not grant any share options to our employees. In 2005, 312,750 share options were cancelled and 441,094 share options were exercised. In 2006, we granted 2,170,510 share options, with an exercise price of ranging from US\$4.8110 to US\$5.7205 per share. In 2006, 319,200 share options were cancelled and 1,322,143 share options were exercised. In 2007, we granted 1,884,400 share options, with an exercise price ranging from US\$3.6380 to US\$6.4770 per share. In 2007, 228,631 share options were cancelled and 865,612 share options were exercised. As of December 31, 2007, we have 7,348,893 share options outstanding, with an exercise price ranging from US\$0.7650 to US\$6.6300.

In September 2006, we adopted a share appreciation rights plan pursuant to which we may issue up to 2,000,000 cash-settled SARs to our directors, officers, employees and those of our affiliates. Under the share appreciation rights plan, each holder of SARs, issued thereunder will be entitled to receive, on the applicable exercise date, cash in an amount equal to the excess of the market value of our common shares on such date over the exercise price of such rights. Our board of directors or a relevant committee thereof has complete discretion over the administration of the share appreciation rights plan, including determining the recipients of the share appreciation right awards, the number of rights awarded, the exercise date, the exercise price and other relevant terms. Unless earlier terminated by our board of directors or the relevant board committee, the plan will remain effective until September 2016. As of December 31, 2007, we have 1,630,135 SARs outstanding, with an exercise price ranging from US\$3.6380 to US\$6.4770.

**Table of Contents****Item 7. Major Shareholders and Related Party Transactions****Major Shareholders**

The following table sets out certain information as of March 31, 2008 regarding the ownership of our common shares by (1) each person known to us to be the owner of more than five percent of our common shares and (2) the total amount owned by our directors and executive officers as a group.

| Identity of person or group                                 | Number of<br>shares owned | Percent<br>Owned |
|---|---------------------------|------------------|
| Siliconware Precision Industries Co., Ltd <sup>(1)</sup>    | 12,174,998                | 14.5             |
| Mosel Vitelic Inc. <sup>(2)(3)</sup>                        | 11,194,644                | 13.4             |
| Highbridge International LLC <sup>(4)</sup>                 | 10,669,254                | 12.7             |
| Trivium Capital Management, LLC <sup>(5)</sup>              | 9,618,815                 | 11.5             |
| Directors and executive officers, as a group <sup>(6)</sup> | 1,063,117                 | 1.3              |

- (1) Siliconware Precision completed a share purchase and subscription transaction with ChipMOS Taiwan and us on March 27, 2007, pursuant to which we and ChipMOS Taiwan purchased all of Siliconware Precision's equity interest in ChipMOS Taiwan, and Siliconware Precision subscribed for 12,174,998 of our common shares through a private placement. See Item 4. Information on the Company Our Structure and History ChipMOS TECHNOLOGIES INC.
- (2) Mosel owned 10,850,052 shares indirectly through Giant Haven, and 344,592 shares indirectly through Mou-Fu Investment Ltd. Mosel is a public company listed on the Taiwan Stock Exchange whose largest known shareholder owned less than 4.3% of its outstanding shares as of April 21, 2008.
- (3) Excludes shares owned by PacMOS Technologies Holdings Limited, or PacMOS, that may be beneficially owned by Mosel.
- (4) Highbridge International LLC beneficially owned our 2004 notes and 2006 notes, which are convertible into an aggregate of 10,669,254 of our common shares at a conversion price of US\$6.28 and US\$6.85, respectively, as of December 31, 2007, according to the Schedule 13G/A filed by Highbridge International LLC, Highbridge Capital Management, LLC, Glenn Dubin and Henry Swieca on December 31, 2007. As of March 31, 2008, none of the 2004 notes and 2006 notes beneficially owned by Highbridge International LLC had been converted into our common shares.
- (5) According to the Schedule 13G/A filed jointly by Trivium Capital and Trivium Offshore Fund, Ltd. on February 15, 2008, Trivium Capital beneficially owned 9,618,815 of our common shares as of December 31, 2007.
- (6) Excludes Mosel's beneficial ownership of our common shares which may be considered to be beneficially held by some of our directors or officers. Includes shares held by certain family members of certain directors.

As of March 31, 2008, approximately 59% of our common shares were held of record by shareholders located in the United States. All holders of our common shares have the same voting rights with respect to their shares.

**Related Party Transactions***Siliconware Precision Industries Co., Ltd.*

As of March 31, 2008, Siliconware Precision owned 14.5% of our outstanding common shares. On March 27, 2007, we completed a share purchase and subscription transaction with ChipMOS Taiwan and Siliconware Precision, under which we and ChipMOS Taiwan purchased all of Siliconware Precision's equity interest in ChipMOS Taiwan, and Siliconware Precision subscribed to 12,174,998 of our newly issued common shares through a private placement. ChipMOS Taiwan became our wholly-owned subsidiary on September 14, 2007. Siliconware Precision is an independent provider of semiconductor testing and packaging services. Siliconware Precision currently has, and is expected to continue to have from time to time in the future, contractual and other business relationships with us. From time to time, Siliconware Precision provides assembly services to us. Often, Siliconware Precision renders these assembly services directly to our customers through customer referrals from us. On January 1, 2001, ChipMOS Taiwan entered into a subcontracting agreement for a term of two years with Siliconware Precision, pursuant to which Siliconware Precision is obligated to provide assembly services to us. This agreement was extended for another two years from January 2004 to December 2005. Sales to Siliconware Precision in 2006 was NT\$83 thousand. In 2005 and 2007, we did not outsource to Siliconware Precision any sales.





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*Mosel Vitelic Inc.*

As of March 31, 2008, Mosel indirectly owned 13.4% of our outstanding common shares. Mosel designs and manufactures semiconductor products, including SRAM, flash memory, LCD and other flat-panel display driver semiconductors and power-related semiconductors. In the period from July to December 2003, Mosel transferred all of its DRAM business to its affiliate ProMOS. Mosel is also engaged in the semiconductor testing and assembly business through its shareholding in our company. Although Mosel was our second-largest customer in 2003, accounting for 19% of our net revenue in 2003, it ceased to be a key customer of ours following the transfer of its DRAM business to ProMOS, with sales to Mosel accounting for 0.1% of our net revenue in 2004. Mosel and its affiliates currently have, and are expected to continue to have from time to time in the future, contractual and other business relationships with us. Our relationships include the following:

Rental revenue from Mosel was NT\$5 million and NT\$2 million in 2005 and 2006, respectively.

In 2005, we purchased integrated circuits for our module business and for resale to other customers from Mosel in an aggregate amount of NT\$12 million.

In 2005, we paid NT\$593 thousand rental expense to Mosel.

In 2005, 2006 and 2007, we paid NT\$148 thousand, NT\$144 thousand and NT\$148 thousand (US\$5 thousand) in website fees to Mosel for provision of certain website services.

*Registration Rights Agreements with Siliconware Precision, Giant Haven, ProMOS and Powertech Technology Inc.*

In March 2007, we issued 12,174,998 common shares pursuant to a share purchase and subscription agreement with ChipMOS Taiwan and Siliconware Precision, and we entered into a registration rights agreement, dated March 27, 2007, with Siliconware Precision, pursuant to which Siliconware Precision agreed not to sell or otherwise transfer any of our common shares it acquired in the share purchase and acquisition for a period of nine months after March 27, 2007, and we granted to Siliconware Precision certain rights, including demand registration, piggyback registration and Form F-3 registration rights, to require us to register its common shares for sale under the Securities Act. In addition, we entered into a registration rights agreement, dated August 8, 2007, with Giant Haven, ProMOS and Powertech Technology Inc., pursuant to which we granted to Mosel, ProMOS and Powertech Technology Inc. certain registration rights, including customary demand and piggyback registration rights, common shares for the sale of our common shares under the Securities Act.

*DenMOS Technology Inc.*

We do not own any equity interest in DenMOS. As of March 31, 2008, Mosel directly owned 44.1% of common shares of DenMOS. Sales to DenMOS were NT\$271 million, NT\$125 million and NT\$32 million (US\$1 million) in 2005, 2006 and 2007, respectively. We provided storage services to DenMOS and received rental payment from DenMOS for these storage services of NT\$30 thousand in 2005.

On October 15, 2003, we entered into a long-term agreement with DenMOS, under which we reserve a specified amount of capacity for LCD and other flat-panel display driver semiconductor testing and assembly services to DenMOS and under which DenMOS guarantees to place orders in the amount of the reserved capacity for a period of 48 months. This agreement supersedes a similar agreement that we entered into on May 25, 2002. The price for our services under this agreement will be agreed upon, based on our general price list, at the time DenMOS places orders under this agreement. If we are unable to test and assemble the agreed number of LCD and other flat-panel display driver semiconductors, DenMOS may use a third party to cover the shortfall. However, we are entitled to cure any shortfall in the following month. If we fail to do so, we may be liable for damages up to the amount equal to the number of shortfall units in the given month multiplied by the average sales price per unit in that month. If DenMOS fails to place orders according to the reserved capacity, we are entitled to damages based on our costs for the equipment, tooling costs, costs for personnel dedicated to the provisions of capacity to such customer, and the costs for raw materials.

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### *SyncMOS Technologies Inc.*

We do not own any equity interest in SyncMOS Technologies, Inc., or SyncMOS. As of March 31, 2008, Mosel indirectly owned 41.5% of SyncMOS Technologies Inc. In 2005, 2006 and 2007, we provided storage services to SyncMOS and rental revenue from SyncMOS was NT\$1,382 thousand, NT\$1,864 thousand and NT\$2,208 thousand (US\$68 thousand), respectively.

### *ChipMOS TECHNOLOGIES (Shanghai) LTD.*

ChipMOS Shanghai is a wholly-owned subsidiary of Modern Mind, which is one of our controlled consolidated subsidiaries. Under a technology transfer agreement dated August 1, 2002, we licensed certain technologies and systems, and agreed to provide certain technical support and consulting services to ChipMOS Shanghai relating to those technologies and systems, and ChipMOS Shanghai paid an aggregate of US\$25 million to us in 2002 for the technology and services we provide under this agreement.

On April 20, 2004, ChipMOS Hong Kong and ChipMOS Shanghai entered into an exclusive services agreement, pursuant to which ChipMOS Shanghai will provide its services exclusively to ChipMOS Hong Kong or customers designated by ChipMOS Hong Kong. Under the exclusive services agreement, ChipMOS Hong Kong will purchase and consign to ChipMOS Shanghai all of the equipment required to render those services. The exclusive services agreement has a term of ten years and will automatically be renewed for periods of ten years, unless terminated by either party at least 30 days prior to the expiration of such ten-year term. In addition, ChipMOS Hong Kong may terminate the exclusive services agreement at any time by giving 30 days prior notice.

### *CHANTEK ELECTRONIC CO., LTD.*

In 2003, ChipMOS Taiwan purchased equipment from Chantek at a cost of NT\$10 million and sold equipment to Chantek for NT\$17 million. In addition, ChipMOS Taiwan recognized gains on the disposal of certain properties to Chantek in the amount of NT\$9 million. Chantek leased equipment and provided raw material and semiconductor processing services to ChipMOS Taiwan pursuant to certain agreements between Chantek and ChipMOS Taiwan. Under these agreements, we paid an aggregate of approximately NT\$3 million and NT\$0.2 million to Chantek in 2002 and 2003, respectively. In addition, we paid an aggregate of NT\$8 million in rental fees to Chantek in 2003. We did not pay any fees under these arrangements or any rental fees to Chantek during the period from January to April 2004. From January to April 2004, we had revenues from Chantek of NT\$15 million. ChipMOS Taiwan acquired 3,846,154 shares of common stock of AMCT from Chantek at an aggregate price of NT\$38 million on March 19, 2004.

Chantek has been our consolidated subsidiary since April 2004. On November 21, 2005, Chantek merged into ChipMOS Taiwan, with ChipMOS Taiwan as the surviving entity. For additional information regarding the merger, see Item 4. Information on the Company Our Structure and History ChipMOS TECHNOLOGIES INC.

### *ThaiLin Semiconductor Corp.*

ChipMOS Taiwan leased equipment and transferred certain technology to ThaiLin pursuant to certain agreements between ThaiLin and ChipMOS Taiwan. The rents paid by ThaiLin to ChipMOS Taiwan amounted to an aggregate of approximately NT\$8 million in 2003. In 2003, ThaiLin purchased certain equipment from ChipMOS Taiwan for approximately NT\$245 million, and sold certain equipment to ChipMOS Taiwan for approximately NT\$105 million.

On March 4, 2008, ChipMOS Taiwan made a loan in an amount of NT\$145 million (US\$4 million) to Kolin, a major shareholder of ThaiLin. The loan is repayable within one year and bears interest at a rate of 4.69% per annum. The loan is secured by a pledge by Kolin of 11 million common shares of ThaiLin.

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ThaiLin has been our consolidated subsidiary since December 2003. On December 1, 2005, ChipMOS Logic merged into ThaiLin, with ThaiLin as the surviving entity. See, Item 4. Information on the Company Our Structure and History ThaiLin Semiconductor Corp.

### *ProMOS Technologies Inc.*

As of March 31, 2008, ChipMOS Taiwan owned 4,201,231 shares, or 0.06% of ProMOS, and ThaiLin owned 3,600,000 shares, or 0.05% of ProMOS. As of March 31, 2008, Mosel directly and indirectly owned 13.1% of ProMOS. Following the transfer of Mosel's DRAM business to ProMOS in 2003, sales to ProMOS accounted for 28% of our net revenue in 2005, 27% of our net revenue in 2006 and 29% of our net revenue in 2007.

On July 1, 2003, ChipMOS Taiwan entered into a long-term agreement with ProMOS, under which ChipMOS Taiwan reserves a specified amount of capacity for DRAM testing and assembly services to ProMOS and under which ProMOS guarantees to place orders in the amount of the reserved capacity. This agreement was superseded in July 2007, when ChipMOS Taiwan and ProMOS entered into a new long-term agreement with similar terms and conditions, except that under the new agreement, ProMOS will give ChipMOS six month rolling forecast on testing and assembly service orders to be placed to us, and ProMOS guarantees that such orders will represent no less than certain percentage of ProMOS total production volume of these products (excluding OEM products). The price for the services of ChipMOS Taiwan under this agreement will be agreed upon quarterly, subject to certain price adjustments. If ChipMOS Taiwan is unable to test and assemble the agreed number of DRAM, ProMOS may use a third party to cover the shortfall and ChipMOS Taiwan may be liable for, among other damages, any operation loss of ProMOS caused by such delay or any additional costs in using a third party to cover the shortfall. If ProMOS fails to place orders in the amount of the reserved capacity, ChipMOS Taiwan is entitled to damages calculated based on the difference between the value of the reserved capacity and the value of the actual used capacity, provided that the value of the capacity by ChipMOS Taiwan that has been used for other customers shall be deducted. In March 2008, ProMOS failed to place orders in the amount of the reserved capacity. We are currently evaluating whether or not to seek compensation from ProMOS.

Rental revenue from ProMOS in 2005, 2006 and 2007 was NT\$9 million, NT\$9 million and NT\$16 million (US\$493 thousand), respectively.

### *Mou-Fu Investment Ltd.*

As of March 31, 2008, Mosel held directly a 99.9% equity interest in Mou-Fu. In 2005 and 2006, we paid Mou-Fu NT\$3 million and NT\$3 million, respectively, for the provision of shareholders' services. In 2005 and 2006, we paid Mou-Fu NT\$4 million and NT\$2 million, respectively, for management expenses.

## **Item 8. Financial Information**

### **Consolidated Financial Statements and Other Financial Information**

Please see Item 18. Financial Statements and pages F-1 through F-66.

### **Legal Proceedings**

In 2003, we had a tax dispute with the ROC tax authority in the amount of NT\$31 million relating to our income tax in 2000. We submitted our objections to this assessment to the relevant tax authority in March 2004 and we received a request from the ROC tax authority in April 2006 to make the payment of approximately NT\$2 million (US\$62 thousand), which we paid in May 2006.

In February 2006, ChipMOS Taiwan and ChipMOS USA received notice of a lawsuit filed by Tessera Technologies, Inc., or Tessera. The complaint was initially filed in United States District Court for the Northern District of California (Civil Action No. C05-04063CW), or the California court. In an amended complaint, Tessera added ChipMOS Taiwan and ChipMOS USA, among several other semiconductor companies, as co-defendants. The amended complaint alleges that ChipMOS Taiwan, ChipMOS USA

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and the other co-defendants infringed certain patents owned by Tessera and that ChipMOS Taiwan is in breach of a license agreement with Tessera, or the Tessera license agreement. Tessera also sought unspecified damages and injunctive relief. ChipMOS Taiwan and ChipMOS USA have responded to the lawsuit by denying Tessera's claims of patent infringement and breach of contract. ChipMOS USA and ChipMOS Taiwan have also raised various counterclaims for declaratory judgment and related affirmative defenses that the Tessera patents are invalid and unenforceable. In May 2007, the California court, with the concurrence of ChipMOS Taiwan and ChipMOS USA, stayed all litigation in the California court as a result of a related investigation by the International Trade Commission, or ITC, initiated by Tessera against certain other co-defendants. In addition, a co-defendant in the Tessera lawsuit requested the United States Patent and Trademark Office to reexamine the patentability of each of Tessera's patents that are at issue in the case in the California court. The requests were granted and, in February 2007, the U.S. Patent and Trademark Office concluded that certain claims of the patents were invalid on the basis of prior art. In April 2008, ChipMOS Bermuda, ChipMOS USA and ChipMOS Taiwan received notice that Tessera requested the ITC to initiate another investigation alleging that the sale for and after importation into the United States as well as importation into the United States of certain small format non-tape based BGA semiconductor packages by ChipMOS Bermuda, ChipMOS Taiwan and ChipMOS USA infringe three of the five Tessera patents at issue in the case pending in the California court. Tessera sought, among other things, an investigation by the ITC and general exclusion orders to prohibit the infringing products from entry into the United States. The ITC initiated the investigation in May 2008.

In April 2006, ChipMOS Bermuda and ChipMOS Hong Kong received an Amended Writ of Summons and Statement of Claim from Pacific Electric, alleging that certain properties held in trust for Pacific Electric were improperly used to secure a HK\$150 million credit facility that ChipMOS Bermuda, ChipMOS Hong Kong and Trident entered into with Nordbank in January 2003 without Pacific Electric's consent, and that Nordbank's security interests in such properties are therefore null and void or otherwise unenforceable. ChipMOS Hong Kong borrowed funds under the Nordbank facility in 2003 and repaid them in 2004, and ChipMOS Bermuda has never borrowed under the facility. According to information provided by Trident, the credit facility was fully paid in November 2006 and there is no outstanding loan balance.

In September 2007, ChipMOS Taiwan filed five lawsuits against Walton Advanced Engineering, Inc. and Walton Chaintech Corporation in Taiwan Kaohsiung District Court and Taiwan Banciao District Court, alleging infringement by these two companies of ChipMOS Taiwan's package related patents for SDRAM, DDR I SDRAM and DDR II SDRAM devices. As of March 31, 2008, all of these lawsuits were pending.

Other than the matters described above, we were not involved in any material litigation in 2007 and are not currently involved in any material litigation.

For certain information regarding legal proceedings relating to certain of our current and former directors, see Item 3. Key Information Risk Factors Risks Related to Our Business Adverse publicity about our current or former directors, executive officers or other key personnel could have a material adverse effect on our business.

**Dividend Policy**

To date, we have not distributed any dividends. We currently intend to retain future earnings, if any, to finance the expansion of our business and thus do not expect to pay any cash dividends for the foreseeable future. In addition, we have no current plans to pay stock dividends.

**Item 9. The Offer and Listing Listing**

Nasdaq Global Select Market is the principal trading market for our common shares, which are not listed or quoted on any other markets in or outside the United States. Our common shares have been quoted on the Nasdaq Global Select Market (formerly the Nasdaq National Market) under the symbol IMOS since June 19, 2001 and our common shares have been quoted on the Nasdaq Global Select Market since July 1, 2006. The CUSIP number for our common shares is G2110R106. As of March 31, 2008, there were 83,852,162 common shares issued and outstanding. The table below sets forth, for the periods indicated, the high, low and average closing prices on the Nasdaq National Market or the Nasdaq Global Select Market for our common shares.

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|                        | Nasdaq <sup>(1)</sup> Price per share<br>(US\$) |       |      |
|------------------------|---|-------|------|
|                        | Average   | High  | Low  |
| 2003                   | 3.19  | 9.39  | 0.85 |
| 2004                   | 8.24  | 15.00 | 3.60 |
| 2005                   | 6.21  | 7.55  | 4.80 |
| 2006                   | 6.35  | 8.10  | 5.45 |
| First Quarter          | 6.47  | 8.10  | 5.45 |
| Second Quarter         | 6.86  | 7.37  | 5.87 |
| Third Quarter          | 5.80  | 6.20  | 5.45 |
| Fourth Quarter         | 6.03  | 6.85  | 5.54 |
| 2007                   | 6.42  | 7.89  | 4.11 |
| First Quarter          | 7.22  | 7.89  | 6.72 |
| Second Quarter         | 6.71  | 7.39  | 6.04 |
| Third Quarter          | 6.64  | 7.51  | 5.92 |
| December               | 4.54  | 4.98  | 4.11 |
| Fourth Quarter         | 5.18  | 6.14  | 4.11 |
| 2008                   |   |       |      |
| January                | 3.61  | 4.10  | 3.37 |
| February               | 3.52  | 3.76  | 3.40 |
| March                  | 3.03  | 3.38  | 2.67 |
| First Quarter          | 3.39  | 4.10  | 2.67 |
| April                  | 3.05  | 3.22  | 2.88 |
| May                    | 3.06  | 3.38  | 2.78 |
| June (through 4, 2008) | 3.25  | 3.27  | 3.22 |

(1) Trading in our common shares commenced on June 19, 2001 on the Nasdaq Global Select Market (formerly the Nasdaq National Market).

**Item 10. Additional Information****Description of Share Capital**

Our authorized share capital consists of 250 million common shares, par value US\$0.01 per share, and 75 million preferred shares, par value US\$0.01 per share.

**Common Shares**

Each shareholder is entitled to one vote for each common share held on all matters submitted to a vote of shareholders. Cumulative voting for the election of directors is not provided for in our bye-laws, which means that the holders of a majority of the shares voted can elect all of the directors then standing for election. The common shares are not entitled to preemptive rights and are not subject to conversion or redemption. Upon the occurrence of a liquidation, dissolution or winding-up, the holders of common shares would be entitled to share ratably in the distribution of all of our assets remaining available for distribution after satisfaction of all liabilities.

**Preferred Shares**

Currently there are no specific rights attached to the preferred shares. The specific rights of the preferred shares could include rights, preferences or privileges in priority to our common shares and the establishment of such rights or the delegation to the board of directors to establish such rights will need to be approved by our shareholders. As of March 31, 2008, no preferred shares have been issued by our company.

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### **Bermuda Law**

We are an exempted company organized under the Companies Act 1981 of Bermuda. The rights of our shareholders are governed by Bermuda law and our memorandum of association and bye-laws. The Companies Act 1981 of Bermuda differs in some material respects from laws generally applicable to United States corporations and their shareholders.

### **Dividends**

Under Bermuda law, a company may pay dividends that are declared from time to time by its board of directors unless there are reasonable grounds for believing that the company is or would be, after the payment, unable to pay its liabilities as they become due or that the realizable value of its assets would thereby be less than the aggregate of its liabilities, issued share capital and share premium accounts. The holders of common shares are entitled to receive dividends out of assets legally available for such purposes at times and in amounts as our board of directors may from time to time determine. Any dividend unclaimed for a period of six years from its date of declaration will be forfeited and will revert to our company.

### **Voting Rights**

Under Bermuda law, except as otherwise provided in the Companies Act 1981 of Bermuda or our bye-laws, questions brought before a general meeting of shareholders are decided by a majority vote of shareholders present at the meeting. Our bye-laws provide that, subject to the provisions of the Companies Act 1981 of Bermuda, and except for extraordinary resolutions, any question properly proposed for the consideration of the shareholders will be decided by a simple majority of the votes cast, either on a show of hands or on a poll, with each shareholder present (and each person holding proxies for any shareholder) entitled to one vote on a show of hands, or on a poll, one vote for each fully paid-up common share held by the shareholder. In the case of an equality of votes cast, the chairman of the meeting shall have a second or casting vote. Any resolution for any of the following extraordinary transactions will require the approval of shareholders holding at least 70.0% of the total voting rights of all the shareholders having the right to vote at such meeting:

a resolution for the merger, amalgamation or other consolidation of us into any other company;

a resolution for the sale, lease, exchange, transfer or other disposition of all or substantially all of our consolidated assets; or

a resolution for the adoption of any plan or proposal for the liquidation of our company.

### **Rights in Liquidation**

Under Bermuda law, in the event of liquidation or winding-up of a company, after satisfaction in full of all claims of creditors and subject to the preferential rights accorded to any series of preferred shares, the proceeds of the liquidation or winding-up are distributed pro rata in specie or in kind among the holders of our common shares.

### **Meetings of Shareholders**

Under Bermuda law, a company is required to convene at least one general shareholders meeting each calendar year. Bermuda law provides that a special general meeting may be called by the board of directors and must be called upon the request of shareholders holding not less than 10% of the paid-up capital of the company carrying the right to vote. Bermuda law also requires that shareholders be given at least five days advance notice of a general meeting but the accidental omission to give notice to any person does not invalidate the proceedings at a meeting. Under our bye-laws, we must give each shareholder written notice at least five days prior to the annual general meeting, unless otherwise agreed by all shareholders having the right to vote at that annual general meeting, and written notice at least five days prior to any special general meeting, unless otherwise agreed by a majority of shareholders having a right to vote at that special general meeting, and together holding at least 95% of the paid-up capital of the company carrying the right to vote at that meeting.

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Under Bermuda law, the number of shareholders constituting a quorum at any general meeting of shareholders is determined by the bye-laws of the company. Our bye-laws provide that at least two shareholders present in person or by proxy and holding shares representing at least 50% of the total voting rights of all shareholders having the right to vote at the meeting constitute a quorum. Our bye-laws further provide that, in respect of a general meeting adjourned for lack of quorum, at least two shareholders present in person or by proxy holding shares representing 33 1/3% of the total voting rights of all shareholders having the right to vote at the meeting constitute a quorum.

### **Access to Books and Records and Dissemination of Information**

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda. These documents include a company's certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to its memorandum of association. The shareholders have the additional right to inspect the bye-laws of the company, minutes of general meetings and the company's audited financial statements, which, unless agreed by all shareholders and directors, must be laid before the annual general meeting. The register of shareholders of a company is also open to inspection by shareholders without charge and by members of the general public on the payment of a fee. A company is required to maintain its share register in Bermuda but may, subject to the provisions of Bermuda law, establish a branch register outside Bermuda. We maintain a share register in Hamilton, Bermuda and a branch register in New Jersey, USA. A company is required to keep at its registered office a register of its directors and officers which is open for inspection for not less than two hours each day by members of the public without charge. Bermuda law does not, however, provide a general right for shareholders to inspect or obtain copies of any other corporate records.

### **Election or Removal of Directors**

Under Bermuda law and our bye-laws, directors are elected or appointed at an annual general meeting and serve until re-elected or re-appointed or until their successors are elected or appointed, unless they are earlier removed for cause or resign or otherwise cease to be directors under Bermuda law or our bye-laws.

A director may be removed for cause at a special general meeting of shareholders specifically called for that purpose, provided that the director is served with at least 14 days' notice. The director has a right to be heard at that meeting. Any vacancy created by the removal of a director at a special general meeting may be filled at that meeting by the election of another director in his or her place or, in the absence of any election by the shareholders, by the board of directors.

### **Board Actions**

Our bye-laws provide that the quorum necessary for the transaction of business is two directors of the board, and that questions arising at a properly convened meeting of the board of directors must be approved by a majority of the votes present and entitled to be cast. In the case of an equality of votes, the chairman of the meeting is entitled to a second or casting vote.

The board of directors may appoint any of our directors to act as our managing director or other senior executive, on such terms and conditions as it may determine, including with respect to remuneration.

### **Amendment of Memorandum of Association and Bye-laws**

Bermuda law provides that the memorandum of association of a company may be amended by a resolution passed at a general meeting of shareholders of which due notice has been given. Our bye-laws, other than the bye-laws separating our board of directors into three classes, may be amended by the board of directors if the amendment is approved by a majority of votes cast by our directors and by our shareholders by a resolution passed by a majority of votes cast at a general meeting. Any amendment to our bye-laws separating a board of directors into three classes must be approved by our board of directors and by shareholders of shares representing at least 60% of our outstanding shares.

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Under Bermuda law, the holders of an aggregate of no less than 20% in par value of a company's issued share capital or any class of issued share capital have the right to apply to the Bermuda Court for an annulment of any amendment of the memorandum of association adopted by shareholders at any general meeting, other than an amendment that alters or reduces a company's share capital as provided in the Companies Act 1981 of Bermuda. Where an application is made, the amendment becomes effective only to the extent that it is confirmed by the Bermuda Court. An application for the annulment of an amendment of the memorandum of association must be made within 21 days after the date on which the resolution altering the company's memorandum of association is passed and may be made on behalf of the person entitled to make the application by one or more of their number as they may appoint in writing for the purpose. No application may be made by persons voting in favor of the amendment.

## **Appraisal Rights and Shareholder Suits**

Under Bermuda law, in the event of an amalgamation of two Bermuda companies, a shareholder who is not satisfied that fair value has been paid for his or her shares may apply to the Bermuda Court to appraise the fair value of his or her shares. The amalgamation of a company with another company requires the amalgamation agreement to be approved by the board of directors and, except where the amalgamation is between a holding company and one or more of its wholly-owned subsidiaries or between two or more wholly-owned subsidiaries, by meetings of the holders of shares of each company and of each class of such shares. Under Bermuda law, an amalgamation also requires the consent of the Bermuda Minister of Finance, who may grant or withhold his consent at his discretion.

Class actions and derivative actions are generally not available to shareholders under Bermuda law. The Bermuda Court, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association or bye-laws. Further consideration would be given by the Bermuda Court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than that which actually approved it.

When the affairs of a company are being conducted in a manner oppressive or prejudicial to the interests of some part of the shareholders, one or more shareholders may apply to the Bermuda Court for an order regulating the company's conduct of affairs in the future or compelling the purchase of the shares by any shareholder, by other shareholders or by the company.

## **Certain Foreign Issuer Considerations**

The following discussion is based on the advice of Appleby, our Bermuda counsel.

The Bermuda Monetary Authority, or BMA, has designated us as non-resident for exchange control purposes. The BMA has also granted its consent under the Exchange Control Act 1972 and regulations promulgated thereunder for the issue or transfer to non-residents of Bermuda for exchange control purposes of our common shares, subject to the common shares remaining quoted on the Nasdaq Global Select Market.

### *Share Issuance and Transfers by Non-Bermuda and Bermuda Residents*

Under Bermuda law, there are no limitations on the rights of non-Bermuda residents to hold or vote their shares of Bermuda companies. Because we have been designated as a non-resident for Bermuda exchange control purposes, there are no restrictions on our ability to transfer funds in and out of Bermuda or to pay dividends to United States residents who are holders of our common shares other than in respect of local Bermuda currency.

Under Bermuda law, we are an exempted company. An exempted company is exempt from the provisions of Bermuda law, which stipulate that at least 60% of the equity must be beneficially owned by Bermuda persons. Persons regarded as residents of Bermuda for exchange control purposes require specific consent under the Exchange Control Act 1972 to acquire securities issued by us. The Exchange Control Act 1972 permits companies to adopt bye-law provisions relating to the transfer of securities. None of Bermuda law, our memorandum of association or our bye-laws imposes limitations on the right of foreign nationals or non-residents of Bermuda to hold our shares or vote such shares.



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As an exempted company, we may not participate in certain business transactions, including: (1) the acquisition or holding of land in Bermuda, except (i) land acquired for its business by way of lease or tenancy agreement for a term not exceeding fifty years, or (ii) with the consent of the Minister of Finance granted in his discretion, land by way of lease or tenancy agreement for a term not exceeding twenty-one years in order to provide accommodation or recreational facilities for its officers and employees; (2) the taking of mortgages on land in Bermuda to secure an amount in excess of US\$50 thousand without the consent of the Bermuda Minister of Finance; or (3) the carrying on of business of any kind in Bermuda, except in furtherance of our business carried on outside Bermuda or under a license granted by the Bermuda Minister of Finance. In addition, present BMA policy permits no more than 20% of the share capital of an exempted company to be held by Bermuda persons.

The Bermuda government actively encourages foreign investment in exempted entities like us that are based in Bermuda but do not operate in competition with local business. In addition to having no restrictions on the degree of foreign ownership, we are subject neither to taxes on our income or dividends nor to any foreign exchange controls in Bermuda. In addition, there is no capital gains tax in Bermuda, and profits can be accumulated by us without limitation.

### *Director s Interests*

Under the Bermuda Companies Act 1981, a director of a company may, notwithstanding his office, be a party to or otherwise interested in any transaction or arrangement with the company or in which the company is otherwise interested. He or she may also be a director or officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any corporate body promoted by the same company or an interested company. Therefore, where it is necessary, so long as a director of a Bermuda company declares the nature of his or her interest at the first opportunity at a meeting of the board or by writing to the directors as required by the Bermuda Companies Act 1981, that director shall not by reason of his or her office be accountable to a company for any benefit he or she derives from any office or employment to which the bye-laws of the company allow him or her to be appointed or from any transaction or arrangement in which the bye-laws of such company allow him or her to be interested, and no such transaction or arrangement shall be liable to be avoided on the ground of any such interest or benefit. A general notice to the directors by a director or officer declaring that he or she is a director or officer or has an interest in a person and is to be regarded as interested in any transaction or arrangement made with that person shall be sufficient declaration of interest in relation to any transaction or arrangement so made.

### **Share Issuance and Transfer**

We have been designated as a non-resident for exchange control purposes by the BMA, whose permission for the issuance and transfer of common shares has been obtained subject to the common shares being quoted on the Nasdaq Global Select Market.

The transfer of common shares between persons regarded as non-resident in Bermuda for exchange control purposes and the issuance of shares after the completion of the currently contemplated offering of our common shares to those persons may be effected without specific consent under the Exchange Control Act 1972 of Bermuda and regulations thereunder subject to the common shares remaining quoted on the Nasdaq Global Select Market. Issuance and transfer of shares to any person regarded as resident in Bermuda for exchange control purposes require specific prior approval under the Exchange Control Act 1972.

There are no limitations on the rights of persons regarded as non-residents of Bermuda for foreign exchange control purposes who own common shares to hold or vote their common shares. Since we have been designated as a non-resident for Bermuda exchange control purposes, there are no restrictions on our ability to transfer funds in and out of Bermuda or to pay dividends to United States residents or other non-residents of Bermuda who are holders of common shares, other than in respect of local Bermuda currency. Furthermore, it is not our intent to maintain Bermuda dollar deposits and, accordingly, will not pay dividends on the common shares in Bermuda currency.

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Bermuda law requires that share certificates be issued only in the names of corporations or individuals. Where an applicant for common shares acts in a special capacity, such as an executor or trustee, certificates may, at the request of that applicant, record the capacity in which the applicant is acting. Our recording of any special capacity, however, shall not be construed as obliging us either to investigate, or to incur any responsibility or liability in respect of, the proper administration of any trust or estate. Regardless of whether or not we have had notice of a trust, no notice shall be taken of any trust, equitable, contingent, future or partial interest in any share or any interest in any fractional part of a share or any other right in respect of any common shares.

## **Transfer Agent and Registrar**

Reid Management Limited serves as our principal registrar and transfer agent in Bermuda for the common shares. Mellon Investor Services, L.L.C. serves as our United States transfer agent and registrar for the common shares.

## **Material Contracts**

We have entered into the following contracts within the two years preceding the date of this Annual Report on Form 20-F that are or may be material:

A share purchase and subscription agreement, dated February 13, 2007, among our company, ChipMOS Taiwan and Siliconware Precision, under which we and ChipMOS Taiwan agreed to purchase all of Siliconware Precision's equity interest in ChipMOS Taiwan, and Siliconware Precision agreed to subscribe for 12,174,998 of our newly issued common shares through a private placement. The share purchase and subscription transaction closed on March 27, 2007.

A registration rights agreement, dated March 27, 2007, between our company and Siliconware Precision, pursuant to which Siliconware Precision agreed not to sell or otherwise transfer any of our common shares it acquired in the share purchase and acquisition for a period of nine months after March 27, 2007, and we granted to Siliconware Precision certain rights, including demand registration, piggyback registration and Form F-3 registration rights, to require us to register its common shares for sale under the Securities Act. The registration rights agreement was entered into in connection with share purchase and subscription transaction described above.

An assignment agreement, date April 12, 2007, by and between our company and ChipMOS Taiwan, pursuant to which ChipMOS Taiwan assigned and transferred fifty percent of the title to, ownership of and interest in all of the technologies and intellectual property it owned as of that date to ChipMOS Bermuda for a purchase price of US\$6.4 million, which was paid in full in June 2007.

A registration rights agreement, dated August 8, 2007, among our company, Giant Haven, ProMOS and Powertech Technology Inc., pursuant to which we granted to Mosel, ProMOS and Powertech Technology Inc. certain registration rights, including customary demand and piggyback registration rights, common shares for the sale of our common shares under the Securities Act.

Please see also Item 7. Major Shareholders and Related Party Transactions for summaries of contracts with certain of our related parties.

## **Bermuda Taxation**

This summary is based on laws, regulations, treaty provisions and interpretations now in effect and available as of the date of this Annual Report on Form 20-F. The laws, regulations, treaty provisions and interpretations, however, may change at any time, and any change could be retroactive to the date of issuance of our common shares. These laws, regulations and treaty provisions are also subject to various interpretations, and the relevant tax authorities or the courts could later disagree with the explanations or conclusions set out below.

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At the date hereof, there is no Bermuda income, corporation or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by us or our shareholders other than shareholders ordinarily resident in Bermuda. We are not subject to stamp or other similar duty on the issuance, transfer or redemption of our common shares.

We have obtained an assurance from the Minister of Finance of Bermuda under the Exempted Undertaking Tax Protection Act 1966 that, in the event there is enacted in Bermuda any legislation imposing tax computed on profits or income or computed on any capital assets, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not be applicable to us or to our operations, or to the common shares, debentures or our other obligations until March 28, 2016, except insofar as such tax applies to persons ordinarily resident in Bermuda and holding such common shares, debentures or our other obligations or any real property or leasehold interests in Bermuda owned by us. No reciprocal income tax treaty affecting us exists between Bermuda and the United States.

As an exempted company, we are liable to pay in Bermuda an annual registration fee calculated on a sliding scale basis by reference to our assessable capital, which is the aggregate of our authorized common share capital and the premium on our issued common shares currently at a rate not exceeding US\$29,220 per annum.

### **United States Federal Income Taxation**

#### ***In General***

This section describes the material United States federal income tax consequences generally applicable to ownership by a U.S. holder (as defined below) of our common shares. It applies to you only if you hold your common shares as capital assets for tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

a dealer in securities;

a trader in securities that elects to use a mark-to-market method of accounting for securities holdings;

a tax-exempt organization;

a life insurance company;

a person liable for alternative minimum tax;

a person that actually or constructively owns 10% or more of our voting stock;

a person that holds common shares as part of a straddle or a hedging or conversion transaction; or

a person whose functional currency is not the US dollar.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions all as currently in effect. These laws are subject to change, possibly on a retroactive basis. There is currently no comprehensive income tax treaty between the United States and Bermuda.

You are a U.S. holder if you are a beneficial owner of common shares and you are:

a citizen or resident of the United States;

a domestic corporation;

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an estate whose income is subject to United States federal income tax regardless of its source; or

a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

If a partnership holds the common shares, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. If you hold the common shares as a partner in a partnership you should consult your tax advisor with regard to the United States federal income tax treatment of an investment in the common shares.

You should consult your own tax advisor regarding the United States federal, state and local and the Bermuda and other tax consequences of owning and disposing of common shares in your particular circumstances.

This discussion addresses only United States federal income taxation.

### ***Taxation of Dividends***

Under the United States federal income tax laws, and subject to the passive foreign investment company, or PFIC, rules discussed below, if you are a U.S. holder, the gross amount of any dividend we pay out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation. If you are a noncorporate U.S. holder, dividends paid to you in taxable years beginning before January 1, 2011 that constitute qualified dividend income will be taxable to you at a maximum tax rate of 15% provided that you hold the common shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. Dividends we pay with respect to the common shares generally will be qualified dividend income provided that, in the year that you receive the dividend, the common shares are readily tradable on an established securities market in the United States. We believe that our shares, which are listed on the NASDAQ, are readily tradable on an established securities market in the United States; however, there can be no assurance that our shares will continue to be readily tradable on an established securities market.

The dividend is taxable to you when you receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the common shares and thereafter as capital gain.

Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15% tax rate.

Dividends will be income from sources outside the United States, but dividends paid in taxable years beginning before January 1, 2007 generally will be passive or financial services income, and dividends paid in taxable years beginning after December 31, 2006 will, depending on your circumstances, be passive or general income which, in either case, is treated separately from other types of income for purposes of computing the foreign tax credit allowable to you. You should consult your own tax advisor regarding the foreign tax credit rules.

### ***Taxation of Capital Gains***

Subject to the PFIC rules discussed below, if you are a U.S. holder and you sell or otherwise dispose of your common shares, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the amount that you realize and your tax basis in your common shares. Capital gain of a noncorporate U.S. holder that is recognized in taxable years beginning before January 1, 2011 is generally taxed at a maximum rate of 15% where the holder has a holding period greater than one year. The deductibility of capital losses is subject to limitations. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

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PFIC Rules. We believe that our common shares should not be treated as stock of a Personal Foreign Investment Company, or PFIC, for United States federal income tax purposes, but this conclusion is a legal and factual determination that is made annually and thus may be subject to change. If we were to be treated as a PFIC, unless a U.S. holder elects to be taxed annually on a mark-to-market basis with respect to the shares, gain realized on the sale or other disposition of your common shares would in general not be treated as capital gain. Instead, if you are a U.S. holder, you would be treated as if you had realized such gain and certain excess distributions ratably over your holding period for the common shares and would not be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. With certain exceptions, your common shares will be treated as stock in a PFIC if we were a PFIC at any time during your holding period in your common shares. Dividends that you receive from us will not be eligible for the special tax rates applicable to qualified dividend income if we are treated as a PFIC with respect to you either in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income.

## **Documents on Display**

We are subject to the information requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, we file reports and other information with the Securities and Exchange Commission. These materials may be inspected and copied at the Commission's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Commission's Public Reference Room by calling the Commission in the United States at 1-800-SEC-0330. The Commission also maintains a web site at <http://www.sec.gov> that contains reports, proxy statements and other information regarding registrants that file electronically with the Commission.

## **Item 11. Quantitative and Qualitative Disclosure about Market Risk Market Risks**

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

### *Interest Rate Risks*

As of December 31, 2007, we had aggregate debt outstanding of NT\$19,370 million (US\$597 million), which was incurred for capital expenditure and general operating expenses. Of our outstanding debt as of December 31, 2007, 65% bears interest at variable rates. The interest rate for the majority of our variable rate debt varies based on a fixed percentage spread over the prime rate established by our lenders. Our variable rate debt had an annual weighted average interest rate of 3.7% as of December 31, 2007. Accordingly, we have cash flow and earnings exposure due to market interest rate changes for our variable rate debt. An increase in interest rates of 1% would increase our annual interest charge by NT\$126 million (US\$4 million) based on our outstanding indebtedness as of December 31, 2007.

As of December 31, 2007, ChipMOS Taiwan had no interest rate swap agreements outstanding. ChipMOS Taiwan had entered into five interest rate swap agreements during the year of 2004 and 2005. On October 4, 2005, ChipMOS Taiwan terminated the swap with a notional amount of NT\$300 million, which was entered into on October 13, 2004, and entered into two interest rate swap agreements each with a notional amount of NT\$100 million, which were terminated on November 8, 2005 and December 5, 2005, respectively. On November 2, 2005, ChipMOS Taiwan entered into an interest rate swap agreement with a notional amount of NT\$200 million, which was terminated on November 4, 2005. On November 4, 2005, the swap with a notional amount of NT\$500 million, which was entered into on July 28, 2004, was also terminated. For these swaps, the difference in interest rates is calculated quarterly and credited or charged in the current period. In 2005, we recognized as NT\$11 million of non-operating expense as a result of the swaps. We did not record any non-operating expense in connection with the swaps in 2006 or 2007.

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*Foreign Currency Exchange Rate Risks*

Our foreign currency exposure gives rise to market risks associated with exchange rate movements against the NT dollar, the Japanese yen and the US dollar. As of December 31, 2007, 39% of our accounts receivable are denominated in US dollars and Japanese yen, and 56% of our accounts payable and payables for properties are denominated in Japanese yen and US dollars. To minimize foreign currency exchange risk, from time to time we utilize forward exchange contracts and foreign currency options to hedge our exchange rate risk on foreign currency assets or liabilities positions. These hedging transactions help to reduce, but do not eliminate, the impact of foreign currency exchange rate movements. An average depreciation of the NT dollar against all other relevant foreign currencies of 5% would increase our annual exchange losses by NT\$203 million (US\$6 million) based on our outstanding assets and liabilities denominated in foreign currencies as of December 31, 2007. As of December 31, 2005, 2006 and 2007, we had no outstanding forward exchange or foreign currency option contracts. Our net gains on forward exchange contracts were NT\$2 million, NT\$2 million and NT\$123 thousand (US\$4 thousand) for the years ended December 31, 2005, 2006 and 2007, respectively.

See Note 22 of our audited consolidated financial statements for additional information on these derivative transactions.

**Item 12. Description of Securities Other Than Equity Securities**

Not applicable.

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**PART II**

**Item 13. Defaults, Dividend Arrearages and Delinquencies**

None.

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

Not applicable.

**Item 15. Controls and Procedures**

*Disclosure Controls and Procedures.* An evaluation was carried out under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934). Based upon that evaluation, the chief executive officer and chief financial officer concluded that these disclosure controls and procedures were effective as of December 31, 2007.

*Management's Annual Report on Internal Control Over Financial Reporting.* Management's Report on Internal Control Over Financial Reporting is set forth below.

**Management's Report on Internal Control Over Financial Reporting**

**June 6, 2008**

Management of ChipMOS TECHNOLOGIES (Bermuda) LTD. (together with its consolidated subsidiaries, the Company) is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934). The Company's internal control over financial reporting is a process designed under the supervision of the Company's chief executive officer and chief financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with generally accepted accounting principles in the Republic of China and the required reconciliation to generally accepted accounting principles in the United States.

As of December 31, 2007, the Company's management, with the participation of the Company's chief executive officer and chief financial officer, conducted an assessment of the effectiveness of the Company's internal control over financial reporting using criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, the Company's management has concluded that the Company's internal control over financial reporting as of December 31, 2007 was effective.

Moore Stephens, an independent registered public accounting firm, has audited our consolidated financial statements included in the Annual Report of the Company on Form-20F for the year ended December 31, 2007 and has issued an attestation report on the Company's internal control over financial reporting as of December 31, 2007. The attestation report is set forth in Item 18. Financial Statements.

/s/ Shih-Jye Cheng  
Name: Shih-Jye Cheng  
Title: Chairman and Chief Executive Officer

/s/ Shou-Kang Chen  
Name: Shou-Kang Chen  
Title: Chief Financial Officer



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*Changes in Internal Control Over Financial Reporting.* During 2007, no change to our internal control over financial reporting occurred that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 16A. Audit Committee Financial Expert**

As of March 31, 2008 there was no audit committee financial expert serving on the audit committee, as defined under the applicable rules of the SEC issued pursuant to Section 407 of the Sarbanes-Oxley Act of 2002, serving on our audit committee. Our board of directors believes that the audit committee members collectively possess sufficient financial knowledge and experience notwithstanding that none of them individually is determined to be an audit committee financial expert.

**Item 16B. Code of Ethics**

We have adopted a Code of Business Conduct and Ethics, which applies to our directors, officers and employees. A copy of our Code of Business Conduct and Ethics is filed as Exhibit 11.1 to this Annual Report on Form 20-F.

**Item 16C. Principal Accountant Fees and Services**

The table below summarizes the aggregate fees that we paid or accrued for services provided by Moore Stephens for the years ended December 31, 2006 and 2007.

|                    | 2006               | 2007               |
|--------------------|--------------------|--------------------|
|                    | (In thousands)     |                    |
| Audit Fees         | NT\$ 7,202         | NT\$ 10,604        |
| Audit Related Fees | 3,259              | 195                |
| Tax Fees           |                    |                    |
| All Other Fees     |                    |                    |
| <b>Total</b>       | <b>NT\$ 10,461</b> | <b>NT\$ 10,799</b> |

*Audit Fees.* This category includes the audit of our annual financial statements and services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements for those fiscal years. For 2006, this category primarily includes the review of our financial statements contained in the offering memorandum used in connection with the offering of our 2006 notes and the audit of our financial statements contained in this Annual Report on Form 20-F. For 2007, this category primarily includes the audit of our financial statements and our internal control over financial reporting contained in this Annual Report on Form 20-F.

*Audit-Related Fees.* This category includes fees reasonably related to the performance of the audit or review of our financial statements and not included in the category of Audit Fees (described above). For 2006, this category primarily included the review of the effectiveness of our internal control over financial reporting.

All non-audit services are pre-approved by our Audit Committee on a case-by-case basis. Accordingly, we have not established any pre-approval policies and procedures.

All audit services that Moore Stephens was engaged to carry out after May 6, 2003, the effective date of revised Rule 2-01(c) (7) of Regulation S-X entitled Audit Committee Administration of the Engagement on strengthening requirements regarding auditor independence, were pre-approved by the Audit Committee.

**Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not applicable.

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**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**  
Not applicable.

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**PART III**

**Item 17. Financial Statements**

The Company has elected to provide the financial statements and related information specified in Item 18. in lieu of Item 17.

**Item 18. Financial Statements**

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**Item 19. Exhibits**

**Exhibits Description**

- 1.1 Memorandum of Association of ChipMOS TECHNOLOGIES (Bermuda) LTD.<sup>(1)</sup>
- 1.2 Bye-laws of ChipMOS TECHNOLOGIES (Bermuda) LTD.<sup>(7)</sup>
- 2.1 Certificate of Incorporation of ChipMOS TECHNOLOGIES (Bermuda) LTD., dated August 15, 2000.<sup>(1)</sup>
- 4.1 Joint Venture Agreement, dated July 14, 1997, between Mosel Vitelic Inc. and Siliconware Precision Industries Co., Ltd.<sup>(1)</sup>
- 4.2 Asset Sales Agreement, dated June 14, 1999, between Microchip Technology Taiwan and ChipMOS TECHNOLOGIES INC.<sup>(1)</sup>
- 4.3 Tessera Compliant Chip License Agreement, dated April 20, 1999, between Tessera Inc. and ChipMOS TECHNOLOGIES INC.<sup>(1)</sup>
- 4.4 License Agreement, dated April 1, 1999, between Fujitsu Ltd. and ChipMOS TECHNOLOGIES INC.<sup>(1)</sup>
- 4.5 Sales Agreement, dated February 10, 2000, between Sharp Corp. and ChipMOS TECHNOLOGIES INC.<sup>(1)</sup>
- 4.6 Raw Materials Processing Agreement, dated August 10, 2000, between Mosel Vitelic Inc. and ChipMOS TECHNOLOGIES INC.<sup>(1)</sup>
- 4.7 Raw Materials Processing Agreement, dated January 1, 2001, between Siliconware Precision Co. Ltd. and ChipMOS TECHNOLOGIES INC.<sup>(1)</sup>

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- 4.8 Integrated Circuit Processing Agreement, dated January 1, 2001, between Siliconware Precision Co. Ltd. and ChipMOS TECHNOLOGIES INC.<sup>(1)</sup>
- 4.9 Integrated Circuit Processing and Warehousing Management Agreement, dated August 10, 2000, between Mosel Vitelic Inc. and ChipMOS TECHNOLOGIES INC.<sup>(1)</sup>
- 4.10 Land Lease Agreement, dated November 26, 1997, between Science Based Industrial Park Administration and ChipMOS TECHNOLOGIES INC.<sup>(1)</sup>
- 4.11 Land Lease Agreement, dated November 26, 1997, between Science Based Industrial Park Administration and ChipMOS TECHNOLOGIES INC.<sup>(1)</sup>
- 4.12 Land Lease Agreement, dated September 1, 1997, between Science Based Industrial Park Administration and ChipMOS TECHNOLOGIES INC.<sup>(1)</sup>
- 4.13 Purchase Agreement, dated July 31, 1997, between ChipMOS TECHNOLOGIES INC. and Mosel Vitelic Inc.<sup>(1)</sup>
- 4.14 Form of Share Exchange Covenant Letter from the Company to the Shareholders.<sup>(1)</sup>
- 4.15 Amendment to the Integrated Circuit Processing and Warehousing Management Agreement, dated August 10, 2000, between Mosel Vitelic Inc. and ChipMOS TECHNOLOGIES INC, dated September 1, 2001. <sup>(2)</sup>
- 4.16 Purchase Agreement, dated October 15, 2003, between ChipMOS TECHNOLOGIES INC. and DenMOS Technology Inc.<sup>(2)</sup>
- 4.17 Sale and Purchase Agreement, dated April 25, 2003, between ChipMOS TECHNOLOGIES INC. and Ron How Investment Corp. (English Translation)<sup>(3)</sup>
- 4.18 Sale and Purchase Agreement, dated April 25, 2003, between ChipMOS TECHNOLOGIES INC. and Yuan Shan Investment Corp. (English Translation)<sup>(3)</sup>
- 4.19 Sale and Purchase Agreement, dated April 25, 2003, between ChipMOS TECHNOLOGIES INC. and Mosel Vitelic Inc. (English Translation)<sup>(3)</sup>
- 4.20 Laser Stamping Machine Lease Agreement, dated November 1, 2002, between ChipMOS TECHNOLOGIES INC. and CHANTEK ELECTRONIC CO., LTD. (English Translation)<sup>(3)</sup>
- 4.21 Automatic Stamping Machine Lease Agreement, dated December 1, 2002, between ChipMOS TECHNOLOGIES INC. and CHANTEK ELECTRONIC CO., LTD. (English Translation)<sup>(3)</sup>
- 4.22 Raw Materials Processing Agreement, dated January 1, 2003, between ChipMOS TECHNOLOGIES INC. and CHANTEK ELECTRONIC CO., LTD. (English Translation)<sup>(3)</sup>
- 4.23 Integrated Circuit Processing Agreement, dated January 1, 2003, between ChipMOS TECHNOLOGIES INC. and CHANTEK ELECTRONIC CO., LTD. (English Translation)<sup>(3)</sup>
- 4.24 Technology Transfer Agreement, dated December 24, 2002, between ChipMOS TECHNOLOGIES INC. and ThaiLin Semiconductor Corp. (English Translation)<sup>(3)</sup>
- 4.25 Tester Equipment Lease Agreement, dated November 14, 2002, between ChipMOS TECHNOLOGIES INC. and ThaiLin Semiconductor Corp. (English Translation)<sup>(3)</sup>
- 4.26 Tester Equipment Lease Agreement, dated December 3, 2002, between ChipMOS TECHNOLOGIES INC. and ThaiLin Semiconductor Corp. (English Translation)<sup>(3)</sup>

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- 4.27 Joint Engagement Letter, undated, by and among Ultima Electronics Corp., ChipMOS TECHNOLOGIES INC. and Sun-Fund Securities Ltd. (English Translation)<sup>(3)</sup>
- 4.28 Lease Agreement, dated June 1, 2002, between ChipMOS TECHNOLOGIES INC. and SyncMOS Technologies, Inc. (English Translation)<sup>(3)</sup>
- 4.29 Technology Transfer Agreement, dated August 1, 2002, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES (Shanghai) LTD.<sup>(3)</sup>
- 4.30 Promissory Note from Modern Mind Technology Limited to Jesper Limited, dated November 4, 2002.<sup>(3)</sup>
- 4.31 Deed of Variation, dated December 2, 2002, between Modern Mind Technology Limited and Jesper Limited.<sup>(3)</sup>
- 4.32 Deed of Assignment, dated December 27, 2002, between Jesper Limited and ChipMOS TECHNOLOGIES (Bermuda) LTD. <sup>(3)</sup>
- 4.33 Deed of Assignment, dated June 25, 2003, between Jesper Limited and ChipMOS TECHNOLOGIES INC.<sup>(3)</sup>
- 4.34 Agreement, dated May 3, 2003, between Jesper Limited and Modern Mind Technology Limited.<sup>(3)</sup>
- 4.35 Master loan agreement, dated July 12, 2004, among ChipMOS TECHNOLOGIES (Bermuda) LTD., Modern Mind Technology Limited and Jesper Limited.<sup>(5)</sup>
- 4.36 Cooperation Agreement, dated March 27, 2002, between Shanghai Qingpu Industrial Zone Development (Group) Company and ChipMOS TECHNOLOGIES (Bermuda) LTD. (English Translation)<sup>(3)</sup>
- 4.37 Deed of assignment, dated December 17, 2003, between ChipMOS TECHNOLOGIES INC. and ChipMOS TECHNOLOGIES (Bermuda) LTD.<sup>(4)</sup>
- 4.38 Supplemental deed of assignment, dated May 14, 2004 between ChipMOS TECHNOLOGIES INC. and ChipMOS TECHNOLOGIES (Bermuda) LTD.<sup>(4)</sup>
- 4.39 Second supplemental deed of assignment, dated October 11, 2004, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC.<sup>(5)</sup>
- 4.40 Assignment agreement, dated April 7, 2004, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC. <sup>(4)</sup>
- 4.41 Supplemental assignment agreement, dated May 14, 2004, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC. <sup>(4)</sup>
- 4.42 Second supplemental assignment agreement, dated October 11, 2004, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC.<sup>(5)</sup>
- 4.43 Patent license agreement, dated April 7, 2004, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC.<sup>(4)</sup>
- 4.44 Supplemental patent license agreement dated July 8, 2004, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC. <sup>(5)</sup>
- 4.45 Second supplemental patent license agreement dated October 11, 2004, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC.<sup>(5)</sup>

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- 4.46 Third supplemental patent license agreement dated December 30, 2004, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC.<sup>(5)</sup>
- 4.47 Assembly and Testing Service Agreement, dated November 27, 2005, between ChipMOS TECHNOLOGIES INC. and Spansion LLC.<sup>(6)</sup>
- 4.48 Share Purchase and Subscription Agreement, dated February 13, 2007, among ChipMOS TECHNOLOGIES (Bermuda) LTD., ChipMOS TECHNOLOGIES INC. and Siliconware Precision Industries Co., Ltd.<sup>(8)</sup>
- 4.49 Registration Rights Agreement, dated March 27, 2007, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and Siliconware Precision Industries Co., Ltd.<sup>(8)</sup>
- 4.50 Share Exchange Agreement, dated as of April 12, 2007, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC.
- 4.51 Assignment Agreement, dated April 12, 2007, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC.<sup>(9)</sup>
- 4.52 Form of Change In Control Severance Agreement
- 4.53 Southern Taiwan Science Park Administration Land Lease Agreement, dated June 1, 2007, between Southern Taiwan Science Park Administration and ChipMOS TECHNOLOGIES INC. (English Translation)
- 4.54 Second Amendment to Assembly and Test Service Agreement, dated July 16, 2007, by and between Spansion LLC and ChipMOS TECHNOLOGIES INC.
- 4.55 Service Agreement for Integrated Circuit Products, dated July 17, 2007, by and between ProMOS Technologies Inc. and ChipMOS TECHNOLOGIES INC. (English Translation)
- 4.56 Registration Rights Agreement, dated August 8, 2007, among ChipMOS TECHNOLOGIES (Bermuda) LTD., Giant Haven Investment Limited, ProMOS Technologies Inc. and Powertech Technology Inc.
- 4.57 Third Amendment to Assembly and Test Services Agreement, dated November 30, 2007, by and between Spansion LLC and ChipMOS TECHNOLOGIES INC.
- 4.58 Science Park Administration Land Lease Agreement, dated December 1, 2007, between Science Park Administration and ChipMOS TECHNOLOGIES INC. (English Translation)
- 4.59 Lease Agreement, dated April 2, 2008, between ChipMOS TECHNOLOGIES INC. and ThaiLin Semiconductor Corp. (English Translation)
- 8.1 List of principal subsidiaries of ChipMOS TECHNOLOGIES (Bermuda) LTD.
- 11.1 Code of Business Conduct and Ethics.<sup>(4)</sup>
- 12.1 Certification of Chief Executive Officer required by Rule 13a-14(a) under the Exchange Act.
- 12.2 Certification of Chief Financial Officer required by Rule 13a-14(a) under the Exchange Act.
- 13.1 Certification of Chief Executive Officer required by Rule 13a-14(b) under the Exchange Act.

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13.2 Certification of Chief Financial Officer required by Rule 13a-14(b) under the Exchange Act.

23.1 Consent of independent registered public accounting firm.

- (1) Incorporated by reference to our Registration Statement on Form F-1 (File No. 333-13218), filed on February 28, 2001.
- (2) Incorporated by reference to our Annual Report on Form 20-F (File No. 0-31106), filed on June 17, 2002.
- (3) Incorporated by reference to our Annual Report on Form 20-F (File No. 0-31106), filed on June 30, 2003.
- (4) Incorporated by reference to our Annual Report on Form 20-F (File No. 0-31106), filed on June 17, 2004.
- (5) Incorporated by reference to our Annual Report on Form 20-F (File No. 0-31106), filed on June 29, 2005.
- (6) Incorporated by reference to our Registration Statement on Form F-3 (File No. 333-130230), filed on December 9, 2005.
- (7) Incorporated by reference to our report on Form S-8, dated October 5, 2006.
- (8) Incorporated by reference to Schedule 13D filed with the United States Securities and Exchange Commission by Siliconware Precision Industries Co., Ltd. on April 4, 2007.
- (9) Incorporated by reference to our Annual Report on Form 20-F (File No. 0-31106), filed on June 6, 2007.

We have not included as exhibits certain instruments with respect to our long-term debt, the amount of debt authorized under each of which does not exceed 10% of our total assets, and we agree to furnish a copy of any such instrument to the Commission upon request.



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**SIGNATURES**

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the Registrant certifies that it meets all the requirements for filing on Form 20-F and it has duly caused this Annual Report on Form 20-F to be signed on its behalf by the undersigned, thereunto duly authorized, in Taipei, Taiwan, Republic of China, on June 6, 2008.

ChipMOS TECHNOLOGIES (Bermuda) LTD.

By: /s/ Shih-Jye Cheng

**Name: Shih-Jye Cheng**

**Title: Chairman and Chief Executive Officer**

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

ChipMOS TECHNOLOGIES (Bermuda) LTD.

We have audited the accompanying consolidated balance sheets of ChipMOS TECHNOLOGIES (Bermuda) LTD. and subsidiaries (collectively, the Company ) (see Note 1) as of December 31, 2007 and 2006, and the related consolidated statements of operations, changes in shareholders equity, and cash flows for each of the three years in the period ended December 31, 2007, all expressed in New Taiwan dollars. We have also audited the Company s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company s internal control over financial reporting based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of China and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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**Report of Independent Registered Public Accounting Firm (continued)**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the Republic of China. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control – Integrated Framework issued by the Treadway Commission (COSO).

Accounting principles generally accepted in the Republic of China vary in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of net income for each of the three years in the period ended December 31, 2007, and the determination of shareholders' equity and financial position at December 31, 2007 and 2006, to the extent summarized in Note 24.

/s/ Moore Stephens

*Certified Public Accountants*

*Hong Kong*

March 18, 2008

**Table of Contents****ChipMOS TECHNOLOGIES (Bermuda) LTD. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****December 31, 2006 and 2007 (Notes 1 and 16)****(In Thousands of New Taiwan and U.S. Dollars, Except Par Value)**

|  | 2006<br>NT\$      | December 31,<br>2007<br>NT\$ | US\$<br>(Note 3) |
|--|-------------------|------------------------------|------------------|
| <b>ASSETS</b>  |                   |                              |                  |
| <b>CURRENT ASSETS</b>  |                   |                              |                  |
| Cash and cash equivalents  | 5,895,904         | 5,133,580                    | 158,297          |
| Restricted cash and cash equivalents (Note 19)   | 65,060            | 86,975                       | 2,682            |
| Financial assets at fair value through profit and loss (Notes 2, 4 and 18)   | 1,929,123         | 555,608                      | 17,133           |
| Notes receivable   | 31,103            | 28,032                       | 864              |
| Accounts receivable - net of allowance for doubtful receivables and sales return allowances of NT\$142,382 in 2006 and NT\$242,325 in 2007 (Notes 2 and 5) |                   |                              |                  |
| Related parties (Note 18)  | 1,839,130         | 1,498,833                    | 46,217           |
| Third parties  | 3,190,520         | 3,795,838                    | 117,047          |
| Other receivables - net of allowance for doubtful receivables and sales return allowances of NT\$18,274 in 2006 and 2007 (Notes 2 and 5)                   |                   |                              |                  |
| Related parties (Note 18)  | 13,958            | 11,922                       | 368              |
| Third parties  | 31,812            | 31,176                       | 961              |
| Inventories - net (Notes 2 and 6)  | 945,822           | 1,043,620                    | 32,181           |
| Deferred income tax - net (Notes 2 and 17)   | 134,337           | 85,080                       | 2,624            |
| Prepaid expenses and other current assets  | 155,790           | 334,485                      | 10,314           |
| <b>Total Current Assets</b>  | <b>14,232,559</b> | <b>12,605,149</b>            | <b>388,688</b>   |
| <b>LONG-TERM INVESTMENTS (Notes 2 and 7)</b>   | <b>366,742</b>    | <b>358,017</b>               | <b>11,039</b>    |
| <b>PROPERTY, PLANT AND EQUIPMENT - NET (Notes 2 and 14)</b>  |                   |                              |                  |
| <b>Cost</b>  |                   |                              |                  |
| Land   | 530,862           | 532,605                      | 16,423           |
| Buildings and auxiliary equipment  | 6,258,118         | 8,515,871                    | 262,592          |
| Machinery and equipment  | 37,282,027        | 41,859,292                   | 1,290,758        |
| Furniture and fixtures   | 1,071,169         | 1,405,522                    | 43,340           |
| Transportation equipment   | 35,357            | 45,339                       | 1,398            |
| Tools  | 2,280,643         | 2,757,546                    | 85,031           |
| Leasehold improvements   | 5,658             | 6,217                        | 192              |
| <b>Total cost</b>  | <b>47,463,834</b> | <b>55,122,392</b>            | <b>1,699,734</b> |
| Accumulated depreciation (Note 8)  | (20,220,415)      | (26,298,244)                 | (810,923)        |
| Accumulated impairment   | (109,275)         | (109,275)                    | (3,370)          |
| Construction in progress and advance payments  | 3,360,179         | 1,305,559                    | 40,258           |
| <b>Net Property, Plant and Equipment</b>   | <b>30,494,323</b> | <b>30,020,432</b>            | <b>925,699</b>   |
| <b>INTANGIBLE ASSETS - NET (Notes 2 and 9)</b>   | <b>172,394</b>    | <b>180,434</b>               | <b>5,564</b>     |

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| OTHER ASSETS   |                   |                   |                  |
|--|-------------------|-------------------|------------------|
| Restricted cash and cash equivalents (Note 19)   | 29,633            | 29,983            | 925              |
| Employee dormitory buildings net of accumulated depreciation of NT\$110,471 in 2006 and NT\$141,060 in 2007 (Note 2) | 336,136           | 338,764           | 10,446           |
| Refundable deposits  | 30,604            | 36,513            | 1,126            |
| Goodwill (Note 2)  | 128,455           | 917,181           | 28,282           |
| Long-term accounts receivable-related parties (Note 18)  |                   | 449,827           | 13,871           |
| Others (Note 2)  | 221,019           | 379,785           | 11,711           |
| Total Other Assets   | 745,847           | 2,152,053         | 66,361           |
| <b>TOTAL ASSETS</b>  | <b>46,011,865</b> | <b>45,316,085</b> | <b>1,397,351</b> |

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

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**Table of Contents****ChipMOS TECHNOLOGIES (Bermuda) LTD. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (Continued)**

December 31, 2006 and 2007 (Notes 1 and 16)

(In Thousands of New Taiwan and U.S. Dollars, Except Par Value)

|  | 2006<br>NT\$      | December 31,<br>2007<br>NT\$ | US\$<br>(Note 3) |
|--|-------------------|------------------------------|------------------|
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>                                     |                   |                              |                  |
| <b>CURRENT LIABILITIES</b>   |                   |                              |                  |
| Bank loans (Note 10)   | 1,055,310         | 1,249,196                    | 38,520           |
| Current portion of long-term loans (Note 14)                                   | 2,335,284         | 3,686,216                    | 113,667          |
| Convertible notes (Note 13)  |                   | 3,014,937                    | 92,968           |
| Derivative liabilities   |                   | 95,996                       | 2,960            |
| Deferred credit  | 3,631             | 3,862                        | 119              |
| Accounts payable   | 803,026           | 976,147                      | 30,100           |
| Other payables   |                   |                              |                  |
| Related parties (Note 18)  | 25                | 13                           |                  |
| Third parties (Note 11)  | 549,597           | 604,145                      | 18,629           |
| Income tax payable (Note 2)  | 293,835           | 402,863                      | 12,422           |
| Payables to contractors and equipment suppliers                                | 993,191           | 454,075                      | 14,002           |
| Accrued expenses and other current liabilities (Note 12)                       | 713,581           | 886,736                      | 27,343           |
| <b>Total Current Liabilities</b>   | <b>6,747,480</b>  | <b>11,374,186</b>            | <b>350,730</b>   |
| <b>LONG-TERM LIABILITIES</b>   |                   |                              |                  |
| Convertible notes (Note 13)  | 5,133,837         | 2,075,553                    | 64,001           |
| Derivative liabilities   | 77,902            |                              |                  |
| Long-term loans (Note 14)  | 10,688,780        | 9,248,157                    | 285,173          |
| <b>Total Long-Term Liabilities</b>   | <b>15,900,519</b> | <b>11,323,710</b>            | <b>349,174</b>   |
| <b>OTHER LIABILITIES</b>   |                   |                              |                  |
| Deferred income tax net (Notes 2 and 17)                                       | 240,464           | 180,400                      | 5,563            |
| Deferred credit  | 185,129           | 169,942                      | 5,240            |
| Accrued pension cost (Notes 2 and 15)  | 47,572            | 12,261                       | 378              |
| Guarantee deposits   | 5,834             | 7,458                        | 230              |
| <b>Total Other Liabilities</b>   | <b>478,999</b>    | <b>370,061</b>               | <b>11,411</b>    |
| <b>Total Liabilities</b>   | <b>23,126,998</b> | <b>23,067,957</b>            | <b>711,315</b>   |
| <b>COMMITMENTS AND CONTINGENCIES (Note 21)</b>                                 |                   |                              |                  |
| <b>SHAREHOLDERS EQUITY (Notes 2 and 16)</b>                                    |                   |                              |                  |
| Capital stock NT\$0.328 (US\$0.01) par value                                   |                   |                              |                  |
| Authorized 250,000 thousand common shares and 75,000 thousand preferred shares |                   |                              |                  |

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|  |                   |                   |                  |
|--|-------------------|-------------------|------------------|
| Issued and outstanding 83,843 thousand common shares (2006: 70,196 thousand common shares) | 23,022            | 27,517            | 849              |
| Capital surplus  | 9,771,876         | 12,475,936        | 384,704          |
| Deferred compensation  | (56,574)          | (69,368)          | (2,139)          |
| Retained earnings  | 4,322,151         | 6,291,008         | 193,987          |
| Cumulative translation adjustments   | 68,074            | 277,464           | 8,556            |
| Minority interests   | 8,756,318         | 3,245,571         | 100,079          |
| Total Shareholders' Equity   | 22,884,867        | 22,248,128        | 686,036          |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>  | <b>46,011,865</b> | <b>45,316,085</b> | <b>1,397,351</b> |

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

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**Table of Contents****ChipMOS TECHNOLOGIES (Bermuda) LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****For the Years Ended December 31, 2005, 2006 and 2007 (Notes 1 and 16)****(In Thousands of New Taiwan and U.S. Dollars, Except Earnings Per Share)**

|  | Year Ended December 31, |                  |                  |                  |
|--|-------------------------|------------------|------------------|------------------|
|  | 2005<br>NT\$            | 2006<br>NT\$     | 2007<br>NT\$     | US\$<br>(Note 3) |
| <b>NET REVENUE (Notes 2, 18 and 23)</b>                    |                         |                  |                  |                  |
| Related parties  | 4,603,457               | 5,654,396        | 6,915,907        | 213,256          |
| Third parties  | 10,610,524              | 14,720,791       | 16,681,691       | 514,391          |
| Total Net Revenues   | 15,213,981              | 20,375,187       | 23,597,598       | 727,647          |
| <b>COST OF REVENUE (Notes 18 and 23)</b>                   |                         |                  |                  |                  |
| Related parties  | 3,422,644               | 4,217,605        | 5,035,137        | 155,262          |
| Third parties  | 7,839,987               | 10,035,740       | 12,408,927       | 382,637          |
| Total Cost of Revenue                                      | 11,262,631              | 14,253,345       | 17,444,064       | 537,899          |
| <b>GROSS PROFIT</b>  | <b>3,951,350</b>        | <b>6,121,842</b> | <b>6,153,534</b> | <b>189,748</b>   |
| <b>OPERATING EXPENSES (Note 18)</b>                        |                         |                  |                  |                  |
| Research and development (Note 2)                          | 274,432                 | 274,752          | 322,325          | 9,939            |
| General and administrative                                 | 793,276                 | 813,046          | 1,070,438        | 33,008           |
| Sales and marketing (Note 2)                               | 232,871                 | 107,450          | 98,328           | 3,032            |
| Total Operating Expenses                                   | 1,300,579               | 1,195,248        | 1,491,091        | 45,979           |
| <b>INCOME FROM OPERATIONS</b>                              | <b>2,650,771</b>        | <b>4,926,594</b> | <b>4,662,443</b> | <b>143,769</b>   |
| <b>NON-OPERATING INCOME</b>                                |                         |                  |                  |                  |
| Gain on embedded derivative                                |                         | 57,749           |                  |                  |
| Foreign exchange gain net (Note 2)                         |                         | 37,934           | 71,092           | 2,192            |
| Rental (Note 18)   | 27,697                  | 23,374           | 28,062           | 865              |
| Interest   | 84,546                  | 102,033          | 117,060          | 3,610            |
| Cash dividend from financial assets                        | 16,897                  | 2,434            | 18,662           | 575              |
| Fair value gain on financial assets                        | 85,959                  | 37,344           |                  |                  |
| Subsidy income   | 9,769                   | 9,592            | 6,338            | 196              |
| Gain on disposal of property, plant and equipment (Note 2) | 68,523                  | 25,171           | 9,567            | 295              |
| Recovery of allowance for loss on inventories (Note 6)     | 74,581                  |                  |                  |                  |
| Gain on disposal of long-term investments (Note 7)         |                         | 1,059            |                  |                  |
| Gain on disposal of financial assets                       |                         |                  | 23,778           | 733              |
| Claim received   | 21,000                  |                  |                  |                  |
| Other  | 116,282                 | 65,817           | 151,173          | 4,662            |

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|                            |         |         |         |        |
|----------------------------|---------|---------|---------|--------|
| Total Non-Operating Income | 505,254 | 362,507 | 425,732 | 13,128 |
|----------------------------|---------|---------|---------|--------|

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

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**Table of Contents****ChipMOS TECHNOLOGIES (Bermuda) LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATION (Continued)****For the Years Ended December 31, 2005, 2006 and 2007 (Notes 1 and 16)****(In Thousands of New Taiwan and U.S. Dollars, Except Earnings Per Share)**

|  | Year Ended December 31, |                  |                  |                  |
|--|-------------------------|------------------|------------------|------------------|
|  | 2005<br>NT\$            | 2006<br>NT\$     | 2007<br>NT\$     | US\$<br>(Note 3) |
| <b>NON-OPERATING EXPENSES</b>  |                         |                  |                  |                  |
| Interest   | 272,982                 | 398,964          | 864,949          | 26,671           |
| Investment loss recognized by equity method (Notes 2 and 7)                                      | 126,802                 |                  |                  |                  |
| Financing cost   | 30,125                  | 39,301           | 34,459           | 1,063            |
| Fair value loss on financial assets  |                         |                  | 84,966           | 2,620            |
| Loss on disposal of property, plant and equipment (Note 2)                                       | 40,831                  | 918              | 5,594            | 172              |
| Foreign exchange loss net (Note 2)   | 28,871                  |                  |                  |                  |
| Loss on disposal of financial assets   | 33,024                  | 1,627            |                  |                  |
| Loss on disposal of a subsidiary   | 2,603                   |                  |                  |                  |
| Loss on redemption of convertible notes  |                         | 5,642            | 23,384           | 721              |
| Impairment loss on long-term investments (Note 7)  | 210,994                 | 57,779           | 8,735            | 269              |
| Impairment loss on property, plant and equipment   | 109,275                 |                  |                  |                  |
| Loss on scrap of inventories   | 75,602                  |                  |                  |                  |
| Loss on scrap of property, plant and equipment   | 35,353                  |                  |                  |                  |
| Loss on embedded derivative  |                         |                  | 18,022           | 556              |
| Capital reduction loss on long-term investments (Note 7)   | 4,854                   |                  |                  |                  |
| Other  | 40,463                  | 81,445           | 54,799           | 1,690            |
| Total Non-Operating Expenses   | 1,011,779               | 585,676          | 1,094,908        | 33,762           |
| <b>INCOME BEFORE INCOME TAX, MINORITY INTERESTS AND INTEREST IN BONUSES PAID BY SUBSIDIARIES</b> |                         |                  |                  |                  |
|  | 2,144,246               | 4,703,425        | 3,993,267        | 123,135          |
| INCOME TAX EXPENSE (Notes 2 and 17)  | (111,949)               | (636,499)        | (768,235)        | (23,689)         |
| <b>INCOME BEFORE MINORITY INTERESTS AND INTEREST IN BONUSES PAID BY SUBSIDIARIES</b>             |                         |                  |                  |                  |
|  | 2,032,297               | 4,066,926        | 3,225,032        | 99,446           |
| MINORITY INTERESTS   | (977,018)               | (1,799,405)      | (720,007)        | (22,202)         |
| INTEREST IN BONUSES PAID BY SUBSIDIARIES   | (127,076)               | (149,456)        | (285,823)        | (8,813)          |
| CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES  |                         | 3,277            |                  |                  |
| <b>NET INCOME</b>  | <b>928,203</b>          | <b>2,121,342</b> | <b>2,219,202</b> | <b>68,431</b>    |
| <b>EARNINGS PER SHARE BASIC</b>  | <b>13.74</b>            | <b>30.84</b>     | <b>27.63</b>     | <b>0.85</b>      |
| <b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING BASIC</b>                                       | <b>67,546</b>           | <b>68,781</b>    | <b>80,305</b>    | <b>80,305</b>    |
| <b>EARNINGS PER SHARE DILUTED (Note 2)</b>   | <b>11.82</b>            | <b>25.00</b>     | <b>24.24</b>     | <b>0.75</b>      |
| <b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING DILUTED (Note 2)</b>                            | <b>82,572</b>           | <b>88,296</b>    | <b>108,207</b>   | <b>108,207</b>   |

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



**Table of Contents****ChipMOS TECHNOLOGIES (Bermuda) LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY**

For the Years Ended December 31, 2005, 2006 and 2007 (Notes 1 and 16)

(In Thousands of New Taiwan Dollars, Except Number of Shares)

|                    | CAPITAL STOCK<br>ISSUED |                | CAPITAL<br>SURPLUS | DEFERRED<br>COMPENSATION | RETAINED<br>EARNINGS | UNREALIZED<br>LOSS ON<br>LONG-TERM<br>INVESTMENTS | CUMULATIVE<br>TRANSLATION<br>ADJUSTMENTS | TREASURY<br>STOCK | MINORITY<br>INTERESTS | TOTAL<br>SHAREHOLDERS<br>EQUITY |
|--------------------|-------------------------|----------------|--------------------|--------------------------|----------------------|---|--|-------------------|-----------------------|---------------------------------|
|                    | Shares<br>(Thousands)   | Amount<br>NT\$ | NT\$               | NT\$                     | NT\$                 | (Note 2)<br>NT\$                                  | (Note 2)<br>NT\$                         | NT\$              | NT\$                  | NT\$                            |
| Balance,           |                         |                |                    |                          |                      |   |  |                   |                       |                                 |
| January 1,         |                         |                |                    |                          |                      |   |  |                   |                       |                                 |
| 2005               | 67,321                  | 22,089         | 9,228,725          | (51,662)                 | 1,180,933            | (567)   | (193,384)                                | (25,515)          | 7,092,498             | 17,253,1                        |
| Effect of merger   |                         |                | (65,283)           |                          |                      |   |  | 25,515            |                       | (39,7                           |
| Increase of stock  |                         |                |                    |                          |                      |   |  |                   |                       |                                 |
| options            | 441                     | 137            | 40,281             |                          |                      |   |  |                   |                       | 40,4                            |
| Forfeiture of      |                         |                |                    |                          |                      |   |  |                   |                       |                                 |
| stock options      |                         |                | (11,379)           | 32,856                   |                      |   |  |                   |                       | 21,4                            |
| Investment         |                         |                |                    |                          |                      |   |  |                   |                       |                                 |
| gains from         |                         |                |                    |                          |                      |   |  |                   |                       |                                 |
| change in          |                         |                |                    |                          |                      |   |  |                   |                       |                                 |
| ownership          |                         |                |                    |                          |                      |   |  |                   |                       |                                 |
| percentage in      |                         |                |                    |                          |                      |   |  |                   |                       |                                 |
| subsidiaries       |                         |                | (26,046)           |                          |                      |   |  |                   |                       | (26,0                           |
| Profit for         |                         |                |                    |                          |                      |   |  |                   |                       |                                 |
| 2005               |                         |                |                    |                          | 928,203              |   |  |                   | 977,018               | 1,905,2                         |
| Adjustment of      |                         |                |                    |                          |                      |   |  |                   |                       |                                 |
| equity method      |                         |                |                    |                          |                      |   |  |                   |                       |                                 |
| long-term          |                         |                |                    |                          |                      |   |  |                   |                       |                                 |
| investments        |                         |                | (53,567)           |                          |                      | (611)   |  |                   |                       | (54,1                           |
| Changes in         |                         |                |                    |                          |                      |   |  |                   |                       |                                 |
| minority           |                         |                |                    |                          |                      |   |  |                   |                       |                                 |
| interests          |                         |                |                    |                          |                      |   |  |                   | (191,393)             | (191,3                          |
| Transfer of        |                         |                |                    |                          |                      |   |  |                   |                       |                                 |
| retained earnings  |                         |                | (91,673)           |                          | 91,673               |   |  |                   |                       |                                 |
| translation        |                         |                |                    |                          |                      |   |  |                   |                       |                                 |
| adjustments        |                         |                |                    |                          |                      |   | 183,113                                  |                   |                       | 183,1                           |
| Balance,           |                         |                |                    |                          |                      |   |  |                   |                       |                                 |
| December 31,       |                         |                |                    |                          |                      |   |  |                   |                       |                                 |
| 2005               | 67,762                  | 22,226         | 9,021,058          | (18,806)                 | 2,200,809            | (1,178)   | (10,271)                                 |                   | 7,878,123             | 19,091,9                        |
| Increase of stock  |                         |                |                    |                          |                      |   |  |                   |                       |                                 |
| options            | 1,319                   | 427            | 130,841            |                          |                      |   |  |                   |                       | 131,2                           |
| Exercise of option |                         |                |                    |                          |                      |   |  |                   |                       |                                 |
| warrants           |                         |                | 36,680             | (37,768)                 |                      |   |  |                   |                       | (1,0                            |
| Conversion of      |                         |                |                    |                          |                      |   |  |                   |                       |                                 |
| convertible notes  | 1,115                   | 369            | 231,331            |                          |                      |   |  |                   |                       | 231,7                           |
| Amortization of    |                         |                |                    |                          |                      |   |  |                   |                       |                                 |
| convertible notes  |                         |                | 265,650            |                          |                      |   |  |                   |                       | 265,6                           |
| Investment         |                         |                | 86,316             |                          |                      |   |  |                   |                       | 86,3                            |
| gains from         |                         |                |                    |                          |                      |   |  |                   |                       |                                 |
| change in          |                         |                |                    |                          |                      |   |  |                   |                       |                                 |

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|   |        |        |            |           |           |         |             |           |             |
|---|--------|--------|------------|-----------|-----------|---------|-------------|-----------|-------------|
| ownership percentage in subsidiaries              |        |        |            |           |           |         |             |           |             |
| profit for 2015                                   |        |        |            | 2,121,342 |           |         | 1,799,405   |           | 3,920,700   |
| adjustment of equity method long-term investments |        |        |            |           |           | 1,178   |             |           | 1,178       |
| changes in minority interests                     |        |        |            |           |           |         | (921,210)   |           | (921,210)   |
| translation adjustments                           |        |        |            |           |           | 78,345  |             |           | 78,345      |
| BALANCE,  |        |        |            |           |           |         |             |           |             |
| DECEMBER 31, 2015                                 | 70,196 | 23,022 | 9,771,876  | (56,574)  | 4,322,151 |         | 68,074      | 8,756,318 | 22,884,839  |
| exercise of stock options                         | 867    | 284    | 89,566     |           |           |         |             |           | 89,857      |
| issuance of shares                                | 12,780 | 4,211  | 2,599,168  |           |           |         |             |           | 2,603,359   |
| issuance of warrants                              |        |        | 36,874     | (12,794)  |           |         |             |           | 24,080      |
| purchase of convertible notes                     |        |        | (2,657)    |           | (611)     |         |             |           | (3,268)     |
| profit for 2017                                   |        |        |            | 2,219,202 |           |         | 720,007     |           | 2,939,209   |
| adjustment of equity method long-term investments |        |        | (18,891)   |           | (249,734) |         |             |           | (268,625)   |
| changes in minority interests                     |        |        |            |           |           |         | (6,230,754) |           | (6,230,754) |
| translation adjustments                           |        |        |            |           |           | 209,390 |             |           | 209,390     |
| BALANCE,  |        |        |            |           |           |         |             |           |             |
| DECEMBER 31, 2017                                 | 83,843 | 27,517 | 12,475,936 | (69,368)  | 6,291,008 |         | 277,464     | 3,245,571 | 22,248,063  |

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

**Table of Contents****ChipMOS TECHNOLOGIES (Bermuda) LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the Years Ended December 31, 2005, 2006 and 2007 (Notes 1 and 16)

(In Thousands of New Taiwan and U.S. Dollars)

|  | Year Ended December 31, |                  |                   | US\$<br>(Note 3) |
|--|-------------------------|------------------|-------------------|------------------|
|  | 2005<br>NT\$            | 2006<br>NT\$     | 2007<br>NT\$      |                  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                      |                         |                  |                   |                  |
| Net income   | 928,203                 | 2,121,342        | 2,219,202         | 68,431           |
| Adjustments to reconcile net income to net cash provided by operating activities |                         |                  |                   |                  |
| Depreciation   | 4,240,633               | 5,489,468        | 6,718,762         | 207,177          |
| Amortization of intangible assets  | 98,497                  | 69,373           | 116,025           | 3,578            |
| Amortization of discount of convertible notes                                    |                         | 57,213           | 178,613           | 5,508            |
| Allowance for doubtful receivables   | 109,248                 | 52,586           | 130,038           | 4,010            |
| Recovery of allowance for doubtful receivables                                   |                         | (16,357)         | (30,095)          | (928)            |
| Deferred compensation  | 21,477                  | (1,088)          | 24,080            | 742              |
| Gain on disposal of property, plant and equipment net                            | (27,692)                | (24,253)         | (3,973)           | (123)            |
| Investment loss recognized by equity method                                      | 126,802                 |                  |                   |                  |
| Gain on disposal of long-term investments  |                         | (1,059)          |                   |                  |
| Loss on disposal of a subsidiary   | 2,603                   |                  |                   |                  |
| Loss on redemption of convertible notes  |                         | 5,642            | 23,384            | 721              |
| Loss (gain) on embedded derivative   |                         | (57,749)         | 18,022            | 556              |
| Impairment loss on long-term investments   | 210,994                 | 57,779           | 8,735             | 269              |
| Impairment loss on property, plant and equipment                                 | 109,275                 |                  |                   |                  |
| Fair value loss on financial assets  |                         |                  | 84,966            | 2,620            |
| Capital reduction loss on long-term investments                                  | 4,854                   |                  |                   |                  |
| Accrued pension cost   | (21,016)                | (34,086)         | (35,312)          | (1,089)          |
| Deferred income tax net  | (61,471)                | 254,135          | (6,758)           | (208)            |
| Minority interests   | 977,018                 | 1,799,405        | 720,007           | 22,202           |
| Changes in operating assets and liabilities                                      |                         |                  |                   |                  |
| Financial assets at fair value through profit and loss                           | 2,646,420               | (1,742,987)      | 1,288,549         | 39,733           |
| Notes receivable   | 31,626                  | (523)            | 3,071             | 95               |
| Accounts receivable  | (712,916)               | (1,117,926)      | (803,369)         | (24,772)         |
| Other receivables  | 3,045                   | 120,468          | 552               | 17               |
| Inventories  | 37,305                  | (316,842)        | (93,071)          | (2,870)          |
| Prepaid expenses and other current assets  | 67,116                  | (78,400)         | (176,977)         | (5,457)          |
| Other assets   | (31,470)                | 42,233           | 22,175            | 684              |
| Notes payable  | (45,145)                | (3,927)          |                   |                  |
| Accounts payable   | 117,297                 | 72,612           | 167,605           | 5,168            |
| Other payables   | 47,906                  | 142,375          | 53,755            | 1,658            |
| Income tax payable   | 60,755                  | 206,191          | 109,028           | 3,362            |
| Accrued expenses and other liabilities   | (106,442)               | 238,703          | 171,309           | 5,282            |
| Deferred credit  | (12,283)                | (17,936)         | (25,477)          | (786)            |
| <b>Net Cash Provided by Operating Activities</b>                                 | <b>8,822,639</b>        | <b>7,316,392</b> | <b>10,882,846</b> | <b>335,580</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                      |                         |                  |                   |                  |
| Decrease (increase) in restricted cash and cash equivalents                      | (50,682)                | 104,469          | (20,892)          | (644)            |
| Proceeds from sales of property, plant and equipment                             | 427,475                 | 238,721          | 42,324            | 1,305            |
| Proceeds from sales of long-term investments                                     |                         | 1,059            |                   |                  |
| Proceeds from sales of intangible assets   | 5,996                   |                  |                   |                  |
| Cash inflow from disposal of a subsidiary (Note 20a)                             | 17,081                  |                  |                   |                  |
| Acquisitions of:   |                         |                  |                   |                  |
| Long-term investments  | (116,400)               | (20,742)         | (10)              |                  |

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|                                       |             |              |              |           |
|---------------------------------------|-------------|--------------|--------------|-----------|
| Property, plant and equipment         | (7,651,339) | (15,190,487) | (6,632,887)  | (204,529) |
| Deferred assets                       |             | (101,263)    | (269,573)    | (8,313)   |
| Employee dormitory building           | (125,426)   | (7,656)      | (20,107)     | (620)     |
| Goodwill                              | (127,205)   |              |              |           |
| Subsidiary                            |             |              | (5,305,030)  | (163,585) |
| Increase in refundable deposits       | (2,017)     | (12,314)     | (5,909)      | (182)     |
| Net Cash Used in Investing Activities | (7,622,517) | (14,988,213) | (12,212,084) | (376,568) |

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**Table of Contents****ChipMOS TECHNOLOGIES (Bermuda) LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

For the Years Ended December 31, 2005, 2006 and 2007 (Notes 1 and 16)

(In Thousands of New Taiwan U.S. Dollars)

|  | Year Ended December 31, |               |               | US\$<br>(Note 3) |
|--|-------------------------|---------------|---------------|------------------|
|  | 2005<br>NT\$            | 2006<br>NT\$  | 2007<br>NT\$  |                  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                            |                         |               |               |                  |
| Payments on:   |                         |               |               |                  |
| Bank loans   | (332,759)               | (147,768)     | (208,982)     | (6,444)          |
| Commercial paper payable   |                         | (149,413)     |               |                  |
| Long-term loans  |                         |               | (297,157)     | (9,163)          |
| Convertible notes  | (237,092)               | (256,605)     | (244,466)     | (7,538)          |
| Long-term bonds payable  | (1,200,000)             |               |               |                  |
| Proceeds from:   |                         |               |               |                  |
| Bank loans   |                         | 730,777       | 395,836       | 12,206           |
| Commercial paper payable   | 149,413                 |               |               |                  |
| Convertible notes  |                         | 3,191,300     |               |                  |
| Long-term loans  | 318,448                 | 6,278,523     | 171,730       | 5,295            |
| Issuance of capital stock  | 40,418                  | 131,268       | 2,693,229     | 83,047           |
| Changes in minority interests  | (258,702)               | (834,604)     | (1,983,687)   | (61,168)         |
| Decrease in guarantee deposits   | 314                     | 4,396         | 1,624         | 50               |
| Net Cash Provided by (Used in) Financing Activities                    | (1,519,960)             | 8,947,874     | 528,127       | 16,285           |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>                         | <b>77,695</b>           | <b>12,848</b> | <b>38,787</b> | <b>1,196</b>     |
| Net Increase (Decrease) in Cash and cash equivalents                   | (242,143)               | 1,288,901     | (762,324)     | (23,507)         |
| Cash and cash equivalents, beginning of the year                       | 4,849,146               | 4,607,003     | 5,895,904     | 181,804          |
| Cash and cash equivalents, end of the year                             | 4,607,003               | 5,895,904     | 5,133,580     | 158,297          |
| <b>SUPPLEMENTAL INFORMATION</b>  |                         |               |               |                  |
| Income tax paid  | 149,741                 | 178,001       | 665,691       | 20,527           |
| Interest paid  | 259,312                 | 291,491       | 818,712       | 25,246           |
| <b>NON-CASH FINANCING ACTIVITIES</b>                                   |                         |               |               |                  |
| Current portion of long-term loans                                     | 2,300,916               | 2,335,284     | 3,686,216     | 113,667          |
| <b>PARTIAL CASH PAID FOR INVESTING ACTIVITIES</b>                      |                         |               |               |                  |
| Cash paid for acquisition of property, plant and equipment             |                         |               |               |                  |
| Total acquisitions   | 7,677,233               | 15,717,760    | 6,093,771     | 187,905          |
| Increase (decrease) in payables to contractors and equipment suppliers | (25,894)                | (527,273)     | 539,116       | 16,624           |
|  | 7,651,339               | 15,190,487    | 6,632,887     | 204,529          |

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

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**ChipMOS TECHNOLOGIES (Bermuda) LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. ORGANIZATION AND BUSINESS**

ChipMOS TECHNOLOGIES (Bermuda) LTD. (ChipMOS Bermuda) was incorporated under the laws of Bermuda on August 1, 2000, and its common shares have been traded on the NASDAQ Global Select Market since June 2001. As of December 31, 2007, ChipMOS Bermuda were 13.35% and 14.52% owned by Mosel Vitelic Inc. (MVI) through its wholly-owned subsidiary, Giant Haven Investment Ltd. and its indirectly-owned subsidiary, Mou-Fu Investment Ltd. (Mou-Fu) and Siliconware Precision Industries Co. Ltd (SPIL). As of December 31, 2007, ChipMOS Bermuda owned 100% (2006: 70.42%) of the outstanding common shares of ChipMOS TECHNOLOGIES INC. (ChipMOS Taiwan) and SPIL owned nil (2006: 28.76%).

ChipMOS Taiwan was incorporated in Taiwan on July 28, 1997 as a joint venture company between MVI and SPIL. Its operations consist of testing and assembly of semiconductors. In connection with a corporate restructuring on January 12, 2001, the holders of an aggregate of 583,419 thousand common shares of ChipMOS Taiwan executed a Purchase and Subscription Agreement whereby they transferred their shares of ChipMOS Taiwan to ChipMOS Bermuda in exchange for 58,342 thousand common shares in ChipMOS Bermuda. The selling shareholders, who previously held an aggregate of 70.25% of the entire outstanding common shares of ChipMOS Taiwan, thus became the holders of the entire outstanding common shares of ChipMOS Bermuda. Because 100% of the outstanding common shares of ChipMOS Bermuda were owned by former shareholders of ChipMOS Taiwan, the exchange of shares has been accounted for as a merger as if ChipMOS Bermuda was the acquirer. Equity and operations attributable to ChipMOS Taiwan shareholders not participating in the exchange offer were reflected as minority interest in the historical financial statements. MVI participated in the restructuring and share exchange described above and SPIL did not. On November 21, 2005, CHANTEK ELECTRONIC CO., LTD. (CHANTEK), a subsidiary of ChipMOS Taiwan since April 1, 2004, merged into ChipMOS Taiwan pursuant to the merger agreement entered into between ChipMOS Taiwan and CHANTEK in June 2005. CHANTEK stock was exchanged for ChipMOS Taiwan stock at the ratio of 3.6 to 1. As a result, ChipMOS Taiwan issued 6,215 thousand shares to CHANTEK shareholders, reducing ChipMOS Bermuda and SPIL's interests in ChipMOS Taiwan from 70.34% and 28.73% to 69.85% and 28.53%, respectively. As of December 31, 2006, ChipMOS Bermuda held a 70.42% interest in ChipMOS Taiwan. In March 2007, ChipMOS Bermuda, ChipMOS Taiwan and SPIL completed a share purchase and subscription transaction whereby ChipMOS Bermuda purchased 100% of SPIL's equity interest in ChipMOS Taiwan at US\$0.75 per share. SPIL also subscribed to 12,174,998 newly issued common shares of ChipMOS Bermuda through a private placement of US\$6.28 per share. After the transaction, ChipMOS Taiwan became a 99.14% subsidiary of ChipMOS Bermuda and SPIL owned 14.7% of ChipMOS Bermuda. In September 2007, another share exchange transaction was completed whereby ChipMOS Bermuda offered to exchange one share of ChipMOS Bermuda for 8.4 shares of ChipMOS Taiwan shares. The exchange was completed in September 2007 and ChipMOS Taiwan became a wholly-owned subsidiary of ChipMOS Bermuda. As of December 31, 2007, ChipMOS Bermuda held a 100% interest in ChipMOS Taiwan.

**Table of Contents****1. ORGANIZATION AND BUSINESS (continued)**

ThaiLin Semiconductor Corp. (ThaiLin) was incorporated on May 15, 1996 and is listed on the GreTai Securities Market in Taiwan. ThaiLin is engaged in wafer and semiconductor testing services. On December 31, 2002, ChipMOS Taiwan acquired an equity interest of 41.8% in ThaiLin. On December 1, 2003, ChipMOS Taiwan obtained controlling influence over ThaiLin's decisions on its operations, personnel and financial policies. Therefore, ThaiLin has been consolidated into these financial statements from December 1, 2003 in spite of the fact that ChipMOS Taiwan holds an equity interest of less than 50% in ThaiLin. On December 1, 2005, ChipMOS Logic TECHNOLOGIES INC. (ChipMOS Logic) merged into ThaiLin pursuant to the merger agreement entered into between ChipMOS Logic and ThaiLin in August 2005. ChipMOS Logic stock was exchanged for ThaiLin stock at the ratio of 2.8 to 1. After the merger and as of December 31, 2006, ChipMOS Taiwan held a 35.62% equity interest in ThaiLin. As of December 31, 2007, ChipMOS Taiwan held a 36.83% equity interest in ThaiLin.

CHANTEK was incorporated in Taiwan in May 1989, and was listed on the GreTai Securities Market in Taiwan until it was merged into ChipMOS Taiwan. CHANTEK provided semiconductor assembly services for low-density volatile and non-volatile memory semiconductors, consumer semiconductors and microcontroller semiconductors. ChipMOS Taiwan acquired its 34% ownership interest in CHANTEK on September 16, 2002. On April 1, 2004, PlusMOS Technologies Inc. (PlusMOS) was merged into CHANTEK in a stock-for-stock merger pursuant to which shareholders of PlusMOS received 1.1 common shares of CHANTEK in exchange for one common share of PlusMOS. Upon consummation of this merger, ChipMOS Taiwan became the controlling shareholder of CHANTEK and has consolidated CHANTEK since then. ChipMOS Taiwan increased its ownership in CHANTEK during 2004 and held a 68.04% interest as of December 31, 2004. On November 21, 2005, CHANTEK merged into ChipMOS Taiwan (see above).

ChipMOS Logic was incorporated in Taiwan on January 28, 2004, with ChipMOS Taiwan holding a 62.5% interest and ThaiLin holding a 37.5% interest. On March 29, 2004, ChipMOS Logic issued additional shares to institutional investors. As a result, ChipMOS Taiwan's interest in ChipMOS Logic was diluted to 44.44% and ThaiLin's interest was diluted to 26.67%. ChipMOS Logic was engaged in logic testing services. On April 30, 2004, WORLD WIDE TEST Technologies Inc. (WWT) merged into ChipMOS Logic, with ChipMOS Logic as the surviving entity, in a stock-for-stock merger pursuant to which shareholders of WWT received one common share of ChipMOS Logic in exchange for 10 common shares of WWT. As of December 31, 2004, ChipMOS Taiwan and ThaiLin owned approximately 56.10% and 24.62%, respectively, of ChipMOS Logic. On December 1, 2005, ChipMOS Logic merged into ThaiLin (see above).

FIRST SEMICONDUCTOR TECHNOLOGY, INC. (FST) was incorporated in the United States of America in June 1998 and engaged in IC logic testing services. ChipMOS Taiwan acquired a 67.83% ownership interest in FST on November 1, 2004, and transferred this interest to FST on April 29, 2005 pursuant to a share repurchase agreement. Accordingly, since January 1, 2005, the results of operations of FST have no longer been consolidated.

ChipMOS Japan Inc. (ChipMOS Japan) was incorporated in Japan in June 1999, and ChipMOS USA Inc. (ChipMOS USA) was incorporated in the United States of America in October 1999. These two companies engage in sales and customer services, and all the expenses incurred from these activities are charged to current income. ChipMOS Japan began generating revenue in 2000, while ChipMOS USA began generating revenue in 2001. As of December 31, 2007, ChipMOS Taiwan owned 100% of the outstanding shares of both ChipMOS Japan and ChipMOS USA.

MODERN MIND TECHNOLOGY LIMITED (Modern Mind) was incorporated in the British Virgin Islands on January 29, 2002. Modern Mind conducts its operations through ChipMOS Shanghai. ChipMOS Bermuda acquired a 100% equity interest in Modern Mind on December 12, 2002, and then transferred it to Jesper Limited (Jesper) on December 31, 2002. In December 2002 and 2003, ChipMOS Bermuda acquired from Jesper and ChipMOS Taiwan, respectively, convertible notes issued by Modern Mind that are convertible into a controlling equity interest in Modern Mind if the repayment is not made when due. Accordingly, ChipMOS Bermuda is deemed to have a controlling interest in Modern Mind.

ChipMOS TECHNOLOGIES (Shanghai) LTD. (ChipMOS Shanghai), a wholly-owned subsidiary of Modern Mind, was established in the People's Republic of China (PRC) on June 7, 2002. ChipMOS Shanghai is engaged in wafer testing, semiconductor assembly and testing, and module and subsystem manufacturing. ChipMOS Shanghai commenced commercial production in 2003.

**Table of Contents****1. ORGANIZATION AND BUSINESS (continued)**

ChipMOS Bermuda controls both Modern Mind and its 100% subsidiary, ChipMOS Shanghai, as ChipMOS Bermuda possesses the power to direct or cause the direction of the management and policies of Modern Mind by contract or otherwise and thereby has established a parent-subsiary relationship over Modern Mind and ChipMOS Shanghai. For this reason, Modern Mind and ChipMOS Shanghai have been consolidated into these financial statements in spite of the fact that ChipMOS Bermuda does not hold an equity interest in Modern Mind.

ChipMOS TECHNOLOGIES (H.K.) Limited (ChipMOS HK) was incorporated in Hong Kong on November 18, 2002. It is engaged in semiconductor testing and assembly services and trading of spare parts and tools. ChipMOS HK is a wholly-owned subsidiary of ChipMOS Bermuda.

**2. SIGNIFICANT ACCOUNTING POLICIES****Basis of presentation**

The consolidated financial statements include the accounts of ChipMOS Bermuda and all subsidiaries in which ChipMOS Bermuda (hereinafter, referred to individually or collectively as the Company) holds a controlling interest or voting interests in excess of 50% in accordance with the requirements of ROC Statement of Financial Accounting Standards No. 7 (SFAS No. 7). All significant intercompany accounts and transactions have been eliminated.

The Company's consolidated financial statements include for 2005 the financial results of ChipMOS Taiwan and its subsidiaries, ThaiLin, ChipMOS Japan, ChipMOS USA and FST, ChipMOS HK, Modern Mind and its wholly-owned subsidiary, ChipMOS Shanghai, and CHANTEK and ChipMOS Logic up to their respective dates of merger (see Note 1). For 2006 and 2007, the Company's consolidated financial statements include the financial results of ChipMOS Taiwan and its subsidiaries, ThaiLin, ChipMOS Japan and ChipMOS USA, ChipMOS HK and Modern Mind and its wholly-owned subsidiary, ChipMOS Shanghai.

**Adoption of new and revised ROC SFAS****SFAS No. 37 Intangible Assets**

Commencing from January 1, 2007, the Company adopted SFAS No. 37 Intangible Assets. Prior to adoption of SFAS No. 37, the Company's technology know-how, technology license fees, software and bond issuance costs were recorded in intangible assets. After the adoption of SFAS No. 37, these items were reclassified to other assets as they do not meet the definition of intangible assets as prescribed in SFAS No. 37. The comparative amounts have also been reclassified due to the adoption of SFAS No. 37.

**Concentration of credit risk**

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash, accounts and other receivables.

At December 31, 2007, the Company had credit risk exposure of uninsured cash in banks of approximately NT\$5,250,538 thousand (US\$161,904 thousand).

A substantial portion of revenue is earned from a small number of customers on credit and generally without any requirement of collateral.

The Company had three and two customers that had balances greater than ten percent of total notes and accounts receivable as of December 31, 2006 and 2007, respectively:

|                                       | <b>December 31,</b> |             |
|---------------------------------------|---------------------|-------------|
|                                       | <b>2006</b>         | <b>2007</b> |
| <b><u>Related party</u></b> (Note 18) |                     |             |
| ProMOS Technologies Inc. (ProMOS)     | 36%                 | 34%         |
| <b><u>Third party</u></b>             |                     |             |
| Spansion LLC (Spansion)               | 11%                 | 19%         |

Powerchip Semiconductor Corp. (Powerchip)

11%

7%

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Credit evaluation of each customer is performed and reserves for potential credit losses are maintained. Losses from bad debts, in the aggregate, have historically not exceeded management's expectations.

#### Use of estimates

The preparation of consolidated financial statements requires management to make estimates and judgments that affect the recorded amounts of assets, liabilities, revenue and expenses of the Company. The Company continually evaluates these estimates, including those related to allowances for doubtful amounts, inventories, useful lives of properties, income tax valuation allowances, pension plans and the fair value of financial instruments. The Company bases its estimates on historical experience and other assumptions, which it believes to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions.

#### Cash equivalents

Repurchase notes with original maturity dates of three months or less are classified as cash equivalents.

#### Financial assets at fair value through profit and loss

Financial assets at fair value through profit or loss include investments for trading purposes and those designated as financial assets reported at fair value, with the subsequent changes in fair value recognized in earnings.

#### Allowance for doubtful receivables

The allowance for doubtful receivables reflects estimates of the expected amount of the receivables that the Company will not be able to collect. The Company first examines the available information regarding any customer that the Company has reason to believe may be unable to meet its financial obligations. For these customers, the Company uses its judgment, based on the available facts and circumstances, and records a specific allowance for that customer against amounts due to reduce the receivable to the amount that is expected to be collected. These specific allowances are reevaluated and adjusted as additional information is received. Secondly, for all other customers, the Company maintains an allowance based on a range of percentages applied to aging categories. These percentages are based on our historical collection and write-off experience. Additional allowances may be required in the future if the financial condition of our customers or general economic conditions deteriorate, and this additional allowance would reduce the Company's net income.

#### Allowances for sales returns and discounts

Allowances for sales returns and discounts are provided based on the sales returns from past experience; such provisions are deducted from sales and the related costs of products are deducted from cost of products sold.

#### Inventories

Inventories are stated at the lower of standard cost (which approximates actual weighted average cost) or market value. Unbilled processing charges incurred are included in finished goods and work in progress and are stated at actual cost. Market value represents replacement cost for raw materials and net realizable value for finished goods and work in progress.

#### Long-term investments

Investments in shares of stock of companies wherein the Company exercises significant influence on operational or financial decisions are accounted for using the equity method. Under the equity method, the investments are initially carried at cost and subsequently adjusted for the proportionate equity of the Company in the net income or net loss of the investees.

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company will discontinue its recognition of its equity in the net loss of the investees when the carrying value of the investment (including advances) is reduced to zero. However, in cases where the Company guarantees the obligations or is committed to provide further financial support to an investee, or if the investee's losses are temporary and evidence sufficiently shows imminent return to profitability in the foreseeable future, then the Company continues to recognize its share in the net loss of the investees. (The resulting credit balances of the long-term investments are presented as part of other receivables from related parties.)

Translation adjustments resulting from the process of translating the investees' financial statements into the functional currency of the Company are recorded as cumulative translation adjustments in the statement of changes in shareholders' equity.

Gains or losses on transactions with investees wherein the Company owns at least 20% of the outstanding common stock but less than a controlling interest are deferred in proportion to the ownership percentage until realized through a subsequent transaction with a third party. The entire amount of gains or losses on sales to majority-owned subsidiaries is deferred until such gains or losses are realized through the subsequent sale of the related products to third parties.

Other stock investments (listed stocks or stocks traded over the counter) are accounted for using the cost method. These investments are stated at cost less temporary declines in market value, with an increase to allowance for declines in market value and a corresponding reduction of shareholders' equity. The allowance is then reduced for any subsequent recovery of the market value to the extent of the balance of the allowance. However, if the decline in market value is considered irrecoverable, the decline in market value is recorded as a charge to income.

Cash dividends are recognized as income in the year received but are accounted for as a reduction in the carrying value of the long-term investments if the dividends are received in the same year that the related investments are acquired. Stock dividends are recognized only as an increase in the number of shares held on the ex-dividend date.

The costs of investments sold are determined using the weighted average method.

#### Property, plant and equipment and employee dormitory buildings

Property, plant and equipment and employee dormitory buildings (presented as part of Other Assets) are stated at cost less accumulated depreciation. Major additions, renewals and improvements are capitalized while maintenance and repairs are expensed currently.

The initial estimate of the service lives of property, plant and equipment is as follows: machinery and equipment, 1 to 5 years; buildings and auxiliary equipment, 1 to 54 years; furniture and fixtures, 1 to 5 years; tooling, 1 to 2 years; transportation equipment, 5 years; and leasehold improvements, 1 to 10 years. Salvage value is considered when determining the basis of depreciated assets. If items of property, plant and equipment and employee dormitory buildings are still in good condition and useful at the end of their original service lives, the salvage value is depreciated over any extended useful life.

Upon sale or disposal of items of properties, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is credited or charged to current income.

#### Intangible assets

Intangible assets are recorded at cost except for donation from the government, which is measured at fair value. Subsequent to their initial recognition, the book values are the cost and their incremental value that resulted from revaluation minus accumulated amortization and impairment loss.

Amortization is computed using the straight-line method. The Company reevaluates the residual value, estimated useful lives, and amortization method at least once every year. Changes in the above factors will be regarded as changes in accounting estimate.



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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Deferred charges

Deferred charges are amortized using the straight-line method over the following periods: technology know-how, 5 years; technology license fees, 5 years; software, 2 to 4 years; bond issuance costs, using the average method.

#### Goodwill and negative goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities of an investee company at the date of acquisition. Goodwill is recognized as an asset and carried at cost less accumulated impairment.

Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Negative goodwill arising on consolidation represents the excess of the group's interest in the fair value of the identifiable assets and liabilities of an investee company over the cost of acquisition at the date of acquisition. Negative goodwill is allocated to the related assets according to the method applied to identify net assets at the process of acquisition.

#### Asset impairment

The Company reviews its long-lived assets, including properties, assets leased to others and deferred charges, to look for any indication that an asset may be impaired as of the balance sheet date. An impairment loss is recognized whenever the recoverable amount of the asset of the cash-generating unit is below the carrying amount of an asset. If there is an indicator that an asset may be impaired, then the Company calculates the recoverable amount of the asset or the cash-generating unit. Recoverability is determined by comparing the carrying value of the asset (or asset group) on the date it is tested for recoverability to the sum of the undiscounted cash flows expected to result from its use and eventual disposition.

After the recognition of an impairment loss, the depreciation (amortization) charged on the assets is adjusted in future periods by the revised carrying values of the assets (net of accumulated impairment), less their salvage value, on a systematic basis over their remaining useful lives.

If asset impairment loss (excluding goodwill) is reversed, the increase in the carrying value resulting from the reversal is credited to current income or debited to accumulated impairment to increase the carrying value of the asset to its recoverable amount. However, loss reversal is limited to the carrying value (net of depreciation or amortization) of the asset as if the impairment has not been recognized.

Goodwill is tested for impairment on an annual basis regardless of whether there is any indication of impairment. Recognized impairment losses of goodwill cannot be reversed.

#### Revenue recognition

Revenue from testing and assembly services is generally recognized upon shipment of tested and assembled semiconductors to locations designated by customers, including the Company's internal warehouse for customers using the Company's warehousing services. Revenue from product sales is recognized when title of products and risks of ownership are transferred to customers, generally upon shipment of the products. Other criteria that the Company uses to determine when to recognize revenue are: (1) existence of persuasive evidence of the services provided, (2) customers' fixed commitment to purchase the products, (3) the selling price is fixed or determinable and (4) collectibility is reasonably assured.

The Company does not take ownership of: (1) bare semiconductor wafers received from customers that it assembles into finished semiconductors, and (2) assembled semiconductors received from the customers that it tests. The title and risk of loss remains with the customer for those bare semiconductors and/or assembled semiconductors. Accordingly, the customer-supplied semiconductor materials are not included in the consolidated financial statements.

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

These policies are consistent with provisions in the Staff Accounting Bulletin No. 101, as revised by No. 104, issued by the United States Securities and Exchange Commission, or U.S. SEC.

The Company does not provide warranties to customers except in cases of defects in the assembly services provided and deficiencies in testing services provided. An appropriate sales allowance is recognized in the period during which the sale is recognized, and is estimated based on historical experience.

#### Government grant

A government grant is recognized at its fair value and credited to the income statement. Where the grant relates to an asset, the fair value is credited to a deferred income account and is recognized as income over the periods necessary to match the related amortization of the asset, on a systematic basis.

#### Research and development costs

Research and development costs consist of expenditure incurred during the course of planned research and investigation aimed at discovery of new knowledge which will be useful for developing new products or production processes, or significantly enhancing existing products or production processes, and the implementation of such through design and testing of product alternatives or construction of prototypes. All expenses incurred in connection with the Company's research and development activities are charged to current income.

#### Pension and retirement costs

Pension costs are recorded based on actuarial calculations. Provisions for pension costs are accrued based on actuarially determined amounts which include service cost, interest, amortization of unrecognized net transition obligation and expected return on pension assets. Unrecognized net transition obligation is amortized over 15 years.

Retirement benefit contributions are made to pension scheme and/or retirement funds, the assets of which are managed by independent investment firms and/or government agencies. Contributions are made based on a percentage of the employees' salaries and bonus, if applicable, and are charged to the income statement as incurred.

#### Income tax

The Company has adopted the inter-period income tax allocation method. Deferred income tax assets are recognized for the tax effects of deductible temporary differences, unused tax credits, and operating loss carryforwards and those of taxable temporary differences are recognized as deferred income tax liabilities. A valuation allowance is provided for deferred tax assets that are not certain to be realized. A deferred tax asset or liability is classified as current or non-current based on the classification of the related asset or liability. However, if a deferred asset or liability cannot be related to an asset or liability in the financial statements, then it is classified as current or non-current based on the expected reversal dates of the temporary difference.

Any tax credit arising from the purchase of machinery, equipment and technology, research and development expenditures, personnel training, or investments in important technology-based enterprise is recognized by the flow-through method.

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

Income taxes (10%) on unappropriated earnings generated by ChipMOS Taiwan and ThaiLin are recorded as an expense in the year when the stockholders have effectively resolved that earnings shall be retained.

Alternative Minimum Tax (AMT) has become effective in the ROC since January 1, 2006. The calculation base for income tax payment should be either the taxable income calculated by the AMT plus tax exemptions granted under other laws, taxed at the rate of 10% as set by the Executive Yuan of the ROC, or that calculated in accordance with the AMT, whichever is higher. ChipMOS Taiwan and ThaiLin have included this effect in the current income tax provision.



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## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising costs

Advertising costs included in sales and marketing expenses are expensed when incurred.

Derivative financial instruments

Foreign currency forward exchange contracts (forward contracts), entered into for purposes other than trading, are recorded as follows: the differences in the New Taiwan dollar amounts translated using the spot rates as of the contract date and the amounts translated using the contracted forward rates are amortized over the terms of the forward contract using the straight-line method. At the balance sheet dates, the receivables or payables arising from forward contracts are restated using the prevailing spot rates and the resulting differences are recognized in income. Also, the receivables and payables related to the forward contract are netted and the resulting net amount is presented as either an asset or liability.

The aggregate amount of the foreign currency to be acquired or sold under European option contracts, entered into as hedge of anticipated transactions, is not recorded as an asset or a liability. The amounts received on options written and the amounts paid on options purchased are amortized using the straight-line method over the term of the contract. The gains arising from the exercise of the options or the losses arising from options not exercised are recognized as adjustments to the carrying values when the hedged transaction occurs.

Foreign-currency transactions

Foreign-currency transactions, except for derivative financial instruments, are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses resulting from the application of different foreign exchange rates when cash in foreign currency is converted into New Taiwan dollars, or when foreign-currency receivables or payables are settled, are credited or charged to income in the year of conversion or settlement. On the balance sheet dates, the balances of foreign-currency assets and liabilities are restated at the prevailing exchange rates and the resulting differences are charged to current income except those foreign currencies denominated investments in shares of stock where such differences are accounted for as translation adjustments under stockholders' equity. ROC SFAS No. 14, Accounting for Foreign-Currency Transactions, applies to foreign operations, with the local currency of each foreign subsidiary as its functional currency. The financial statements of foreign subsidiaries are translated into New Taiwan dollars at the following exchange rates: assets and liabilities - current rate; shareholders' equity - historical rates; income and expenses - weighted average rate during the year. The resulting translation adjustment is recorded as a separate component of shareholders' equity.

Earnings per share

Earnings per share is calculated by dividing net income by the weighted average number of shares outstanding in each period, adjusted retroactively for stock dividends and stock bonuses issued subsequently.

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

|                          | <b>December 31,</b>   |             |             |
|--------------------------|-----------------------|-------------|-------------|
|                          | <b>2005</b>           | <b>2006</b> | <b>2007</b> |
|                          | <b>(in thousands)</b> |             |             |
| Basic number of shares   | 67,546                | 68,781      | 80,305      |
| Add: stock options       | 1,602                 | 2,723       | 2,174       |
| convertible notes        | 13,424                | 16,792      | 25,728      |
| Diluted number of shares | 82,572                | 88,296      | 108,207     |

**Table of Contents****2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

|   | Year ended December 31, |           |           |        |
|---|-------------------------|-----------|-----------|--------|
|   | 2005                    | 2006      | 2007      | US\$   |
|   | NT\$                    | NT\$      | NT\$      |        |
|   | (in thousands)          |           |           |        |
| Net income  | 928,203                 | 2,121,342 | 2,219,202 | 68,431 |
| Add: interest expense and other expenses (net of tax)   | 48,062                  | 85,831    | 403,310   | 12,436 |
| Income available to common stockholders adjusted for the effects of assumed exercise of options and conversion of notes | 976,265                 | 2,207,173 | 2,622,512 | 80,867 |

**Stock-based compensation**

Employee stock-based compensation has been accounted for under the intrinsic value based method. Share appreciation rights have been accounted for using the fair value method. Cash-settled stock appreciation rights have been recognized as a liability.

**Convertible notes**

Convertible notes issued before January 1, 2006 should be accounted for in accordance with SFAS No. 21 and thus, the related interest premium payable and amortization of discount or premium should be recognized.

Convertible notes issued after January 1, 2006 should be split into liability and equity components. If a convertible debt instrument has an embedded call or put option feature, the assessment of whether the call or put option is closely related to the host debt contract should be made in accordance with SFAS No. 34. If the derivatives embedded in the convertible notes are not closely related to the host debt contract, the put and call option features should be carried at fair value with gains and losses in earnings. The other conversion features should be recorded in equity.

The excess of the stated redemption price over the par value is accrued as compensation interest payable over the redemption period, using the effective interest method.

When convertible noteholders exercise their conversion right, the book value of the note is credited to common stock at an amount equal to the par value of the common stock and the excess is credited to capital surplus. No gain or loss is recognized upon conversion of notes.

**Comparative amounts**

Certain comparative amounts have been reclassified to conform with the current year's presentation.

**3. TRANSLATION INTO U.S. DOLLAR AMOUNTS**

The Company maintains its accounts and expresses its consolidated financial statements in New Taiwan dollars. For convenience purposes, U.S. dollar amounts presented in the accompanying consolidated financial statements have been translated from New Taiwan dollars to U.S. dollars at the noon buying rate in the City of New York for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York as of December 31, 2007, which was NT\$32.43 to US\$1.00. These convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

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## 4. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

|                   | December 31,     |                |               |
|-------------------|------------------|----------------|---------------|
|                   | 2006             | 2007           | US\$          |
|                   | NT\$             | NT\$           |               |
|                   | (in thousands)   |                |               |
| Stock             | 257,652          | 254,470        | 7,847         |
| Open-ended funds  | 1,671,471        | 301,138        | 9,286         |
| <b>Fair value</b> | <b>1,929,123</b> | <b>555,608</b> | <b>17,133</b> |

The market value of open-ended funds is based on the market price at year-end.

During 2005, ChipMOS Taiwan sold part of its investments in common stock of MVI and ProMOS at a loss of NT\$68,402 thousand and a gain of NT\$907 thousand, respectively, and ChipMOS Logic sold its investment in common stock of SPIL at a gain of NT\$4,148 thousand.

During 2006, ChipMOS Taiwan disposed of all of its 2,069 thousand shares of MVI at a gain of NT\$539 thousand. ChipMOS Taiwan also acquired 3,500 thousand shares of ProMOS in 2006.

As of December 31, 2007, ChipMOS Taiwan held 4,201 thousand (2006: 4,201 thousand) shares of common stock of ProMOS and ThaiLin held 3,600 thousand (2006: 3,600 thousand) shares of common stock of ProMOS (see also Note 18 Related Party Transactions).

## 5. ALLOWANCE FOR DOUBTFUL RECEIVABLES AND SALES RETURN ALLOWANCES

The changes in the allowances are summarized as follows:

|                             | Year Ended December 31, |                |                |              |
|-----------------------------|-------------------------|----------------|----------------|--------------|
|                             | 2005                    | 2006           | 2007           | US\$         |
|                             | NT\$                    | NT\$           | NT\$           |              |
|                             | (in thousands)          |                |                |              |
| Balance, beginning of year  | 292,051                 | 401,299        | 160,656        | 4,954        |
| Additions                   | 109,248                 | 52,586         | 130,038        | 4,010        |
| Reversal                    |                         | (16,357)       | (30,095)       | (928)        |
| Write offs                  |                         | (276,872)      |                |              |
| <b>Balance, end of year</b> | <b>401,299</b>          | <b>160,656</b> | <b>260,599</b> | <b>8,036</b> |

## 6. INVENTORIES NET

|                  | December 31,   |           |        |
|------------------|----------------|-----------|--------|
|                  | 2006           | 2007      | US\$   |
|                  | NT\$           | NT\$      |        |
|                  | (in thousands) |           |        |
| Finished goods   | 55,420         | 97,694    | 3,012  |
| Work in progress | 233,306        | 190,955   | 5,888  |
| Raw materials    | 764,734        | 818,743   | 25,247 |
|                  | 1,053,460      | 1,107,392 | 34,147 |

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|                             |           |           |         |
|-----------------------------|-----------|-----------|---------|
| Less - allowance for losses | (107,638) | (63,772)  | (1,966) |
|                             | 945,822   | 1,043,620 | 32,181  |

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## 6. INVENTORIES NET (continued)

The changes in the inventory valuation allowances are summarized as follows:

|                            | Year Ended December 31, |              |              |         |
|----------------------------|-------------------------|--------------|--------------|---------|
|                            | 2005<br>NT\$            | 2006<br>NT\$ | 2007<br>NT\$ | US\$    |
|                            | (in thousands)          |              |              |         |
| Balance, beginning of year | 111,074                 | 93,693       | 107,638      | 3,319   |
| Additions                  | 57,200                  | 20,305       |              |         |
| Reversals                  | (74,581)                | (6,360)      | (43,866)     | (1,353) |
| Balance, end of year       | 93,693                  | 107,638      | 63,772       | 1,966   |

## 7. LONG-TERM INVESTMENTS

|   | 2006  |                   | December 31,              |              | % of<br>Ownership |
|---|---|-------------------|---------------------------|--------------|-------------------|
|   | Carrying<br>Value<br>NT\$                   | % of<br>Ownership | Carrying<br>Value<br>NT\$ | 2007<br>US\$ |                   |
|   | (in thousands, except percentage interests) |                   |                           |              |                   |
| Equity method:                                      |   |                   |                           |              |                   |
| Ultima Technology Corp. (Ultima Technology)         |   | 30                |                           |              | 30                |
| Cost method:  |   |                   |                           |              |                   |
| Best Home Corp. Ltd. (Best Home)                    |   | 19                |                           |              | 19                |
| Sun Fund Securities Ltd. (Sun Fund)                 | 148,120                                     | 17                | 139,385                   | 4,298        | 17                |
| Vigour Technology Corp. (Vigour)                    |   | 4                 |                           |              |                   |
| G-LINK Technology Corp., Taiwan (G-LINK)            |   |                   |                           |              |                   |
| DigiMedia Technologies Co., Ltd. (DigiMedia Cayman) | 198,666                                     | 12                | 198,666                   | 6,126        | 11                |
| Validity Sensors Inc. (preferred shares)            | 19,956                                      |                   | 19,956                    | 615          |                   |
| Tashee Golf & Country Club                          |   |                   | 10                        |              |                   |
|   | 366,742                                     |                   | 358,017                   | 11,039       |                   |

The equity in net loss of Ultima Technology for the years ended December 31, 2005, 2006 and 2007 was as follows:

|                   | Year Ended December 31, |              |              |      |
|-------------------|-------------------------|--------------|--------------|------|
|                   | 2005<br>NT\$            | 2006<br>NT\$ | 2007<br>NT\$ | US\$ |
|                   | (in thousands)          |              |              |      |
| Ultima Technology |                         | (126,802)    |              |      |

The foregoing equity in net loss was based on audited financial statements.

In 2004, in accordance with ROC SFAS No. 5, ChipMOS Taiwan deferred its recognition of the proportionate share of loss of Ultima Technology for one year to 2005. Therefore, the share of net loss of Ultima Technology in 2006 also included the share of 2005 loss of Ultima Technology.





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## 7. LONG-TERM INVESTMENTS (continued)

In 2006 and 2007, ChipMOS Taiwan did not recognize its share of the loss of Ultima Technology as no audited financial statements were available. In accordance with ROC SEC regulations, a company must recognize its share of the income/loss of investee companies based on audited financial statements.

The summarized financial information for Ultima Technology is as follows:

|                         | December 31,   |              |      |
|-------------------------|----------------|--------------|------|
|                         | 2006<br>NT\$   | 2007<br>NT\$ | US\$ |
|                         | (in thousands) |              |      |
| Current assets          | 1,988          | 1,986        | 61   |
| Non-current liabilities | 21,738         | 19,369       | 597  |
| Current liabilities     | 98             | 156          | 5    |

|                   | Year Ended December 31, |              |              |      |
|-------------------|-------------------------|--------------|--------------|------|
|                   | 2005<br>NT\$            | 2006<br>NT\$ | 2007<br>NT\$ | US\$ |
|                   | (in thousands)          |              |              |      |
| Net income (loss) | (111,458)               | (74,338)     | 2,211        | 68   |

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

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

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

During 2005, impairment losses of NT\$188,310 thousand, NT\$4,855 thousand and NT\$17,829 thousand were recognized in respect of investments in Ultima Technology, G-LINK Technology Corp., Taiwan (G-Link) and Sun Fund, respectively.

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

During 2007, impairment losses of NT\$8,735 thousand were recognized in respect of investment in Sun Fund.

## 8. PROPERTY, PLANT AND EQUIPMENT NET

Accumulated depreciation consists of the following:

|                                   | December 31,   |              |        |
|-----------------------------------|----------------|--------------|--------|
|                                   | 2006<br>NT\$   | 2007<br>NT\$ | US\$   |
|                                   | (in thousands) |              |        |
| Buildings and auxiliary equipment | 1,826,799      | 2,040,883    | 62,932 |

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|                          |            |            |         |
|--------------------------|------------|------------|---------|
| Machinery and equipment  | 16,801,332 | 21,930,194 | 676,232 |
| Furniture and fixtures   | 416,719    | 603,047    | 18,595  |
| Transportation equipment | 17,146     | 22,876     | 705     |
| Tools                    | 1,157,591  | 1,699,620  | 52,409  |
| Leasehold improvements   | 828        | 1,624      | 50      |
|                          | 20,220,415 | 26,298,244 | 810,923 |

As of December 31, 2007, certain of the above buildings and machinery were mortgaged as collateral for long-term loans (Note 14).

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## 9. INTANGIBLE ASSETS NET

|                          | 2006<br>NT\$   | December 31,<br>2007<br>NT\$ | US\$  |
|--------------------------|----------------|------------------------------|-------|
|                          | (in thousands) |                              |       |
| <u>Land use rights</u>   |                |                              |       |
| Cost                     | 184,708        | 196,457                      | 6,058 |
| Accumulated amortization | (12,314)       | (16,023)                     | (494) |
| Carrying value           | 172,394        | 180,434                      | 5,564 |

The amortization charge for 2007 amounted to NT\$2,848 thousand (2006: NT\$2,690 thousand, 2005: NT\$2,637 thousand). The weighted average amortization period is 50 years (2006: 50 years). The estimated aggregate amortization charge for the five years ending December 31, 2008, 2009, 2010, 2011 and 2012 amounts to approximately NT\$3,000 thousand each year.

## 10. BANK LOANS

|   | 2006<br>NT\$   | December 31,<br>2007<br>NT\$ | US\$   |
|---|----------------|------------------------------|--------|
|   | (in thousands) |                              |        |
| Unsecured loans:  |                |                              |        |
| Loans for import of machinery:  |                |                              |        |
| US\$11,040 thousand, repayable by February 2007, annual interest at 6.35%           | 359,849        |                              |        |
| US\$2,019 thousand, repayable by May 2007, annual interest at 6.224% 6.24%          | 65,799         |                              |        |
| US\$13,122 thousand, repayable by June 2007, annual interest at 6.02% 6.205074%     | 427,712        |                              |        |
| US\$1,458 thousand, repayable by January 2008, annual interest at 6.24384%          |                | 47,283                       | 1,458  |
| US\$9,069 thousand, repayable by February 2008, annual interest at 5.95% 6.24384%   |                | 294,117                      | 9,069  |
| US\$14,580 thousand, repayable by March 2008, annual interest at 5.74696% 6.3399%   |                | 472,829                      | 14,580 |
| US\$336 thousand, repayable by April 2008, annual interest at 5.6237%               |                | 10,897                       | 336    |
| US\$120 thousand, repayable by June 2008, annual interest at 5.67%                  |                | 3,892                        | 120    |
| JPY203,220 thousand, repayable by January 2008, annual interest at 1.425412% 1.46%  |                | 58,873                       | 1,815  |
| JPY712,118 thousand, repayable by February 2008, annual interest at 1.42% 1.6081%   |                | 206,301                      | 6,362  |
| JPY40,650 thousand, repayable by June 2008, annual interest at 1.4757% 1.6%         |                | 11,776                       | 363    |
| Loans for import :  |                |                              |        |
| JPY494,401 thousand, repayable by February 2008, annual interest at 1.4334% 1.4704% |                | 143,228                      | 4,417  |

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## 10. BANK LOANS (continued)

|   | 2006<br>NT\$   | December 31,<br>2007<br>NT\$ | US\$   |
|---|----------------|------------------------------|--------|
|   | (in thousands) |                              |        |
| Secured loans:  |                |                              |        |
| Working capital loans:  |                |                              |        |
| US\$300 thousand, repayable by July 2007, annual interest at 6.0%, collateralized by land and buildings           | 9,779          |                              |        |
| US\$700 thousand, repayable by October 2007, annual interest at 6.0%, collateralized by land and buildings        | 22,817         |                              |        |
| US\$200 thousand, repayable by November 2007, annual interest at 6.0%, collateralized by land and buildings       | 6,519          |                              |        |
| US\$200 thousand, repayable by November 2007, annual interest at 6.0%, collateralized by land and buildings       | 6,519          |                              |        |
| US\$200 thousand, repayable by December 2007, annual interest at 6.0%, collateralized by land and buildings       | 6,519          |                              |        |
| Loans for import of machinery:  |                |                              |        |
| US\$4,090 thousand, repayable by January 2007 annual interest at 6.0% 6.03%, collateralized by land and buildings | 133,303        |                              |        |
| US\$283 thousand, repayable by February 2007, annual interest at 6.02535%, collateralized by land and buildings   | 9,211          |                              |        |
| US\$223 thousand, repayable by March 2007, annual interest at 6.0125% 6.02%, collateralized by land and buildings | 7,283          |                              |        |
|   | 1,055,310      | 1,249,196                    | 38,520 |

Unused credit lines of short-term bank loans, as of December 31, 2007, totaled approximately NT\$12,095,479 thousand, which will expire from January 2008 to December 2008.

The weighted average interest rate for bank loans was 5.5% per annum in 2007 (2006: 3.2% per annum).

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## 11. OTHER PAYABLES THIRD PARTIES

|                                | December 31,   |              |        |
|--------------------------------|----------------|--------------|--------|
|                                | 2006<br>NT\$   | 2007<br>NT\$ | US\$   |
|                                | (in thousands) |              |        |
| Miscellaneous factory expenses | 205,624        | 256,941      | 7,923  |
| Others                         | 343,973        | 347,204      | 10,706 |
|                                | 549,597        | 604,145      | 18,629 |

## 12. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

|               | December 31,   |              |        |
|---------------|----------------|--------------|--------|
|               | 2006<br>NT\$   | 2007<br>NT\$ | US\$   |
|               | (in thousands) |              |        |
| Accrued bonus | 489,291        | 537,281      | 16,567 |
| Others        | 224,290        | 349,455      | 10,776 |
|               | 713,581        | 886,736      | 27,343 |

## 13. CONVERTIBLE NOTES

|                       | December 31,   |              |          |
|-----------------------|----------------|--------------|----------|
|                       | 2006<br>NT\$   | 2007<br>NT\$ | US\$     |
|                       | (in thousands) |              |          |
| Convertible notes     | 5,133,837      | 5,090,490    | 156,969  |
| Less: current portion |                | (3,014,937)  | (92,968) |
|                       | 5,133,837      | 2,075,553    | 64,001   |

Convertible notes due 2009 (CN due 2009)

On November 3, 2004, ChipMOS Bermuda issued US\$85,000 thousand (NT\$2,756,550 thousand) CN due 2009. The CN due 2009 bear interest at 1.75% per annum. The noteholders may convert any outstanding notes into common shares of ChipMOS Bermuda, initially at the conversion price of US\$7.85 at any time during the period from the 41<sup>st</sup> day after the latest original issuance date of the notes to the close of business on the fifth business day before the stated maturity date, subject to prior repurchase or redemption. The conversion price was subject to certain adjustments. On November 3, 2005, the conversion price was adjusted to US\$6.28 per share from the initial conversion price of US\$7.85 per share, pursuant to the terms of the CN due 2009. The market price on November 3, 2005 was US\$6.00. There is no fixed discount to the common shares market price in relation to conversion. On December 20, 2004, ChipMOS Bermuda repurchased US\$699 thousand (NT\$22,669 thousand) of the CN due 2009. No conversion had taken place during 2005 and 2007.

On October 18, 2006, noteholders of CN due 2009 converted US\$7,000 thousand (NT\$227,010 thousand) in aggregate principal amount of the CN due 2009 into 1,114,649 common shares of ChipMOS Bermuda pursuant to ChipMOS Bermuda's induced conversion offer, dated October 17, 2006. Pursuant to the induced conversion offer, ChipMOS Bermuda paid approximately US\$490 thousand (NT\$15,891 thousand) to the converting noteholders.



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13. CONVERTIBLE NOTES (continued)

The noteholders of CN due 2009 had an option to cause ChipMOS Bermuda to repurchase for cash all or a portion of the notes on November 3, 2006 at a repurchase price equal to 100% of the principal amount of the notes plus any accrued and unpaid interest to, but excluding, the date of repurchase (put option). On November 3, 2006, ChipMOS Bermuda repurchased US\$6,300 thousand (NT\$204,309 thousand) CN due 2009 pursuant to the put option. After November 3, 2006, noteholders may cause ChipMOS Bermuda to repurchase the CN due 2009 only upon the occurrence of certain fundamental changes.

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

Convertible notes due 2011 (CN due 2011)

On September 29, 2006, ChipMOS Bermuda issued US\$100,000 thousand (NT\$3,243,000 thousand) CN due 2011. The CN due 2011 bear interest at 3.375% per annum. The noteholders may convert any outstanding notes into common shares of ChipMOS Bermuda, initially at the conversion price of US\$6.85, at any time during the period from the 41<sup>st</sup> day after the latest original issuance date of the notes to the close of business on the fifth business day before the stated maturity date, subject to prior repurchase or redemption. The conversion price will be subject to certain adjustments. No conversion had taken place during 2006 and 2007. On November 29, 2007, ChipMOS Bermuda repurchased US\$1,000 thousand (NT\$32,430 thousand) of CN due 2011.

The noteholders of CN due 2011 have an option to cause ChipMOS Bermuda to repurchase for cash all or a portion of the notes on September 29, 2008 at a repurchase price equal to 100% of the principal amount of the notes plus any accrued and unpaid interest to, but excluding, the date of repurchase (put option). Therefore, the CN due 2011 have been classified as current liabilities as of December 31, 2007.

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



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## 14. LONG-TERM LOANS

|  | December 31,   |              |        |
|--|----------------|--------------|--------|
|  | 2006<br>NT\$   | 2007<br>NT\$ | US\$   |
|  | (in thousands) |              |        |
| Syndicated bank loans collateralized by equipment, repayable quarterly from December 2003 to September 2008, interest at floating rate (3.45% and 2.945% as of December 31, 2006 and 2007, respectively)   | 149,528        | 64,084       | 1,976  |
| Syndicated bank loans collateralized by equipment, repayable semi-annually from September 2004 to September 2007, interest at floating rate (5.03% as of December 31, 2006)                                | 571,400        |              |        |
| Syndicated bank loans, repayable semi-annually from September 2004 to September 2007, interest at floating rate (5.155% as of December 31, 2006)   | 142,850        |              |        |
| Bank loans, repayable quarterly from November 2004 to February 2007, interest at fixed rate of 3.4%  | 30,000         |              |        |
| Syndicated bank loans collateralized by equipment, repayable quarterly from June 2004 to March 2008, interest at floating rate (4.24% and 4.58% as of December 31, 2006 and 2007, respectively)            | 709,615        | 141,923      | 4,376  |
| Bank loans collateralized by equipment, repayable quarterly from December 2004 to September 2007, interest at floating rate (4.25% as of December 31, 2006)  | 39,000         |              |        |
| Bank loans collateralized by equipment, repayable quarterly from February 2005 to November 2008, interest at floating rate (3.14% and 3.01% as of December 31, 2006 and 2007, respectively)                | 175,005        | 87,505       | 2,698  |
| Syndicated bank loans collateralized by equipment, repayable quarterly from June 2005 to December 2010, interest at floating rate (3.45% and 2.945% as of December 31, 2006 and 2007, respectively)        | 431,305        | 323,478      | 9,975  |
| Syndicated bank loans collateralized by equipment, repayable semi-annually from November 2006 to May 2010, interest at floating rate (3.99% and 4.33% as of December 31, 2006 and 2007, respectively)      | 875,000        | 625,000      | 19,272 |
| Syndicated bank loans collateralized by buildings, repayable in September 2009, interest at floating rate (3.505% and 3.845% as of December 31, 2006 and 2007, respectively)                               | 500,000        | 500,000      | 15,418 |
| Bank loans, repayable quarterly from February 2006 to November 2009, interest at fixed rate of 4.69%   | 375,000        | 250,000      | 7,709  |
| Bank loans collateralized by equipment, repayable quarterly from March 2006 to December 2010, interest at floating rate (3.08% and 3.05% as of December 31, 2006 and 2007, respectively)                   | 352,000        | 264,000      | 8,141  |
| Industrial research and development advancement loan, collateralized by time deposits in amounts of NT\$29,983 thousand, repayable quarterly from January 2006 to April 2010, interest at fixed rate of 1% | 22,649         | 16,178       | 499    |
| Syndicated bank loans, repayable in April 2008, interest at floating rate (3.655% and 3.995% as of December 31, 2006 and 2007, respectively)   | 500,000        | 500,000      | 15,418 |

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## 14. LONG-TERM LOANS (continued)

|  | 2006<br>NT\$ | December 31,<br>2007<br>NT\$<br>(in thousands) | US\$    |
|--|--------------|--|---------|
| Bank loans, early repaid in July 2007, interest at fixed rate of 2.89%   | 200,000      |  |         |
| Syndicated bank loans collateralized by equipment, repayable semi-annually from April 2008 to April 2011, interest at floating rate (3.14% and 3.48% as of December 31, 2006 and 2007, respectively)       | 6,000,000    | 6,000,000                                      | 185,014 |
| Syndicated bank loans collateralized by equipment, repayable semi-annually from June 2010 to December 2012, interest at floating rate (3.3615% as of December 31, 2007)                                    |              | 1,000,000                                      | 30,836  |
| Bank loans collateralized by equipment, repayable quarterly from July 2006 to April 2008, interest at fixed rate of 3.2%   | 150,000      | 50,000   | 1,542   |
| Bank loans, repayable quarterly from September 2007 to June 2009, interest at floating rate (3.24% and 3.58% as of December 31, 2006 and 2007, respectively)   | 200,000      | 150,000  | 4,625   |
| Bank loans, repayable quarterly from December 2007 to December 2009, interest at floating rate (3.01% and 3.41% as of December 31, 2006 and 2007, respectively)  | 400,000      | 355,500  | 10,962  |
| Bank loans collateralized by buildings, repayable semi-annually from June 2009 to December 2013, interest at floating rate (3.09% and 3.51% as of December 31, 2006 and 2007, respectively)                | 450,000      | 800,000  | 24,669  |
| Bank loans collateralized by equipment, repayable quarterly from May 2007 to February 2012, interest at floating rate (2.75% and 3.405% 3.419% as of December 31, 2006 and 2007, respectively)             | 264,000      | 1,112,526                                      | 34,305  |
| Bank loans collateralized by land and buildings, repayable quarterly from September 2008 to June 2009, interest at floating rate (6.12375% and 5.7675% as of December 31, 2006 and 2007, respectively)     | 65,190       | 64,860   | 2,000   |
| Bank loans collateralized by land and buildings, repayable quarterly from December 2008 to July 2009, interest at floating rate (6.35% and 6.17% as of December 31, 2006 and 2007, respectively)           | 13,038       | 12,972   | 400     |
| Bank loans collateralized by land and buildings, repayable quarterly from December 2008 to September 2009, interest at floating rate (6.22063% and 6.3725% as of December 31, 2006 and 2007, respectively) | 130,380      | 129,721  | 4,000   |
| Bank loans collateralized by land and buildings, repayable quarterly from December 2008 to August 2009, interest at floating rate (6.26063% and 6.2275% as of December 31, 2006 and 2007, respectively)    | 24,446       | 24,323   | 750     |
| Bank loans collateralized by land and buildings, repayable quarterly from March 2009 to September 2009, interest at floating rate (6.22% and 5.895% as of December 31, 2006 and 2007, respectively)        | 55,411       | 55,131   | 1,700   |
| Bank loans collateralized by land and buildings, repayable in October 2009, interest at floating rate (6.20688% and 5.87875% as of December 31, 2006 and 2007, respectively)                               | 1,304        | 1,297  | 40      |

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## 14. LONG-TERM LOANS (continued)

|   | December 31,   |              |       |
|---|----------------|--------------|-------|
|   | 2006<br>NT\$   | 2007<br>NT\$ | US\$  |
|   | (in thousands) |              |       |
| Bank loans collateralized by land and buildings, repayable in November 2009, interest at floating rate (6.17063% and 5.64625% as of December 31, 2006 and 2007, respectively)                           | 3,223          | 3,206        | 99    |
| Bank loans collateralized by land and buildings, repayable quarterly from March 2009 to November 2009, interest at floating rate (6.18063% and 5.60313% as of December 31, 2006 and 2007, respectively) | 32,595         | 32,430       | 1,000 |
| Bank loans collateralized by land and buildings, repayable quarterly from March 2009 to November 2009, interest at floating rate (6.16875% and 5.65625% as of December 31, 2006 and 2007, respectively) | 88,007         | 87,562       | 2,700 |
| Bank loans collateralized by land and buildings, repayable quarterly from March 2009 to December 2009, interest at floating rate (6.17% and 5.625% as of December 31, 2006 and 2007, respectively)      | 60,301         | 59,996       | 1,850 |
| Bank loans collateralized by land and buildings, repayable quarterly from June 2009 to December 2009, interest at floating rate (6.17% and 5.5275% as of December 31, 2006 and 2007, respectively)      | 8,149          | 8,108        | 250   |
| Bank loans collateralized by land and buildings, repayable in December 2009, interest at floating rate (6.16% and 5.5175% as of December 31, 2006 and 2007, respectively)                               | 2,380          | 2,368        | 73    |
| Bank loans collateralized by land and buildings, repayable in December 2009, interest at floating rate (6.16063% and 5.5175% as of December 31, 2006 and 2007, respectively)                            | 2,288          | 2,277        | 70    |
| Bank loans collateralized by land and buildings, repayable in January 2010, interest at floating rate (6.19625% as of December 31, 2007)  |                | 22,883       | 706   |
| Bank loans collateralized by land and buildings, repayable in January 2010, interest at floating rate (6.19469% as of December 31, 2007)  |                | 21,423       | 661   |
| Bank loans collateralized by land and buildings, repayable in January 2010, interest at floating rate (6.18688% as of December 31, 2007)  |                | 19,086       | 588   |
| Bank loans collateralized by land and buildings, repayable in January 2010, interest at floating rate (6.18438% as of December 31, 2007)  |                | 28,966       | 893   |
| Bank loans collateralized by land and buildings, repayable in January 2010, interest at floating rate (6.17% as of December 31, 2007)   |                | 5,473        | 169   |
| Bank loans collateralized by land and buildings, repayable in January 2010, interest at floating rate (6.17406% as of December 31, 2007)  |                | 2,492        | 77    |
| Bank loans collateralized by land and buildings, repayable in January 2010, interest at floating rate (6.12688% as of December 31, 2007)  |                | 32,305       | 996   |

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## 14. LONG-TERM LOANS (continued)

|   | 2006<br>NT\$ | December 31,<br>2007<br>NT\$<br>(in thousands) | US\$      |
|---|--------------|--|-----------|
| Bank loans collateralized by land and buildings, repayable in February 2010, interest at floating rate (6.11438% as of December 31, 2007)                       |              | 9,165  | 283       |
| Bank loans collateralized by land and buildings, repayable in March 2010, interest at floating rate (6.2625% as of December 31, 2007)                           |              | 1,109  | 34        |
| Bank loans collateralized by land and buildings, repayable quarterly from June 2009 to March 2010, interest at floating rate (6.27875% as of December 31, 2007) |              | 37,781   | 1,165     |
| Bank loans collateralized by land and buildings, repayable in March 2010, interest at floating rate (5.94125% as of December 31, 2007)                          |              | 5,662  | 174       |
| Bank loans collateralized by land and buildings, repayable in March 2010, interest at floating rate (5.94438% as of December 31, 2007)                          |              | 475  | 15        |
| Bank loans collateralized by land and buildings, repayable in April 2010, interest at floating rate (6.02125% as of December 31, 2007)                          |              | 5,725  | 176       |
| Bank loans collateralized by land and buildings, repayable in April 2010, interest at floating rate (5.87875% as of December 31, 2007)                          |              | 15,512   | 478       |
| Bank loans collateralized by land and buildings, repayable in April 2010, interest at floating rate (5.80563% as of December 31, 2007)                          |              | 1,871  | 58        |
|   | 13,024,064   | 12,934,373                                     | 398,840   |
| Less current portion  | (2,335,284)  | (3,686,216)                                    | (113,667) |
|   | 10,688,780   | 9,248,157                                      | 285,173   |

Unused credit lines of long-term bank loans as of December 31, 2007 totaled approximately NT\$6,740,330 thousand.

Under syndicated bank loans facility agreements, ChipMOS Taiwan and ThaiLin are required to maintain certain financial ratios. ChipMOS Taiwan and ThaiLin were in compliance with the financial ratio requirements as of December 31, 2007.

As of December 31, 2007, certain land and buildings (including land use rights) and machinery with an aggregate net book value of NT\$3,872,348 thousand and NT\$12,292,910 thousand, respectively, and time deposits in an aggregate amount of NT\$29,983 thousand were mortgaged as collateral for the long-term loans.

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## 14. LONG-TERM LOANS (continued)

Future minimum principal payments under the long-term loans as of December 31, 2007 are as follows:

|            | Amount         |         |
|------------|----------------|---------|
|            | NT\$           | US\$    |
|            | (in thousands) |         |
| 2008       | 3,686,216      | 113,667 |
| 2009       | 3,864,969      | 119,179 |
| 2010       | 3,009,302      | 92,794  |
| 2011       | 1,646,543      | 50,772  |
| 2012       | 567,343        | 17,494  |
| Thereafter | 160,000        | 4,934   |
|            | 12,934,373     | 398,840 |

## 15. PENSION PLAN

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

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

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

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

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

Certain pension information is as follows:

## a. Net pension cost

|                                 | Year Ended December 31, |              |              |       |
|---------------------------------|-------------------------|--------------|--------------|-------|
|                                 | 2005<br>NT\$            | 2006<br>NT\$ | 2007<br>NT\$ | US\$  |
|                                 | (in thousands)          |              |              |       |
| Service cost                    | 30,021                  | 1,688        | 1,662        | 51    |
| Interest cost                   | 8,159                   | 7,790        | 8,735        | 269   |
| Projected return on plan assets | (4,500)                 | (4,740)      | (5,500)      | (170) |
| Amortization                    | 53                      | 53           | 53           | 2     |
| Curtailment gain                | 1,031                   | 780          | 3,429        | 106   |

34,764 5,571 8,379 258

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## 15. PENSION PLAN (continued)

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

|   | Year Ended December 31, |              |              | US\$    |
|---|-------------------------|--------------|--------------|---------|
|   | 2005<br>NT\$            | 2006<br>NT\$ | 2007<br>NT\$ |         |
|   | (in thousands)          |              |              |         |
| Actuarial present value of benefit obligations        |                         |              |              |         |
| Vested benefit obligation                             | 415                     | 1,028        | 1,081        | 33      |
| Nonvested benefit obligation                          | 142,011                 | 141,408      | 226,673      | 6,990   |
| Accumulated benefit obligation                        | 142,426                 | 142,436      | 227,754      | 7,023   |
| Additional benefits based on future salaries          | 140,827                 | 175,209      | 239,946      | 7,399   |
| Projected benefit obligation                          | 283,253                 | 317,645      | 467,700      | 14,422  |
| Plan assets at fair value                             | (157,043)               | (199,991)    | (249,637)    | (7,698) |
| Projected benefit obligation in excess of plan assets | 126,210                 | 117,654      | 218,063      | 6,724   |
| Unrecognized net transition obligation                | (663)                   | (610)        | (557)        | (17)    |
| Unrecognized net gain                                 | (43,889)                | (69,472)     | (205,245)    | (6,329) |
| Accrued pension cost                                  | 81,658                  | 47,572       | 12,261       | 378     |

## c. Actuarial assumptions

|  | 2005  | 2006  | 2007  |
|--|-------|-------|-------|
| Discount rate used in determining present values | 2.75% | 2.75% | 2.88% |
| Future salary increase rate                      | 3.25% | 4.25% | 4.25% |
| Expected rate of return on plan assets           | 2.75% | 2.75% | 3.00% |

## d. Changes in pension fund

|                       | Year Ended December 31, |              |              | US\$  |
|-----------------------|-------------------------|--------------|--------------|-------|
|                       | 2005<br>NT\$            | 2006<br>NT\$ | 2007<br>NT\$ |       |
|                       | (in thousands)          |              |              |       |
| Company contributions | 29,892                  | 39,656       | 43,706       | 1,348 |
| Payment of benefits   |                         |              |              |       |

## 16. SHAREHOLDERS EQUITY

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

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ChipMOS Taiwan's Articles of Incorporation provide that the following may be appropriated from the accumulated net income, after deducting any previously accumulated deficit and 10% legal reserve, subject to shareholders' approval: (a) 10% as bonuses to employees, (b) not more than 0.5% as remuneration to directors and supervisors, (c) a special reserve, if deemed necessary, and (d) dividends to shareholders.

ThaiLin's Articles of Incorporation provide that the following may be appropriated from the accumulated net income, after deducting any previously accumulated deficit and 10% legal reserve, subject to shareholders' approval: (a) not more than 0.5% as remuneration to directors and supervisors, (b) not less than 10% as bonuses to employees, and (c) dividends to shareholders but not less than 50% should be distributed as cash dividends to shareholders; or not distribute.

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



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16. SHAREHOLDERS EQUITY (continued)

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

Stock Options

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

The following table summarizes information about stock options outstanding at December 31, 2007.

| Year of grant | Exercise Price US\$ | Number outstanding | Market Price at grant US\$ | Market Price at Year End US\$ | Number Exercisable on or after | Number Exercisable on or after | Number Exercisable on or after | Number Exercisable on or after | Number Exercisable on or after |
|---------------|---------------------|--------------------|----------------------------|-------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| 2002          | 4.0375              | 572,063            | 4.75                       | 4.26                          | April 2003                     | April 2004                     | April 2005                     | April 2006                     |                                |
| 2003          | 0.7650              | 1,186,426          | 1.09                       | 4.26                          | December 2003                  | October~ December 2004         | October~ December 2005         | October~ December 2006         | October~ November 2007         |
| 2004          | 3.60                | 1,739,050          | 3.60                       | 4.26                          | 320,700                        | 401,800                        | 501,875                        | 514,675                        |                                |
|               | ~6.63               |                    | ~7.80                      |                               | April~ August 2005             | April~ August 2006             | April~ August 2007             | April~ August 2008             |                                |
| 2006          | 4.8110              | 2,024,104          | 5.66                       | 4.26                          | 63,000                         | 492,247                        | 489,619                        | 489,619                        | 489,619                        |
|               | ~5.7205             |                    | ~6.73                      |                               | August~ 2006                   | August~ December 2007          | August~ December 2008          | August~ December 2009          | August~ December 2010          |
| 2007          | 3.6380              | 1,827,250          | 4.28                       | 4.26                          | 441,100                        | 441,097                        | 441,028                        | 504,025                        |                                |
|               | ~6.4770             |                    | ~7.63                      |                               | January~ December 2008         | January~ December 2009         | January~ December 2010         | January~ December 2011         |                                |

7,348,893

The Company has applied APB Opinion No. 25 Accounting for Stock Issued to Employees, and related interpretations, for stock options issued to employees in accounting for its stock option plans. Therefore, NT\$173,490 thousand (US\$5,350 thousand) of compensation expense has been recognized with NT\$37,336 thousand (US\$1,151 thousand) (2006: NT\$18,623 thousand) being accounted for through the statement of operations. The Company issued 1,884,400 (2006: 2,170,510) stock options in 2007 to its employees. In 2007, 228,631 (2006: 319,200) stock options were forfeited and 865,612 (2006: 1,322,143) stock options were exercised, leaving 7,348,893 (2006: 6,558,736) stock options outstanding at December 31, 2007.

#### Share Appreciation Rights

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

The following table summarizes information about share appreciation rights outstanding at December 31, 2007.

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## 16. SHAREHOLDERS EQUITY (continued)

| Year of grant | Exercise Price | Number outstanding | Market Price at grant | Market Price at Year End | Number Exercisable on or after | Number Exercisable on or after | Number Exercisable on or after | Number Exercisable on or after |
|---------------|----------------|--------------------|-----------------------|--------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| 2006          | 4.8110         | 1,090,135          | 5.66                  | 4.26                     | 275,203                        | 271,644                        | 271,644                        | 271,644                        |
|               | ~5.7205        |                    | ~6.73                 |                          | August~<br>December<br>2007    | August~<br>December<br>2008    | August~<br>December<br>2009    | August~<br>December<br>2010    |
| 2007          | 3.6380         | 540,000            | 4.28                  | 4.26                     | 135,000                        | 135,000                        | 135,000                        | 135,000                        |
|               | ~6.4770        |                    | ~7.62                 |                          | January~<br>December<br>2008   | January~<br>December<br>2009   | January~<br>December<br>2010   | January~<br>December<br>2011   |
|               |                | 1,630,135          |                       |                          |                                |                                |                                |                                |

During the year, 582,000 (2006: 1,229,110) rights were granted, 152,475 (2006: 27,000) rights were forfeited and 1,500 rights were exercised. As of December 31, 2007, there were 1,630,135 (2006: 1,202,110) share appreciation rights outstanding.

The Company recognized compensation expense of NT\$28,534 thousand (US\$880 thousand) (2006: NT\$24,684 thousand) in respect of share appreciation rights at fair value.

## 17. INCOME TAX EXPENSE

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

|  | Year Ended December 31, |              |              |         |
|--|-------------------------|--------------|--------------|---------|
|  | 2005<br>NT\$            | 2006<br>NT\$ | 2007<br>NT\$ | US\$    |
| Tax on pretax income at 0%                         |                         |              |              |         |
| Tax on pretax income at applicable statutory rates | 752,862                 | 1,354,892    | 1,459,397    | 45,001  |
| Tax effect:  |                         |              |              |         |
| Losses carried forward                             | (476,206)               | (246,352)    | (4,125)      | (127)   |
| Tax exempt income                                  | (136,122)               | (165,760)    | (35,068)     | (1,081) |
| Permanent differences                              | 42,486                  | (106,793)    | (58,424)     | (1,802) |
| Temporary differences                              | 44,167                  | (108,075)    | (126,130)    | (3,889) |
| Income tax expense current before tax credits      | 227,187                 | 727,912      | 1,235,650    | 38,102  |

The ROC statutory tax rates for 2005, 2006 and 2007 were 25%.

The PRC statutory rates for 2005, 2006 and 2007 were 33%.



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## 17. INCOME TAX EXPENSE (BENEFIT) (continued)

## b. Income tax expense consists of:

|   | Year Ended December 31, |                |                | US\$          |
|---|-------------------------|----------------|----------------|---------------|
|   | 2005<br>NT\$            | 2006<br>NT\$   | 2007<br>NT\$   |               |
|   | (in thousands)          |                |                |               |
| Income tax expense current before tax credits | 227,187                 | 727,912        | 1,235,650      | 38,102        |
| Additional 10% on the unappropriated earnings | 163,838                 | 111,066        | 171,597        | 5,291         |
| Income tax credits                            | (218,672)               | (506,285)      | (723,594)      | (22,312)      |
| Separate and foreign income tax               | 746                     |                | 44             | 1             |
| <b>Income tax for the current year</b>        | <b>173,099</b>          | <b>332,693</b> | <b>683,697</b> | <b>21,082</b> |
| Net change in deferred income tax             |                         |                |                |               |
| assets (liabilities) for the year             |                         |                |                |               |
| Tax credits                                   | 76,611                  | (206,923)      | 172,174        | 5,309         |
| Temporary differences                         | (237,161)               | 94,547         | 126,130        | 3,889         |
| Losses recognized                             | (13,174)                | 6,764          | 4,125          | 127           |
| Valuation allowances                          | (405,487)               | 280,359        | (250,859)      | (7,735)       |
| Losses carried forward                        | 517,738                 | 133,732        |                |               |
| Adjustment of prior years taxes               | 323                     | (4,673)        | 32,968         | 1,017         |
| <b>Income tax expense</b>                     | <b>111,949</b>          | <b>636,499</b> | <b>768,235</b> | <b>23,689</b> |

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

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

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

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

|   | December 31,   |              | US\$  |
|---|----------------|--------------|-------|
|   | 2006<br>NT\$   | 2007<br>NT\$ |       |
|   | (in thousands) |              |       |
| Net current deferred income tax assets:                               |                |              |       |
| Unrealized foreign exchange losses                                    | 3,679          | 2,321        | 72    |
| Tax credits   | 491            |              |       |
| Loss of market price decline and obsolete and slow-moving inventories | 19,026         | 13,734       | 423   |
| Unrealized loss on sale allowances                                    | 21,912         | 53,279       | 1,643 |
| Others  | 89,229         | 15,746       | 486   |

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|  |             |           |          |
|--|-------------|-----------|----------|
|  | 134,337     | 85,080    | 2,624    |
| Net non-current deferred income tax liabilities: |             |           |          |
| Losses carried forward                           | 62,396      | 134,754   | 4,155    |
| Tax credits                                      | 1,117,985   | 946,302   | 29,180   |
| Depreciation differences                         | (627,613)   | (736,418) | (22,708) |
| Unrealized impairment loss on idle fixed asset   | 12,586      | 106       | 3        |
| Others   | 273,676     | 308,993   | 9,528    |
|  | 839,030     | 653,737   | 20,158   |
| Less: Valuation allowances                       | (1,079,494) | (834,137) | (25,721) |
|  | (240,464)   | (180,400) | (5,563)  |

The deferred income tax components are measured at respective applicable statutory rates as of December 31, 2006 and 2007.

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## 17. INCOME TAX EXPENSE (BENEFIT) (continued)

- d. The balance and year of expiry of unused investment tax credits and losses carried forward as of December 31, 2007 are as follows:

| Year of expiry | R & D<br>expenditures<br>NT\$ | Machinery<br>and equipment<br>NT\$<br>(in thousands) | Losses<br>carried<br>forward<br>NT\$ |
|----------------|-------------------------------|--|--------------------------------------|
| 2008           |                               | 314,371  |                                      |
| 2009           | 42,732                        | 392,281  |                                      |
| 2010           |                               | 56,239   | 14,615                               |
| 2011           |                               | 89,638   | 51,705                               |
| 2012 and after |                               | 51,041   | 68,434                               |
|                | 42,732                        | 903,570  | 134,754                              |

The deferred tax assets relate to investment tax credits on research and development expenditure and purchases of machinery and equipment which will expire from 2008 to 2012. Under ROC tax regulations, tax credits can be utilized to reduce current income tax obligations only to the extent of 50% of such income tax obligations except in the year when such tax credits will expire, in which case, the entire amount of expiring tax credits may be utilized to reduce the current income tax obligation. The foregoing limitation on the utilization of tax credits, the expiry dates of the tax credits, the level of tax credits expected to be generated from future operations and the level of non-taxable income attributable to the four-year income tax holiday on capacity expansion led management to conclude that it is unlikely that these investment tax credits will be fully realized. Losses carried forward can be used to deduct current income tax obligations up to the extent of taxable income and will expire after five years if not fully utilized by the Company. Accordingly, a valuation allowance on deferred tax assets is recognized as of December 31, 2006 and 2007.

- e. According to ROC tax law, ChipMOS Taiwan's, ThaiLin's, ChipMOS Logic's and CHANTEK's unappropriated earnings generated in 1998 and thereafter are subject to a tax of 10% in the year when the shareholders resolve that such earnings shall be retained. The retained earnings as of December 31, 2006 and 2007 consist of:

|                     | 2006<br>NT\$ | December 31,<br>2007<br>NT\$<br>(in thousands) | US\$    |
|---------------------|--------------|--|---------|
| Before 1998         |              |  |         |
| 1998 and thereafter | 6,930,120    | 8,246,742                                      | 254,294 |
|                     | 6,930,120    | 8,246,742                                      | 254,294 |

The income tax returns of ChipMOS Taiwan and ThaiLin through 2004 and 2005, respectively, have been assessed by the tax authorities (Note 21h).

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## 18. RELATED PARTY TRANSACTIONS

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

- a. MVI: A major shareholder.
- b. DenMOS Technology Inc. (DenMOS): An investee of MVI.
- c. ProMOS: An investee of MVI.
- d. SPIL: A major shareholder.
- e. Mou-Fu: An investee of MVI.

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

|                        | Year Ended December 31, |              |              | US\$    |
|------------------------|-------------------------|--------------|--------------|---------|
|                        | 2005<br>NT\$            | 2006<br>NT\$ | 2007<br>NT\$ |         |
|                        | (in thousands)          |              |              |         |
| <b>During the year</b> |                         |              |              |         |
| Revenue                |                         |              |              |         |
| ProMOS                 | 4,332,058               | 5,529,273    | 6,883,749    | 212,265 |
| MVI                    | 6                       |              |              |         |
| DenMOS                 | 271,393                 | 125,040      | 32,158       | 991     |
| SPIL                   |                         | 83           |              |         |
|                        | 4,603,457               | 5,654,396    | 6,915,907    | 213,256 |
| Rental revenue         |                         |              |              |         |
| MVI                    | 4,800                   | 2,160        |              |         |
| DenMOS                 | 30                      |              |              |         |
| ProMOS                 | 9,371                   | 9,371        | 15,600       | 481     |
|                        | 14,201                  | 11,531       | 15,600       | 481     |
| Purchases of materials |                         |              |              |         |
| MVI                    | 11,964                  |              |              |         |
| SPIL                   | 75                      |              | 53           | 2       |
|                        | 12,039                  |              | 53           | 2       |
| Operating expenses:    |                         |              |              |         |
| Management expenses    |                         |              |              |         |
| Mou-Fu                 | 3,900                   | 1,950        |              |         |
| Rental expenses        |                         |              |              |         |
| MVI                    | 593                     |              |              |         |



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|                                |       |       |       |    |
|--------------------------------|-------|-------|-------|----|
| ProMOS                         | 1,245 |       |       |    |
|                                | 1,838 |       |       |    |
| Other expenses                 |       |       |       |    |
| MVI                            | 148   | 144   | 148   | 5  |
| DenMOS                         |       |       | 13    |    |
|                                | 148   | 144   | 161   | 5  |
| Other revenue                  |       |       |       |    |
| SPIL                           |       | 62    |       |    |
| ProMOS                         | 522   | 73    | 1,969 | 61 |
|                                | 522   | 135   | 1,969 | 61 |
| Fee for shareholders' services |       |       |       |    |
| Mou-Fu                         | 2,667 | 2,520 |       |    |

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## 18. RELATED PARTY TRANSACTIONS (continued)

|  | 2006<br>NT\$ | December 31,<br>2007<br>NT\$<br>(in thousands) | US\$    |
|--|--------------|--|---------|
| <u>At the end of year</u>                              |              |  |         |
| Financial assets at fair value through profit and loss |              |  |         |
| Stock  |              |  |         |
| ProMOS   | 110,778      | 67,871   | 2,093   |
| Accounts receivable                                    |              |  |         |
| ProMOS   | 1,851,469    | 1,602,100                                      | 49,402  |
| DenMOS   | 10,498       | 2,876  | 88      |
| Less: Allowances for doubtful receivables              | (22,837)     | (106,143)                                      | (3,273) |
|  | 1,839,130    | 1,498,833                                      | 46,217  |
| Other receivables                                      |              |  |         |
| ProMOS   | 13,118       | 11,922   | 368     |
| MVI  | 613          |  |         |
| SPIL   | 65           |  |         |
| DenMOS   | 162          |  |         |
|  | 13,958       | 11,922   | 368     |
| Long-term accounts receivable                          |              |  |         |
| ProMOS   |              | 449,827  | 13,871  |
| Other payables   |              |  |         |
| MVI  | 25           | 13   |         |

In the period from July to December 2003, MVI transferred its DRAM business to ProMOS. As a result, 28%, 27% and 29% of the Company's 2005, 2006 and 2007 sales were made to ProMOS. The price was agreed upon quarterly, based on the then fair market price. The collection term for ProMOS is 75 days after month end, while other related parties have normal collection terms of 60 days after month end. The selling price is the same as for other customers.

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

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

In 2007, ChipMOS Taiwan sold tooling to ProMOS at NT\$6,528 thousand.

The long-term accounts receivable from ProMOS bears interest at 4.69% per annum and is repayable on February 15, 2009.

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

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## 19. RESTRICTED CASH AND CASH EQUIVALENTS

|  | December 31,   |         |       |
|--|----------------|---------|-------|
|  | 2006           | 2007    | US\$  |
|  | NT\$           | NT\$    |       |
|  | (in thousands) |         |       |
| <b>Current:</b>  |                |         |       |
| Time deposits (maturing from January 2008 to January 2010) | 51,650         | 53,519  | 1,650 |
| Deposit for letters of credit                              | 13,410         | 33,456  | 1,032 |
|  | 65,060         | 86,975  | 2,682 |
| <b>Non-current:</b>  |                |         |       |
| Time deposits (matured in March 2008)                      | 29,633         | 29,983  | 925   |
|  | 94,693         | 116,958 | 3,607 |

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

## 20. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

## Disposal of a subsidiary

|                                  | Year Ended December 31, |      |      |      |
|----------------------------------|-------------------------|------|------|------|
|                                  | 2005                    | 2006 | 2007 | US\$ |
|                                  | NT\$                    | NT\$ | NT\$ |      |
|                                  | (in thousands)          |      |      |      |
| <b>Net assets disposed:</b>      |                         |      |      |      |
| Cash and bank balances           | 46,674                  |      |      |      |
| Accounts receivable              | 7,115                   |      |      |      |
| Inventories                      | 38                      |      |      |      |
| Prepayment and other assets      | 3,064                   |      |      |      |
| Property, plant and equipment    | 50,505                  |      |      |      |
| Intangible assets                | 2,099                   |      |      |      |
| Capital lease payable            | (12,400)                |      |      |      |
| Accounts payable                 | (794)                   |      |      |      |
| Accrued and other liabilities    | (514)                   |      |      |      |
| Minority interest                | (29,429)                |      |      |      |
|                                  | 66,358                  |      |      |      |
| Loss on disposal of a subsidiary | (2,603)                 |      |      |      |
|                                  | 63,755                  |      |      |      |
| Cash consideration               | 63,755                  |      |      |      |

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

|                    |        |
|--------------------|--------|
| Cash consideration | 63,755 |
|--------------------|--------|

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Less: cash and bank balances disposed

(46,674)

17,081

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## 21. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

- a. As of December 31, 2007, ChipMOS Taiwan leased parcels of land from the Hsinchu and Tainan Science Park under several agreements expiring on various dates from 2008 to 2026, with renewal options.

The future minimum lease payments under the above-mentioned leases as of December 31, 2007 are as follows:

| Year                         | Amount         |       |
|------------------------------|----------------|-------|
|                              | NT\$           | US\$  |
|                              | (in thousands) |       |
| 2008                         | 23,436         | 723   |
| 2009                         | 23,436         | 723   |
| 2010                         | 23,436         | 723   |
| 2011                         | 23,436         | 723   |
| 2012                         | 23,436         | 723   |
| Thereafter                   | 136,185        | 4,199 |
| Total minimum lease payments | 253,365        | 7,814 |

- b. As of December 31, 2007, ChipMOS USA leased its office under an agreement expiring in 2010.

The future minimum lease payments under the above-mentioned lease as of December 31, 2007 are as follows:

| Year                         | Amount         |      |
|------------------------------|----------------|------|
|                              | NT\$           | US\$ |
|                              | (in thousands) |      |
| 2008                         | 3,535          | 109  |
| 2009                         | 3,632          | 112  |
| 2010                         | 3,113          | 96   |
| Total minimum lease payments | 10,280         | 317  |

- c. As of December 31, 2007, ChipMOS Shanghai leased land under an agreement expiring in August 2052.

The future minimum lease payments under the above-mentioned lease as of December 31, 2007 are as follows:

| Year                         | Amount         |       |
|------------------------------|----------------|-------|
|                              | NT\$           | US\$  |
|                              | (in thousands) |       |
| 2008                         | 1,261          | 39    |
| 2009                         | 1,261          | 39    |
| 2010                         | 1,261          | 39    |
| 2011                         | 1,261          | 39    |
| 2012                         | 1,261          | 39    |
| Thereafter                   | 1,261          | 39    |
| Total minimum lease payments | 50,024         | 1,542 |
|                              | 56,329         | 1,737 |



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## 21. SIGNIFICANT COMMITMENTS AND CONTINGENCIES (continued)

d. As of December 31, 2007, ChipMOS Taiwan leased machinery under an agreement expiring in 2010. The future minimum lease payments under the above-mentioned leases as of December 31, 2007 are as follows:

| Year                         | Amount         |         |
|------------------------------|----------------|---------|
|                              | NT\$           | US\$    |
|                              | (in thousands) |         |
| 2008                         | 1,398,101      | 43,111  |
| 2009                         | 1,387,008      | 42,769  |
| 2010                         | 582,665        | 17,967  |
| Total minimum lease payments | 3,367,774      | 103,847 |

- e. On April 20, 1999, ChipMOS Taiwan entered into a semiconductor packaging technology license agreement with Tessera Technologies, Inc. (Tessera). Under this agreement, ChipMOS Taiwan agreed to pay a license fee of US\$500 thousand and a royalty fee at a certain percentage of the net sales of certain products. ChipMOS Taiwan paid the total license fee of approximately US\$500 thousand (NT\$15,888 thousand) in 1999 and amortized the amount over 5 years using the straight-line method. ChipMOS Taiwan also paid approximately US\$500 thousand (NT\$16,708 thousand) in 2004 as the cumulative production and sales quantity of products bearing Tessera Compliant Chip packages did not meet the commitment schedule as set forth in the agreement. In February 2006, ChipMOS Taiwan and ChipMOS USA received notice of a patent infringement lawsuit brought by Tessera, alleging infringement of several Tessera patents and breach of an existing license agreement with ChipMOS Taiwan. According to Company's counsel, previously scheduled fact discovery has been stayed in accordance with a Northern District of California Court order issued on May 24, 2007. The Company continues preparation for trial once the stay is lifted. The Company's counsel has not formed an opinion as to the outcome of the case.
- f. The Company has unused letters of credit aggregating approximately US\$14,927 thousand, Euro 101 thousand, JPY792,035 thousand and GBP25 thousand, as of December 31, 2007.
- g. As of December 31, 2007, ThaiLin factored accounts receivables from Powerchip for a credit line of NT\$180,000 thousand (US\$5,550 thousand) from a bank and provided a promissory note in the same amount as guarantee. As of December 31, 2007, the credit line has not been utilized.
- h. In 2007, tax authorities assessed and adjusted by way of increase the income taxes of ChipMOS Taiwan for 2004 by NT\$14,675 thousand. The Company filed an appeal against the assessment.
- i. As of December 31, 2007, Modern Mind had a capital commitment in relation to capital contribution to ChipMOS Shanghai of US\$127,500 thousand (NT\$4,134,825 thousand), which was originally due on June 6, 2005. On March 21, 2005, Modern Mind obtained approval from the Shanghai Foreign Investment Committee to extend the capital contribution due date to December 6, 2007. On November 7, 2007, Modern Mind obtained approval from the Shanghai Foreign Investment Committee to extend the capital contribution due date to December 7, 2008.
- j. As of December 31, 2007, ChipMOS Taiwan had capital commitments in relation to construction of factories, dormitories and purchase of plant and machinery in the amount of NT\$640,603 thousand (US\$19,753 thousand).

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- k. As of December 31, 2007, ChipMOS Shanghai had capital commitments in relation to construction of factories, dormitories and purchase of plant and machinery in the amount of NT\$193,613 thousand (US\$5,970 thousand).

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21. SIGNIFICANT COMMITMENTS AND CONTINGENCIES (continued)

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

22. DERIVATIVE FINANCIAL INSTRUMENTS

ChipMOS Taiwan has entered into forward exchange contracts and foreign currency options for the years ended December 31, 2005, 2006 and 2007 to hedge its exchange rate risk on foreign-currency assets or liabilities and anticipated transactions. Information on the derivative transactions is as follows:

a. Forward exchange contracts

As of December 31, 2006 and 2007, there were no outstanding forward contracts.

Net exchange gains on forward exchange contracts were NT\$1,528 thousand, NT\$2,257 thousand and NT\$123 thousand for the years ended December 31, 2005, 2006 and 2007, respectively.

b. European option

ChipMOS Taiwan expects to receive U.S. dollars from its export sales and to pay Japanese yen for its importation of materials, machinery and equipment. It has entered into European-style foreign currency option contracts with banks to hedge exchange rate risks. As of December 31, 2007, ChipMOS Taiwan had no outstanding foreign currency option contracts. For the years ended December 31, 2005 and 2006, ChipMOS Taiwan realized premium income of NT\$36 thousand and nil, respectively. For the year ended December 31, 2007, the realized loss on valuation of financial assets of NT\$953 thousand was recognized to reduce the gain on disposal of investments.

c. Interest rate risks

ChipMOS Taiwan has entered into interest rate swap agreements to manage interest rate risk by exchanging a fixed quanto stepping interest rate for a floating rate. The difference in interest rates is calculated quarterly and is credited or charged to income in the current period. The loss of interest rate swaps recognized was NT\$11,190 thousand, nil and nil as non-operating expense in 2005, 2006 and 2007, respectively.

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## 22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

## d. Transaction risks

- 1) Credit risk. The banks with which the Company has entered into the above contracts are reputable and, therefore, the Company is not expected to be exposed to significant credit risks.
- 2) Market risk and hedge strategy. The Company is exposed to market risks arising from changes in currency exchange rates due to U.S. dollar denominated accounts receivable, Yen denominated accounts payable and U.S. dollar denominated debt. In order to manage these exposures, the Company sometimes enters into forward contracts and option contracts.
- 3) Liquidity and cash requirements. The cash flow requirements with respect to the Company's forward contracts are limited to the periodic premium payments and the net differences of the contracted settlement rates. On the other hand, call/put options may not have to be exercised at all in cases where the strike price is higher/lower than the related market price at exercise dates.

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

|  | 2006                |                 | December 31,        |                 | 2007    |
|--|---------------------|-----------------|---------------------|-----------------|---------|
|  | Carrying Value NT\$ | Fair Value NT\$ | Carrying Value NT\$ | Fair Value NT\$ | US\$    |
| <b>(in thousands)</b>                                  |                     |                 |                     |                 |         |
| <b>Assets</b>  |                     |                 |                     |                 |         |
| Cash and cash equivalents                              | 5,895,904           | 5,895,904       | 5,133,580           | 5,133,580       | 158,297 |
| Restricted cash and cash equivalents                   | 65,060              | 65,060          | 86,975              | 86,975          | 2,682   |
| Financial assets at fair value through profit and loss | 1,929,123           | 1,929,123       | 555,608             | 555,608         | 17,133  |
| Notes receivable                                       | 31,103              | 31,103          | 28,032              | 28,032          | 864     |
| Accounts receivable:                                   |                     |                 |                     |                 |         |
| Related parties  | 1,839,130           | 1,839,130       | 1,498,833           | 1,498,833       | 46,217  |
| Third parties  | 3,190,520           | 3,190,520       | 3,795,838           | 3,795,838       | 117,047 |
| Other receivables:                                     |                     |                 |                     |                 |         |
| Related parties  | 13,958              | 13,958          | 11,922              | 11,922          | 368     |
| Third parties  | 31,812              | 31,812          | 31,176              | 31,176          | 961     |
| Long-term investments                                  | 366,742             | 366,742         | 358,017             | 358,017         | 11,039  |
| Restricted cash and cash equivalents                   | 29,633              | 29,633          | 29,983              | 29,983          | 925     |
| Refundable deposits                                    | 30,604              | 30,604          | 36,513              | 36,513          | 1,126   |
| Long-term accounts receivable-related parties          |                     |                 | 449,827             | 429,675         | 13,249  |
| <b>Liabilities</b>                                     |                     |                 |                     |                 |         |
| Bank loans   | 1,055,310           | 1,055,310       | 1,249,196           | 1,249,196       | 38,520  |
| Accounts payable:                                      |                     |                 |                     |                 |         |
| Third parties  | 803,026             | 803,026         | 976,147             | 976,147         | 30,100  |
| Other payables:  |                     |                 |                     |                 |         |
| Related parties  | 25                  | 25              | 13                  | 13              |         |
| Third parties  | 549,597             | 549,597         | 604,145             | 604,145         | 18,629  |
| Payables to contractors and equipment suppliers        | 993,191             | 993,191         | 454,075             | 454,075         | 14,002  |
| Convertible notes (including current portion)          | 5,133,837           | 4,894,399       | 5,090,490           | 5,001,763       | 154,233 |
| Long-term loans (including current portion)            | 13,024,064          | 13,024,064      | 12,934,373          | 12,934,373      | 398,840 |
| Guarantee deposits                                     | 5,834               | 5,834           | 7,458               | 7,458           | 230     |



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## 22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Fair values of financial instruments were determined as follows:

- 1) Short-term financial instruments market values.
- 2) Financial assets at fair value through profit and loss market values.
- 3) Long-term investments market value for listed companies and net equity value for the others.
- 4) Refundable deposits and guarantee deposits future values.
- 5) Long-term accounts receivable-related parties discounted at applicable interest rate.
- 6) Long-term liabilities based on forecasted cash flows discounted at current interest rates of similar long-term liabilities. The fair value of convertible notes in 2006 and 2007 is determined by an option pricing model. Other long-term liabilities are their carrying values as they use floating interest rates.

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

## 23. SEGMENT AND GEOGRAPHIC INFORMATION

The Company engages mainly in the research and development, manufacturing, assembly and testing of semiconductors. In accordance with Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information ( SFAS No.131 ), the Company's chief operating decision maker has been identified as the Chief Executive Officer, who reviews these segment results by Testing, Assembly, Testing and Assembly for LCD and other Flat-Panel Display Driver Semiconductors when making decisions about allocating resources and assessing the performance of the Company. Financial segment information required by SFAS No. 131 is as follows:

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

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

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

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## 23. SEGMENT AND GEOGRAPHIC INFORMATION (continued)

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

  

|                                | 2007            |                  |             |                           |                                     |            | Consolidated Totals<br>US\$ |
|--------------------------------|-----------------|------------------|-------------|---------------------------|-------------------------------------|------------|-----------------------------|
|                                | Testing<br>NT\$ | Assembly<br>NT\$ | LCD<br>NT\$ | Segment<br>Totals<br>NT\$ | Corporate &<br>Other Assets<br>NT\$ |            |                             |
|                                | (in thousands)  |                  |             |                           |                                     |            |                             |
| Revenue from customers         | 11,502,373      | 8,099,620        | 3,995,605   | 23,597,598                | 23,597,598                          |            | 727,647                     |
| Cost of revenues               | 7,127,346       | 6,627,463        | 3,689,255   | 17,444,064                | 17,444,064                          |            | 537,899                     |
| Segment gross profit           | 4,375,027       | 1,472,157        | 306,350     | 6,153,534                 | 6,153,534                           |            | 189,748                     |
| Depreciation and amortization  | 3,939,196       | 1,163,274        | 1,702,966   | 6,805,436                 | 29,351                              | 6,834,787  | 210,755                     |
| Segment assets                 | 15,239,767      | 7,506,816        | 7,269,080   | 30,015,663                | 15,300,422                          | 45,316,085 | 1,397,351                   |
| Expenditure for Segment assets | 3,057,523       | 2,066,121        | 968,946     | 6,092,590                 | 1,181                               | 6,093,771  | 187,905                     |

The corporate and other assets consist of the total current assets, long-term investments, property and equipment located in the U.S. and Japan, intangible assets and other assets.

## b. Net revenue:

| Area   | Year Ended December 31, |              |              |         |
|--------|-------------------------|--------------|--------------|---------|
|        | 2005<br>NT\$            | 2006<br>NT\$ | 2007<br>NT\$ | US\$    |
|        | (in thousands)          |              |              |         |
| ROC    | 11,953,905              | 15,870,717   | 16,965,381   | 523,139 |
| U.S.   | 1,702,629               | 3,061,059    | 5,058,246    | 155,974 |
| Korea  | 535,134                 | 660,738      | 599,448      | 18,484  |
| Japan  | 482,587                 | 541,961      | 223,095      | 6,879   |
| Others | 539,726                 | 240,712      | 751,428      | 23,171  |

|            |            |            |         |
|------------|------------|------------|---------|
| 15,213,981 | 20,375,187 | 23,597,598 | 727,647 |
|------------|------------|------------|---------|

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## 23. SEGMENT AND GEOGRAPHIC INFORMATION (continued)

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

|                         | 2005           |    | Year Ended December 31, |    |                |                | 2007    |
|-------------------------|----------------|----|-------------------------|----|----------------|----------------|---------|
|                         | Amount<br>NT\$ | %  | Amount<br>NT\$          | %  | Amount<br>NT\$ | Amount<br>US\$ |         |
|                         | (in thousands) |    |                         |    |                |                |         |
| <b>Customer</b>         |                |    |                         |    |                |                |         |
| ProMOS                  | 4,332,058      | 28 | 5,529,273               | 27 | 6,883,749      | 29             | 212,265 |
| Spansion                | 500,244        | 3  | 1,808,486               | 9  | 3,698,010      | 16             | 114,031 |
| Powerchip               | 2,233,504      | 15 | 2,834,956               | 14 | 2,378,538      | 10             | 73,344  |
| Himax Technologies Inc. | 1,325,766      | 9  | 2,245,355               | 11 | 1,708,242      | 7              | 52,675  |

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

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

- a. Bonuses to employees, directors and supervisors

According to ROC regulations and the Articles of Incorporation of ChipMOS Taiwan, a portion of distributable earnings should be appropriated as bonuses to employees and remuneration to directors and supervisors of ChipMOS Taiwan. The remuneration to directors and supervisors is paid in cash, while bonuses to employees may be granted in cash or stock or both. ChipMOS Bermuda's portion of these appropriations is charged to earnings of ChipMOS Bermuda under ROC GAAP based on the amount to be paid as provided by ChipMOS Taiwan's Articles of Incorporation and is presented as a separate line item below minority interest in the accompanying consolidated statements of operations. During 2007, ChipMOS Taiwan and ThaiLin paid NT\$391,067 thousand (2006: NT\$241,734 thousand, 2005: NT\$165,744 thousand) and NT\$82,301 thousand (2006: NT\$73,552 thousand, 2005: NT\$56,622 thousand), respectively, in bonuses to directors, supervisors and employees.

- b. Financial assets

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



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

c. Long-term investments

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

Under the equity method, the Company's proportionate share of the income (loss) of the investee is generally recognized in the year the income (loss) is earned. However, under ROC GAAP, if audited financial statements of an investee were not available for the Company to apply the equity method due to time constraints and such equity interests were below a certain materiality threshold, the Company was permitted to delay the recognition of income (loss) until the following year. Under U.S. GAAP, there are no provisions that allow the investor company to delay recognition of its equity in the investee's income or loss. The 2006 U.S. GAAP adjustments represent the proportionate share of loss of long-term investment in 2006. In 2005 and 2007, there was no such difference.

d. Technologies transferred in payment of capital stock

Pursuant to a Joint Venture Agreement entered into between MVI and SPIL on July 28, 1997, MVI and SPIL contributed, as payment for their subscription in the shares of stock of ChipMOS Taiwan, technologies relating to the testing and assembly of semiconductors at an agreed value of NT\$750,000 thousand. Under ROC GAAP, such technology transfers in payment of capital stock are recorded as an intangible asset, and amortized by systematic charges to income over the periods estimated to be benefited. As permitted under ROC GAAP, the Company uses a five-year amortization period. Under U.S. GAAP, the technology contribution cannot be recognized due to the unavailability of a fair value for the technologies. Therefore, the carrying value of the technologies has been adjusted to zero under U.S. GAAP.

e. Start-up costs

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

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

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

g. Transfer of building and facilities from MVI

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



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

h. Inventory

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

i. Capital surplus

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

j. Impairment of long-lived assets

Under U.S. GAAP, impairment losses for assets to be held and used are recorded in current period earnings and create a new cost basis for related assets going forward, and cannot be reversed subsequently. Under U.S. GAAP, in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", long-lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of evaluating the recoverability of long-lived assets, the recoverability test is performed by comparing undiscounted net cash flows of the assets to the net book value of the assets. If the recoverability test indicates that impairment has occurred, the impairment loss is the amount of the asset's net book value in excess of the related fair value. Prior to January 1, 2005, there is no requirement to provide for impairment of long-lived assets under ROC GAAP. Therefore, the Company applied U.S. GAAP to evaluate the long-lived assets for impairment purposes in 2004. In 2005, the adjustment for impairment of long-term investment represented the additional impairment to be recognized after the reversal of amortization of goodwill in respect of the long-term investment. In 2006, the adjustment represented the reversal of impairment loss recognized under ROC GAAP that was already recognized under U.S. GAAP in 2005. There is no difference in 2007.

k. Stock bonus and dividends

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

l. Earnings per share (EPS)

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

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

m. Interest capitalization

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

n. Goodwill and negative goodwill

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

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

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

o. Allowance for loss and scrap loss on inventories

ROC GAAP does not specify the classification of allowance for loss on inventories; therefore, the recovery of allowance for loss on inventories of NT\$74,581 thousand (US\$2,300 thousand) for 2005 has been classified under non-operating income. Under U.S. GAAP, the allowance for loss on inventories should be classified in the income statement as a component of cost of revenue.

ROC GAAP does not specify the classification of scrap loss on inventories; therefore, in 2005, NT\$75,602 thousand (US\$2,331 thousand) has been classified under non-operating expense. Under U.S. GAAP, the scrap of inventories should be classified in the income statement as a component of cost of revenue.

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

p. Convertible notes

Under ROC GAAP, there is no requirement to account for the fair value of a conversion feature embedded in CN due 2009 as it was issued before January 1, 2006. Under U.S. GAAP, the Company accounts for the fair value of the conversion feature of its convertible notes in accordance with SFAS No. 133 Accounting For Derivative Instruments And Hedging Activities ( SFAS No.133 ) and related pronouncements, which require the Company to bifurcate and separately account for the conversion feature as embedded derivatives contained in the Company s convertible notes. The Company carried these embedded derivatives on its balance sheet at fair value and changes in fair values of these embedded derivatives are reflected in the consolidated statement of operations. Commencing January 1, 2006, ROC GAAP requires the Company to bifurcate and separately account for put and call option features contained in the Company s convertible notes issued after 2005. The Company issued convertible notes (CN due 2011) on September 29, 2006. The Company carried the put and call options of the CN due 2011 on the balance sheet at fair value with changes in fair values reflected in the consolidated statement of operations. The other conversion features are recorded in equity (see Note 25 i)

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

q. Share-based payments

Under ROC GAAP, the Company follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ( APB No. 25 ), in accounting for its employee stock option plans. Under APB No. 25, when the exercise price of the Company s stock options is less than the market price of the underlying shares on the date of grant, compensation expense is recognized. Under U.S. GAAP, commencing from January 1, 2006, the Company applies SFAS No. 123(R) Share-Based Payment ( SFAS No.123(R) ), Emerging Issues Task Force No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services ( EITF No. 96-18 ), with respect to options and warrants issued to non-employees. SFAS No. 123(R) requires the use of option valuation models to measure the fair value of the options and warrants at the measurement date as defined in EITF No. 96-18. The total stock-based compensation expense resulting from stock options was included in general and administrative expenses in the consolidated statements of operations.

r. Defined Benefit Pension Plans

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

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

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

|   | 2005<br>NT\$     | Year Ended December 31, |                  | US\$           |
|---|------------------|-------------------------|------------------|----------------|
|   |                  | 2006<br>NT\$            | 2007<br>NT\$     |                |
|   | (in thousands)   |                         |                  |                |
| <b>Net income</b>   |                  |                         |                  |                |
| Net income based on ROC GAAP  | 928,203          | 2,121,342               | 2,219,202        | 68,431         |
| <b>Adjustments:</b>   |                  |                         |                  |                |
| Amortization of deferred charge   |                  | (4,935)                 | (19,722)         | (608)          |
| Amortization of start-up costs  | 2,305            | 2,237                   | 2,198            | 68             |
| Pension expenses  |                  |                         | (10,773)         | (332)          |
| Depreciation of property, plant and equipment and employee dormitory building | (14,957)         | (22,200)                | (48,681)         | (1,501)        |
| Transfer of building and facilities from MVI                                  | 1,075            | 741                     | 289              | 9              |
| Marketable securities trading   | (9,604)          | 2,613                   |                  |                |
| Interest capitalization   | (33,858)         | (19,793)                | (17,592)         | (543)          |
| Accrual for bonuses to employees, directors and supervisors                   | (269,003)        | (314,485)               | (143,952)        | (4,439)        |
| Reversal of goodwill amortization   | 62,362           |                         |                  |                |
| (Impairment loss) reversal of impairment loss on long-term investment         | (79,363)         | 33,130                  |                  |                |
| Stock bonus   | (61,632)         |                         |                  |                |
| Effect of U.S. GAAP adjustments on income taxes                               | 13,598           | 10,512                  | 11,547           | 356            |
| Adjustment for uncertain tax positions  |                  |                         | (35,260)         | (1,087)        |
| Stock-based compensation  |                  | (90,870)                | (173,501)        | (5,350)        |
| Amortization of discount on convertible notes                                 | (72,480)         | (237,497)               | (114,132)        | (3,519)        |
| Gain (loss) on embedded derivative liabilities                                | 149,732          | (394,646)               | 1,180,834        | 36,411         |
| Loss on redemption of convertible notes                                       |                  | (10,549)                | (21,523)         | (664)          |
| Minority interests  | 186,643          | 193,635                 | 72,736           | 2,243          |
| Equity accounting for long-term investment                                    | 2,362            | (16,129)                |                  |                |
| <b>Net increase (decrease) in net income</b>                                  | <b>(122,820)</b> | <b>(868,236)</b>        | <b>682,468</b>   | <b>21,044</b>  |
| <b>Net income based on U.S. GAAP</b>  | <b>805,383</b>   | <b>1,253,106</b>        | <b>2,901,670</b> | <b>89,475</b>  |
| <b>Earnings per share - basic</b>   | <b>11.92</b>     | <b>18.22</b>            | <b>36.13</b>     | <b>1.11</b>    |
| <b>Earnings per share - diluted</b>   | <b>11.21</b>     | <b>17.52</b>            | <b>21.07</b>     | <b>0.65</b>    |
| <b>Number of weighted average shares outstanding - basic</b>                  | <b>67,546</b>    | <b>68,781</b>           | <b>80,305</b>    | <b>80,305</b>  |
| <b>Number of weighted average shares outstanding - diluted</b>                | <b>82,572</b>    | <b>71,504</b>           | <b>108,207</b>   | <b>108,207</b> |

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

December 31,  
2005      2006      2007  
(in thousands)

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|                          |        |        |         |
|--------------------------|--------|--------|---------|
| Basic number of shares   | 67,546 | 68,781 | 80,305  |
| Add: Stock options       | 1,602  | 2,723  | 2,174   |
| Convertible notes        | 13,424 |        | 25,728  |
| Diluted number of shares | 82,572 | 71,504 | 108,207 |

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

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

|   | Year Ended December 31, |              |              |          |
|---|-------------------------|--------------|--------------|----------|
|   | 2005<br>NT\$            | 2006<br>NT\$ | 2007<br>NT\$ | US\$     |
|   | (in thousands)          |              |              |          |
| Net income based on U.S. GAAP   | 805,383                 | 1,253,106    | 2,901,670    | 89,475   |
| Add: Amortization of discount on convertible notes  | 72,480                  |              | 357,472      | 11,023   |
| Interest expense (net of tax)   | 48,062                  |              | 151,897      | 4,684    |
| Loss (gain) on embedded derivative  |                         |              | (1,191,838)  | (36,751) |
| Loss on redemption of convertible notes   |                         |              | 21,523       | 664      |
| Amortization of deferred charge on convertible notes  |                         |              | 38,799       | 1,196    |
| Income available to common stockholders adjusted for the effects of assumed exercise of options and conversion of notes | 925,925                 | 1,253,106    | 2,279,523    | 70,291   |

Shareholders equity

|   |            |            |            |          |
|---|------------|------------|------------|----------|
| Shareholders equity based on ROC GAAP   | 19,091,961 | 22,884,867 | 22,248,128 | 686,036  |
| Adjustments:  |            |            |            |          |
| Technology transfer in payment of capital stock                               |            |            |            |          |
| Original cost   | (750,000)  | (750,000)  | (750,000)  | (23,127) |
| Accumulated amortization of technology transfer in payment of capital stocks  | 750,000    | 750,000    | 750,000    | 23,127   |
| Start-up costs  |            |            |            |          |
| Original cost   | (61,107)   | (60,151)   | (51,408)   | (1,585)  |
| Accumulated amortization of start-up costs                                    | 53,400     | 54,668     | 48,107     | 1,483    |
| Net effect on inventories   | (53)       | (40)       | (25)       | (1)      |
| Depreciation of property, plant and equipment and employee dormitory building | (100,388)  | (122,589)  | (171,269)  | (5,281)  |
| Transfer of building and facilities from MVI                                  |            |            |            |          |
| Original cost   | (173,174)  | (173,174)  | (173,174)  | (5,340)  |
| Depreciation and gain on disposal of building and facilities from MVI         | 169,155    | 169,883    | 170,163    | 5,247    |
| Net effect on inventories   | (26)       | (13)       | (4)        |          |
| Unrealized holding gain on available-for-sale securities                      | 5,648      |            |            |          |
| Accrual for bonuses to employees, directors and supervisors                   | (269,003)  | (459,539)  | (434,261)  | (13,391) |
| Pension expenses  | (1,898)    | (65,293)   | (226,896)  | (6,996)  |
| Marketable securities trading   | (2,613)    |            |            |          |
| Reversal of goodwill amortization   | 62,362     |            |            |          |
| Impairment loss on long-term investment                                       | (79,363)   |            |            |          |
| Interest capitalization   | 118,757    | 118,757    | 118,757    | 3,662    |
| Amortization of interest capitalization                                       | (76,793)   | (96,586)   | (114,178)  | (3,521)  |
| Effect of U.S. GAAP adjustments on income taxes                               | 11,301     | 21,813     | 33,360     | 1,028    |
| Adjustment for uncertain tax positions  |            |            | (35,260)   | (1,087)  |
| Equity component of convertible notes   |            | (271,509)  | (268,852)  | (8,290)  |
| Loss on redemption of convertible notes                                       |            | (10,549)   | (32,072)   | (989)    |
| Amortization of deferred charge   |            | (4,935)    | (24,657)   | (760)    |
| Amortization of discount on convertible notes                                 | (72,480)   | (309,977)  | (423,498)  | (13,059) |
| Gain on embedded derivative liabilities                                       | 149,732    | (244,914)  | 935,920    | 28,859   |
| Minority interests  |            |            | 52,007     | 1,604    |



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|   |            |             |            |          |
|---|------------|-------------|------------|----------|
| Net decrease in shareholders' equity    | (266,543)  | (1,454,148) | (597,240)  | (18,417) |
| Shareholders' equity based on U.S. GAAP | 18,825,418 | 21,430,719  | 21,650,888 | 667,619  |

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

|  | Year Ended December 31, |              |              | US\$      |
|--|-------------------------|--------------|--------------|-----------|
|  | 2005<br>NT\$            | 2006<br>NT\$ | 2007<br>NT\$ |           |
| (in thousands)   |                         |              |              |           |
| <u>Changes in shareholders' equity based on U.S. GAAP</u>              |                         |              |              |           |
| Balance, beginning of the year   | 17,225,557              | 18,825,418   | 21,430,719   | 660,830   |
| Issuance of shares   |                         |              | 2,603,379    | 80,277    |
| Issuance of option warrants  |                         | (1,088)      | 24,080       | 742       |
| Effect of merger   | (39,768)                |              |              |           |
| Exercise of option warrants  | 40,418                  | 131,268      | 89,850       | 2,770     |
| Forfeiture of option warrants  | 21,477                  |              |              |           |
| Adjustment arising from change in ownership percentage in subsidiaries | (26,046)                | 86,316       |              |           |
| Reversal of unrealized loss (gain) on available-for-sale securities    | 5,648                   | (5,648)      |              |           |
| Stock-based compensation   |                         | 90,870       | 173,501      | 5,350     |
| Cumulative translation adjustments                                     | 186,313                 | 78,345       | 209,390      | 6,457     |
| Net income for the year  | 805,383                 | 1,253,106    | 2,901,670    | 89,475    |
| Adjustment of equity method for long-term investment                   | (54,178)                | 1,178        | (268,625)    | (8,283)   |
| Unrecognized pension expenses  |                         | (44,643)     | (161,134)    | (4,969)   |
| Adjustment for stock bonus   | 12,827                  |              |              |           |
| Conversion of convertible notes  |                         | 225,840      |              |           |
| Minority interests   | 647,787                 | 789,757      | (5,351,942)  | (165,030) |
| Balance, end of the year   | 18,825,418              | 21,430,719   | 21,650,888   | 667,619   |

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

|  | December 31, |              | US\$    |
|--|--------------|--------------|---------|
|  | 2006<br>NT\$ | 2007<br>NT\$ |         |
| (in thousands)                               |              |              |         |
| <u>Current assets</u>                        |              |              |         |
| As reported                                  | 14,232,559   | 12,605,149   | 388,688 |
| U.S. GAAP adjustments                        |              |              |         |
| Effect of inventory adjustments:             |              |              |         |
| Start-up costs                               | (40)         | (25)         | (1)     |
| Depreciation of fixed assets                 | 371          | 666          | 21      |
| Transfer of building and facilities from MVI | (13)         | (4)          |         |
| Adjustment for uncertain tax positions       |              | (2,387)      | (74)    |
| As adjusted                                  | 14,232,877   | 12,603,399   | 388,634 |
| <u>Property, plant and equipment - net</u>   |              |              |         |
| As reported                                  | 30,494,323   | 30,020,432   | 925,699 |
| U.S. GAAP adjustments                        |              |              |         |
| Start-up costs                               | (5,483)      | (3,301)      | (102)   |
| Depreciation of fixed assets                 | (134,821)    | (182,165)    | (5,617) |
| Transfer of building and facilities from MVI | (3,291)      | (3,011)      | (93)    |

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|   |            |            |         |
|---|------------|------------|---------|
| Interest capitalization                     | 47,195     | 29,603     | 913     |
| Negative goodwill                           | (20,275)   |            |         |
| As adjusted                                 | 30,377,648 | 29,861,558 | 920,800 |
| <b>Other assets</b>                         |            |            |         |
| As reported                                 | 565,270    | 2,152,053  | 66,361  |
| <b>U.S. GAAP adjustments</b>                |            |            |         |
| Depreciation of employee dormitory building | (13,163)   | (14,794)   | (456)   |
| Deferred charge                             |            | 73,284     | 2,259   |
| Goodwill                                    |            | 52,007     | 1,604   |
| As adjusted                                 | 552,107    | 2,262,550  | 69,768  |

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

|   | 2006<br>NT\$      | December 31,<br>2007<br>NT\$<br>(in thousands) | US\$           |
|---|-------------------|--|----------------|
| <b>Current liabilities</b>                                  |                   |  |                |
| As reported   | 6,747,480         | 11,374,186                                     | 350,730        |
| U.S. GAAP adjustments                                       |                   |  |                |
| Fair value of embedded derivative liabilities               |                   | (10,602)                                       | (327)          |
| Discount on convertible notes                               |                   | 41,421   | 1,277          |
| Accrual for bonuses to employees, directors and supervisors | 459,539           | 434,261  | 13,391         |
| <b>As adjusted</b>  | <b>7,207,019</b>  | <b>11,839,266</b>                              | <b>365,071</b> |
| <b>Long-term liabilities</b>                                |                   |  |                |
| As reported   | 15,900,519        | 11,323,710                                     | 349,174        |
| U.S. GAAP adjustments                                       |                   |  |                |
| Loss on redemption of convertible notes                     | 10,549            | 26,485   | 817            |
| Equity component of convertible notes                       | 370,209           | 5,859  | 180            |
| Fair value of embedded derivative liabilities               | 244,914           | (651,593)                                      | (20,092)       |
| Amortization of discount on convertible notes               | 309,977           | 474,873  | 14,643         |
| <b>As adjusted</b>  | <b>16,836,168</b> | <b>11,179,334</b>                              | <b>344,722</b> |
| <b>Other liabilities</b>                                    |                   |  |                |
| As reported   | 478,999           | 370,061  | 11,411         |
| U.S. GAAP adjustments                                       |                   |  |                |
| Pension   | 65,293            | 226,896  | 6,996          |
| Effect of U.S. GAAP adjustments on income taxes             | (21,813)          | (33,360)                                       | (1,028)        |
| Negative goodwill   | (20,275)          |  |                |
| Adjustments for uncertain tax positions                     |                   | 32,873   | 1,014          |
| <b>As adjusted</b>  | <b>502,204</b>    | <b>596,470</b>                                 | <b>18,393</b>  |

As a result of the adjustments presented above, the approximate amounts of total assets under U.S. GAAP were NT\$45,976,110 thousand and NT\$45,265,958 thousand as of December 31, 2006, and 2007, respectively.

The following U.S. GAAP condensed statements of operations for the years ended December 31, 2005, 2006 and 2007 have been derived from the audited financial statements and reflect the adjustments presented above. Certain accounts have been reclassified to conform to U.S. GAAP.

|                     | 2005<br>NT\$     | Year Ended December 31,<br>2006<br>2007<br>NT\$<br>NT\$<br>(in thousands) |                  | US\$           |
|---------------------|------------------|---|------------------|----------------|
| Net revenue         | 15,213,981       | 20,375,187  | 23,597,598       | 727,647        |
| Cost of revenue     | 11,273,617       | 14,270,950  | 17,496,720       | 539,523        |
| <b>Gross profit</b> | <b>3,940,364</b> | <b>6,104,237</b>  | <b>6,100,878</b> | <b>188,124</b> |
| Operating expenses  | 1,837,689        | 1,769,838   | 2,114,723        | 65,209         |

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|                                     |           |           |           |         |
|-------------------------------------|-----------|-----------|-----------|---------|
| Income from operations              | 2,102,675 | 4,334,399 | 3,986,155 | 122,915 |
| Non-operating income (expenses) net | (478,833) | (849,536) | 354,734   | 10,939  |
| Income before income tax            | 1,623,842 | 3,484,863 | 4,340,889 | 133,854 |
| Net income                          | 805,383   | 1,253,106 | 2,901,670 | 89,475  |

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25. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP

a. Recent accounting pronouncements

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

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

The FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments* ( SFAS No. 155 ), in February 2006. SFAS No. 155 amends SFAS No. 133, and SFAS No. 140 *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* and addresses the application of SFAS No. 133 to beneficial interests in securitized financial assets. SFAS No. 155 establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. Additionally, SFAS No. 155 permits fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS No. 155 is effective for fiscal years beginning after September 15, 2006. The adoption of SFAS No. 155 has no impact on the consolidated financial statements.

The FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets* an amendment of FASB Statement No. 140 ( SFAS No. 156 ), in March 2006. SFAS No. 156 requires a company to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset. A company would recognize a servicing asset or servicing liability initially at fair value. A company will then be permitted to choose to subsequently recognize servicing assets and liabilities using the amortization method or fair value measurement method. SFAS No. 156 is effective for fiscal years beginning after September 15, 2006. The adoption of SFAS No. 155 has no impact on the consolidated financial statements.

Effective January 1, 2007, the Company adopted Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* - an interpretation of FASB Statement No. 109 ( FIN 48 ). FIN 48 prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions and income tax disclosures. The adoption of this interpretation has no impact to beginning retained earnings.

Uncertain tax positions have been classified as non-current income tax liabilities unless expected to be paid in one year. The Company's policy for interest and penalties related to income tax exposures is to recognize interest and penalties as a component of the provision of income taxes in the consolidated statement of operations.

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## 25. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

## a. Recent accounting pronouncements (continued)

The Company is potentially subject to income tax audits in the ROC and internationally until the applicable statute of limitations expire. Tax audits by their nature are often complex and can require several years to complete. The following is a summary of tax years, potentially subject to examination, in the significant tax and business jurisdictions in which the Company operates:

| Jurisdiction               | Tax Years Subject to Examination |
|----------------------------|----------------------------------|
| Republic of China          | 5 Years                          |
| United States              | 3 Years                          |
| Hong Kong                  | 6 Years                          |
| People's Republic of China | Unlimited                        |

Upon adoption of FIN 48 on January 1, 2007, the Company increased the allowance for current tax assets by NT\$2,387 thousand (US\$74 thousand) and increased long-term tax payable by NT\$32,873 thousand (US\$1,014 thousand) as FIN 48 specifies that tax positions for which the timing of the ultimate resolution is uncertain should be recognized as long-term liabilities.

The aggregate changes in the balance of gross unrecognized tax benefits were as follows:

|  | NT\$           | US\$  |
|--|----------------|-------|
|  | (in thousands) |       |
| Balance, January 1, 2007   |                |       |
| Increases in balances related to tax positions taken during prior periods  | 15,878         | 490   |
| Increases in balances related to tax positions taken during current period | 9,233          | 285   |
| Penalties associated with the tax effect of the uncertain tax position     | 10,149         | 313   |
| Balance, December 31, 2007   | 35,260         | 1,088 |

The Company's subsidiaries are currently under examination by the relevant tax authorities for various tax years. The Company regularly assesses the potential outcome of these examinations in each of the taxing jurisdictions when determining the adequacy of the amount of unrecognized tax benefit recorded. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, we believe we have appropriately accrued for our uncertain tax benefits. However, audit outcomes and timing of audit settlements and future events that would impact the previously recorded unrecognized tax benefits and the range of anticipated increases or decreases in unrecognized tax benefits are subject to significant uncertainty. It is possible that the ultimate outcome of current or future examinations may exceed current unrecognized tax benefits in amounts that could be material, but cannot be estimated as of December 31, 2007. The effective tax rate and net income in any given future period could therefore be materially impacted.

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

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## 25. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

## a. Recent accounting pronouncements (continued)

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities* including an amendment of FAS 115 ( SFAS No. 159 ), which allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in earnings. SFAS No. 159 also establishes presentation and disclosure requirements designed to draw comparison between entities that elect different measurement attributes for similar assets and liabilities. SFAS No. 159 is effective for the first fiscal year beginning after November 15, 2007. The Company is currently assessing the impact SFAS No. 159 will have on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* an amendment of ARB No. 51 ( SFAS No.160 ). SFAS No. 160 requires that a noncontrolling interest in a subsidiary be reported as equity and the amount of consolidated net income specifically attributable to the noncontrolling interest be identified in the consolidated financial statements. It also calls for consistency in the manner of reporting changes in the parent's ownership interest and requires fair value measurement of any noncontrolling equity investment retained in a deconsolidation. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company is currently evaluating the impact adopting SFAS No. 160 will have on its consolidated financial condition, results of operations, and cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ( SFAS No.141(R) ). SFAS No. 141(R) broadens the guidance of SFAS No. 141, extending its applicability to all transactions and other events in which one entity obtains control over one or more other businesses. It broadens the fair value measurement and recognition of assets acquired, liabilities assumed, and interests transferred as a result of business combinations. SFAS No. 141(R) expands on required disclosures to improve the statement users' abilities to evaluate the nature and financial effects of business combinations. SFAS No. 141(R) is effective for the first annual reporting period beginning on or after December 15, 2008. The Company is currently evaluating the impact SFAS No. 141(R) will have on its consolidated financial statements and does not expect the adoption of SFAS No. 141(R) to have a material effect on its consolidated financial condition, results of operations, or cash flows.

## b. Goodwill

|   | December 31,   |              |        |
|---|----------------|--------------|--------|
|   | 2006<br>NT\$   | 2007<br>NT\$ | US\$   |
|   | (in thousands) |              |        |
| Balance, January 1, 2007  | 127,567        | 128,455      | 3,961  |
| Arising from acquisition of additional interest in a subsidiary | 888            | 840,733      | 25,925 |
| Balance, December 31, 2007                                      | 128,455        | 969,188      | 29,886 |



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## 25. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

## c. Income tax expense

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

|         | Year Ended December 31, |              |              | US\$     |
|---------|-------------------------|--------------|--------------|----------|
|         | 2005<br>NT\$            | 2006<br>NT\$ | 2007<br>NT\$ |          |
|         | (in thousands)          |              |              |          |
| Bermuda | (104,290)               | (1,000,678)  | 328,336      | 10,125   |
| ROC     | 1,995,544               | 4,839,755    | 4,533,334    | 139,788  |
| Others  | (267,412)               | (354,214)    | (520,781)    | (16,059) |
|         | 1,623,842               | 3,484,863    | 4,340,889    | 133,854  |

Income tax expense consists of:

|  | Year Ended December 31, |              |              | US\$    |
|--|-------------------------|--------------|--------------|---------|
|  | 2005<br>NT\$            | 2006<br>NT\$ | 2007<br>NT\$ |         |
|  | (in thousands)          |              |              |         |
| Income tax for the current year        |                         |              |              |         |
| Bermuda                                | 81,909                  | 89,895       | 347,107      | 10,703  |
| ROC                                    | 90,756                  | 296,878      | 406,463      | 12,534  |
| Others                                 | 434                     | 262          | (69,873)     | (2,155) |
|  | 173,099                 | 387,035      | 683,697      | 21,082  |
| Deferred income tax                    |                         |              |              |         |
| Bermuda                                |                         |              |              |         |
| ROC                                    | (59,424)                | 243,625      | 18,062       | 557     |
| Others                                 | (15,647)                |              | 57,221       | 1,764   |
|  | (75,071)                | 243,625      | 75,283       | 2,321   |
| Adjustment of prior years income taxes | 323                     | (4,673)      | 32,968       | 1,017   |
| Income tax expense                     | 98,351                  | 625,987      | 791,948      | 24,420  |

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

|  | Year Ended December 31, |              |              | US\$   |
|--|-------------------------|--------------|--------------|--------|
|  | 2005<br>NT\$            | 2006<br>NT\$ | 2007<br>NT\$ |        |
|  | (in thousands)          |              |              |        |
| Tax on pretax income at 0%                         |                         |              |              |        |
| Tax on pretax income at applicable statutory rates | 637,616                 | 1,350,042    | 1,447,850    | 44,645 |
| Additional 10% on the unappropriated earnings      | 163,838                 | 111,066      | 171,597      | 5,291  |
| Other tax and assessed additional income tax       | 746                     |              |              |        |
| Tax effects of:                                    |                         |              |              |        |

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|  |           |           |           |          |
|--|-----------|-----------|-----------|----------|
| Tax-exempt income                              | (175,422) | (196,026) | (59,661)  | (1,840)  |
| Permanent differences                          |           |           |           |          |
| Non-taxable (gain)/loss on sales of investment | (11,106)  | 32,130    | (9,748)   | (301)    |
| Non-deductible investment losses               | 104,639   | (117,131) | (25,439)  | (784)    |
| Non-deductible expense                         | 70,580    | (1,221)   | (1,027)   | (32)     |
| Temporary differences                          | (173,673) |           | 2,427     | 75       |
| Tax credits utilized                           | (218,672) | (506,285) | (723,594) | (22,312) |
| deferred                                       | 76,611    | (206,923) | 172,174   | 5,309    |
| Valuation allowance                            | (405,487) | 284,392   | (248,472) | (7,662)  |
| Loss recognized                                |           | (6,764)   | 4,125     | 127      |
| Losses carried forward                         | 28,358    | (246,352) | (4,125)   | (127)    |
| Losses carried forward deferred                |           | 133,732   |           |          |
| Adjustment of prior year's income tax          | 323       | (4,673)   | 65,841    | 2,031    |
| Income tax expense                             | 98,351    | 625,987   | 791,948   | 24,420   |

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## 25. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

## c. Income tax expense (continued)

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

|   | 2006<br>NT\$ | December 31,<br>2007<br>NT\$<br>(in thousands) | US\$     |
|---|--------------|--|----------|
| <u>Deferred income tax assets</u>                                     |              |  |          |
| Current   |              |  |          |
| Unrealized foreign exchange loss                                      | 3,679        | 2,321  | 72       |
| Tax credits   | 491          |  |          |
| Loss of market price decline and obsolete and slow-moving inventories | 19,026       | 13,734   | 423      |
| Unrealized loss on sale allowances                                    | 21,912       | 53,279   | 1,643    |
| Others  | 89,229       | 15,746   | 486      |
|   | 134,337      | 85,080   | 2,624    |
| Valuation allowance   |              | (2,387)  | (74)     |
|   | 134,337      | 82,693   | 2,550    |
| Non-current   |              |  |          |
| Unrealized impairment loss on idle fixed assets                       | 12,586       | 106  | 3        |
| Tax credits   | 1,117,985    | 946,302  | 29,180   |
| Losses carried forward  | 62,396       | 75,648   | 2,333    |
| Building  | 826          | 754  | 23       |
| Start-up costs  | 1,381        | 831  | 26       |
| Others  | 274,434      | 309,751  | 9,551    |
|   | 1,469,608    | 1,333,392                                      | 41,116   |
| Valuation allowances  | (1,079,494)  | (775,030)                                      | (23,899) |
|   | 390,114      | 558,362  | 17,217   |
| <u>Deferred income tax liabilities</u>                                |              |  |          |
| Non-current   |              |  |          |
| Depreciation differences  | (596,966)    | (698,001)                                      | (21,523) |
| Interest capitalization   | (11,799)     | (7,401)  | (228)    |
|   | (608,765)    | (705,402)                                      | (21,751) |
|   | (84,314)     | (64,347)                                       | (1,984)  |

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## 25. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

## d. Pension plans

The impact of the adoption of SFAS No. 158 has been reflected within the consolidated financial statements as follows:

|  | Year Ended December 31, |              |              |           |
|--|-------------------------|--------------|--------------|-----------|
|  | 2005<br>NT\$            | 2006<br>NT\$ | 2007<br>NT\$ | US\$      |
|  | (in thousands)          |              |              |           |
| <b>Components of net periodic benefit cost</b>                                   |                         |              |              |           |
| Service cost   | 30,021                  | 1,688        | 1,662        | 51        |
| Interest cost  | 8,159                   | 7,790        | 8,735        | 269       |
| Project return on plan assets  | (4,500)                 | (4,740)      | (5,500)      | (169)     |
| <b>Net amortization and deferral:</b>  |                         |              |              |           |
| Unrecognized net transition Obligation   | 53                      | 53           | (293)        | (9)       |
| Curtailement gain  | 1,031                   | 780          | 4,191        | 129       |
| <br>Net periodic benefit cost  | <br>34,764              | <br>5,571    | <br>8,795    | <br>271   |
| <br><b>Recognized in other comprehensive income:</b>                             |                         |              |              |           |
| Unrecognized net transition Obligation   |                         | 5            | (1,225)      | (37)      |
| Unrecognized actuarial loss  |                         | 44,638       | 162,359      | 5,006     |
| <br>Total recognized in other comprehensive income                               |                         | <br>44,643   | <br>161,134  | <br>4,969 |
| <br><b>Total recognized in total benefit cost and other comprehensive income</b> |                         | <br>50,214   | <br>169,929  | <br>5,240 |

The estimated net transition assets and actuarial loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into benefits cost in 2008 is NT\$117 thousand (US\$4 thousand) and NT\$6,816 thousand (US\$210 thousand), respectively.

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## 25. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

## d. Pension plans (continued)

|   | Year Ended December 31, |                  |                  | US\$           |
|---|-------------------------|------------------|------------------|----------------|
|   | 2005<br>NT\$            | 2006<br>NT\$     | 2007<br>NT\$     |                |
|   | (in thousands)          |                  |                  |                |
| <b>Changes in benefit obligation</b>                              |                         |                  |                  |                |
| Benefit obligation at beginning of year                           | 314,124                 | 283,253          | 317,646          | 9,795          |
| Effect of merger  | (63,064)                |                  |                  |                |
| Service cost  | 30,021                  | 1,688            | 1,662            | 51             |
| Interest cost   | 8,713                   | 7,781            | 8,735            | 269            |
| Actuarial loss  | (6,541)                 | 24,924           | 147,751          | 4,556          |
| <b>Benefit obligation at end of year</b>                          | <b>283,253</b>          | <b>317,646</b>   | <b>475,794</b>   | <b>14,671</b>  |
| <b>Changes in plan assets</b>                                     |                         |                  |                  |                |
| Fair value of plan assets at beginning of year                    | 174,349                 | 156,171          | 199,991          | 6,167          |
| Effect of merger  | (49,169)                |                  |                  |                |
| Actual return on plan assets                                      | 1,971                   | 4,165            | 5,955            | 184            |
| Employer contribution   | 29,892                  | 39,656           | 43,691           | 1,347          |
|   | 157,043                 | 199,992          | 249,637          | 7,698          |
| <b>Funds status</b>   | <b>(126,210)</b>        | <b>(117,654)</b> | <b>(226,157)</b> | <b>(6,973)</b> |
| <b>Unrecognized actuarial loss</b>                                | <b>42,654</b>           | <b>68,184</b>    | <b>(13,000)</b>  | <b>(401)</b>   |
| <b>Net amount recognized (recognized as accrued pension cost)</b> | <b>(83,556)</b>         | <b>(49,470)</b>  | <b>(239,157)</b> | <b>(7,374)</b> |

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

|  | 2006           |                | 2007        |              |
|--|----------------|----------------|-------------|--------------|
|  | NT\$           | NT\$           | NT\$        | US\$         |
|  | (in thousands) |                |             |              |
| Unrecognized net transition obligation (asset)                               | 7              | (3,323)        |             | (102)        |
| Unrecognized loss  | 63,388         | 217,548        |             | 6,708        |
| <b>Gross amount recognized</b>   | <b>63,395</b>  | <b>214,225</b> |             | <b>6,606</b> |
| Minority interests   | (18,752)       | (8,448)        |             | (261)        |
| <b>Total recognized in total benefit cost and other comprehensive income</b> | <b>44,643</b>  | <b>205,777</b> |             | <b>6,345</b> |
| <b>Actuarial assumptions</b>   | <b>2005</b>    | <b>2006</b>    | <b>2007</b> |              |
| Discount rate  | 2.75%          | 2.75%          | 2.75%       |              |
| Rate of compensation increase  | 3.25%          | 4.25%          | 4.25%       |              |
| Expected return on plan assets   | 2.75%          | 2.75%          | 2.75%       |              |

The accumulated benefit obligation for all defined benefit pension plans was NT\$142,436 thousand and NT\$232,107 thousand at December 31, 2006 and 2007, respectively.

There were no pension plans with an accumulated benefit obligation in excess of plan assets as of December 31, 2006 and 2007.

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

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## 25. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

## d. Pension plans (continued)

The fair value of the plan assets was NT\$199,992 thousand and NT\$249,637 thousand (US\$7,698 thousand) at December 31, 2006 and 2007, respectively. As of December 31, 2006 and 2007, these assets were allocated among asset categories as follows:

| Asset category     | 2006        | 2007        | Current minimum, target and maximum allocation policy |
|--------------------|-------------|-------------|---|
| Equity securities  | 22%         | 10%         | 11%   |
| Bonds              | 10%         | 13%         | 2%  |
| Notes              | 20%         | 12%         | 2%  |
| Government loans   | 3%          | 2%          | 2%  |
| Foreign investment |             | 6%          |   |
| Cash               | 45%         | 57%         | 2%  |
| <b>Total</b>       | <b>100%</b> | <b>100%</b> |   |

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

ChipMOS Taiwan and ThaiLin anticipate contributing NT\$29,429 thousand to their pension plans during 2008.

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

## e. Statements of cash flows

ROC SFAS No. 17, Statement of Cash Flows, has been applied. Its objectives and principles are similar to those set out in SFAS No. 95,

Statement of Cash Flows (SFAS No.95). The principal differences between the standards relate to classification. Summarized cash flow data by operating, investing and financing activities in accordance with SFAS No. 95 are as follows:

|  | Year Ended December 31, |              |              |              |
|--|-------------------------|--------------|--------------|--------------|
|  | 2005<br>NT\$            | 2006<br>NT\$ | 2007<br>NT\$ | 2007<br>US\$ |
| Net cash inflow (outflow) from:                    |                         |              |              |              |
| Operating activities                               | 5,904,713               | 6,271,447    | 10,322,132   | 318,290      |
| Investing activities                               | (4,963,293)             | (15,086,913) | (12,212,084) | (376,568)    |
| Financing activities                               | (1,261,258)             | 9,881,178    | 522,085      | 16,099       |
|  | (319,838)               | 1,065,712    | (1,367,867)  | (42,179)     |
| Effect of changes in foreign exchange rate         | 77,695                  | 12,848       | 38,787       | 1,196        |
| Cash and cash equivalents at the beginning of year | 4,849,146               | 4,607,003    | 5,685,563    | 175,318      |
| Cash and cash equivalents at the end of year       | 4,607,003               | 5,685,563    | 4,356,483    | 134,335      |

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f. Statements of comprehensive income

|  | Year Ended December 31, |              |              | US\$   |
|--|-------------------------|--------------|--------------|--------|
|  | 2005<br>NT\$            | 2006<br>NT\$ | 2007<br>NT\$ |        |
| Net income based on U.S. GAAP                  | 805,383                 | 1,253,106    | 2,901,670    | 89,475 |
| Other comprehensive income (loss):             |                         |              |              |        |
| Unrealized gain on available-for-sale security | 5,648                   | (5,648)      |              |        |
| Translation adjustment                         | 186,313                 | 78,345       | 209,390      | 6,457  |
| Comprehensive income                           | 997,344                 | 1,325,803    | 3,111,060    | 95,932 |

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## 25. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

## f. Statements of comprehensive income (continued)

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

## g. Statements of accumulated other comprehensive income (loss)

|                   | Unrecognized<br>Pension Costs<br>NT\$ | Unrealized<br>Holding Gain on<br>Available-for-sale<br>Securities<br>NT\$<br>(in thousands) | Translation<br>Adjustment<br>NT\$ | Accumulated<br>Other<br>Comprehensive<br>Income (loss)<br>NT\$ |
|-------------------|---------------------------------------|---|-----------------------------------|--|
| December 31, 2005 |                                       | 5,648   | (10,271)                          | (4,623)  |
| Addition in 2006  | (44,643)                              | (5,648)   | 78,345                            | 28,054   |
| December 31, 2006 | (44,643)                              |   | 68,074                            | 23,431   |
| Addition in 2007  | (161,134)                             |   | 209,390                           | 48,256   |
| December 31, 2007 | (205,777)                             |   | 277,464                           | 71,687   |

## h. Shareholders equity

Employee stock-based compensation has been accounted for under SFAS No. 123(R).

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

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

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

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

| Year of grant | Risk free<br>interest rate | Expected<br>life | Expected<br>volatility | Expected<br>dividend yield |
|---------------|----------------------------|------------------|------------------------|----------------------------|
| 2002          | 4.75%                      | 5 years          | 114.91%                | 0%                         |

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|      |             |            |                 |    |
|------|-------------|------------|-----------------|----|
| 2003 | 4.75%       | 4.25 years | 118.07%~148.73% | 0% |
| 2004 | 1.75%       | 4.25 years | 112.40%~123.07% | 0% |
| 2006 | 4.62%~4.74% | 4.25 years | 102.67%~133.21% | 0% |
| 2007 | 3.32%~5.04% | 4.25 years | 134.71%~171.09% | 0% |

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## 25. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

## h. Shareholders' equity (continued)

The following table presents the stock option activity for the year ended December 31, 2007 and 2006.

|                                     | Number of<br>Options | Weighted Average<br>Exercise Price<br>US\$ | Aggregate<br>Intrinsic Value<br>US\$<br>(in thousands) |
|-------------------------------------|----------------------|--|--|
| Outstanding at December 31, 2005    | 6,029,569            | 3.33                                       |  |
| Granted                             | 2,170,510            | 5.15                                       |  |
| Forfeited                           | (319,200)            | 4.30                                       |  |
| Exercised                           | (1,322,143)          | 2.61                                       |  |
| Outstanding at December 31, 2006    | 6,558,736            | 4.03                                       |  |
| Granted                             | 1,884,400            | 5.34                                       |  |
| Forfeited                           | (228,631)            | 5.46                                       |  |
| Exercised                           | (865,612)            | 2.69                                       |  |
| Outstanding at December 31, 2007    | 7,348,893            | 4.48                                       | 4,392  |
| Exercisable at December 31, 2006    | 3,225,926            | 3.10                                       |  |
| Exercisable at December 31, 2007    | 3,538,111            | 3.68                                       | 4,176  |
| Vested and expected to vest in 2006 | 6,392,096            | 4.01                                       |  |
| Vested and expected to vest in 2007 | 7,158,354            | 4.46                                       | 4,381  |

The aggregate intrinsic value in the table above represents the total intrinsic value (i.e., the difference between the Company's closing stock price of US\$4.26 on December 31, 2007 (December 28, 2006: US\$6.79) and the exercise price, times the number of options) that would have been received by the option holders had all option holders exercised their options on December 31, 2007. The total intrinsic value of options exercised during the year ended December 31, 2007 was NT\$3,535 thousand (US\$109 thousand) (2006: NT\$179,962 thousand). The total fair value of options vested and forfeited during the year ended December 31, 2007 was NT\$108,478 thousand (US\$3,345 thousand) (2006: NT\$144,048 thousand). The number of options vested during the year ended December 31, 2007 was 865,612 (2006: 1,322,143). The weighted-average remaining contractual term of the outstanding options at December 31, 2007 was 6 (2006: 6) years.

As of December 31, 2007, NT\$124,973 thousand (US\$3,854 thousand) (2006: NT\$303,000 thousand) of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 2 years.

The Company's employees have the ability to exercise a stock option (i.e., remit cash consideration to the Company for the exercise price) in exchange for stock during the vesting period of the award.

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## 25. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

## h. Shareholders' equity (continued)

The following table presents a summary of the number of and weighted average grant date fair values regarding the unvested share options as of December 31, 2007 and changes during the year then ended:

|   | Number of<br>Options | Weighted Average<br>Fair Value<br>US\$ |
|---|----------------------|--|
| Unvested options outstanding at December 31, 2005 | 3,333,467            | 3.22                                   |
| Granted   | 2,170,510            | 4.73                                   |
| Vested  | (1,851,967)          | 2.88                                   |
| Forfeited   | (319,200)            | 3.70                                   |
| Unvested options outstanding at December 31, 2006 | 3,332,810            | 4.34                                   |
| Granted   | 1,884,400            | 5.64                                   |
| Vested  | (1,177,797)          | 3.94                                   |
| Forfeited   | (228,631)            | 5.12                                   |
| Unvested options outstanding at December 31, 2007 | 3,810,782            | 5.06                                   |

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

## i. Convertible notes

The Company accounts for the conversion option in the convertible notes as derivative liabilities in accordance with SFAS No. 133 and Emerging Interpretation Task Force (EITF) Issue No. 00-19 Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock. The discount attributable to the issuance date aggregate fair value of the conversion option, totaling NT\$1,198,510 thousand (US\$36,957 thousand), is being amortized using the effective interest method over the term of the convertible notes.

The change in fair value on revaluation of the embedded derivative liabilities represents the difference between the fair value of the embedded derivative liabilities at their original issue date and their fair value on December 31, 2007 using an option pricing model. As of December 31, 2007, the fair value of the embedded derivative liabilities amounted to NT\$203,698 thousand (US\$6,281 thousand). The effect of the fair market value adjustment of NT\$1,156,769 thousand (US\$35,670 thousand) was recorded in the consolidated statement of operations.

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## 25. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

## i. Convertible notes (continued)

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

|                         | <b>December 31,<br/>2007</b> | <b>December 31,<br/>2007</b> |
|-------------------------|------------------------------|------------------------------|
|                         | CN due 2009                  | CN due 2011                  |
| Market price            | US\$4.26                     | US\$4.26                     |
| Conversion price        | US\$6.28                     | US\$6.85                     |
| Term                    | 5 years                      | 5 years                      |
| Volatility              | 38.5678%                     | 38.9249%                     |
| Risk-free interest rate | 3.8537%                      | 4.3479%                      |

Please refer to Note 13 for details of the terms of the convertible notes.

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**EXHIBIT INDEX**

| <b>Exhibits</b> | <b>Description</b>   |
|-----------------|--|
| 1.1             | Memorandum of Association of ChipMOS TECHNOLOGIES (Bermuda) LTD. <sup>(1)</sup>  |
| 1.2             | Bye-laws of ChipMOS TECHNOLOGIES (Bermuda) LTD. <sup>(7)</sup>   |
| 2.1             | Certificate of Incorporation of ChipMOS TECHNOLOGIES (Bermuda) LTD., dated August 15, 2000. <sup>(1)</sup>   |
| 4.1             | Joint Venture Agreement, dated July 14, 1997, between Mosel Vitelic Inc. and Siliconware Precision Industries Co., Ltd. <sup>(1)</sup>   |
| 4.2             | Asset Sales Agreement, dated June 14, 1999, between Microchip Technology Taiwan and ChipMOS TECHNOLOGIES INC. <sup>(1)</sup>   |
| 4.3             | Tessera Compliant Chip License Agreement, dated April 20, 1999, between Tessera Inc. and ChipMOS TECHNOLOGIES INC. <sup>(1)</sup>  |
| 4.4             | License Agreement, dated April 1, 1999, between Fujitsu Ltd. and ChipMOS TECHNOLOGIES INC. <sup>(1)</sup>  |
| 4.5             | Sales Agreement, dated February 10, 2000, between Sharp Corp. and ChipMOS TECHNOLOGIES INC. <sup>(1)</sup>   |
| 4.6             | Raw Materials Processing Agreement, dated August 10, 2000, between Mosel Vitelic Inc. and ChipMOS TECHNOLOGIES INC. <sup>(1)</sup>   |
| 4.7             | Raw Materials Processing Agreement, dated January 1, 2001, between Siliconware Precision Co. Ltd. and ChipMOS TECHNOLOGIES INC. <sup>(1)</sup>   |
| 4.8             | Integrated Circuit Processing Agreement, dated January 1, 2001, between Siliconware Precision Co. Ltd. and ChipMOS TECHNOLOGIES INC. <sup>(1)</sup>  |
| 4.9             | Integrated Circuit Processing and Warehousing Management Agreement, dated August 10, 2000, between Mosel Vitelic Inc. and ChipMOS TECHNOLOGIES INC. <sup>(1)</sup>   |
| 4.10            | Land Lease Agreement, dated November 26, 1997, between Science Based Industrial Park Administration and ChipMOS TECHNOLOGIES INC. <sup>(1)</sup>   |
| 4.11            | Land Lease Agreement, dated November 26, 1997, between Science Based Industrial Park Administration and ChipMOS TECHNOLOGIES INC. <sup>(1)</sup>   |
| 4.12            | Land Lease Agreement, dated September 1, 1997, between Science Based Industrial Park Administration and ChipMOS TECHNOLOGIES INC. <sup>(1)</sup>   |
| 4.13            | Purchase Agreement, dated July 31, 1997, between ChipMOS TECHNOLOGIES INC. and Mosel Vitelic Inc. <sup>(1)</sup>   |
| 4.14            | Form of Share Exchange Covenant Letter from the Company to the Shareholders. <sup>(1)</sup>  |
| 4.15            | Amendment to the Integrated Circuit Processing and Warehousing Management Agreement, dated August 10, 2000, between Mosel Vitelic Inc. and ChipMOS TECHNOLOGIES INC, dated September 1, 2001. <sup>(2)</sup> |

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- 4.16 Purchase Agreement, dated October 15, 2003, between ChipMOS TECHNOLOGIES INC. and DenMOS Technology Inc.<sup>(2)</sup>
- 4.17 Sale and Purchase Agreement, dated April 25, 2003, between ChipMOS TECHNOLOGIES INC. and Ron How Investment Corp. (English Translation)<sup>(3)</sup>
- 4.18 Sale and Purchase Agreement, dated April 25, 2003, between ChipMOS TECHNOLOGIES INC. and Yuan Shan Investment Corp. (English Translation)<sup>(3)</sup>
- 4.19 Sale and Purchase Agreement, dated April 25, 2003, between ChipMOS TECHNOLOGIES INC. and Mosel Vitelec Inc. (English Translation)<sup>(3)</sup>
- 4.20 Laser Stamping Machine Lease Agreement, dated November 1, 2002, between ChipMOS TECHNOLOGIES INC. and CHANTEK ELECTRONIC CO., LTD. (English Translation)<sup>(3)</sup>
- 4.21 Automatic Stamping Machine Lease Agreement, dated December 1, 2002, between ChipMOS TECHNOLOGIES INC. and CHANTEK ELECTRONIC CO., LTD. (English Translation)<sup>(3)</sup>
- 4.22 Raw Materials Processing Agreement, dated January 1, 2003, between ChipMOS TECHNOLOGIES INC. and CHANTEK ELECTRONIC CO., LTD. (English Translation)<sup>(3)</sup>
- 4.23 Integrated Circuit Processing Agreement, dated January 1, 2003, between ChipMOS TECHNOLOGIES INC. and CHANTEK ELECTRONIC CO., LTD. (English Translation)<sup>(3)</sup>
- 4.24 Technology Transfer Agreement, dated December 24, 2002, between ChipMOS TECHNOLOGIES INC. and ThaiLin Semiconductor Corp. (English Translation)<sup>(3)</sup>
- 4.25 Tester Equipment Lease Agreement, dated November 14, 2002, between ChipMOS TECHNOLOGIES INC. and ThaiLin Semiconductor Corp. (English Translation)<sup>(3)</sup>
- 4.26 Tester Equipment Lease Agreement, dated December 3, 2002, between ChipMOS TECHNOLOGIES INC. and ThaiLin Semiconductor Corp. (English Translation)<sup>(3)</sup>
- 4.27 Joint Engagement Letter, undated, by and among Ultima Electronics Corp., ChipMOS TECHNOLOGIES INC. and Sun-Fund Securities Ltd. (English Translation)<sup>(3)</sup>
- 4.28 Lease Agreement, dated June 1, 2002, between ChipMOS TECHNOLOGIES INC. and SyncMOS Technologies, Inc. (English Translation)<sup>(3)</sup>
- 4.29 Technology Transfer Agreement, dated August 1, 2002, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES (Shanghai) LTD.<sup>(3)</sup>
- 4.30 Promissory Note from Modern Mind Technology Limited to Jesper Limited, dated November 4, 2002.<sup>(3)</sup>
- 4.31 Deed of Variation, dated December 2, 2002, between Modern Mind Technology Limited and Jesper Limited.<sup>(3)</sup>
- 4.32 Deed of Assignment, dated December 27, 2002, between Jesper Limited and ChipMOS TECHNOLOGIES (Bermuda) LTD.<sup>(3)</sup>
- 4.33 Deed of Assignment, dated June 25, 2003, between Jesper Limited and ChipMOS TECHNOLOGIES INC.<sup>(3)</sup>

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- 4.34 Agreement, dated May 3, 2003, between Jesper Limited and Modern Mind Technology Limited.<sup>(3)</sup>
- 4.35 Master loan agreement, dated July 12, 2004, among ChipMOS TECHNOLOGIES (Bermuda) LTD., Modern Mind Technology Limited, and Jesper Limited.<sup>(5)</sup>
- 4.36 Cooperation Agreement, dated March 27, 2002, between Shanghai Qingpu Industrial Zone Development (Group) Company and ChipMOS TECHNOLOGIES (Bermuda) LTD. (English Translation)<sup>(3)</sup>
- 4.37 Deed of assignment, dated December 17, 2003, between ChipMOS TECHNOLOGIES INC. and ChipMOS TECHNOLOGIES (Bermuda) LTD.<sup>(4)</sup>
- 4.38 Supplemental deed of assignment, dated May 14, 2004 between ChipMOS TECHNOLOGIES INC. and ChipMOS TECHNOLOGIES (Bermuda) LTD.<sup>(4)</sup>
- 4.39 Second supplemental deed of assignment, dated October 11, 2004, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC.<sup>(5)</sup>
- 4.40 Assignment agreement, dated April 7, 2004, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC.<sup>(4)</sup>
- 4.41 Supplemental assignment agreement, dated May 14, 2004, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC.<sup>(4)</sup>
- 4.42 Second supplemental assignment agreement, dated October 11, 2004, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC.<sup>(5)</sup>
- 4.43 Patent license agreement, dated April 7, 2004, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC.<sup>(4)</sup>
- 4.44 Supplemental patent license agreement dated July 8, 2004, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC.<sup>(5)</sup>
- 4.45 Second supplemental patent license agreement dated October 11, 2004, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC.<sup>(5)</sup>
- 4.46 Third supplemental patent license agreement dated December 30, 2004, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC.<sup>(5)</sup>
- 4.47 Assembly and Testing Service Agreement, dated November 27, 2005, between ChipMOS TECHNOLOGIES INC. and Spansion LLC.<sup>(6)</sup>
- 4.48 Share Purchase and Subscription Agreement, dated February 13, 2007, among ChipMOS TECHNOLOGIES (Bermuda) LTD., ChipMOS TECHNOLOGIES INC. and Siliconware Precision Industries Co., Ltd.<sup>(8)</sup>
- 4.49 Registration Rights Agreement, dated March 27, 2007, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and Siliconware Precision Industries Co., Ltd.<sup>(8)</sup>
- 4.50 Share Exchange Agreement, dated as of April 12, 2007, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC.
- 4.51 Assignment Agreement, dated April 12, 2007, between ChipMOS TECHNOLOGIES (Bermuda) LTD. and ChipMOS TECHNOLOGIES INC.<sup>(9)</sup>



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4.52 Form of Change In Control Severance Agreement

4.53 Southern Taiwan Science Park Administration Land Lease Agreement, dated June 1, 2007, between Southern Taiwan Science Park Administration and ChipMOS TECHNOLOGIES INC. (English Translation)

4.54 Second Amendment to Assembly and Test Service Agreement, dated July 16, 2007, by and between Spansion LLC and ChipMOS TECHNOLOGIES INC.

4.55 Service Agreement for Integrated Circuit Products, dated July 17, 2007, by and between ProMOS Technologies Inc. and ChipMOS TECHNOLOGIES INC. (English Translation)

4.56 Registration Rights Agreement, dated August 8, 2007, among ChipMOS TECHNOLOGIES (Bermuda) LTD., Giant Haven Investment Limited, ProMOS Technologies Inc. and Powertech Technology Inc.

4.57 Third Amendment to Assembly and Test Services Agreement, dated November 30, 2007, by and between Spansion LLC and ChipMOS TECHNOLOGIES INC.

4.58 Science Park Administration Land Lease Agreement, dated December 1, 2007, between Science Park Administration and ChipMOS TECHNOLOGIES INC. (English Translation)

4.59 Lease Agreement, dated April 2, 2008, between ChipMOS TECHNOLOGIES INC. and ThaiLin Semiconductor Corp. (English Translation)

8.1 List of principal subsidiaries of ChipMOS TECHNOLOGIES (Bermuda) LTD.

11.1 Code of Business Conduct and Ethics. <sup>(4)</sup>

12.1 Certification of Chief Executive Officer required by Rule 13a-14(a) under the Exchange Act.

12.2 Certification of Chief Financial Officer required by Rule 13a-14(a) under the Exchange Act.

13.1 Certification of Chief Executive Officer required by Rule 13a-14(b) under the Exchange Act.

13.2 Certification of Chief Financial Officer required by Rule 13a-14(b) under the Exchange Act.

23.1 Consent of independent registered public accounting firm.

(1) Incorporated by reference to our Registration Statement on Form F-1 (File No. 333-13218), filed on February 28, 2001.

(2) Incorporated by reference to our Annual Report on Form 20-F (File No. 0-31106), filed on June 17, 2002.

(3) Incorporated by reference to our Annual Report on Form 20-F (File No. 0-31106), filed on June 30, 2003.

(4) Incorporated by reference to our Annual Report on Form 20-F (File No. 0-31106), filed on June 17, 2004.

(5) Incorporated by reference to our Annual Report on Form 20-F (File No. 0-31106), filed on June 29, 2005.

(6) Incorporated by reference to our Registration Statement on Form F-3 (File No. 333-130230), filed on December 9, 2005.

(7) Incorporated by reference to our report on Form S-8, dated October 5, 2006.

(8) Incorporated by reference to Schedule 13D filed with the United States Securities and Exchange Commission by Siliconware Precision Industries Co., Ltd. on April 4, 2007.

(9) Incorporated by reference to our Annual Report on Form 20-F (File No. 0-31106), filed on June 6, 2007.