CHIPMOS TECHNOLOGIES BERMUDA LTD
Form F-3/A
June 29, 2004
Table of Contents

As filed with the Securities and Exchange Commission on June 29, 2004

Registration No. 333-115748

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Amendment No. 3

to

FORM F-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

ChipMOS TECHNOLOGIES (Bermuda) LTD.

(Exact Name of Registrant as Specified in Its Charter)

N/A

(Translation of Registrant s Name into English)

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

No. 1, R&D Road 1

Hsinchu Science Park, Hsinchu

Taiwan, Republic of China

(886-3) 566-8800

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

CT Corporation System

111 Eighth Avenue, New York, New York 10011

Tel: (212) 894-8600

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

Copies to:

Michael G. DeSombre, Esq.

Sullivan & Cromwell LLP

28th Floor

Nine Queen s Road Central

Hong Kong

(852) 2826-8688

Chris K.H. Lin, Esq.

Simpson Thacher & Bartlett LLP

7th Floor, Asia Pacific Finance Tower

3 Garden Road, Central

Hong Kong

(852) 2514-7600

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

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

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

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

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

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

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

Table of Contents

The information contained in this prospectus is not complete and may be changed. Neither we nor the selling shareholder may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell securities, and neither we nor the selling shareholder is soliciting offers to buy these securities, in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, dated , 2004

PROSPECTUS

25,000,000 Shares

Common Shares

We are offering 17,500,000 common shares and the selling shareholder identified in this prospectus is offering an additional 7,500,000 common shares. We will not receive any of the proceeds from the sale of common shares by the selling shareholder.

Our common shares are quoted on the Nasdaq National Market under the symbol IMOS. The last reported sale price of our common shares on the Nasdaq National Market on June 10, 2004 was US$8.42 per common share.

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

	Per Share	Total
Public Offering Price	US$	US$
Underwriting Discounts and Commissions	US$	US$
Proceeds to ChipMOS Bermuda (before expenses)	US$	US$
Proceeds to Selling Shareholder (before expenses)	US$	US$

The underwriters have been granted a 30-day option to purchase up to 2,625,000 additional common shares from us and up to 1,125,000 common shares from the selling shareholder at the public offering price, less the underwriting discounts and commissions, to cover

over-allotments, if any.

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

Lehman Brothers Inc., on behalf of the underwriters, expects to deliver the common shares to purchasers on or about , 2004.

LEHMAN BROTHERS

THOMAS WEISEL PARTNERS LLC

RBC CAPITAL MARKETS

WR HAMBRECHT + CO

, 2004

Table of Contents

Table of Contents

TABLE OF CONTENTS

Table of Contents

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

This prospectus, including the information summarized below, contains translations of New Taiwan dollar, or NT dollar, or NT$, amounts into United States dollars, or US dollars, or US$, at specified rates solely for the convenience of the reader. Unless otherwise noted, all translations from NT dollars to US dollars and from US dollars to NT dollars were made at the noon buying rate in 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, or the noon buying rate, on March 31, 2004, which was NT$33.00 to US$1.00. We make no representation that the NT dollar or US dollar amounts referred to in this prospectus could have been or could be converted into US dollars or NT dollars, as the case may be, at any particular rate or at all. On June 11, 2004, the noon buying rate was NT$33.51 to US$1.00.

FORWARD-LOOKING STATEMENTS

Except for historical matters, the matters discussed in this prospectus 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 believe, expect, intend, anticipate, estimate, plan, project, may, will or other similar words that express an indication of actions or results of actions that may or a expected to occur in the future. Forward-looking statements include, but are not limited to, statements under the following headings related to the indicated topic:

Risk Factors Risks Relating to Our Industry A decline in average selling prices for our services could result in a decrease in our earnings, about the trend of declining average selling prices;

Risk Factors Risks Relating to Our Business 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, about our expectation with respect to the growth in demand for liquid crystal display, or LCD, and other flat-panel display driver semiconductors;

Risk Factors Risks Relating to Our Business We depend on key customers, including affiliates of Mosel Vitelic Inc., for a substantial portion of our net revenue and a loss of, or deterioration of the business from, any one of these customers could result in decreased net revenue and materially adversely affect our results of operations, about our expectation to rely on key customers;

Risk Factors Risks Relating to Our Business 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, about the need to offer more sophisticated testing and assembly technologies;

Risk Factors Risks Relating to Our Business 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, about our anticipated capital needs;

Risk Factors Risks Relating to Our Business Our customers generally do not place purchase orders far in advance, which makes it difficult for us to predict our future revenue. As a result, we may be unable to adjust costs in a timely manner to compensate for revenue shortfalls and our results of operations may fluctuate from period to period, about our expectation to be dependent in any quarter upon purchase orders received in that quarter;

Management s Discussion and Analysis of Financial Condition and Results of Operations, about the trends relating to our business; and

Table of Contents

Business Industry Background, about the expected growth in the semiconductor industry, including but not limited to the expected growth in the memory semiconductor market, LCD and other flat-panel display driver semiconductor market, mixed-signal semiconductor market and the outsourcing trends of the semiconductor industry in Taiwan and Mainland China.

Actual results may be materially different from those indicated by our forward-looking statements. Please see Risk Factors for a discussion of certain other factors that may cause actual results to differ materially from those indicated by our forward-looking statements. Some of these forward-looking statements are derived from projections made and published by Gartner Dataquest, the Semiconductor Industry Association and DisplaySearch. These projections are estimates of Gartner Dataquest, the Semiconductor Industry Association and DisplaySearch, respectively, and do not represent facts. We were not involved in the preparation of these projections.

Table of Contents

PROSPECTUS SUMMARY

This summary highlights selected information from this prospectus and may not contain all information that is important to you. To learn about this offering and our business, you should read the entire prospectus carefully, including the risk factors and our financial statements and related notes.

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

ChipMOS TECHNOLOGIES (Bermuda) LTD.

We believe that we are one of the leading independent providers of semiconductor testing and assembly services. Specifically, we believe that we are the largest independent provider of testing and assembly services for liquid crystal display, or LCD, and other flat-panel display driver semiconductors globally, and a leading provider of testing and assembly services for advanced memory products in Taiwan.

We provide a broad range of semiconductor testing and assembly services primarily for memory, mixed-signal, and LCD and other flat-panel display driver semiconductors. We currently expect these sectors to benefit from the anticipated growth in demand for new and improved electronic products and applications. We also provide semiconductor turnkey services by purchasing fabricated wafers and selling tested and assembled semiconductors. In 2003, our consolidated net revenue was NT$9,027 million (US$274 million) and our net income was NT$482 million (US$15 million). In the quarter ended March 31, 2004, our consolidated net revenue was NT$3,090 million (US$94 million) and our net income was NT$539 million (US$16 million).

The depth of our engineering expertise and the breadth of our testing and assembly technologies enable us to provide our customers with advanced and comprehensive solutions. In addition, we believe our geographic presence in Taiwan and Mainland China, two of the world s leading locations for outsourced semiconductor manufacturing, is attractive to customers wishing to take advantage of the logistical and cost efficiencies stemming from our close proximity to foundries and producers of consumer electronic products.

Our Business Strategy

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

- focus on providing our services to the high-growth segments of the semiconductor industry;

continue to invest in the research and development of advanced testing and assembly technologies;

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

expand our offering of vertically integrated services; and

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

Our Corporate Structure and Other Information

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

Table of Contents

Taiwan, and its subsidiaries and investees. ChipMOS Taiwan was founded in 1997 as a joint-venture between Mosel Vitelic Inc., or Mosel, and Siliconware Precision Industries Co., Ltd., or Siliconware Precision, and with the participation of other investors. As of April 30, 2004, we held 70.3% of the outstanding common shares of ChipMOS Taiwan, and Siliconware Precision held 28.7%. In Taiwan, we conduct testing operations in our facilities at the Hsinchu Science Park and the Hsinchu Industrial Park and testing and assembly operations in our facility at the Southern Taiwan Science Park. We also conduct operations in Mainland China through ChipMOS TECHNOLOGIES (Shanghai) LTD., or ChipMOS Shanghai, a wholly-owned subsidiary of Modern Mind Technology Limited, or Modern Mind, which is one of our controlled consolidated subsidiaries. ChipMOS Shanghai operates a testing and assembly facility at the Qingpu Industrial Zone in Shanghai. Through our subsidiaries, we also have equity interests in other companies that are engaged in the semiconductor industry. As of April 30, 2004, Mosel indirectly owned approximately 43.7% of our common shares. See Business Overview of the Company for more details.

Our principal executive office is located at No. 1, R&D Road 1, Hsinchu Science Park, Hsinchu, Taiwan, Republic of China, and our telephone number at this location is (886-3) 566-8800. Our website address is *www.chipmos.com.tw*. Information contained on our website does not constitute part of this prospectus.

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

Table of Contents

The Offering

Common shares offered by us	17,500,000 common shares
Common shares offered by the selling shareholder	7,500,000 common shares
Common shares to be outstanding after this offering	77,360,235 common shares
Use of proceeds	We intend to use our net proceeds of approximately US$137 million (assuming no exercise of the over-allotment option and an offering price of US$8.42 based on the last reported sale price on June 10, 2004) from this offering as follows: US$60 million to finance the purchase by ChipMOS Far East Limited, or ChipMOS Far East, of equipment to be consigned or leased to ChipMOS Shanghai; US$60 million as a loan to Modern Mind to finance the repayment of approximately US$10 million outstanding debt of Modern Mind and a US$50 million capital contribution to ChipMOS Shanghai for the repayment of approximately RMB20 million (US$2 million based on an exchange rate of RMB8.28 per US$1.00 as of March 31, 2004) outstanding bank debt of ChipMOS Shanghai with the remainder for ChipMOS Shanghai s facility construction costs; and the balance to fund our working capital requirements and potential future merger and acquisition activities. Pending such uses, we will invest the net proceeds in short-term U.S. government or other investment-grade debt securities or interest-bearing bank deposits. See Use of Proceeds. We will not receive any proceeds from the sale of our common shares by the selling shareholder in this offering. All of the proceeds from such sales will be for the account of the selling shareholder.
Nasdaq National Market symbol	IMOS

The number of common shares that will be outstanding after this offering is based on the number of shares outstanding as of April 30, 2004 and excludes:

6,256,953 common shares subject to stock options outstanding as of April 30, 2004, with a weighted average exercise price of US$3.2865; and

2,625,000 common shares to be sold by us if the underwriters exercise their over-allotment option in full, as described in Underwriting.

Table of Contents

Summary Consolidated Financial Information

The following tables set forth our selected consolidated financial data. The summary consolidated balance sheet data as of December 31, 2002 and 2003 and our consolidated statement of operations and cash flows data for 2001, 2002 and 2003 are derived from our audited consolidated financial statements included in this prospectus, and should be read in conjunction with the section of this prospectus entitled Management s Discussion and Analysis of Financial Condition and Results of Operations and our audited consolidated financial statements and the related notes beginning on page F-1 of this prospectus. These financial statements have been audited by Moore Stephens. The selected consolidated balance sheet data as of December 31, 2001 is derived from our audited consolidated financial statements not included in this prospectus. The summary consolidated balance sheet data as of March 31, 2004 and our consolidated statement of operations and cash flows data for the quarters ended March 31, 2003 and 2004 are derived from our unaudited consolidated financial statements included in this prospectus, and should be read in conjunction with the section of this prospectus entitled Management s Discussion and Analysis of Financial Condition and Results of Operations, our audited consolidated financial statements and the related notes and our unaudited consolidated financial statements and the related notes beginning on page F-1 of this prospectus. Our consolidated financial statements have been prepared and presented in accordance with generally accepted accounting principles in the Republic of China, or ROC GAAP, which differ in some material respects from generally accepted accounting principles in the United States, or US GAAP. Please see Note 27 to our audited consolidated financial statements for a description of the principal differences between ROC GAAP and US GAAP for the periods covered by the audited consolidated financial statements. There are no material variations in the accounting principles, practices and methods used in preparing the unaudited consolidated financial statements as of March 31, 2004 and for the quarters ended March 31, 2003 and 2004 from US GAAP other than those disclosed in Note 27 to our audited consolidated financial statements. A reconciliation between US GAAP and ROC GAAP has not been included in the notes to the unaudited consolidated financial statements.

Table of Contents

	Year ended December 31,				Three Months ended March 31,(1) (unaudited)		
	2001	2002	2003	2003	2003	2004	2004
	NT$	NT$	NT$	US$	NT$	NT$	US$
	(in millions, except earnings per share)						
Consolidated Statement of Operations Data:							
ROC GAAP:							
Net revenue	$ 5,245.1	$ 6,525.9	$ 9,026.5	$ 273.5	$ 1,704.5	$ 3,089.7	$ 93.6
Gross profit (loss)	(784.2)	(185.8)	1,567.0	47.5	63.0	1,120.1	33.9
Income (loss) from operations	(1,475.8)	(860.1)	766.7	23.2	(157.1)	917.0	27.8
Net income (loss)	(1,134.9)	(970.3)	482.4	14.6	(196.5)	539.5	16.3
Earnings (loss) per share:							
Basic	$ (19.45)	$ (16.49)	$ 8.19	$ 0.25	$ (3.34)	$ 9.03	$ 0.27
Diluted	$ (19.45)	$ (16.49)	$ 8.12	$ 0.25	$ (3.34)	$ 8.99	$ 0.27
Weighted-average number of shares outstanding:							
Basic	58.3	58.8	58.9	58.9	58.9	59.8	59.8
Diluted	58.3	58.8	59.4	59.4	58.9	60.0	60.0
US GAAP:(2)							
Net income (loss)	$ (993.5)	$ (913.4)	$ 485.3	$ 14.7			
Earnings (loss) per share:							
Basic	$ (17.03)	$ (15.52)	$ 8.24	$ 0.25			
Diluted	$ (17.03)	$ (15.52)	$ 8.17	$ 0.25			
Weighted-average number of shares outstanding:							
Basic	58.3	58.8	58.9	58.9			
Diluted	58.3	58.8	59.4	59.4			

(1) For the first quarter of 2003, we consolidated the financial results of ChipMOS TECHNOLOGIES INC., or ChipMOS Taiwan, ChipMOS Japan, Inc., or ChipMOS Japan, ChipMOS USA Inc., or ChipMOS USA, ChipMOS Far East Limited, or ChipMOS Far East, and Modern Mind Technology Limited, or Modern Mind, and its wholly-owned subsidiary, ChipMOS TECHNOLOGIES (Shanghai) LTD., or ChipMOS Shanghai. For the first quarter of 2004, we also consolidated the financial results of ThaiLin Semiconductor Corp., or ThaiLin, (which have been consolidated since December 1, 2003, the date when ChipMOS Taiwan obtained the controlling influence over ThaiLin s decisions on its operations, personnel and financial policies), and from January 12 and 28, 2004, onwards, the financial results of Advanced Micro Chip Technology Co., Ltd., or AMCT, and ChipMOS Logic TECHNOLOGIES INC., or ChipMOS Logic, respectively.

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

Table of Contents

	As of December 31,				As of March 31,(1) (unaudited)	
	2001	2002	2003	2003	2004	2004
	NT$	NT$	NT$	US$	NT$	US$
			(in millions)			
Consolidated Balance Sheet Data:						
ROC GAAP:						
Cash and cash equivalents	$ 1,181.1	$ 2,487.5	$ 1,731.0	$ 52.5	$ 1,351.0	$ 40.9
Property, plant and equipment, net	10,799.6	10,043.6	11,086.8	336.0	12,131.8	367.7
Total assets	16,101.3	17,953.7	19,665.7	595.9	22,337.1	676.9
Total liabilities	5,165.4	8,353.3	7,989.5	242.1	9,585.6	290.5
Minority interests	3,336.7	2,887.1	4,428.0	134.2	4,964.0	150.4
Total shareholders equity	7,599.2	6,713.3	7,248.2	219.6	7,787.5	236.0
US GAAP(2):						
Cash and cash equivalents	$ 1,181.1	$ 2,487.5	$ 1,731.0	$ 52.5		
Property, plant and equipment, net	10,762.5	10,062.8	11,082.4	335.8		
Total assets	16,123.5	18,020.9	19,633.5	594.9		
Total liabilities	5,127.6	8,353.6	7,993.7	242.2		
Minority interests	3,354.9	2,907.1	4,418.5	133.9		
Total shareholders equity	7,641.0	6,760.2	7,221.3	218.8		

(1) For the first quarter of 2003, we consolidated the financial results of ChipMOS Taiwan, ChipMOS Japan, ChipMOS USA, ChipMOS Far East, and Modern Mind and its wholly-owned subsidiary, ChipMOS Shanghai. For the first quarter of 2004, we also consolidated the financial results of ThaiLin (which have been consolidated since December 1, 2003, the date when ChipMOS Taiwan obtained the controlling influence over ThaiLin s decisions on its operations, personnel and financial policies), and from January 12 and 28, 2004, onwards, the financial results of AMCT and ChipMOS Logic, respectively.

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

	Year ended December 31,				Three Months ended March 31,(1) (unaudited)		
	2001	2002	2003	2003	2003	2004	2004
	NT$	NT$	NT$	US$	NT$	NT$	US$
				(in millions)			
Consolidated Statement of Cash Flows Data:							
ROC GAAP:							
Capital expenditures	$ 992.0	$ 2,091.3	$ 2,508.2	$ 76.0	$ 985.3	$ 1,663.8	$ 50.4
Depreciation and amortization	2,815.4	2,820.6	2,715.0	82.3	660.8	763.5	23.1
Net cash provided by (used in):							
Operating activities	1,620.5	1,463.7	1,877.1	56.9	64.6	1,447.5	43.9
Investing activities	(1,409.7)	(3,135.9)	(760.8)	(23.1)	(280.4)	(3,589.6)	(108.8)
Financing activities	(219.8)	2,978.6	(1,841.5)	(55.8)	(323.7)	1,800.1	54.6
Effect of exchange rate changes on cash	(0.4)		(31.4)	(0.9)	(1.3)	(38.0)	(1.2)
Net increase (decrease) in cash	(9.4)	1,306.4	(756.6)	(22.9)	(540.8)	(380.0)	(11.5)

(1) For the first quarter of 2003, we consolidated the financial results of ChipMOS Taiwan, ChipMOS Japan, ChipMOS USA, ChipMOS Far East, and Modern Mind and its wholly-owned subsidiary, ChipMOS Shanghai. For the first quarter of 2004, we also consolidated the financial results of ThaiLin (which have been consolidated since December 1, 2003, the date when ChipMOS Taiwan obtained the controlling influence over ThaiLin s decisions on its operations, personnel and financial policies), and from January 12 and 28, 2004, onwards, the financial results of AMCT and ChipMOS Logic, respectively.

Table of Contents

RISK FACTORS

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

Risks Relating to Our Industry

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

Because our business is, and will continue to be, dependent on the requirements of semiconductor companies for independent testing and assembly services, any downturn in the highly cyclical semiconductor industry may reduce demand for our services and adversely affect our results of operations. All of our customers operate in this industry and variations in order levels from our customers and in service fee rates may result in volatility in our net revenue and earnings. For instance, during periods of decreased demand for assembled semiconductors, some of our customers may even simplify or forego final testing of certain types of semiconductors, such as dynamic random access memory, or DRAM, further intensifying our difficulties. From time to time, the semiconductor industry has experienced significant, and sometimes prolonged, downturns. For example, the semiconductor industry experienced a downturn beginning in the fourth quarter of 2000 until late 2002. As a result of the downturn, our net revenue and net income for 2001 decreased 36% and 219% from 2000 levels, respectively. Although the semiconductor industry has recovered from the downturn since late 2002 and our net revenue for 2003 increased 38% from 2002, and we generated a net income of NT$482 million in 2003 compared to a net loss of NT$970 million in 2002, we cannot give any assurances that the recovery will continue or that any future downturn will not affect our results of operations.

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

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

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

Historically, prices for our testing and assembly services in relation to any given semiconductor tend to decline over the course of its product and technology life cycle. For example, the average price of our testing and assembly services for synchronous dynamic random access memory, or SDRAM, semiconductors in 2003 decreased by approximately 44% from 2002. In addition, the average selling price for our testing and assembly services for DRAM further decreased by approximately 8% in 2003 from the average price in 2002. We expect this trend to continue in the future. Accordingly, if we cannot reduce the cost of our testing and assembly

Table of Contents

services, or introduce higher-margin testing and assembly services for new package types, to offset the decrease in average selling prices for our services, our earnings could decrease.

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

In recent years, integrated device manufacturers, or IDMs, have increasingly outsourced stages of the semiconductor production process, including testing and assembly, to independent companies like us to shorten production cycles. In addition, the availability of advanced independent semiconductor manufacturing services has also enabled the growth of so-called fabless semiconductor companies that focus exclusively on design and marketing and outsource their manufacturing, testing and assembly requirements to independent companies. Our net revenue indirectly generated from these IDMs and fabless companies constitutes a substantial portion of our net revenue, representing 85% and 90% of our net revenue in 2003 and the first quarter of 2004, respectively. 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, as they did in 1998 and 2001, 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. Our prices for testing and assembly of memory and mixed-signal semiconductors were sharply reduced during the second half of 2000 through 2001. Although prices have increased approximately 20% for LCD and other flat-panel display driver semiconductor testing and assembly services in 2003, we cannot assure you that the prices will not decrease in the future. Any renewed or continued erosion in the prices or demand for our testing and assembly services as a result of increased competition could adversely affect our profits.

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

A significant percentage of our net revenue is derived from testing and assembling memory semiconductors. Our net revenue derived from the testing and assembly of memory semiconductors accounted for 72%, 56%, 62% and 68% of our net revenue in 2001, 2002, 2003 and the first quarter of 2004, respectively. In the past, our service fees for testing and assembling memory semiconductors were sharply reduced in tandem with the decrease in the average selling price of DRAM. For example, the weighted average selling price for DRAM decreased approximately 23% in 2003 from 2002. We cannot assure you that there will be no further decrease in DRAM prices. Any failure of the demand for DRAM to increase or any further decrease in the demand for memory products may therefore decrease the demand for our services and significantly reduce

our net revenue and net income.

Table of Contents

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

We began offering testing and assembly services for LCD and other flat-panel display driver semiconductors in the second quarter of 2000. Our testing and assembly services for LCD and other flat-panel display driver semiconductors generated net revenue of NT$132 million, NT$992 million, NT$1,683 million and NT$741 million in 2001, 2002, 2003 and the first quarter of 2004, respectively. We spent NT$374 million, NT$1,232 million, NT$1,255 million and NT$845 million in 2001, 2002, 2003 and the first quarter of 2004, respectively, on equipment for tape carrier package, or TCP, and chip-on-film, or COF, 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 or COF. While there is currently a significant demand for our LCD and other flat-panel display driver semiconductor testing and assembly services, which we currently expect will continue to grow in 2004, any decrease in demand for these services would significantly impair our capacity utilization rates and may result in our inability to generate sufficient revenue to cover the significant depreciation expenses for the equipment used in testing and assembling LCD and other flat-panel display driver semiconductors, thereby negatively affecting our profitability. See also Because of our high fixed costs, if we are unable to achieve relatively high capacity utilization rates, our earnings and profitability may be adversely affected.

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

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

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

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

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

We depend on a small group of customers for a substantial portion of our business. In 2001 and 2002, our largest customer, Mosel Vitelic Inc., or Mosel, accounted for 48% and 35% of our net revenue, respectively. As

Table of Contents

of April 30, 2004, Mosel indirectly owned approximately 43.7% of our outstanding common shares through its wholly-owned subsidiary, Giant Haven Investments Ltd., and its indirectly held subsidiary, Mou-Fu Investment Ltd. In the period from July to December 2003, Mosel transferred all of its DRAM business to its affiliate ProMOS Technologies Inc., or ProMOS, which since then has become our largest customer, accounting for 19% of our net revenue in 2003 and 33% of our net revenue in the first quarter of 2004. Although Mosel was our second largest customer in 2003, accounting for 19% of our net revenue, it ceased to be a key customer of ours following the transfer of its DRAM business to ProMOS. In 2004, we expect that our net revenue generated from ProMOS will increase significantly from 2003 reflecting its operation of its DRAM business for the full year and we do not expect any significant net revenue to be generated from Mosel. Our third largest customer in 2003, Ultima Electronics Corp., or Ultima, accounted for 12% of our net revenue. Ultima was our second largest customer in 2001 and 2002, accounting for approximately 22% and 19% of our net revenue in 2001 and 2002, respectively. As of April 30, 2004, ChipMOS Taiwan owned a 3.7% interest in Ultima.

We expect that we will continue to depend on a relatively limited number of customers for a significant portion of our net revenue. Any adverse development in our key customers operations, competitive position or customer base could materially reduce our net revenue and adversely affect our business and profitability. The decline in market demand for semiconductors in 2001 and, in particular, the substantial decrease in the average selling price of DRAM, from the fourth quarter of 2001 to the end of 2002, adversely impacted Mosel. As a result, our net revenue from DRAM testing and assembly services decreased 60% from 2001 to 2002 and 77% from 2002 to 2003. In addition, since new customers usually require us to pass a lengthy and rigorous qualification process, if we lose any of our key customers, we may not be able to replace them in a timely manner. Also, semiconductor companies generally rely on service providers with whom they have established relationships to meet their testing and assembly needs for existing and future applications. If any of our key customers reduces, delays or cancels its orders, and if we are unable to attract new key customers or use our excess capacity to service our remaining customers, our net revenue could be reduced and our business and results of operations materially adversely affected.

Because of our high fixed costs, if we are unable to achieve relatively high capacity utilization rates, our earnings and profitability may be adversely affected.

Our operations are characterized by a high proportion of fixed costs. For memory and mixed-signal semiconductor testing services, our fixed costs represented 83%, 53%, 53% and 56% of our total cost of revenue in 2001, 2002, 2003 and the first quarter of 2004, respectively. For memory and mixed-signal semiconductor assembly services, our fixed costs represented 37%, 44%, 28% and 25% of our total cost of revenue in 2001, 2002, 2003 and the first quarter of 2004, respectively. For LCD and other flat-panel display driver semiconductor testing and assembly services, our fixed costs represented 64%, 52%, 50% and 45% of our total cost of revenue in 2001, 2002, 2003 and the first quarter of 2004, 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. As a result of the decline in the market demand for semiconductors that began in the fourth quarter of 2000, our average capacity utilization rate for memory and mixed-signal semiconductor testing services decreased from 77% in 2000 to 47% in 2001, our average capacity utilization rate for memory and mixed-signal semiconductor assembly services decreased from 53% in 2000 to 43% in 2001, and our average capacity utilization rate for LCD and other flat-panel display driver semiconductor testing and assembly services decreased from 50% in 2000 to 19% in 2001. For 2002, our capacity utilization rate was 69% for memory and mixed-signal semiconductor testing services, 60% for memory and mixed-signal semiconductor assembly services, and 62% for LCD and other flat-panel display driver semiconductor testing and assembly services. Due to the strong recovery of the market demand for semiconductors in 2003, our capacity utilization rate increased to 81% for memory and mixed-signal semiconductor testing services, 89% for memory and mixed-signal semiconductor assembly services, and 82% for LCD and other flat-panel display driver semiconductor

Table of Contents

testing and assembly services. For the first quarter in 2004, our capacity utilization rate increased further to 89% for memory and mixed-signal semiconductor testing services, and 99% for LCD and other flat-panel display driver semiconductor testing and assembly services, but decreased to 87% for memory and mixed-signal assembly services. If we fail to further increase or maintain our capacity utilization rates, our earnings and profitability 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.

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 2005, except for the investment in a new production facility in Shanghai owned by ChipMOS TECHNOLOGIES (Shanghai) LTD., or ChipMOS Shanghai, a wholly-owned subsidiary of our controlled consolidated subsidiary, Modern Mind Technology

Table of Contents

Limited, or Modern Mind. In addition, future capacity expansions or market or other developments may require additional funding. Our ability to obtain external financing in the future depends on a number of factors, many of which are beyond our control. They include:

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

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

If Modern Mind fails to invest an additional US$202.5 million into ChipMOS Shanghai by July 6, 2005, ChipMOS Shanghai s business license may become automatically void and ChipMOS Shanghai may have to be liquidated, which could hurt our growth prospects and potential future profitability.

Under applicable regulations of the People s Republic of China, or PRC, and the terms of the business license of ChipMOS Shanghai, a wholly-owned subsidiary of our controlled consolidated subsidiary, Modern Mind, the business license of ChipMOS Shanghai may automatically become void and ChipMOS Shanghai may have to be liquidated if Modern Mind fails to invest an additional US$202.5 million by July 6, 2005, unless an extension has been obtained from competent PRC regulatory authorities. We intend to use approximately US$50 million of our net proceeds from this offering as a loan to Modern Mind to fund an additional US$50 million capital contribution to ChipMOS Shanghai primarily to finance ChipMOS Shanghai s facility construction costs. We will be required to raise additional funds to meet ChipMOS Shanghai s investment commitments. Even if we have the financial resources available, we may decide not to fund the investment if it would cause Mosel to violate applicable ROC laws and regulations. See Risks Relating to Countries in Which We Conduct Operations The investment in Mainland China by our controlled consolidated subsidiary, Modern Mind, through ChipMOS Shanghai, and the related contractual arrangements may result in Mosel violating ROC laws governing investments in Mainland China by ROC companies or persons. Any sanctions on Mosel as a result of any violation of ROC laws may cause Mosel to decrease its ownership in us significantly or cause Mosel to take other actions that may not be in the best interest of our other shareholders.

We have been advised by our PRC counsel, Shanghai Zhenghan law firm, that the relevant PRC regulatory authority is not legally obligated to, but in practice may, grant Modern Mind a grace period of no more than six months if it submits in advance an application for extending the deadlines for making the remaining investments in ChipMOS Shanghai. In 2002, when Modern Mind failed to make the initial investment of US$37.5 million for ChipMOS Shanghai within the three-month duration of its initial business license, ChipMOS Shanghai s business license was extended for another four months, during which Modern Mind made its initial investment. However, there is no assurance that the relevant PRC regulatory authority will grant an extension or that we will be able to raise sufficient funds in a timely manner for the investment in ChipMOS Shanghai. If we are unable to obtain the funding in a timely manner or on acceptable terms or if we are unwilling to provide funding to ChipMOS Shanghai through Modern Mind, ChipMOS Shanghai may lose its business license and may have to be liquidated and our growth prospects and potential future profitability may suffer.

Our research and development efforts may not yield profitable and commercially viable services. As a result, we may have significant short-term research and development expenses, which may not necessarily result in immediate or long-term increases in net revenue.

Our research and development efforts may not yield commercially viable testing or assembly services. The customer qualification process for new services is conducted in various stages, which may take one or more years to complete, and during each stage there is a substantial risk that we will have to abandon a potential test or

Table of Contents

assembly service that is no longer marketable and in which we have invested significant resources. If we are unable to qualify new services, a significant amount of time will have elapsed between our investment and the receipt of any related revenues.

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

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

Our ability to compete successfully also depends on our ability to operate without infringing upon the proprietary rights of others. The semiconductor testing and assembly industry is characterized by frequent litigation regarding patent and other intellectual property rights. We may incur legal liabilities if we infringe upon the intellectual property or other proprietary rights of others. The situation is exacerbated by our inability to ascertain what patent applications have been filed in the United States or elsewhere until they are granted.

If any third party succeeds in its intellectual property infringement claims against us or our customers, we could be required to:

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

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

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

Our operations require us to obtain sufficient quantities of raw materials at acceptable prices in a timely and cost-effective manner. We source most of our raw materials, including critical materials like leadframes, organic substrates, epoxy, gold wire and molding compound for assembly, and tapes for TCPs, 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. For example, we have recently seen a significant increase in the prices of leadframes, one of the raw materials that we use for leadframe-based packages. 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

Table of Contents

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 begin to produce modules and subsystems, we will need significantly greater quantities and more types of raw materials and other inputs. Many of the new inputs we need to purchase will be mechanical or other non-semiconductor related products such as flat-panel displays or ink-jet printer heads. We currently do not have any arrangements with suppliers to provide the additional inputs that will be required for the modules and subsystems we currently contemplate producing. As a result, we cannot assure you that we will initially be able to purchase supplies of our non-semiconductor related inputs for our modules and subsystems. 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. For example, we faced a shortage of testers during most of 2000 because of significant global demand, with lead times for delivery of six months or more after the date of order. Currently, the lead time for the delivery of testers for which we have placed orders has been increasing from the usual three months after the date of order. 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.

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.

Our customers generally do not place purchase orders far in advance, which makes it difficult for us to predict our future revenue. As a result, we may be unable to adjust costs in a timely manner to compensate for revenue shortfalls and our results of operations may fluctuate from period to period.

Most of our customers generally 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. As a result, it is difficult for us to forecast our revenue for future periods, and our results of operations may fluctuate from period to period. Moreover, our expense levels are based in part on our expectations of future revenue, and we may be unable to adjust costs in a timely manner to compensate for revenue shortfalls. We expect that in the future our revenue in any quarter will continue to be substantially dependent upon purchase orders received in that quarter. We cannot assure you that any of our customers will continue to place orders with us in the future at the same levels as in prior periods. We also cannot assure you that our customers orders will be consistent with our expectations when we made or make the necessary investments in raw materials, labor and equipment.

16

Table of Contents

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

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

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

We are incorporated in Bermuda and a majority of our directors and most of our officers are not residents of the United States. A substantial portion of our assets is located outside the United States. As a result, it may be difficult for our shareholders to serve notice of a lawsuit on us or our directors and officers within the United States. Because most of our assets are located outside the United States, it may be difficult for our shareholders to enforce in the United States judgments of United States courts. Appleby Spurling Hunter, our counsel in Bermuda, 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.

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 process. Although we have not suffered material environmental claims in the past, a failure or a claim that we have failed to comply with any present or future regulations could result in the assessment of damages or imposition of fines against us, suspension of production or a cessation of our operations or negative publicity. New regulations could require us to acquire costly equipment or to incur other significant expenses. Any failure on our part to control the use of, or adequately restrict the discharge of, hazardous substances could subject us to future liabilities that may materially reduce our earnings.

Fluctuations in exchange rates could result in foreign exchange losses.

Currently, most of our net revenue is denominated in NT dollars. Our cost of revenue and operating expenses, on the other hand, are incurred in several currencies, including NT dollars, Japanese yen, US dollars and Renminbi, or RMB. In addition, a substantial portion of our capital expenditures, primarily for the purchase of testing and assembly equipment, has been, and is expected to continue to be, denominated in Japanese yen with much of the remainder in US dollars. We also have debt denominated in NT dollars, Japanese yen, US dollars and RMB. Fluctuations in exchange rates, primarily among the US dollar, the NT dollar and the Japanese yen, will affect our costs and operating margins in NT dollar terms. In addition, these fluctuations could result in exchange losses and increased costs in NT dollar terms. For example, we recorded foreign exchange gains of NT$55 million in 2001 and foreign exchange losses of NT$42 million, NT$79 million (US$2 million) and NT$38 million (US$1 million), in 2002, 2003 and the first quarter of 2004, respectively. Despite selective hedging and other mitigating techniques implemented by us, fluctuations in exchange rates have affected, and may continue to affect, our financial condition and results of operations.

17

Table of Contents

We may increase our inventory if we expand our services to manufacturing modules and subsystems, which in turn could increase our working capital requirements and subject us to increased risks of inventory losses or writedowns.

If we expand our services to the manufacturing of modules and subsystems, such as memory modules, liquid crystal modules and ink-jet print head modules, we will need to purchase wafers, LCD panels, color filters, polarizer film, ink-jet print heads and other inputs related to our module and subsystems business. We anticipate that we will have to purchase many of these inputs in advance of our completion of the production of the corresponding module or subsystem and thus will hold some of these inputs, either alone or as part of work in progress, in inventory for a period of time. As a result, although we will try to minimize the time between purchase of the inputs and sale of the final modules or subsystems, we will be subject to the risk that the value of such inputs and work in progress will decline, perhaps significantly, prior to the completion of production and sale of the final module or subsystem. Moreover, deteriorating market conditions may result in an increase in our inventory levels, a decline in the average selling price of our products and a corresponding decrease in the stated value of our inventories. We cannot assure you that we will be able to maintain our inventories at a satisfactory level or that we will not incur losses on inventories in the future.

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

As part of our growth strategy, from time to time, we make acquisitions and investments in companies or businesses. For example, in 2002 and 2003, we acquired a controlling interest in Modern Mind and its wholly-owned subsidiary ChipMOS Shanghai. Furthermore, in 2002, 2003 and the first quarter of 2004, we acquired through ChipMOS Taiwan an equity interest in Chantek that was 34.2% as of April 30, 2004, an equity interest in ThaiLin Semiconductor Corp., or ThaiLin, that was 35.2% as of April 30, 2004, and an equity interest in Advanced Micro Chip Technology Co., Ltd., or AMCT, that was 99.7% as of April 30, 2004. We have merged WORLD-WIDE TEST Technology Inc., or WWT, into one of our subsidiaries, as discussed in more detail in Business Our Structure and History ChipMOS Logic TECHNOLOGIES, INC. below. The success of our acquisitions and investments depends on a number of factors, including:

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

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

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

As of April 30, 2004, Siliconware Precision owned 28.7% of the outstanding equity securities of ChipMOS Taiwan. Siliconware Precision provides testing and assembly services for logic and mixed-signal semiconductors. Under the terms of the joint venture agreement between Mosel and Siliconware Precision regarding the operation of ChipMOS Taiwan, Siliconware Precision is entitled to nominate two of the seven board members of ChipMOS Taiwan. Two of ChipMOS Taiwan s current directors were appointed by Siliconware Precision. As a result, conflicts of interest between those directors duty to Siliconware Precision and to us may arise. We cannot assure you that when such conflicts of interest arise, directors appointed by

Table of Contents

Siliconware Precision to our board will act completely in our interests or that conflicts of interest will be resolved in our favor. These conflicts may result in the loss by us of existing or potential customers to Siliconware Precision.

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

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

Risks Relating to Our Relationship with Mosel

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

As our largest shareholder, Mosel exercises significant control, and subsequent to this offering may

continue to exercise significant control, over all matters submitted to our shareholders for approval and other corporate actions, such as:

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

Mosel s substantial interests in our company could also:

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.

Moreover, because Mosel has the 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.

Table of Contents

In April 2002, ChipMOS Taiwan purchased NT$242 million of Mosel shares, as described in more detail in the risk factor below. In April 2003, ChipMOS Taiwan purchased from third-party bondholders NT$570 million worth of index bonds due in 2003 of Mosel, as described in more detail in Related Party Transactions Other Related Party Transactions Mosel Vitelic Inc. If we acquire debt or other securities of Mosel in the future, there can be no assurance that we will be able to resell such securities or otherwise recoup any or all of our money used to acquire them.

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 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.

During 2002, ChipMOS Taiwan engaged in certain transactions as described in more detail in Related Party Transactions Certain Transactions in 2002.

In addition, ChipMOS Taiwan purchased NT$242 million worth of Mosel shares in 2002, the market value of which as of June 14, 2004 was approximately NT$39 million. See notes 4 and 20 to our consolidated financial statements included in this prospectus for details of the allowances for loss we have made in 2002 and 2003 against this and other short-term investments.

In 2003, ChipMOS Taiwan took a pledge of 2,360,000 ChipMOS Bermuda shares from Prudent Holdings Group Ltd., or Prudent, as collateral for Prudent s obligations to ChipMOS Taiwan under a credit assignment agreement, as described in more detail in Related Party Transactions Other Related Party Transactions Best Home Corp. Ltd.

Lee and Li, our ROC counsel, has advised us that these transactions do not violate relevant ROC law provisions prohibiting 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 (a) Mosel s percentage interest in ChipMOS Bermuda and (b) ChipMOS Bermuda s percentage interest in ChipMOS Taiwan) in ChipMOS Taiwan was less than 50% and ChipMOS Bermuda is incorporated outside of Taiwan. 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, or an impermissible pledge of ChipMOS Bermuda s equity to 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,

Table of Contents

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 shares to decline.

The ongoing criminal investigation involving Mr. Hung-Chiu Hu, our former chairman, could have a material adverse effect on our business or cause our stock price to decline.

Mr. Hung-Chiu Hu, who resigned as our chairman on May 19, 2004 but remains as our director, is currently being investigated by the Taipei Prosecutor Office. We understand that the investigation was initiated after certain directors of 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, filed a complaint in February 2004 with the Taipei Prosecutor Office against Mr. Hu alleging that he embezzled certain corporate funds and misappropriated certain assets while he was an executive vice president and a director of Pacific Electric. Pacific Electric and its directors have also filed similar lawsuits against certain former directors and officers of Pacific Electric s subsidiaries. Mr. Hu has informed us that he believes the allegations are without merit and that he will vigorously defend himself. On March 26, 2004, Mr. Hu filed a criminal complaint for false accusation with the Taipei Prosecutor Office against one of the directors who Mr. Hu believes was involved in the filing of the complaint against him. If the Taipei Prosecutor Office decides to prosecute Mr. Hu upon concluding the investigation and if such prosecution results in a conviction of Mr. Hu by a court, Mr. Hu may be barred from acting as an officer or director of any company incorporated in Bermuda or in Taiwan, which would include ChipMOS Bermuda and ChipMOS Taiwan, respectively. Any adverse publicity from this investigation or the potential indictment or conviction of Mr. Hu could have a material adverse effect on our business or cause our stock price to decline.

Potential conflicts of interest with our major shareholder and its affiliates may cause us to turn down orders from other customers.

As of April 30, 2004, Mosel indirectly held a 43.7% interest in us through its wholly-owned subsidiary Giant Haven Investments Ltd., and its indirectly held subsidiary, Mou-Fu Investment Ltd. Subsequent to this offering, Mosel will indirectly hold a 24.1% interest in us (or a 21.9% interest if the over-allotment option is exercised in full) (assuming no issuances of shares pursuant to share option exercises subsequent to April 30, 2004). Prior to the transfer by Mosel of all of its DRAM business in the period from July to December 2003 to its affiliate, ProMOS, Mosel designed and manufactured semiconductor products, including static random access memory, or SRAM, and flash memory. Its affiliate, ProMOS, in which Mosel held a 18.0% interest as of April 30, 2004, designs and manufactures DRAM.

Mosel, with its significant ownership interest in us, has the ability to influence our major business decisions, including the allocation of testing and assembly service capacities and the development of our testing and assembly technologies. Mosel s involvement in the semiconductor business may lead to conflicts of interest in providing testing and assembly services to our other customers. Such a situation could damage our relationship with our other customers and could encourage them to divert their business with us to our competitors. In addition, some of our directors also hold positions at Mosel. As a result, conflicts of interest between their duty to Mosel and us 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 violating ROC laws governing investments in Mainland China by ROC companies or persons. Any sanctions on Mosel as a result of any violation of ROC laws may cause Mosel to decrease its ownership in us significantly or cause Mosel to take other actions that may not be in the best interest of our other shareholders. We cannot assure you that when conflicts of interest arise, Mosel s directors on our board will act completely in our interests, or that conflicts of interest will be resolved in our favor. These conflicts may result in the loss of existing or potential customers.

Table of Contents

If Mosel experiences significant liquidity and other financial difficulties, it may pledge or sell its interests in us, which could result in a change of control in our company and could cause our stock price to decline.

In 2000, 2001, and 2002, Mosel experienced significant liquidity and other financial difficulties. While Mosel s financial condition and results of operations have stabilized, it may need to pledge or sell our common shares to obtain additional capital if its financial condition and results of operations were again to deteriorate. Any pledge or sale of our common shares by Mosel could result in a change of control in our company and could affect the market price of our common shares.

Potential defaults by Mosel under the terms of the joint venture agreement between Mosel and Siliconware Precision regarding the operation of ChipMOS Taiwan could harm our relationship with Mosel or require us to dilute our shareholding in ChipMOS Taiwan.

Under the terms of the joint venture agreement between Mosel and Siliconware Precision regarding the operation of ChipMOS Taiwan, Mosel has agreed to cooperate with Siliconware Precision to ensure that the shares of ChipMOS Taiwan are listed on the Taiwan Stock Exchange, the GreTai Securities Market or any other stock exchange. Mosel has also agreed to maintain at least a 28.8% equity interest in ChipMOS Taiwan for five years after such listing. We currently have no plans to list ChipMOS Taiwan, and Mosel currently has no direct equity interest in ChipMOS Taiwan. There can be no assurance that Siliconware Precision may not in the future seek to enforce against Mosel its obligations under the joint venture agreement. Remedies for breaches by Mosel of, or non-compliance by Mosel with, the terms of the joint venture agreement may include damages, the right of Siliconware Precision to purchase from Mosel additional shares of ChipMOS Taiwan or the right of Siliconware Precision to sell to Mosel its shares of ChipMOS Taiwan. Any litigation or any payments that Mosel will be required to make could strain Mosel s resources or adversely affect its financial condition, which could in turn adversely affect our relationship with Mosel. Any transfer of ChipMOS Taiwan shares could affect Mosel s ownership interests in and its exercise of significant control over ChipMOS Taiwan or us. As a result of any breach by Mosel of the joint venture agreement, Siliconware Precision s right to purchase ChipMOS Taiwan shares from Mosel would be limited to the number of ChipMOS Taiwan shares then owned by Mosel, and Siliconware Precision would be entitled to require Mosel to purchase all of the ChipMOS Taiwan shares then owned by Siliconware Precision. There can be no assurance that resolution of any disputes between Siliconware Precision and Mosel in this regard will not have an adverse effect on our business or financial condition.

Risks Relating to Countries in Which We Conduct Operations

The investment in Mainland China by our controlled consolidated subsidiary, Modern Mind, through ChipMOS Shanghai, and the related contractual arrangements may result in Mosel violating ROC laws governing investments in Mainland China by ROC companies or persons. Any sanctions on Mosel as a result of any violation of ROC laws may cause Mosel to decrease its ownership in us significantly or cause Mosel to take other actions that may not be in the best interest of our other shareholders.

ROC laws and regulations prohibit any investment by ROC entities in Mainland China in 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, excluding shares of companies that are publicly traded; 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

Table of Contents

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 convertible note issued by Modern Mind, convertible into 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. We are currently in the process of restructuring our control of ChipMOS Shanghai and our Mainland China operations, which is expected to be implemented as of the closing of this offering. We currently expect to replace the outstanding US$37.5 million convertible note previously issued by Modern Mind in its entirety with US$97.5 million demand notes, with the additional amount representing a US$60 million loan that we currently expect to extend to Modern Mind from the net proceeds of this offering. The demand notes will be 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. In addition, we will obtain from Jesper Limited an irrevocable option to acquire the common shares of Modern Mind then owned by Jesper Limited. Payment under the demand notes will be fully and unconditionally guaranteed by Jesper Limited and secured by a security interest in the entire equity interest in Modern Mind and ChipMOS Shanghai. We are also in the process of implementing certain additional contractual arrangements with regard to ChipMOS Shanghai. Please see Business Our Structure and History Modern Mind Technology Limited and ChipMOS TECHNOLOGIES (Shanghai) LTD. and Business Restructuring of Our Control of Modern Mind and ChipMOS Shanghai for further details on these contractual arrangements.

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 counsel, ChipMOS Bermuda s indirect control over ChipMOS Shanghai through the ownership of convertible notes or 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 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 that non-ROC company, an investment by the non-ROC company in the PRC will constitute an investment by the ROC shareholder 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, if Mosel 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 counsel, Lee and Li, based on the verbal indication of officials at the Investment Commission of the ROC Ministry of Economic Affairs, or the Investment Commission, that Mosel may be considered to have controlling power over our management and operations because it owns more than 10% of our common shares and has 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 subject to the prohibitions described in the first paragraph of this risk factor. As a result, so long as Mosel 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 under these regulations. As a result, any significant ownership of our common shares by Mosel could materially and adversely restrict our ability and flexibility in structuring our investment in Mainland China and thereby affect our business prospects.

If Mosel were determined to be in violation of the applicable ROC laws and regulations governing investments in Mainland China, Mosel may be ordered by the Investment Commission to cease such investment

Table of Contents

activities in Mainland China within a specified period of time and may be subject to a fine of between NT$50,000 and NT$25 million. Mosel 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 to cease having controlling power over our management and operations. If Mosel does not comply with the order of the Investment Commission, the ROC government can impose on the chairman of Mosel 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 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.

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. 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 testing and assembly-related technologies that ChipMOS Bermuda controlled at that time, which included technologies that ChipMOS Bermuda had licensed from ChipMOS Taiwan. ChipMOS Bermuda also provided technical support and consulting services under this agreement to ChipMOS Shanghai. 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 to ChipMOS Bermuda, including those previously licensed 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 counsel, our technology transfer arrangements after April 7, 2004 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 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$50,000 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 and our contemplated 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 convertible note issued by Modern Mind. We are currently in the

24

Table of Contents

process of restructuring 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 violating ROC laws governing investments in Mainland China by ROC companies or persons. Any sanctions on Mosel as a result of any violation of ROC laws may cause Mosel to decrease its ownership in us significantly or cause Mosel to take other actions that may not be in the best interest of our other shareholders and Business Restructuring of Our Control of Modern Mind and ChipMOS Shanghai 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.

We conduct almost all of our operations through companies that we do not fully own. For example, almost all of our current consolidated operations are conducted through ChipMOS Taiwan, our 70.3% subsidiary, Chantek, ChipMOS Taiwan s 34.2% subsidiary as of April 30, 2004, ThaiLin, ChipMOS Taiwan s 35.2% subsidiary as of April 30, 2004, 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. 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 we desire may be limited.

Any future outbreak of 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 severe acute respiratory syndrome, for which there is no known cure or vaccine, may potentially result in a quarantine of infected employees and related persons, and affect our operations at one or more of our facilities. We cannot predict at this time the impact any future outbreak could have on our business and results of operations.

Strained relations between the Republic of China and the People s Republic of China could negatively affect our business and the market price of our shares.

Our principal executive offices and most of our testing and assembly facilities are located in Taiwan. The ROC has a unique international political status. The PRC 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. The government of the PRC has not renounced the use of 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.

Any political or economic destabilization of the ROC could negatively affect our stock price, our business and results of operations.

In the Taiwan presidential elections held on March 20, 2004, the pro-independence Democratic Progressive Party won by a very narrow margin. The losing Kuomintang-People s First Party alliance has challenged the

Table of Contents

validity of the election results and a recount was conducted from May 10, 2004 to May 18, 2004, but the Taiwan High Court has not yet released the results of the recount. Since the election, the market prices of the securities of many Taiwanese and Taiwan related companies listed on the Taiwan Stock Exchange or foreign securities exchanges, including our own, have been adversely affected. There is no assurance that the uncertainty caused by the challenge to the presidential elections and the outcome of the recount will not result in further political or economic destabilization. Any further political or economic destabilization of the ROC could negatively affect our stock price, our business and results of operations.

We are vulnerable to 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 all of our assembly services through our facility in the Southern Taiwan Science Park in Taiwan. 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. 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 addition, the production facilities of many of our suppliers and customers and providers of complementary semiconductor manufacturing services, including foundries, are located in Taiwan. 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, natural disaster or other disruptive event in Taiwan could severely disrupt the normal operation of business and have a material adverse effect on our financial condition and results of operations.

Risks Relating to Our Holding Company 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, 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, 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

Table of Contents

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. Any limitation on dividend payments by our subsidiaries could materially adversely affect our ability to grow, fund investments, make acquisitions, pay dividends, and otherwise fund and conduct our business.

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.

Risks Relating to Our Common Shares

Our common shares are subject to removal from the Nasdaq National Market if our common shares fail to maintain a minimum bid price of US$1.00.

Under the rules of the Nasdaq National Market, our common shares are subject to removal if the minimum bid price for our common shares fails to remain at or above US$1.00 for a period of 30 consecutive business days. On six days in May 2003, the market price of our common shares dropped below US$1.00. We can give no assurance that the bid price of our common shares will remain above US$1.00.

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 bye-laws make the acquisition of us by another company more difficult 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 all votes present at a general meeting called to consider such extraordinary transaction.

Table of Contents

Future sales 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, or the perception that future sales may occur following the quotation of our common shares on the Nasdaq National Market, could depress the prevailing market price of our shares. As of April 30, 2004, we had approximately 60 million shares outstanding, approximately 21 million shares of which are currently freely tradeable within the United States without restriction or further registration under the Securities Act of 1933.

In addition, we plan to issue, from time to time, additional shares in connection with employee compensation and to finance possible future investments or acquisitions. The issuance of additional shares may have a dilutive effect on other shareholders and may cause the price of our common shares to decrease. See Management Share Option 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.

Table of Contents

USE OF PROCEEDS

Our net proceeds from this offering will be approximately US$137 million, or approximately US$158 million if the underwriters exercise the over-allotment option in full, assuming an offering price of US$8.42, based on the last reported sale price on June 10, 2004, and after deducting underwriting discounts and estimated offering expenses.

We intend to use our net proceeds from this offering as follows:

- US$60 million to finance the purchase by ChipMOS Far East of equipment to be consigned or leased to ChipMOS Shanghai;
- US$60 million as a loan to Modern Mind to finance:
  - repayment of approximately US$10 million outstanding debt of Modern Mind;
  - US$50 million capital contribution to ChipMOS Shanghai for the repayment of approximately RMB20 million (US$2 million based on an exchange rate of RMB8.28 per US$1.00 as of March 31, 2004) outstanding bank debt of ChipMOS Shanghai with the remainder for ChipMOS Shanghai s facility construction costs; and
- the balance to fund our working capital requirements and potential future merger and acquisition activities.

Pending such uses, we will invest the net proceeds in short-term U.S. government or other investment-grade debt securities or interest-bearing bank deposits.

We will not receive any of the proceeds from the sale of our common shares by the selling shareholder in this offering. All of the proceeds from such sale will be for the account of the selling shareholder.

Table of Contents

CAPITALIZATION

The following table sets out our consolidated cash and cash equivalents and capitalization as of March 31, 2004. Our capitalization is presented:

- on an actual basis;
- on an as adjusted basis to reflect:
  - the net proceeds of this offering (assuming a public offering price of US$8.42 per share) after deducting underwriting discounts and the estimated expenses of the offering and applying RMB20 million (US$2 million based on an exchange rate of RMB8.28 per US$1.00 as of March 31, 2004) of the proceeds from the offering to repay bank debt at ChipMOS Shanghai; and
- on a combined adjusted basis to reflect:
  - the net proceeds of this offering (assuming a public offering price of US$8.42 per share) after deducting underwriting discounts and the estimated expenses of the offering and applying RMB20 million (US$2 million based on an exchange rate of RMB8.28 per US$1.00 as of March 31, 2004) of the proceeds from the offering to repay bank debt at ChipMOS Shanghai;
  - the repayment of NT$1,216 million short-term bank loans by ChipMOS Taiwan in April 2004 through the disposal of short-term investments and cash and cash equivalents;
  - the issuance of 31,697 common shares in April 2004 pursuant to the exercise of employee share options;
  - the increase in consolidated debt resulting from the merger of PlusMOS Technologies Inc. into CHANTEK ELECTRONIC CO., LTD., or Chantek, effective April 1, 2004, with Chantek as the surviving entity, which we are required to consolidate subsequent to the completion of the merger on April 1, 2004; and
  - the merger of WORLD-WIDE TEST Technology Inc. into ChipMOS Logic TECHNOLOGIES INC., or ChipMOS Logic, effective April 30, 2004, with ChipMOS Logic as the surviving entity, which does not have any significant impact on our capitalization.

Table of Contents

This table should be read in conjunction with our audited consolidated financial statements as of December 31, 2002 and 2003 and for the years ended December 31, 2001, 2002 and 2003, our unaudited consolidated financial statements as of March 31, 2004 and for the quarters ended March 31, 2003 and 2004, the related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus. All of our long-term liabilities consist of either secured or unguaranteed and unsecured long-term debt. Other than as adjusted for in the following table, there has been no material change in our long-term debt and shareholders equity since March 31, 2004.

	As of March 31, 2004 (unaudited)					
	Actual		As adjusted for this offering		As adjusted combined	
	NT$	US$	NT$	US$	NT$	US$
			(in millions)			
Cash and cash equivalents	$ 1,351.0	40.9	5,788.8	$ 175.4	$ 5,700.8	$ 172.8
Long-term debt (excluding current portion of long-term debt)						
Secured long-term debt	2,208.0	66.9	2,208.0	66.9	2,474.6	75.0
Unguaranteed and unsecured long-term debt	597.1	18.1	597.1	18.1	597.1	18.1
Total long-term debt	2,805.1	85.0	2,805.1	85.0	3,071.7	93.1
Shareholders equity						
(US$0.01 par value per common share, 59,828,538 shares issued as of March 31, 2004, 59,860,235 as of April 30, 2004, and 77,360,235 shares issued and outstanding following this offering (assuming over-allotment option is not exercised))	19.6	0.6	25.4	0.8	25.4	0.8
Capital surplus	7,751.3	234.9	12,262.5	371.6	12,344.6	374.1
Option warrants	75.9	2.3	75.9	2.3	136.4	4.1
Deferred compensation	(34.3)	(1.0)	(34.3)	(1.0)	(92.4)	(2.8)
Retained earnings (accumulated deficits)	44.5	1.3	44.5	1.3	271.5	8.2
Treasury stock	0.4		0.4		0.4	
Cumulative translation adjustments	(69.9)	(2.1)	(69.9)	(2.1)	(55.5)	(1.7)
Total shareholders equity	7,787.5	236.0	12,304.5	372.9	12,630.4	382.7
Total capitalization	$ 10,592.6	$ 321.0	$ 15,109.6	$ 457.9	$ 15,702.1	$ 475.8

Table of Contents

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth our selected consolidated financial data. The selected consolidated balance sheet data as of December 31, 2002 and 2003 and our consolidated statement of operations and cash flows data for 2001, 2002 and 2003 are derived from our audited consolidated financial statements included in this prospectus, and should be read in conjunction with the section of this prospectus entitled Management s Discussion and Analysis of Financial Condition and Results of Operations and our audited consolidated financial statements and related notes beginning on page F-1 of this prospectus. These audited consolidated financial statements have been audited by Moore Stephens. The selected consolidated balance sheet data as of December 31, 1999, 2000 and 2001 and the consolidated statement of operations and cash flows data for the years ended December 31, 1999 and 2000 are derived from our audited consolidated financial statements not included in this prospectus. The selected consolidated balance sheet data as of March 31, 2004 and our consolidated statement of operations and cash flows data for the quarters ended March 31, 2003 and 2004 are derived from our unaudited consolidated financial statements included in this prospectus, and should be read in conjunction with the section of this prospectus entitled Management s Discussion and Analysis of Financial Condition and Results of Operations, our audited consolidated financial statements and the related notes and our unaudited consolidated financial statements and the related notes beginning on page F-1 of this prospectus. Our consolidated financial statements have been prepared and presented in accordance with ROC GAAP, which differs in some material respects from US GAAP. Please see Note 27 to our audited consolidated financial statements for a description of the principal differences between ROC GAAP and US GAAP for the periods covered by the audited consolidated financial statements. There are no material variations in the accounting principles, practices and methods used in preparing the unaudited consolidated financial statements as of March 31, 2004 and for the quarters ended March 31, 2003 and 2004 from US GAAP other than those disclosed in Note 27 to our audited consolidated financial statements. A reconciliation between US GAAP and ROC GAAP has not been included in the notes to the unaudited consolidated financial statements. The financial data set forth below have been presented as if (1) we had been in existence since July 28, 1997, and (2) we acquired our interest in ChipMOS Taiwan on July 28, 1997.

Table of Contents

	Year ended December 31,						Three Months ended March 31, (1) (unaudited)		
	1999	2000	2001	2002	2003	2003	2003	2004	2004
	NT$	NT$	NT$	NT$	NT$	US$	NT$	NT$	US$
	(in millions, except for share data)								
Consolidated Statement of Operations Data:									
ROC GAAP:									
Net revenue:									
Related parties(2)	$ 4,162.4	$ 5,311.1	$ 3,719.0	$ 3,665.4	$ 5,072.9	$ 153.7	$1,087.1	$ 1,231.8	$ 37.3
Others	2,221.5	2,913.1	1,526.1	2,860.5	3,953.6	119.8	617.4	1,857.9	56.3
Total net revenue	6,383.9	8,224.2	5,245.1	6,525.9	9,026.5	273.5	1,704.5	3,089.7	93.6
Cost of revenue	4,936.4	5,511.0	6,029.3	6,711.7	7,459.5	226.0	1,641.5	1,969.6	59.7
Gross profit (loss)	1,447.5	2,713.2	(784.2)	(185.8)	1,567.0	47.5	63.0	1,120.1	33.9
Operating expenses:									
Research and development	281.7	357.4	408.9	326.8	295.0	9.0	69.2	72.6	2.2
Sales and marketing	84.2	138.0	34.7	37.3	65.4	2.0	7.0	14.2	0.4
General and administrative	169.0	238.5	248.0	310.2	439.9	13.3	143.9	116.3	3.5
Total operating expenses	534.9	733.9	691.6	674.3	800.3	24.3	220.1	203.1	6.1
Income (loss) from operations	912.6	1,979.3	(1,475.8)	(860.1)	766.7	23.2	(157.1)	917.0	27.8
Other income (expenses), net	(67.7)	(106.9)	(77.2)	(397.6)	(77.1)	(2.3)	(51.6)	(11.2)	(0.4)
Income (loss) before income tax and minority interests and interest in bonuses paid by subsidiaries(3)	844.9	1,872.4	(1,553.0)	(1,257.7)	689.6	20.9	(208.7)	905.8	27.4
Income tax benefit (expense)	102.1	(333.4)	(32.4)	(97.9)	29.0	0.9	(25.9)	(77.5)	(2.3)
Income (loss) before minority interests and interest in bonuses paid by subsidiaries(3)	947.0	1,539.0	(1,585.4)	(1,355.6)	718.6	21.8	(234.6)	828.3	25.1
Minority interests	(290.5)	(465.7)	450.5	385.3	(256.9)	(7.8)	38.1	(288.8)	(8.8)
Interest in bonuses paid by subsidiaries(3)	(70.8)	(115.9)							
Pre-acquisition earnings(4)					20.7	0.6			
Net income (loss)	$ 585.7	$ 957.4	$ (1,134.9)	$ (970.3)	$ 482.4	$ 14.6	$(196.5)	$ 539.5	$ 16.3
Earning (loss) per share:									
Basic	$ 13.04	$ 17.76	$ (19.45)	$ (16.49)	$ 8.19	$ 0.25	$(3.34)	$ 9.03	$ 0.27
Diluted	$ 13.04	$ 17.76	$ (19.45)	$ (16.49)	$ 8.12	$ 0.25	$(3.34)	$ 8.99	$ 0.27
Weighted-average number of shares outstanding:									
Basic	44.9	53.9	58.3	58.8	58.9	58.9	58.9	59.8	59.8
Diluted	44.9	53.9	58.3	58.8	59.4	59.4	58.9	60.0	60.0
US GAAP:(5)									
Net income (loss)	$ 631.2	$ 879.8	$ (993.5)	$ (913.4)	$ 485.3	$ 14.7			
Earning (loss) per share:									
Basic	$ 12.65	$ 16.42	$ (17.03)	$ (15.52)	$ 8.24	$ 0.25			
Diluted	$ 12.65	$ 16.42	$ (17.03)	$ (15.52)	$ 8.17	$ 0.25			

Weighted-average number of shares outstanding:						
Basic	49.9	53.6	58.3	58.8	58.9	58.9
Diluted	49.9	53.6	58.3	58.8	59.4	59.4

(1) For the first quarter of 2003, we consolidated the financial results of ChipMOS TECHNOLOGIES INC., or ChipMOS Taiwan, ChipMOS Japan Inc., or ChipMOS Japan, ChipMOS USA Inc., or ChipMOS USA, ChipMOS Far East Limited, or ChipMOS Far East, and Modern Mind Technology Limited, or Modern Mind, and its wholly-owned subsidiary, ChipMOS TECHNOLOGIES (Shanghai) LTD., or ChipMOS Shanghai. For the first quarter of 2004, we also consolidated the financial results of ThaiLin Semiconductor Corp., or ThaiLin, (which have been consolidated since December 1, 2003, the date when ChipMOS Taiwan obtained the controlling influence over ThaiLin s decisions on its operations, personnel and financial policies), and from January 12 and 28, 2004, onwards, the financial results of Advanced Micro Chip Technology Co., Ltd., or AMCT, and ChipMOS Logic TECHNOLOGIES INC., or ChipMOS Logic, respectively.

(2) 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, 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, AMCT, Jesper Limited and Prudent Holdings Group Ltd. See Note 20 of the notes to the audited consolidated financial statements. Effective April 1, 2004, PlusMOS was merged into Chantek with Chantek as the surviving entity. See Business Our Structure and History CHANTEK ELECTRONIC CO., LTD. For the first quarter of 2004, related parties also include ChipMOS Logic. Effective April 30, 2004, WORLD-WIDE TEST Technology Inc., or WWT, was merged into ChipMOS Logic with ChipMOS Logic as the surviving entity. See Business Our Structure and History ChipMOS Logic TECHNOLOGIES INC. .

(3) Refers to bonuses to directors, supervisors and employees paid by a subsidiary.

(4) 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.

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

Table of Contents

	As of December 31,						As of March 31, [1] (unaudited)	
	1999	2000	2001	2002	2003	2003	2004	2004
	NT$	NT$	NT$	NT$	NT$	US$	NT$	US$
	(in millions)							
Consolidated Balance Sheet Data:								
ROC GAAP:								
Current assets:								
Cash and cash equivalents	$ 149.7	$ 1,190.5	$ 1,181.1	$ 2,487.5	$ 1,731.0	$ 52.5	$ 1,351.0	$ 40.9
Restricted cash and cash equivalents	5.0	34.0	234.0	76.9	282.4	8.6	232.3	7.0
Short-term investments	788.0	2,048.2	969.9	874.9	664.3	20.1	2,505.0	75.9
Notes and accounts receivable	2,161.7	1,988.2	1,481.5	1,697.4	2,644.8	80.1	3,001.9	91.0
Other receivables related parties	4.9	19.1	11.6	11.5	266.2	8.1	221.4	6.7
Other receivables third parties	35.6	18.1	10.6	92.3	866.6	26.3	721.8	21.9
Inventories	214.0	325.2	172.3	166.5	335.5	10.2	405.6	12.3
Prepaid expenses and other current assets	57.5	87.6	17.9	223.2	422.2	12.8	462.2	14.0
Total current assets	3,424.4	5,753.9	4,119.6	5,668.7	7,479.7	226.6	9,018.3	273.3
Long-term investments	150.1	280.3	271.4	1,441.9	640.5	19.4	637.5	19.3
Property, plant and equipment, net	7,943.0	12,428.8	10,799.6	10,043.6	11,086.8	336.0	12,131.8	367.7
Intangible assets net	472.8	321.4	155.3	51.9	225.2	6.8	185.5	5.6
Other assets	310.9	178.6	755.4	747.6	233.5	7.1	364.0	11.0
Total assets	12,301.2	18,963.0	16,101.3	17,953.7	19,665.7	595.9	22,337.1	676.9
Current liabilities:								
Short-term bank loans	1,002.1	233.6	1,066.8	2,032.6	1,566.8	47.5	2,113.6	64.0
Current portion of long-term loans	319.3	1,076.3	1,180.0	352.2	692.8	21.0	1,198.2	36.3
Convertible bonds					267.6	8.1	188.3	5.7
Notes and accounts payable	255.0	228.2	120.1	145.4	372.7	11.3	393.3	11.9
Accrued expenses and other current liabilities	197.7	417.7	152.8	465.1	438.0	13.3	318.7	9.7
Total current liabilities	2,450.7	3,209.9	3,021.0	4,083.4	3,951.1	119.7	6,251.7	189.5
Long-term liabilities	2,314.8	3,125.5	1,969.4	4,011.4	3,438.9	104.2	2,805.1	85.0
Other liabilities	9.7	180.4	175.0	258.5	599.5	18.2	528.8	16.0
Total liabilities	4,775.2	6,515.8	5,165.4	8,353.3	7,989.5	242.1	9,585.6	290.5
Minority interests	2,323.2	3,738.4	3,336.7	2,887.1	4,428.0	134.2	4,964.0	150.4
Total shareholders equity	5,202.8	8,708.8	7,599.2	6,713.3	7,248.2	219.6	7,787.5	236.0
US GAAP[2]:								
Current assets:								
Cash and cash equivalents	$ 149.7	$ 1,190.5	$ 1,181.1	$ 2,487.5	$ 1,731.0	$ 52.5		
Restricted cash and cash equivalents	5.0	34.0	234.0	76.9	282.4	8.6		
Short-term investments	788.0	2,048.2	995.6	869.4	660.7	20.0		
Notes and accounts receivable	2,161.7	1,988.2	1,481.5	1,697.4	2,644.8	80.1		
Other receivables related parties	4.9	19.1	11.6	11.5	266.2	8.1		
Other receivables third parties	35.6	18.1	10.6	92.3	866.6	26.3		
Inventories	213.3	324.3	171.4	166.2	335.5	10.2		
Prepaid expenses and other current assets	57.5	87.6	17.9	223.2	422.2	12.8		
Total current assets	3,423.7	5,752.9	4,144.5	5,663.0	7,476.1	226.6		
Long-term investments	221.8	280.3	425.0	1,521.1	625.1	18.9		
Property, plant and equipment, net	7,771.1	12,288.6	10,762.5	10,062.8	11,082.4	335.8		
Intangible assets net	58.6	57.2	41.1	33.5	225.2	6.8		
Other assets	426.1	175.2	750.4	740.5	224.7	6.8		
Total assets	11,901.3	18,554.2	16,123.5	18,020.9	19,633.5	594.9		
Current liabilities:								
Short-term bank loans	1,002.1	233.6	1,066.8	2,032.6	1,566.8	47.5		
Current portion of long-term loans	319.3	1,076.3	1,180.0	352.2	692.8	21.0		
Convertible bonds					267.6	8.1		
Notes and accounts payable	255.0	228.2	120.1	145.4	372.7	11.3		
Accrued expenses and other current liabilities	229.0	470.0	152.8	465.1	438.0	13.3		
Total current liabilities	2,482.0	3,262.2	3,021.0	4,083.4	3,951.1	119.7		
Long-term liabilities	2,314.8	3,125.5	1,969.4	4,011.4	3,438.9	104.2		
Other liabilities	9.7	98.9	137.2	258.8	603.7	18.3		
Total liabilities	4,806.5	6,486.6	5,127.6	8,353.6	7,993.7	242.2		
Minority interests	2,169.6	3,590.1	3,354.9	2,907.1	4,418.5	133.9		

Total shareholders equity	4,925.2	8,477.5	7,641.0	6,760.2	7,221.3	218.8

(1) For the first quarter of 2003, we consolidated the financial results of ChipMOS Taiwan, ChipMOS Japan, ChipMOS USA, ChipMOS Far East, and Modern Mind and its wholly-owned subsidiary, ChipMOS Shanghai. For the first quarter of 2004, we also consolidated the financial results of ThaiLin (which have been consolidated since December 1, 2003, the date when ChipMOS Taiwan obtained the controlling influence over ThaiLin s decisions on its operations, personnel and financial policies), and from January 12 and 28, 2004, onwards, the financial results of AMCT and ChipMOS Logic, respectively.

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

Table of Contents

	Year ended December 31,						Three Months ended March 31, (1) (unaudited)		
	1999	2000	2001	2002	2003	2003	2003	2004	2004
	NT$	NT$	NT$	NT$	NT$	US$	NT$	NT$	US$
	(in millions)								
Consolidated Statement of Cash Flows Data:									
ROC GAAP:									
Capital expenditures	$ 2,849.1	$ 7,022.0	$ 992.0	$ 2,091.3	$ 2,508.2	$ 76.0	$985.3	$ 1,663.8	$ 50.4
Depreciation and amortization	1,470.5	2,013.1	2,815.4	2,820.6	2,715.0	82.3	660.8	763.5	23.1
Net cash provided by (used in):									
Operating activities	1,498.3	4,295.4	1,620.5	1,463.7	1,877.1	56.9	64.6	1,447.5	43.9
Investing activities	(3,264.3)	(7,548.4)	(1,409.7)	(3,135.9)	(760.8)	(23.1)	(280.4)	(3,589.6)	(108.8)
Financing activities	1,653.9	4,294.2	(219.8)	2,978.6	(1,841.5)	(55.8)	(323.7)	1,800.1	54.6
Effect of exchange rate changes on cash		(0.4)	(0.4)		(31.4)	(0.9)	(1.3)	(38.0)	(1.2)
Net increase (decrease) in cash	(112.1)	1,040.8	(9.4)	1,306.4	(756.6)	(22.9)	(540.8)	(380.0)	(11.5)

(1) For the first quarter of 2003, we consolidated the financial results of ChipMOS Taiwan, ChipMOS Japan, ChipMOS USA, ChipMOS Far East, and Modern Mind and its wholly-owned subsidiary, ChipMOS Shanghai. For the first quarter of 2004, we also consolidated the financial results of ThaiLin (which have been consolidated since December 1, 2003, the date when ChipMOS Taiwan obtained the controlling influence over ThaiLin s decisions on its operations, personnel and financial policies), and from January 12 and 28, 2004, onwards, the financial results of AMCT and ChipMOS Logic, respectively.

Table of Contents

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

Overview

We provide a broad range of semiconductor testing and assembly services primarily for memory, mixed-signal, and LCD and other flat-panel display driver semiconductors. We also provide semiconductor turnkey services by purchasing fabricated wafers and selling tested and assembled semiconductors. In 2003, our consolidated net revenue was NT$9,027 million (US$274 million) and our net income was NT$482 million (US$15 million). In the quarter ended March 31, 2004, our consolidated net revenue was NT$3,090 million (US$94 million) and our net income was NT$539 million (US$16 million).

We are a holding company, incorporated in Bermuda on August 1, 2000. We provide most of our services through our majority-owned subsidiary, ChipMOS TECHNOLOGIES INC., or ChipMOS Taiwan, and its subsidiaries and investees. ChipMOS Taiwan was founded in 1997 as a joint venture between Mosel and Siliconware Precision and with the participation of other investors. As of April 30, 2004, we held 70.3% of the outstanding common shares of ChipMOS Taiwan, and Siliconware Precision held 28.7%. In Taiwan, we conduct testing operations in our facilities at the Hsinchu Science Park and the Hsinchu Industrial Park and testing and assembly operations in our facility at the Southern Taiwan Science Park. We also conduct operations in Mainland China through ChipMOS TECHNOLOGIES (Shanghai) LTD., or ChipMOS Shanghai, a wholly-owned subsidiary of Modern Mind Technology Limited, or Modern Mind, which is one of our controlled consolidated subsidiaries. ChipMOS Shanghai operates a testing and assembly facility at the Qingpu Industrial Zone in Shanghai. Through our subsidiaries, we also have equity interests in other companies that are engaged in the semiconductor industry. See Business 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$3 million each, while wire bonders used in assembly typically cost approximately US$85,000 each and inner-lead bonders for tape carrier package, or TCP, and chip-on-film, or COF, assembly cost approximately US$370,000 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, such as in 2001 and 2002, 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 modest recovery in 2002.

The significant decrease in market demand for semiconductors that began in 2000 adversely affected our results of operations for 2001 and 2002. During periods of decreased demand for assembled semiconductors, some of our customers may forego or simplify final testing of certain types of semiconductors, such as DRAM, further intensifying our difficulties.

Table of Contents

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, except those for LCD and other flat-panel display driver semiconductors, 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 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.

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 April 1, 2004, PlusMOS Technologies Inc., or PlusMOS, merged into CHANTEK ELECTRONIC CO., LTD., or Chantek, in a stock-for-stock merger, with Chantek as the surviving entity. Chantek provides semiconductor assembly services for low-density volatile and non-volatile memory semiconductors, consumer semiconductors and microcontroller semiconductors, and subsequent to the merger, also manufactures, designs and sells DRAM modules. Upon the consummation of the merger, ChipMOS Taiwan held a 34.2% interest in Chantek, and Chantek became one of our consolidated subsidiaries as of April 1, 2004. We currently expect the consolidation of Chantek will affect our financial results as follows:

- our revenue is expected to increase as a result of the inclusion of revenue generated by Chantek, including revenue from activities previously conducted by PlusMOS;

our consolidated current liabilities are expected to increase by approximately NT$1,038 million, an increase of approximately 17% as of March 31, 2004; and

our consolidated long-term liabilities are expected to increase by approximately NT$277 million, an increase of approximately 10% as of March 31, 2004.

On April 30, 2004, WORLD-WIDE TEST Technology Inc., or WWT, a Taiwan-based logic testing company, merged into ChipMOS Logic TECHNOLOGIES INC., or ChipMOS Logic, one of our majority-owned subsidiaries, with ChipMOS Logic as the surviving entity. We expect to consolidate our mixed-signal semiconductor testing services into the combined entity and provide mixed-signal semiconductor testing

Table of Contents

services to both our existing customers and WWT s customers through ChipMOS Logic after the acquisition. We also expect this merger will have an impact on our results of operations, cash flow from operations and financial position for future periods as the financial position and results of the combined entity will be consolidated into our financial results starting from April 30, 2004.

We expect this merger will affect our financial results as follows:

- our revenue from mixed-signal semiconductor testing services is expected to increase as a result of the inclusion of revenue from certain customers of WWT who we expect to be customers of ChipMOS Logic;
- our consolidated net property, plant and equipment will increase by approximately NT$1,600 million, an increase of approximately 12% as of April 30, 2004, thus increasing our depreciation expenses; and
- our consolidated short-term debt will increase by approximately NT$221 million, an increase of approximately 19% as of April 30, 2004.

Net Revenue

We conduct our business according to our four main business segments: (1) testing services for memory and mixed-signal semiconductors, (2) assembly services for memory and mixed-signal semiconductors, (3) LCD and other flat-panel display driver semiconductor testing and assembly services, and (4) semiconductor turnkey services, whereby we purchase fabricated wafers and sell tested and assembled semiconductors and, from 2003, also conduct certain trading activity. The following table sets forth, for the periods indicated, our consolidated net revenue for each segment.

	Year ended December 31,				Three Months ended March 31,[1]		
	2001	2002	2003	2003	2003	2004	2004
	NT$	NT$	NT$	US$ (in millions)	NT$	NT$	US$
Testing							
Memory	$ 2,139.4	$ 2,254.2	$ 2,890.3	$ 87.6	$ 493.0	$ 1,312.9	$ 39.8
Mixed-signal	103.3	76.9	265.5	8.0	38.6	88.7	2.7
Total testing	2,242.7	2,331.1	3,155.8	95.6	531.6	1,401.6	42.5
Assembly							
Memory	1,610.9	1,404.5	2,701.4	81.9	516.0	773.0	23.4
Mixed-signal		10.7	27.5	0.8	5.1		
Total assembly	1,610.9	1,415.2	2,728.9	82.7	521.1	773.0	23.4
LCD and other flat-panel display driver semiconductor							
testing and assembly	131.5	991.8	1,683.5	51.0	293.1	741.4	22.4
Semiconductor turnkey[2]	1,260.0	1,787.8	1,458.3	44.2	358.7	173.7	5.3
Total	$ 5,245.1	$ 6,525.9	$ 9,026.5	$ 273.5	$ 1,704.5	$ 3,089.7	$ 93.6

(1) For the first quarter of 2003, we consolidated the financial results of ChipMOS Taiwan, ChipMOS Japan Inc., or ChipMOS Japan, ChipMOS USA Inc., or ChipMOS USA, ChipMOS Far East Limited, or ChipMOS Far East, and Modern Mind and its wholly-owned subsidiary, ChipMOS Shanghai. For the first

quarter of 2004, we also consolidated the financial results of ThaiLin Semiconductor Corp., or ThaiLin, (which have been consolidated since December 1, 2003, the date when ChipMOS Taiwan obtained the controlling influence over ThaiLin s decisions on its operations, personnel and financial policies), and from January 12 and 28, 2004, onwards, the financial results of Advanced Micro Chip Technology Co., Ltd., or AMCT, and ChipMOS Logic, respectively.

(2) In 2003, includes trading revenue generated by ChipMOS Far East.

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 expanded the scope of our testing services from memory semiconductors to mixed-signal semiconductors in the third quarter of 1999 in response to the growth opportunity in that segment. In the third quarter of 2000, we began providing testing and assembly services for LCD and other flat-panel display driver

Table of Contents

semiconductors. In early 1999, we introduced our semiconductor turnkey services to utilize our excess capacity available from time to time.

Some of our customers have recently entered into agreements with us, under which we reserve an agreed capacity for such customers and under which such customers commit to place orders in the amount of the reserved capacity through 2005 and 2006, some of which may be reduced by these customers under the agreements. Sixty-two percent of our total current capacity is currently reserved under the above mentioned capacity guarantee contracts. However, most of our other customers generally 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.

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 higher-margin segments. These efforts require significant upfront 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.

Because we purchase fabricated wafers for our turnkey services, we price our semiconductor turnkey services based on the market price of the wafers as well as the factors we use to price our testing and assembly services, as described above.

We offer volume discounts to all customers who purchase large quantities of our services and special discounts to customers who use our turnkey services or all of our vertically integrated services.

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 title of products and risks of ownership are transferred to customers, generally upon shipment of the products. We submit invoices at the time of shipment or delivery and currently require customers to pay within 60 days after the last day of the month during which the invoice was sent, except that we currently require ProMOS Technologies Inc., or ProMOS, to pay within 75 days and Ultima Electronics Corp., or Ultima, and Mosel Vitelic Inc., or Mosel, to pay within 90 days. Prior to July 2001, we extended most customers 60 day payment terms. We have not experienced any significant collection problems. We do not require our customers to provide collateral for payment.

Table of Contents

Related Party Revenues

In 2001, 2002, 2003 and the first quarter of 2004, 71%, 56%, 56% and 40%, 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 have from time to time extended them favorable payment terms, as discussed in the preceding paragraph. See Related Party Transactions for more information concerning our related party transactions.

Geography and Currency

We generate most of our net revenue from customers headquartered in Taiwan, which represented 89%, 88%, 84% and 85% of our net revenue in 2001, 2002, 2003 and the quarter ended March 31, 2004, respectively. We also generate net revenue from customers in Japan, the United States, Hong Kong 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.

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 include royalty payments for licensed technologies, sub-contract 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 April 30, 2004, we had 364 testers, 311 wire bonders, 74 inner-lead bonders, one stepper and two aligners. 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 thin small outline package, or TSOP, ball-grid array, or BGA, and some other package assembly technologies. Due to the recovery of the semiconductor industry, our average utilization rate for testing of memory and mixed-signal semiconductors increased to 81% in 2003 from 69% in 2002 and 47% in 2001, and increased to 89% in the quarter ended March 31, 2004. Our average capacity utilization rate for assembly of memory and mixed-signal semiconductors increased to 89% in 2003 from 60% in 2002 and 43% in 2001, but decreased to 87% in the quarter ended March 31, 2004. In addition, our average capacity utilization rate for LCD and other flat-panel display driver semiconductor testing and assembly increased to 82% in 2003 from 62% in 2002 and 19% in 2001, and increased to 99% in the quarter ended March 31, 2004.

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 in US dollars.

Table of Contents

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,				Three Months ended March 31,[1]		
	2001	2002	2003	2003	2003	2004	2004
	NT$	NT$	NT$	US$	NT$	NT$	US$
	(in millions, except percentages)						
Gross profit (loss):							
Testing							
Memory	$ (447.8)	$ (48.8)	$ 607.7	$ 18.4	$ (43.2)	$ 577.3	$ 17.5
Mixed-signal	(274.8)	(304.8)	(161.3)	(4.9)	(47.9)	(22.0)	(0.7)
Total testing	(722.6)	(353.6)	446.4	13.5	(91.1)	555.3	16.8
Assembly							
Memory	197.5	18.9	538.7	16.3	72.8	260.1	7.9
Mixed-signal		2.0	5.7	0.2	1.3		
Total assembly	197.5	20.9	544.4	16.5	74.1	260.1	7.9
LCD and other flat-panel display driver semiconductor testing and assembly	(272.5)	126.0	528.2	16.0	72.7	303.5	9.2
Semiconductor turnkey[2]	13.4	20.9	48.0	1.5	7.3	1.2	
Total	$ (784.2)	$ (185.8)	$ 1,567.0	$ 47.5	$ 63.0	$ 1,120.1	$ 33.9
Gross profit (loss) margin:							
Testing							
Memory	(20.9)%	(2.2)%	21.0%	21.0%	(8.8)%	44.0%	44.0%
Mixed-signal	(266.1)	(396.7)	(60.8)	(60.8)	(124.1)	(24.8)	(24.8)
Total testing	(32.2)	(15.2)	14.1	14.1	(17.1)	39.6	39.6
Assembly							
Memory	12.3	1.4	19.9	19.9	14.1	33.6	33.6
Mixed-signal		18.5	20.8	20.8	25.5		
Total assembly	12.3	1.5	19.9	19.9	14.2	33.6	33.6
LCD and other flat-panel display driver semiconductor testing and assembly	(207.2)	12.7	31.4	31.4	24.8	40.9	40.9
Semiconductor turnkey[2]	1.1	1.2	3.3	3.3	2.0	0.7	0.7
Overall	(14.9)%	(2.8)%	17.4%	17.4%	3.7%	36.3%	36.3%

(1) For the first quarter of 2003, we consolidated the financial results of ChipMOS Taiwan, ChipMOS Japan, ChipMOS USA, ChipMOS Far East, and Modern Mind and its wholly-owned subsidiary, ChipMOS Shanghai. For the first quarter of 2004, we also consolidated the financial results of ThaiLin (which have been consolidated since December 1, 2003, the date when ChipMOS Taiwan obtained the controlling influence over ThaiLin s decisions on its operations, personnel and financial policies), and from January 12 and 28, 2004, onwards, the financial results of AMCT and ChipMOS Logic, respectively.

(2) In 2003, includes trading revenue generated by ChipMOS Far East.

Operating Expenses

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 to continue to hire a significant number of additional employees in our research and development department. We currently expect that research and development expenses will increase in absolute terms in the future as we expand into new technologies and service offerings.

Table of Contents

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, personnel expenses for sales and marketing staff, service marketing expenses and service support expenses. We currently expect marketing expenses to increase in absolute terms in the future, related to the planned growth of our business.

General and Administrative

General and administrative expenses consist of salaries and related expenses for executive, finance and accounting, and management information systems personnel, professional fees, bad debt provision, and other corporate expenses. They also include stock-based compensation that is expensed using the intrinsic value-based method. See Management Share Option Plan for more information concerning our share option plan. We also pay Mosel an annual administrative fee for the provision of certain administrative services. 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 gains on sale of investments, warehouse space rental revenue, interest income, foreign exchange gains and gains on disposal of property, plant and equipment. Our other expenses principally consist of interest expense, investment losses recognized by equity method, financing costs, allowance for losses on short-term investments, losses on disposal of property, plant and equipment and foreign exchange losses. Accordingly, whether we record other income, net or other expenses, net in any fiscal year would depend on the amount of these items.

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. For 2001 and 2002, the minority interests were attributable to the minority interests owned by Siliconware Precision and other investors in ChipMOS Taiwan. For 2003, the minority interests were attributable to the minority interests owned by Siliconware Precision and other investors in ChipMOS Taiwan and the public shareholders interest in ThaiLin. Commencing in 2004, minority interests will also include the portion of our income attributable to the shareholdings in Chantek and ChipMOS Logic that we do not own.

Interest in bonuses paid by subsidiaries represents our portion of ChipMOS Taiwan s distributable earnings that are appropriated as bonuses to employees and remuneration to directors and supervisors of ChipMOS Taiwan, as required by ROC regulations and ChipMOS Taiwan s articles of incorporation. None of our subsidiaries paid any such bonuses to directors, supervisors and employees in 2001, 2002 and 2003.

Net Income (Loss)

Our business incurred net losses in 2001 and 2002, compared to net profits for 1999 and 2000, primarily due to the overall weak economic conditions in the semiconductor markets we serve. We were again profitable in 2003 with net income of NT$482 million, due to increased revenue and improved gross margins. In the quarter ended March 31, 2004, our net income was NT$539 million. 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 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,			Three Months ended March 31,[1] (unaudited)	
	2001	2002	2003	2003	2004
	(percentage of net revenue)				
ROC GAAP:					
Net revenue	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenue	114.9	102.8	82.6	96.3	63.7
Gross profit (loss) margin	(14.9)	(2.8)	17.4	3.7%	36.3
Operating expenses:					
Research and development	7.8	5.0	3.3	4.1	2.3
Sales and marketing	0.7	0.6	0.7	0.4	0.5
General and administrative	4.7	4.8	4.9	8.4	3.8
Total operating expenses	13.2	10.4	8.9	12.9	6.6
Income (loss) from operations	(28.1)	(13.2)	8.5	(9.2)	29.7
Other income (expenses), net	(1.5)	(6.1)	(0.9)	(3.0)	(0.4)
Income (loss) before income tax and minority interests and interest in bonuses paid by subsidiaries[2]	(29.6)	(19.3)	7.6	(12.2)	29.3
Income tax benefit (expense)	(0.6)	(1.5)	0.3	(1.5)	(2.5)
Income (loss) before minority interests and interest in bonuses paid by subsidiaries	(30.2)	(20.8)	7.9	(13.7)	26.8
Minority interests	8.6	5.9	(2.8)	2.2	(9.3)
Interest in bonuses paid by subsidiaries[2]					
Pre-acquisition earnings[3]			0.2		
Net income (loss)	(21.6)%	(14.9)%	5.3%	(11.5)%	17.5%

(1) For the first quarter of 2003, we consolidated the financial results of ChipMOS Taiwan, ChipMOS Japan, ChipMOS USA, ChipMOS Far East, and Modern Mind and its wholly-owned subsidiary, ChipMOS Shanghai. For the first quarter of 2004, we also consolidated the financial results of ThaiLin (which have been consolidated since December 1, 2003, the date when ChipMOS Taiwan obtained the controlling influence over ThaiLin s decisions on its operations, personnel and financial policies), and from January 12 and 28, 2004, onwards, the financial results of AMCT and ChipMOS Logic, respectively.

(2) Refers to bonuses to directors, supervisors and employees.

(3) 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.

Three Months Ended March 31, 2004 (unaudited) Compared to Three Months Ended March 31, 2003 (unaudited)

Net Revenue. Our net revenue increased by NT$1,385 million, or 81%, to NT$3,090 million (US$94 million) in the first quarter of 2004, from NT$1,705 million in the same period in 2003. This increase was primarily due to an increase in revenue from memory semiconductor testing services and LCD and other flat-panel display driver semiconductor testing and assembly services and the effects of consolidating revenue from ThaiLin, AMCT and ChipMOS Logic. Net revenue from testing services for memory and mixed-signal semiconductors increased by NT$870 million, or 164%, to NT$1,402 million (US$42 million) in the first quarter of 2004, primarily due to the increased demand for our testing services for memory semiconductors, in particular DRAM and flash memory semiconductors. Net revenue from LCD and other flat-panel display driver semiconductor testing and assembly services increased by NT$448 million, or 153%, to NT$741 million (US$22

Table of Contents

million) in the first quarter of 2004, primarily due to our implementation of certain price increases and increased sales volume, in particular for LCD and other flat-panel display driver semiconductors using the more advanced COF packages, which reached 24% of our net revenue. The aggregate contribution from the consolidation of the financial results of ThaiLin, AMCT and ChipMOS Logic was 10% of our net revenue. The increase in net revenue was partially offset by a decrease in net revenue from semiconductor turnkey services. Our net revenue from semiconductor turnkey services decreased by NT$185 million, or 52%, to NT$174 million (US$5 million) in the first quarter of 2004 due to the increase in customer orders for our testing and assembly services.

Cost of Revenue and Gross Margin. Cost of revenue increased by NT$328 million, or 20%, to NT$1,970 million (US$60 million) in the first quarter of 2004 from NT$1,642 million in the same period in 2003. This increase was primarily due to an increase of NT$308 million in overhead expenses and an increase of NT$117 million in labor costs, partially offset by a decrease of NT$85 million in raw material costs and a decrease of NT$33 million in inventory revaluation allowance. Overhead expenses increased primarily due to an increase of NT$74 million in salaries for certain supervisors in our fabs and an increase of NT$118 million in depreciation.

Our gross margin was 36% in the first quarter of 2004, compared to 4% in the same period in 2003, and our gross profit increased to NT$1,120 million (US$34 million) in the first quarter of 2004 from NT$63 million in the same period in 2003. The aggregate impact of consolidating the financial results of ThaiLin, AMCT, and ChipMOS Logic represented 11% of our gross profit in the first quarter of 2004. Our gross profit margin for testing services for memory and mixed-signal semiconductors was 40% in the first quarter of 2004, compared to a gross loss margin of 17% in the same period in 2003, primarily due to the increase in our utilization rate. Our gross profit margin for LCD and other flat-panel display driver semiconductor assembly and testing services increased to 41% in the first quarter of 2004, from 25% in the same period in 2003, primarily due to an increase in utilization rate and a decrease in unit cost. Our gross profit margin for assembly services for memory and mixed-signal semiconductors increased to 34% in the first quarter of 2004 from 14% in the same period in 2003, primarily due to a decrease in unit cost. Our gross profit margin for semiconductor turnkey services decreased to 1% in the first quarter of 2004 from 2% in the same period in 2003, primarily due to the cessation of trading services at ChipMOS Far East.

Research and Development Expenses. Research and development expenses increased by NT$4 million, or 6%, to NT$73 million (US$2 million) in the first quarter of 2004 from NT$69 million in the same period in 2003. This increase was primarily due to an increase of NT$14 million in salary expenses, partially offset by a decrease of NT$7 million in depreciation and a decrease of NT$3 million in research and development material cost. We expect that our absolute level of research and development expenses will continue to increase for the remainder of 2004 as we will continue to focus on research and development projects relating to wafer-level chip scale packaging, or WLCSP, and MEMS probe cards for wafer-level testing.

Sales and Marketing Expenses. Sales and marketing expenses increased by NT$7 million, or 100%, to NT$14 million (US$424 thousand) in the first quarter of 2004 from NT$7 million in the same period in 2003. This increase was primarily due to an increase of NT$2 million in commissions and an increase of NT$2 million in salary expenses.

General and Administrative Expenses. General and administrative expenses decreased by NT$28 million, or 19%, to NT$116 million (US$4 million) in the first quarter of 2004 from NT$144 million in the same period in 2003. This decrease was primarily due to a decrease of NT$63 million in pre-operating expenses relating to our operations in Mainland China, partially offset by an increase of NT$27 million in salary expenses.

Other Expense, Net. Other expense, net decreased by NT$41 million, or 79%, to NT$11 million (US$333 thousand) in the first quarter of 2004 from NT$52 million in the same period in 2003. This decrease was primarily due to a decrease in investment loss recognized by the equity method.

44

Table of Contents

Income (loss) Before Income Tax and Minority Interests and Interest in Bonuses Paid by Subsidiaries. Income before income tax and minority interests and interest in bonuses paid by subsidiaries increased to NT$906 million (US$27 million) in the first quarter of 2004 from a loss of NT$209 million in the same period in 2003. This change was primarily due to an increase in income from operations to NT$917 million (US$28 million) in the first quarter of 2004 and a decrease of NT$41 million in other expense, net.

Income Taxes. Income tax expense increased by NT$52 million, or 200%, to NT$78 million (US$2 million) in the first quarter of 2004 from NT$26 million in the same period in 2003. This increase was primarily due to the tax effect of the increase in income before income tax and minority interests.

Minority Interests. In the first quarter of 2004, we had positive minority interests of NT$289 million (US$9 million), compared with negative minority interests of NT$38 million in the same period in 2003. This change was primarily due to the significant income generated by our subsidiaries that we do not fully own.

Net Income (Loss). As a result of the foregoing, our net income was NT$539 million (US$16 million) in the first quarter of 2004, compared to a net loss of NT$197 million in the same period in 2003.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Net Revenue. Our net revenue increased by NT$2,501 million, or 38%, to NT$9,027 million (US$274 million) in 2003 from NT$6,526 million in 2002 as a result of an increase in revenue from all our services except semiconductor turnkey services. Net revenue from assembly services for memory and mixed-signal semiconductors increased by NT$1,314 million, or 93%, to NT$2,729 million (US$83 million) as a result of an increase in volume for these services due to an increase in demand resulting from the continued recovery of the semiconductor industry in 2003. Net revenue from testing services for memory and mixed-signal semiconductors increased by NT$825 million, or 35%, to NT$3,156 million (US$96 million) primarily due to an increase in volume for these services as a result of an increase in demand due to the continued recovery of the semiconductor industry in 2003. Our revenue from LCD and other flat-panel display driver semiconductor testing and assembly services increased by NT$692 million, or 70%, to NT$1,683 million (US$51 million), due to increases in both volume and price for these services as a result of a continued increase in demand for end-use applications for LCD and other flat-panel display driver semiconductors in 2003. Our revenue from semiconductor turnkey services decreased by NT$330 million, or 18%, to NT$1,458 million (US$44 million) due to the increase in customer orders for our testing and assembly services.

Cost of Revenue and Gross Margin. Cost of revenue increased by NT$748 million, or 11%, to NT$7,460 million (US$226 million) in 2003 from NT$6,712 million in 2002. This increase was primarily due to an increase of NT$534 million in overhead expenses, an increase of NT$349 million in other costs and an increase of NT$182 million in labor costs, which was partially offset by a decrease of NT$239 million in raw material costs associated with semiconductor turnkey services as a result of a decrease in the volume of semiconductor turnkey services and a decrease of NT$31 million in inventory revaluation allowance. Overhead expenses increased primarily due to an increase of NT$183 million in subcontract fees, an increase of NT$125 million in salaries for certain supervisors in our fabs, an increase of NT$83 million in expensable equipment in service, an increase of NT$81 million in maintenance costs and inventory supplies, and an increase of NT$41 million in rental expenses.

Gross profit margin was 17% in 2003, compared to a gross loss margin of 3% in 2002, as our gross profit increased to NT$1,567 million (US$47 million) in 2003 from a gross loss of NT$186 million in 2002. Our gross profit margin for assembly services for memory and mixed-signal semiconductors increased from 2% in 2002 to 20% in 2003, primarily because of a decrease in unit cost for assembly services for memory and

mixed-signal semiconductors. Our gross profit margin for testing services for memory and mixed-signal semiconductors was 14% in 2003, compared to a gross loss margin of 15% in 2002, primarily due to the increase in our utilization rate in testing services for memory and mixed-signal semiconductors. Our gross profit margin for LCD and other flat-panel display driver semiconductor testing and assembly services increased to 31% in 2003 from 13% in

Table of Contents

2002, primarily due to an increase in utilization rate and a decrease in unit cost. Our gross profit margin for semiconductor turnkey services increased to 3% in 2003 from 1% in 2002, primarily due to the inclusion of trading revenue generated by ChipMOS Far East in 2003. We do not expect to generate significant trading revenue after the first quarter of 2004.

Research and Development Expenses. Research and development expenses decreased by NT$32 million, or 10%, to NT$295 million (US$9 million) in 2003 from NT$327 million in 2002. This decrease was primarily due to a decrease of NT$80 million in amortization expenses related to technology and other deferred charges, partially offset by an increase of NT$32 million in depreciation expenses related to research and development equipment, and an increase of NT$19 million in salary expenses.

Sales and Marketing Expenses. Sales and marketing expenses increased by NT$28 million, or 75%, to NT$65 million (US$2 million) in 2003 from NT$37 million in 2002. This increase was primarily due to an increase of NT$17 million in bad debt provisions, an increase of NT$4 million in sales commissions, and an increase of NT$3 million in import-export expenses.

General and Administrative Expenses. General and administrative expenses increased by NT$130 million, or 42%, to NT$440 million (US$13 million) in 2003 from NT$310 million in 2002. This increase was primarily due to an increase of NT$48 million in general and administrative expenses relating to the development and expansion of our operations in Mainland China, an increase of NT$26 million in salary expenses, an increase of NT$21 million in fees for professional services, an increase of NT$13 million in entertainment expenses, and an increase of NT$3 million in stock option compensation expenses.

Other Expenses, Net. Other expenses, net decreased by NT$321 million, or 81%, to NT$77 million (US$2 million) in 2003 from NT$398 million in 2002. This decrease was primarily due to a decrease of NT$140 million in allowance for loss on short-term investment, a decrease of NT$86 million in investment loss recognized by equity method, an increase of NT$44 million in gain on disposal of property, plant and equipment, an increase of NT$42 million in gain on sale of investment and an increase of NT$9 million in interest income, partially offset by an increase of NT$36 million in foreign exchange loss.

Income (Loss) Before Income Tax and Minority Interests and Interest in Bonuses Paid by Subsidiaries. Income before income tax and minority interests and interest in bonuses to directors, supervisors and employees paid by subsidiaries increased to NT$690 million (US$21 million) in 2003 from a loss of NT$1,258 million in 2002. This change was primarily due to an increase in income from operations to NT$767 million and a decrease of NT$321 million in other expenses, net.

Income Taxes. We had an income tax benefit of NT$29 million (US$879 thousand) in 2003, compared to an income tax expense of NT$98 million for 2002. The NT$29 million income tax benefit was primarily due to income tax credits of NT$188 million and a reversal of a valuation allowance of NT$66 million taken in respect of deferred tax assets, which more than offset our tax expense.

Minority Interests. In 2003, we had positive minority interests of NT$257 million (US$8 million) compared with negative minority interests of NT$385 million in 2002. This change was primarily due to our increased operations at our subsidiaries that we do not fully own.

Net Income (Loss). As a result of the foregoing, our net income was NT$482 million (US$15 million) in 2003 compared to a net loss of NT$970 million in 2002.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Net Revenue. Our net revenue increased by NT$1,281 million, or 24%, to NT$6,526 million in 2002 from NT$5,245 million in 2001, primarily as a result of an increase in revenue from LCD and other flat-panel display

Table of Contents

driver semiconductor testing and assembly services, turnkey services, and testing services for memory and mixed-signal semiconductors, which was partially offset by a decrease in revenue from assembly services for memory and mixed-signal semiconductors. Our net revenue from LCD and other flat-panel display driver semiconductor testing and assembly services increased by NT$860 million, or by over six times, to NT$992 million in 2002, primarily due to an increase in volume for these services in the second half of 2002. Our net revenue from semiconductor turnkey services increased by NT$528 million, or 42%, to NT$1,788 million in 2002, due to increases in both demand and price for semiconductor turnkey services as a result of the recovery of the semiconductor industry in 2002. Net revenue from testing services for memory and mixed-signal semiconductors increased by NT$88 million, or 4%, to NT$2,331 million in 2002, primarily due to an increase in volume for these services as a result of an increase in demand due to the recovery of the semiconductor industry in 2002. Net revenue from assembly services for memory and mixed-signal semiconductors decreased by NT$196 million, or 12%, to NT$1,415 million as a result of a decrease in prices for these services due to a decline of average selling prices.

Cost of Revenue and Gross Margin. Cost of revenue increased by NT$683 million, or 11%, to NT$6,712 million in 2002 from NT$6,029 million in 2001. This increase was primarily due to an increase of NT$447 million in raw material costs associated with turnkey services as a result of an increase in volume of turnkey services, an increase of NT$222 million in overhead expenses, and an increase of NT$78 million in labor costs, which was partially offset by a decrease of NT$115 million in inventory revaluation allowance. Overhead expenses increased primarily due to an increase of NT$107 million in expensable equipment in service, an increase of NT$49 million in maintenance costs and inventory supplies, and an increase of NT$26 million in royalty fee payments to Sharp.

Our gross loss margin was 3% in 2002, compared to 15% in 2001, as gross loss decreased to NT$186 million in 2002 from NT$784 million in 2001. Our gross loss margin for testing services for memory and mixed-signal semiconductors decreased to 15% in 2002 from 32% in 2001, primarily due to the increase in our utilization rate in testing services for memory and mixed-signal semiconductors. Our gross profit margin for assembly services for memory and mixed-signal semiconductors decreased from 12% in 2001 to 2% in 2002, primarily due to a decrease in price for assembly services for memory and mixed-signal semiconductors. Our gross margin for LCD and other flat-panel display driver semiconductor testing and assembly increased to a gross profit margin of 13% in 2002 from a gross loss margin of 207% in 2001, primarily due to an increase in utilization rate. Our gross margin for semiconductor turnkey services remained constant at 1% between 2001 and 2002 because the purchase cost of fabricated wafers is included in our costs of semiconductor turnkey services.

Research and Development Expenses. Research and development expenses decreased by NT$82 million, or 20%, to NT$327 million in 2002 from NT$409 million in 2001. This decrease was primarily due to a decrease of NT$56 million in amortization expenses as no additional amortization expenses for the technology know-how transferred by Mosel and Siliconware Precision to ChipMOS Taiwan were incurred in the second half of 2002, and a decrease of NT$13 million in research and development material.

Sales and Marketing Expenses. Sales and marketing expenses increased by NT$2 million, or 6%, to NT$37 million in 2002 from NT$35 million in 2001. This increase was primarily due to an increase of NT$4 million in entertainment expenses, which was partially offset by a decrease of NT$2 million in commissions paid to Richtime Technologies Limited.

General and Administrative Expenses. General and administrative expenses increased by NT$62 million, or 25%, to NT$310 million in 2002 from NT$248 million in 2001. This increase was primarily due to an increase of NT$25 million in stock option compensation expenses and our increased spending in general and administrative expenses relating to the development and expansion of our operations in Mainland China.

Other Expenses, Net. Other expenses, net increased substantially to NT$398 million in 2002 from NT$77 million in 2001. This increase was primarily due to a decrease of NT$182 million in gain on sale of investment,

47

Table of Contents

an increase of NT$169 million in allowance for loss on investment in Mosel, partially offset by a decrease of NT$30 million in net interest expense.

Loss Before Income Tax and Minority Interests and Interest in Bonuses Paid by Subsidiaries. Loss before income tax and minority interests and interest in bonuses to directors, supervisors and employees paid by subsidiaries decreased by NT$295 million, or 19%, to NT$1,258 million in 2002 from NT$1,553 million in 2001. This decrease was primarily due to a decrease of NT$616 million in operating loss, partially offset by an increase of NT$321 million in other expenses, net.

Income Taxes. Income tax expense in 2002 was NT$98 million, compared to an income tax expense of NT$32 million in 2001. The NT$98 million income tax expense in 2002 was primarily due to a valuation allowance of NT$181 million taken in respect of deferred tax assets, partially offset by the tax effect of a loss of NT$1,258 million before income tax and minority interests and interest in bonuses to directors, supervisors and employees paid by a subsidiary.

Minority Interests. Our negative minority interests in 2002 decreased to NT$385 million from NT$451 million in 2001. This decrease was due to the decrease in our loss of our consolidated subsidiaries that we do not fully own.

Net Loss. As a result of the foregoing, our net loss decreased by NT$165 million, or 15%, to NT$970 million in 2002 from NT$1,135 million in 2001.

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. 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.

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, 2003, we

Table of Contents

provided NT$30 million (US$909 thousand) for the first type of reserve and NT$42 million (US$1 million) for the second type of reserve.

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, 2003, we provided NT$25 million (US$758 thousand) for the allowance of sales returns.

The allowance we set aside for doubtful receivables and sales returns was NT$30 million in 2001, NT$45 million in 2002 and NT$97 million (US$3 million) in 2003. The allowances as of December 31, 2001, 2002 and 2003 represented 2%, 2% and 3%, respectively, of our accounts receivable and other receivables as of those dates. The allowance in 2002 and 2003 reflected a reduction of NT$3 million and NT$20 million, 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$14 million (US$424 thousand) for 2003.

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

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 2001 and 2002, we reserved NT$66 million and NT$51 million, respectively, for inventory valuation allowance, mainly due to the decrease in the prevailing market prices for tested and assembled DRAM and SDRAM below the historical cost of our inventory. In 2003, we did not record any inventory allowances because the market price for our inventories was higher than cost in 2003. In addition, we reserved NT$35 million in 2001, NT$36 million in 2002 and NT$42 million (US$1 million) in 2003 for identified slow-moving inventories.

As of December 31, 2003, we did not record any inventory valuation allowances. If the prevailing market price for our testing and assembling services had been 10% lower, we would have been required to recognize a valuation allowance of approximately NT$37 million (US$1 million). That amount would have decreased our inventory value and income for 2003 by 11% and 5%, 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 not certain that deferred tax assets will be realized. We record a

benefit or expense under the income tax expense/benefit line of our statement of operations when there is a net change in our total deferred tax assets and liabilities in a period. Because the calculation of income tax benefit is dependent on our internal estimation of our future profitability, it is inherently subjective. In 2001 and 2002, we recorded valuation allowances of NT$772 million and NT$181 million, respectively, and in 2003, we recorded a reversal of a valuation allowance of NT$66 million (US$2 million).

Table of Contents

In calculating our valuation allowance for deferred taxes as of December 31, 2003, we have assumed that the semiconductor industry will continue its growth in the next few years. According to a press release issued in February 2004 by the Semiconductor Industry Association, or SIA, the global semiconductor market was US$166.4 billion in 2003 and, according to a report issued by the SIA in November 2003, is expected to grow to US$219.6 billion in 2006. Furthermore, we have assumed that our revenue and profitability will be favorably impacted by this growth in the industry as a whole.

As of December 31, 2003, the ending balance for our valuation allowances was NT$1,426 million (US$43 million). If our current estimate of future profit had been 10% higher, we would have decreased our valuation allowances accordingly. That, in turn, would have increased our deferred tax assets. In contrast, if our current estimate of future profit had been 10% lower, we would have been required to recognize an additional valuation allowance. That, in turn, would have decreased our deferred tax assets and increased our tax expense for the year ended December 31, 2003. The steady growth in our sales and profitability in 2003 and our near-term outlook as of December 31, 2003 was a key factor in determining the amount of our valuation allowance as of December 31, 2003.

In addition, because the recording of deferred tax assets and income tax benefit is based on our assumptions of levels of profitability, if we subsequently determine that it is unlikely that we will achieve those profit levels, or otherwise believe that we will not incur sufficient tax liabilities to fully utilize the deferred tax assets, we will reduce our deferred tax assets in an amount equal to that determination and incur a charge to income in that amount at that time. Because our expectation for future income is generally less during periods of reduced income, we will be more likely to take significant valuation allowances in respect of income tax assets during those periods of already reduced income.

Impairment Loss of Long-Lived Assets

Under US GAAP, we evaluate our long-lived assets for impairment whenever indicators of impairment exist. 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. While we believe that our estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect our evaluations.

In determining whether any impairment charges were necessary as of December 31, 2003, 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, 2003, we estimate that our future cash flows, on an undiscounted basis, are greater than our NT$11,087 million (US$336 million) in long-lived assets. 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 from those assets had been 24% lower, those cash flows would have been less than the reported amount of long-lived assets. In that case, we would have been required to recognize an impairment loss that would have significantly increased our net loss before taxes for the year ended December 31, 2003.

Senior Management s Discussion with the Audit Committee

Our management has discussed the development and selection of the estimates mentioned in 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.

Table of Contents

Selected Quarterly Results

The following table sets forth our unaudited consolidated results for the quarterly periods indicated. You should read the quarterly data in conjunction with our consolidated financial statements and related notes included elsewhere in this prospectus. Our operating results for any quarter are not necessarily indicative of the results for any future period. Our quarterly operating results may fluctuate significantly.

	Quarter ended								
	Mar. 31, 2002	Jun. 30, 2002	Sept. 30, 2002	Dec. 31, 2002	Mar. 31, 2003	Jun. 30, 2003	Sept. 30, 2003	Dec. 31, 2003	March 31, 2004
	NT$	NT$	NT$	NT$	NT$ (in millions)	NT$	NT$	NT$	NT$
ROC GAAP:									
Net revenue	$ 1,420.7	$ 1,561.8	$ 1,730.1	$ 1,813.3	$ 1,704.5	$ 2,329.4	$ 2,437.8	$ 2,554.8	$ 3,089.7
Cost of revenue	1,591.4	1,623.4	1,690.4	1,806.5	1,641.5	2,002.9	1,948.0	1,867.1	1,969.6
Gross profit (loss)	(170.7)	(61.6)	39.7	6.8	63.0	326.5	489.8	687.7	1,120.1
Operating expenses:									
Research and development	93.9	101.8	75.4	55.7	69.2	65.9	88.7	71.2	72.6
Sales and marketing	9.1	9.3	10.4	8.5	7.0	10.2	12.7	35.5	14.2
General and administrative	62.0	70.1	84.2	93.9	143.9	63.1	91.4	141.5	116.3
Total operating expenses	165.0	181.2	170.0	158.1	220.1	139.2	192.8	248.2	203.1
Income (loss) from operations	(335.7)	(242.8)	(130.3)	(151.3)	(157.1)	187.3	297.0	439.5	917.0
Other income (expenses), net	(7.1)	(153.8)	(60.2)	(176.5)	(51.6)	(57.2)	(33.3)	65.0	(11.2)
Income (loss) before income tax and minority interests and interest in bonuses paid by subsidiaries[1]	(342.8)	(396.6)	(190.5)	(327.8)	(208.7)	130.1	263.7	504.5	905.8
Income tax benefit (expense)	(35.3)	(30.7)	(31.2)	(0.7)	(25.9)	18.0	0.2	36.7	(77.5)
Income (loss) before minority interests and interest in bonuses paid by subsidiaries	(378.1)	(427.3)	(221.7)	(328.5)	(234.6)	148.1	263.9	541.2	828.3
Minority interests	110.3	123.9	57.5	93.6	38.1	(42.1)	(90.3)	(162.6)	(288.8)
Interest in bonuses paid by subsidiaries[1]									
Pre-acquisition earnings[2]								20.7	
Net income (loss)	$ (267.8)	$ (303.4)	$ (164.2)	$ (234.9)	$ (196.5)	$ 106.0	$ 173.6	$ 399.3	$ 539.5

(1) Refers to bonuses to directors, supervisors and employees.

(2) 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.

Table of Contents

The following table sets forth our unaudited consolidated results as a percentage of net revenue for the quarterly periods indicated.

	Quarter ended								
	Mar. 31, 2002	Jun. 30, 2002	Sept. 30, 2002	Dec. 31, 2002	Mar. 31, 2003	Jun. 30, 2003	Sept. 30, 2003	Dec. 31, 2003	March 31, 2004
ROC GAAP:									
Net revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenue	112.0	103.9	97.7	99.6	96.3	86.0	79.9	73.1	63.7
Gross profit (loss)	(12.0)	(3.9)	2.3	0.4	3.7	14.0	20.1	26.9	36.3
Operating expenses									
Research and development	6.6	6.5	4.3	3.1	4.1	2.8	3.6	2.8	2.3
Sales and marketing	0.6	0.6	0.6	0.5	0.4	0.4	0.5	1.4	0.5
General and administrative	4.4	4.5	4.9	5.2	8.4	2.7	3.8	5.5	3.8
Total operating expenses	11.6	11.6	9.8	8.8	12.9	5.9	7.9	9.7	6.6
Income (loss) from operations	(23.6)	(15.5)	(7.5)	(8.4)	(9.2)	8.1	12.2	17.2	29.7
Other income (expenses), net	(0.5)	(9.8)	(3.5)	(9.7)	(3.0)	(2.5)	(1.4)	2.6	(0.4)
Income (loss) before income tax and minority interests and interest in bonuses paid by subsidiaries[1]	(24.1)	(25.3)	(11.0)	(18.1)	(12.2)	5.6	10.8	19.8	29.3
Income tax benefit (expense)	(2.5)	(2.0)	(1.8)	(0.0)	(1.5)	0.8	0.0	1.4	(2.5)
Income (loss) before minority interests and interest in bonuses paid by subsidiaries	(26.6)	(27.3)	(12.8)	(18.1)	(13.7)	6.4	10.8	21.2	26.8
Minority interests	7.8	7.9	3.3	5.2	2.2	(1.8)	(3.7)	(6.4)	(9.3)
Interest in bonuses paid by subsidiaries[1]									
Pre-acquisition earnings[2]								0.8	

Net income (loss)	(18.8)%	(19.4)%	(9.5)%	(12.9)%	(11.5)%	4.6%	7.1%	15.6%	17.5%

(1) Refers to bonuses to directors, supervisors and employees.
(2) 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.

Our net revenue grew sequentially each of the four quarters from the quarter ended March 31, 2002 through the quarter ended December 31, 2002, primarily as a result of an increase in the demand for testing services for memory, mixed-signal and LCD and other flat-panel display driver semiconductors. The decline in net revenue for the quarter ended March 31, 2003, as compared to the quarter ended December 31, 2002, reflected a decline in net revenue from semiconductor turnkey services due to a management decision to decrease the volume of semiconductor turnkey services in order to focus resources on semiconductor testing and assembly services, which have higher gross profit margins, in anticipation of the continued recovery of the semiconductor industry in 2003. Net revenue similarly grew sequentially for each of the four quarters ended March 31, 2003 through December 31, 2003, largely as a result of the increase in demand for both testing and assembly services for semiconductors in some of our key applications, including memory and LCD and other flat-panel display driver semiconductors and our ability to charge higher prices for our testing and assembly services of LCD and other flat-panel display driver semiconductors. The further increase of our net revenue in the quarter ended March 31,

Table of Contents

2004 was primarily due to an increase in revenue from memory semiconductor testing services and LCD and other flat-panel display driver semiconductor testing and assembly services and the effects of consolidating revenue from ThaiLin, AMCT and ChipMOS Logic, partially offset by a decrease in revenue from semiconductor turnkey services.

Gross profit as a percentage of net revenue was negative for both of the two quarters ended March 31, 2002 and June 30, 2002. This was largely a result of the significant depreciation expense associated with our fixed assets, mainly wire bonders and testing equipment, and a lack of sufficient net revenue to offset those expenses. Our gross margin turned positive to 2% in the quarter ended September 30, 2002, as our net revenue increased and we were able to better cover the largely fixed depreciation expenses associated with our business. Our gross margin grew sequentially in each of the five quarters from January 1, 2003 to March 31, 2004 largely as a result of a significant increase in net revenue with a corresponding decrease in our cost of revenue. As our operations are characterized by relatively high fixed costs, this decline in cost of revenue was primarily due to the increase in capacity utilization rates and the change in sales mix.

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 March 31, 2004, our primary sources of liquidity were short-term investments of NT$2,505 million (US$76 million), cash and cash equivalents (excluding restricted cash and cash equivalents) of NT$1,351 million (US$41 million) and NT$3,885 million (US$118 million) available to us in undrawn credit facilities, which expire between April 2004 and December 2004. As of December 31, 2003, our primary sources of liquidity were cash and cash equivalents (excluding restricted cash and cash equivalents) of NT$1,731 million (US$52 million) and NT$4,897 million (US$148 million) available to us in undrawn credit facilities, which have expired or will expire between February 2004 and December 2004.

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,				Three Months ended March 31,[1] (unaudited)		
	2001	2002	2003	2003	2003	2004	2004
	NT$	NT$	NT$	US$ (in millions)	NT$	NT$	US$
Net cash provided by (used in):							
Operating activities	$ 1,620.5	$ 1,463.7	$ 1,877.1	$ 56.9	$ 64.6	$ 1,447.5	$ 43.9
Investing activities	(1,409.7)	(3,135.9)	(760.8)	(23.1)	(280.4)	(3,589.6)	(108.8)
Financing activities	(219.8)	2,978.6	(1,841.5)	(55.8)	(323.7)	1,800.1	54.6
Effect of exchange rate changes on cash	(0.4)		(31.4)	(0.9)	(1.3)	(38.0)	(1.2)
Net increase (decrease) in cash	$ (9.4)	$ 1,306.4	$ (756.6)	$ (22.9)	(540.8)	(380.0)	(11.5)

(1) For the first quarter of 2003, we consolidated the financial results of ChipMOS Taiwan, ChipMOS Japan, ChipMOS USA, ChipMOS Far East, and Modern Mind and its wholly-owned subsidiary, ChipMOS Shanghai. For the first quarter of 2004, we also consolidated the financial results of ThaiLin (which have been consolidated since December 1, 2003, the date when ChipMOS Taiwan obtained the controlling influence over ThaiLin s decisions on its operations, personnel and financial policies), and from January 12 and 28, 2004, onwards, the financial results of AMCT and ChipMOS Logic, respectively.

Table of Contents

Net Cash Provided by (Used in) Operating Activities

Our net cash provided by operating activities amounted to NT$1,448 million (US$44 million) in the first quarter of 2004, compared to NT$65 million in the same period in 2003. The increase was primarily due to (i) a net income of NT$539 million (US$16 million) in the first quarter of 2004 compared to a net loss of NT$197 million in the same period in 2003, (ii) a smaller increase in accounts receivable in the amount of NT$327 million (US$10 million) in the first quarter of 2004 compared to NT$678 million in the same period in 2003, and (iii) a decrease in other receivables in the amount of NT$192 million (US$6 million) in the first quarter of 2004 compared to an increase in other receivables in the amount of NT$60 million in the same period in 2003, partially offset by a decrease in accrued expenses and other liabilities in the amount of NT$145 million (US$4 million) in the first quarter of 2004 compared to an increase in the amount of NT$198 million in the same period in 2003. We also recorded positive minority interests of NT$480 million (US$15 million) in the first quarter of 2004 compared to negative minority interests of NT$38 million in the same period in 2003. Our depreciation and amortization expenses increased to NT$763 million (US$23 million) in the first quarter of 2004 from NT$661 million in the first quarter of 2003. The increase in depreciation and amortization in the first quarter of 2004 was primarily due to the acquisition of property, plant and equipment and the impact of consolidating the financial results of ThaiLin, AMCT and ChipMOS Logic.

Net cash provided by operating activities totaled NT$1,877 million (US$57 million) in 2003, compared to NT$1,464 million in 2002. The increase in 2003 compared to 2002 was primarily due to a net income of NT$482 million (US$15 million) in 2003 compared to a net loss of NT$970 million in 2002. Our accounts receivables with related parties and our accounts receivables with third parties increased to NT$1,342 million (US$41 million) and NT$1,291 million (US$39 million), respectively, as of December 31, 2003, from NT$1,105 million and NT$562 million, respectively, as of December 31, 2002. We recorded positive minority interests of NT$609 million (US$19 million) in 2003 compared to negative minority interests of NT$450 million in 2002. Our depreciation and amortization expenses decreased to NT$2,715 million (US$82 million) in 2003 from NT$2,821 million in 2002. The decrease in depreciation and amortization in 2003 was due to the full amortization of technology know-how provided by Mosel and Siliconware Precision and because we incurred less incremental depreciation expenses from the purchase of new equipment.

Net cash provided by operating activities totaled NT$1,464 million in 2002, compared to NT$1,620 million in 2001. The decrease in 2002 compared to 2001 was primarily due to an increase in accounts receivable, partially offset by an increase in depreciation and amortization expenses. Our aggregate accounts receivable were NT$1,667 million as of December 31, 2002, compared to NT$1,451 million as of December 31, 2001. Our accounts receivables with related parties increased to NT$1,200 million as of December 31, 2001, primarily as a result of our decision in July 2001 to increase our credit terms to Mosel from 60 days to 120 days after the last day of the month during which the invoice was sent and our decision in November 2001 to increase our credit terms to Ultima from 30 days to 90 days after the last day of the month during which the invoice was sent. We changed our credit terms to Mosel from 120 days back to 60 days in April 2002 and increased our credit terms for Mosel from 60 days to 90 days in June 2002. Our accounts receivables with related parties decreased to NT$1,105 million as of December 31, 2002 primarily due to the change in credit terms to Mosel. Our depreciation and amortization expenses were NT$2,821 million in 2002, compared to NT$2,815 million in 2001. The increase in our depreciation and amortization expenses in 2002 compared to 2001 was due to additional equipment installed in connection with our capacity expansion program. See Results of Operations.

Net Cash Provided by (Used in) Investing Activities

Net cash used in investing activities totaled NT$3,590 million (US$109 million) in the first quarter of 2004, compared to NT$280 million in the same period in 2003. Net cash used in investing activities primarily reflected an increase of NT$1,841 million (US$56 million) in short-term investments and capital expenditures of NT$1,664 million (US$50 million) in the acquisition of property, plant and equipment.

Table of Contents

Net cash used in investing activities totaled NT$761 million (US$23 million) in 2003, compared to NT$3,136 million in 2002. Net cash used in investing activities primarily reflected expenditures in acquiring properties and equipment, which was NT$2,402 million (US$73 million) in 2003 and NT$2,308 million in 2002. Expenditures in acquiring long-term investments was NT$15 million (US$455 thousand) in 2003 and NT$1,271 million in 2002. We incurred capital expenditures of NT$2,402 million (US$73 million) in 2003 for the purchase of testing and wafer sorting equipment for memory semiconductors and NT$2,308 million in 2002 for the purchase of testing and wafer sorting equipment for LCD and other flat-panel display driver semiconductors.

Net cash used in investing activities totaled NT$3,136 million in 2002, compared to NT$1,410 million in 2001. Net cash used in investing activities primarily reflected expenditures in acquiring properties and equipment, which was NT$2,308 million in 2002 and NT$1,672 million in 2001. Expenditures in acquiring long-term investments was NT$1,271 million in 2002 and NT$11 million in 2001. We incurred capital expenditures of NT$2,308 million in 2002 for the purchase of testing and wafer sorting equipment for LCD and other flat-panel display driver semiconductors and NT$1,672 million in 2001 for the purchase of testing equipment for LCD and other flat-panel display driver semiconductor and TCPs.

Net Cash Provided by (Used in) Financing Activities

Net cash provided by financing activities totaled NT$1,800 million (US$55 million) in the first quarter of 2004, compared to NT$324 million used in the same period in 2003. Net cash provide by financing activities in the first quarter of 2004 primarily reflected the proceeds from short and long-term loans of NT$768 million and NT$1,072 million, respectively.

Net cash used in financing activities totaled NT$1,842 million (US$56 million) in 2003, compared to NT$2,979 million provided in 2002. Net cash used in financing activities in 2003 primarily reflected a repayment of a NT$576 million (US$17 million) loan from Jesper Limited, NT$719 million (US$22 million) repayments on bank loans, NT$352 million (US$11 million) repayments on long-term loans, NT$284 million (US$9 million) payments on bonds and NT$159 million (US$5 million) repayments on commercial papers.

Net cash provided by financing activities totaled NT$2,979 million in 2002, compared to NT$220 million used in 2001. Net cash provided by financing activities in 2002 primarily reflected NT$1,214 million of net long-term borrowings, NT$966 million of net short-term borrowings, NT$576 million of a loan from Jesper Limited to us, and NT$159 million proceeds from commercial papers.

Net cash used in financing activities totaled NT$220 million in 2001, primarily reflecting NT$1,052 million repayment of long-term loans, partially offset by borrowings of NT$833 million in bank loans.

Table of Contents

Tabular Disclosure of Contractual Obligations and Commercial Commitments

The following table summarizes our contractual obligations and commitments as of December 31, 2003 for the periods indicated:

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**More than 5 years**
	NT$	**NT$**	**NT$ (in millions)**	**NT$**	**NT$**
Long-term debt[1]	$ 4,799.5	$ 1,145.8	$ 2,895.1	$ 758.6	$
Short-term loans[1]	1,574.6	1,574.6			
Working capital loans	1,013.7	1,013.7			
Other short-term obligations	560.9	560.9			
Operating leases	163.1	16.2	31.3	29.9	85.7
Royalty or other license payments[2]	252.4	168.4	84.0		
Investment[3]	6,967.6	2,124.0	4,843.6		
Total contractual cash obligations	$ 13,757.2	$ 5,029.0	$ 7,854.0	$ 788.5	$ 85.7

(1) Includes interest payments. Assumes level of relevant interest rates remains at December 31, 2003 level throughout all relevant periods.
(2) Assumes net revenue from relevant services for calculating royalty or license fees remain constant at 2003 levels.
(3) Represents commitment to build a new facility in Shanghai Qingpu Industrial Zone and commitment to invest in Ultima Technology Corp.

In addition, the following table summarizes our other commercial commitments as of December 31, 2003 for the periods indicated:

		Amount of Commitment Expiration Per Period			
Our Commercial Commitments	**Total Amounts Committed**	**Less than 1 year**	**1-3 years**	**4-5 years**	**Over 5 years**
	NT$	**NT$**	**NT$ (in millions)**	**NT$**	**NT$**
Lines of credit	$1,729.7	$1,729.7	$	$	$
Total commercial commitments	$1,729.7	$1,729.7	$	$	$

Capital Resources

Our capital expenditure in 2001 was funded by NT$1,620 million cash flows from operations and NT$1,078 million in short-term investments. Capital expenditure in 2002 was funded by NT$1,464 million cash flows from operations and an increase of NT$1,214 million of long-term borrowings. Capital expenditure in 2003 was funded by NT$1,877 million (US$57 million) cash flows from operations and an increase of NT$223 million (US$7 million) in bank loans. Capital expenditure in the first quarter of 2004 was funded by NT$1,800 million (US$55 million) cash flows from financing activities and NT$1,448 million (US$44 million) cash flows from operations.

We have budgeted capital expenditure of approximately NT$6,134 million for 2004 and NT$4,860 million for 2005. In connection with the operations in Shanghai, Modern Mind has invested, through ChipMOS Shanghai, US$47.5 million in the new testing and assembly facility in Shanghai and Modern Mind has committed that it will invest a further US$202.5 million by June 6, 2005 in the permanent testing and assembly facility. Construction of this permanent facility began in June 2002. On December 26, 2003, ChipMOS Shanghai obtained a loan facility for RMB20 million from the China Construction Bank, of which RMB20 million has been drawn as of that date. The loan has a term of six months and is secured by land use rights with a net book value of RMB43.3 million as of December 31, 2003. We intend to use US$60 million of our net proceeds from this offering for a loan to Modern Mind to repay the outstanding bank debt and to fund a further capital

Table of Contents

contribution to ChipMOS Shanghai to finance primarily its facility construction costs. In addition, we currently expect to fund ChipMOS Shanghai s remaining investment requirement through issuance of additional debt or equity securities and/or long-term borrowings. If sufficient funds are not raised to meet the remaining investment requirement for ChipMOS Shanghai by July 6, 2005 and an extension is not granted by the relevant PRC regulatory authority by that time, ChipMOS Shanghai s business license may become automatically void and ChipMOS Shanghai may have to be liquidated. Please see Risk Factors Risks Relating to Our Business If Modern Mind fails to invest an additional US$202.5 million into ChipMOS Shanghai by July 6, 2005, 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 for further details. From time to time, subject to market conditions, we will also consider issuing additional debt or equity securities and raising short- or long-term borrowings to fund our capital expenditure.

As of March 31, 2004, we had long-term bank loans amounting to NT$4,003 million (US$121 million), NT$3,177 million (US$96 million) of which are collateralized by equipment and buildings and NT$26 million (US$788 thousand) of which are collateralized by time deposits. NT$277 million (US$8 million) of these loans are floating rate loans (5.375% as of December 31, 2003 and 5.375% as of March 31, 2004) repayable semi-annually from November 2000 to December 2004. NT$28 million (US$848 thousand) of these loans are floating rate loans (5.655% as of December 31, 2003 and 5.655% as of March 31, 2004) repayable quarterly from April 2001 to January 2006. NT$72 million (US$2 million) of these loans are floating rate loans (3.875% as of December 31, 2003 and 3.300% as of March 31, 2004) repayable quarterly from March 2004 to September 2008. NT$2,000 million (US$61 million) of these loans are floating rate loans (4.275% as of December 31, 2003 and 4.275% as of March 31, 2004) repayable semi-annually from September 2004 to September 2007. NT$500 million (US$15 million) of these loans are floating rate loans (4.400% as of December 31, 2003 and 4.400% as of March 31, 2004) repayable semi-annually from September 2004 to September 2007. NT$300 million (US$9 million) of these loans are fixed rate loans (3.400% as of March 31, 2004) repayable quarterly from November 2004 to February 2007. NT$400 million (US$12 million) of these loans are floating rate loans (3.625% as of March 31, 2004) repayable quarterly from June 2004 to March 2008. NT$400 million (US$12 million) of these loans are floating rate loans (3.300% as of March 31, 2004) repayable quarterly from April 2005 to January 2011. NT$26 million (US$788 thousand) is an interest-free research and development subsidy from the government for developing known-good-die solutions and COF assembly and testing technology, which is repayable quarterly from July 2003 to September 2006. As of March 31, 2004, no additional credit under this loan was available as the credit line expired upon completion of the research project.

On December 31, 2003, we obtained a syndicated loan facility in the amount of NT$2,000 million from a group of financial institutions for a term of four years, and this loan facility is secured by our testing and assembly equipment located within our facility at the Hsinchu Science Park and the Southern Taiwan Science Park and our buildings at the Southern Taiwan Science Park. As of April 30, 2004, NT$400 million was drawn under this loan facility.

On July 24, 2002, we obtained a syndicated loan facility in the amount of NT$2,500 million from a group of financial institutions for a term of five years, and this loan facility is secured by our testing and assembly equipment located within our facility in Hsinchu Science Park and Southern Taiwan Science Park. As of December 31, 2003, this loan was fully drawn. Under this loan facility, ChipMOS Taiwan is required to ensure that we and Siliconware Precision collectively maintain a percentage of direct ownership in ChipMOS Taiwan of at least 50% of outstanding shares and have control over its operations. As of April 30, 2004, we and Siliconware Precision have 99.0% of direct ownership in ChipMOS Taiwan and have control over its operations.

Certain loan agreements and indentures of ChipMOS Taiwan 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;

Table of Contents

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

maintain the earnings before interest, taxes, depreciation and amortization to gross interest expense ratio above 4:1; and

maintain the balance of guaranteed to issued capital ratio below 1:2.

As of March 31, 2004, we were in compliance with our financial covenants.

In 2001, ThaiLin issued an aggregate amount of NT$800 million convertible bonds due July 4, 2006, of which NT$565 million have been either redeemed or converted as of December 31, 2003.

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 March 31, 2004:

	(in millions)	
During 2004	NT$ 769.4	US$ 23.3
During 2005	1,026.6	31.1
During 2006	1,026.6	31.1
During 2007	926.9	28.1
During 2008 and onwards	253.7	7.7
	NT$ 4,003.2	US$ 121.3

As of March 31, 2004, certain of our land, buildings and equipment with an aggregate net book value of NT$5,256 million (US$159 million) and time deposits in the aggregate amount of NT$43 million (US$1 million) were pledged as collateral in connection with our long-term borrowings.

Our unused credit lines for short-term loans as of March 31, 2004 were NT$1,765 million (US$53 million), which have expired and will expire between April 2004 and December 2004. We are currently in the process of negotiating with our existing lenders to extend such credit facilities. As of March 31, 2004, we had available undrawn long-term credit facilities totaling NT$2,120 million (US$64 million).

As of March 31, 2004, we had short-term working capital loans of NT$829 million (US$25 million) with floating rates between 1.633% to 4.536%, which are due in June 2004. We also have a letter of credit loan for imports of machinery in the amount of NT$1,284 million (US$39 million), which is due on or before May 6, 2005.

We believe our financial resources will enable us to meet our capital spending and other capital needs, other than with respect to the required investments in Shanghai, for the next 18 months. We currently believe that we will be able to borrow additional amounts and issue additional debt and/or equity securities on a timely basis to fund our capital needs, including ChipMOS Shanghai s planned investment in the new Shanghai production facility.

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 plan to finance these expenditures from cash flow from operations, amounts available under existing credit facilities and the issuance of securities.

Table of Contents

Off-Balance Sheet Arrangements

As of March 31, 2004, 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 and as of December 31,			
	2001	2002	2003	2003
	NT$	NT$ (in millions)	NT$	US$
Net income in accordance with:				
ROC GAAP	$ (1,134.9)	$ (970.3)	$ 482.4	$ 14.6
US GAAP	(993.5)	(913.4)	485.3	14.7
Total assets in accordance with:				
ROC GAAP	16,101.3	17,953.7	19,665.7	595.9
US GAAP	16,123.5	18,020.9	19,633.5	594.9
Shareholders equity in accordance with:				
ROC GAAP	7,599.2	6,713.3	7,248.2	219.6
US GAAP	7,641.0	6,760.2	7,221.3	218.8

Note 27 to our 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, amortization of technology transfer in payment of capital stock, interest capitalization, and the minority interests in ChipMOS Taiwan.

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 March 31, 2004, we had aggregate debt outstanding of NT$7,505 million (US$227 million), which was incurred for capital expenditure and general operating expenses. Of our outstanding debt, 60% 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 3.8% as of March 31, 2004. 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$45 million based on our outstanding indebtedness as of March 31, 2004.

We currently do not enter into derivative transactions with regard to interest rates, but we would consider engaging in currency interest rate swaps to lock in favorable currency and interest rate levels from time to time, if available, on terms considered attractive by us. We had no interest rate derivative contracts outstanding as of March 31, 2004.

Table of Contents

Foreign Currency 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 March 31, 2004, 19% of our accounts receivable are denominated in US dollars and Japanese yen, and 81% 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 appreciation of the NT dollar against all other relevant foreign currencies of 5% would increase our annual exchange losses by NT$57 million based on our outstanding assets and liabilities denominated in foreign currencies as of March 31, 2004. Please see Note 25 of our consolidated financial statements for information on the net assets and liabilities hedged by these derivative transactions.

Taxation

ChipMOS Taiwan was granted an exemption from Republic of China 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 in 1998, 1999 and 2000. The tax exemption relating to the expansion of production capacity in 1998 and 1999 expired on December 31, 2002, which resulted in tax savings for ChipMOS Taiwan of approximately NT$5 million in 1999 and NT$163 million in 2000. The tax exemption relating to the expansion of production capacity in 2000 will expire on December 31, 2005, which resulted in tax savings for ChipMOS Taiwan of approximately NT$34 million in 2003.

ChipMOS Taiwan is also entitled to other tax incentives generally available to Taiwan companies under the Statute of Upgrading Industries, including tax credits of up to 35% 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 20% 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. Such tax credits resulted in tax savings for ChipMOS Taiwan of approximately NT$64 million in 2000. ChipMOS Taiwan did not enjoy any tax savings from such tax credits in 2001 and 2002. In 2003, tax credits resulted in tax savings for ChipMOS Taiwan of approximately NT$83 million.

Net income generated by ChipMOS Taiwan 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 10.0%. 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.

In accordance with the relevant tax rules and regulations of the PRC, ChipMOS Shanghai enjoys income tax exemptions for the first two profitable years and a 50% reduction of the applicable income taxes in the following three years. Any tax losses can only be carried forward for five years.

Table of Contents

BUSINESS

Introduction

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

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 has continued to expand and is expected to continue its growth over the next few years, driven by overall global GDP growth, increased information technology spending, and demand for new and improved electronic products and applications, along with further improvements in the cost, performance, speed and size of semiconductors. According to a press release issued in February 2004 by the Semiconductor Industry Association, or SIA, the global semiconductor market was US$166.4 billion in 2003 and, according to a report issued by the SIA in November 2003, is expected to grow to US$219.6 billion in 2006.

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 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. According to a report issued in February 2004 by Gartner, memory components are forecasted to reach US$65.0 billion in revenues in 2008 from US$33.3 billion in 2003. The memory market is dominated by two segments DRAM and flash memory. In 2003, the

DRAM market was US$17.5 billion, representing 52.5% of the memory market, and is forecasted to reach US$29.5 billion in revenues in 2008, according to the same report by Gartner. Growth in the DRAM market is expected to be driven by an increase in PC unit shipments and wireless handsets that use multi-chip packages. The flash memory market is expected to continue to experience strong growth due to increasing memory requirements for cellular handsets, digital cameras and digital audio devices. According to the same report by Gartner, the flash memory market is expected to grow from US$10.8 billion in 2003, or 32.6% of the memory market, to US$29.4 billion in 2008.

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. The flat-panel display market is expected to increase from US$43.1 billion

Table of Contents

in 2003 to US$95.0 billion in 2008, according to a report issued in the first quarter of 2004 by DisplaySearch. Thin-film-transistor LCDs, or TFT-LCDs, account for about three-fourths of the flat-panel display market. According to the same report by DisplaySearch, the TFT-LCD market was US$33.2 billion in 2003 and is expected to reach US$74.0 billion in 2008. We currently expect the market for LCD and other flat-panel display driver semiconductors, which are semiconductors that control flat panels, to grow significantly due to increasing demand for flat-panel displays. According to a report issued in February 2004 by Gartner, the LCD and other flat-panel display driver semiconductor market was US$5.2 billion in 2003 and is expected to reach US$9.7 billion in 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. According to a report issued in February 2004 by Gartner, the total communications semiconductor market is expected to increase from US$42.9 billion in 2003 to US$80.5 billion by 2008. In a report issued in December 2003, Gartner has stated that the mobile communications segment, which makes up the largest portion of the communications semiconductor market, will most likely increase from US$22.4 billion in 2003 to US$33.9 billion in 2005.

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:

Table of Contents

Process	Description
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. 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,

Table of Contents

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. According to a report issued in February 2004 by Gartner, revenues for the outsourced assembly and testing industry were US$10.2 billion in 2003 and are expected to increase to US$24.8 billion in 2008. The outsourced assembly market accounted for US$8.1 billion of the total outsourced assembly and testing market in 2003 and, according to the same report issued by Gartner, is expected to increase to US$19.2 billion in 2008. According to the same report by Gartner, the outsourced testing market accounted for US$2.2 billion of the total outsourced assembly and testing market in 2003 and is expected to increase to US$5.6 billion in 2008.

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

64

Table of Contents

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 testing and assembly services for LCD and other flat-panel display driver semiconductors by employing tape carrier package, or TCP, chip-on-film, or COF, and chip-on-glass, or COG, technologies. We also provide semiconductor turnkey services by purchasing fabricated wafers and then selling tested and assembled semiconductors, primarily memory products.

Semiconductors tested and assembled by us are used in personal computers, graphics applications, such as game consoles and personal digital assistants, or PDAs, communications equipment, such as cellular handsets, and consumer electronic products and display applications, such as flat-panel displays. In 2003, 35% of our net revenue was from testing services for memory and mixed-signal semiconductors, 30% from assembly services for memory and mixed-signal semiconductors, 19% from LCD and other flat-panel display driver semiconductor testing and assembly services and 16% from semiconductor turnkey services. In the first quarter of 2004, 45% of our net revenue was from testing services for memory and mixed-signal semiconductors, 25% from assembly services for memory and mixed-signal semiconductors, 24% from LCD and other flat-panel display driver semiconductor testing and assembly services and 6% from semiconductor turnkey services.

Our Structure and History

We are a holding company, incorporated under the laws of Bermuda in August 2000. We provide most of our services in Taiwan through our majority-owned subsidiary, ChipMOS TECHNOLOGIES INC., or ChipMOS 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 April 30, 2004, Mosel Vitelic Inc., or Mosel, indirectly owned approximately 43.7% of our common shares.

Table of Contents

The following chart illustrates our corporate structure and our equity interest in each of our principal subsidiaries and affiliates as of April 30, 2004.(1)

(1) Under ROC Financial Accounting Standards and the regulations of the Taiwan Securities and Futures Commission, 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 2001, we consolidated the financial results of ChipMOS Taiwan and its 100% owned subsidiaries, ChipMOS Japan and ChipMOS USA. In 2002 and 2003, we also consolidated the financial results of ChipMOS Far East Limited, or ChipMOS Far East, Modern Mind and its wholly-owned subsidiary, ChipMOS Shanghai. In 2003, we also consolidated the financial results of ThaiLin. From January 12 and 28, 2004, onwards, we also consolidate the financial results of Advanced Micro ChipTechnology Co., Ltd., or AMCT, and ChipMOS Logic TECHNOLOGIES INC., or ChipMOS Logic, respectively, and from April 1, 2004, onwards, we also consolidate the financial results of CHANTEK ELECTRONIC CO., LTD., or Chantek.

(2) 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. We are currently in the process of restructuring our control of Modern Mind and ChipMOS Shanghai. See Restructuring of Our Control of Modern Mind and ChipMOS Shanghai below for further details.

(3) As of December 31, 2003, ChipMOS Taiwan held a 30.8% equity interest in AMCT. Through additional acquisitions of shares of AMCT in January, February and March 2004, ChipMOS Taiwan increased its equity interest to 99.7% as of April 30, 2004.

(4) As of December 31, 2003, Chantek held a 38.5% equity interest in AMCT. As of December 31, 2003, ChipMOS Taiwan held a 25.0% equity interest in PlusMOS TECHNOLOGIES Inc., or PlusMOS, and PlusMOS held a 12.0% equity interest in Chantek. See CHANTEK ELECTRONIC CO., LTD. below for a description of the acquisition of PlusMOS by Chantek effective April 1, 2004.

(5) As of December 31, 2003, ChipMOS Taiwan held a 36.5% equity interest in ThaiLin.

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. ChipMOS Taiwan also provides testing and assembly services on a turnkey basis, which entails ChipMOS Taiwan purchasing fabricated wafers and then selling tested

Table of Contents

and assembled semiconductors. 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. As of April 30, 2004, we held 70.3% of the outstanding common shares of ChipMOS Taiwan and Siliconware Precision held 28.7%.

ChipMOS Far East Limited. ChipMOS Far East (formerly Leader Partner Limited) was incorporated in Hong Kong in November 2002. It is engaged in financial management and marketing and sales. As of April 30, 2004, we held 100% of the outstanding common shares of ChipMOS Far East.

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, semiconductor assembly and testing, and module and subsystem manufacturing. 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 2002 and 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. See Restructuring of Our Control of Modern Mind and ChipMOS Shanghai for a detailed discussion of the restructuring of our interest in Modern Mind and ChipMOS Shanghai and the related agreements.

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. As of April 30, 2004, ChipMOS Taiwan held a 35.2% interest in ThaiLin. 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. Mr. S.J. Cheng, our chief executive officer and chairman 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 also our directors, and one of the vice presidents of ChipMOS Taiwan is also the president of ThaiLin. ThaiLin currently plans to conduct a NT$1,000 million convertible bond offering in June 2004 and a rights issue of approximately 20 million common shares in July 2004. ChipMOS Taiwan currently intends to participate in these offerings in order to maintain its percentage ownership in ThaiLin.

Advanced Micro Chip Technology Co., Ltd. AMCT was incorporated in Taiwan in March 2000. It provides 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 expects to liquidate AMCT in August 2004.

CHANTEK ELECTRONIC CO., LTD. Chantek was incorporated in Taiwan in May 1989 and is listed on the GreTai Securities Market in Taiwan. 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 Technologies Inc., or 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. As of March 31, 2004, ChipMOS Taiwan held a 34.0% interest in Chantek, and PlusMOS owned a 12.0% interest.

67

Table of Contents

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 held a 34.2% interest in Chantek, which is the surviving entity. As a result, ChipMOS Taiwan became the controlling shareholder of Chantek. Under applicable accounting principles, we are required to consolidate Chantek subsequent to its merger with PlusMOS.

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.

Restructuring of Our Control of Modern Mind and ChipMOS Shanghai

We are currently in the process of restructuring our control of ChipMOS Shanghai and our Mainland China operations, which is expected to be implemented as of the closing of this offering. We currently expect to replace the outstanding US$37.5 million convertible note previously issued by Modern Mind in its entirety with US$97.5 million demand notes, with the difference representing a US$60 million loan that we currently expect to extend to Modern Mind from the net proceeds of this offering. The demand notes will be 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. In addition, we will obtain from Jesper Limited an irrevocable option to acquire the common shares of Modern Mind then owned by Jesper Limited. Payment under the demand notes will be fully and unconditionally guaranteed by Jesper Limited and secured by a security interest in the entire equity interest in Modern Mind and ChipMOS Shanghai. In addition, on April 22, 2004, ChipMOS Far East and ChipMOS Shanghai entered into an exclusive services agreement, pursuant to which ChipMOS Shanghai will provide its services exclusively to ChipMOS Far East or customers designated by ChipMOS Far East. Under the exclusive services agreement, ChipMOS Far East will purchase and consign to ChipMOS Shanghai all of the equipment required to render those services. We intend to use approximately US$60 million from the proceeds of this offering to finance ChipMOS Far East s purchase of the equipment. See 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 violating ROC laws governing investment in Mainland China by ROC companies or persons. Any sanctions on Mosel as a result of any violation of ROC laws may cause Mosel to decrease its ownership in us significantly or cause Mosel to take other actions that may not be in the best interest of our other shareholders and Risk Factors Risks Relating to Countries in Which We Conduct Operations Our current ownership structure and contractual arrangements and our contemplated contractual arrangements with Jesper Limited, Modern Mind and ChipMOS Shanghai may not be effective in providing operational control of our Mainland China operations for risks associated with our investment in Mainland China and these contractual arrangements.

Table of Contents

Our Strategy

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

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

We intend to continue our focus on developing and providing advanced testing and assembly services for high-growth segments of the semiconductor industry, such as memory, mixed-signal and LCD and other flat-panel display driver semiconductors. In 2003 and the first quarter of 2004, our revenue from testing and assembly of semiconductors for these segments accounted for 84% and 94%, respectively, of our net revenue. We believe that our investments in equipment and research and development in some of these areas allow us to offer a differentiated service from our competition. In order to continue to benefit from the expected growth in these segments, we intend to continue to invest in capacity to meet the testing and assembly requirements of these key semiconductor market segments.

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

We believe that our ability to provide progressively more advanced testing and assembly services to customers is critical to our business. In addition, advanced semiconductor testing and assembly services typically generate higher margins due to the greater expertise required and the more sophisticated technologies used. We will continue to invest in the research and development of advanced testing and assembly technologies. For example, we are expanding our capabilities in fine-pitch BGA and the testing and assembly of TCPs. We have also introduced 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;
- acquiring three-dimensional technology and flip-chip assembly capabilities, which provide numerous size and performance advantages compared with traditional (face-up) configurations;
- improving manufacturing yields for new assembly technologies; and
- 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.

In 2003 and the first quarter of 2004, we spent approximately 3% and 2%, respectively, of our net revenue on research and development. We will continue to invest our resources to recruit and retain experienced research and development personnel. Our research and development team currently comprises 180 persons, more than 30 of whom have advanced degrees in electrical engineering or other related disciplines.

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

We intend to build on our strong presence in key centers of semiconductor and electronics manufacturing to further grow our business. Currently, most of our operations are in Taiwan, one of the world s leading locations for outsourced semiconductor manufacturing. This presence provides us with several advantages. First, our proximity to other semiconductor companies is attractive to customers who wish to outsource various stages of the semiconductor manufacturing process. Second, our proximity to many of our suppliers, customers and the

Table of Contents

end-users of our customers products enables us to be involved in the early stages of the semiconductor design process, enhances our ability to quickly respond to our customers changing requirements and shortens our customers time-to-market. Third, we have access to an educated labor pool and a large number of engineers who are able to work closely with our customers and other providers of semiconductor manufacturing services.

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

Expand Our Offering of Vertically Integrated Services.

We believe that one of our competitive strengths is our ability to provide vertically integrated services to our customers. Vertically integrated services consist of the integrated testing, assembly and direct shipment of semiconductors to end-users designated by our 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 ThaiLin and Chantek, we are able to offer vertically integrated services for a broad range of products, including memory, mixed-signal and LCD and other flat-panel display driver semiconductors. We believe that these affiliations, which offer complementary technologies, products and services as well as additional capacity, will continue to enhance our own development and expansion efforts into new and high-growth markets. We intend to establish new alliances with leading companies and, if suitable opportunities arise, engage in merger and acquisition activities that will further expand the services we can provide.

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

From time to time, we strategically agree to commit a portion of our testing and assembly capacity to certain of our customers. We intend to enter into long-term capacity agreements with more of our existing customers, as well as diversify our customer base by entering into long-term agreements with new customers. The customers we currently have long-term agreements with include DenMOS, ProMOS, Himax Technologies, Inc., or Himax, Novatek Microelectronics Corp., or Novatek, and Oki Electric Industry Co., Ltd., or Oki. See Customers for a more detailed discussion of these long-term agreements. 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. Under these long-term agreements, we have reserved 62% of our total current capacity through 2005 and 2006 in exchange for commitments to place orders in the amount of the allocated capacity.

Table of Contents

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,			Three Months ended March 31,[1]	
	2001	2002	2003	2003	2004
Testing					
Memory testing revenue	40.8%	34.5%	32.1%	28.9%	42.5%
Mixed-signal testing revenue	2.0	1.2	2.9	2.3	2.9
Total testing revenue	42.8	35.7	35.0	31.2	45.4
Assembly					
Memory assembly revenue	30.7	21.5	29.9	30.3	25.0
Mixed-signal assembly revenue	0.0	0.2	0.3	0.3	
Total assembly revenue	30.7	21.7	30.2	30.6	25.0
LCD and other flat-panel display driver semiconductor testing and assembly revenue	2.5	15.2	18.7	17.2	24.0
Semiconductor turnkey revenue[2]	24.0	27.4	16.1	21.0	5.6
Total net revenue	100.0%	100.0%	100.0%	100.0%	100.0%

(1) For the first quarter of 2003, we consolidated the financial results of ChipMOS Taiwan, ChipMOS Japan, ChipMOS USA, ChipMOS Far East, and Modern Mind and its wholly-owned subsidiary, ChipMOS Shanghai. For the first quarter of 2004, we also consolidated the financial results of ThaiLin (which have been consolidated since December 1, 2003, the date when ChipMOS Taiwan obtained the controlling influence over ThaiLin s decisions on its operations, personnel and financial policies), and from January 12 and 28, 2004, onwards, the financial results of AMCT and ChipMOS Logic, respectively.

(2) In 2003, includes trading revenue generated by ChipMOS Far East.

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 128 devices simultaneously. The memory semiconductors we test are used primarily in personal 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 640 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

Table of Contents

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.

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 customer s 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 the 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.

72

Table of Contents

Assembly

Our assembly services generally involve the following steps:

Wafer Lapping	The wafers are ground to their required thickness.
Die Saw	Wafers are cut into individual dies, or chips, in preparation for the die-attach process.
Die Attach	Each individual die is attached to the leadframe or substrate.
Wire Bonding	Using gold wires, the dies are connected to the package inner leads.
Molding	The die and wires are encapsulated to provide physical support and protection.
Marking	Each individual package is marked to provide product identification.
Dejunking and Trimming	Mold flash is removed from between the lead shoulders through dejunking, and the dambar is cut during the trimming process.
Electrical Plating	A solderable coating is added to the package leads to prevent oxidization and to keep solder wettability of the package leads.
Forming/Singulation	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.

Table of Contents

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

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.

Package	Lead-count	Description	End-User Applications
Small Outline J-lead Package (SOP)	24-42	Designed for low lead-count memory devices, including DRAM and high speed SRAM	Personal computers, consumer electronics, audio and video products
Plastic Dual-in-line Package (PDIP)	28	Package with insertion leads on longer sides used in consumer electronics products	Electronic games, monitors, copiers, printers, audio and video products, personal computers
Plastic Leaded Chip Carrier (PLCC)	32	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
Thin Small Outline Package I (TSOP I)	28-48	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, DRAM, SDRAM and DDR DRAM	Disk drives, recordable optical disk drives, audio and video products, consumer electronics, communication products
Low-Profile Quad Flat Package (LQFP)	48-100	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)	48-100	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)	8-32	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)	24-66	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

Table of Contents

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 distance between the individual leads. The ball grid array configuration enables high lead 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:

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

Package	Connections	Description	End-User Applications
Fine-pitch 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
Substrate On Chip (SOC)	52-60	Our patented design for DRAM products that require high performance and chip scale package	Notebook computers, cellular handsets, global positioning systems, personal digital assistants, wireless systems
Multi-Chip BGA	48-208	Our patented design for assembly of two or more memory chips (to increase memory density) or 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 CSP	48-72	Designed for assembly of two or more memory chips or logic and memory chips in one chip scale package (CSP)	Cellular handsets, digital cameras, personal digital assistants, wireless systems, notebook computers, global positioning systems

Table of Contents

The following table presents the organic substrate-based packages we currently plan to assemble in the future, including the number of connections, a description of the package and the end-user applications of each package:

Package	Connections	Description	End-User Applications
Micro BGA	46-72	Designed for high-speed, high-density, high-performance memory devices, such as Rambus DRAM, DDR DRAM and flash memory	High performance computers, game consoles, notebooks, visual cellular handsets, mixed-signal, wireless 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.

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 tape carrier packages. 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 500 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 tape carrier packages. 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

Table of Contents

polymer coating after inner lead bonding. The back face of the chip is left uncoated for thermal connection to the printed circuit board.

The following diagram presents the basic components of a tape carrier package:

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:

Wafer lapping	The wafers are ground to their required thickness.
Die Saw	Wafers are cut into individual dies, or chips, in preparation for inner lead bonding.
Inner Lead Bonding	An inner lead bonder machine connects the chip to the printed circuit tape.
Potting	The package is sealed with an epoxy.
Potting Cure	The potting cure process matures the epoxy used during the potting stage with high temperatures.
Marking	A laser marker is used to provide product identification.
Marking Cure	The marking cure process matures the marking ink by subjecting the semiconductor to high temperatures.

Chip-on-Glass Technology

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 is easy to rework and 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.

Table of Contents

The COG assembly technology involves the following steps:

Wafer Lapping	The wafers are ground to their required thickness.
Die Saw	Wafers are cut into individual dies, or chips, in preparation for the pick and place process.
Pick and Place	Each individual die is picked and placed into a chip tray.
Inspection and Packing	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.

Semiconductor Turnkey

To efficiently utilize our excess capacity during the downturn in the semiconductor market in 1998 and 1999, we began to provide semiconductor turnkey services in early 1999. Our semiconductor turnkey services consist of our purchase of fabricated wafers, primarily memory semiconductors, principally from Elite Memory Technology Inc. and MediaTek Inc. We then test and assemble the dies cut from the fabricated wafers and resell the completed semiconductors to our customers. The level of our semiconductor turnkey services declined by the end of the third quarter of 2000, as we reached our full testing and assembly capacity. Starting in the first quarter of 2001 to the end of 2002, we increased the level of our semiconductor turnkey services again as a result of decreased testing and assembly capacity utilization rates due to the decline in market demand for semiconductors. In 2003 and the first quarter of 2004, the level of our semiconductor turnkey services declined due to the increase in customer orders for our testing and assembly services. In 2003, our revenue from our semiconductor turnkey services also included trading revenue generated by ChipMOS Far East from purchases and sales of certain components for DVD/CD-ROM/CD-RW drives provided to third parties. We did not generate any trading revenue in the first quarter of 2004 and we do not expect to generate significant trading revenue for the remainder of 2004.

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. 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;

Table of Contents

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.

The number of our customers has grown from 46 in 1999 to 90 in 2003 and to more than 110 in the first quarter of 2004. Our top 15 customers in the first quarter of 2004 include (in alphabetical order):

Asahi Kasei Microsystem Co. Ltd.

Cascade Semiconductor Corp.

Cypress Semiconductor Corp.

DenMOS Technology, Inc.

Elite Memory Technology Inc.

FASL (Kuala Lumpur) Sdn. Bhd.

Himax Technologies, Inc.

Integrated Silicon Solution, Inc.

Macronix International Co., Ltd.

Novatek Microelectronics Corp., Ltd.

Oki Electric Industry Co., Ltd.

Powerchip Semiconductor Corp.

ProMOS Technologies Inc.

SILICON 7 SMART DESIGN POWERFUL CHIPS

Ultima Electronics Corp.

In 2001 and 2002, our largest customer, Mosel, accounted for 48% and 35% of our net revenue, respectively, our second largest customer, Ultima, accounted for approximately 22% and 19% of our net revenue, respectively, our third largest customer in 2001, Elite Memory Technology Inc., accounted for approximately 4%, and our third largest customer in 2002, Macronix International Co. Ltd., accounted for approximately 5% of our net revenue. In 2003, our largest customer was ProMOS, which accounted for 19% of our net revenue, while our second largest customer, Mosel, accounted for almost 19% of our net revenue, and our third largest customer, Ultima, accounted for 12% of our net revenue. Mosel ceased to be a key customer of ours following the transfer of all of its DRAM business to ProMOS in the period from July to December 2003. In the first quarter of 2004, our largest customer was ProMOS, our second largest customer was Powerchip Semiconductor Corp., and our third largest customer was Novatek Microelectronics Corp., Ltd., accounting for 33%, 11%, and 8% of our net revenue,

respectively. We have been successful in attracting new customers such as Renesas Technology Corporation, FASL (Kuala Lumpur) Sdn. Bhd., and Texas Instrument Japan Limited in 2003.

The majority of our customers do 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. In 2002, 2003 and 2004, we entered into several long-term agreements with some of our key customers, including DenMOS, Himax, Novatek, Oki and ProMOS, under which we reserved capacity for such customers and under which such customers committed to place orders in the amount of the reserved capacity through 2005 and 2006, some of which may be reduced by these customers under the agreements. These agreements generally provide that the price of our services will be agreed upon at the time our customers place the orders under such agreements. 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 sales price per unit in that month. If a customer fails to place orders according to the reserved capacity, we are generally entitled to

Table of Contents

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 April 30, 2004, 62% of our total current capacity has been reserved for such customers.

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,			Three Months ended March 31,	
	2001	2002	2003	2003	2004
Taiwan	89%	88%	84%	90%	85%
Japan	4	3	5	2	5
United States	6	3	5	5	8
Hong Kong SAR	(1)	6	5	1	(1)
Others	1	(1)	1	2	2
Total	100%	100%	100%	100%	100%

(1) Less than 1%.

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 and the United States. Our sales and marketing strategy is to focus on memory semiconductors in Taiwan, mixed-signal semiconductors in Taiwan, Japan and the United States, LCD and other flat-panel display driver semiconductors in Japan, Taiwan and Hong Kong, and module and subsystem manufacturing in Taiwan and Mainland China. As of April 30, 2004, our sales and marketing efforts were primarily carried out by teams of sales professionals, application engineers and technicians totaling 52 staff. 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 bench-marking 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

Table of Contents

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 and Japan. 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% or 5% of our revenue from services for memory semiconductors in the United States and Japan. For 2002 and 2003, we paid NT$4 million and NT$9 million, respectively, in commissions to our sales agent. For the first quarter of 2004, we paid NT$3 million in commissions to our sales agent.

Research and Development

We believe that research and development is critical to our future success. In 2001, 2002 and 2003 we spent approximately NT$409 million, or 8%, NT$327 million, or 5%, and NT$295 million, or 3%, respectively, of our net revenue on research and development. In the first quarter of 2004, we spent approximately NT$73 million, or 2%, of our net revenue on research and development. We intend to sustain our commitment to these efforts.

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

- development of testing environments for simultaneous wafer probing and package testing;
- development/conversion of test programs;
- development of wafer-level burn-in;
- development of wafer-level testing;
- testing new products using existing machines;
- providing customers remote access to monitor test results; and
- development of testing technologies for modules and subsystems for flat-panel displays.

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-chip chip scale package;
- modules and subsystems for flat-panel displays;

Table of Contents

thinner and more flexible assembly such as chip-on-film packaging;

three-dimensional assembly; and

developing environmentally friendly assembly services.

Our projects include developing multi-chip package, lead-free products, 12-inch wafer technologies, 100 micron wafer thickness technology, COF module, liquid crystal on silicon microdisplay, or LCOS microdisplay, optical engine assembly technologies, compact camera modules, and advanced probe card technology. 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 April 30, 2004, we employed 180 professionals 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.

We maintain laboratory facilities to analyze the characteristics of semiconductor packages by computer simulation, and verify their performance by measurement devices. The use of computer simulation substantially reduces the time required to validate the suitability of a package 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 April 30, 2004, we employed 374 professionals 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. Our facilities in Hsinchu and Tainan have also been ISO 9002 certified. ISO 9002 certification is required by many countries for sales of industrial products in those countries. The 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. Like ISO 9002 certification, QS 9000 certification is required by some semiconductor manufacturers as a threshold indicator of a company s quality control standards. 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. In addition, our laboratories have been awarded Chinese National Laboratory accreditation under the categories of electricity, electrical test and temperature calibration.

Table of Contents

Further demonstrating our commitment to, and achievements in, quality management, ChipMOS Taiwan obtained the ISO/TS 16949:2002 quality system certification on November 26, 2003. The ISO/TS 16949:2002 certification system was jointly developed by members of the International Automative Task Force (IATF) and approved by the International Organization for Standardization. This technical specification is a common automative quality system requirements catalog based on ISO 9001:2000, AVSQ (Italian), EAQF (French), Q.S.-9000 (US) and VDA6.1 (German) automative catalogs. The ISO/TS (Technical Specification) 16949:2002 certification system seeks to actively incorporate quality management policies and objectives into the operation flows of the company. This certification stresses the supervision and measurement of both process and performance. The certification system became effective in March 2002.

On June 26, 2003, ChipMOS Shanghai obtained the ISO 9001:2000 quality system certification with respect to manufacturing and supply of semiconductor assembly, test and module manufacturing.

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 US federal 209E class 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.

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:

- temperature cycling testers, thermal shock testers, pressure cook testers and highly accelerated stress testers for reliability analyses;
- a scanning acoustic tomograph and scanning electronic microscope for physical failure analysis, semi-auto probe and curve tracer and direct current tester station for electrical failure analysis; and
- three-dimensional measurement for full-dimension measurement.

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. Most 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 99.9% for our TSOP packages, and 99.1% for our TCP packages in 2003. 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 three facilities in Taiwan and one facility in Shanghai, with one facility at each of the following locations: 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 we lease the land for our Hsinchu Science Park testing facility and Tainan assembly facility from the Science Park Administration under three 20-year leases. Two leases for our Hsinchu Science Park facility will expire in 2008 and 2017, 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

Table of Contents

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. While the exterior of the facility was completed in November 2003, equipment will not be moved into this facility until the third quarter of 2004. Pending commencement of production at the permanent facility, Modern Mind is operating in a temporary facility leased from a third party. Commercial testing and assembly services at this temporary facility commenced in March 2003. Modern Mind currently offers TSOP packages and testing and assembly of memory semiconductors, and intends to expand throughout 2004 and 2005 into the various testing and assembly services offered by us. Subsequent to the commencement of production at the permanent facility, we will also provide gold bumping services at the temporary facility. In connection with the planned operations in Shanghai, Modern Mind has invested, through ChipMOS Shanghai, US$47.5 million in the new testing and assembly facility in Shanghai and Modern Mind has committed to invest an additional US$202.5 million by June 6, 2005 in the permanent testing and assembly facility.

We leased the land previously used for our Kaohsiung testing facility from the Kaohsiung Export Processing Zone Administration under a lease which will expire on June 30, 2004. We currently do not have a definitive plan for the construction of this facility.

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 April 30, 2004.

Location of Facility	Primary Use	Size of Land	Testers/Bonders
Chupei, Hsinchu Chantek	Assembly/Gold Bumping[1]	21,620 square meters	153 wire bonders 1 stepper 2 aligners
Chupei, Hsinchu ChipMOS Logic	Testing	12,873 square meters	34 testers
Hsinchu Industrial Park, Taiwan ThaiLin	Testing	25,779 square meters	52 testers
Hsinchu Science Park, Taiwan	Testing	28,632 square meters	157 testers
Southern Taiwan Science Park, Taiwan	Assembly/Testing	56,680 square meters	126 wire bonders 74 inner lead bonders 86 testers
Kaohsiung Export Processing Zone, Taiwan	Testing	7,497 square meters	33 testers
Shanghai Qingpu Industrial Zone, Mainland China	Assembly/Testing/Modules and Subsystem Manufacturing	291,959 square meters	2 testers 32 wire bonders

(1) Gold bumping equipment at this facility belongs to ChipMOS Taiwan.

Raw Materials

Semiconductor testing requires minimal raw materials. Fabricated wafers are the main raw materials for our semiconductor turnkey services. 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 35%, 23% and 16% of our net revenue in 2002, 2003 and the first quarter of 2004, 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 month s production based on blanket orders and rolling forecasts of near-term requirements received from customers. In addition, several of our principal suppliers dedicate portions of their inventories, typically in amounts equal to the average monthly amounts supplied to us, as reserves to meet our production requirements. However, shortages in the supply of materials experienced by the semiconductor industry have in the past resulted in occasional price adjustments and delivery delays. See 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

Table of Contents

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, in 1997 and 1998, the industry experienced a shortage in the supply of advanced organic substrates used in BGA packages, which are currently available only from a limited number of suppliers located primarily in Japan. Similarly, with the exception of aluminum bags and inner and outer boxes, which we acquire from local sources, the raw materials used in our TCP process and for modules are obtained from a limited number of Japanese suppliers. Furthermore, we have recently seen a significant increase in the prices of leadframes, one of the raw materials that we use for leadframe-based packages.

Equipment

Testing of Memory and Mixed-Signal Semiconductors

Testing equipment is the most capital intensive component of the 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 April 30, 2004, we operated 278 testers. 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, Agilent Technologies and Credence Systems Corporation.

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. Currently, we do not have any testers consigned to us.

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 times 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. As of April 30, 2004, we operated 311 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.

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 April 30, 2004, we operated one stepper and two aligners for gold bumping and 74 inner lead bonders for assembly and 86 testers for LCD and other flat-panel display driver semiconductors. We are currently in the

Table of Contents

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., ASAT Limited, ASE Test Limited, ChipPAC, Inc., King Yuan Electronics Co., Ltd., Siliconware Precision, and ST Assembly Test Services 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;
- 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 April 30, 2004, we held 333 patents in Taiwan, two patents in Japan, eight patents in the United States and five patents in the People s Republic of China, relating to various semiconductor testing and assembly

Table of Contents

technologies. These patents will expire at various dates through July 18, 2022. As of April 30, 2004, we also had a total of 15 pending patent applications in the United States, 107 in Taiwan and nine 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, Japan and in the European Community.

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 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.

We acquired our testing and assembly technology for TCPs under a licensing agreement with Sharp Corporation. The term of the agreement with Sharp is for five years beginning February 10, 2000. Pursuant to this agreement, Sharp licensed to us TCP-related technology and intellectual property rights. We in turn pay a royalty fee to Sharp ranging from 3% to 5% of the service fee paid to us by our customers minus the material cost incurred from providing TCP-related services over the term of the licensing agreement, except for the TCP- related services provided to Sharp. Sharp has granted us a grace period for the payment of the royalty fees, which expires in September 2004, during which we may defer the payment of a portion of the royalty fee due to Sharp until the expiry of the grace period or until the amount of deferred royalty fee exceeds approximately ¥151 million. In 2002, 2003 and the first quarter of 2004, we have incurred royalty obligations of ¥32 million, ¥22 million and ¥7 million, respectively, to Sharp, the total amount of which is expected to be paid in 2004.

On April 7, 2004, ChipMOS Bermuda entered into an assignment agreement with ChipMOS Taiwan, as amended on May 14, 2004, pursuant to which ChipMOS Taiwan transferred all of the technologies it owned to ChipMOS Bermuda for a purchase price of US$19.7 million, payable to ChipMOS Taiwan by September 30, 2004.

On April 7, 2004, ChipMOS Bermuda entered into a patent license agreement with ChipMOS Taiwan, 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 expiration of the term of the last 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$250,000 each, the first of which must be made on July 7, 2004.

Environmental Matters

Semiconductor testing does not generate significant pollutants. The semiconductor assembly process generates gaseous chemical wastes, principally at the molding stage. 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. 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 facilities in the Southern Taiwan Science Park, where all of our assembly operations in Taiwan are located. We believe that we have adopted adequate and effective environmental protection measures that are consistent with semiconductor industry practices in Taiwan. 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 have been certified as meeting the ISO 14001 environmental standards by the International Organization for Standardization. Our testing facility at the Hsinchu Science Park won both the

87

Table of Contents

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