

CHIPMOS TECHNOLOGIES BERMUDA LTD
Form 20-F
April 26, 2012
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As filed with the Securities and Exchange Commission on April 26, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2011

OR

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

For the transition period from to

OR

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

Date of event requiring this shell company report

Commission file number 0 31106

ChipMOS TECHNOLOGIES (Bermuda) LTD.

(Exact Name of Registrant as Specified in Its Charter)

Bermuda

(Jurisdiction of Incorporation or Organization)

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

Hsinchu, Taiwan

Republic of China

(Address of Principal Executive Offices)

Shou-Kang Chen

Chief Financial Officer

ChipMOS TECHNOLOGIES (Bermuda) LTD.

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

Hsinchu, Taiwan

Republic of China

Telephone: (886) 3 563 3988

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, par value US\$0.04 each	The NASDAQ Capital Market

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

None

(Title of Class)

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

None

(Title of Class)

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

As of December 31, 2011, 26,923,905 Common Shares, par value US\$0.04 each, were outstanding (not including 6,474,211 Common Shares held by our subsidiary).

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

US GAAP

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

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

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

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

Except for historical matters, the matters discussed in this Annual Report on Form 20-F are forward-looking statements that are subject to significant risks and uncertainties. These statements are generally indicated by the use of forward-looking terminology such as the words anticipate , believe , estimate , expect , intend , may , plan , project , will or other similar words that express an indication of actions or events that may or are expected to occur in the future. These statements appear in a number of places throughout this Annual Report on Form 20-F and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industries in which we operate.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance and our actual results of operations, financial condition and liquidity, and the development of the industries in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this Annual Report on Form 20-F. Important factors that could cause those differences include, but are not limited to:

our ability to successfully overcome the current economic conditions and the financial market crisis;

the volatility of the semiconductor industry and the market for end-user applications for semiconductor products;

overcapacity in the semiconductor testing and assembly markets;

the increased competition from other companies and our ability to retain and increase our market share;

our ability to successfully develop new technologies and remain a technological leader;

our ability to maintain control over capacity expansion and facility modifications;

our ability to generate growth or profitable growth;

our ability to hire and retain qualified personnel;

our ability to acquire required equipment and supplies to meet customer demand;

our ability to raise debt or equity financing as required to meet certain existing obligations;

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

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

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

the outcome of any pending litigation;

the outbreak of contagious disease and occurrence of earthquakes, typhoons and other natural disasters, as well as industrial accidents;

the political stability of the regions to which we conduct operations; and

general local and global economic and financial conditions.

Forward-looking statements include, but are not limited to, statements regarding our strategy and future plans, future business condition and financial results, our capital expenditure plans, our capacity expansion plans, our expansion plans in Mainland China, technological upgrades, investment in research and development, future market demand, future regulatory or other developments in our industry. Please see Item 3. Key Information Risk Factors for a further discussion of certain factors that may cause actual results to differ materially from those indicated by our forward-looking statements.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

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Selected Financial Data**

The following tables set forth our selected consolidated financial data. The selected consolidated balance sheet data as of December 31, 2010 and 2011 and our consolidated statement of operations and cash flows data for 2009, 2010 and 2011 are derived from our audited consolidated financial statements included herein, and should be read in conjunction with, and are qualified in their entirety by reference to, these audited consolidated financial statements and related notes beginning on page F-1 of this Annual Report on Form 20-F. These audited consolidated financial statements have been audited by Moore Stephens. The selected consolidated balance sheet data as of December 31, 2007, 2008 and 2009 and the consolidated statement of operations and cash flows data for the years ended December 31, 2007 and 2008 are derived from our audited consolidated financial statements not included herein. Our consolidated financial statements have been prepared and presented in accordance with ROC GAAP, which differs in some material respects from US GAAP. Please see Note 25 to our audited consolidated financial statements for a description of the principal differences between ROC GAAP and US GAAP for the periods covered by these financial statements.

	Year ended December 31,					
	2007	2008	2009	2010	2011	2011
	NT\$	NT\$	NT\$	NT\$	NT\$	US\$
(in millions, except per share data)						
Consolidated Statement of Operations Data:						
ROC GAAP:						
Net revenue:						
Related parties ⁽¹⁾	\$ 6,915.9	\$ 3,122.9	\$ 668.9	\$ 2,033.3	\$ 379.0	\$ 12.5
Others	16,681.7	13,887.3	11,481.4	15,176.4	17,831.9	589.1
Total net revenue	23,597.6	17,010.2	12,150.3	17,209.7	18,210.9	601.6
Cost of revenue	17,444.1	16,969.9	15,661.5	16,564.0	16,549.2	546.7
Gross profit (loss)	6,153.5	40.3	(3,511.2)	645.7	1,661.7	54.9
Operating expenses:						
Research and development	322.3	435.6	375.3	412.7	409.8	13.5
General and administrative	1,070.5	885.6	657.8	677.6	651.9	21.5
Sales and marketing	98.3	2,362.7	561.2	64.4	66.5	2.2
Total operating expenses	1,491.1	3,683.9	1,594.3	1,154.7	1,128.2	37.2
Income (Loss) from operations	4,662.4	(3,643.6)	(5,105.5)	(509.0)	533.5	17.7
Other income (expenses), net	(669.2)	(3,286.8)	116.7	2,320.6	(455.8)	(15.1)
Income (Loss) before income tax, noncontrolling interests and interest in bonuses paid by subsidiaries ⁽²⁾	3,993.2	(6,930.4)	(4,988.8)	1,811.6	77.7	2.6
Income tax benefit (expense)	(768.2)	(120.8)	420.7	99.3	(45.5)	(1.5)
Income (Loss) before noncontrolling interests and interest in bonuses paid by subsidiaries ⁽²⁾	3,225.0	(7,051.2)	(4,568.1)	1,910.9	32.2	1.1
Net (income) loss attributable to noncontrolling interests	(720.0)	143.3	149.4	(266.2)	(47.4)	(1.6)
Interest in bonuses paid by subsidiaries ⁽²⁾	(285.8)	(362.4)				
Net income (loss) attributable to ChipMOS	\$ 2,219.2	\$ (7,270.3)	\$ (4,418.7)	\$ 1,644.7	\$ (15.2)	\$ (0.5)
Earnings (Loss) per share ⁽⁴⁾ :						
Basic	\$ 110.54	\$ (346.63)	\$ (223.35)	\$ 68.61	\$ (0.57)	\$ (0.02)
Diluted	\$ 96.94	\$ (346.63)	\$ (230.15)	\$ 67.38	\$ (0.57)	\$ (0.02)
Weighted-average number of shares outstanding ⁽⁴⁾ :						
Basic	20.1	21.0	19.8	24.0	26.6	26.6
Diluted	27.1	21.0	22.3	26.8	26.6	26.6

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US GAAP:⁽³⁾

Net income (loss) attributable to ChipMOS	\$ 2,901.7	\$ (7,177.7)	\$ (4,550.3)	\$ 1,616.9	\$ 46.1	\$ 1.5
Earnings (Loss) per share ⁽⁴⁾ :						
Basic	\$ 144.52	\$ (342.24)	\$ (230.00)	\$ 67.45	\$ 1.73	\$ 0.06
Diluted	\$ 84.28	\$ (342.24)	\$ (236.60)	\$ 66.35	\$ 1.71	\$ 0.06
Weighted-average number of shares outstanding ⁽⁴⁾ :						
Basic	20.1	21.0	19.8	24.0	26.6	26.6
Diluted	27.1	21.0	20.8	26.8	26.9	26.9

- (1) Related parties include Mosel Vitelic Inc., or Mosel, Siliconware Precision Industries Co. Ltd., or Siliconware Precision, ProMOS Technologies Inc., or ProMOS and DenMOS Technology Inc., or DenMOS. Commencing April 1, 2011, Mosel and its direct and indirect subsidiaries are no longer related parties of the Company as collectively, they hold less than 10% interest in ChipMOS Bermuda and is no longer considered as having significant influence on the Company. Commencing April 1, 2011, Siliconware Precision held less than 10% interest in ChipMOS Bermuda and was no longer a major shareholder of the Company. See Note 19 of the notes to the consolidated financial statements contained in this Annual Report on Form 20-F.
- (2) Refers to bonuses to directors, supervisors and employees paid by subsidiaries.
- (3) Reflects the US GAAP adjustments as described in Note 25 of the notes to the consolidated financial statements contained in this Annual Report on Form 20-F.
- (4) The outstanding shares and per share information reflect the reverse stock split of the Company's common stocks with a ratio of 1-for-every-4 shares effective on January 21, 2011.

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	2007	2008	As of December 31,		2011	2011
	NT\$	NT\$	2009	2010	NT\$	US\$
			NT\$	NT\$		
			(in millions)			
Consolidated Balance Sheet Data:						
ROC GAAP:						
Current assets:						
Cash and cash equivalents	\$ 5,133.6	\$ 6,651.9	\$ 3,884.8	\$ 7,143.3	\$ 7,357.9	\$ 243.1
Restricted cash and cash equivalents	87.0	59.5	243.8	546.8	285.1	9.4
Financial assets at fair value through profit and loss	555.6	102.1	119.0	3.0		
Held-to-maturity financial assets		250.0				
Investment with no active market		100.0	100.0			
Notes receivable						
related parties ⁽¹⁾		195.0				
third parties	28.0	14.2	27.9	14.0	5.7	0.2
Accounts receivable						
related parties ⁽¹⁾	1,498.8	0.4	0.2	258.0		
third parties	3,795.9	1,296.5	2,441.8	2,816.0	3,666.5	121.1
Other receivables						
related parties ⁽¹⁾	11.9	30.0		66.4		
third parties	31.2	172.2	130.1	182.0	73.2	2.4
Inventories	1,043.6	1,001.5	862.1	1,279.8	1,533.9	50.7
Deferred income tax, net	85.1	355.8	356.4	278.7	76.6	2.5
Prepaid expenses and other current assets	334.5	265.2	265.1	202.3	92.3	3.1
Total current assets	12,605.2	10,494.3	8,431.2	12,790.3	13,091.2	432.5
Long-term investments	358.0	437.8	220.0	10.5	39.1	1.3
Property, plant and equipment net	30,020.4	23,654.9	20,769.0	17,273.0	13,896.1	459.1
Intangible assets net	180.4	107.8	102.8	94.2	100.5	3.3
Other assets	2,152.1	746.8	833.2	1,147.0	1,154.2	38.1
Total assets	45,316.1	35,441.6	30,356.2	31,315.0	28,281.1	934.3
Current liabilities:						
Short-term bank loans	1,249.2	2,745.4	2,363.3	1,494.7	546.9	18.1
Current portion of long-term loans	3,686.2	4,603.7	1,553.9	4,925.7	684.0	22.6
Convertible notes	3,014.9	1,541.6		65.8		
Derivative liabilities	96.0					
Accounts payable	976.1	477.9	738.0	690.1	1,130.8	37.4
Payables to contractors and equipment suppliers	454.1	251.6	201.2	790.6	415.4	13.7
Other payables	604.1	628.0	696.1	896.7	1,081.5	35.7
Current portion of capital leases payable			821.2	822.0		
Accrued expenses and other current liabilities	886.7	469.4	525.7	990.9	830.9	27.4
Total current liabilities	11,374.2	10,721.6	6,921.5	10,697.5	4,712.2	155.7
Long-term liabilities	11,323.7	9,832.6	13,377.6	6,477.0	8,484.3	280.3
Other liabilities	370.1	344.6	104.9	97.1	101.3	3.3
Total liabilities	23,068.0	20,898.8	20,404.0	17,271.6	13,297.8	439.3
Total equity (including noncontrolling interests)	\$ 22,248.1	\$ 14,542.8	\$ 9,952.2	\$ 14,043.4	\$ 14,983.3	\$ 495.0

- (1) Related parties include Mosel, Siliconware Precision, ProMOS and DenMOS. Commencing April 1, 2011, Mosel and its direct and indirect subsidiaries are no longer related parties of the Company as collectively, they hold less than 10% interest in ChipMOS Bermuda and is no longer considered as having significant influence on the Company. Commencing April 1, 2011, Siliconware Precision held less than 10% interest in ChipMOS Bermuda and was no longer a major shareholder of the Company. See Note 19 of the notes to the consolidated financial statements contained in this Annual Report on Form 20-F.

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	2007	2008	As of December 31,		2011	2011
	NT\$	NT\$	2009	2010	NT\$	US\$
			NT\$	NT\$		
			(in millions)			
US GAAP⁽¹⁾ :						
Current assets:						
Cash and cash equivalents	\$ 5,133.6	\$ 6,651.9	\$ 3,884.8	\$ 7,143.3	\$ 7,357.9	\$ 243.1
Restricted cash and cash equivalents	87.0	59.5	243.8	546.8	285.1	9.4
Financial assets at fair value through profit and loss	555.6	102.1	119.0	3.0		
Held-to-maturity financial assets		250.0				
Available-for-sale financial assets		100.0	100.0			
Notes receivable						
related parties ⁽²⁾		195.0				
third parties	28.0	14.2	27.9	14.0	5.7	0.2
Accounts receivable						
related parties ⁽²⁾	1,498.8	0.4	0.2	258.0		
third parties	3,795.9	1,296.5	2,441.8	2,816.0	3,666.5	121.1
Other receivables						
related parties ⁽²⁾	11.9	30.0		66.4		
third parties	31.2	172.2	130.1	182.0	73.2	2.4
Inventories	1,044.3	966.1	863.1	1,280.9	1,534.9	50.7
Deferred income tax, net	82.6	349.5	350.2	272.5	70.4	2.3
Prepaid expenses and other current assets	334.5	265.2	265.1	202.3	92.3	3.1
Total current assets	12,603.4	10,452.6	8,426.0	12,785.2	13,086.0	432.3
Long-term investments	358.0	437.8	220.0	10.5	39.1	1.3
Property, plant and equipment net	29,861.6	23,427.2	20,474.4	16,924.1	13,501.0	446.0
Intangible assets net	180.4	107.8	102.8	94.2	100.5	3.3
Other assets	2,262.6	731.6	893.2	1,221.1	1,237.6	40.9
Total assets	45,266.0	35,157.0	30,116.4	31,035.1	27,964.2	923.8
Current liabilities:						
Short-term bank loans	1,249.2	2,745.4	2,363.3	1,494.7	546.9	18.1
Current portion of long-term loans	3,686.2	4,603.7	1,553.9	4,925.7	684.0	22.6
Convertible notes	3,056.4	1,453.0		65.8		
Derivative liabilities	85.4					
Accounts payable	976.1	477.9	738.0	690.1	1,130.8	37.4
Payables to contractors and equipment suppliers	454.1	251.6	201.2	790.6	415.4	13.7
Other payables	604.1	628.0	696.1	896.7	1,081.5	35.7
Current portion of capital leases payable			821.2	822.0		
Accrued expenses and other current liabilities	1,321.0	469.4	525.7	990.9	830.9	27.4
Total current liabilities	11,839.3	10,632.9	6,921.5	10,697.5	4,712.2	155.7
Long-term liabilities	11,179.3	9,832.6	13,377.6	6,477.0	8,484.3	280.3
Other liabilities	596.5	537.3	383.7	488.0	478.8	15.8
Total liabilities	23,615.1	21,002.8	20,682.8	17,662.5	13,675.3	451.8
Total equity (including noncontrolling interests)	\$ 21,650.9	\$ 14,154.2	\$ 9,433.6	\$ 13,372.6	\$ 14,288.9	\$ 472.0

- (1) Reflects the US GAAP adjustments as described in Note 25 of the notes to the consolidated financial statements contained in this Annual Report on Form 20-F.
- (2) Related parties include Mosel, Siliconware Precision, ProMOS and DenMOS. Commencing April 1, 2011, Mosel and its direct and indirect subsidiaries are no longer related parties of the Company as collectively, they hold less than 10% interest in ChipMOS Bermuda and is no longer considered as having significant influence on the Company. Commencing April 1, 2011, Siliconware Precision held less than 10% interest in ChipMOS Bermuda and was no longer a major shareholder of the Company. See Note 19 of the notes to the consolidated financial statements contained in this Annual Report on Form 20-F.

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	Year ended December 31,					
	2007 NT\$	2008 NT\$	2009 NT\$	2010 NT\$	2011 NT\$	2011 US\$
(in millions)						
Consolidated Statement of Cash Flows Data:						
ROC GAAP:						
Capital expenditures	\$ 6,093.8	\$ 2,188.4	\$ 3,479.7	\$ 4,237.3	\$ 2,319.3	\$ 76.6
Depreciation and amortization	6,834.8	7,174.5	6,524.6	6,281.6	5,677.6	187.6
Net cash provided by (used in):						
Operating activities	10,882.9	5,164.2	781.0	8,688.9	5,898.0	194.8
Investing activities	(12,212.1)	(2,296.9)	(1,042.5)	(2,454.2)	(3,250.7)	(107.4)
Financing activities	528.1	(1,395.3)	(2,503.8)	(2,959.5)	(2,464.6)	(81.4)
Effect of exchange rate changes on cash	38.8	46.3	(1.8)	(16.8)	31.9	1.1
Net increase (decrease) in cash	\$ (762.3)	\$ 1,518.3	\$ (2,767.1)	\$ 3,258.4	\$ 214.6	\$ 7.1
Exchange Rates						

References to US\$ and US dollars are to United States dollars and references to NT\$ and NT dollars are to New Taiwan dollars. This Annual Report on Form 20-F contains translations of certain NT dollar amounts into US dollars at specified rates solely for the convenience of the reader. Unless otherwise noted, all translations from NT dollars to US dollars and from US dollars to NT dollars were made at the noon buying rate in The City of New York for cable transfers in NT dollars per US dollar as certified for customs purposes by the Federal Reserve Bank of New York as of December 30, 2011, which was NT\$30.27 to US\$1.00. We make no representation that the NT dollar or US dollar amounts referred to in this Annual Report on Form 20-F could have been or could be converted into US dollars or NT dollars, as the case may be, at any particular rate or at all. On April 20, 2011, the noon buying rate was NT\$29.45 to US\$1.00.

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

	NT dollars per US dollar noon buying rate			
	Average	High	Low	Period-end
2007	32.85	33.41	32.26	32.43
2008	31.52	33.58	29.99	32.76
2009	33.02	35.21	31.95	31.95
2010	31.50	32.43	29.14	29.14
2011	29.38	30.67	28.50	30.27
October	30.26	30.67	29.86	29.91
November	30.22	30.43	30.02	30.31
December	30.25	30.38	30.10	30.27
2012				
January	29.99	30.28	29.61	29.61
February	29.54	29.59	29.37	29.37
March	29.52	29.61	29.37	29.50
April (through 20, 2012)	29.49	29.55	29.45	29.45

Sources: Federal Reserve Bank of New York.

Risk Factors**Risks Relating to Economic Conditions and the Financial Markets**

The global credit and financial markets crisis could materially and adversely affect our business and results of operations.

Since 2009 and through 2011, global credit and financial markets have experienced severe disruptions. These include diminished liquidity and limited availability of credit, reduced consumer confidence, reduced economic growth, increased unemployment rates and uncertainty about economic stability. Limited availability of credit in financial markets may lead consumers and businesses to postpone spending. This in turn may cause our customers to cancel, decrease or delay their existing and future orders with us. Financial difficulties experienced by our customers or

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suppliers as a result of these conditions could lead to production delays and delays or defaults in payment of accounts receivable. Continuing credit markets disruption restricts our access to capital and limits our ability to fund operations or to refinance maturing obligations as they become due through additional borrowing or other sources of financing. We are not able to predict the duration or extent of the current global credit and financial markets crisis. These conditions increase the difficulty of accurately forecasting and planning our business activities. If these conditions and uncertainties continue or if credit and financial markets and confidence in economic conditions further deteriorate, our business and results of operations could be materially and adversely affected.

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Risks Relating to Our Industry

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

Because our business is, and will continue to be, dependent on the requirements of semiconductor companies for independent testing and assembly services, any downturn in the highly cyclical semiconductor industry may reduce demand for our services and adversely affect our results of operations. All of our customers operate in this industry and variations in order levels from our customers and in service fee rates may result in volatility in our net revenue and earnings. For instance, during periods of decreased demand for assembled semiconductors, some of our customers may even simplify, delay or forego final testing of certain types of semiconductors, such as dynamic random access memory or DRAM, further intensifying our difficulties. From time to time, the semiconductor industry has experienced significant, and sometimes prolonged, downturns which have adversely affected our results of operations. In 2009, the semiconductor industry, especially the assembly and testing services for DRAM products sector, continued to experience the significant downturn that began in fourth quarter of 2008, and which has adversely affected our business. As a result of the industry downturn, our net revenue for 2009 decreased 29% from 2008 levels. This industry downturn started to recover from the second quarter of 2009, and our net revenue for 2010 increased 42% from 2009 levels. Our net revenue for 2011 increased 6% from 2010 levels and generated a net loss of NT\$15 million (US\$1 million) in 2011. We cannot give any assurances that there will not be any downturn in the future or that any future downturn will not affect our results of operations.

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

Market conditions in the semiconductor industry track, to a large degree, those for their end-user applications. Any deterioration in the market conditions for the end-user applications of semiconductors we test and assemble could reduce demand for our services and, in turn, materially adversely affect our financial condition and results of operations. Our net revenue is largely attributable to fees derived from testing and assembling semiconductors for use in personal computers, communications equipment, consumer electronic products and display applications. A significant decrease in demand for products in these markets could put pricing pressure on our testing and assembly services and negatively affect our net revenue and earnings. Weak demand for LCD and other flat-panel display products began in 2007 and has since adversely affected our operating results in 2008, 2009, and 2010. The LCD driver market started to recover in the second quarter of 2009 and the positive recovery trend continues in 2010 and 2011. We cannot give any assurances that there will not be any downturn in the future or that any future downturn will not affect our results of operations. Any significant decrease in demand for end-user applications of semiconductors will negatively affect our net revenue and earnings.

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

Historically, prices for our testing and assembly services in relation to any given semiconductor tend to decline over the course of its product and technology life cycle. See also A decrease in market demand for LCD and other flat-panel display driver semiconductors may adversely affect our capacity utilization rates and thereby negatively affect our profitability . If we cannot reduce the cost of our testing and assembly services, or introduce higher-margin testing and assembly services for new package types, to offset the decrease in average selling prices for our services, our earnings could decrease.

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

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

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Risks Relating to Our Business

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

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

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

A significant portion of our net revenue is derived from testing and assembling memory semiconductors. Our net revenue derived from the testing and assembly of memory semiconductors accounted for 66%, 62% and 57% of our net revenue in 2009, 2010 and 2011, respectively. In the past, our service fees for testing and assembling memory semiconductors were sharply reduced in tandem with the decrease in the average selling price of DRAM in the semiconductor industry. The continuing oversupply of DRAM products in 2008 and the weak demand in the DRAM market in 2009, 2010 and 2011 resulted in significant reductions in the price of DRAM products, which in turn drove down the average prices for our testing and assembly services for DRAM products in these periods. We cannot assure you that there will not be further downturns in DRAM prices in the future.

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.