CHIPMOS TECHNOLOGIES BERMUDA LTD
Form 6-K
September 26, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 OF

THE SECURITIES EXCHANGE ACT OF 1934

For the month of September, 2006

ChipMOS TECHNOLOGIES (Bermuda) LTD.

(Translation of Registrant s Name Into English)

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

Hsinchu, Taiwan

Republic of China

(Address of Principal Executive Offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F __ü__ Form 40-F _____

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes _____ No __ü__

(If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-_____.)

THIS REPORT ON FORM 6-K SHALL BE DEEMED TO BE INCORPORATED BY REFERENCE IN THE PROSPECTUS INCLUDED IN THE REGISTRATION STATEMENT ON FORM F-3 (FILE NO.333-130230) OF ChipMOS TECHNOLOGIES (BERMUDA) LTD. AND TO BE A PART THEREOF FROM THE DATE ON WHICH THIS REPORT IS FURNISHED, TO THE EXTENT NOT SUPERSEDED BY DOCUMENTS OR REPORTS SUBSEQUENTLY FILED OR FURNISHED.

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

Certain statements contained in this report on Form 6-K may be viewed as forward-looking statements within the meaning of Section 27A of the United States Securities Act of 1933, as amended, and Section 21E of the United States Securities Exchange Act of 1934, as amended. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of ChipMOS TECHNOLOGIES (Bermuda) LTD. (the Company) to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements.

Except for historical matters, the matters discussed in this report on Form 6-K 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 appear in a number of places throughout this report on Form 6-K 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 the Company operates.

Actual results may be materially different from those indicated by the Company s forward-looking statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ChipMOS TECHNOLOGIES (Bermuda) LTD.

(Registrant)

Date: Sep. 26, 2006

By /s/ S.J. Cheng
Name: S.J. Cheng
Title: Chairman & Chief Executive Officer

EXHIBITS

Exhibit Number	
1.1	Management s Discussion and Analysis of Financial Condition and Results of Operations
1.2	Unaudited Consolidated Financial Statements of ChipMOS TECHNOLOGIES (Bermuda) LTD. as of June 30, 2006

EXHIBIT 1.1

ChipMOS TECHNOLOGIES (Bermuda) LTD.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

Overview

References to US$ and US dollars are to United States dollars and references to NT$ and NT dollars are to New Taiwan dollars. This report contains translations of New Taiwan dollar, or NT dollar, or NT$, amounts into United States dollars, or US dollars, or US$, at specified rates solely for the convenience of the reader. Unless otherwise noted, all translations from NT dollars to US dollars and from US dollars to NT dollars were made at the noon buying rate in New York City for cable transfers in NT dollars per US dollar as certified for customs purposes by the Federal Reserve Bank of New York, or the noon buying rate, as of June 30, 2006, which was NT$32.33 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 September 20, 2006, the noon buying rate was NT$32.90 to US$1.00.

We, ChipMOS TECHNOLOGIES (Bermuda) LTD., or ChipMOS Bermuda, provide a broad range of semiconductor testing and assembly services primarily for memory, mixed-signal, and liquid crystal display, or LCD, and other flat-panel display driver semiconductors. In 2005, our consolidated net revenue was NT$15,214 million (US$471 million) and our net income was NT$928 million (US$29 million). In the six months ended June 30, 2006, our consolidated net revenue was NT$9,142 million (US$283 million) and our net income was NT$918 million (US$28 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 Vitelic Inc., or Mosel, and Siliconware Precision Industries Co. Ltd., or Siliconware Precision, and with the participation of other investors. As of June 30, 2006, we held 70.4% of the outstanding common shares of ChipMOS Taiwan, and Siliconware Precision held 28.8%. In Taiwan, we conduct testing operations in our facilities at the Hsinchu Science Park and the Hsinchu Industrial Park, gold bumping, wafer testing and module manufacturing operations in our facility at Chupei, and testing and assembly operations in our facility at the Southern Taiwan Science Park. We also conduct operations in Mainland China through ChipMOS 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.

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$4 million each, while wire bonders used in assembly typically cost approximately US$66 thousand each, inner-lead bonders for tape carrier package, or TCP, and chip-on-film, or COF, assembly cost approximately US$400 thousand each and chip-on-glass, or COG, chip sorters cost approximately US$150 thousand each. We begin depreciating our equipment when it is placed into commercial operation. There may be a time lag between the time when our equipment is placed into commercial operation and when it achieves high levels of utilization. In periods of depressed semiconductor industry conditions, we may experience lower than expected demand from our customers and a sharp decline in the average selling prices of our testing and assembly services, resulting in an increase in depreciation expenses relative to net revenue. In particular, the capacity utilization rates for our

testing equipment may be severely affected during a semiconductor industry downturn as a result of the decrease in outsourcing demand from integrated device manufacturers, or IDMs, which typically maintain larger in-house testing capacity than in-house assembly capacity.

Highly Cyclical Nature of the Semiconductor Industry. Highly cyclical, the worldwide semiconductor industry has experienced peaks and troughs over the last decade, with a severe downturn beginning in the fourth quarter of 2000 that was followed by a recovery in early 2003. The significant decrease in market demand for semiconductors that began in 2000 adversely affected our results of operations for 2001 and 2002. 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 dynamic random access memory, or DRAM, further intensifying our difficulties.

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

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

improve production efficiency and maintain high capacity utilization rates;

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

develop new assembly technologies; and

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

Market Conditions for the End-User Applications for Semiconductors. Market conditions in the semiconductor industry, to a large degree, track those for their end-user applications. Any deterioration in the market conditions for the end-user applications of semiconductors that we test and assemble may reduce demand for our services and, in turn, materially adversely affect our financial condition and results of operations. Our net revenue is largely attributable to fees from testing and assembling semiconductors for use in personal computers, consumer 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 June 16, 2005, ChipMOS Taiwan and CHANTEK ELECTRONIC CO., LTD., or Chantek, entered into a merger agreement, whereby Chantek agreed to be merged into ChipMOS Taiwan, with ChipMOS Taiwan as the surviving entity. Under the merger agreement, as amended on September 2, 2005, shareholders of Chantek (other than ChipMOS Taiwan) were entitled to elect to receive cash or ChipMOS Taiwan shares in exchange for their Chantek shares at the ratio of 3.6 to 1. As a result, ChipMOS Taiwan paid NT$81 million in cash and issued 6 million shares (which represented approximately 0.7% of ChipMOS Taiwan s outstanding shares immediately after the completion of the transaction) to Chantek shareholders pursuant to the merger agreement. The transaction closed on November 21, 2005, and as June 30, 2006, ChipMOS Bermuda s interest in ChipMOS Taiwan was 70.4%.

On August 15, 2005, ThaiLin Semiconductor Corp., or ThaiLin, entered into a merger agreement with ChipMOS Logic TECHNOLOGIES INC., or ChipMOS Logic, whereby ChipMOS Logic agreed to be merged into ThaiLin, with ThaiLin as the surviving entity. Under the merger agreement, shareholders of ChipMOS Logic received one common share of ThaiLin in exchange for 2.8 common shares of ChipMOS Logic. As a result, ThaiLin issued approximately 43 million shares (which represented approximately 14.4% of ThaiLin s outstanding shares immediately after the completion of the transaction) to ChipMOS Logic shareholders. The transaction closed on December 1, 2005, and as of June 30, 2006, ChipMOS Taiwan held a 34.5% interest in ThaiLin.

Net Revenue

We conduct our business according to the following main business segments: (1) testing services for memory and mixed-signal semiconductors; (2) assembly services for memory and mixed-signal semiconductors; and (3) LCD and other flat-panel display driver semiconductor testing and assembly services. Prior to 2005, we also provided semiconductor turnkey services, whereby we purchase fabricated wafers and sell tested and assembled semiconductors, as well as certain trading activities. The following table sets forth, for the periods indicated, our consolidated net revenue for each segment.

	Year Ended December 31,				Six Months Ended June 30, (unaudited)		
	2003[1] NT$	2004[2] NT$	2005 NT$	2005 US$	2005 NT$	2006 NT$	2006 US$
				(in millions)			
Testing							
Memory	$ 2,890.3	$ 5,491.9	$ 5,996.4	$ 185.5	$ 2,788.4	$ 3,886.2	$ 120.2
Mixed-signal	265.5	529.7	463.5	14.3	211.9	295.7	9.2
Total testing	3,155.8	6,021.6	6,459.9	199.8	3,000.3	4,181.9	129.4
Assembly							
Memory	2,701.4	5,130.1	5,166.4	159.8	2,671.1	2,864.1	88.6
Mixed-signal	27.5	660.7	489.5	15.2	258.5	129.0	4.0
Total assembly	2,728.9	5,790.8	5,655.9	175.0	2,929.6	2,993.1	92.6
LCD and other flat-panel display driver semiconductor testing and assembly	1,683.5	2,749.8	3,098.2	95.8	1,164.9	1,966.8	60.8
Semiconductor turnkey[3]	1,458.3	473.6					
Total	$ 9,026.5	$ 15,035.8	$ 15,214.0	$ 470.6	$ 7,094.8	$ 9,141.8	$ 282.8

(1) Beginning as of December 1, 2003, we consolidated the financial results of ThaiLin.

(2) Beginning as of January 12 and 28, 2004, and April 1, 2004, we consolidated the financial results of Advanced Micro Chip Technology Co., Ltd., or AMCT (which was liquidated in October 2004), ChipMOS Logic and Chantek, respectively. Starting from April 30, 2004, our financial results also included the financial results of WORLD WIDE TEST Technologies Inc., or WWT, which was subsequently merged into ChipMOS Logic. Starting from November 1, 2004, our financial statements also included the results of First Semiconductor Technology, Inc. in which ChipMOS Taiwan acquired a 67.8% equity interest on November 1, 2004 and transferred back this interest to First Semiconductor Technology, Inc. on April 29, 2005.

(3) In 2003, includes trading revenue generated by ChipMOS TECHNOLOGIES (H.K.) Limited, or ChipMOS Hong Kong. We have not provided semiconductor turnkey services subsequent to 2004.

Our net revenue consists primarily of service fees for testing and assembling semiconductors, and to a lesser extent, fees from equipment rentals to semiconductor manufacturers for engineering testing, less allowances for product returns. We offer testing and assembly services for memory semiconductors, mixed-signal semiconductors and testing and assembly services for LCD and other flat-panel display driver semiconductors. In 2003 and 2004, we also offered semiconductor turnkey services to utilize our excess capacity available from time to time. We have not provided semiconductor turnkey services after 2004.

Most of our customers do not place purchase orders far in advance and our contracts with customers generally do not require minimum purchases of our products or services. Our customers purchase orders have varied significantly from period to period because demand for their products is often volatile. We have strategically entered into long-term capacity agreements with some of our customers. Under certain of those long-term agreements, we have agreed to reserve capacity for our customer and our customer has agreed to place orders in the amount of the reserved capacity (which is subject in certain cases to reduction by the customer). As of June 30, 2006, approximately 38% of our total capacity was reserved under this type of agreement. Under certain other long-term agreements, we have agreed to install equipment or reserve capacity for our customer and our customer has undertaken to compensate us to a certain extent if it fails to sufficiently utilize the installed equipment or reserved capacity. As of June 30, 2006, approximately 2% of our total capacity was reserved under this type of agreement. As part of our strategy, we intend to enter into additional long-term capacity agreements in the future.

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

Pricing

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

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

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

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

Revenue Recognition

We generally recognize our revenue upon shipment of tested and assembled semiconductors to locations designated by our customers, including our internal warehouse for customers using our warehousing services. Revenue from product sales is recognized when risks of ownership are transferred to customers, generally upon shipment of the products. We submit invoices at the time of shipment or delivery and 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. We have not experienced any significant collection problems for our services, except for NT$277 million (US$9 million) of receivables from Ultima Electronics Corp., or Ultima. We received from Ultima 4,250,000 and 4,190,000 shares of Ultima Technology Corp. (BVI) common stock on September 24 and December 18, 2004, respectively, as collateral for the outstanding receivables. As of June 30, 2006, the total value of those shares was approximately NT$764 thousand (US$24 thousand). We provided an allowance of NT$194 million and NT$83 million (US$3 million) for these doubtful receivables in 2004 and 2005, respectively.

Related Party Revenues

In 2003, 2004, 2005 and the six months ended June 30, 2006, 56%, 32%, 30% and 27%, 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 currently extend them favorable payment terms, as discussed in the preceding paragraph.

Geography and Currency

We generate most of our net revenue from customers headquartered in Taiwan, which represented 84%, 81%, 79% and 78% of our net revenue in 2003, 2004, 2005 and the six months ended June 30, 2006, respectively. We also generate net revenue from customers in Japan, the United States, Hong Kong, Korea and other countries. Our service fees and revenue are generally denominated in the currency of the jurisdiction in which our facilities are located, for example NT dollars for our Taiwan operations and RMB for our Mainland China operations. As we generate most of our net revenue from Taiwanese customers using our Taiwanese operations, and since most of our labor and overhead costs are denominated in NT dollars, we consider the NT dollar to be our functional currency.

See Note 25 to our audited consolidated financial statements included in our annual report on Form 20-F for the fiscal year ended December 31, 2005, which was filed with the SEC on May 10, 2006.

Cost of Revenue and Gross Profit (Loss)

Our cost of revenue consists primarily of the following: depreciation and amortization expenses, raw material costs, and labor and overhead expenses, which primarily include expensable equipments, sub-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 June 30, 2006, we had 557 testers, 411 wire bonders, 134 inner-lead bonders, 3 steppers and 7 sputters. We use inner-lead bonders for the assembly of LCD and other flat-panel display driver semiconductors using TCP or COF technology, and wire bonders for thin small outline packages, or TSOP, ball grid array, or BGA, and some other package assembly technologies. Our average capacity utilization rate for testing of memory and mixed-signal semiconductors was 81% in 2003, 89% in 2004, 81% in 2005 and 85% in the six months ended June 30, 2006. Our average capacity utilization rate for assembly of memory and mixed-signal semiconductors was 89% in 2003, 88% in 2004, 79% in 2005 and 69% in the six months ended June 30, 2006. In addition, our average capacity utilization rate for LCD and other flat-panel display driver semiconductor testing and assembly was 82% in 2003, 76% in 2004, 83% in 2005 and 76% in the six months ended June 30, 2006.

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 Chinese renminbi. In addition, a substantial portion of our capital expenditures, primarily for the purchase of testing and assembly equipment, has been, and is expected to continue to be, denominated in Japanese yen with much of the remainder denominated in US dollars.

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,				Six Months Ended June 30, (unaudited)		
	2003[1] NT$	2004[2] NT$	2005 NT$	2005 US$	2005 NT$	2006 NT$	2006 US$
	(in millions, except percentages)						
Gross profit (loss):							
Testing							
Memory	$ 607.7	$ 2,329.0	$ 2,186.6	$ 67.6	$ 962.2	$ 1,608.7	$ 49.8
Mixed-signal	(161.3)	(100.9)	(148.9)	(4.6)	(85.7)	(5.8)	(0.2)
Total testing	446.4	2,228.1	2,037.7	63.0	876.5	1,602.9	49.6
Assembly							
Memory	538.7	1,095.4	1,203.3	37.2	631.8	720.6	22.3
Mixed-signal	5.7	(122.3)	(158.5)	(4.9)	(91.9)	1.5	
Total assembly	544.4	973.1	1,044.8	32.3	539.9	722.1	22.3
LCD and other flat-panel display driver semiconductor testing and assembly	528.2	970.2	868.9	26.9	215.4	411.9	12.8
Semiconductor turnkey[3]	48.0	6.9					
Total	$ 1,567.0	$ 4,178.3	$ 3,951.4	$ 122.2	$ 1,631.8	$ 2,736.9	$ 84.7
Gross profit (loss) margin:							
Testing							
Memory	21.0%	42.4%	36.5%	36.5%	34.5%	41.4%	41.4%
Mixed-signal	(60.8)	(19.1)	(32.1)	(32.1)	(40.4)	(2.0)	(2.0)
Total testing	14.1	37.0	31.6	31.6	29.2	38.3	38.3
Assembly							
Memory	19.9	21.4	23.3	23.3	23.7	25.2	25.2
Mixed-signal	20.8	(18.5)	(32.4)	(32.4)	(35.6)	(1.2)	(1.2)
Total assembly	19.9	16.8	18.5	18.5	18.4	24.1	24.1
LCD and other flat-panel display driver semiconductor testing and assembly	31.4	35.3	28.0	28.0	18.5	20.9	20.9
Semiconductor turnkey[3]	3.3	1.5					
Overall	17.4%	27.8%	26.0%	26.0%	23.0%	29.9%	29.9%

(1) Beginning as of December 1, 2003, we consolidated the financial results of ThaiLin.

(2) Beginning as of January 12 and 28, 2004, and April 1, 2004, we consolidated the financial results of AMCT (which was liquidated in October 2004), ChipMOS Logic and Chantek, respectively. Starting from April 30, 2004, our financial results also included the financial results of WWT, which was subsequently merged into ChipMOS Logic. Starting from November 1, 2004, our financial statements also included the results of First Semiconductor Technology, Inc. in which ChipMOS Taiwan acquired a 67.8% equity interest on November 1, 2004 and transferred back this interest to First Semiconductor Technology, Inc. on April 29, 2005.

(3) In 2003, includes trading revenue generated by ChipMOS Hong Kong. We have not provided semiconductor turnkey services subsequent to 2004.

Operating Expenses

Research and Development

Research and development expenses consist primarily of personnel expenses, raw materials 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.

Sales and Marketing

Sales and marketing expenses consist primarily of shipping and handling expenses incurred in delivering products to our customers designated locations, advertising, corporate communications and other marketing expenses, salary expenses for sales and marketing personnel, sales

commission, professional service fees, bad debt provision and service support expenses. 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 service fees, and other corporate expenses. They also include stock-based compensation that is expensed using the intrinsic value-based method. 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 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. In 2004 and 2005, minority interests also included the portion of our income attributable to the shareholdings in ChipMOS Logic and Chantek that we did not own before ChipMOS Logic was merged into ThaiLin on December 1, 2005 and Chantek was merged into ChipMOS Taiwan on November 21, 2005.

Interest in bonuses paid by subsidiaries represents our portion of ChipMOS Taiwan s and ThaiLin s distributable earnings that are appropriated as bonuses to employees and remuneration to directors and supervisors of ChipMOS Taiwan and ThaiLin, as required by ROC regulations and ChipMOS Taiwan s and ThaiLin s articles of incorporation. None of our subsidiaries paid any such bonuses to directors, supervisors and employees in 2003 and 2004. In 2005 and the six months ended June 30, 2006, ChipMOS Taiwan paid NT$166 million (US$5 million) and NT$242 million (US$7 million), respectively, and ThaiLin paid NT$57 million (US$2 million) and NT$74 million (US$2 million), respectively, in bonuses to directors, supervisors and employees. Please see US GAAP Reconciliation for a discussion of the significant impact such bonuses had on our net income under US GAAP.

Net Income

Our net income was NT$482 million, NT$1,676 million, NT$928 million (US$29 million) and NT$918 million (US$28 million) in 2003, 2004, 2005 and the six months ended June 30, 2006, respectively. We believe our future results will be dependent upon the overall economic conditions in the markets we serve, the competitive environment in which we operate, and our ability to successfully implement our strategy, among other things.

Results of Operations

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

	Year Ended December 31,			Six Months Ended June 30, (unaudited)
	2003[1]	2004[2]	2005	2005