

A COMPANY BUILT ON

Service...

About Diodes Inc.

DISCRETE SEMICONDUCTORS is our focus business.

PRODUCTS include small signal transistors and MOSFETs, transient voltage suppressors (TVSs), zeners, Schottkys, diodes, rectifiers and bridges, available in popular axial and surface-mount packages.

INDUSTRIES SERVED include automotive, consumer electronics, computing, and telecommunications.

MANUFACTURING FACILITIES located in China and Taiwan, are ISO 9000 & QS-9000 certified to ensure products of the highest quality at competitive prices.

STRATEGIC ALLIANCE with Vishay Lite-On Power Semiconductor Pte., Ltd. (VLPSC), a joint venture between Vishay Intertechnology and the Lite-On Group for the

manufacture and distribution of products. Marketed under this brand identity, **DIODES INC** benefits from its worldwide name recognition.

SALES & MARKETING accomplished through an ISO 9002 certified corporate logistics center in Southern California, five regional U.S. sales offices, a sales office in Taiwan, and via a team of manufacturers' representatives.

DISTRIBUTION is further enhanced through an extensive network of major distributors.

A COMPANY BUILT ON SERVICE dedicated to providing our customers with reliable availability of high-quality products at competitive prices.





SELECTED FINANCIAL DATA

(IN THOUSANDS, EXCEPT PER SHARE DATA)

YEARS ENDED DECEMBER 31

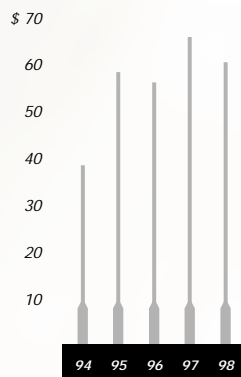
INCOME STATEMENT DATA

	1994	1995	1996	1997	1998
NET SALES	\$ 38,275	\$ 58,190	\$ 56,019	\$ 65,699	\$ 60,261
GROSS PROFIT	10,697	16,463	14,842	18,343	14,944
SELLING, GENERAL & ADMINISTRATIVE EXPENSES	7,563	9,522	10,386	11,137	11,016
INCOME FROM OPERATIONS	3,134	6,941	4,456	7,206	3,928
INTEREST EXPENSE, NET	6	144	351	62	281
MINORITY INTEREST IN JOINT VENTURE	-	-	238	(15)	(14)
OTHER INCOME	437	513	295	627	551
INCOME BEFORE TAXES	3,565	7,310	4,638	7,756	4,184
PROVISION FOR INCOME TAXES	1,202	2,610	1,673	2,631	1,511
NET INCOME	2,363	4,700	2,965	5,125	2,673
EARNINGS PER SHARE:					
BASIC	\$ 0.50	\$ 0.96	\$ 0.60	\$ 1.03	\$ 0.53
DILUTED	\$ 0.46	\$ 0.90	\$ 0.55	\$ 0.93	\$ 0.50
NUMBER OF SHARES USED IN COMPUTATION:					
BASIC	4,753	4,881	4,959	4,971	5,029
DILUTED	5,137	5,220	5,362	5,482	5,371

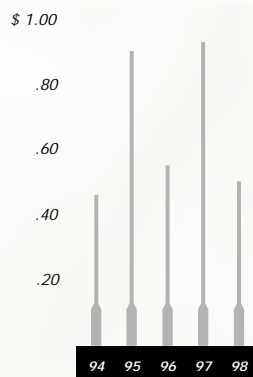
BALANCE SHEET DATA

TOTAL ASSETS	\$ 17,545	\$ 29,363	\$ 32,546	\$ 38,354	\$ 45,389
WORKING CAPITAL	9,411	13,263	17,403	18,699	16,639
STOCKHOLDERS' EQUITY	10,770	16,499	19,464	24,453	27,460

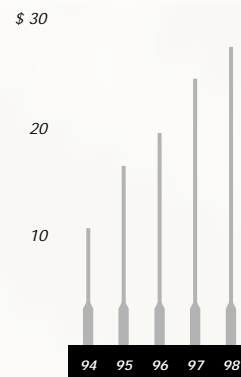
NET SALES
(in millions)



EARNINGS PER SHARE
(diluted)



STOCKHOLDERS' EQUITY
(in millions)





To Our Shareholders:

Nineteen ninety-eight was a difficult year for the semiconductor industry as a whole, just as it was a challenging year for Diodes Incorporated. Net sales declined to \$60.3 million from \$65.7 million in 1997, and net income, after a \$512,000, or \$0.10 per share tax provision for a planned earnings distribution from its Taiwan subsidiary, was \$2.7 million, or \$0.50 per diluted share, compared to \$5.1 million, or \$0.93 per diluted share, in the prior year.

Recent changes in Taiwan income tax policies caused management to reconsider its investment strategies in the fourth quarter of 1998 for current and future earnings at DIODES INC'S Taiwan subsidiary (Diodes-Taiwan). While a portion of its investment will remain in Taiwan, a distribution of approximately \$4.5 million will be made by Diodes-Taiwan to the Company in 1999. The decision was made, in part, because the changes in Taiwan income tax policies made it less favorable to accumulate earnings at Diodes-Taiwan and, in part, to allow the Company to redirect its financial resources from Diodes-Taiwan to the expansion of its KaiHong joint venture in Shanghai, China (Diodes-China).

Last year's results reflected a persistent industry-wide pressure on prices that offset increases in the Company's unit sales – most notably in Asia, where our growing customer base includes manufacturers of computer motherboards, modems, and disk drives.

Although difficult, 1998 nonetheless marked the 9th consecutive year – and the 35th consecutive quarter – in which the Company has been profitable. We finished the year with \$2.4 million in cash, \$16.6 million in working capital, \$6.0 million in long-term debt, and shareholders' equity of \$27.5 million – in addition to \$14 million in an unused credit facility. This is one of the strongest balance sheets in DIODES INC'S history, and it provides the Company with a solid basis for growth.

With the increase in computer and communication product demand, there seems to be a resumption of growth in the Asian market, although the pressure on pricing is still prevalent. A similar pattern is occurring in the North American market. DIODES INC'S management continues to position the Company for increased market share and participation in this future growth pattern and enhanced profitability.

TO SERVICE OUR CUSTOMERS BETTER, DIODES INC HAS...

...Expanded Manufacturing in More Favorable Cost Locations

At our Diodes-China manufacturing facility, we have significantly enhanced our manufacturing capacity of surface mount device (SMD) semiconductor packages, for which demand continues to be strong. These SMD semiconductors are widely used across a broad spectrum of high-density applications including: portable and hand-held computing devices, communication equipment, PCMCIA cards, compact entertainment systems, automotive electronic control systems such as anti-lock braking, and DC to DC converters. With the new high-capacity equipment and more sophisticated operating systems, combined with a plentiful labor supply, our cost of production of these high-density packages is now, we believe, among the lowest in the industry.

...Strengthened Sales & Marketing

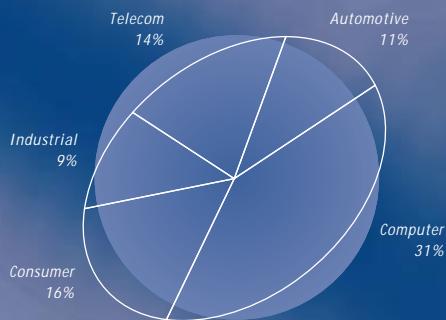
In addition to enhancing the capacity and efficiency of our manufacturing operations, in 1998 we reorganized and strengthened our sales and marketing efforts in both North America and Asia.

As part of this reorganization, Mark King, the Company's Vice President of Sales since 1992, was promoted to the position of Vice President of Sales and Marketing. We also appointed new Regional Sales Managers in the Northwest and Southeast United States, and we added sales and support personnel at Diodes-Taiwan.

In 1998 we also continued to enhance our uniform brand identity, first announced in late 1997, under which the Company's discrete semiconductor products are increasingly being marketed under the brand name Vishay/Lite-On Power Semiconductor. This brand name is a benefit DIODES INC receives from its affiliation with Vishay Intertechnology (Vishay) and the Lite-On Group.

Another significant benefit from the affiliation with Vishay was the broadening of our distribution network to include major distributors such as Arrow, Future, Kent, Marshall and TTI, to complement our already strong channel.

**DIODES INC Customer Base
1998 OEM Sales**



Raymond Soong
Chairman of the Board



Michael A. Rosenberg
President and
Chief Executive Officer

...Enhanced Information Technology

In a further boost to efficiency and improved customer support, we have begun efforts to install a new information technology (IT) software system to streamline and consolidate on a real-time basis the operations of Diodes-Taiwan and Diodes-China with our headquarters in Southern California. This new IT system will insure that all facilities are linked together to improve our management of sales, manufacturing and inventory control.

We have also modified portions of our software to ensure that the Company's computer systems used in managing inventory, financial data, and various internal operations – as well as those used in manufacturing and engineering – continue to function properly with respect to dates in the year 2000 (Y2K) and thereafter. The Company is also in touch with its business partners to ensure that third-party operations continue to be reliable with regard to Y2K issues. The total cost of the Y2K project has been expensed as incurred and was not considered to be a material expense.

...Focused on Growth through Service

We have long felt that in putting our customers first we best serve the interests of the Company and its shareholders, and the management of DIODES INC believes that the following four major components will make your Company a world-class service company in the semiconductor industry:

COMPETITIVE PRICES

With state-of-the-art manufacturing equipment and access to a large labor pool, our expanded Diodes-China facility now has, we believe, among the lowest cost structures, thereby enabling us to assure our customers of consistently competitive prices.

TOP QUALITY PRODUCTS

At Diodes-China, Diodes-Taiwan and Vishay/LPSC, all of which meet ISO 9000 and/or QS-9000 standards, a staff of quality assurance engineers (backed by the Company's testing laboratory at its Southern California ISO 9000 certified headquarters) continuously monitors production to ensure that products perform to customers' specifications.

ON-TIME DELIVERY

The Company's IT enhancements will facilitate further efficiencies in inventory control through its warehouses and distribution network and will help ensure immediate product availability and on-time delivery to satisfy built-to-order trends in the industry.

DEPENDABLE CUSTOMER SUPPORT

A team of sales and marketing professionals supported by applications and design engineers – dedicated to improving the match between DIODES INC'S products and our customers' requirements – is providing a level of customer service that is a major key to our continued success.

LOOKING AHEAD

Although the near-term outlook for selling prices remains uncertain, it seems clear that semiconductor sales will continue to be driven by a strong demand for laptops, portable telephones, and other computer and communications devices.

With our expanded manufacturing, sales and marketing capabilities and the resources of Vishay/LPSC at our disposal, today we are in a better position than ever to assure our customers timely delivery of top-quality products at truly competitive prices.

As ever, we thank you, our shareholders, for your continued commitment to the Company's success. We also thank our customers and distributors for their continued patronage, and our employees for their dedicated hard work.

Sincerely,

Raymond Soong
Chairman of the Board

Michael A. Rosenberg
President and
Chief Executive Officer



SERVICE MEANS...

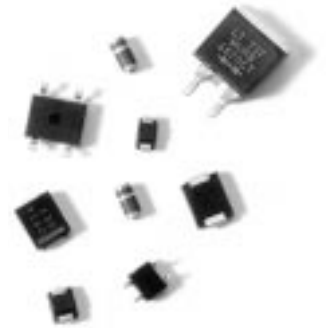
Competitive Prices

DIODES INC IS A COMPANY BUILT ON PROVIDING SERVICE TO OUR CUSTOMERS. TO THAT END, WE PROVIDE OUR CUSTOMERS WITH CONSISTENTLY COMPETITIVE PRICES. ONE WAY WE ARE ABLE TO ACHIEVE THIS IS BY MANUFACTURING PRODUCTS AT OUR STATE-OF-THE-ART QS-9000 CERTIFIED FACILITIES IN THE FAR EAST: DIODES-CHINA AND DIODES-TAIWAN, AS WELL AS AT OUR AFFILIATED VLPSC FACTORIES.



A COMPANY BUILT ON SERVICE...

- **Competitive Prices**
- **Top Quality Products**
- **On-Time Delivery**
- **Dependable Customer Support**



As a result of our continuing commitment to our Diodes-China manufacturing facility, this QS-9000 and ISO 9002 certified facility is uniquely equipped with cutting-edge technology and produces some of the highest quality, most reliable products on the market. As industry trends to portable and hand-held devices continue, our customers require higher circuit density to provide increased functionality at reduced sizes. Equipped to respond to the product demand, this facility is supplying higher density surface mount device (SMD) packages, including SOT-23, SOD-123, SOD-323, SOT-323, SOT-363, and more, for applications such as cellular phones, notebook computers, pagers, PCMCIA cards, modems, and garage door transmitters.

Using the latest technology, our production is rapid and precise. To achieve and maintain consistent product quality, well-trained technicians at Diodes-China use high-performance equipment for reliability testing and other operations. Quality assurance

teams from our corporate headquarters continually review the manufacturing methods as part of an ongoing commitment to delivering quality products to our customers.

Our Diodes-Taiwan subsidiary manufactures such products as axial Schottkys and MELF rectifiers for use primarily in the automotive industry and for commercial applications. An integral part of our sales force, Diodes-Taiwan's sales office has received high ratings from our customers in Asia.

In addition to our manufacturing facilities, we represent Vishay Lite-On Power Semiconductor (VLPSC) with its technological and manufacturing capabilities.

Using the latest equipment, the VLPSC Shanghai, China manufacturing facility produces new generation high-speed bridges and rectifiers, and supplements our wafer fabrication.

The VLPSC Keelung, Taiwan facility manufactures surface mount devices, such as SMA, SMB, and SMC; high-powered packages, including TO-220 and TO-3P; and other glass-passivated products, such as super-fast recovery and Schottky rectifiers. In addition, VLPSC Keelung provides special first-tier customer products and wafer fabrication.



With a commitment to service, we provide our customers a broad line of high-quality discrete semiconductor devices that are paramount to their product development and business success. At DIODES INC, we believe that true quality requires a total quality system, and that is what we have achieved. With rigorous quality standards and testing capabilities, we design and build quality into our products and into our entire product development and manufacturing process.

Quality assurance engineers in California and the Far East audit our production facilities regularly to make sure that we produce consistent components in volume that meet our quality standards and our customers' specifications. Well-trained technicians at our corporate headquarters employ state-of-the-art test equipment to further check and analyze our products before they reach our customers.

For our total quality systems, we have been awarded the ISO 9002 certification at our DIODES INC headquarters and the QS-9000 certifications at our manufacturing facilities. These certifications reflect and endorse the superior quality-control techniques that we have established at DIODES INC. Based on the premise that true product quality requires a total quality system, ISO certification is often required of vendors seeking to establish relationships with OEM customers doing business in intensely competitive global markets. We find that our certification further enhances our credibility as a vendor-of-choice to customers increasingly concerned with quality and consistency.

SERVICE MEANS...

Top Quality Products



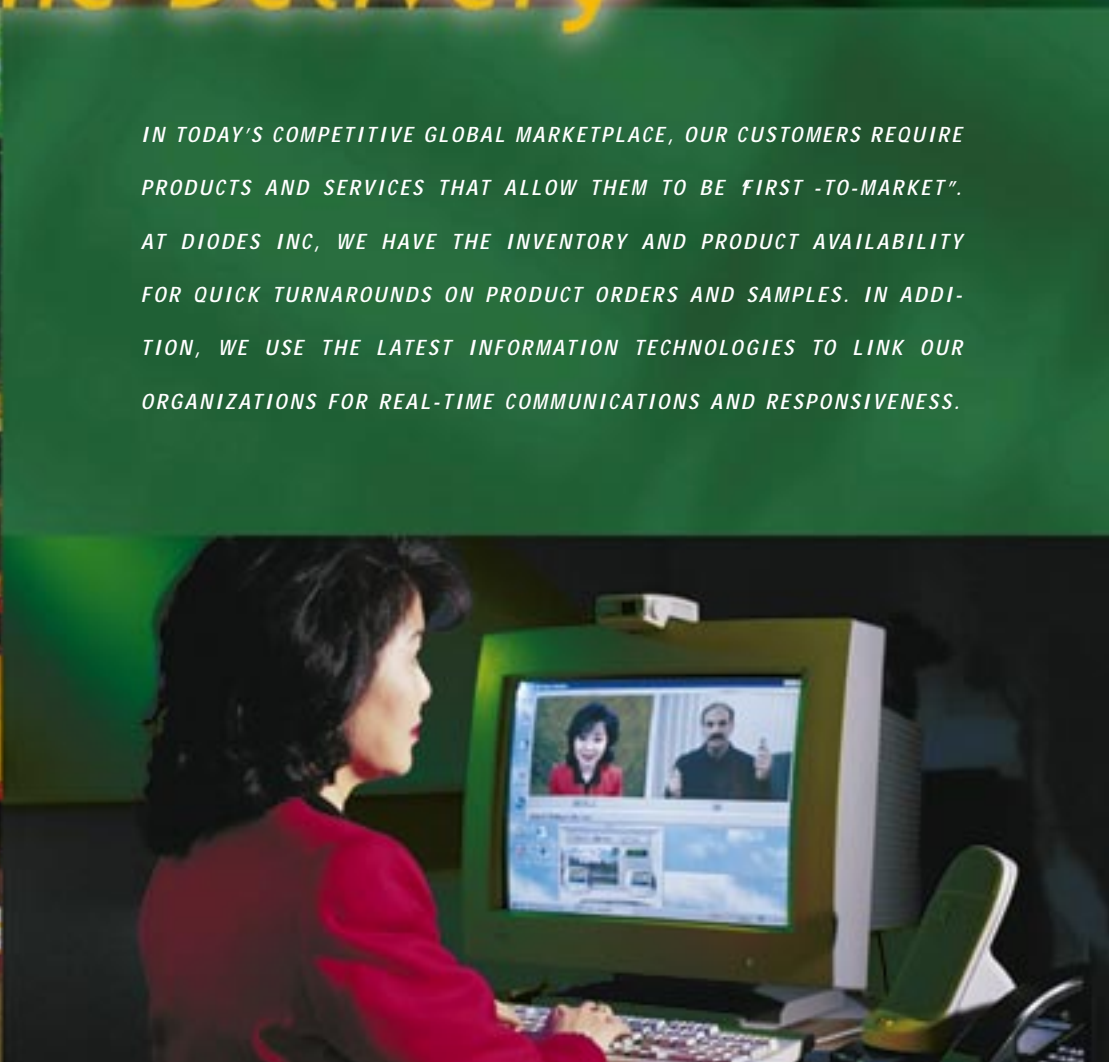
AT DIODES INC, QUALITY IS INTRINSIC TO THE SERVICE WE PROVIDE AND IS THE KEY INGREDIENT OUR CUSTOMERS HAVE COME TO EXPECT. QUALITY IS DESIGNED AND BUILT INTO OUR DEVICES, WHILE PRODUCT INTEGRITY IS CONTROLLED BY IN-PROCESS QUALITY ASSURANCE AND PERIODIC AUDITS PER OUR ISO-9000 AND QS-9000 REGISTERED QUALITY SYSTEMS.

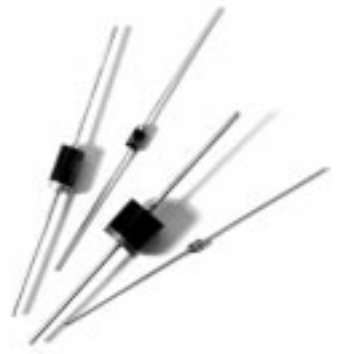


SERVICE MEANS...

On-Time Delivery

IN TODAY'S COMPETITIVE GLOBAL MARKETPLACE, OUR CUSTOMERS REQUIRE PRODUCTS AND SERVICES THAT ALLOW THEM TO BE FIRST -TO-MARKET". AT DIODES INC, WE HAVE THE INVENTORY AND PRODUCT AVAILABILITY FOR QUICK TURNAROUNDS ON PRODUCT ORDERS AND SAMPLES. IN ADDITION, WE USE THE LATEST INFORMATION TECHNOLOGIES TO LINK OUR ORGANIZATIONS FOR REAL-TIME COMMUNICATIONS AND RESPONSIVENESS.





In the semiconductor industry, time-to-market issues are critical to our customers' success. Universally, product cycle times are decreasing. Recently, it took years to develop products to market; now it is months from product conception to completion. Because we firmly believe that our success depends on our customers' success, providing products and services that allow our customers to be "first-to-market" is a priority. At DIODES INC, we have the inventory and product availability to provide our customers with quick turnarounds on product orders and samples.

To enhance our ability to be responsive, we have set up communication systems that provide easy information-exchange and collaboration across geographic distances and time zones.

Our Internet, fax-back, e-mail, and video-conferencing capabilities allow information to flow in real time between our corporate headquarters and our manufacturing plants. We span language and cultural differences to communicate with more people in less time at reduced rates, enabling us to conduct business efficiently and effectively in our global environment.

Our websites at www.diodes.com and www.vishay-liteon.com are designed to give our current and prospective customers and our investors quick and easy access to the critical information they require. Whether it is to download product data sheets, contact a sales representative or distributor, or view our stock quotes and press releases, solutions are a click or two away.



At DIODES INC, we attend to our customers' needs and anticipate their opportunities to provide them with better solutions. Through innovative marketing strategies and advanced and sophisticated logistics, we assist our customers in advancing their technologies. Our dedicated team of applications engineers provides ongoing technical support to our customers and helps them in the proper application of our products to their particular circuit needs. Using high-tech equipment with its video-capture capabilities, our engineers do rapid onsite product evaluations and validations, and convey their findings to our manufacturing facilities overseas and our customers worldwide for real-time communications.

Our infrastructure is designed to deliver the superior service our customers have come to expect and deserve. Through focused

market research and product development strategies, design engineers build in quality up front and applications engineers promote effective product applications, providing a platform of integrity and creating a level of trust on which our current and prospective customers can rely far into the future.

Our sales and marketing team, along with more than two dozen manufacturers' representatives, reaches approximately 300 OEMs that in 1998 accounted for approximately 54% of net sales. DIODES INC further supplies approximately 30 stocking distributors who collectively reach approximately 10,000 additional customers. DIODES INC estimates that it currently supplies approximately 5% of the North American discrete semiconductor market.

We face the future with a sense of confidence, ready to meet the challenges of the global marketplace. Our priorities are clear, to focus on service and to remain profitable and strong.

SERVICE MEANS...

Customer Support



THROUGH MARKET RESEARCH AND PRODUCT DEVELOPMENT, AS WELL AS CLOSE CUSTOMER CONTACT, DIODES INC CONTINUES TO PROVIDE OUR CUSTOMERS WITH ADVANCED DESIGN SOLUTIONS.





World Class Distribution

NEVER BEFORE IN THE FORTY-YEAR HISTORY OF DIODES INC HAVE WE ACHIEVED THE LEVEL OF ELEVATED CHANNEL DISTRIBUTION THAT WE HAVE TODAY. THROUGH INNOVATIVE MARKETING STRATEGIES AND ADVANCED AND SOPHISTICATED LOGISTICS, WE WORK WITH WORLD-CLASS DISTRIBUTORS TO ASSIST OUR CUSTOMERS IN ADVANCING THEIR TECHNOLOGIES.

Financial Review

<i>Management's Discussion and Analysis of Financial Condition and Results of Operations</i>	14-18
<i>Consolidated Statement of Income</i>	19
<i>Consolidated Balance Sheets</i>	20
<i>Consolidated Statement of Stockholders' Equity</i>	21
<i>Consolidated Statement of Cash Flows</i>	22
<i>Notes to Consolidated Financial Statements</i>	23-29
<i>Report of Independent Auditors</i>	30

Management's Discussion & Analysis

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

Except for the historical information contained herein, the matters addressed herein constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements are subject to a variety of risks and uncertainties, including those discussed below under the heading "Cautionary Statement for Purposes of the "Safe Harbor" Provision of the Private Securities Litigation Reform Act of 1995" and elsewhere in this Report on Form 10-K, that could cause actual results to differ materially from those anticipated by the Company's management. The Private Securities Litigation Reform Act of 1995 (the "Act") provides certain "safe harbor" provisions for forward-looking statements. All forward-looking statements made in this Annual Report on Form 10-K are made pursuant to the Act.

GENERAL

Diodes Incorporated (the "Company") is a provider of high-quality discrete semiconductor devices to leading manufacturers in the automotive, electronics, computing and telecommunications industries. The Company's products include small signal transistors and MOSFETs, transient voltage suppressors (TVSs), zeners, Schottkys, diodes, rectifiers and bridges.

The Company's products are sold primarily in North America and Asia, both directly to end-users and through electronic component distributors. In 1998, approximately 72% and 28% of the Company's products were sold in North America and the Far East, respectively, compared to 75% and 25% in 1997, respectively. The increase in the percentage of sales in the Far East to total sales is expected to continue as the Company believes there is greater potential to increase market share in that region.

14

For financial reporting purposes, the Company is deemed to engage in three industry segments: North America, Taiwan, and China. All three segments focus on discrete semiconductor devices. The North American segment procures and distributes products primarily throughout North America and provides management, warehousing and engineering support to the other two segments. The Taiwan segment procures product from, and manufactures and distributes product primarily to, companies in Taiwan, Korea, Singapore, and Hong Kong. This segment also procures product for, and manufactures and distributes product to the Company's North American operations. The China segment manufactures product for, and distributes product to, both the North American and Taiwan segments. In 1997, the China segment began manufacturing product for, and distributing product to, customers in China, the U.S. and Europe. See Note 11 of "Notes to Consolidated Financial Statements" for a description of the Company's adoption of SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information.

In July 1997, Vishay Intertechnology, Inc. ("Vishay") and the Lite-On Group, a Taiwanese consortium, formed a joint venture — Vishay/Lite-On Power Semiconductor Pte., Ltd. ("Vishay/LPSC") — to acquire Lite-On Power Semiconductor Corp. ("LPSC"), the Company's largest shareholder and a member of the Lite-On Group of the Republic of China. Vishay, with worldwide sales exceeding \$1.5 billion, is the largest U.S. and European manufacturer of passive electronic components and a major producer of discrete semiconductors, and power integrated circuits. The Lite-On Group, with worldwide sales of almost \$2 billion, is a leading manufacturer of power semiconductors, computer peripherals, and communication products. The Vishay/LPSC joint venture includes the worldwide discrete power semiconductor business of LPSC and the Asian passive component business of Vishay. Vishay holds a 65% controlling interest in the joint venture, and the Lite-On Group holds the other 35%.

Products are sold under several brand names such as Diodes, Lite-On, ITT and most recently, Vishay/Lite-On Power Semiconductor. The Company is unifying product lines under a limited number of brand names in order to establish brand name unity and consistency of product, and to capitalize on brand name recognition, where possible.

The Company's Far East subsidiaries, Diodes-Taiwan and Diodes-China, both manufacture product for sale to North America and the Far East. Diodes-Taiwan manufacturing focuses on products such as axial Schottky and MELF rectifiers, to name a few. These "general use" products are destined for end products in the automotive industry as well as for use in commercial appliances, household lighting, and electric hand tools, among others. Diodes-China manufacturing, for the most part, focuses on SOT-23 and SOD-123 products. These surface mount devices ("SMD") are used in the computer and telecommunication industries and are destined for cellular phones, notebook computers, pagers, PCMCIA cards, modems, and garage door transmitters, among others. Diodes-China's state-of-the-art facilities have been designed to develop even smaller, higher-density products as electronic industry trends to portable and hand-held devices continue.

The discrete semiconductor industry has, for the last few years, been subject to severe pricing pressures compounded by the Asian economic situation. Although manufacturing costs have been falling, excess manufacturing capacity and over-inventory has caused selling prices to fall at a greater extent

Management's Discussion & Analysis (continued)

than manufacturing cost. Because of this competitive environment, gross profit margins have declined from 27.9 % in 1997 to 24.8% in 1998. To compete in this highly competitive industry, in recent years, the Company has committed substantial resources to the development and implementation of two areas of operation: (i) sales and marketing, and (ii) manufacturing. Emphasizing the Company's focus on customer service, additional personnel and programs have been added. In order to meet customers' needs at the design stage of end-product development, the Company has employed additional applications engineers. These applications engineers work directly with customers to assist them in "designing in" the correct products to produce optimum results. Regional sales managers, working closely with manufacturers' representative firms and distributors, have also been added in the U.S. and the Far East to help satisfy customers' requirements. In addition, the Company has developed relationships with major distributors who inventory and sell the Company's products. The relationship with Vishay has provided additional opportunities for the Company to have its products offered by some of the world's largest distributors.

In 1998, the Company increased the amount of product shipped to larger distributors. Although these sales were significant in terms of total sales dollars and gross margin dollars, they generally were under agreements that resulted in lower gross profit margins for the Company when compared to sales to smaller distributors and OEM customers. As the consolidation of electronic component distributors continues, the Company anticipates that a greater portion of its distributor sales will be to the larger distributors, and thus may result in lower gross profit margins.

Since 1997, the Company's manufacturing focus has primarily been in the development and expansion of Diodes-China. To date, the Company has invested over \$14 million in the manufacturing facility, which supplies product for sale primarily in North America and the Far East. The equipment expansion allows for the manufacture of additional SOT-23 packaged components as well as other surface-mount packaging, including the smaller SOD packages. Approximately \$8.0 million of the Company's existing credit facility has been used to finance the additional manufacturing capacity.

The Company will continue its strategic plan of locating alternate sources of its products, including those provided by its major suppliers. Alternate sources include, but are not limited to, Diodes-China and other sourcing agreements in place, as well as those in negotiations. The Company anticipates that the effect of the loss of any one of its major suppliers will not have a material adverse effect on the Company's operations, provided that alternate sources remain available. The Company continually evaluates alternative sources of its products to assure its ability to deliver high-quality, cost-effective products.

15

Products from foreign suppliers are purchased primarily in United States dollars. To a limited extent, and from time to time, the Company contracts in foreign currencies (e.g., a portion of the equipment purchases for the Diodes-China expansion), and, accordingly, its results of operations could be materially affected by fluctuations in currency exchange rates. Due to the limited number of contracts denominated in foreign currencies and the complexities of currency hedges, the Company has not engaged in hedging to date. If the volume of contracts written in foreign currencies increases, and the Company does not engage in currency hedging, any substantial increase in the value of such currencies could have a material adverse effect on the Company's results of operations. Management believes that the current contracts written in foreign currencies are not significant enough to justify the costs inherent in currency hedging.

The Company's effective tax rate increased to 36.1% in 1998 from 33.9% in 1997. Changes in Taiwan income tax policies in 1998 caused management to reconsider its investment strategies in the fourth quarter of 1998 for current and future earnings at Diodes-Taiwan, resulting in a distribution of approximately \$4.5 million made by Diodes-Taiwan to the Company in 1999. The decision was made, in part, because the changes in Taiwan income tax policies made it less favorable to accumulate earnings at Diodes-Taiwan and, in part, to allow the Company to redirect its financial resources from Diodes-Taiwan to its expansion of the Diodes-China joint venture. See "Results of Operations - 1998 Compared to 1997" for a more detailed explanation.

The Company has conducted a comprehensive review of its computer systems to identify the systems that could be affected by the Year 2000 Issue ("Y2K") and has developed an implementation plan to resolve the issue. Y2K is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Company's programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a major system failure or miscalculations. The Company is utilizing both internal and external resources to identify, correct or reprogram, and test the systems for Y2K compliance. Confirmation has been received from the Company's primary processing vendors and major customers that plans are being developed to address processing of transactions in the year 2000. The total cost of Y2K compliance was not considered a material expense. All internal critical systems have been tested and the Company believes that, with its modifications to existing software and its upgrades to Y2K compliant software, Y2K will not pose significant operational problems for the Company's computer systems. However, if (i) problems surface that have not yet been identified that will require substantial time and resources to remedy, or (ii) such modifications and upgrades are not completed timely by the Company's business partners, they could have a material adverse effect on the Company's business.

Management's Discussion & Analysis (continued)

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, the percentage that certain items in the statement of income bear to net sales and the percentage dollar increase (decrease) of such items from period to period.

	PERCENT OF NET SALES YEAR ENDED DECEMBER 31,					PERCENTAGE DOLLAR INCREASE (DECREASE) YEAR ENDED DECEMBER 31,			
	1994	1995	1996	1997	1998	'94 TO '95	'95 TO '96	'96 TO '97	'97 TO '98
NET SALES	100.0%	100.0%	100.0%	100.0%	100.0%	52.0%	(3.7)%	17.3%	(8.3)%
COST OF GOODS SOLD	(72.1)	(71.7)	(73.5)	(72.1)	(75.2)	51.3	(1.3)	15.0	(4.3)
GROSS PROFIT	27.9	28.3	26.5	27.9	24.8	53.9	(9.8)	23.6	(18.5)
OPERATING EXPENSES	(19.8)	(16.4)	(18.5)	(16.9)	(18.3)	25.9	9.1	7.2	(1.1)
INCOME FROM OPERATIONS	8.2	11.9	8.0	11.0	6.5	121.5	(35.8)	61.7	(45.5)
INTEREST EXPENSE, NET	(0.0)	(0.2)	(0.6)	(0.1)	(0.5)	2,300.0	143.8	(82.3)	353.2
OTHER INCOME	1.1	0.9	0.9	0.9	0.9	17.6	3.9	14.8	(12.1)
INCOME BEFORE TAXES	9.3	12.6	8.3	11.8	6.9	105.1	(36.6)	67.2	(46.1)
INCOME TAXES	3.1	4.5	3.0	4.0	2.5	117.1	(35.9)	57.3	(42.6)
NET INCOME	6.2	8.1	5.3	7.8	4.4	99.0	(36.9)	72.8	(47.8)

16

The following discussion explains in greater detail the consolidated financial condition of the Company. This discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere herein.

1998 COMPARED TO 1997

Net sales for 1998 compared to 1997 decreased \$5,438,000, or approximately 8.3%. The decrease in net sales was due primarily to industry-wide pricing pressures that offset increased unit sales of approximately 3.3%. The increase in unit sales is comprised of an increase in unit sales in the Far East of approximately 36.9%, offset by a decrease of approximately 3.8% in North America. Also contributing to lower sales in 1998 was the loss of approximately \$3.0 million in supplier-specific business due to the previously announced acquisition of a major supplier by a competitor. The Company anticipates that a portion of this supplier-specific business will be recovered as the Diodes-China manufacturing facility develops additional product types.

The decrease in gross profit for 1998 compared to 1997 of \$3,399,000, or approximately 18.5%, was due primarily to the 8.3% decrease in net sales. Pricing pressures within the industry resulting from decreased demand and excess on-hand inventory contributed to a decrease in gross margin percentage to 24.8% in 1998 from 27.9% in 1997. Average selling prices in 1998 decreased approximately 11.6%, which represents decreases in average selling prices in the Far East and North America of approximately 24.5% and 9.0%, respectively, compared to 1997. In addition, as the consolidation of electronic component distributors continues, the Company anticipates that a greater portion of its distributor sales will be to larger distributors, usually under agreements resulting in lower gross profit margins.

For 1998, selling, general and administrative expenses ("SG&A") decreased \$121,000, or approximately 1.1%, compared to 1997. The decrease in SG&A was due primarily to a decrease in sales commissions due to the 8.3% decrease in net sales, partly offset by an increase in wages due to additional sales, engineering and customer service personnel. SG&A for 1998, as a percentage of net sales, increased to 18.3% from 16.9% for 1997, primarily due to the 8.3% decrease in net sales.

Net interest expense for 1998 compared to 1997 increased \$219,000, or approximately 353.2%, due primarily to an increased use of the Company's credit facility. The Company's interest expense is primarily the result of the term loan by which the Company is financing (i) the investment in the Diodes-China manufacturing facility and (ii) the \$3.0 million, including accrued interest, advanced to FabTech. Interest income is primarily the interest charged to FabTech, a related party, under the Company's formal loan agreement, as well as earnings on its cash balances.

In 1998, the Diodes-China joint venture contributed to the Company's profitability and, therefore, the \$14,000 minority interest in joint venture represents the minority investor's 5% share of the joint ventures' profit. During the fourth quarter of 1997, through an arrangement in accordance with the original joint venture agreement, the Company increased its controlling interest in Diodes-China from 70% to 95% through the purchase of an additional 25% from the minority investor.

Management's Discussion & Analysis (continued)

Commissions and other income decreased \$76,000, or approximately 12.1%, from 1997 to 1998. This decrease was primarily due to a decrease in currency exchange gains at Diodes-Taiwan of \$167,000, or approximately 55.7%. Partly offsetting the decrease in currency exchange gains was an increase in sales commission income of \$74,000, or approximately 19.2%, earned by Diodes-Taiwan on drop shipments in the Far East.

The Company's overall effective federal, state, and foreign tax rate increased to 36.1% in 1998 from 33.9% in 1997. Through December 31, 1997, the Company had undistributed earnings at Diodes-Taiwan for which no deferred income tax liability had been recorded since, at that time, management considered this investment to be permanent, and no plans or intentions existed to distribute the capital of its Taiwan subsidiary. Changes in Taiwan income tax policies in 1998 caused management to reconsider its investment strategies in the fourth quarter of 1998 for current and future earnings at Diodes-Taiwan. While a portion of its investment will permanently remain in Taiwan, a distribution of approximately \$4.5 million will be made by Diodes-Taiwan to the Company in 1999. The decision was made, in part, because the changes in Taiwan income tax policies made it less favorable to accumulate earnings at Diodes-Taiwan and, in part, to allow the Company to redirect its financial resources from Diodes-Taiwan to its expansion of the Diodes-China joint venture. Accordingly, deferred income tax liabilities amounting to \$512,000 have been recorded. Income tax rates vary among the U.S., Taiwan, and China, therefore, income tax expense may fluctuate depending upon the separate profitability of the three business segments. Tax rates vary from 0% at Diodes-China for the next three years, to rates between 25-35% at Diodes-Taiwan, to 41% in the U.S.

For 1998, the Company generated net income of \$2,673,000 (or \$0.53 basic earnings per share, \$0.50 diluted earnings per share), as compared to \$5,125,000 (or \$1.03 basic earnings per share, \$0.93 diluted earnings per share) for 1997. This 47.8% decrease is due primarily to the 8.3% sales decrease at gross profit margins of 24.8% compared to gross profit margins of 27.9% in 1997 as well as to the tax effect of the Diodes-Taiwan earnings distribution.

1997 COMPARED TO 1996

The increase in net sales in 1997 compared to 1996 of \$9,680,000, or approximately 17.3%, was due primarily to an increase in customer demand mainly in Asian markets resulting in an increase in the number of units shipped. Throughout most of 1996, the industry experienced a substantial decrease in demand, combined with excess inventory among the Company's customers, which negatively affected the Company's net sales and gross profit margins in 1996. The Company's business in 1997 was not materially affected by the widespread weakness in Asian currencies.

Gross profit in 1997 increased \$3,501,000, or approximately 23.6%, compared to 1996, primarily due to the 17.3% increase in net sales, as well as from an increase of approximately \$600,000 in gross profit contribution from the Diodes-China joint venture. Gross profit margin increased to 27.9% in 1997 compared to 26.5% in 1996.

The Company's SG&A for the year ended 1997 increased \$751,000, or approximately 7.2%, compared to 1996, primarily due to sales commissions on the \$9,680,000 increase in sales, as well as to additional customer applications engineers and quality assurance personnel at its U.S. headquarters, providing customers and vendors improved service. Fourth quarter 1996 results include a one-time charge of \$660,000 for pre-operating costs associated with Diodes-China. These costs had been capitalized during start-up phases through the joint venture's first six months of operations, and were fully amortized upon commencement of full-scale operations in the fourth quarter. SG&A for 1997, as a percentage of net sales, decreased to 16.9% from 18.5% for 1996, primarily due to the 17.3% increase in net sales.

For 1997, net interest expense decreased \$289,000, or approximately 82.3%, compared to 1996, primarily due to debt reduction as well as interest earned on higher cash balances. The Company's interest expense is primarily the result of the term loan by which the Company is financing (i) the investment in the Diodes-China manufacturing facility and (ii) the \$3.0 million (including accrued interest) advance to FabTech. Interest income is primarily the interest charged to FabTech, a related party, under the Company's loan agreement, as well as earnings on its cash balances.

In 1997, the Diodes-China joint venture contributed to the Company's profitability and, therefore, the \$15,000 minority interest in joint venture represents the minority investor's 5% share of the joint venture's profit. During the fourth quarter of 1997, through an arrangement in accordance with the original joint venture agreement, the Company increased its controlling interest in Diodes-China from 70% to 95% through the purchase of an additional 25% from the minority investor.

Commissions and other income increased \$332,000, or approximately 112.5%, from 1996 to 1997. This increase was primarily due to an increase in currency exchange gains at Diodes-Taiwan of \$280,000, as well as to an increase in sales commission income of \$153,000 or approximately 66.1%, earned by Diodes-Taiwan on drop shipments in the Far East.

The Company's overall effective federal, state, and foreign tax rate decreased to 33.9% in 1997 from 36.1% in 1996. Due to tax rates that vary from 0% at Diodes-China for the next three years to rates between 25% and 41% between the Far East and the U.S., effective tax rates may fluctuate greatly, depending upon the profit contribution of the Company's U.S. and Far East operations.

Management's Discussion and Analysis (continued)

For 1997, the Company generated net income of \$5,125,000 (or \$1.03 basic earnings per share, \$0.93 diluted earnings per share), as compared to \$2,965,000 (or \$0.60 basic earnings per share, \$0.55 diluted earnings per share) for 1996. This 72.8% increase is due primarily to the 17.3% sales increase at gross profit margins of 27.9% compared to gross profit margins of 26.5% in 1996.

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities in 1998 was \$5.5 million compared to \$4.0 million in 1997 and \$3.6 million in 1996. The primary sources of cash flows from operating activities in 1998 were net income of \$2.7 million and a decrease in accounts receivable of \$1.8 million. The primary use of cash flows from operating activities in 1998 was a decrease in accounts payable of \$1.3 million. In 1997, the primary sources of cash flows from operating activities were net income of \$5.1 million and an increase in accounts payable of \$966,000, while the primary use was a \$3.0 million increase in accounts receivable. In 1996, the primary sources of cash flows from operating activities were net income of \$3.0 million and a decrease in inventories of \$3.0 million, while the primary use was a \$1.5 million decrease in accounts payable.

Due to the slowdown in the semiconductor industry, the Company is directing its efforts into reducing inventory levels, while still providing the service and delivery that customers demand. The Company continues to closely monitor its credit policy, while at times, providing more flexible terms, primarily to its Asian customers, when necessary. The ratio of the Company's current assets to current liabilities on December 31, 1998 was 2.6 to 1, compared to a ratio of 2.8 to 1 and 3.2 to 1 as of December 31, 1997 and 1996, respectively.

Cash used by investing activities was \$9.4 million in 1998, compared to \$3.5 million in 1997 and \$3.3 million in 1996. The primary investment in 1998 was for additional manufacturing equipment at the Diodes-China manufacturing facility.

Cash provided by financing activities was \$3.9 million in 1998, compared to \$77,000 in 1997 and \$1.0 million in 1996. In March 1998, the Company amended an August 1996 loan agreement whereby the Company obtained a \$23.1 million credit facility with a major bank consisting of a working capital line of credit up to \$9 million and term commitment notes providing up to \$14 million for plant expansion, advances to vendors, and letters of credit for Diodes-China. Interest on outstanding borrowings under the credit agreement is payable monthly at LIBOR plus a negotiated margin. Fixed borrowings require fixed principal plus interest payments for sixty months thereafter. The agreement has certain covenants and restrictions, which, among other matters, require the maintenance of certain financial ratios and operating results, as defined in the agreement. The Company was in compliance as of December 31, 1998. The working capital line of credit expires June 30, 2000 and contains a sublimit of \$3.0 million for issuance of commercial and stand-by letters of credit. During 1998, average and maximum borrowings outstanding on the line of credit were \$920,000 and \$4,098,000, respectively. As of December 31, 1998, approximately \$8.0 million is outstanding under the term note commitment, and the weighted average interest rate on outstanding borrowings was approximately 8.0%.

The Company uses its credit facility primarily to fund the advances to Diodes-China and FabTech as well as to support its operations. At December 31, 1998, amounts due from FabTech, including accrued interest, are approximately \$3.0 million, and the entire amount is due February 2001. The Company believes that the continued availability of this credit facility, together with internally generated funds, will be sufficient to meet the Company's currently foreseeable operating cash requirements.

In July 1998, the Company replaced two previously filed guarantees to Shanghai Kaihong Electronics Co., Ltd. and the minority investor of the Diodes-China joint venture for \$1.0 million and \$850,000, respectively, as well as a \$1.0 million letter of credit, with a \$3.0 million guaranty. The Company reserves the right, at any time or from time to time, on one month's prior written notice to the bank, to reduce the maximum amount guaranteed hereunder or to terminate this guaranty provided, however, that the Company shall in any event remain liable as guarantor for all obligations of the borrower outstanding at the effective date of any such notice to the bank.

Total working capital decreased approximately 11.0% to \$16.6 million as of December 31, 1998, from \$18.7 million as of December 31, 1997. The Company believes that such working capital position will be sufficient for growth opportunities.

The Company's debt to equity ratio increased to 0.63 at December 31, 1998, from 0.56 at December 31, 1997. It is anticipated that this ratio may increase as the Company continues to use its credit facilities to fund additional sourcing opportunities.

As of December 31, 1998, the Company has no material plans or commitments for capital expenditures other than as previously announced in connection with the expansion at Diodes-China. However, to ensure that the Company can secure reliable and cost-effective sourcing to support and better position itself for growth, the Company is continuously evaluating additional sources of products. The Company believes its financial position will provide sufficient funds should an appropriate investment opportunity arise and thereby, assist the Company in improving customer satisfaction and in maintaining or increasing market share.

Inflation did not have a material effect on net sales or net income in fiscal years 1996, 1997, or 1998.

Consolidated Statement of Income

YEARS ENDED DECEMBER 31,	1996	1997	1998
NET SALES	\$ 56,019,000	\$ 65,699,000	\$ 60,261,000
COST OF GOODS SOLD	41,177,000	47,356,000	45,317,000
GROSS PROFIT	14,842,000	18,343,000	14,944,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	10,386,000	11,137,000	11,016,000
INCOME FROM OPERATIONS	4,456,000	7,206,000	3,928,000
OTHER INCOME (EXPENSES)			
INTEREST INCOME	187,000	343,000	304,000
INTEREST EXPENSE	(538,000)	(405,000)	(585,000)
MINORITY INTEREST IN EARNINGS OF JOINT VENTURE	238,000	(15,000)	(14,000)
COMMISSIONS AND OTHER	295,000	627,000	551,000
INCOME BEFORE INCOME TAXES	4,638,000	7,756,000	4,184,000
INCOME TAX PROVISION	(1,673,000)	(2,631,000)	(1,511,000)
NET INCOME	<u>\$ 2,965,000</u>	<u>\$ 5,125,000</u>	<u>\$ 2,673,000</u>
EARNINGS PER SHARE			
BASIC	\$ 0.60	\$ 1.03	\$ 0.53
DILUTED	<u>\$ 0.55</u>	<u>\$ 0.93</u>	<u>\$ 0.50</u>
NUMBER OF SHARES USED IN COMPUTATION			
BASIC	4,958,658	4,970,705	5,029,064
DILUTED	<u>5,362,027</u>	<u>5,481,680</u>	<u>5,370,952</u>

Consolidated Balance Sheets

DECEMBER 31,	1997	1998
ASSETS		
CURRENT ASSETS		
CASH	\$ 2,325,000	\$ 2,415,000
ACCOUNTS RECEIVABLE		
CUSTOMERS	10,342,000	9,107,000
RELATED PARTY	213,000	125,000
OTHER	916,000	496,000
	11,471,000	9,728,000
ALLOWANCE FOR DOUBTFUL ACCOUNTS	74,000	110,000
	11,397,000	9,618,000
INVENTORIES	13,525,000	13,777,000
DEFERRED INCOME TAXES	1,096,000	1,098,000
PREPAID EXPENSES AND OTHER	806,000	448,000
TOTAL CURRENT ASSETS	29,149,000	27,356,000
PROPERTY, PLANT AND EQUIPMENT, NET	5,165,000	13,750,000
ADVANCES TO RELATED PARTY VENDOR	2,821,000	3,024,000
OTHER ASSETS	1,219,000	1,259,000
TOTAL ASSETS	\$ 38,354,000	\$ 45,389,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
DUE TO BANK	\$ 1,000,000	\$ 812,000
ACCOUNTS PAYABLE		
TRADE	4,567,000	2,991,000
RELATED PARTY	952,000	1,213,000
ACCRUED LIABILITIES	1,988,000	3,421,000
INCOME TAXES PAYABLE	912,000	169,000
CURRENT PORTION OF LONG-TERM DEBT	1,031,000	2,111,000
TOTAL CURRENT LIABILITIES	10,450,000	10,717,000
DEFERRED COMPENSATION	-	56,000
DEFERRED INCOME TAXES	-	521,000
LONG-TERM DEBT, NET OF CURRENT PORTION	3,226,000	5,991,000
MINORITY INTEREST IN JOINT VENTURE	225,000	644,000
STOCKHOLDERS' EQUITY		
CLASS A CONVERTIBLE PREFERRED STOCK - PAR VALUE \$1 PER SHARE; 1,000,000 SHARES AUTHORIZED; NO SHARES ISSUED	-	-
COMMON STOCK - PAR VALUE \$.66 2/3 PER SHARE; 9,000,000 SHARES AUTHORIZED; 5,764,352 SHARES IN 1998 AND 5,701,019 SHARES IN 1997 ISSUED AND OUTSTANDING	3,801,000	3,843,000
ADDITIONAL PAID-IN CAPITAL	5,813,000	6,105,000
RETAINED EARNINGS	16,621,000	19,294,000
	26,235,000	29,242,000
LESS: TREASURY STOCK - 717,115 SHARES OF COMMON STOCK, AT COST	1,782,000	1,782,000
	24,453,000	27,460,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 38,354,000	\$ 45,389,000

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Stockholders' Equity

YEARS ENDED DECEMBER 31, 1996, 1997, AND 1998

	COMMON STOCK			ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	COMMON STOCK IN TREASURY
	SHARES	SHARES IN TREASURY	AMOUNT			
BALANCE, DECEMBER 31, 1995	5,675,619	717,115	\$ 3,784,000	\$ 5,768,000	\$ 8,729,000	\$ 1,782,000
EXERCISE OF STOCK OPTIONS	175	-	-	-	-	-
NET INCOME FOR THE YEAR ENDED DECEMBER 31, 1996	-	-	-	-	2,965,000	-
BALANCE, DECEMBER 31, 1996	5,675,794	717,115	\$ 3,784,000	\$ 5,768,000	\$ 11,694,000	\$ 1,782,000
INCREASE IN OWNERSHIP OF SUBSIDIARY JOINT VENTURE	-	-	-	-	(198,000)	-
EXERCISE OF STOCK OPTIONS	25,225	-	17,000	45,000	-	-
NET INCOME FOR THE YEAR ENDED DECEMBER 31, 1997	-	-	-	-	5,125,000	-
BALANCE, DECEMBER 31, 1997	5,701,019	717,115	\$ 3,801,000	\$ 5,813,000	\$ 16,621,000	\$ 1,782,000
EXERCISE OF STOCK OPTIONS INCLUDING \$78,000 INCOME TAX BENEFIT	63,333	-	42,000	292,000	-	-
NET INCOME FOR THE YEAR ENDED DECEMBER 31, 1998	-	-	-	-	2,673,000	-
BALANCE, DECEMBER 31, 1998	5,764,352	717,115	\$ 3,843,000	\$ 6,105,000	\$ 19,294,000	\$ 1,782,000

21

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows

YEARS ENDED DECEMBER 31,	1996	1997	1998
CASH FLOWS FROM OPERATING ACTIVITIES			
NET INCOME	\$ 2,965,000	\$ 5,125,000	\$ 2,673,000
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
DEPRECIATION AND AMORTIZATION	656,000	1,004,000	1,168,000
MINORITY INTEREST EARNINGS	(238,000)	15,000	14,000
LOSS (GAIN) ON SALE OF PROPERTY, PLANT AND EQUIPMENT	(41,000)	(3,000)	53,000
INTEREST INCOME ACCRUED ON ADVANCES TO VENDOR	(131,000)	(190,000)	(203,000)
CHANGES IN OPERATING ASSETS AND LIABILITIES			
ACCOUNTS RECEIVABLE	(332,000)	(3,021,000)	1,779,000
INVENTORIES	3,027,000	(257,000)	(252,000)
PREPAID EXPENSES AND OTHER ASSETS	(18,000)	(572,000)	278,000
DEFERRED INCOME TAXES	(533,000)	330,000	519,000
ACCOUNTS PAYABLE	(1,522,000)	966,000	(1,315,000)
ACCRUED LIABILITIES	148,000	(114,000)	1,480,000
INCOME TAXES PAYABLE	(414,000)	689,000	(665,000)
	3,567,000	3,972,000	5,529,000
NET CASH PROVIDED BY OPERATING ACTIVITIES			
CASH FLOWS FROM INVESTING ACTIVITIES			
INVESTMENT IN JOINT VENTURE AND ADVANCES TO VENDORS	(2,631,000)	(2,050,000)	-
MINORITY INTEREST OF JOINT VENTURE INVESTMENT	1,200,000	-	405,000
PURCHASE OF PROPERTY, PLANT AND EQUIPMENT	(1,848,000)	(1,495,000)	(9,793,000)
PROCEEDS FROM SALES OF PROPERTY, PLANT AND EQUIPMENT	10,000	1,000	27,000
	(3,269,000)	(3,544,000)	(9,361,000)
NET CASH USED BY INVESTING ACTIVITIES			
CASH FLOWS FROM FINANCING ACTIVITIES			
ADVANCES (REPAYMENTS) ON LINE OF CREDIT, NET	(3,916,000)	1,000,000	(188,000)
NET PROCEEDS FROM THE ISSUANCE OF CAPITAL STOCK	-	62,000	256,000
PROCEEDS FROM LONG-TERM DEBT	5,000,000	-	10,388,000
REPAYMENTS OF LONG-TERM DEBT	(40,000)	(985,000)	(6,534,000)
	1,044,000	77,000	3,922,000
NET CASH PROVIDED BY FINANCING ACTIVITIES			
INCREASE IN CASH	1,342,000	505,000	90,000
CASH, BEGINNING OF YEAR	478,000	1,820,000	2,325,000
CASH, END OF YEAR	\$ 1,820,000	\$ 2,325,000	\$ 2,415,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
CASH PAID DURING THE YEAR FOR:			
INTEREST	\$ 575,000	\$ 405,000	\$ 584,000
INCOME TAXES	\$ 2,597,000	\$ 1,908,000	\$ 1,658,000
NON-CASH FINANCING ACTIVITY:			
TAX BENEFIT RELATED TO EXERCISE OF STOCK OPTIONS CREDITED TO PAID-IN CAPITAL	\$ -	\$ -	\$ 78,000

The accompanying notes are an integral part of these financial statements.

Notes To Consolidated Financial Statements

NOTE 1 - SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of operations - Diodes Incorporated and its subsidiaries manufacture and distribute discrete semiconductor devices to manufacturers in the automotive, electronics, computing and telecommunications industries. The Company's products include small signal transistors and MOSFETs, transient voltage suppressers (TVSs), zeners, Schottkys, diodes, rectifiers and bridges. The products are sold primarily throughout North America and Asia.

Principles of consolidation - The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary, DII Taiwan Corporation, Ltd., and its majority owned subsidiary Shanghai KaiHong Electronics Co., Ltd. (both foreign subsidiaries, Notes 10 and 11). All significant intercompany balances and transactions have been eliminated.

Revenue recognition - Revenue is recognized when the product is shipped.

Inventories - Inventories are stated at the lower of cost or market value. Cost is determined principally by the first-in, first-out basis.

Depreciation and amortization - Property, plant and equipment are depreciated using straight-line and accelerated methods over the estimated useful lives, which range from 20 to 53 years for buildings and 1 to 10 years for machinery and equipment. Leasehold improvements are amortized using the straight-line method over 1 to 5 years.

Income taxes - Income taxes are accounted for using an asset and liability approach whereby deferred tax assets and liabilities are recorded for the differences in the financial reporting bases and tax bases of the Company's assets and liabilities. Income taxes are further explained in Note 7.

Concentration of credit risk - Financial instruments which potentially subject the Company to concentrations of credit risk include trade accounts receivable. Credit risk is limited by the dispersion of the Company's customers over various geographic areas, operating primarily in the electronics manufacturing and distribution industries. The Company performs on-going credit evaluations of its customers and generally requires no collateral from its customers. Historically, credit losses have not been significant.

The Company and its subsidiaries maintain cash balances at major financial institutions in the United States, Taiwan, and China. Accounts at each institution in the United States are insured by the Federal Deposit Insurance Corporation up to \$100,000. Accounts at each institution in Taiwan are insured by the Central Deposit Insurance Company up to NT\$1,000,000 (approximately US\$30,000 as of December 31, 1998).

Foreign operations - Through its subsidiaries, the Company maintains operations in Taiwan and China for which the functional currency is the U.S. dollar. Assets and liabilities of its foreign operations which are denominated in currency other than the U.S. dollar are not hedged and therefore are subject to fluctuations in the currency exchange rate between the U.S. dollar and foreign currencies (NT dollar and Renminbi Yuan). Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rate. Non-monetary assets and liabilities are converted at historical rates. Income and expense accounts are translated using an average exchange rate for the year, except that cost of goods sold and depreciation expense are remeasured using historical rates. Included in net income are net monetary exchange and translation gains of approximately \$21,000, \$300,000 and \$133,000 for the years ended December 31, 1996, 1997, and 1998, respectively.

Earnings per share - Earnings per share are based upon the weighted average number of shares of common stock and common stock equivalents outstanding, net of common stock held in treasury.

The Financial Accounting Standards Board recently issued Statement of Financial Accounting Standard No. 128 Earnings Per Share (SFAS No. 128) effective for years ending after December 15, 1997. Earnings per share in the accompanying financial statements are calculated in accordance with SFAS No. 128. Earnings per share for 1996 and 1997, including 1997 unaudited quarterly data in Note 14, have been restated to reflect earnings per share calculated in accordance with SFAS No. 128. SFAS No. 128 requires basic earnings per share be calculated based on weighted average shares outstanding for the period without giving effect to outstanding common stock equivalents while diluted earnings per share considers the effect of common stock equivalents on weighted average shares outstanding.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Stock-based compensation - The Company has elected not to adopt SFAS 123, Accounting for Stock-Based Compensation and continues to apply APB Opinion No. 25 (APB 25) and related Interpretations in accounting for its option plans. Under SFAS 123, a fair value method is used to determine compensation cost for stock options or similar equity instruments. Compensation is measured at the grant date and is recognized over the service or vesting period. Under APB 25, compensation cost is the excess, if any, of the quoted market price of the stock at the measurement date over the amount that must be paid to acquire the stock. The new standard allows the Company to continue to account for stock-based compensation under APB 25, with disclosure of the effects of the new standard. The proforma effect on income as if the Company had adopted SFAS 123 is disclosed in Note 8.

Notes (continued)

New Accounting Pronouncements – During 1998, the Financial Accounting Standards Board issued Statements of Financial Accounting Standard No. 132 (“Disclosures about Pensions and other Postretirement Benefits”), No. 133 (“Accounting for Derivative Instruments and Hedging Activities”) and No. 134 (“Accounting for Mortgage-Backed Securities”) which are effective for years after 1998. Management believes these pronouncements will not have a material effect on the Company’s financial statements or disclosures.

NOTE 2 - INVENTORIES

	1997	1998
FINISHED GOODS	\$ 11,920,000	\$ 12,968,000
WORK-IN-PROGRESS	370,000	259,000
RAW MATERIALS	1,235,000	550,000
	<u>\$ 13,525,000</u>	<u>\$ 13,777,000</u>

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

	1997	1998
BUILDING	\$ 893,000	\$ 1,238,000
LEASEHOLD IMPROVEMENTS	198,000	224,000
MACHINERY AND EQUIPMENT	6,393,000	15,289,000
	7,484,000	16,751,000
LESS ACCUMULATED DEPRECIATION AND AMORTIZATION	<u>(2,642,000)</u>	<u>(3,324,000)</u>
	4,842,000	13,427,000
LAND	323,000	323,000
	<u>\$ 5,165,000</u>	<u>\$ 13,750,000</u>

NOTE 4 - BANK CREDIT AGREEMENT AND LONG-TERM DEBT

The Company has a \$23.1 million credit agreement with a major bank providing a working capital line of credit up to \$9 million, term commitment notes providing up to \$10 million for plant expansion and advances to vendors, and letters of credit of \$4.1 million for KaiHong operations. Interest on outstanding borrowings under the complete credit agreement is payable monthly at LIBOR plus a negotiated margin. Fixed borrowings require fixed principal plus interest payments for sixty months thereafter. The agreement has certain covenants and restrictions which, among other matters requires the maintenance of certain financial ratios and operating results, as defined in the agreement. The Company was in compliance with the covenants as of December 31, 1998.

The working capital line of credit expires June 30, 2000. The line contains a sublimit of \$3 million for issuance of commercial and stand-by letters of credit. During 1998, average and maximum borrowings outstanding on the line of credit were \$920,000 and \$4,098,000, respectively. The weighted average interest rate on outstanding borrowings was 8% for the year ended December 31, 1998.

Long-term debt as of December 31 is comprised of the following:

	1997	1998
LOAN PAYABLE TO BANK SECURED BY BUILDINGS AND LAND, MONTHLY PRINCIPAL PAYMENTS OF NT\$84,000 (APPROXIMATELY \$3,000 U.S.) PLUS INTEREST AT 7% PER ANNUM THROUGH NOVEMBER 2003	\$ 174,000	\$ 144,000
LOANS PAYABLE TO BANK SECURED BY SUBSTANTIALLY ALL ASSETS, DUE IN AGGREGATE MONTHLY PRINCIPAL PAYMENTS OF \$173,000 PLUS INTEREST AT LIBOR PLUS 1.1% THROUGH DECEMBER 31, 2003	4,083,000	7,958,000
	4,257,000	8,102,000
CURRENT PORTION	1,031,000	2,111,000
	<u>\$ 3,226,000</u>	<u>\$ 5,991,000</u>

Notes (continued)

The aggregate maturities of long-term debt for future years ending December 31 are:

1999	\$ 2,111,000
2000	2,111,000
2001	2,111,000
2002	1,194,000
2003	575,000
	<u>\$ 8,102,000</u>

NOTE 5 - ACCRUED LIABILITIES

	1997	1998
EMPLOYEE COMPENSATION AND PAYROLL TAXES	\$ 894,000	\$ 780,000
SALES COMMISSIONS	303,000	313,000
REFUNDS TO PRODUCT DISTRIBUTORS	-	424,000
OTHER	791,000	1,904,000
	<u>\$ 1,988,000</u>	<u>\$ 3,421,000</u>

NOTE 6 - VALUATION OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standard No. 107 "Disclosures About Fair Value of Financial Instruments" (SFAS 107) requires disclosure of the fair market value of financial instruments for which it is practicable to estimate fair value. The Company's financial instruments include cash, accounts receivable, accounts payable, working capital line of credit, and long term debt. The Company considers the carrying amounts of all financial instruments to approximate fair value.

25

NOTE 7 - INCOME TAXES

The components of the income tax provisions are as follows:

	1996	1997	1998
CURRENT TAX PROVISION (BENEFIT)			
FEDERAL	\$ 982,000	\$ 1,268,000	\$ (82,000)
FOREIGN	678,000	1,252,000	1,089,000
STATE	322,000	330,000	(15,000)
	<u>1,982,000</u>	<u>2,850,000</u>	<u>992,000</u>
DEFERRED TAX PROVISION (BENEFIT)	<u>(309,000)</u>	<u>(219,000)</u>	<u>519,000</u>
	<u>\$ 1,673,000</u>	<u>\$ 2,631,000</u>	<u>\$ 1,511,000</u>

A reconciliation between the effective tax rate and the statutory tax rates for the years ended December 31, 1996, 1997 and 1998 are as follows:

	1996		1997		1998	
	AMOUNT	PERCENT OF PRETAX EARNINGS	AMOUNT	PERCENT OF PRETAX EARNINGS	AMOUNT	PERCENT OF PRETAX EARNINGS
FEDERAL TAX AT 34%	\$ 1,577,000	34.0%	\$ 2,637,000	34.0%	\$ 1,422,000	34.0%
STATE FRANCHISE TAX, NET OF FEDERAL BENEFIT	284,000	6.1	453,000	5.8	242,000	5.8
FOREIGN INCOME TAXED AT LOWER RATES	(257,000)	(5.5)	(428,000)	(5.5)	(145,000)	(3.5)
OTHER	69,000	1.5	(31,000)	(.4)	(8,000)	(.2)
INCOME TAX PROVISION	<u>\$ 1,673,000</u>	<u>36.1%</u>	<u>\$ 2,631,000</u>	<u>33.9%</u>	<u>\$ 1,511,000</u>	<u>36.1%</u>

Notes (continued)

At December 31, 1997 and 1998, the Company's deferred tax assets and liabilities are comprised of the following items:

	1997	1998
DEFERRED TAX ASSETS		
INVENTORY COST	\$ 692,000	\$ 769,000
ACCRUED EXPENSES AND ACCOUNTS RECEIVABLE	225,000	83,000
STATE INCOME TAXES AND OTHER	179,000	246,000
	<u>\$ 1,096,000</u>	<u>\$ 1,098,000</u>
DEFERRED TAX LIABILITIES		
UNDISTRIBUTED FOREIGN EARNINGS	\$ -	\$ 521,000

Under Federal tax law, foreign earnings are taxed when funds are distributed by foreign subsidiaries to the parent Company. A temporary difference between financial and tax reporting exists for profits earned at the foreign subsidiary level not distributed to the parent. A deferred tax liability of \$521,000 is reflected in the balance sheet for a dividend of approximately \$4.5 million expected to be issued from the Taiwanese subsidiary to the parent Company in 1999. The Company has not established a deferred tax liability for the remaining undistributed earnings of this subsidiary of approximately \$5 million since the Company views this amount as a permanent investment and has no current plans, intentions or obligation to distribute all or part of that amount from Taiwan to the United States.

The R.O.C. taxing authorities assessed the Company's Taiwanese subsidiary approximately \$370,000 in 1997 related to an examination of tax returns through 1995. This assessment pertained specifically to a tax on excessive accumulated earnings through 1995. The earnings accumulated in 1996 through 1998 in excess of amounts distributed to the parent company may be subjected to tax assessments should the subsidiary's accumulated earnings in relation to permanent capital, at the time of the examination, fail to comply with the statutory level required by the taxing authorities in the R.O.C.

NOTE 8 - STOCK OPTION PLANS

The Company has stock option plans for directors, officers, and employees, which provide for nonqualified and incentive stock options. The Board of Directors determines the option price (not to be less than fair market value for the incentive options) at the date of grant. The options generally expire ten years from the date of grant and are exercisable over the period stated in each option. At December 31, 1998, options for 769,512 shares were vested and exercisable and 1,369,951 shares were available for future grants under the plans.

	OUTSTANDING OPTIONS		
	NUMBER	PRICE PER SHARE RANGE	WEIGHTED AVERAGE
Balance, December 31, 1995	431,567	\$.875-11.25	\$ 3.84
Granted	605,000	6.00	6.00
Exercised	(175)	2.63	2.63
Canceled	(10,000)	6.00	6.00
Balance, December 31, 1996	1,026,392	.875-11.25	5.09
Exercised	(25,225)	1.88-6.00	2.43
Canceled	(10,000)	6.00	6.00
Balance, December 31, 1997	991,167	.875-11.25	5.15
Granted	400,000	5.00-10.00	7.51
Exercised	(63,333)	1.88-6.00	4.05
Canceled	(46,667)	6.00	6.00
Balance, December 31, 1998	<u>1,281,167</u>	<u>\$.875-11.25</u>	<u>\$ 5.15</u>

The Company also has an incentive bonus plan which reserves shares of stock for issuance to key employees. As of December 31, 1998, 124,000 shares remain available for issuance under this plan.

Notes (continued)

Had compensation cost for the Company's 1996, 1997 and 1998 options granted been determined consistent with SFAS 123, the Company's net income and diluted earnings per share would approximate the proforma amounts below:

	AS REPORTED	PRO FORMA
1996 NET INCOME	\$ 2,965,000	\$ 2,318,000
DILUTED EARNINGS PER SHARE	\$.55	\$.43
1997 NET INCOME	\$ 5,125,000	\$ 4,478,000
DILUTED EARNINGS PER SHARE	\$.93	\$.82
1998 NET INCOME	\$ 2,673,000	\$ 1,719,000
DILUTED EARNINGS PER SHARE	\$.50	\$.32

NOTE 9 - MAJOR SUPPLIERS

The Company purchases a significant amount of its inventory from two suppliers, one of which is a related party (Note 10). During 1996, 1997, and 1998, purchases from these suppliers amounted to approximately 59%, 49%, and 43%, respectively, of total inventory purchases including 28%, 32% and 25%, respectively, from the related party. There are a limited number of suppliers for these materials.

NOTE 10 - RELATED PARTY TRANSACTIONS

Lite-On Power Semiconductor Corporation - In July 1997, Vishay Intertechnology, Inc. ("Vishay") and the Lite-On Group, a Taiwanese consortium, formed a joint venture - Vishay/Lite-On Power Semiconductor Pte., Ltd. ("Vishay/LPSC") - to acquire Lite-On Power Semiconductor Corp. ("LPSC"), the Company's 41% shareholder and a member of the Lite-On Group of the Republic of China. The Vishay/LPSC joint venture includes the worldwide discrete power semiconductor business of LPSC and the Asian passive component business of Vishay. Vishay holds a 65% controlling interest in the joint venture, and the Lite-On Group holds the remaining 35%. The Company's subsidiaries buy product from and sell product to Vishay/LPSC. Transactions with Vishay/LPSC and LPSC for the years ended December 31 and outstanding balances as of December 31 are as follows:

	1996	1997	1998
NET SALES	\$ 1,895,000	\$ 2,224,000	\$ 905,000
PURCHASES	\$ 10,403,000	\$ 15,630,000	\$ 12,320,000
ACCOUNTS RECEIVABLE	\$ 376,000	\$ 213,000	\$ 126,000
ACCOUNTS PAYABLE	\$ 2,250,000	\$ 952,000	\$ 902,000

Shanghai KaiHong Electronics, Co. Ltd. - The Company owns 95% of the outstanding capital stock of Shanghai KaiHong Electronics Co., Ltd. (KaiHong) an entity located in Shanghai, China which produces diodes and transistors, primarily for sale to the Company. During 1997, the Company increased its ownership from 70% to 95% in a cash transaction with the minority shareholder of KaiHong. The excess of the purchase price over the book value was approximately \$1,100,000.

KaiHong purchases some of its inventory from two companies owned by the 5% minority interest holder of Shanghai KaiHong Electronics, Co. Ltd. As of December 31, 1998 approximately \$346,000 was payable to the minority interest holder and these two suppliers.

FabTech Incorporated - Under a compensation-trade agreement the Company has advanced \$2.5 million in cash and equipment to a related party vendor, FabTech Incorporated, a wholly owned subsidiary of Vishay/LPSC. Interest accrues monthly at the Company's borrowing rate with total accrued interest of \$524,000 as of December 31, 1998. Amounts advanced, including interest, are payable beginning February 1999 through February 2001 when any outstanding balances become due on demand. The compensation-trade agreement allows the Company to recover interest and principal due by deducting a fixed amount per unit for product purchased from the vendor.

Notes (continued)

NOTE 11 - SEGMENT INFORMATION

Information about the Company's operations in the United States, Taiwan, and China are presented below. Items transferred among the Company and its subsidiaries are transferred at prices to recover costs plus an appropriate mark up for profit. Inter-company revenues, profits and assets have been eliminated to arrive at the consolidated amounts.

The Company adopted Statement of Financial Accounting Standard No. 131 (SFAS No. 131), Disclosures about Segments of an Enterprise and Related Information, in 1998. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief decision-making group consists of the President, Chief Financial Officer, and Vice President of Far East Operations. The operating segments are managed separately because each operating segment represents a strategic business unit whose function and purpose differs from the other segments.

The Company's reportable operating segments include Diodes Incorporated, located in the United States; DII Taiwan Corporation, Ltd., located in Taiwan, and Shanghai KaiHong Electronics Co., Ltd. located in China. Diodes Incorporated markets discrete semiconductor devices to manufacturers in North America. DII Taiwan Corporation, Ltd. manufactures discrete semiconductor devices and markets and sells discrete semiconductor devices throughout Asia and to Diodes Incorporated. Shanghai KaiHong Electronics Co., Ltd. manufactures discrete semiconductor devices primarily for sale to Diodes Incorporated.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on stand-alone operating segment income. Revenues are attributed to geographic areas based on the location of the market producing the revenues.

	SHANGHAI KAIHONG ELECTRONICS (CHINA)	DII TAIWAN CORPORATION LTD. (TAIWAN)	DIODES INCORPORATED (UNITED STATES)	CONSOLIDATED SEGMENTS
1998				
TOTAL SALES	\$ 3,773,000	\$ 27,029,000	\$ 45,600,000	\$ 76,402,000
INTERSEGMENT SALES	(3,493,000)	(10,423,000)	(2,225,000)	(16,141,000)
NET SALES	\$ 280,000	\$ 16,606,000	\$ 43,375,000	\$ 60,261,000
DEPRECIATION AND AMORTIZATION	\$ 799,000	\$ 50,000	\$ 319,000	\$ 1,168,000
INTEREST EXPENSE	\$ 62,000	\$ 11,000	\$ 512,000	\$ 585,000
INCOME TAX PROVISION	\$ -	\$ 912,000	\$ 599,000	\$ 1,511,000
NET INCOME (LOSS)	\$ 273,000	\$ 2,786,000	\$ (386,000)	\$ 2,673,000
SEGMENT ASSETS	\$ 13,880,000	\$ 10,315,000	\$ 21,194,000	\$ 45,389,000
EXPENDITURES FOR PROPERTY	\$ 9,647,000	\$ 11,000	\$ 135,000	\$ 9,793,000
1997				
TOTAL SALES	\$ 5,129,000	\$ 28,804,000	\$ 50,493,000	\$ 84,426,000
INTERSEGMENT SALES	(4,850,000)	(12,715,000)	(1,162,000)	(18,727,000)
NET SALES	\$ 279,000	\$ 16,089,000	\$ 49,331,000	\$ 65,699,000
DEPRECIATION AND AMORTIZATION	\$ 589,000	\$ 64,000	\$ 351,000	\$ 1,004,000
INTEREST EXPENSE	\$ 66,000	\$ 18,000	\$ 321,000	\$ 405,000
INCOME TAX PROVISION	\$ -	\$ 1,252,000	\$ 1,379,000	\$ 2,631,000
NET INCOME	\$ 290,000	\$ 2,659,000	\$ 2,176,000	\$ 5,125,000
SEGMENT ASSETS	\$ 6,925,000	\$ 7,157,000	\$ 24,272,000	\$ 38,354,000
EXPENDITURES FOR PROPERTY	\$ 1,117,000	\$ 18,000	\$ 360,000	\$ 1,495,000
1996				
TOTAL SALES	\$ 1,502,000	\$ 19,961,000	\$ 48,876,000	\$ 70,339,000
INTERSEGMENT SALES	(1,502,000)	(11,863,000)	(955,000)	(14,320,000)
NET SALES	\$ -	\$ 8,098,000	\$ 47,921,000	\$ 56,019,000
DEPRECIATION AND AMORTIZATION	\$ 311,000	\$ 63,000	\$ 282,000	\$ 656,000
INTEREST EXPENSE	\$ 17,000	\$ 18,000	\$ 503,000	\$ 538,000
INCOME TAX PROVISION	\$ -	\$ 655,000	\$ 1,018,000	\$ 1,673,000
NET INCOME (LOSS)	\$ (555,000)	\$ 1,785,000	\$ 1,735,000	\$ 2,965,000
SEGMENT ASSETS	\$ 3,998,000	\$ 4,625,000	\$ 23,923,000	\$ 32,546,000
EXPENDITURES FOR PROPERTY	\$ 1,504,000	\$ 139,000	\$ 205,000	\$ 1,848,000

Notes (continued)

NOTE 12 - COMMITMENTS

The Company leases its main office and warehouse under an operating lease agreement which expires in December 2001. The Company may at its option, extend the lease for a five year term upon termination. Rent expense amounted to approximately \$148,000, \$162,000, and \$269,000, for the years ended December 31, 1996, 1997 and 1998, respectively.

Future minimum lease payments under non-cancelable operating leases for years ending December 31 are:

1999	\$ 323,000
2000	307,000
2001	259,000
	<u>\$ 889,000</u>

NOTE 13 - EMPLOYEE BENEFIT PLAN

The Company maintains a 401(k) profit sharing plan (the Plan) for the benefit of qualified employees. Employees who participate may elect to make salary deferral contributions to the Plan up to 6% of the employees' eligible payroll. The Company makes a contribution of \$1 for every \$2 contributed by the participant. In addition, the Company may make a discretionary contribution to the entire qualified employee pool, in accordance with the Plan. For the years ended December 31, 1996, 1997, and 1998, the Company contributed approximately \$120,000, \$110,000, and \$161,000, respectively, to the Plan.

NOTE 14 - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
Fiscal 1998				
Net Sales	\$ 16,804,000	\$ 14,333,000	\$ 14,646,000	\$ 14,478,000
Gross profit	4,392,000	3,606,000	3,614,000	3,332,000
Net Income	1,186,000	521,000	554,000	412,000
Basic earnings per share	.24	.10	.11	.08
Diluted earnings per share	.22	.10	.11	.08
Fiscal 1997				
Net Sales	\$ 16,490,000	\$ 15,541,000	\$ 16,939,000	\$ 16,729,000
Gross profit	4,701,000	4,687,000	4,422,000	4,533,000
Net Income	1,184,000	1,229,000	1,341,000	1,371,000
Basic earnings per share	.24	.25	.27	.28
Diluted earnings per share	.22	.23	.24	.25

Independent Auditors' Report

BOARD OF DIRECTORS AND STOCKHOLDERS

Diodes Incorporated and Subsidiaries

We have audited the accompanying consolidated balance sheet of Diodes Incorporated and Subsidiaries as of December 31, 1998 and 1997 and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three year period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Diodes Incorporated and Subsidiaries as of December 31, 1998 and 1997, and the consolidated results of their operations and cash flows for each of the years in the three year period ended December 31, 1998, in conformity with generally accepted accounting principles.

30

MOSS ADAMS LLP

Moss Adams LLP

Los Angeles, California
January 15, 1999

Corporate Information

COMPANY PREFERRED AND COMMON STOCK

The number of authorized Preferred Stock is 1,000,000 shares of which no shares were issued and outstanding on March 19, 1999. The number of authorized Common Stock is 9,000,000 shares of which 5,764,352 shares, including 717,115 treasury shares, were issued and outstanding on March 19, 1999. The Company's Common Stock is listed and traded on the American Stock Exchange under the symbol "DIO". The following table shows the range of high and low sales prices per share for the Company's Common Stock for each quarter of the fiscal years ended December 31, 1998 and December 31, 1997.

FYE

December 31, 1998

	High	Low
1st Quarter	\$ 11 ^{1/2}	\$ 8 ^{1/4}
2nd Quarter	10 ^{3/16}	6 ^{5/8}
3rd Quarter	7 ^{1/8}	4
4th Quarter	6 ^{1/2}	4

FYE

December 31, 1997

	High	Low
1st Quarter	\$ 9 ^{1/8}	\$ 6 ^{3/4}
2nd Quarter	10 ^{3/4}	7 ^{3/4}
3rd Quarter	13 ^{15/16}	8 ^{3/4}
4th Quarter	16 ^{3/4}	6 ^{3/4}

On March 19, 1999, there were approximately 1,000 registered holders of record of the Company's Common Stock. The Company has not paid dividends on its Common Stock.

Form 10-K

A copy of the Company's Form 10-K, as filed with the Securities and Exchange Commission is available upon request to:

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1100 Glendon Avenue, Suite 1801
Los Angeles, California 90024
(310) 208-2550 or via eMail to
diodes-fin@diodes.com

DIRECTORS AND OFFICERS

Raymond Soong

Chairman of the Board, Diodes, Inc.
Chairman of the Board, Silitek Corporation

Michael A. Rosenberg¹

President and Chief Executive Officer, Diodes, Inc.
Independent Consultant,
Vishay Intertechnology, Inc.
Director

Eugene R. Conahan¹

Vice President, Sales, Vishay Intertechnology, Inc.
Director

Michael R. Giordano^{1,2,3}

Senior Vice President, Paine Webber, Inc.
Director

David Lin

President, Silitek Corporation
Director

M.K. Lu

Group Vice President, Lite-On Group
Chief Executive Officer, Actron Technology Corp.
Director

Dr. Shing Mao^{1,2,3}

Chairman of the Board, Lite-On, Inc.
Director

Erich E. Schaedlich

Senior Vice President, Worldwide Sales,
Vishay Europe GmbH
Director

Dr. Leonard M. Silverman^{1,2,3}

Dean of Engineering, USC
Director

William J. Spires²

Vice President and Secretary,
Vishay Intertechnology, Inc.
Director

Joseph Liu

Vice President, Far East Operations, Diodes, Inc.
President, Vishay/Lite-On Power Semiconductor Pte., Ltd.

Carl Wertz

Chief Financial Officer, Secretary and Treasurer,
Diodes, Inc.

Subsidiaries

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Independent Accountants

Moss Adams LLP
Los Angeles, California

Transfer Agent and Registrar

Continental Stock Transfer and Trust Company
New York, New York

Legal Council

Sheppard, Mullin, Richter & Hampton
Los Angeles, California

Financial Information Online

World Wide Web users can access Company information on the DIODES INC home page, located at www.diodes.com



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Los Angeles, California, U.S.A.

Diodes-China

Sales & Manufacturing Facility
Shanghai, China

Diodes-Taiwan

Sales & Manufacturing Facility
Taipei, Taiwan

Vishay/LPSC

Sales & Manufacturing Facility
Keelung, Taiwan



1 - Member, Executive Committee
2 - Member, Compensation & Stock Options Committee
3 - Member, Audit Committee

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