DIODES INCORPORATED 2003 ANNUAL REPORT

FOCUS

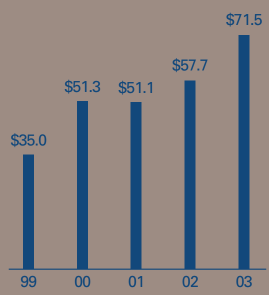
Financial Highlights

(in thousands, except per share data)	1999	2000	2001	2002	2003
Net Sales	$79,251	$118,462	$ 93,210	$115,821	**$136,905**
Gross profit	20,948	37,427	14,179	26,710	**36,528**
Selling, general and administrative expenses	13,670	18,814	13,711	16,228	**19,586**
Research and development expenses		141	592	1,472	**2,049**
Loss on sale and impairment of fixed assets			8	43	**1,037**
Total operating expenses	13,670	18,955	14,311	17,743	**22,672**
Income (loss) from operations	7,278	18,472	(132)	8,967	**13,856**
Interest expense, net	292	940	2,074	1,183	**860**
Other income (expense)	182	501	785	67	**(5)**
Income (loss) before taxes and minority interest	7,168	18,033	(1,421)	7,851	**12,991**
Benefit (provision) for income taxes	(1,380)	(2,496)	1,769	(1,729)	**(2,460)**
Minority interest	(219)	(642)	(224)	(320)	**(436)**
Net Income	5,569	14,895	124	5,802	**10,095**
Earnings per share: [1]					
Basic	$ 0.49	$ 1.23	$ 0.01	$ 0.47	**$ 0.79**
Diluted	0.45	1.08	0.01	0.44	**0.70**
Number of shares: [1]					
Basic	11,438	12,107	12,216	12,277	**12,731**
Diluted	12,306	13,833	13,321	13,297	**14,406**
Total Assets	$62,407	$112,950	$103,258	$105,010	**$123,795**
Working capital	15,903	17,291	19,798	20,831	**27,154**
Long-term debt	6,984	30,857	29,497	18,417	**12,583**
Stockholders' equity	34,973	51,253	51,124	57,679	**71,450**

Net Sales
(in millions)

Earnings per share [1]
(diluted)

Stockholders' Equity
(in millions)



[1] Adjusted for the effect of 3-for-2 stock splits in July 2000 and November 2003.

Diodes Incorporated (Nasdaq: DIOD) is a leading manufacturer and supplier of high-quality discrete semiconductor products, primarily to the communications, computing, industrial, consumer electronics and automotive markets.

- Diodes Incorporated's (ISO 9001:2000 certified) corporate sales, marketing, engineering and logistics headquarters is located in Southern California, with regional sales offices throughout the U.S., and European sales offices in Toulouse, France and Hattenheim, Germany.
- Diodes-FabTech (QS 9000 and ISO 9001 certified) near Kansas City, Missouri, is our 5-inch wafer foundry, specializing in Schottky products.

The Company operates three Far East subsidiaries:

- Diodes-China (QS 9000, ISO 9001:2000 and ISO 14001 certified) in Shanghai is focused on manufacturing subminiature surface-mount devices destined for wireless devices, notebooks, flat panel displays, digital cameras, mobile handsets, set-top boxes, DC to DC conversion, automotive applications, and more.
- Diodes-Taiwan (ISO 9001:2000 certified) in Taipei is our Asia-Pacific sales, logistics and distribution center.
- Diodes-Hong Kong covers sales, warehouse and logistics functions.

For further information, visit the Company's website at www.diodes.com

WE

Focused on quality, we design and manufacture innovative compact discrete semiconductor solutions for industry leaders in multiple end-markets across the globe.

FOCUS on quality.

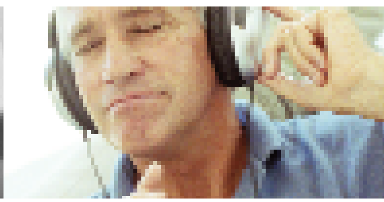
Our applications engineers work closely with our customers to develop application-specific designs and customized arrays that offer performance in sub-miniature packages for advancing technologies. + Our wafer foundry, Diodes-FabTech, gives us the capacity to innovate not only in packaging, but also in device development to offer our customers superior solutions. In 2003, we reengineered our wafer line to increase output and improve quality. + With the most advanced equipment, rigorous testing capabilities, and highly-trained technicians, our state-of-the-art manufacturing facilities at Diodes-China ensure consistency across billions of devices. In 2003, we reached new levels of productivity, with plans to achieve even higher levels in the years ahead. + Focused on quality customer services, we provide on-time delivery of quality products to enable our customers to be first-to-market with their cutting-edge products. + Critical to our success, Diodes, Inc. has the technical expertise and organizational flexibility to customize products and adapt to sudden shifts in customer requirements, making us the vendor of choice for many of the world's leading technology companies.

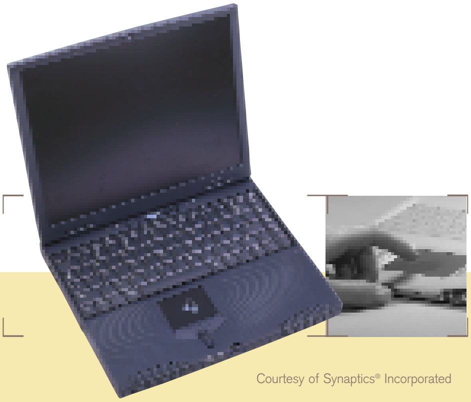
At Diodes, Inc., quality is paramount as we continually innovate devices that add significant value over the legacy products they replace.

With pocket-sized products, you can take business and pleasure virtually anywhere.

MP3 Player | Tiny yet mighty pocket-sized players provide hours of music for enthusiasts on the go. Diodes, Inc. offers power in ultra-miniature component packages  to manufacturers of MP3 players, so you can carry your entire music collection in your pocket.

FOCUS on innovation.





Courtesy of Synaptics® Incorporated

Courtesy of VeriFone, Inc.

Synaptics® SpeakerPad™ (left) and TouchPad™ (right) | Using Diodes' subminiature arrays in SOT-363 and SOT-523 packages,  these small, touch-sensitive pads allow you to easily navigate a wide range of applications, such as notebook computers, desktop keyboards, remote controls and handheld devices. The SpeakerPad combines the TouchPad interface with audio technology, integrating all the components into a single space-saving module.

Synaptics, SpeakerPad and TouchPad are registered trademarks or trademarks of Synaptics.

VeriFone's Omni 3600 | A pocket-sized, wireless, high-performance Point of Sale terminal for conducting business on the go. Using a variety of Diodes' devices as building blocks,  the Omni 3600 provides secure electronic transaction solutions for debit, credit and smart cards in over 100 countries.

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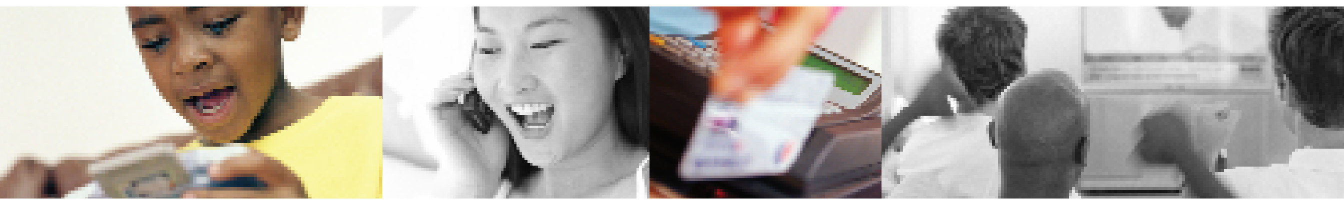

C.H. Chen
President and
Chief Executive Officer

Raymond Soong
Chairman of the Board

Dear Shareholders,

FOCUS on results.

Diodes Incorporated's disciplined focus on its strategic initiatives in 2003 served our shareholders well. Our focus on developing higher-margin differentiated discrete semiconductor products, expanding our sales and marketing efforts in the growing Asian marketplace, and improving our manufacturing efficiency has not only enabled us to profitably weather recent semiconductor downturns, but has positioned us to capture emerging market opportunities and to enhance our profitability and long-term growth.

Focus on Results

The success of our strategic initiatives is apparent in our strong financial results. In the past year:

- Revenues climbed 18% to $136.9 million, a new record. Diodes' revenues grew at more than two times the Semiconductor Industry Association's reported 2003 growth for the total discrete market.
- With the successful launch of new higher-margin differentiated products in 2003, our new product sales rose to a record 12% of revenues for the year.

Focus on customer service has always been a core value at Diodes and a primary factor for our Company's success. Even as we broadened our value proposition to include unique products and greater manufacturing scale, our willingness to go the extra mile to meet our customers' needs remains the foundation of everything we do.

- Product mix changes and higher selling prices boosted gross profit margin by 360 basis point to 26.7%, from 23.1% in 2002.
- Diodes' share of our addressable market reached a record high.
- Net income jumped 74% to $10.1 million, from $5.8 million in 2002. Earnings per share grew to $0.70, from $0.44 in 2002. This was the thirteenth consecutive year of profitability.

In 2003, Diodes generated $17.6 million in cash flow from operations, enabling us to reduce our long-term debt by $5.8 million to $6.8 million, and end the year with $27.2 million in working capital. Shareholders' equity increased 24% or $13.8 million to $71.5 million at December 31, 2003, from $57.7 million at the end of 2002.

These results reflect Diodes' unwavering focus on our core values and operating strategies. In both weak markets and strong markets, we directed our energies toward meeting the needs of our customers, innovating products, increasing our manufacturing efficiency, delivering high-quality products and services, developing our people, and maximizing shareholder value.

Focus on Customers

At every stage of new product development, from design through manufacturing, we focus on our customers' needs and develop solutions that fit those needs — delivering compelling improvements in cost, performance and size over the legacy devices they displace. We deliver world-class service and support to our customer base through our sales and marketing teams in Asia, Europe and the United States.

During 2003, Diodes received recognition from several customers for our commitment to high-quality products and customer service excellence, such as:

- Samsung recognized Diodes-Taiwan with their Outstanding Supplier Award for 2003. Diodes was ranked in the top two in customer satisfaction by the majority of the Samsung divisions we serve, and our sales to Samsung have grown more than six fold in the past two years.
- Honeywell's System Sensor division honored Diodes with The Supplier of the Year award. For 2002, Diodes received the highest rating of System Sensor's suppliers based on four key measurements: quality, on-time delivery, supplier inventory turns and service.
- Chamberlain, a subsidiary of Duchossois Industries, Inc. presented Diodes with the Most Distinguished Supplier of Electronics Commodities for 2003 award.

Focus on customer service has always been a core value at Diodes and a primary factor for our Company's success. Even as we broadened our value proposition to include unique products and greater manufacturing scale, our willingness to go the extra mile to meet our customers' needs remains the foundation of everything we do.

Focus on Innovation

Over the last few years, we have implemented a strategy to become a more valued supplier to our customers and insulate Diodes, Inc. from the extreme swings in the semiconductor market cycle. We shifted our focus away from commodity products and began developing a series of new discrete semiconductor products that provide us greater differentiation and higher margins.

In the past year, we continued launching new and smaller power-efficient discretes that target fast-growing end-equipment categories, such as digital cameras, PDAs, notebook computers, MP3 players, television set-top boxes and flat panel displays. Our new products introduced in 2003 include:

- An ultra-low leakage high voltage Schottky barrier rectifier process for offering a line of Schottky barrier rectifiers, setting a new standard for performance in the industry.
- Six new high-speed Schottky and switching diodes in an ultra-miniature SOD-523 package. These new space-saving devices are ideal for very small consumer electronics such as cell phones, PDAs and digital cameras, where board space is at a premium.
- Two new lines of precision Zener diodes, which leverage Diodes-FabTech's precision, high velocity ion implantation process. Unlike most Zener diode products on the market today, Diodes' Zener products are highly targeted and enable significant performance improvements.
- A new line of Pre-Biased Transistors for low voltage and low power designs that offer substantial benefits to manufacturers of portable consumer electronics, which have an extreme need to conserve power.

As we gain critical mass in our research & development program, Diodes will put more focus on developing new processes and core intellectual property. In 2004, we intend to add to our engineering talent and increase filings for new patents on technologies with the potential to produce whole families of products for Diodes.

Focus on Quality

Committed to delivering the highest quality products and services to our customers, Diodes is focused on achieving quality at every level of our organization. In 2003, we successfully completed the International Organization for Standardization (ISO) compliance audit, meeting the stringent criteria for the new ISO 9001:2000 standards. This is an endorsement of the Company's dedication and commitment not only to understanding and meeting customer needs, but also to enhancing customer satisfaction. Since this certification represents an industry-recognized level of quality, it provides customers with added confidence in their decision to partner with Diodes, Inc.

Importantly in 2003, Diodes expanded the scope of our ISO certification to include Product Design and Development, reflecting our increased focus on R&D as a means to deliver differentiated product lines that offer customers greater choice, more flexibility and measurably higher levels of performance.

Focus on Efficiency

Improving our manufacturing efficiency has been an integral part of our strategy to raise output and margins while achieving disciplined growth in our manufacturing capacity. In 2003, we invested $15.6 million in plant and equipment to meet expanding demand and reshape our capacity towards higher-margin products. In 2003, we successfully reengineered manufacturing processes at our wafer fab, resulting in a 20% increase in capacity. Our goal is to achieve a cost position that is the most competitive in our industry. Our focus on continuous improvement in yield and manufacturing efficiencies enables us to deliver savings to our clients while achieving our financial goals.

We are also focused on working capital efficiency. In 2003, we completed implementation of an Oracle ERP/MES system to improve our logistics and material planning. The benefits are apparent: our inventory turns have climbed to 6.2 in 2003 from 5.0 in 2001. More importantly, the system will provide us the ability to be even more responsive to customer needs, optimize flow of products across our global organization, and significantly reduce the potential for inventory obsolescence.

Focus on Our Team

Diodes' management team recognizes that our success is a group effort and that our greatest asset is our team of dedicated employees. To support our growth, we need to be constantly developing future leaders. We hire skilled employees at all levels and provide an environment that nurtures and develops those skills. As a result, our knowledge base runs deep into our organization and we are able to draw upon this base of high-caliber employees to meet the challenges of tomorrow by promoting from within. Our culture of investing in our employees has enabled Diodes to achieve our strategic goals.

Focus on You, Our Shareholders

Underlying our goals and strategic initiatives is our unwavering focus on you, our shareholders. All of our strategic, operational and financial decisions are made with the objective of maximizing shareholder value, not just in the current quarter or year, but also over the long term. The equity market has rewarded Diodes' shareholders, boosting our stock price by an average of 43% per year over the three-year period, compared with a loss of 6.6% for the Nasdaq and a loss of 5.9% for the S&P 500.

We believe that our achievements this year are only the beginning. As we enter a worldwide resurgence in semiconductor demand, we are well positioned to continue meeting our strategic goals for the next several years, which include:

- Developing new processes and intellectual property that will be the basis for new high-margin product lines.
- Expanding sales of new higher-margin products to more than 20% of total sales.
- Continuing to grow our manufacturing presence and sales organization in the Asian market to gain market share.
- Entering strategic partnerships and making acquisitions that will leverage our proven manufacturing and sales and marketing capabilities.
- Continuing to outperform the discrete semiconductor industry in the growth of both revenues and net income.

We look forward to meeting these goals and continuing to build value for our shareholders, customers, employees and suppliers.

WE

Sincerely,

Raymond Soong
Chairman of the Board

C.H. Chen
President and Chief Executive Officer

FOCUS on you.

At Diodes, Inc, we focus on you, our shareholders and customers, and on your business success. + To increase profitability for our shareholders and reduce costs to customers, we work closely with end-user product manufacturers to develop customized solutions that streamline production and advance their technologies. Our expanded geographic reach enhances our ability to service our customers with product design and logistical support in quicker cycles and lower costs, to meet the challenges of today's marketplace and tomorrow's opportunities. + Our Company's success is the result of the efforts of our dedicated employees, our suppliers, our strong global network of distributors and sales representatives, and our long-standing corporate culture that is built on excellence in everything we do and on the flexibility to be responsive to the marketplace in a quickly changing world. + We also focus on the end-user product consumer. You are the ones who create the strong demand for power in small packages. Your increasing need to be connected and responsive from anywhere at any time in a busy business landscape is driving the marketplace toward ever-smaller, more feature-rich compact electronics.

With today's compact digital cameras, you can capture and exchange picture-perfect moments. Feature-packed portable products built on Diodes' subminiature discretes are enhancing lives everywhere.

Distribution Network

Through innovative marketing strategies and sophisticated logistics, we work with world-class distributors to assist our customers in advancing their technologies.

WE

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Financial Statements

The following discussion of the Company's financial condition and results of operations should be read together with the consolidated financial statements and the notes to consolidated financial statements included elsewhere in this Form 10-K. Except for the historical information contained herein, the matters addressed in this Item 7 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. Forward-looking statements may be identified by the use of the words such as "anticipate," "believe," "continue," "estimate," "expect," "intend," "may," "project," "will" and similar expressions. Such forward-looking statements are subject to a variety of risks and uncertainties, including those discussed above 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 Annual 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. The Company does not undertake to update its forward-looking statements to reflect actual events and outcomes or later events.

OVERVIEW

We sell a wide variety of discrete semiconductor products, as well as silicon wafers used in the manufacture of these products, primarily to manufacturers in the communications, computing, industrial, consumer electronics and automotive markets, and to distributors of electronic components to end-customers in these markets. Our technologies include high density diode and transistor arrays in multi-pin surface-mount packages; Powermite®3, high-performance surface-mount packages; performance Schottkys, switching and rectifier diodes; single and dual pre-biased transistors; performance tight tolerance and low current zener diodes; subminiature surface-mount packages; transient voltage suppressors (TVS and TSPD); small signal transistors and MOSFETs; and standard, fast, ultra-fast, and super-fast rectifiers.

Our products are designed into a broad range of end-products such as notebook computers, flat-panel displays, set-top boxes, game consoles, digital cameras, cellular phones, PDAs, power supplies, security systems, network routers and switches, as well as into automotive safety controls, GPS navigation, satellite radios and audio/video players.

The majority (69% in 2003) of our sales are to major OEMs such as Intel Corporation, Cisco Systems Incorporated, Sony Corporation, Nortel Networks Corporation, Delphi Automotive, Bose Corporation, Scientific Atlanta Incorporated, Samsung Electronics, Asustek Computer, Inc., Quanta and LG Electronics, Inc. Our distribution network (31% of 2003 sales) includes major distributors such as Arrow Electronics, Inc., Avnet, Inc., Digi-Key Corporation, Future Electronics Ltd., Jaco Electronics, Inc., Reptron Electronics, Inc., and All American Semiconductor, Inc.

Because of the electronics industry trend towards moving manufacturing to lower operating cost countries in Asia, the Company has focused primarily on customers in China, Taiwan, Korea and Hong Kong. We sell to Asian customers (56% of 2003 sales) primarily through our wholly-owned subsidiaries, Diodes-Taiwan and Diodes-Hong Kong. The Asian discrete semiconductor market is the largest and fastest growing market in which the Company participates. An increase in the percentage of sales in Asia is expected as we have significantly increased our sales presence there and believes there is greater potential to increase market share in that region due to the expanding base of electronics product manufacturers.

Our corporate headquarters located just outside Los Angeles in Westlake Village, California, which provides sales, marketing, engineering, logistics and warehousing functions, sells primarily to North American manufacturers and distributors (41% of 2003 sales). Due to the manufacturing shift, the North American discrete semiconductor market is now the smallest market and its growth rate is far less than all other markets. The majority of our applications engineers are located in the U.S. in order to work with the customers' design engineers. Whether the end-application is ultimately manufactured in the U.S. or in Asia, our world-wide sales organization is well positioned to provide sales and support to the customer.

In order to take advantage of the relatively robust European market, offices in Toulouse, France and Hattenheim, Germany support our European sales expansion (3% of 2003 sales).

Asian sales are also generated from Shanghai KaiHong Electronics Co., Ltd. ("Diodes-China" or "KaiHong"), a 95% owned manufacturing facility in Shanghai, China, with offices in Shanghai and Shenzhen, China, as well as from FabTech Incorporated ("Diodes-FabTech" or "FabTech"), a silicon wafer manufacturer acquired in December 2000 located near Kansas City, Missouri.

Manufacturing and Significant Vendors

Diodes-China, located in Shanghai, China, is our 95% owned joint venture manufacturing facility. Since the factory's inception in 1995, we have invested approximately $62 million in plant and state-of-the-art equipment. Diodes-China manufactures product for sale by our U.S. and Asian operations, and also sells to external customers as well. In 2003, Diodes-China began selling to customers located in China.

At Diodes-China, silicon wafers are received and inspected in a highly controlled "clean room" environment awaiting the assembly operation. At the first step of assembly, the wafers are sawn with very thin, high speed diamond blades into tiny semiconductor "dice", numbering as many as 200,000 per 5" diameter wafer. Dice are then loaded onto a handler, which automatically places the dice, one by one, onto lead frames, which are package specific, where they are bonded to the lead frame pad. Next, automatic wire bonders make the necessary electrical connections from the die to the leads of the lead frame, using micro-thin gold wire. The fully automatic assembly machinery then molds the epoxy case around the die and lead frame to produce the desired semiconductor product. After a trim, form, test, mark and re-test operation, the parts are placed into special carrier housings and a cover tape seals the parts in place. The taped parts are then spooled onto reels and boxed for shipment.

Acquired from LSC in December 2000, our wafer foundry, Diodes-FabTech, is located in Lee's Summit, Missouri. Diodes-FabTech manufactures primarily 5-inch silicon wafers, which are the building blocks for semiconductors. FabTech purchases polished silicon wafers and then, by using various technologies and patents, in conjunction with many chemicals and gases, fabricates several layers on the wafers, including epitaxial silicon, ion implants, dielectrics and metals, with various patterns. Depending upon these layers and the die size (which is determined during the photolithography process and completed at the customer's packaging site where the wafer is sawn into square or rectangular die), different types of wafers with various currents, voltages and switching speeds are produced.

In 2003, our largest external supplier of products was LSC, a related party. Approximately 17% and 18% of our sales were from product manufactured by LSC in 2003 and 2002, respectively. Also, in 2003 and 2002, approximately 5% and 6%, respectively of our sales were from product manufactured by companies owned by Xing International (a related party). In addition, sales of products manufactured by Diodes-China and Diodes-FabTech, our manufacturing subsidiaries, were approximately 39% and 23% in 2003, respectively, versus 34% and 25% in 2002, respectively. We anticipate that Diodes-China will become an increasingly valuable supplier. No other manufacturer of discrete semiconductors accounted for more than 9% and 8% of our sales in 2003 and 2002, respectively.

All of the raw materials we use in our manufacturing operations are available both domestically and abroad. Although we believe alternative sources exist for the products of any of our suppliers, the loss of any one of its principal suppliers or the loss of several suppliers in a short period of time could have a materially adverse effect on our financial statements until an alternate source is located and has commenced providing such products or raw materials.

Related Parties

We conduct business with two related party companies, LSC (and its subsidiaries) and Xing International (and its subsidiaries). LSC, a 35% shareholder, is our largest shareholder, and Xing International is owned by our 5% joint venture partner in Diodes-China. C.H. Chen, our President and Chief Executive Officer, and a member of the Board of Directors, is also Vice-Chairman of LSC. M.K. Lu, a member of our Board of Directors, is President of LSC, while Raymond Soong, our Chairman of the Board, is the Chairman of the Lite-On Group, a significant shareholder of LSC.

In addition to being our largest external supplier of products, in 2003, we sold silicon wafers to LSC totaling 10.7% (13.7% in 2002) of our total sales, making LSC our largest customer. The Company has a long-standing sales agreement where the Company is the exclusive North American distributor for certain of LSC product lines. In addition, the Company leases warehouse space from LSC for its operations in Hong Kong. Such transactions are on terms no less favorable to the Company than could be obtained from unaffiliated third parties. The Audit Committee of the Board of Directors has approved the contracts related to the transactions.

In December 2000, the Company acquired the wafer foundry, FabTech, Inc., from LSC. As part of the purchase price, at December 31, 2003, LSC holds a subordinated, interest-bearing note for approximately $6.3 million. In May 2002, the Company renegotiated the terms of the note to extend the payment period from two years to four years, and therefore, payments of approximately $208,000 plus interest began in July 2002. In connection with the terms of the acquisition, LSC entered into a volume purchase agreement to purchase wafers from FabTech. In addition, as per the terms of the stock purchase agreement, the Company has entered into several management incentive agreements with members of FabTech's management. The agreements provide members of FabTech's management guaranteed annual payments as well as contingent bonuses based on the annual profitability of FabTech, subject to a maximum annual amount. Any portion of the guaranteed and contingent liability paid by FabTech is reimbursed by LSC.

In addition to the 5% of our sales of product manufactured by companies owned by Xing International, in 2003, the Company sold silicon wafers to companies owned by Xing International totaling 1.1% (1.5% in 2002) of the Company's total sales. In addition, Diodes-China leases its manufacturing facilities from, subcontracts a portion of its manufacturing process (metal plating and environmental services) to, and pays a consulting fee to Xing International. Such transactions are on terms no less favorable to the Company than could be obtained from unaffiliated third parties. The Audit Committee of the Board of Directors has approved the contracts related to the transactions.

Income taxes

In accordance with the current taxation policies of the People's Republic of China ("PRC"), Diodes-China received preferential tax treatment for the years ended December 31, 1996 through 2003. Earnings were subject to 0% tax rates from 1996 through 2000, and 12% in 2001, 2002 and 2003. Earnings in 2004 will be taxed at 12% (one-half the normal central government tax rate). Earnings of Diodes-China are also subject to tax of 3% by the local taxing authority in Shanghai. The local taxing authority waived this tax in 2002 and 2003, and is expected to waive this tax in 2004. Earnings of Diodes-Taiwan are currently subject to a tax rate of 35%, which is comparable to the U.S. Federal tax rate for C corporations.

In accordance with U.S. tax law, the Company receives credit against its U.S. federal tax liability for corporate taxes paid in Taiwan and China. The repatriation of funds from Taiwan and China to the Company may be subject to state income taxes. In the years ending December 31, 2000 and 2001, Diodes-Taiwan distributed dividends of approximately $1.5 million and $2.6 million respectively, which is included in federal and state taxable income.

As of December 31, 2003, accumulated and undistributed earnings of Diodes-China are approximately $36.6 million, including $10.0 million of restricted earnings (which are not available for dividends). Through March 31, 2002, the Company had not recorded deferred U.S. federal or state tax liabilities (estimated to be $8.9 million as of March 31, 2002) on these cumulative earnings since the Company, at that time, considered this investment to be permanent, and had no plans or obligation to distribute all or part of that amount from China to the United States. Beginning in April 2002, the Company began to record deferred taxes on a portion of the earnings of Diodes-China in preparation of a dividend distribution. As of December 31, 2003, the Company has recorded $1.7 million in deferred taxes and has made no distributions. The Company intends to dividend $6.0 million from Diodes-China to the U.S. in 2004. It is anticipated that this transaction will not have a material effect on net income as the U.S. income taxes have already been accrued.

Beginning in November 2003, the Company began to record deferred taxes on a portion of the 2003 earnings of Diodes-Hong Kong in preparation of a possible dividend distribution. As of December 31, 2003, the Company has recorded $200,000 in deferred taxes and has made no distributions.

The Company is evaluating the need to provide additional deferred taxes for the future earnings of Diodes-China and Diodes-Hong Kong to the extent such earnings may be appropriated for distribution to the Company's corporate office in North America, and as further investment strategies with respect to Diodes-China are determined. Should the Company's North American cash requirements exceed the cash that is provided through the domestic credit facilities, cash can be obtained from the Company's foreign subsidiaries. However, the distribution of any unappropriated funds to the U.S. will require the recording of income tax provisions on the U.S. entity, thus reducing net income.

Available Information

Our website address is http://www.diodes.com. We make available, free of charge through our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission ("the SEC").

To support our global customer-base, particularly in Asia and Europe, our website is language-selectable into English, Chinese, Japanese, Korean and German, giving us an effective marketing tool for world-wide markets. With its extensive online Product (Parametric) Catalog with advanced search capabilities, our website facilitates quick and easy product selection. Our website provides easy access to world-wide sales contacts and customer support, and incorporates a distributor-inventory check to provide component inventory availability and a small order desk for overnight sample fulfillment. Our website also provides access to current and complete investor financial information and corporate governance information including our Code of Business Conduct, as well as SEC filings and press releases, as well as stock quotes.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

On an on-going basis, we evaluate our estimates, including those related to revenue recognition, allowance for doubtful accounts, inventory reserves and income taxes, among others. Our estimates are based upon historical experiences, market trends and financial forecasts and projections, and upon various other assumptions that management believes to be reasonable under the circumstances and at that certain point in time. Actual results may differ, significantly at times, from these estimates under different assumptions or conditions.

We believe the following critical accounting policies and estimates affect the significant estimates and judgments we use in the preparation of our consolidated financial statements:

Revenue Recognition

Revenue is recognized when the product is actually shipped to both manufacturing end-users and electronics component distributors. We reduce revenue in the period of sale for estimates of product returns, distributor price adjustments and other allowances, the majority of which are related to our North American operations. Our estimates are based upon historical data as well as projections of revenues, distributor inventories, average selling prices and market conditions. Actual returns and adjustments could be significantly different from our estimates and provisions, resulting in quarterly adjustments to revenues.

Inventory Reserves

Inventories are stated at the lower of cost or market value. Cost is determined principally by the first-in, first-out method. On an on-going basis, we evaluate our inventory, both finished goods and raw material, for obsolescence and slow-moving items. This evaluation includes analysis of sales levels, sales projections, and purchases by items, as well as raw material usage related to our manufacturing facilities. Based upon this analysis, as well as an inventory aging analysis, we accrue a reserve for obsolete and slow-moving inventory. If future demand or market conditions are different than our current estimates, an inventory adjustment may be required, and would be reflected in cost of goods sold in the period the revision is made.

Accounting for Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the tax jurisdictions in which we operate. This process involves using an asset and liability approach whereby deferred tax assets and liabilities are recorded for differences in the financial reporting bases and tax bases of the Company's assets and liabilities. Significant management judgment is required in determining our provision for income taxes, deferred tax assets and liabilities. Management continually evaluates its deferred tax asset as to whether it is likely that the deferred tax assets will be realized. If management ever determined that its deferred tax asset was not likely to be realized, a write-down of the asset would be required and would be reflected as an expense in the accompanying period.

Allowance for Doubtful Accounts

Management evaluates the collectability of our accounts receivable based upon a combination of factors, including the current business environment and historical experience. If we are aware of a customer's inability to meet its financial obligations to us, we record an allowance to reduce the receivable to the amount we reasonably believe we will be able to collect from the customer. For all other customers, we record an allowance based upon the amount of time the receivables are past due. If actual accounts receivable collections differ from these estimates, an adjustment to the allowance may be necessary with a resulting effect to bad debt expense.

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					Percentage Dollar Increase (Decrease)			
	YEAR ENDED DECEMBER 31,					YEAR ENDED DECEMBER 31,			
	1999	2000	2001	2002	2003	'99 to '00	'00 to '01	'01 to '02	'02 to '03
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%	48.4%	(19.7)%	24.3%	18.2%
Cost of goods sold	(73.2)	(67.8)	(84.8)	(76.9)	(73.3)	37.3	0.5	12.8	12.6
Gross profit	26.8	32.2	15.2	23.1	26.7	78.7	(62.1)	88.4	36.8
Operating expenses (1)	(17.5)	(16.3)	(15.4)	(15.4)	(16.6)	38.7	(24.5)	24.0	27.8
Income (loss) from operations	9.3	15.9	(0.2)	7.7	10.1	153.8	(100.7)	6,893.2	54.5
Interest expense, net	(0.4)	(0.8)	(2.2)	(1.0)	(0.6)	221.9	120.6	(43.0)	(27.3)
Other income	0.3	0.4	0.8	(0.1)	0.0	175.3	56.7	(91.5)	(107.5)
Income (loss) before taxes and minority interest	9.2	15.5	(1.6)	6.8	9.5	151.6	(107.9)	652.5	65.5
Income tax benefit (provision)	(1.8)	(2.2)	1.9	(1.5)	(1.8)	80.9	(29.1)	(2.3)	42.3
Minority interest	(0.3)	(0.6)	(0.2)	(0.3)	(0.3)	193.2	(65.1)	42.9	36.3
Net income	7.1	12.7	0.1	5.0	7.4	167.5	(99.2)	4,578.9	74.0

(1) Operating expenses include loss on sale and impairment of fixed assets of $8,000, $43,000 and $1,037,000 in 2001, 2002 and 2003, respectively.

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. Earnings per share discussion reflects three-for-two stock split in November 2003. All per share amounts have been adjusted to reflect the stock split.

Year 2003 Compared to Year 2002

Net sales for 2003 increased $21.1 million to $136.9 million from $115.8 million for 2002. The 18.2% increase was due primarily to a 19.5% increase in units sold as a result of increased demand for the Company's products, as well as a more favorable pricing environment compared to 2002. In 2003, average selling prices ("ASPs") for discrete products increased 4% while ASPs for wafers fell 7%; consequently, overall ASPs decreased 1%.

Gross profit for 2003 increased 36.8% to $36.5 million from $26.7 million for 2002. Of the $9.8 million increase, $5.0 million was due to the increase in gross profit margin from 23.1% in 2002 to 26.7% in 2003, while $4.8 million was due to the 18.2% increase in net sales. Gross profit increases in Asia were the primary contributor to the gross profit increase in 2003. Gross profit margin in the fourth quarter of 2003 increased to 29.5% due to increased capacity utilization, continuing manufacturing efficiencies, relatively stable pricing, and a product mix that continues to shift towards higher-value performance discretes and arrays.

For 2003, selling, general and administrative expenses ("SG&A") increased $3.4 million to $19.6 million from $16.2 million for 2002. The 20.7% increase in SG&A was due primarily to higher sales commissions associated with the 18.2% increase in sales, and higher labor benefits expenses. Also contributing to the increased SG&A were higher corporate and administrative expenses, including legal and accounting fees associated with Sarbanes-Oxley compliance. SG&A, as a percentage of sales, increased to 14.3% for 2002 from 14.0% last year.

Research and development expenses ("R&D") increased to $2.0 million, or 1.5% of sales, in 2003 from $1.5 million, or 1.3% of sales, in 2002. R&D expenses are primarily related to new product development at the silicon wafer level, and, to a lesser extent, at the packaging level. We continue to seek to hire qualified engineers who fit our focus on next-generation discrete processes and packaging technologies. Our goal is to expand R&D to 3% of revenue as we bring proprietary technology and advanced devices to the market.

In 2003, operating profit margins were negatively affected by a $1.0 million reserve for fixed asset impairment, primarily as a result of the re-engineering of our wafer production lines. During the year, we took advantage of opportunities to purchase more efficient equipment at discounts. As a result, we retired un-depreciated equipment that was replaced. Management does not expect to see material equipment write-downs in the coming quarters.

Net interest expense for 2003 decreased $323,000 to $860,000 from $1.2 million in 2002, due primarily to a decrease in the use of the Company's credit facilities, as well as lower interest rates. In 2003, the Company paid down $5.8 million on its long-term debt, reducing the balance, net of current portion from $12.6 million to $6.8 million.

Other expense for 2003 increased $72,000 compared to last year, primarily due to the discontinuance of income Diodes-FabTech was receiving from an external company's use of its testing facilities in 2002, a decrease in high-technology grant income received at Diodes-China in 2003, and currency exchange losses primarily in Asia in 2003, partly offset by a severance payment as per a separation agreement in 2002, as well as the reduction in the expense recorded for the management incentive agreement at Diodes-FabTech in 2003.

The effective tax rate in 2003 was 18.9% compared to 22.0% in 2002, due primarily to a higher proportion of income earned by our Asian subsidiaries in lower tax jurisdictions. The Company is benefiting from its Diodes-Hong Kong subsidiary, established last year, not only due to its lower tax rates, but also as another entry point into the Asia market. The Company recorded a provision for income taxes in the amount of $2.5 million for the year 2003, compared to $1.7 million for 2002. Included in the tax provision in 2003 is $840,000 in deferred taxes recorded for a portion of the 2003 earnings at Diodes-China, and $200,000 for a portion of the 2003 earnings at Diodes-Hong Kong.

The minority interest in joint venture represents the minority investor's share of the Diodes-China joint venture's income for the period. The increase in the joint venture earnings for 2003 is primarily the result of increased sales. The joint venture investment is eliminated in consolidation of the Company's financial statements, and the activities of Diodes-China are included therein. As of December 31, 2003, the Company had a 95% controlling interest in the joint venture.

The Company generated net income of $10.1 million (or $0.79 basic earnings per share and $0.70 diluted earnings per share) in 2003, as compared to $5.8 million (or $0.47 basic earnings per share and $0.44 diluted earnings per share) for 2002. This 74% increase is due primarily to the 18.2% sales increase at gross profit margins of 26.7% compared to gross profit margins of 23.1% in 2002.

Year 2002 Compared to Year 2001

Net sales for 2002 increased $22.6 million to $115.8 million from $93.2 million for 2001. The 24.3% increase was due primarily to a 24.6% increase in units sold as a result of increased demand for the Company's products, as well as an easing of pricing pressures. Average selling prices in 2002 decreased approximately 8% for discrete products and 1% for wafer products.

Gross profit for 2002 increased 88.4% to $26.7 million from $14.2 million for 2001. Of the $12.5 million increase, $9.1 million was due to the increase in gross profit margin from 15.2% in 2001 to 23.1% in 2002, while $3.4 million was due to the 24.3% increase in net sales. Gross profit increases for wafer products was the primary contributor to the gross profit increase in 2002. Gross profit in 2001 was adversely affected by higher fixed costs associated with the Company's wafer fabrication facility, reduced capacity utilization at both the wafer facility and the China manufacturing facility, as well as by demand induced product mix changes and inventory pricing adjustments at distributors related to lower market prices.

For 2002, SG&A increased $2.4 million to $16.2 million from $13.7 million for 2001. The 18.4% increase in SG&A was due primarily to higher sales commissions associated with the 24.3% increase in sales, and higher wages and benefits expenses. SG&A also increased due to higher corporate and administrative expenses, including insurance expense partly offset by reduced goodwill amortization expense per the new accounting pronouncements. SG&A, as a percentage of sales, decreased to 14.0% for 2002 from 14.7% in 2001.

R&D increased to $1.5 million, or 1.3% of sales, in 2002 from $592,000, or 0.6% of sales, in 2001. R&D expenses are primarily related to new product development at the silicon wafer level.

Net interest expense for 2002 decreased $891,000 to $1.2 million from $2.1 million in 2001, due primarily to a decrease in the use of the Company's credit facilities. In 2002, the Company paid down its credit facilities by $14.6 million, from $36.0 million to $21.4 million.

Other income for 2002 decreased approximately $718,000 compared to 2001, due primarily to (i) discontinuance of income Diodes-FabTech was receiving from an external company's use of its testing facilities, (ii) currency exchange losses primarily in Asia, and (iii) a severance payment in 2002 as per a separation agreement.

The Company recorded a provision for income taxes in the amount of $1.7 million for the year 2002, compared to an income tax benefit of $1.8 million for 2001, due primarily to increased income in the U.S. at higher tax rates. Included in the tax provision in 2002 is $810,000 in deferred taxes recorded for a portion of the 2002 earnings at Diodes-China.

The minority interest in joint venture represents the minority investor's share of the Diodes-China joint venture's income for the period. The increase in the joint venture earnings for 2002 is primarily the result of increased gross profit margins due to increased capacity utilization. As of December 31, 2002, the Company had a 95% controlling interest in the joint venture.

The Company generated net income of $5.8 million (or $0.47 basic earnings per share and $0.44 diluted earnings per share) in 2002, as compared to $124,000 (or $0.01 basic earnings per share and $0.01 diluted earnings per share) for 2001. This $5.7 million increase is due primarily to the 24.3% sales increase at gross profit margins of 23.1% compared to gross profit margins of 15.2% in 2001.

FINANCIAL CONDITION

Liquidity and Capital Resources

The Company's liquidity requirements arise from the funding of its working capital needs, primarily inventory, work-in-process and accounts receivable, as well as capital expenditures. The Company's primary sources for working capital and capital expenditures are cash flow from operations, borrowings under the Company's bank credit facilities and borrowings from principal stockholders. Any withdrawal of support from its banks or principal stockholders could have adverse consequences on the Company's liquidity. The Company's liquidity depends, in part, on customers paying within credit terms, and any extended delays in payments or changes in credit terms given to major customers may have an impact on the Company's cash flow. In addition, any abnormal product returns or pricing adjustments may also affect the Company's source of short-term funding.

Cash provided by operating activities in 2003 was $18.8 million compared to $20.0 million in 2002 and $14.7 million in 2001. The primary sources of cash flows from operating activities in 2003 were depreciation and amortization of $11.1 million and net income of $10.1 million. The primary sources in 2002 were depreciation and amortization of $9.7 million and net income of $5.8 million. The primary sources of cash flows from operating activities in 2001 were a decrease in inventories of $14.0 million and depreciation and amortization of $8.7 million. The primary use of cash flows from operating activities in 2003 was an increase in accounts receivable of $8.5 million. The primary use of cash flows from operating activities in 2002 was an increase in accounts receivable of $4.8 million. The primary use of cash flows from operating activities in 2001 was a decrease in accrued liabilities of $3.5 million and an increase in deferred income taxes of $3.0 million.

For the year ended December 31, 2003, accounts receivable increased 37.4% compared to the 18.2% increase in sales as days sales outstanding increased from 62 to 70 days due primarily to a trend in longer payment terms, primarily from Far East customers as well as major distributors. The Company continues to closely monitor its credit terms, while at times providing extended terms, required primarily by Far East customers. The ratio of the Company's current assets to current liabilities on December 31, 2003 was 1.67 to 1, compared to a ratio of 1.69 to 1 and 1.68 to 1 as of December 31, 2002 and 2001, respectively.

Cash used by investing activities was $15.3 million in 2003, compared to $6.8 million in 2002 and $8.2 million in 2001. The primary investments were for additional manufacturing equipment and expansion at the Diodes-China manufacturing facility, as well as for the FabTech acquisition payments in 2001.

On December 1, 2000, the Company purchased all the outstanding capital stock of FabTech Incorporated, a 5-inch wafer foundry located in Lee's Summit, Missouri from Lite-On Semiconductor Corporation ("LSC"), the Company's largest stockholder. The acquisition purchase price consisted of approximately $5 million in cash plus FabTech was obligated to repay an aggregate of approximately $19 million of debt, consisting of (i) approximately $13.6 million note payable to LSC, (ii) approximately $2.6 million note payable to the Company, and (iii) approximately $3.0 million note payable to a financial institution (which was repaid on December 4, 2000 with the proceeds of a capital contribution by the Company). The acquisition was financed internally and through bank credit facilities.

In June 2001, according to the Company's U.S. bank covenants, Diodes-FabTech was not permitted to make regularly scheduled principal and interest payments to LSC on the remaining $10.0 million payable related to the FabTech acquisition note, but was, however, able to renegotiate with LSC the terms of the note. Under the terms of the amended and restated subordinated promissory note, payments of approximately $417,000 plus interest were scheduled to begin again in July 2002, provided the Company met the terms of its U.S. bank's covenants. In May 2002, the Company renegotiated the terms of the note with LSC to extend the payment period from two years to four years, and accordingly, payments of approximately $208,000 plus interest began in July 2002.

Cash provided by financing activities was $1.9 million in 2003, compared to cash used by financing activities of $14.0 million and $2.5 million in 2002 and 2001, respectively. The primary source of cash in 2003 was the receipt of $2.0 million from stock option exercises. At December 31, 2003, the Company's total bank credit facility of $50.5 million encompasses one major U.S. bank, three banks in Mainland China and five in Taiwan. As of December 31, 2003, the total credit lines were $17.8 million, $25.0 million, and $7.6 million, for the U.S. facility secured by substantially all assets, the unsecured Chinese facilities, and the unsecured Taiwanese facilities, respectively. As of December 31, 2003, the available credit was

$3.7 million, $22.0 million, and $4.9 million, for the U.S. facility, the Chinese facilities, and the Taiwanese facilities, respectively.

In February 2003, the Company and its U.S. bank renewed its $7.5 million revolving credit line, extending it for two years, and obtained an additional $2.0 million credit facility to be used for capital expenditure requirements at its wafer fabrication facility.

The credit agreements have certain covenants and restrictions, which, among other matters, require the maintenance of certain financial ratios and operating results, as defined in the agreements, and prohibit the payment of dividends. The Company was in compliance with its covenants as of December 31, 2003.

The Company has used its credit facilities primarily to fund the capacity expansion at Diodes-China and to a lesser extent Diodes-FabTech, as well as for the FabTech acquisition, and to support all operations. The Company believes that the continued availability of these credit facilities, together with internally generated funds, will be sufficient to meet the Company's current foreseeable operating cash requirements.

In July 2001, the Company entered into an interest rate swap agreement with a major U.S. bank which expires November 30, 2004, to hedge its exposure to variability in expected future cash flows resulting from interest rate risk related to 25% of its long-term debt. The interest rate under the swap agreement is fixed at 6.8% and is based on the notional amount. The swap contract is inversely correlated to the related hedged long-term debt and is therefore considered an effective cash flow hedge of the underlying long-term debt. The level of effectiveness of the hedge is measured by the changes in the market value of the hedged long-term debt resulting from fluctuation in interest rates. During 2002 and 2003, variable interest rates decreased resulting in an interest rate swap liability of $37,000 as of December 31, 2003. As a matter of policy, the Company does not enter into derivative transactions for trading or speculative purposes.

Total working capital increased 30.4% to $27.2 million as of December 31, 2003, from $20.8 million as of December 31, 2002. The Company believes that such working capital position will be sufficient for foreseeable operations and growth opportunities. The Company's total debt to equity ratio improved to 0.73 at December 31, 2003, from 0.82 at December 31, 2002. It is anticipated that this ratio may increase should the Company use its credit facilities to fund additional inventory sourcing opportunities.

The Company has no material plans or commitments for capital expenditures other than in connection with manufacturing expansion at Diodes-China, Diodes-FabTech equipment requirements, and the Company's implementation of an ERP computer system. However, to ensure that the Company can secure reliable and cost effective inventory sourcing to support and better position itself for growth, the Company is continuously evaluating additional internal manufacturing expansion, as well as additional outside 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. Based upon plans for new product introductions, product mixes, capacity restraints on certain product lines and equipment upgrades, the Company anticipates that year 2004 capital expenditures for the manufacturing facilities will be $14-17 million.

Off-Balance Sheet Arrangements

The Company does not have any transactions, arrangements and other relationships with unconsolidated entities that will affect our liquidity or capital resources. We have no special purpose entities that provided off-balance sheet financing, liquidity or market or credit risk support, nor do we engage in leasing, hedging (except for the interest rate swap agreement), or research and development services, that could expose us to liability that is not reflected on the face of the financial statements.

Contractual Obligations

The following table represents the Company's contractual obligations as of December 31, 2003:

Payments due by period (in thousands)

CONTRACTUAL OBLIGATIONS	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Long-term debt	$ 12,583	$ 5,833	$ 6,750	$ 0	$ 0
Capital leases	3,006	230	460	460	1,856
Operating leases	10,418	2,129	4,243	3,271	775
Total obligations	$ 26,007	$ 8,192	$ 11,453	$ 3,731	$ 2,631

Inflation did not have a material effect on net sales or net income in fiscal years 2001 through 2003. A significant increase in inflation could affect future performance.

Diodes Incorporated and Subsidiaries

Consolidated Balance Sheets

DECEMBER 31,	2002	2003
ASSETS		
Current Assets		
Cash	$ 7,284,000	$ 12,847,000
Accounts receivable		
Customers	19,387,000	27,010,000
Related parties	3,138,000	3,938,000
	22,525,000	30,948,000
Allowance for doubtful accounts	(353,000)	(375,000)
	22,172,000	30,573,000
Inventories	14,916,000	16,164,000
Deferred income taxes, current	4,338,000	5,547,000
Prepaid expenses and other	1,967,000	2,256,000
Prepaid income taxes	261,000	446,000
Total current assets	50,938,000	67,833,000
Property, Plant and Equipment, net	44,693,000	47,893,000
Deferred Income Taxes, non-current	3,205,000	1,816,000
Other Assets		
Goodwill	5,090,000	5,090,000
Other	1,084,000	1,163,000
Total assets	$ 105,010,000	$ 123,795,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Line of credit	$ 3,025,000	$ 8,488,000
Accounts payable		
Trade	9,039,000	14,029,000
Related parties	3,361,000	3,453,000
Accrued liabilities	8,693,000	8,715,000
Current portion of long-term debt		
Related party	2,500,000	2,500,000
Others	3,333,000	3,333,000
Current portion of capital lease obligations	157,000	161,000
Total current liabilities	30,108,000	40,679,000
Long-Term Debt, net of current portion		
Related party	6,250,000	3,750,000
Others	6,333,000	3,000,000
Capital Lease Obligations, net of current portion	2,495,000	2,334,000
Minority Interest in Joint Venture	2,145,000	2,582,000
Stockholders' Equity		
Class A convertible preferred stock - par value $1.00 per share; 1,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock - par value $0.66 2/3 per share; 30,000,000 shares authorized; 13,939,146 and 14,627,284 shares issued at 2002 and 2003, respectively	6,195,000	6,502,000
Additional paid-in capital	8,060,000	11,192,000
Retained earnings	45,684,000	55,779,000
	59,939,000	73,473,000
Less:		
Treasury stock - 1,613,508 shares of common stock, at cost	1,782,000	1,782,000
Accumulated other comprehensive loss	478,000	241,000
	2,260,000	2,023,000
Total stockholders' equity	57,679,000	71,450,000
Total liabilities and stockholders' equity	$105,010,000	$ 123,795,000

The accompanying notes are an integral part of these financial statements

Consolidated Statements of Income

YEARS ENDED DECEMBER 31,	2001	2002	2003
Net Sales	$ 93,210,000	$ 115,821,000	$ 136,905,000
Cost of Goods Sold	79,031,000	89,111,000	100,377,000
Gross profit	14,179,000	26,710,000	36,528,000
Operating Expenses			
Selling, general and administrative	13,711,000	16,228,000	19,586,000
Research and development	592,000	1,472,000	2,049,000
Impairment of fixed assets	—	—	1,000,000
Loss on disposal of fixed assets	8,000	43,000	37,000
Total operating expenses	14,311,000	17,743,000	22,672,000
Income (loss) from operations	(132,000)	8,967,000	13,856,000
Other Income (Expenses)			
Interest expense, net	(2,074,000)	(1,183,000)	(860,000)
Other	785,000	67,000	(5,000)
Income (loss) before income taxes and minority interest	(1,421,000)	7,851,000	12,991,000
Income Tax Benefit (Provision)	1,769,000	(1,729,000)	(2,460,000)
Income before minority interest	348,000	6,122,000	10,531,000
Minority Interest In Earnings Of Joint Venture	(224,000)	(320,000)	(436,000)
Net Income	$ 124,000	$ 5,802,000	$ 10,095,000
Earnings Per Share			
Basic	$ 0.01	$ 0.47	$ 0.79
Diluted	$ 0.01	$ 0.44	$ 0.70
Number of shares used in computation			
Basic	12,216,135	12,276,899	12,730,808
Diluted	13,320,905	13,297,490	14,406,054

The accompanying notes are an integral part of these financial statements

Consolidated Statements of Stockholders' Equity

YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003	COMMON STOCK SHARES	COMMON STOCK SHARES IN TREASURY	COMMON STOCK AMOUNT	COMMON STOCK IN TREASURY	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMMULATED OTHER COMPREHEN-SIVE LOSS	TOTAL
BALANCE, December 31, 2000	13,802,495	1,613,508	$6,134,000	$(1,782,000)	$7,143,000	$39,758,000	$ —	$51,253,000
Comprehensive income, net of tax: Net income for the year ended December 31, 2001						124,000		124,000
Translation adjustments							(349,000)	(349,000)
Change in unrealized loss on derivative instruments, net of tax of $59,000							(88,000)	(88,000)
Total comprehensive income								(313,000)
Exercise of stock options including $62,000 income tax benefit	39,001	—	17,000	—	167,000	—	—	184,000
BALANCE, December 31, 2001	13,841,496	1,613,508	$6,151,000	$(1,782,000)	$7,310,000	$39,882,000	$(437,000)	$51,124,000
Comprehensive income, net of tax: Net income for the year ended December 31, 2002						5,802,000		5,802,000
Translation adjustments							(40,000)	(40,000)
Change in unrealized loss on derivative instruments, net of tax of $400							(1,000)	(1,000)
Total comprehensive income								5,761,000
Management fee from LSC					375,000			375,000
Exercise of stock options including $98,000 income tax benefit	97,650	—	44,000	—	375,000	—	—	419,000
BALANCE December 31, 2002	13,939,146	1,613,508	$6,195,000	$(1,782,000)	$8,060,000	$45,684,000	$(478,000)	$57,679,000
Comprehensive income, net of tax: Net income for the year ended December 31, 2003						10,095,000		10,095,000
Translation adjustments							169,000	169,000
Change in unrealized loss on derivative instruments, net of tax of $27,000							68,000	68,000
Total comprehensive income								10,332,000
Management fee from LSC					286,000			286,000
Exercise of stock options including $1,139,000 income tax benefit	688,138	—	307,000	—	2,846,000	—	—	3,153,000
BALANCE December 31, 2003	14,627,284	1,613,508	$ 6,502,000	$(1,782,000)	$11,192,000	$ 55,779,000	$ (241,000)	$ 71,450,000

The accompanying notes are an integral part of these financial statements

Consolidated Statements of Cash Flows

YEARS ENDED DECEMBER 31,	2001	2002	2003
Cash Flows From Operating Activities			
Net income	$ 124,000	$ 5,802,000	$ 10,095,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,670,000	9,747,000	11,073,000
Minority interest earnings	224,000	320,000	436,000
Loss on impairment and disposal of property, plant and equipment	8,000	43,000	1,037,000
Changes in operating assets and liabilities			
Accounts receivable	2,660,000	(4,779,000)	(8,490,000)
Inventories	13,975,000	2,139,000	(1,248,000)
Prepaid expenses and other	(399,000)	(711,000)	(388,000)
Deferred income taxes	(2,978,000)	646,000	270,000
Accounts payable	(2,471,000)	3,153,000	5,082,000
Accrued liabilities	(3,486,000)	3,481,000	(15,000)
Income taxes payable (refundable)	(1,620,000)	149,000	954,000
Net cash provided by operating activities	14,707,000	19,990,000	18,806,000
Cash Flows From Investing Activities			
Purchases of property, plant and equipment	(8,246,000)	(6,777,000)	(15,646,000)
Proceeds from sales of property, plant and equipment	—	3,000	357,000
Net cash used by investing activities	(8,246,000)	(6,774,000)	(15,289,000)
Cash Flows From Financing Activities			
Advances (repayments) on line of credit, net	(1,247,000)	(3,478,000)	5,463,000
Net proceeds from the issuance of common stock	122,000	321,000	2,014,000
Management incentive reimbursement from LSC	—	375,000	375,000
Proceeds from long-term debt	7,000,000	—	—
Repayments of long-term debt	(8,360,000)	(11,080,000)	(5,833,000)
Repayments of capital lease obligations	—	(133,000)	(157,000)
Net cash provided (used) by financing activities	(2,485,000)	(13,995,000)	1,862,000
Effect Of Exchange Rate Changes On Cash And Cash Equivalents	(349,000)	(40,000)	184,000
Increase (Decrease) In Cash	3,627,000	(819,000)	5,563,000
Cash, beginning of year	4,476,000	8,103,000	7,284,000
Cash, end of year	$ 8,103,000	$ 7,284,000	$ 12,847,000
Supplemental Disclosure Of Cash Flow Information			
Cash paid during the year for:			
Interest	$ 2,123,000	$ 1,229,000	$ 876,000
Income taxes	$ 2,992,000	$ 965,000	$ 999,000
Non-cash activities:			
Tax benefit related to stock options credited to paid-in capital	$ 62,000	$ 98,000	$ 1,139,000
Building acquired through capital lease obligation	$ —	$ 2,785,000	$ —

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 communications, computing, industrial, consumer electronics and automotive markets. The Company's products include small signal transistors and MOSFETs, transient voltage suppressors (TVSs), zeners, Schottkys, diodes, rectifiers, bridges and silicon wafers. The products are sold primarily throughout North America and Asia.

Principles of consolidation The consolidated financial statements include the accounts of the parent company, Diodes Incorporated (Diodes-North America), its wholly-owned subsidiaries: Diodes Taiwan Corporation, Ltd. (Diodes-Taiwan), Diodes Hong Kong, Ltd. (Diodes-Hong Kong) and FabTech, Inc. (FabTech or Diodes-FabTech); and its majority (95%) owned subsidiary, Shanghai KaiHong Electronics Co., Ltd. (Diodes-China). All significant intercompany balances and transactions have been eliminated in consolidation.

Revenue recognition Revenue is recognized when the product is shipped to both end-users and electronic component distributors. The Company reduces revenue in the period of sale for estimates of product returns and other allowances. Allowances for doubtful accounts approximated $353,000 and $375,000, for the years ended December 31, 2002 and 2003, respectively.

In fiscal 2002 and 2003, Diodes-China received high-technology grants from the local Chinese government of approximately $365,000 and $254,000, respectively. The grants are unrestricted and are available upon receipt to fund the operations of Diodes-China. The Company recognizes this grant income when received. Grants are reported within "other income" on the accompanying statements of income.

Product warranty The Company generally warrants its products for a period of one year from the date of sale. Warranty expense historically has not been significant.

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

Property, plant and equipment Property, plant and equipment are depreciated using straight-line and accelerated methods over the estimated useful lives, which range from 20 to 55 years for buildings and 3 to 10 years for machinery and equipment. Leasehold improvements are amortized using the straight-line method over 3 to 5 years.

Goodwill Beginning in fiscal 2002 with the adoption of Statement of Financial Accounting Standards (SFAS) No. 142 ("Goodwill and Other Intangible Assets"), goodwill is no longer amortized, but instead tested for impairment at least annually. As a result of the Company's adoption of SFAS No. 142, an independent appraiser hired by the Company, performed the required impairment tests of goodwill as of January 1, 2003 and 2004, and has determined that the goodwill is fully recoverable. Prior to fiscal 2002, goodwill was amortized using the straight-line method over its estimated period of benefit (see Note 4).

Impairment on long-lived assets Certain long-lived assets of the Company are reviewed at least annually as to whether their carrying values have become impaired in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Management considers assets to be impaired if the carrying value exceeds the undiscounted projected cash flows from operations. If impairment exists, the assets are written down to fair value or the projected discounted cash flows from related operations. As of December 31, 2003, the Company expects the remaining carrying value of assets to be recoverable.

Income taxes Income taxes are accounted for using an asset and liability approach whereby deferred tax assets and liabilities are recorded for differences in the financial reporting bases and tax bases of the Company's assets and liabilities. Income taxes are further explained in Note 9.

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 currently maintains substantially all of its day-to-day operating cash balances with major financial institutions. At times, cash balances may be in excess of Federal Deposit Insurance Corporation limits.

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

Stock split On November 25, 2003, the Company affected a three-for-two stock split for shareholders of record as of November 14, 2003 in the form of a 50% stock dividend. All share and per share amounts in the accompanying financial statements and footnotes reflect the effect of this stock split.

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. Earnings per share is computed using the "treasury stock method" under the Financial Accounting Standards Board (FASB) Statement No. 128.

For the year ended December 31, 2003, options exercisable for 1,195,000 shares of common stock have been excluded from the computation of diluted earnings per share because their effect is currently anti-dilutive.

YEAR ENDED DECEMBER 31,	2001	2002	2003
Net income for earnings per share computation	$ 124,000	$ 5,802,000	$10,095,000
Basic			
Weighted average number of common shares oustanding during the year	12,216,135	12,276,899	12,730,808
Basic earnings per share	$ 0.01	$ 0.47	$ 0.79
Diluted			
Weighted average number of common shares outstanding used in calculating basic earnings per share	12,216,135	12,276,899	12,730,808
Add: additional shares issuable upon exercise of stock options	1,104,770	1,020,591	1,675,246
Weighted average number of common shares used in calculating diluted earnings per share	13,320,905	13,297,490	14,406,054
Diluted earnings per share	$ 0.01	$ 0.44	$ 0.70

Stock-based compensation The Company has a stock-based employee compensation plan, which is described more fully in Note 10. The Company accounts for this plan under the recognition and measurement principles of APB Opinion No. 25, ("Accounting for Stock Issued to Employees"), and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under the plan have an exercise price equal to the fair market value of the underlying common stock at the date of grant. The following table illustrates the effect on net income if the Company had applied the fair value recognition provisions of SFAS No. 123, ("Accounting for Stock Based Compensation"), to stock based employee compensation:

Derivative financial instrument The Company uses an interest rate swap agreement to hedge its exposure to variability in expected future cash flows resulting from interest rate risk related to a portion of its long-term debt. The interest rate swap agreement applies to $3.3 million of the Company's long-term debt and expires November 30, 2004. Market value of the swap as of December 31, 2003 is included in "Accumulated Other Comprehensive Loss". The swap contract is inversely correlated to the related hedged long-term debt and is therefore considered an effective cash flow hedge of the underlying long-term debt. The level of effectiveness of the hedge is measured by the changes in the market value of the hedged long-term debt resulting from fluctuation in interest rates. As a matter of policy, the Company does not enter into derivative transactions for trading or speculative purposes.

Beginning December 31, 2000, the Company adopted SFAS No. 133. However, the effect of the adoption was insignificant as the Company held no derivative financial instruments as of December 31, 2000. During fiscal 2001, the Company entered into a swap agreement and variable interest rates decreased during the period resulting in an interest rate swap liability of $37,000 as of December 31, 2003.

Functional currencies and foreign currency translation Through its subsidiaries, the Company maintains operations in Taiwan and China. Through June 30, 2001, the functional currency of Diodes-Taiwan was the U.S. dollar. Effective July 1, 2001, the Company changed the functional currency of Diodes-Taiwan to the local currency (NT dollar) in Taiwan. As a result of this change, the translation of the balance sheet and statement of income of Diodes-Taiwan from the local currency into the reporting currency (U.S. dollar) results in translation adjustments, the effect of which is reflected in the accompanying statement of comprehensive income and on the balance sheet as a separate component of shareholders' equity.

FOR THE YEARS ENDED DECEMBER 31,		AMOUNTS PER SHARE			AMOUNTS PER SHARE			AMOUNTS PER SHARE	
	2001	BASIC	DILUTED	2002	BASIC	DILUTED	2003	BASIC	DILUTED
Net income	$124,000	$0.01	$0.01	$5,802,000	$0.47	$0.44	$10,095,000	$0.79	$0.70
Additional compensation for fair value of stock options	(621,860)	(0.05)	(0.05)	(680,860)	(0.06)	(0.05)	(400,000)	(0.03)	(0.03)
Pro forma net income (loss)	$(497,860)	$(0.04)	$(0.04)	$5,121,140	$0.42	$0.39	$ 9,695,000	$0.76	$0.67

The Company believes this reporting change most appropriately reflects the current economic facts and circumstances of the operations of Diodes-Taiwan. The Company continues to use the U.S. dollar as the functional currency in Diodes-China and Diodes-Hong Kong, as substantially all monetary transactions are made in that currency, and other significant economic facts and circumstances currently support that position. As these factors may change in the future, the Company will periodically assess its position with respect to the functional currency of Diodes-China and Diodes-Hong Kong. Included in net income are foreign currency exchange gains (losses) of approximately $74,000, $(82,000) and $(115,000) for the years ended December 31, 2001, 2002 and 2003, respectively.

Comprehensive income Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. The components of other comprehensive income include foreign currency translation adjustments and changes in the unrealized loss on derivative instruments from swap liability.

Recently issued accounting pronouncements and proposed accounting changes In May 2003, FASB issued Statement of Financial Accounting Standards (SFAS) No. 150 ("Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity"). SFAS No. 150 establishes standards for classifying and measuring certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within the scope of SFAS No. 150 as a liability because that financial instrument embodies an obligation of an issuer. SFAS No. 150 must be applied immediately to instruments entered into or modified after May 31, 2003 and to all other instruments that exist as of the beginning of the first interim financial reporting period beginning after June 15, 2003. Management believes the adoption of SFAS No. 150 will not have a material impact on the financial statements.

In April 2003, FASB issued SFAS No. 149 ("Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities"). SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. In addition, all provisions of this Statement should be applied prospectively. This Statement amends SFAS No. 133 for decisions made (1) as part of the Derivatives Implementation Group process that effectively required amendments to Statement 133, (2) in connection with other Board projects dealing with financial instruments, and (3) in connection with implementation issues raised in relation to the application of the definition of a derivative. Management believes the adoption of SFAS No. 149 will not have a material impact on the financial statements.

In November 2002, the FASB issued Interpretation No. 45, ("Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others"). The Interpretation elaborates on the disclosures to be made by sellers or guarantors of products and services, as well as those entities guaranteeing the financial performance of others. The Interpretation further clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the obligations it has undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of this Interpretation are effective on a prospective basis to guarantees issued or modified after December 31, 2002, and the disclosure requirements are effective for financial statements of periods ending after December 15, 2002. The Company believes that its disclosures with regards to these matters are adequate.

In January 2003, the FASB issued Interpretation No. 46 ("Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51"). The Interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. Management does not believe the Interpretation will have a material impact on the financial statements.

Reclassifications Certain 2001, 2002 and 2003 amounts as well as unaudited quarterly financial data presented in the accompanying consolidated financial statements have been reclassified to conform with 2003 financial statement presentation. These reclassifications had no impact on previously reported net income or stockholders' equity.

Note 2
INVENTORIES

YEAR ENDED DECEMBER 31,	2002	2003
Finished goods	$ 9,853,000	$ 9,920,000
Work-in-progress	1,521,000	1,818,000
Raw materials	5,488,000	6,519,000
	16,862,000	18,257,000
Less: reserves	(1,946,000)	(2,093,000)
	$14,916,000	$16,164,000

Note 3
PROPERTY, PLANT AND EQUIPMENT

YEAR ENDED DECEMBER 31,	2002	2003
Buildings and leasehold improvements	$ 5,153,000	$ 5,894,000
Construction in-progress	5,639,000	2,810,000
Machinery and equipment	61,657,000	74,171,000
	72,449,000	82,875,000
Less: Accumulated depreciation and amortization	(28,018,000)	(35,244,000)
	44,431,000	47,631,000
Land	262,000	262,000
	$44,693,000	$47,893,000

The Company is implementing an Enterprise Resource Planning software system for which approximately $2,511,000 and $256,000 is capitalized within construction in-progress in 2002 and 2003, respectively.

Note 4
GOODWILL

No goodwill was acquired or impaired during the year ended December 31, 2003. As of December 31, 2003, goodwill for Diodes-FabTech and Diodes-China was $4.2 million and $0.9 million, respectively. The following tables show the effect of SFAS No. 142 on net income and earnings per share for the years ended December 31, 2001, 2002, and 2003:

	2001			2002			2003		
		AMOUNTS PER SHARE			AMOUNTS PER SHARE			AMOUNTS PER SHARE	
	AMOUNT	BASIC	DILUTED	AMOUNT	BASIC	DILUTED	AMOUNT	BASIC	DILUTED
Reported net income	$124,000	$0.01	$0.01	$5,802,000	$0.47	$0.44	$10,095,000	$0.79	$0.70
Add: Goodwill amortization	288,000	0.02	0.02	—	—	—	—	—	—
Adjusted net income	$412,000	$0.03	$0.03	$5,802,000	$0.47	$0.44	$10,095,000	$0.79	$0.70

Note 5
BANK CREDIT AGREEMENTS AND LONG-TERM DEBT

Line of credit The Company maintains credit facilities with several financial institutions through its affiliated entities in the United States and Asia. The credit available under the various facilities as of December 31, 2003, totals $30.7 million, as follows:

2003 CREDIT FACILITY	TERMS	OUTSTANDING AT DECEMBER 31, 2002	2003
$ 9,500,000	Revolving, collateralized by all assets, variable interest (prime rate, approximately 4.0% at December 31, 2003) due monthly	$ —	$ 5,782,000
$ 8,333,000	Term loan, collateralized by all assets, variable interest (LIBOR + variable margin, approximately 2.7% at December 31, 2003) due monthly	6,666,000	3,333,000
$25,000,000	Unsecured, interest at LIBOR plus margin (approximately 2.8% at December 31, 2003) due quarterly	3,000,000	3,000,000
$ 7,647,000	Unsecured, variable interest plus margin (approximately 1.7% to 2.3% at December 31, 2003) due monthly	3,025,000	2,706,000
$50,480,000		12,691,000	14,821,000
Less: Long-term debt (included in table below)		(9,666,000)	(6,333,000)
Line of credit		$ 3,025,000	$ 8,488,000

During 2003, the average and maximum borrowings on the revolving line of credit were $3,781,000 and $5,782,000, respectively. The weighted average interest rate and outstanding borrowings was 4.1% in 2003.

Long-term debt The balances remaining as of December 31 consist of the following:

	2002	2003
Note payable to LSC, a major stockholder of the Company (see Note 11), due in equal monthly installments of $208,000 plus interest beginning July 31, 2002, through June 30, 2006. The unsecured note bears interest at LIBOR plus 2% (approximately 3.2% at December 31, 2003) and is subordinated to the interest of the Company's primary lender.	$ 8,750,000	$ 6,250,000
Term note portion of $25,000,000 China credit facility due in 2005.	3,000,000	3,000,000
Note payable to U.S. bank, secured by substantially all assets, due in aggregate monthly principal payments of $278,000 plus interest at 6.8% fixed by hedge contract through December 2004.	6,666,000	3,333,000
	18,416,000	12,583,000
Less: Current portion	(5,833,000)	(5,833,000)
Long-term debt, net of current portion	$12,583,000	$ 6,750,000

The credit facilities contain certain covenants and restrictions, which, among other matters, require the maintenance of certain financial ratios and attainment of certain financial results, and prohibit the payment of dividends.

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

2004	5,833,000
2005	2,500,000
2006	4,250,000
	$12,583,000

In July 2001, the Company entered into an interest rate swap agreement with a bank, which expires November 30, 2004. The Company has entered into this agreement to hedge its interest exposure. The interest rate under the swap agreement is fixed at 6.8% and is based on the notional amount, which was $2,292,000 at December 31, 2003.

Note 6
CAPITAL LEASE OBLIGATIONS

Future minimum lease payments under capital lease agreements are summarized as follows:

FOR YEARS ENDING DECEMBER 31,	
2004	$ 230,000
2005	230,000
2006	230,000
2007	230,000
2008	230,000
Thereafter	1,856,000
	3,006,000
Less: Interest	(511,000)
Present value of minimum lease payments	2,495,000
Less: Current portion	(161,000)
Long-term portion	$2,334,000

At December 31, 2003, property under capital leases had a cost of $2,785,000, and the related accumulated depreciation amounted to $371,000.

Note 7
ACCRUED LIABILITIES

	2002	2003
Employee compensation and payroll taxes	$3,915,000	$4,501,000
Sales commissions	250,000	686,000
Refunds to product distributors	139,000	334,000
Other	2,233,000	1,319,000
Equipment purchases	2,156,000	1,875,000
	$8,693,000	$8,715,000

Note 8
VALUATION OF FINANCIAL INSTRUMENTS

The Company's financial instruments include cash, accounts receivable, accounts payable, working capital line of credit, and long-term debt. The Company estimates the carrying amounts of all financial instruments described above to approximate fair value based upon current market conditions, maturity dates, and other factors.

Note 9
INCOME TAXES

The components of the income tax provisions are as follows:

	2001	2002	2003
Current tax provision			
Federal	$ —	$ —	$1,167,000
Foreign	1,132,000	1,231,000	1,183,000
State	1,000	1,000	40,000
	1,133,000	1,232,000	2,390,000
Deferred tax expense (benefit)	(2,902,000)	497,000	70,000
Total income tax provision (benefit)	$(1,769,000)	$1,729,000	$2,460,000

Reconciliation between the effective tax rate and the statutory tax rates for the years ended December 31, 2001, 2002 and 2003 are as follows:

	2001		2002		2003	
	AMOUNT	PERCENT OF PRETAX EARNINGS	AMOUNT	PERCENT OF PRETAX EARNINGS	AMOUNT	PERCENT OF PRETAX EARNINGS
Federal tax	$ (483,000)	(34.0)	$2,669,000	34.0	$4,417,000	34.0
State franchise tax, net of Federal benefit	(82,000)	(5.8)	455,000	5.8	753,000	5.8
Foreign income tax rate difference	(1,204,000)	(84.7)	(1,409,000)	(18.0)	(2,808,000)	(21.6)
Other	—	—	14,000	0.2	98,000	0.8
Income tax provision (benefit)	$(1,769,000)	(124.5)	$1,729,000	22.0	$2,460,000	19.0

In accordance with the current taxation policies of the People's Republic of China (PRC), Diodes-China received preferential tax treatment for the years ended December 31, 1996 through 2003. Earnings were subject to 0% tax rates from 1996 through 2000, and 12% in 2001, 2002 and 2003. Earnings in 2004 will be taxed at 12% (one half the normal central government tax rate). Earnings of Diodes-China are also subject to tax of 3% by the local taxing authority in Shanghai. The local taxing authority waived this tax in 2002 and 2003. Earnings of Diodes-Taiwan are currently subject to a tax rate of 35%, which is comparable to the U.S. Federal tax rate for C corporations.

In accordance with United States tax law, the Company receives credit against its U.S. Federal tax liability for corporate taxes paid in Taiwan and China. The repatriation of funds from Taiwan and China to the Company may be subject to state income taxes. In the year ended December 31, 2001, Diodes-Taiwan distributed a dividend of approximately $2.6 million, which is included in U.S. Federal and state taxable income.

As of December 31, 2003, accumulated and undistributed earnings of Diodes-China are approximately $36.6 million, including $10.0 million of restricted earnings (which are not available for dividends). Through March 31, 2002, the Company had not recorded deferred U.S. federal or state tax liabilities (estimated to be $8.9 million as of March 31, 2002) on these cumulative earnings since the Company, at that time, considered this investment to be permanent, and had no plans or obligation to distribute all or part of that amount from China to the United States. Beginning in April 2002, the Company began to record deferred taxes on a portion of the earnings of Diodes-China in preparation of a dividend distribution. As of December 31, 2003, the Company has recorded $1.7 million in deferred taxes on the cumulative earnings, but has made no distributions. The Company intends to dividend $6.0 million from Diodes-China to the U.S. in 2004. It is anticipated that this transaction will not have a material effect on net income as the U.S. income taxes have already been accrued.

The Company is evaluating the need to provide additional deferred taxes for the future earnings of Diodes-China and Diodes-Hong Kong to the extent such earnings may be appropriated for distribution to the Company's corporate office in North America, and as further investment strategies with respect to Diodes-China are determined. Should the Company's North American cash requirements exceed the cash that is provided through the domestic credit facilities, cash can be obtained from the Company's foreign subsidiaries. However, the distribution of any unappropriated funds to the U.S. will require the recording of income tax provisions on the U.S. entity, thus reducing net income.

At December 31, 2002 and 2003, the Company's deferred tax assets and liabilities are comprised of the following items:

	2002	2003
Deferred tax assets, current		
Inventory cost	$ 631,000	$ 272,000
Accrued expenses and accounts receivable	706,000	566,000
Net operating loss carryforwards and other	3,001,000	4,709,000
	$ 4,338,000	$5,547,000
Deferred tax assets, non-current		
Plant, equipment and intangible assets	$(2,784,000)	$(2,380,000)
Net operating loss carryforwards and other	5,989,000	4,196,000
	$ 3,205,000	$1,816,000

Note 10
STOCK OPTION PLANS

The Company has stock option plans for directors, officers, and key employees, which provide for non-qualified 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. Approximately 783,700 shares were available for future grants under the plans as of December 31, 2003.

	OUTSTANDING OPTIONS		
		EXERCISE PRICE PER SHARE	
	NUMBER	RANGE	WEIGHTED AVERAGE
Balance, December 31, 2000	2,908,490	$ 0.83 - 15.94	$ 5.94
Granted	339,300	4.15 - 5.55	5.52
Exercised	(39,001)	2.22 - 3.33	3.13
Canceled	(36,148)	4.45 - 15.94	13.29
Balance, December 31, 2001	3,172,641	0.83 - 15.94	5.85
Granted	515,550	5.69 - 6.38	5.72
Exercised	(97,650)	0.83 - 5.55	3.28
Canceled	(5,400)	5.55 - 5.69	5.62
Balance, December 31, 2002	3,585,141	0.83 - 15.94	5.90
Granted	502,950	10.63 - 13.04	13.03
Exercised	(688,141)	0.83 - 15.94	2.93
Canceled	(4,750)	5.55 - 5.69	5.65
Balance, December 31, 2003	3,395,200	$ 2.22 - 15.94	$ 7.56

As of December 31, 2003, approximately 2,442,400 of the options granted were exercisable. The following summarizes information about stock options outstanding at December 31, 2003:

	RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE
'93 NQO	2.67 - 15.94	1,163,250	4.5	$7.60
'93 ISO	2.22 - 15.94	1,249,750	4.9	$6.06
'01 Plan	4.77 - 13.04	982,200	8.6	$9.42
		3,395,200		

The Company also has an incentive bonus plan, which reserves shares of stock for issuance to key employees. As of December 31, 2003, 279,000 shares remain available for issuance under this plan. No shares were issued under this incentive bonus plan for years ended December 31, 2001 through 2003.

The pro forma information disclosed in Note 1 recognizes as compensation the value of stock options granted using the Black-Scholes option pricing model which takes into account as of the grant date the exercise price and expected life of the option, the current price of underlying stock and its expected volatility, expected dividends on the stock and the risk-free interest rate for the term of the option. The following is the average of the data used to calculate the fair value:

DECEMBER 31,	RISK-FREE INTEREST RATE	EXPECTED LIFE	EXPECTED VOLATILITY	EXPECTED DIVIDENDS
2003	3.00%	5 years	69.22%	N/A
2002	4.00%	5 years	54.40%	N/A
2001	5.00%	5 years	79.55%	N/A

Note 11
RELATED PARTY TRANSACTIONS

Lite-On Semiconductor Corporation (LSC) 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), a then 37% shareholder of the Company and a member of the Lite-On Group of the Republic of China. The Lite-On Group is a leading manufacturer of power semiconductors, computer peripherals, and communication products.

In March 2001, Vishay agreed to sell its 65% interest in the Vishay/LPSC joint venture to the Lite-On Group, the 35% joint venture partner. Because of this transaction, the Lite-On Group, through LPSC, its wholly-owned subsidiary, indirectly owned approximately 37% of the Company's common stock. In December 2001, LPSC merged with Dyna Image Corporation of Taipei, Taiwan. Dyna Image is the world's largest manufacturer of Contact Image Sensors (CIS), which are used in fax machines, scanners, and copy machines. The combined company is called Lite-On Semiconductor Corporation (LSC). At December 31, 2003, LSC owned approximately 35.4% of the Company's common stock. The Company considers its relationship with LSC to be mutually beneficial and the Company and LSC will continue its strategic alliance as it has since 1991.

The Company buys product from and sells product to LSC. Net sales to and purchases from LSC were as follows for years ended December 31:

	2001	2002	2003
Net sales	$7,435,000	$16,147,000	$14,628,000
Purchases	8,002,000	14,292,000	18,667,000

As a result of the acquisition of FabTech from LSC, the Company is indebted to LSC in the amount of $6,250,000 as of December 31, 2003. Terms of the debt are indicated in Note 5. No interest expense is outstanding as of December 31, 2003 on this debt. As per the terms of the acquisition agreement, LSC entered into a volume purchase agreement with FabTech pursuant to which LSC is obligated to purchase from FabTech, and FabTech is obligated to manufacture and sell to LSC, silicon wafers.

Other related parties For the years ended December 31, 2002, and 2003, the Company purchased approximately $4,394,000 and $2,961,000, respectively, of its inventory purchases from companies owned by its 5% minority shareholder in Diodes-China.

Accounts receivable from and accounts payable to related parties were as follows as of December 31:

	2002	2003
Accounts receivable		
LSC	$3,138,000	$3,111,000
Other	—	827,000
	$3,138,000	$3,938,000

	2002	2003
Accounts payable		
LSC	$2,803,000	$2,914,000
Other	558,000	539,000
	$3,361,000	$3,453,000

Note 12
GEOGRAPHIC INFORMATION

An operating segment is defined as a component 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 and Chief Executive Officer, Chief Financial Officer, Vice President of Sales and Marketing, and Senior Vice President of Operations. The Company operates in a single segment, discrete semiconductor devices, through its various manufacturing and distribution facilities.

The Company's operations include the domestic operations (Diodes and FabTech) located in the United States and the Asian operations (Diodes-Taiwan located in Taipei, Taiwan, Diodes-China located in Shanghai, China, and Diodes-Hong Kong located in Hong Kong, China). European operations are consolidated within the U.S. operations.

The accounting policies of the operating entities are the same as those described in the summary of significant accounting policies. Revenues are attributed to geographic areas based on the location of the market producing the revenues:

	ASIA	U.S.A.	CONSOLIDATED
2003			
Total sales	$124,412,000	$ 72,188,000	$196,600,000
Intercompany sales	(48,378,000)	(11,317,000)	(59,695,000)
Net sales	$ 76,034,000	$ 60,871,000	$136,905,000
Assets	82,142,000	41,653,000	123,795,000
Property, plant & equipment, net	35,941,000	11,952,000	47,893,000
2002			
Total sales	$ 95,081,000	$ 66,338,000	$161,419,000
Intercompany sales	(39,592,000)	(6,006,000)	(45,598,000)
Net sales	$ 55,489,000	$ 60,332,000	$115,821,000
Assets	63,721,000	41,289,000	105,010,000
Property, plant & equipment, net	32,313,000	12,380,000	44,693,000
2001			
Total sales	$ 71,589,000	$ 53,705,000	$125,294,000
Intercompany sales	(28,978,000)	(3,106,000)	(32,084,000)
Net sales	$ 42,611,000	$ 50,599,000	$ 93,210,000
Assets	58,877,000	44,381,000	103,258,000
Property, plant & equipment, net	31,779,000	13,146,000	44,925,000

Note 13
COMMITMENTS AND CONTINGENCIES

Operating leases The Company leases its offices, manufacturing plants and warehouses under operating lease agreements expiring through December 2010. The Company may, at its option, extend the lease for a five-year term upon termination. Rent expense amounted to approximately $2,556,000, $2,711,000 and $2,455,000 for the years ended December 31, 2001, 2002 and 2003, respectively.

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

2004	$ 2,129,000
2005	2,122,000
2006	2,121,000
2007	1,708,000
2008	1,563,000
Thereafter	775,000
	$10,418,000

Environmental matters In June 2000, the Company received a claim from one of its former U.S. landlords regarding potential ground-water contamination at a site in which the Company engaged in manufacturing from 1967 to 1973. A settlement is forthcoming, which the Company does not expect to have a material effect on its financial results.

Note 14
EMPLOYEE BENEFIT PLANS

The Company maintains a 401(k) profit sharing plan (the Plan) for the benefit of qualified employees at the North American locations. Employees who participate may elect to make salary deferral contributions to the Plan up to 100% of the employees' eligible payroll subject to annual Internal Revenue Code maximum limitations. The Company makes a contribution of $1 for every $2 contributed by the participant up to 6% of the participant's eligible payroll. 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, 2001, 2002, and 2003, the Company's total contribution to the Plan was approximately $207,000, $582,000, and $848,000, respectively.

The Company also maintains retirement plans pursuant to Taiwan Labor Standard Law and Factory Law, as well as China Municipal Government regulations. For the years ended December 31, 2001, 2002, and 2003, the total contribution to the plans was approximately $258,000, $335,000, and $393,000, respectively.

Note 15
MANAGEMENT INCENTIVE AGREEMENTS

As part of the FabTech acquisition, the Company entered into management incentive agreements with several members of FabTech's management. The agreements provide a guaranteed aggregate $375,000 annual payment as well as contingent bonuses based on the annual profitability of FabTech (subject to a maximum annual amount). Because the profitability targets were not met, no contingent bonus was earned or paid in the years 2001 through 2003. Guaranteed and maximum contingent bonus payments provided for by the management incentive agreements for the year ended December 31, 2004 (the final year of the agreements) are $375,000 and $1.2 million, respectively. Any portion of the guaranteed and contingent liability paid by FabTech is reimbursed by LSC.

Note 16
SELECTED QUARTERLY FINANCIAL DATA
(Unaudited)

	QUARTER ENDED			
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
Fiscal 2003				
Net sales	$ 29,446,000	$ 33,316,000	$ 34,941,000	$ 39,202,000
Gross profit	7,461,000	8,346,000	9,162,000	11,559,000
Net income	1,923,000	2,172,000	2,563,000	3,437,000
Earnings per share				
Basic	$ 0.15	$ 0.17	$ 0.20	$ 0.27
Diluted	0.14	0.15	0.18	0.23
Fiscal 2002				
Net sales	$ 26,924,000	$ 29,946,000	$ 30,287,000	$ 28,664,000
Gross profit	4,345,000	7,098,000	7,862,000	7,405,000
Net income	208,000	1,564,000	1,767,000	2,263,000
Earnings per share				
Basic	$ 0.02	$ 0.13	$ 0.14	$ 0.18
Diluted	0.02	0.12	0.13	0.17
Fiscal 2001				
Net sales	$ 25,109,000	$ 20,730,000	$ 21,937,000	$ 25,434,000
Gross profit	4,121,000	4,044,000	2,419,000	3,595,000
Net income (loss)	521,000	525,000	(847,000)	(75,000)
Earnings (loss) per share				
Basic	$ 0.04	$ 0.04	$ (0.07)	$ (0.01)
Diluted	0.04	0.04	(0.06)	(0.01)

Independent Auditor's Report

Board of Directors and Stockholders
Diodes Incorporated and Subsidiaries

We have audited the accompanying consolidated balance sheets of Diodes Incorporated and Subsidiaries as of December 31, 2003 and 2002 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, 2003. 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 auditing standards generally accepted in the United States of America. 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, 2003 and 2002, and the consolidated results of their operations and cash flows for each of the years in the three year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

MOSS ADAMS LLP

Moss Adams LLP

Los Angeles, California
January 27, 2004

Board of Directors

Raymond Soong
Chairman of the Board, *Diodes, Inc.*
Chairman of the Board, *The Lite-On Group*

C.H. Chen [3C]
President & Chief Executive Officer, *Diodes, Inc.*
Vice Chairman, *Lite-On Semiconductor Corporation*

Michael R. Giordano [1C, 2C, 3]
Senior Vice President, *UBS, Inc.*

Dr. Keh-Shew Lu [1, 2, 3]
Retired Senior Vice President,
Texas Instruments, Inc.

M.K. Lu
President, *Lite-On Semiconductor Corporation*

Dr. Shing Mao [3]
Retired Chairman of the Board,
Lite-On Incorporated

John M. Stich [1, 2, 3]
President & Chief Executive Officer,
The Asian Network
Retired Chief Marketing Officer,
Texas Instruments, Inc. – Japan

Executive Officers

C.H. Chen
President & Chief Executive Officer

Joseph Liu
Senior Vice President, Operations

Mark A. King
Vice President, Sales and Marketing

Carl C. Wertz
Chief Financial Officer, Treasurer and Secretary

1 – Member, Audit Committee
2 – Member, Compensation and Stock Options Committee
3 – Member, Strategic Planning Committee
C – Committee Chairman

Shareholder Information

Diodes Incorporated common stock is listed and traded on the Nasdaq National Market (Nasdaq: DIOD).

No cash dividends have been declared or paid. The Company currently intends to retain any earnings for use in its businesses.

Form 10-K

A copy of the Company's Form 10-K, as filed with the Securities and Exchange Commission, is available at www.diodes.com or upon written request to:

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or diodes-fin@diodes.com

Calendar Quarter Ended	Closing Sales Price of Common Stock	
	High	Low
Fourth Quarter 2003	20.600	13.867
Third Quarter 2003	16.053	12.100
Second Quarter 2003	14.360	7.180
First Quarter 2003	8.200	6.367
Fourth Quarter 2002	7.253	4.080
Third Quarter 2002	6.300	4.720
Second Quarter 2002	6.333	4.980
First Quarter 2002	5.660	4.680

Independent Accountants

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Los Angeles

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