Diodes Incorporated

2002 Annual Report

More Products. More Services. **More Value.**

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.

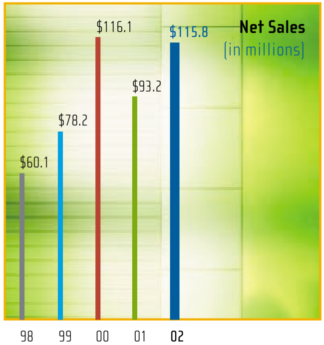
The Company operates three Far East subsidiaries:

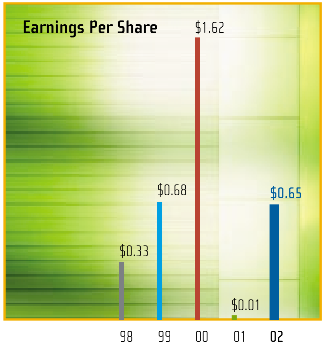
- Diodes-China (QS-9000 and ISO-14001 certified) in Shanghai is focused on manufacturing subminiature surface-mount devices destined for wireless devices, notebooks, flat panel displays, digital cameras, mobile handsets, set-top boxes, DC to DC conversion, automotive applications, and more.
- Diodes-Taiwan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

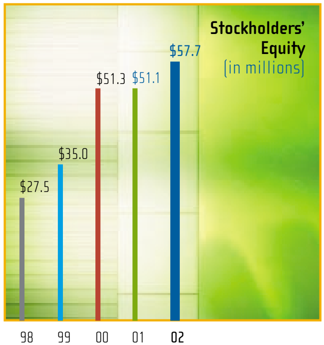
Diodes-FabTech (QS-9000 certified) in Missouri is our 5" wafer foundry, specializing in Schottky products.

Diodes Incorporated's (ISO-9000 certified) corporate sales, marketing, engineering and logistics headquarters is located in Southern California.

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







Financial Highlights

(in thousands, except per share data)	1998	1999	2000	2001	**2002**
Net sales	$ 60,121	$78,245	$116,079	$ 93,210	**$ 115,828**
Gross profit	15,402	20,948	37,427	14,179	**26,610**
SG&A expenses	11,016	13,670	18,814	13,711	**16,300**
R&D expenses	–	–	141	592	**1,472**
Total operating expenses	11,016	13,670	18,955	14,303	**17,772**
Income (loss) from operations	4,386	7,278	18,472	(124)	**8,831**
Interest expense, net	281	292	940	2,074	**1,183**
Other income	93	182	501	777	**203**
Income (loss) before taxes and minority interest	4,198	7,168	18,033	(1,421)	**7,851**
Income tax benefit (provision)	(1,511)	(1,380)	(2,496)	1,769	**(1,729)**
Minority interest in joint venture earnings	(14)	(219)	(642)	(224)	**(320)**
Net income	2,673	5,569	14,895	124	**5,802**
Earnings per share: [1]					
Basic	$ 0.35	$ 0.73	$ 1.85	$ 0.02	**$ 0.71**
Diluted	$ 0.33	$ 0.68	$ 1.62	$ 0.01	**$ 0.65**
Number of shares used in computation: [1]					
Basic	7,544	7,625	8,071	8,144	**8,185**
Diluted	8,057	8,204	9,222	8,881	**8,865**

	1998	1999	2000	2001	**2002**
Total assets	$ 45,389	$62,407	$112,950	$103,258	**$105,010**
Working capital	16,639	15,903	17,291	19,798	**20,830**
Long-term debt	8,102	6,984	30,857	29,497	**18,416**
Stockholders' equity	27,460	34,973	51,253	51,124	**57,679**

[1] *Adjusted for the effect of a 3-for-2 stock split in July, 2000.*

To Our Shareholders:

Year 2002 was another year of outstanding performance for Diodes Incorporated. Again, our Company delivered strong revenue growth, made meaningful improvements in profitability, generated significant operating cash flow, paid down debt and made considerable strides toward securing the foundation for our Company's future success in the marketplace.

Our financial performance and increased profitability in 2002 validates our management team's strategy for transforming Diodes, Inc. into a total solutions provider of discrete semiconductors, and illustrates our commitment to: serving and satisfying our customer base by meeting and exceeding their evolving needs; achieving consistent manufacturing excellence; and deploying our resources to generate the greatest value for our shareholders.

We would like to take this opportunity to share some of the year's highlights with you and discuss some of our future projections. In Year 2002:

- Revenues were $115.8 million, an increase of more than 24% over the prior year and nearly matching our record revenues of $116.1 million in 2000. This top-line performance compares favorably with the Semiconductor Industry Association's reported increase of 1.3% for discrete semiconductors, Diodes, Inc.'s core market.
- Improving margins and tight control of overhead expense resulted in gross profit margin increasing by 780 basis points to 23% of revenues, as compared to 15.2% of revenues in 2001.
- Net income was $5.8 million, or 65 cents per diluted share, as compared to $125,000, or a penny a share, in the prior year. This was Diodes, Inc.'s 12th consecutive year of profitability.

In 2002, Diodes, Inc. generated over $20 million in cash flow from operations, which enabled us to reduce our debt by $14.5 million and end the year with $7.3 million in cash on the balance sheet. Shareholders' equity increased 12.9% to $57.7 million as of December 31, 2002, compared to $51.1 million at the end of 2001.

Entering 2003 with a strengthened balance sheet and available bank facilities in excess of $31 million provides us with ample financial flexibility to pursue continued growth. We are optimistic about what the future holds for Diodes, Inc. and we look forward to the growth opportunities ahead as we move forward together to achieve our goals and objectives into 2003 and beyond. But now, let's review what we achieved in 2002:

More Efficient Operations

We implemented continuous improvements at every level of our organization to streamline the efficiencies of our operations. To maintain our level of manufacturing excellence,

- We conducted rigorous process improvements, which significantly increased both yield and labor productivity at our wafer fabrication facility, resulting in FabTech making a positive contribution to operating profits in 2002.
- Our Diodes-China facility continued to provide a more competitive cost structure, with increased unit output even as we transitioned to the latest eight-row manufacturing equipment. Diodes, Inc. product quality and reliability continued to be at the highest levels in our industry.

Despite a major expansion of our sales organization, primarily in Asia, we reduced our Selling, General and Administrative (S,G&A) expenses to 14.1% of sales. And, we completed implementation of an integrated Enterprise Resource Planning software system, which will enable us to improve the efficiency of our inventory management, logistics and customer service by providing a unified, real-time view of our global operations.

More Market Share

We participated in more end markets in 2002 and captured a greater share of those markets.

Diodes, Inc.'s geographic expansion aligns us with the underlying growth trends in the semiconductor industry. As global electronics manufacturing continues to migrate to China, our strong presence in the Asian region provides logistical advantages, gives us visibility into customer design requirements, and enables Diodes, Inc. to maintain excellent customer service.

- In 2002, we opened a new office in Hong Kong and significantly increased our sales staff in Asia.
- We added a new distributor in Taiwan, with proven experience in our targeted end equipment.
- We hired a sales representative in Japan to enter a massive potential marketplace that is just now becoming receptive to alternative vendors.
- To further support our efforts, we introduced Chinese and Japanese translations for our Web site, giving Diodes, Inc. an effective marketing tool for the Asian markets.
- And, we made measured progress in building our sales presence in Europe.

Just as importantly, we benefited from our participation in a broad range of end equipment, with robust demand for digital cameras, PDAs, notebooks, MP3 players, game consoles, set-top boxes and flat panel displays, more than compensating for the downturn in communications spending and weaker than anticipated PC demand. By targeting higher value applications and maintaining a balanced exposure to multiple markets, Diodes, Inc. was able to deliver consistent performance improvements in a year that was anything but predictable.

More Innovative Products

We continued to shift our product mix towards more innovative devices that deliver greater value to our customers and provide higher margin opportunities for Diodes, Inc.

Diodes, Inc. introduced a record number of new products during 2002. More importantly, revenues generated by new products nearly doubled to 9% of sales in the fourth quarter of 2002, as compared to the prior year. We have continued to move away from legacy, commodity devices and into higher margin products where Diodes, Inc. can create and maintain a competitive advantage. We introduced leading-edge devices in focus areas, including performance Schottky, performance Zener and subminiature arrays. We introduced a new range of devices using advanced Powermite®3 packaging manufactured at our Diodes-China facility. And, we have a strong pipeline of new products for 2003 that are targeted at both niche and high-volume end markets.

Building a product development platform was one of the primary drivers of our acquisition of FabTech at the end of 2000. In the past two years, we have seen that strategy pay off in a stream of innovative devices and proprietary technology that will establish Diodes, Inc. as a performance leader in discrete semiconductor solutions.

More Satisfied Customers

In 2002, our customers responded positively to our efforts with record numbers of design wins, greater market penetration, and a number of important new customers. Responsiveness to our customers' requirements remains the foundation of Diodes, Inc.'s competitive advantage. As design cycles shorten and lead times become increasingly compressed, our Company's agility and responsiveness to meeting our customers' needs has continued to serve us well.

More to Come

No matter the challenges and surprises that 2003 brings, we believe that Diodes, Inc. is well positioned to continue to outperform the industry and to be the Company our customers turn to for discrete semiconductor devices.

In 2002, we expanded our geographic reach and market penetration, improved our profitability and strengthened our balance sheet. We have demonstrated our ability to acquire and integrate a complementary business, enhancing both near-term profitability and our long-term growth strategy. In the process we have developed a total solutions platform that combines technological innovation, world-class manufacturing and a global sales and marketing organization. We continued to evolve and seek out new opportunities to grow our Company and expect to deliver improved results as industry conditions improve.

Our strategic goals for the next several years, designed to position Diodes, Inc. to capture emerging marketing opportunities, include the following:

- Establishing a stronger foothold in Asia to capture a significantly greater share of this growing market.
- Developing proprietary processes and devices that position Diodes, Inc. as an innovator and performance leader in discrete technologies.
- Introducing new higher margin, differentiated products and looking to grow new products to represent 20% of total sales.
- Expanding our product offering into adjacent technologies to increase revenue and profitability.
- Analyzing strategic partnerships and selective acquisitions so as to leverage our proven manufacturing and sales and marketing capabilities.
- Increasing our gross profit margin to the 30% plus range.
- Continuing to outperform the semiconductor industry in the growth of both revenues and net income.

We would like to thank our shareholders, customers, distributors, employees and suppliers for your confidence and dedication throughout a challenging and rewarding year. With your continued support, our entire management team looks to build upon the accomplishments of 2002 and successfully meet the challenges presented in 2003.

Sincerely,

Raymond Soong

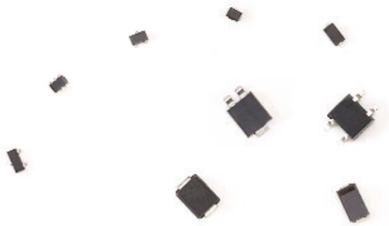
Raymond Soong
Chairman of the Board

C.H. Chen

C.H. Chen
President and Chief Executive Officer

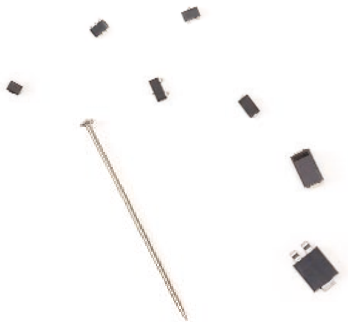
Diodes, Inc. provides compact discrete semiconductor solutions to industry leaders in multiple end markets. We work closely with our customers to develop application-specific designs that offer performance in small packages, and we are pleased that our efficient products are integral to the performance and assembly of a wide range of popular products, such as those you see displayed.

Courtesy of International Business Machines Corporation



Notebooks >

IBM's ThinkPad X Series Extra-light, extra-small, ultra-portable. Small package, big performance. Designed for extremely mobile users. Optimized for portability and long battery life, with all the features of a full-size notebook.



Courtesy of Samsung Electronics

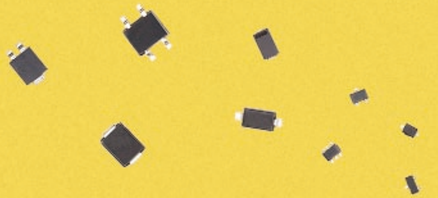
LCD TVs >

Samsung's Flat Panel LCD TV Transforming the way you see television. Innovative, tech-savvy . . . products that provide fun anytime, anywhere!

By making our discrete devices more compact, we're helping to make high performance PORTABLE.

For mobility, miniaturization is key. At Diodes, Inc., we are committed to increased miniaturization for next-generation technologies and are expanding our product portfolio to include more innovative devices, such as sub-miniature arrays, to enable our customers to move forward.

More Products.



Courtesy of Bose Corporation

Wave® Music Systems >

Bose's Wave Radio/CD The performance of the Wave® radio with an integrated CD player. Small in size, it delivers full, natural sounds normally expected from much larger rack systems. Now, you can enjoy music in places you may never have before.

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 global environment and tomorrow's opportunities.

More Services.

Courtesy of Philips Oral Healthcare, Inc.

Power Toothbrushes >

Philips Sonicare® Elite® ...the next generation sonic technology. Dynamic cleaning action. Taking brushing to a new level- one that can make a dynamic difference for whiter, healthier teeth.

Diabetes Management Tools >

Roche's Accu-Chek Compact™ Blood Glucose Meter

With its revolutionary no-strip handling system. Live life. The way you want. We'll fit in. Designed to make testing simpler. Sometimes it's good to appreciate the little things in life. A small convenience that can make a big difference.

Courtesy of Roche Diagnostics GmbH

By providing our customers with the product solutions and logistical services they need to advance their technologies and succeed in the marketplace, we create value for our shareholders.

More Value.

FINANCIAL STATEMENTS

About Diodes Incorporated

Discrete Semiconductors is our business.

Products are marketed under the Diodes Incorporated brand and include:

- High density diode, transistor and application-specific arrays in multi-pin surface mount packages
- Powermite®3, high performance surface mount package
- Performance Schottky, switching and rectifier diodes
- Single and dual prebiased transistors
- Performance tight tolerance and low current zener diodes
- Sub-miniature surface mount packages
- TVS & TSPD transient voltage suppressors
- Small signal transistors and MOSFETs
- Fast, Ultrafast, Superfast rectifiers

Manufacturing Facilities located in China and North America are ISO-9000 & QS-9000 certified to ensure our products are of the highest quality.

Markets Served include communications, computing, industrial, consumer electronics, and automotive.

Direct Sales and Marketing are accomplished through an ISO-9000 certified corporate office in Southern California, regional U.S. sales offices, and offices in Taiwan, China and Europe.

Distribution is further enhanced through an extensive network of manufacturers' representatives and major electronics distributors.

Strategic Alliance for product development, manufacturing and distribution with The Lite-On Group.

A Public Company dedicated to providing our customers with reliable availability of high-quality products at competitive prices.

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. 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.

General

Diodes Incorporated (the "Company"), a Delaware corporation, is engaged in the manufacture, sale and distribution of discrete semiconductors worldwide, 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. The Company's broad product line includes high-density diode and transistor arrays in ultra-miniature surface mount packages, as well as silicon wafers used in manufacturing these products. 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 prebiased 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.

Positioning the Company to rapidly respond to the demands of the global marketplace and continuing to increase its investment in research and development, the Company is focused on expanding its product portfolio and closely controlling product quality and time-to-market. Shifting development priorities toward specialized configurations, such as the Company's high-density array devices, the Company is introducing a range of new products that improve the trade-off between size, performance and power consumption for surface mount packages, such as the Company's BAT750 Schottky rectifier and SOT-523 product lines. These product lines are designed for battery-powered and handheld applications, such as those used in the computer and communications industries; specifically, wireless devices, notebooks, flat panel displays, digital cameras, mobile handsets, set top boxes, as well as DC to DC conversion and automotive electronic applications.

In addition to the Company's corporate headquarters in Westlake Village, California, which provides sales, marketing, engineering, logistics and warehousing functions, the Company's wholly-owned subsidiary, Diodes Taiwan Corporation, Ltd. ("Diodes-Taiwan"), maintains a sales, engineering and purchasing facility in Taipei, Taiwan. The Company also has a 95% interest in Shanghai KaiHong Electronics Co., Ltd. ("Diodes-China" or "KaiHong"), a manufacturing facility in Shanghai, China, and offices in Shanghai and Shenzhen, China. In March 2002, the Company opened a sales, warehousing and logistics subsidiary in Hong Kong ("Diodes-Hong Kong"). In addition, in December 2000, the Company acquired FabTech Incorporated ("Diodes-FabTech" or "FabTech"), a silicon wafer manufacturer located near Kansas City, Missouri. An office in Toulouse, France supports the Company's European sales expansion.

Sales, Marketing and Distribution

The Company sells its products through its own internal and regional sales departments, as well as through representatives and distributors. The Company's sales team, aided by the sales force of approximately 30 independent sales representatives located throughout North America, Asia, and most recently Europe, supplies approximately 200 OEM accounts. In 2002, OEM customers accounted for approximately 69% of the Company's sales, compared to approximately 66% in 2001. The increase was primarily due to wafer sales at Diodes-FabTech. OEM customers range from small, privately held electronics companies to ***Fortune 500*** companies.

The Company's major OEM customers include industry leaders 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. The Company further supplies approximately 40 distributors (31% of 2002 sales), who collectively sell to approximately 10,000 customers on the Company's behalf. The Company's worldwide distribution network includes Arrow Electronics, Inc., Avnet, Inc., Digi-Key Corporation, Future Electronics Ltd., Jaco Electronics, Inc., Reptron Electronics, Inc., and All American Semiconductor, Inc., among others. The Company is not dependent on any one customer to support its level of sales. For the fiscal year ended December 31, 2002, not one OEM customer accounted for more than 14% of the Company's sales, while the largest distributor accounted for 4% of sales. The twenty largest customers accounted, in total, for approximately 61% of the Company's sales in 2002, compared to 55% in 2001.

The Company's products are sold primarily in North America, the Far East, and Europe, both directly to end users and through electronic component distributors. In 2002, approximately 49%, 48%, and 3% of the Company's products were sold in North America, the Far East, and Europe, respectively, compared to 54%, 45%, and 1% in 2001, respectively. See Note 12 of "Notes to Consolidated Financial Statements" for a description of the Company's geographic and segment information. An increase in the percentage of sales in the Far East is expected as the Company significantly increased its sales presence there and believes there is greater potential to increase market share in that region due to the expanding base of electronic product manufacturers.

Related Parties

The Company conducts business with two related party companies, Lite-On Semiconductor Corporation (LSC) and Xing International. LSC, a 36.5% shareholder, is the Company's largest shareholder, and Xing International is owned by the Company's 5% joint venture partner in Diodes-China. C.H. Chen, the Company's President and Chief Executive Officer, and a member of the Company's Board of Directors, is also Vice-Chairman of LSC. M.K. Lu, a member of the Company's Board of Directors, is President of LSC, while Raymond Soong, the Company's Chairman of the Board, is the Chairman of the Lite-On Group, a significant shareholder of LSC.

In 2002, the Company sold silicon wafers to LSC totaling 13.7% (7.7% in 2001) of the Company's sales, making LSC the Company's largest customer. Also for 2002, 17.9% (15.2% in 2001) of the Company's sales were from discrete semiconductor products purchased from LSC, making LSC the Company's largest outside vendor. 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. All such transactions are on terms no less favorable to the Company than could be obtained from unaffiliated third parties.

In December 2000, the Company acquired the wafer foundry, FabTech, Inc., from LSC. As part of the purchase price, at December 31, 2002, LSC holds a subordinated, interest-bearing note for approximately $8.8 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 2002, the Company sold silicon wafers to companies owned by Xing International totaling 1.5% (0.6% in 2001) of the Company's sales. Also for 2002, 5.6% (4.4% in 2001) of the Company's sales were from discrete semiconductor products purchased from companies owned by Xing International. In addition, Diodes-China leases its manufacturing facilities from, subcontracts a portion of its manufacturing process (metal plating) to, and pays a consulting fee to Xing International. All such transactions are on terms no less favorable to the Company than could be obtained from unaffiliated third parties.

Manufacturing and Significant Vendors

The Company's Far East subsidiary, Diodes-China, manufactures product for sale primarily to North America and Asia. Diodes-China's manufacturing focuses on SOT-23 and SOD-123 products, as well as sub-miniature packages such as SOT-363, SOT-563, and SC-75. These surface mount devices ("SMD") are much smaller in size and are used in the computer and communication industries, destined for cellular phones, notebook computers, pagers, PCMCIA cards, modems, and garage door transmitters, among others. Diodes-China's state-of-the-art facilities have been designed to develop even smaller, higher-density products as electronic industry trends to portable and hand-held devices continue. Although Diodes-China purchases silicon wafers from FabTech, the majority are currently purchased from other wafer vendors. The Company plans to increase the number of Diodes-FabTech wafers used at Diodes-China over the next several years.

Acquired in December 2000 from LSC, FabTech's wafer foundry is located in Lee's Summit, Missouri. FabTech manufactures primarily 5-inch silicon wafers, which are the building blocks for semiconductors. FabTech has full foundry capabilities, including processes such as silicon epitaxy, silicon oxidation, photolithography and etching, ion implantation and diffusion, low pressure and plasma enhanced chemical vapor deposition, sputtered and evaporated metal deposition, wafer backgrinding, and wafer probe and ink.

Diodes-FabTech purchases polished silicon wafers, and then by using various technologies, 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.

All of the products sold by the Company, as well as the materials used by the Company in its manufacturing operations, are available both domestically and abroad. In 2002, the largest external supplier of products to the Company was LSC, a related party. Approximately 18% and 15% of the Company's sales were from product manufactured by LSC in 2002 and 2001, respectively. Also, in 2002 and 2001, approximately 6%

and 4%, respectively of the Company's sales were from product manufactured by companies owned by Xing International, the 5% minority partner in Diodes-China, and a related party. In addition, sales of products manufactured by Diodes-China and Diodes-FabTech, the Company's manufacturing subsidiaries, were approximately 34% and 25% in 2002, respectively, versus 27% and 15% in 2001, respectively. The Company anticipates that Diodes-China will become an increasingly valuable supplier. No other manufacturer of discrete semiconductors accounted for more than 8% and 7% of the Company's sales in 2002 and 2001, respectively.

Although the Company believes alternative sources exist for the products of any of its 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 the Company until an alternate source is located and has commenced providing such products or raw materials.

Recent Results

The discrete semiconductor industry has historically been subject to severe pricing pressures. At times, although manufacturing costs have decreased, excess manufacturing capacity and over-inventory have caused selling prices to decrease to a greater extent than manufacturing costs. To compete in this highly competitive industry, the Company has committed substantial new resources to the further development and implementation of sales and marketing functions, and expanded manufacturing capabilities. Emphasizing the Company's focus on customer service, additional sales personnel and programs have been added, primarily in Asia, and most recently Europe. In order to meet customers' needs at the design stage of end-product development, the Company also continues to employ additional applications engineers who work directly with customers to assist them in "designing in" the correct products to produce optimum results. Regional sales managers in the U.S., working closely with manufacturers' representative firms and distributors, have also been added to help satisfy customers' requirements. In addition, the Company continues to develop relationships with major distributors who inventory and sell the Company's products.

Beginning in the second half of 1999, and continuing through the first three quarters of 2000, industry demand significantly exceeded industry capacity. In addition, OEM customers and distributors increased their purchasing and inventory levels in anticipation of further increases in end-product demand. The Company's gross profit margin reached a peak of 34.9% in the third quarter of 2000.

Then, as semiconductor manufacturers, including the Company, continued to increase manufacturing capacity, the global economy slowed causing a sharp decline in sales beginning in the fourth quarter of 2000. The semiconductor industry as a whole experienced a sharp inventory correction primarily in two key markets, communications and computers. The effect on the Company of these unforeseen economic and market conditions, and the risks of becoming a fully integrated manufacturer were amplified with the December 2000 completion of the wafer facility acquisition because of the fixed costs associated with the additional manufacturing facility.

Although the Company's market share increased in 2001, average selling prices for discrete products decreased approximately 23% and silicon wafer pricing fell approximately 12%. Due to decreased demand in 2001, the Company also experienced reduced capacity utilization of its manufacturing facilities and demand-induced changes in product mix, both of which had a negative impact on gross margins. Due to market conditions, capacity utilization at Diodes-FabTech decreased to 45%, while Diodes-China's utilization was 52%, during the third quarter of 2001.

During 2001, the Company responded to the downturn by implementing programs to cut operating costs, including reducing its worldwide workforce by 26%, primarily at the FabTech and Diodes-China manufacturing facilities. Some improvement was seen in the fourth quarter of 2001 when capacity utilization increased to 65% and 60% for Diodes-China and Diodes-FabTech, respectively, but gross margins still ended the year at 15.2%.

Year 2002 continued to be a year where demand improved, the Company's manufacturing capacity utilization increased, and pricing pressures eased somewhat. Average selling prices decreased approximately 8% for discrete products and 1% for wafer products. Gross margins increased from 16.2% in the first quarter to a high of 26.0% in the third quarter when Diodes-China's capacity utilization reached approximately 88% and Diodes-FabTech approximately 83%. The gross margin was 23.0% for the year.

The Company continues to actively adjust its cost structure as dictated by market conditions. Long-term, the Company believes that it will continue to generate value for shareholders and customers, not just from its expanded Diodes-China manufacturing and Diodes-FabTech's foundry assets, but also by the addition of an enhanced technology component to the Company. This is a multi-year initiative that will increase the Company's ability to serve its customers' needs, while establishing the Company at the forefront of the next generation of discrete technologies.

In December 2002, the Company completed its implementation of Oracle's Enterprise Resource Planning ("ERP") software. The Company anticipates increased efficiency through improved management of its global supply chain, manufacturing, customer service, planning and financial analysis.

Income taxes

In accordance with the current taxation policies of the People's Republic of China ("PRC"), Diodes-China was granted preferential tax treatment for the years ended December 31, 1996 through 2003. Earnings were subject to 0% tax rates from 1996 through 2001, and 12% in 2002. Earnings in 2003 will be taxed at 12% (one half the normal central government tax rate), and at normal rates thereafter. 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. 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 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, 2002, accumulated and undistributed earnings of Diodes-China was approximately $26.2 million. Through March 31, 2002, the Company had not recorded deferred Federal or state tax liabilities (estimated to be $8.9 million) 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 2002 earnings of Diodes-China in preparation of a possible dividend distribution. As of December 31, 2002, the Company has recorded $850,000 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 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 Internet address is http://www.diodes.com. We make available, free of charge through our Internet 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, including 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 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, among others, 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 end users and electronic component distributors. The Company reduces revenue in the period of sale for estimates of product returns, distributor price adjustments and other allowances. Actual returns and adjustments could be different from our estimates and provisions, resulting in future adjustments to revenues.

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.

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 for obsolescence and slow-moving items. This evaluation includes analysis of sales levels, sales projections and purchases by items. Based upon this 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.

Results of Operations

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

	Percent of Net Sales Year Ended December 31,					Percentage Dollar Increase (Decrease) Year Ended December 31,			
	1998	1999	2000	2001	**2002**	'98 to '99	'99 to '00	'00 to '01	**'01 to '02**
Net sales	100.0 %	100.0 %	100.0 %	100.0 %	**100.0 %**	30.1 %	48.4 %	(19.7) %	**24.3 %**
Cost of goods sold	(74.4)	(73.2)	(67.8)	(84.8)	**(77.0)**	28.1	37.3	0.5	**12.9**
Gross profit	25.6	26.8	32.2	15.2	**23.0**	36.0	78.7	(62.1)	**87.6**
Operating expenses	(18.3)	(17.5)	(16.3)	(15.3)	**(15.3)**	24.1	37.6	(27.1)	**18.9**
Income (loss) from operations	7.3	9.3	15.9	(0.1)	**7.7**	65.9	153.8	(100.7)	**7,221.8**
Interest expense, net	(0.5)	(0.4)	(0.8)	(2.2)	**(1.0)**	3.9	221.9	120.6	**(43.0)**
Other income	0.2	0.2	0.4	0.8	**0.1**	95.7	175.3	55.1	**(73.9)**
Income (loss) before taxes and minority interest	7.0	9.2	15.5	(1.5)	**6.8**	70.7	151.6	(107.9)	**652.5**
Income tax benefit (provision)	(2.6)	(1.8)	(2.2)	1.9	**1.5**	(8.7)	80.9	(29.1)	**197.7**
Minority interest	0.0	(0.3)	(0.6)	(0.2)	**(0.3)**	1,464.3	193.2	(65.1)	**42.9**
Net income	4.4	7.1	12.8	0.1	**5.0**	108.3	167.5	(99.2)	**4,579.0**

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.

Year 2002 Compared to Year 2001

Net sales for 2002 increased $22,611,000 to $115,821,000 from $93,210,000 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. Although selling prices stabilized compared to 2001, suggesting an easing of pricing pressures, there can be no assurance this trend will continue for 2003. Average selling prices in 2002 decreased approximately 8% for discrete products and 1% for wafer products.

Gross profit for 2002 increased 87.6% to $26,603,000 from $14,179,000 for 2001. Of the $12,424,000 increase, $8,984,000 was due to the increase in gross profit margin from 15.2% in 2001 to 23.0% in 2002, while $3,440,000 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, selling, general and administrative expenses ("SG&A") increased $2,589,000 to $16,300,000 from $13,711,000 for 2001. The 18.9% 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 account pronouncements. SG&A, as a percentage of sales, decreased to 14.1% for 2002 from 14.7% last year.

Research and development expenses ("R&D") increased to $1,472,000, 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. The Company plans to further expand its investment in R&D in 2003 to develop new specialized products.

Net interest expense for 2002 decreased $891,000 to $1,183,000 from $2,074,000 in 2001, due primarily to a decrease in the use 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 $574,000 compared to last year, primarily due to (i) a severance payment as per a separation agreement, (ii) discontinuance of income Diodes-FabTech was receiving from an external company's use of its testing facilities, and (iii) currency exchange losses primarily in Asia.

The Company recorded a provision for income taxes in the amount of $1,729,000 for the year 2002, compared to an income tax benefit of $1,769,000 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.

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. 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, 2002, the Company had a 95% controlling interest in the joint venture.

The Company generated net income of $5,802,000 (or $0.71 basic earnings per share and $0.65 diluted earnings per share) in 2002, as compared to $124,000 (or $0.02 basic earnings per share and $0.01 diluted earnings per share) for 2001. This $5,678,000 increase is due primarily to the 24.3% sales increase at gross profit margins of 23.0% compared to gross profit margins of 15.2% in 2001.

Year 2001 Compared to Year 2000

Net sales for 2001 decreased $22,869,000 to $93,210,000 from $116,079,000 for 2000. The 19.7% decrease was due primarily to (i) a 6.7% decrease in units sold, and (ii) a decrease in average selling prices of 22.7%, both as a result of decreased demand attributable to a slower economy, above normal customer inventories and market pricing pressures. Average selling prices in 2001 decreased approximately 22.7%.

Gross profit for 2001 decreased 62.1% to $14,179,000 from $37,427,000 for 2000. Of the $23,248,000 decrease, $15,874,000 was due to the decrease in gross profit margin from 32.2% in 2000 to 15.2% in 2001, while $7,374,000 was due to the 19.7% decrease in net sales. Gross profit for 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' locations related to lower market prices.

For 2001, selling, general and administrative expenses ("SG&A") decreased $5,103,000 to $13,711,000 from $18,814,000 for 2000. The 27.1% decrease in SG&A was due primarily to lower sales commissions associated with the 19.7% decrease in sales, and lower wages and benefits expenses resulting from a work-force reduction which began in the fourth quarter of 2000. SG&A also decreased due to lower corporate and administrative expenses, partly offset by the inclusion of SG&A expenses and goodwill amortization associated with the December 2000 FabTech acquisition. SG&A, as a percentage of sales, decreased to 14.7% for 2001 from 16.2% last year.

Research and development expenses ("R&D") increased to $592,000, or 0.6% of sales, in 2001 from $141,000, or 0.1% of sales, in 2000. R&D expenses are primarily related to new product development at the silicon wafer level.

Net interest expense for 2001 increased $1,134,000, due primarily to an increase use of the Company's credit facility to support the expansion of Diodes-China and the acquisition of FabTech.

Other income for 2001 increased approximately $276,000 compared to the previous year, primarily due to high-technology grants received by Diodes-China, rental income generated by Diodes-FabTech for the use of some of its testing facilities, and currency exchange gains at the Company's subsidiaries in Taiwan and China, partially offset by management incentives associated with the FabTech acquisition. 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. In 2001, the contingent bonuses were not earned or paid. The total guaranteed commitment is $375,000 per year. Although the $375,000 is reimbursed by LSC (the previous owner of FabTech) to the Company, because LSC is a principal shareholder in the Company, the $375,000 per year is accounted for as an expense.

The Company recorded an income tax benefit in the amount of $1,769,000 for the year 2001, compared to an income tax provision of $2,496,000 for 2000. The reported income tax rate as a percentage of pretax income differs from the statutory combined federal and state tax rates of approximately 40% due primarily to (i) currently the effective tax rate of Diodes-China is approximately 12%, and deferred U.S. federal and state income taxes are not provided on these earnings, and (ii) deferred income tax benefits at a rate of 37.5% have been recognized on losses incurred at Diodes-FabTech.

Minority interest in joint venture represents the minority investor's share of the Diodes-China joint venture's income for the period. The decrease in the joint venture earnings for 2001 is primarily the result of decreased gross profit margins due to excess capacity and demand-induced product mix changes. 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, 2001, the Company had a 95% controlling interest in the joint venture.

The Company generated net income of $124,000 (or $0.02 basic earnings per share and $0.01 diluted earnings per share) in 2001, as compared to $14,895,000 (or $1.85 basic earnings per share and $1.62 diluted earnings per share) for 2000. This $14,771,000 or 99.2% decrease is due primarily to the 19.6% sales decrease at gross profit margins of 14.9% compared to gross profit margins of 31.6% in 2000, partly offset by a decrease of $4,652,000 in operating expenses.

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. 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 serious consequences on the Company's liquidity. The Company's liquidity is dependent, 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 2002 was $20.2 million compared to $14.9 million in 2001 and $10.2 million in 2000. The primary sources of cash flows from operating activities 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 sources of cash flows from operating activities in 2000 were net income of $14.9 million and depreciation and amortization of $5.0 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. The primary use of cash flows from operating activities in 2000 was an increase in inventories of $9.3 million and an increase in accounts receivable of $2.2 million.

For the year ended December 31, 2002, accounts receivable increased 27.0% compared to the 24.3% increase in sales due to a slowing trend in payments, primarily from major distributors and Far East customers. 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, 2002 was 1.7 to 1, compared to a ratio of 1.7 to 1 and 1.4 to 1 as of December 31, 2001 and 2000, respectively.

Cash used by investing activities was $6.9 million in 2002, compared to $8.5 million in 2001 and $21.4 million in 2000. The primary investments were for additional manufacturing equipment and expansion at the Diodes-China manufacturing facility, as well as the FabTech acquisition payments in 2000 and 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 and an earn-out of up to $30 million if FabTech meets specified earnings targets over a four-year period. In 2001 and 2002, these earnings targets were not met, and, therefore, no earn-out was paid. In addition, FabTech was obligated to repay an aggregate of approximately $19 million, 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 amount 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 to extend the payment period from two years to four years, and therefore, payments of approximately $208,000 plus interest began in July 2002.

Cash used by financing activities was $14.0 million in 2002, as the Company reduced its overall debt, compared to cash provided by financing activities of $2.5 million in 2001 and $12.1 million in 2000. In 2002, the Company paid down its total credit facilities by $14.6 million, from $36.0 million to $21.4 million. At December 31, 2002, the Company's total bank credit facility of $45.7 million encompasses one major U.S. bank, three banks in Mainland China and four in Taiwan. As of December 31, 2002, the total credit lines were $15.8 million, $25.0 million, and $4.9 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, 2002, the available credit was $7.5 million, $22.0 million, and $1.9 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. This $2.0 million facility increases the Company's total credit facility to $47.7 million, with the total available and unused credit of $33.4 million.

The 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, 2002.

The Company has used its credit facilities primarily to fund the expansion at Diodes-China and for the FabTech acquisition, as well as to support its 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.

The Company has 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 2001 and 2002, variable interest rates decreased resulting in an interest rate swap liability of $150,000 as of December 31, 2002. As a matter of policy, the Company does not enter into derivative transactions for trading or speculative purposes.

Total working capital increased approximately 5.2% to $20.8 million as of December 31, 2002, from $19.8 million as of December 31, 2001. 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 decreased to 0.82 at December 31, 2002, from 1.02 at December 31, 2001. 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 the ERP software package. 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 expects that year 2003 capital expenditures for the manufacturing facilities will be in excess of the $6.9 million spent in 2002.

Inflation did not have a material effect on net sales or net income in fiscal years 2000 through 2002. A significant increase in inflation could affect future performance.

A table of the Company's contractual obligations as of December 31, 2002 follows:

	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	$ 18,416	$ 5,833	$ 11,333	$ 1,250	$ 0
Capital lease	3,253	230	460	460	2,103
Operating leases	12,883	2,309	4,275	3,885	2,414
Total Obligations	**$34,552**	**$ 8,372**	**$16,068**	**$5,595**	**$4,517**

Diodes Incorporated and Subsidiaries

Consolidated Balance Sheets

DECEMBER 31, (in thousands)	2001	2002
ASSETS		
CURRENT ASSETS		
Cash	$ 8,103	**$ 7,284**
Accounts receivable		
Customers	16,250	**19,387**
Related parties	1,486	**3,138**
	17,736	**22,525**
Allowance for doubtful accounts	(343)	**(353)**
	17,393	**22,172**
Inventories	17,813	**15,711**
Deferred income taxes	4,368	**4,338**
Prepaid expenses and other	954	**1,172**
Prepaid income taxes	312	**261**
Total current assets	48,943	**50,938**
PROPERTY, PLANT AND EQUIPMENT, net	44,925	**44,693**
DEFERRED INCOME TAXES, non-current	3,672	**3,205**
OTHER ASSETS		
Goodwill	5,090	**5,090**
Other	628	**1,084**
Total assets	$103,258	**$105,010**

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

DECEMBER 31, (in thousands, except share data)	2001	2002
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Line of credit	$ 6,503	**$ 3,025**
Accounts payable		
Trade	5,952	**9,039**
Related parties	3,295	**3,361**
Accrued liabilities	5,062	**8,693**
Current portion of long-term debt		
Related party	2,500	**2,500**
Other	5,833	**3,333**
Current portion of capital lease obligations	–	**157**
Total current liabilities	29,145	**30,108**
LONG-TERM DEBT, net of current portion		
Related party	7,500	**6,250**
Other	13,664	**6,333**
CAPITAL LEASE OBLIGATIONS, net of current portion	–	**2,495**
MINORITY INTEREST IN JOINT VENTURE	1,825	**2,145**
STOCKHOLDERS' EQUITY		
Class A convertible preferred stock – par value $1 per share; 1,000,000 shares authorized; no shares issued and outstanding	–	**–**
Common stock – par value $.66 2/3 per share; 30,000,000 shares authorized; 9,227,664 and 9,292,764 shares issued at 2001 and 2002, respectively	6,151	**6,195**
Additional paid-in capital	7,310	**8,060**
Retained earnings	39,882	**45,684**
	53,343	**59,939**
Less: Treasury stock – 1,075,672 shares of common stock, at cost	1,782	**1,782**
Accumulated other comprehensive loss	437	**478**
	2,219	**2,260**
Total stockholders' equity	51,124	**57,679**
Total liabilities and stockholders' equity	$103,258	**$105,010**

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

Diodes Incorporated and Subsidiaries

Consolidated Balance Sheets

Diodes Incorporated and Subsidiaries

Consolidated Statements of Income

YEARS ENDED DECEMBER 31, (in thousands, except per share data)	2000	2001	**2002**
NET SALES	$116,079	$93,210	**$115,821**
COST OF GOODS SOLD	78,652	79,031	**89,218**
Gross profit	37,427	14,179	**26,603**
OPERATING EXPENSES			
Research and development	141	592	**1,472**
Selling, general and administrative	18,814	13,711	**16,300**
Total operating expenses	18,955	14,303	**17,772**
Income (loss) from operations	18,472	(124)	**8,831**
OTHER INCOME (EXPENSES)			
Interest income	392	59	**38**
Interest expense	(1,332)	(2,133)	**(1,221)**
Other	501	777	**203**
Income (loss) before income taxes and minority interest	18,033	(1,421)	**7,851**
INCOME TAX BENEFIT (PROVISION)	(2,496)	1,769	**(1,729)**
Income before minority interest	15,537	348	**6,122**
MINORITY INTEREST IN EARNINGS OF JOINT VENTURE	(642)	(224)	**(320)**
NET INCOME	$ 14,895	$ 124	**$ 5,802**
EARNINGS PER SHARE			
Basic	$ 1.85	$ 0.02	**$ 0.71**
Diluted	$ 1.62	$ 0.01	**$ 0.65**
Number of shares used in computation			
Basic	8,071	8,144	**8,185**
Diluted	9,222	8,881	**8,865**

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

Consolidated Statements of Stockholders' Equity

Diodes Incorporated and Subsidiaries

Years Ended December 31, 2000, 2001, and 2002	Common stock Shares	Common stock Shares in treasury	Common stock Amount	Common stock in treasury	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total
BALANCE, December 31, 1999	9,008,157	1,075,672	$ 6,006,000	$ (1,782,000)	$ 5,886,000	$ 24,863,000	$	$ 34,973,000
Exercise of stock options including $1,048,000 income tax benefit	193,506		128,000		1,257,000			1,385,000
Net income for the year ended December 31, 2000	–	–	–	–	–	14,895,000	–	14,895,000
BALANCE, December 31, 2000	9,201,663	1,075,672	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	26,001	–	17,000	–	167,000	–	–	184,000
BALANCE, December 31, 2001	9,227,664	1,075,672	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	65,100	–	44,000	–	375,000	–	–	419,000
BALANCE, December 31, 2002	**9,292,764**	**1,075,672**	**$6,195,000**	**$(1,782,000)**	**$8,060,000**	**$45,684,000**	**$(478,000)**	**$57,679,000**

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

Consolidated Statements of Cash Flows

Diodes Incorporated and Subsidiaries

YEARS ENDED DECEMBER 31, (in thousands)	2000	2001	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 14,895	$ 124	**$ 5,802**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,003	8,670	**9,747**
Minority interest earnings	642	224	**320**
Loss on disposal of property, plant and equipment	13	239	**217**
Changes in operating assets and liabilities			
Accounts receivable	(2,161)	2,660	**(4,779)**
Inventories	(9,277)	13,975	**2,102**
Prepaid expenses and other	38	(399)	**(674)**
Deferred income taxes	(1,195)	(2,978)	**646**
Accounts payable	445	(2,471)	**3,153**
Accrued liabilities	267	(3,486)	**3,481**
Income taxes payable (refundable)	1,538	(1,620)	**149**
Net cash provided by operating activities	10,208	14,938	**20,164**
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in subsidiary, net of cash acquired	(4,709)	–	**–**
Purchases of property, plant and equipment	(16,968)	(8,477)	**(6,951)**
Proceeds from sales of property, plant and equipment	288	–	**3**
Net cash used by investing activities	(21,389)	(8,477)	**(6,948)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Advances (repayments) on line of credit, net	1,496	(1,247)	**(3,478)**
Net proceeds from the issuance of common stock	337	122	**321**
Management incentive reimbursement from LSC	–	–	**375**
Proceeds from long-term debt	12,801	7,000	**–**
Repayments of long-term debt	(2,534)	(8,360)	**(11,080)**
Repayments of capital lease obligations	–	–	**(133)**
Net cash provided (used) by financing activities	12,100	(2,485)	**(13,995)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	–	(349)	**(40)**
INCREASE (DECREASE) IN CASH	919	3,627	**(819)**
CASH, beginning of year	3,557	4,476	**8,103**
CASH, end of year	$ 4,476	$ 8,103	**$ 7,284**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	$ 1,243	$ 2,123	**$ 1,229**
Income taxes	$ 2,151	$ 2,992	**$ 965**
Non-cash activities:			
Tax benefit related to stock options credited to paid-in capital	$ 1,048	$ 62	**$ 98**
Building acquired through capital lease obligation	$ –	$ –	**$ 2,785**
Assets acquired in purchase of FabTech:			
Cash	$ 441		
Accounts receivable	2,837		
Inventory	5,936		
Prepaid expenses and other	286		
Deferred tax asset	1,962		
Plant and equipment	12,510		
	$ 23,972		
Liabilities assumed in purchase of FabTech:			
Line of credit	$ 3,017		
Accounts payable	1,736		
Accrued liabilities	2,352		
Income tax payable	2		
Long-term debt	13,549		
	$ 20,656		

The accompanying notes are an integral part of these 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). Diodes acquired FabTech on December 1, 2000. See Note 16 for a summary of the acquisition and pro forma financial information.

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 $343,000 and $353,000, for the years ended December 31, 2001 and 2002, respectively.

In fiscal 2001 and 2002, Diodes-China received high-technology grants from the local Chinese government of approximately $453,000 and $365,000, 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. Costs of warranty are expensed as incurred and historically have 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 three to 10 years for machinery and equipment. Leasehold improvements are amortized using the straight-line method over three to five 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 retained by the Company, performed the required impairment test of goodwill as of January 1, 2002 and 2003, 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.

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, 2002, 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 maintains cash balances at major financial institutions in the United States, Taiwan, and China. Accounts at each institution in the United States are insured by the Federal Deposit Insurance Corporation up to $100,000. Taiwan dollars held in accounts in Taiwan are insured by the Central Deposit Insurance Company with no maximum limit. Foreign currency held in accounts in Taiwan are not insured. Accounts in China and Hong Kong are also not insured.

Stock split – On July 14, 2000, the Company effected a three-for-two stock split for shareholders of record as of June 28, 2000 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.

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

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 Financial Accounting Standards Board Statement No. 128.

Note 1. Summary of Operations and Significant Accounting Policies (continued)

For the year ended December 31, 2002, options exercisable for 824,000 shares of common stock have been excluded from the computation of diluted earnings per share because their effect is currently anti-dilutive.

(in thousands)	Year Ended December 31, 2000	2001	**2002**
Net income for earnings per share computation	$14,895	$ 124	**$5,802**
BASIC			
Weighted average number of common shares outstanding during the year	8,071	8,144	**8,185**
Basic earnings per share	$ 1.85	$ 0.02	**$ 0.71**
DILUTED			
Weighted average number of common shares outstanding used in calculating basic earnings per share	8,071	8,144	**8,185**
Add additional shares issuable upon exercise of stock options	1,151	737	**680**
Weighted average number of common shares used in calculating diluted earnings per share	9,222	8,881	**8,865**
Diluted earnings per share	$ 1.62	$ 0.01	**$ 0.65**

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. In accordance with the disclosure provisions of SFAS No. 148, 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.

(in thousands)	For the years ended December 31,	Amounts per share Basic	Diluted
2002			
Net income	**$ 5,802**	**$ 0.71**	**$ 0.65**
Additional compensation for fair value of stock options	**(1,133)**	**(0.14)**	**(0.13)**
Proforma net income	**$ 4,669**	**$ 0.57**	**$ 0.53**
2001			
Net income	$ 124	$ 0.02	$ 0.01
Additional compensation for fair value of stock options	(1,052)	(0.13)	(0.12)
Proforma net income (loss)	$ (928)	$ (0.11)	$ (0.10)
2000			
Net income	$ 14,895	$ 1.85	$ 1.62
Additional compensation for fair value of stock options	(1,033)	(0.13)	(0.11)
Proforma net income	$ 13,862	$ 1.72	$ 1.50

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 $4.8 million of the Company's long-term debt and expires November 30, 2004. Market value of the swap as of December 31, 2002 is included in "Accumulated Other Comprehensive Income (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 FAS 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 $150,000 as of December 31, 2002.

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 statements 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. Included in net income are foreign currency exchange gains

Note 1. Summary of Operations and Significant Accounting Policies (continued)

(losses) of approximately $266,000, $74,000 and $(82,000) for the years ended December 31, 2000, 2001 and 2002, respectively.

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.

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 – During 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 147 ("Acquisitions of Certain Financial Institutions–an amendment of FASB Statements Nos. 72 and 144 and FASB Interpretation No. 9"), No. 146 ("Accounting for Costs Associated with Exit or Disposal Activities") and No. 145, ("Rescission of FAS Nos. 4, 44, and 64, Amendment of FAS No. 13, and Technical Corrections as of April 2002"). SFAS No. 147 does not apply to the Company. SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002. SFAS No. 145 is effective for financial statements issued after May 15, 2002. Management does not believe the adoption of SFAS No. 145 and SFAS No. 146 will have material impact on the financial statements.

In December 2002, the FASB issued SFAS No. 148 ("Accounting for Stock-Based Compensation-Transition and Disclosure–an amendment of FASB Statement No. 123"), which amends SFAS No. 123. SFAS No. 148, which is effective as of December 31, 2002, provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation and amends certain disclosure provisions of SFAS No. 123. SFAS No. 148 does not permit the use of the original Statement No.123 prospective method of transition for changes to the fair value based method made in fiscal years beginning after December 15, 2003. Management has implemented the required disclosure provisions of SFAS No. 148 as of December 31, 2002.

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 clari-fies 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 as of December 31, 2002.

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 and 2000 amounts as well as unaudited quarterly financial data presented in the accompanying financial statements have been reclassified to conform with 2002 financial statement presentation. These reclassifications had no impact on previously reported net income or stockholders' equity.

Note 2. Inventories

(in thousands)	2001	**2002**
Finished goods	$12,030	**$ 9,808**
Work-in-progress	1,848	**1,521**
Raw materials	6,311	**6,444**
	20,189	**17,773**
Less: reserves	(2,376)	**(2,062)**
	$17,813	**$15,711**

Note 3. Property, Plant and Equipment

(in thousands)	2001	**2002**
Buildings and leasehold improvements	$ 2,353	**$ 5,153**
Construction in-progress	2,972	**5,639**
Machinery and equipment	57,767	**61,657**
	63,092	**72,449**
Less accumulated depreciation and amortization	(18,429)	**(28,018)**
	44,663	**44,431**
Land	262	**262**
	$ 44,925	**$ 44,693**

The Company is in the process of implementing an Enterprise Resource Planning software system for which approximately $1,636,000 and $2,511,000 is capitalized within construction in-progress in 2001 and 2002, respectively.

Note 4. Goodwill

No goodwill was acquired or impaired during the year ended December 31, 2002. As of December 31, 2002, U.S. operations goodwill was $5,090,000, and Asian operations goodwill was zero. The following tables show the effect of SFAS No. 142 on net income and earnings per share for the years ended December 31, 2000, 2001, and 2002.

(in thousands, except per share amounts)	For the years ended December 31,	Per share amount	
2002	Amount	Basic	Diluted
Reported net income	**$5,802**	**$0.71**	**$0.65**
Add: Goodwill amortization	**-**	**-**	**-**
Adjusted net income	**$5,802**	**$0.71**	**$0.65**
2001			
Reported net income	$ 124	$ 0.02	$ 0.01
Add: Goodwill amortization	288	0.03	0.03
Adjusted net income	$ 412	$ 0.05	$ 0.04
2000			
Reported net income	$14,895	$ 1.85	$ 1.62
Add: Goodwill amortization	62	0.01	0.01
Adjusted net income	$14,957	$ 1.86	$ 1.63

Note 5. Bank Credit Agreements and Long-Term Debt

Lines 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, 2002, totals $45,700,000, as follows:

(in thousands) 2002 Credit Facility	Terms	Outstanding at December 31, 2001	**2002**
$17,500	Collateralized by all assets, variable interest (prime rate) due monthly	$ 12,898	**$ 6,666**
$25,000	Unsecured, interest at LIBOR plus 0.8% (approximately 2.2% at December 31, 2002) due quarterly	9,483	**3,000**
$ 3,200	Unsecured, variable interest at prime plus 0.25% (approximately 4.5% at December 31, 2002) due monthly	1,720	**3,025**
		24,101	**12,691**
Less: due after 12 months (included in long-term debt table to follow)		(17,598)	**(9,666)**
		$ 6,503	**$ 3,025**

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

(in thousands)	2001	**2002**
Note payable to a customer for advances made to the Company. Amount was repaid quarterly by price concessions, and no balance was remaining as of December 31, 2002.	$ 1,899	**$ –**
Note payable to LSC, a major stockholder of the Company (see Note 10), due in equal monthly installments of $208 plus interest beginning July 31, 2002, through June 30, 2006. The unsecured note bears interest at LIBOR plus 2% (approximately 3.8% at December 31, 2002) and is subordinated to the interest of the Company's primary lender.	10,000	**8,750**
Term note portion of $25,000 line of credit facility due in 2003.	7,000	**3,000**
Term note portion of $17,500 bank credit facility, secured by substantially all assets, due in aggregate monthly principal payments of $120 plus interest at LIBOR plus 2.1% (approximately 4.5% at December 31, 2002) through December 2002 and then $70 through December 2004. All outstanding balances were paid in 2002.	3,098	**–**
Term note portion of $17,500 bank credit facility, secured by substantially all assets, due in aggregate monthly principal payments of $208 plus interest at 6.8% fixed by hedge contract through December 2004.	7,500	**6,666**
	29,497	**18,416**
Current portion	8,333	**5,833**
	$21,164	**$12,583**

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.

During 2002, the average and maximum borrowings on revolving lines of credit were $1,905,000 and $3,996,000, respectively. The weighted average interest rate and outstanding borrowings was 4.7% in 2002.

Note 5. Bank Credit Agreements and Long-Term Debt (continued)

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

(in thousands)	2002
2003	$ 5,833
2004	8,833
2005	2,500
2006	1,250
	$18,416

The Company has 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 $4,792,000 at December 31, 2002.

Note 6. Capital Lease Obligations

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

(in thousands) For years ending December 31,	
2003	$ 230
2004	230
2005	230
2006	230
2007	230
Thereafter	2,103
	3,253
Less: interest	(601)
Present value of minimum lease payments	2,652
Less: Current portion	(157)
Long-term portion	$2,495

At December 31, 2002, property under capital leases had a cost of $2,785,000. The related accumulated depreciation and amortization amounted to $186,000 at December 31, 2002.

Note 7. Accrued Liabilities

(in thousands)	2001	2002
Employee compensation and payroll taxes	$1,777	**$3,915**
Sales commissions	243	**250**
Refunds to product distributors	168	**225**
Other	1,484	**2,147**
Equipment purchases	1,390	**2,156**
	$5 ,062	**$8,693**

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:

(in thousands)	2000	2001	2002
Current tax provision (benefit)			
Federal	$ 1,376	$ -	**$ -**
Foreign	2,314	1,132	**1,231**
State	1	1	**1**
	3,691	1,133	**1,232**
Deferred tax expense (benefit)	(1,195)	(2,902)	**497**
Total income tax provision (benefit)	$ 2,496	$(1,769)	**$1,729**

Note 9. Income Taxes (continued)

Reconciliation between the effective tax rate and the statutory tax rates for the years ended December 31, 2000, 2001 and 2002 are as follows:

(dollars in thousands)	2000 Amount	2000 Percent of pretax earnings	2001 Amount	2001 Percent of pretax earnings	**2002** Amount	**2002** Percent of pretax earnings
Federal tax	$ 6,131	34.0	$ (483)	34.0	**$ 2,669**	**34.0**
State franchise tax, net of Federal benefit	1,046	5.8	(82)	5.8	**455**	**5.8**
Foreign income tax rate difference	(4,572)	(25.4)	(1,204)	84.7	**(1,409)**	**(18.0)**
Other	(109)	(0.6)	–	–	**14**	**0.2**
Income tax provision (benefit)	$ 2,496	13.8	$(1,769)	124.5	**$ 1,729**	**22.0**

In accordance with the current taxation policies of the Peoples Republic of China (PRC), Diodes-China was granted preferential tax treatment for the years ended December 31, 2000 through 2003. Earnings were subject to 0% tax rates in 2000 and 2001, and 12% in 2002. Earnings in 2003 will be taxed at 12% (one half the normal central government tax rate), and at normal rates thereafter. 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.

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 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, 2002, accumulated and undistributed earnings of Diodes-China is approximately $26.2 million. Through March 31, 2002, the Company had not recorded deferred Federal or state tax liabilities (estimated to be $8.9 million) 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, under the direction of the Board of Directors, the Company began to record deferred taxes on a portion of the 2002 earnings of Diodes-China in preparation of a possible dividend distribution. As of December 31, 2002, the Company has recorded $850,000 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 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, 2001 and 2002, the Company's deferred tax assets and liabilities are comprised of the following items:

(in thousands)	2001	**2002**
Deferred tax assets, current		
Inventory cost	$ 1,087	**$ 631**
Accrued expenses and accounts receivable	552	**706**
Net operating loss carryforwards and other	2,729	**3,001**
	$ 4,368	**$ 4,338**
Deferred tax assets, non-current		
Plant, equipment and intangible assets	$(3,055)	**$(2,784)**
Net operating loss carryforwards and other	6,727	**5,989**
	$ 3,672	**$ 3,205**

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 10 years from the date of grant and are exercisable over the period stated in each option. Approximately 881,000 shares were available for future grants under the plans as of December 31, 2002.

(number in thousands)	Outstanding Options: Number	Exercise price per share: Range	Exercise price per share: Weighted average
Balance, December 31, 1999	1,662	$ 1.25- 8.50	$ 4.28
Granted	512	14.88-23.92	22.16
Exercised	(194)	1.25- 5.00	3.43
Canceled	(41)	5.00-23.92	12.17
Balance, December 31, 2000	1,939	1.25-23.92	8.90
Granted	226	6.23- 8.32	8.27
Exercised	(26)	3.33- 5.00	4.70
Canceled	(24)	6.67-23.92	19.93
Balance, December 31, 2001	2,115	1.25-23.92	8.78
Granted	338	8.53- 9.57	8.58
Exercised	(65)	1.25- 8.32	4.92
Canceled	(4)	8.32- 8.53	8.43
Balance, December 31, 2002	**2,384**	**$ 1.25-23.92**	**$ 8.86**

Note 10. Stock Option Plans (continued)

As of December 31, 2002, approximately 1,718,000 of options granted were exercisable. The following summarizes information about stock options outstanding at December 31, 2002:

Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price
Plan 1 $1.25 - $23.92	1,020,000	4.82 years	$9.33
Plan 2 $1.25 - $23.92	1,040,192	5.72 years	$8.50
Plan 3 $8.58 - $ 9.50	324,300	9.32 years	$8.49
	2,384,492		

The Company also has an incentive bonus plan, which reserves shares of stock for issuance to key employees. As of December 31, 2002, 186,000 shares remain available for issuance under this plan. No shares were issued under this incentive bonus plan for years ended December 31, 2000 through 2002.

The proforma 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
2002	**4.00%**	**5 years**	**44.08%**	**N/A**
2001	5.00%	5 years	79.55%	N/A
2000	5.00%	5 years	98.44%	N/A

Note 11. Related Party Transactions

Lite-On Semiconductor Corporation – In July 1997, Vishay Intertechnology, Inc. (Vishay) and The Lite-On Group, a Taiwanese consortium, formed a joint venture - Vishay/Lite-On Power Semiconductor Pte., LTD. (Vishay/LPSC) – to acquire Lite-On Power Semiconductor Corp. (LPSC), 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 now called Lite-On Semiconductor Corporation (LSC). 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's subsidiaries buy product from and sell product to LSC. Net sales to and purchases from LSC were as follows for years ended December 31:

(in thousands)	2000	2001	**2002**
Net sales	$ 633	$7,435	**$16,147**
Purchases	12,898	8,002	**14,183**

As a result of the acquisition of FabTech from LSC (See Note 16), the Company is indebted to LSC in the amount of $8,750,000 as of December 31, 2002. Terms of the debt are indicated in Note 5. No interest expense is outstanding as of December 31, 2002 on this debt. Under the terms of the acquisition agreement, LSC has 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, 2001, and 2002, the Company purchased approximately $7,394,000 and $9,515,000 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:

(in thousands)	2001	**2002**
Accounts receivable		
LSC	$1,414	**$3,138**
Other	72	**–**
	$1,486	**$3,138**
Accounts payable		
LSC	$2,854	**$2,803**
Other	441	**558**
	$3,295	**$3,361**

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 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).

Note 12. Geographic Information (continued)

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.

(in thousands)

2002	Asia	U.S.A.	Consolidated
Total sales	**$ 95,081**	**$66,338**	**$161,419**
Intercompany sales	**(39,592)**	**(6,006)**	**(45,598)**
Net sales	**$ 55,489**	**$60,332**	**$115,821**
Assets	**63,721**	**41,289**	**105,010**
Property, plant and equipment	**32,313**	**12,380**	**44,693**
2001			
Total sales	$ 71,589	$ 53,705	$ 125,294
Intercompany sales	(28,978)	(3,106)	(32,084)
Net sales	$ 42,611	$ 50,599	$ 93,210
Assets	58,877	44,381	103,258
Property, plant and equipment	31,779	13,146	44,925
2000			
Total sales	$104,815	$ 64,744	$ 169,559
Intercompany sales	(50,781)	(2,699)	(53,480)
Net sales	$ 54,034	$ 62,045	$ 116,079
Assets	61,149	51,801	112,950
Property, plant and equipment	31,617	13,512	45,129

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 $503,000, $2,556,000, and $2,711,000, for the years ended December 31, 2000, 2001 and 2002, respectively.

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

(in thousands)	
2003	$ 2,309
2004	2,178
2005	2,097
2006	2,106
2007	1,779
Thereafter	2,414
	$12,883

Environmental matters – The Company has received a claim from one of its former U.S. landlords regarding potential groundwater contamination at a site in which the Company engaged in manufacturing from 1967 to 1973. The landlord has alleged that the Company may have some responsibility for cleanup costs. The Company does not anticipate that the ultimate outcome of this matter will have a material adverse effect on its financial condition.

Note 14. Employee Benefits Plan

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 17% of the employees' eligible payroll. 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, 2000, 2001, and 2002, the Company's total contribution to the Plan was approximately $307,000, $97,000, and $357,000, respectively.

Note 15. Management Incentive Agreements

As part of the FabTech acquisition (see Note 16), the Company entered into management incentive agreements with several members of FabTech's management. The agreements provide guaranteed annual payments as well as contingent bonuses based on the annual profitability of FabTech and subject to a maximum annual amount. Future guaranteed and maximum payments provided for by the management incentive agreements for the years ended December 31, are:

(in thousands)	Guaranteed	Maximum contingent	Total
2003	$375	$ 975	$1,350
2004	375	1,200	1,575
	$750	$2,175	$2,925

Any portion of the guaranteed and contingent liability paid by FabTech will be reimbursed by LSC.

Note 16. Business Acquisition

On December 1, 2000, the Company purchased all of the outstanding capital stock of FabTech, Inc. from LSC (a then 37% shareholder of the Company). FabTech operates a 5-inch silicon wafer foundry in Lee's Summit, Missouri.

The acquisition was accounted for using the purchase method of accounting, whereby the assets and liabilities acquired were recorded at their estimated fair values. The terms of the stock purchase required an initial cash payment of approximately $5,150,000, including acquisition costs, and the assumption of $19 million in debt (including a $2.5 million loan made by Diodes-North America to FabTech). In addition, the agreement provides for a potential earnout of up to $30 million based upon FabTech attaining certain earnings targets over the four-year period immediately following the purchase. For the years 2000 through 2002, no earnout was paid out as the earnings targets were not met.

As a condition to the purchase agreement, certain officers and management of FabTech will receive a total of $2,475,000 over four years. Of this amount, $975,000 was accrued by FabTech as incentive compensation for services rendered prior to the acquisition. The remaining $1,500,000 will be accrued ratably over four years following the acquisition, subject to the terms of the management incentive agreements (see Note 15). The amount of cash paid to the seller at closing was reduced by $975,000, and any portion of the guaranteed and contingent liability to be paid by FabTech will be reimbursed by LSC.

The excess of the purchase price over the fair value of assets acquired (goodwill) amounted to approximately $4,410,000, which beginning in fiscal 2002 is no longer being amortized, but instead will be tested for impairment annually in accordance with SFAS No. 142 as previously discussed.

The results of operations of FabTech are included in the consolidated financial statements from the date of acquisition. The following represents the unaudited proforma results of operations as if FabTech had been acquired at the beginning of 2000.

(in thousands, except per share data) Year Ended December 31,	2000
Net sales	$136,438
Net income	14,211
Earnings per share	
Basic	$ 1.76
Diluted	1.54

The proforma results do not represent the Company's actual operating results had the acquisition been made at the beginning of 2000.

Note 17. Selected Quarterly Financial Data (Unaudited)

	Quarter Ended			
(in thousands, except per share data)	March 31	June 30	Sept. 30	Dec. 31
FISCAL 2002				
Net sales	**$26,924**	**$29,946**	**$30,287**	**$28,664**
Gross profit	**4,352**	**7,131**	**7,867**	**7,253**
Net income	**208**	**1,563**	**1,767**	**2,262**
Earnings per share				
Basic	**$ 0.03**	**$ 0.19**	**$ 0.22**	**$ 0.28**
Diluted	**0.03**	**0.18**	**0.20**	**0.25**
FISCAL 2001				
Net sales	$ 25,109	$ 20,730	$ 21,937	$ 25,434
Gross profit	4,121	4,044	2,419	3,595
Net income (loss)	521	525	(847)	(75)
Earnings (loss) per share				
Basic	$ 0.06	$ 0.06	$ (0.10)	$ (0.01)
Diluted	0.06	0.06	(0.10)	(0.01)
FISCAL 2000				
Net sales	$ 26,687	$ 32,173	$ 31,857	$ 25,362
Gross profit	8,437	10,489	11,121	7,380
Net income	3,140	4,320	4,650	2,785
Earnings per share				
Basic	$ 0.39	$ 0.54	$ 0.57	$ 0.34
Diluted	0.34	0.46	0.50	0.31

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, 2002 and 2001 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, 2002. 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, 2002 and 2001, and the consolidated results of their operations and cash flows for each of the years in the three year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

MOSS ADAMS, LLP

Moss Adams LLP

Los Angeles, California
January 27, 2003

Directors

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

C.H. Chen [1C]
President & Chief Executive Officer, *Diodes, Inc.*
Vice Chairman, *Lite-On Semiconductor Corporation*

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

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

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

Dr. Shing Mao [1, 2]
Retired Chairman of the Board, *Lite-On Incorporated*

John M. Stich [1, 2, 3]
President & Chief Executive Officer, *The Asian Network*

Executive Officers

C.H. Chen
President & Chief Executive Officer

Joseph Liu
Vice President, Operations

Mark A. King
Vice President, Sales and Marketing

Carl C. Wertz
Chief Financial Officer, Treasurer & Secretary

1 – Member, Strategic Planning Committee
2 – Member, Compensation and Stock Options Committee
3 – Member, Audit Committee
C – 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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2002	High	Low	2001	High	Low
1ST QUARTER	$ 8.49	$ 7.02	1ST QUARTER	$ 15.50	$ 8.38
2ND QUARTER	9.50	7.47	2ND QUARTER	11.00	6.25
3RD QUARTER	9.45	7.08	3RD QUARTER	9.90	4.45
4TH QUARTER	10.87	6.12	4TH QUARTER	7.80	4.50

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Los Angeles

TRANSFER AGENT AND REGISTRAR
Continental Stock Transfer and Trust Company
New York

LEGAL COUNSEL
Sheppard, Mullin, Richter & Hampton
Los Angeles

FINANCIAL INFORMATION ONLINE
World Wide Web users can access Company information on the Diodes, Inc. Investor page, located at **www.diodes.com**

Distribution Network

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

ALL AMERICAN — a leader in distribution technology
FUTURE ELECTRONICS
ARROW ELECTRONICS, INC.
JACO
AVNET
Reptron
Digi-Key

Design and production: Listen&Look

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