DIODES INCORPORATED 1999 ANNUAL REPORT

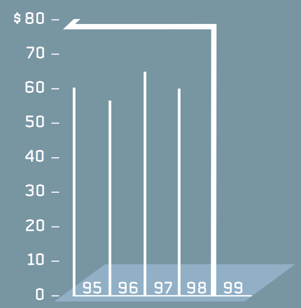
moving into

competitive prices

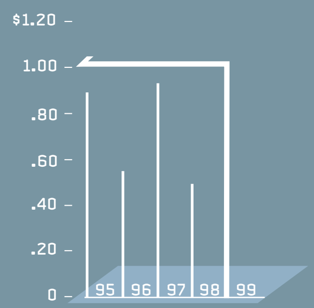
on-time delivery

top quality products

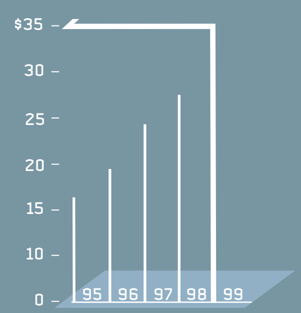
dependable customer support



NET SALES
(in millions)



EARNINGS PER SHARE
(diluted)

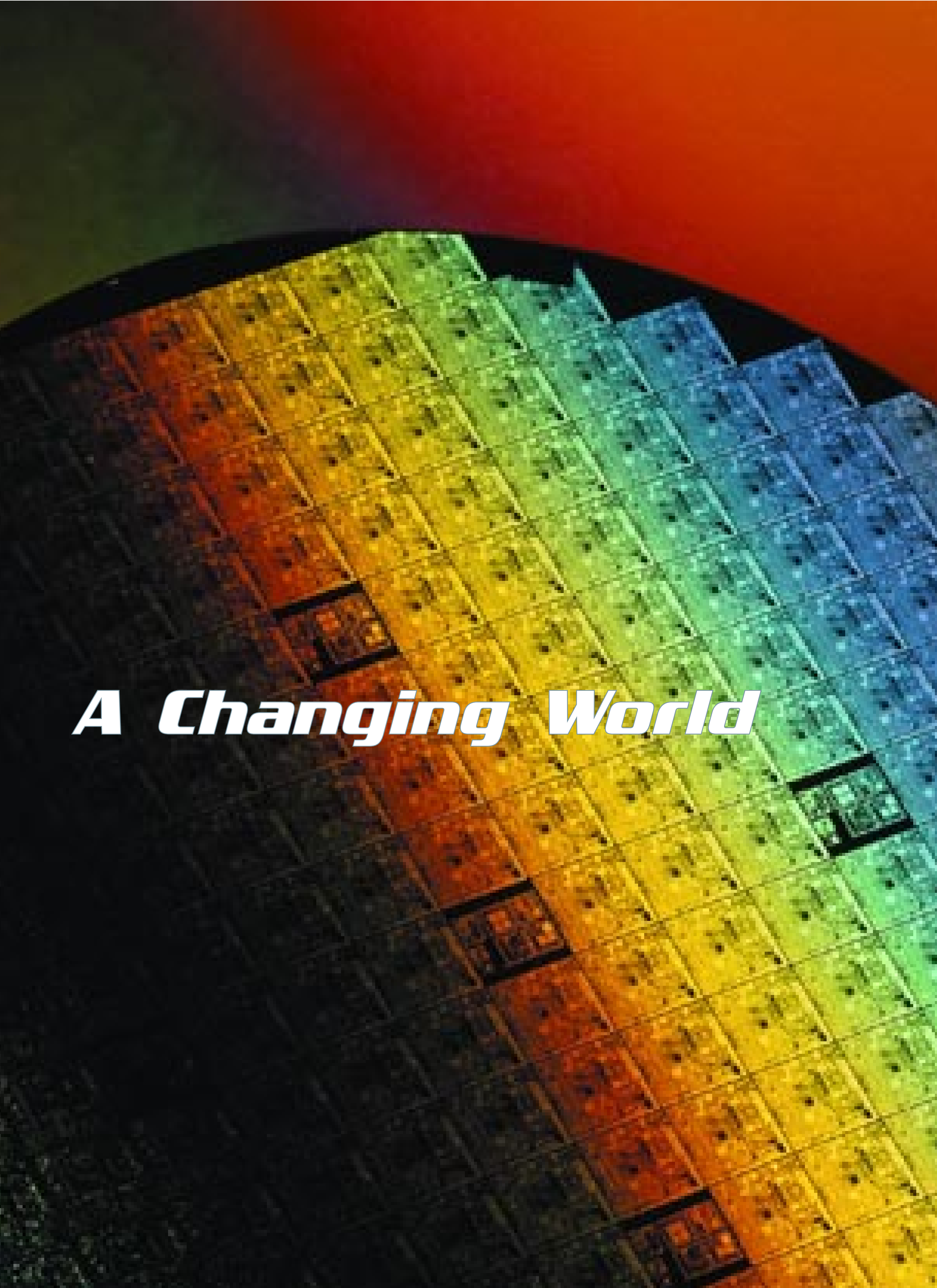


STOCKHOLDERS' EQUITY
(in millions)

FINANCIAL HIGHLIGHTS
(in thousands except per share data)

	1998	1999	change
Net sales	$ 61,328	$ 79,251	+29%
Gross profit	15,402	20,948	+36%
Selling, general and administrative expenses	11,016	13,670	+24%
Income from operations	4,386	7,278	+66%
Interest expense, net	281	292	+4%
Other income	93	182	+96%
Income before taxes and minority interest	4,198	7,168	+71%
Provision for income taxes	1,511	1,380	-9%
Minority interest in joint venture earnings	(14)	(219)	
Net income	2,673	5,569	+108%
Earnings per share:			
Basic	$ 0.53	$ 1.10	+108%
Diluted	$ 0.50	$ 1.02	+104%
Number of shares used in computation:			
Basic	5,029	5,084	+1%
Diluted	5,371	5,469	+2%

	1998	1999	change
Total assets	$ 45,389	$ 62,407	+37%
Working capital	16,639	15,903	-4%
Long-term debt	8,102	6,984	-14%
Stockholders' equity	27,460	34,973	+27%


A Changing World

to our shareholders

Raymond Soong
Chairman of the Board

With our steadfast commitment to business growth through manufacturing capabilities and customer service, 1999 was a year of record performance for Diodes Incorporated. We are pleased to report strong increases in both revenues and net income for 1999. The steps taken in 1998, aimed at providing a solid basis for future growth, paid off handsomely. Revenues for 1999 grew to a record $79.3 million, compared to $61.3 million for 1998, an increase of 29%. Net income for 1999 increased 108% to a record $5.6 million, or $1.02 per share, compared to $2.7 million, or $0.50 per share, last year.

The record operating results are largely due to a combination of increased demand for the Company's products, improved product mix, and better inventory management. In addition, Diodes-China, our manufacturing facility in Shanghai, was a major contributor to our performance as manufacturing profits from this facility, combined with stronger average selling prices toward the latter part of the year, contributed to higher gross margins. Finally, demand was strong across all product lines, especially in the Far East, which accounted for approximately 45% of total sales.

As important as our record financial performance in 1999 were the considerable investments made in personnel and capital equipment to help set the strategic course for Diodes Incorporated into the new millennium, and to provide our customers:

- Consistently Competitive Prices — our Diodes-China facility with its state-of-the-art manufacturing equipment, access to a large labor pool and low cost structures, is becoming a stronger world-class manufacturer of discrete semiconductor devices.
- Top Quality Products that Perform to Specification — our Diodes-China (QS-9000 and ISO-9002 certified) and Diodes-Taiwan (ISO-9002 certified) manufacturing facilities are diligently monitored to assure product quality.
- Reliable Product Availability — Information Technology (IT) enhancements to our warehouse and distribution networks facilitate further efficiencies in inventory control to assure immediate product availability and timely delivery of customer orders.
- Dependable Customer Support — dedicated to matching our products to customer requirements, our sales, marketing and engineering teams provide a level of customer service that is key to our continued success.

As we move into the year 2000 and beyond, we hold every confidence that our strategic investments will set a strong foundation for the Company's success. Our strategic objectives for Diodes Incorporated include:

- Continuing to invest in our manufacturing capabilities as guided by inputs from our sales, marketing and engineering teams, with a focus on serving the technical requirements of our customers.
- Implementing a company-wide Enterprise Resource Planning (ERP) system to drive new business value by energizing our organization and operations, and a compatible Manufacturing Execution System (MES) to streamline our manufacturing logistics methodology.
- Implementing a system of order placement and prompt fulfillment using the Internet, and harnessing new technologies that allow Diodes Incorporated to conduct business efficiently and effectively in our global environment.
- Increasing our engineering staff and the resulting stream of new products and packages.
- Strengthening our strategic partnerships with wafer fabrication facilities to support future requirements.
- Developing new markets in China and Europe.

As we begin the year 2000, the Company's book-to-bill ratio remains solid, and with our backlog at some of its highest levels ever, we are optimistic that we will achieve further top-and bottom-line growth. With our recently announced investments at Diodes-China (bringing our total investment in plant and equipment to close to $40 million) combined with strong demand for our products, the year 2000 could be another banner year for Diodes Incorporated.

MOVING FORWARD ... We are encouraged by the agreement that the Lite-On Group has made to repurchase from Vishay Intertechnology, Inc. ("Vishay") the latter's interest in Lite-On Power Semiconductor Corporation ("LPSC"), a major shareholder in Diodes Incorporated since 1991. Our optimism is based on our longstanding alliance with both the Lite-On Group and LPSC, and while we believe that our affiliation with Vishay has been mutually beneficial, Diodes Incorporated has and will continue to operate independently. We remain confident that with our competitive pricing, internal manufacturing capabilities and capacity, customer/applications engineering, and strong customer service reputation, Diodes Incorporated has proven itself to be a valuable discrete component manufacturer and supplier and we will continue to build on our strengths and customer relationships.

We are further encouraged with the appointment of C.H. Chen as President and Chief Executive Officer of Diodes Incorporated. This appointment was announced following the resignation of Michael Rosenberg in March 2000. While we extend our appreciation to Mr. Rosenberg for his achievements that moved the Company forward over the last few years, we are delighted that an individual of Mr. Chen's caliber and experience of more than thirty years in the semiconductor industry, including twenty years with Texas Instruments, has accepted this leadership position. Mr. Chen is exceptionally well qualified to oversee the continuing advancement of the Company's technology and the enhancement of its customer base.

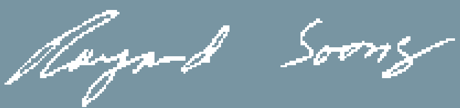
IT'S A CHANGING WORLD ... Characterized by high-powered hand-held products such as wireless and cellular phones, Palm Pilots, and laptop computers resulting from small powerful discrete semiconductor devices, the millennium represents a new time of impressive opportunities for Diodes Incorporated. Focused on customer service, manufacturing capabilities, and new products, we are optimistically moving forward with prospects for significant growth.

AND, WE'RE READY ... Our record financial performance along with our strategic investments and new corporate leadership set the stage for Diodes Incorporated into the new millennium. We have high expectations for the future as we embark on a new and exciting phase for our Company, our customers, and our shareholders.

Today, we are in a better position than ever to assure our customers timely delivery of top-quality products at competitive prices. We are equally fortunate in now having what are unquestionably the finest sales, marketing, and engineering teams in the Company's history. With more than forty years of experience in providing quality discrete semiconductors to telecommunications, computer, automotive, consumer and industrial electronics industries, we look forward to supporting our customers in advancing their technologies.

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

Sincerely,



Raymond Soong • Chairman of the Board

Going global on the Internet

Serving customers 24 hours a day...

Telecommunications

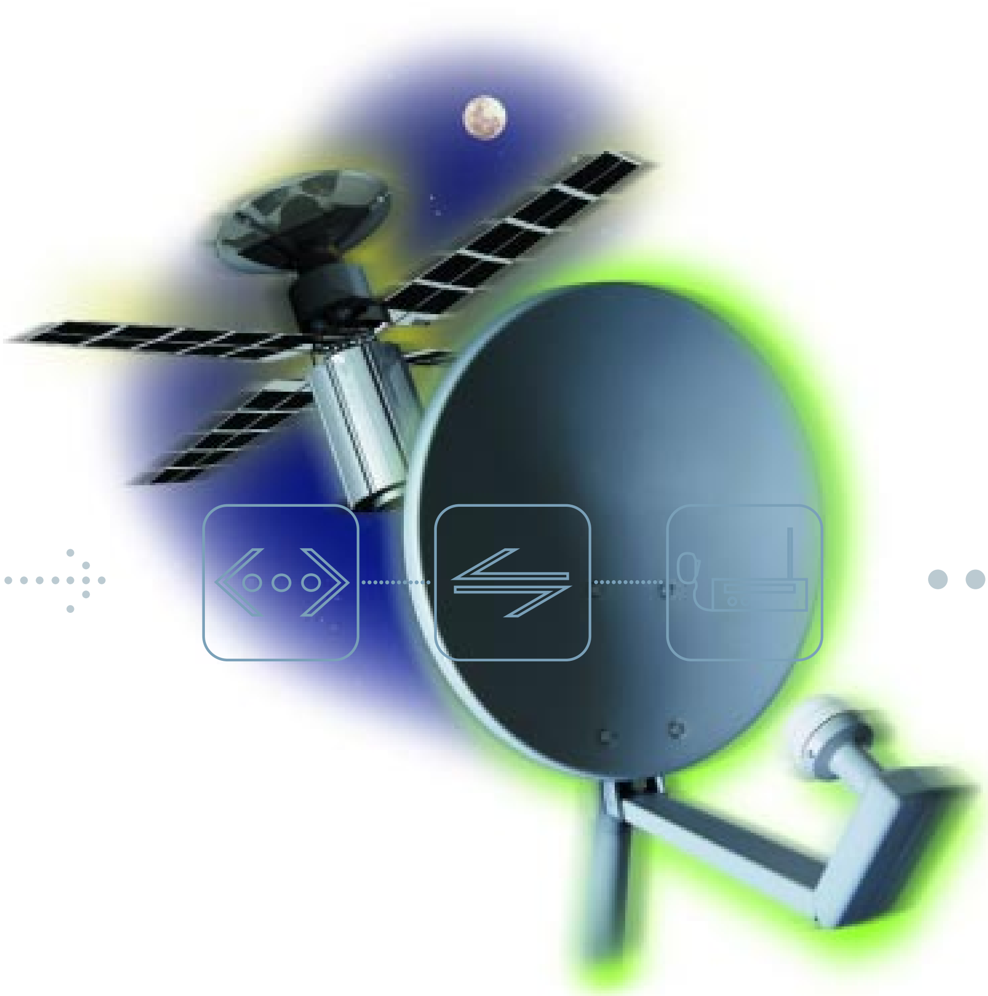
SOT363

Telecommunications technologies are significantly transforming our lives. Now we are interacting across time zones, continents, and cultures in real time.

Vast and powerful, the Internet is catapulting us into a new economy, with instantaneous information exchange dramatically reducing time to market. The dynamic electronic network offers endless opportunities for sales, market research, and personalized customer services.

As companies harness telecommunications technologies and strengthen their networks and infrastructures to compete, we see remarkable growth opportunities for Diodes Incorporated's efficient, low-voltage discrete semiconductors — a necessary component in these advancing technologies.

As people around the world increasingly communicate over the Internet, using new robust high-speed online services, from interactive TV to broadband access, such products as cellular phones, pagers, and fiber optic communication systems are proliferating at accelerated speeds.



To compete in the digital economy, businesses are investing in telecommunications technologies, such as data switches, servers, networks, satellites, and a plethora of wireless communications products. For Diodes Incorporated, this means added sales opportunities for efficient low-voltage devices.

Moving into a world

With one bottom line—better, faster, cheaper...

Computing

D2pak

Running at the speed of light, active people and businesses are on the move. Internet-enabled computer devices that fit in your palm or pocket allow you to excel in this fast-paced environment. You exchange information and ideas while making decisions on the go, receiving e-mail, electronic files, and facsimiles on laptop computers, and messages on mobile wireless phones and pagers.

This proliferation of computing technology is an exciting growth opportunity for Diodes Incorporated. We design, engineer, manufacture, and deliver high-density discrete components for emerging space-constrained applications.

>

When it comes to discrete components for computers, smaller and faster is the key. With the trend to portable and handheld products, the need for higher-density components in small packages is growing. Electronic notebooks, laptops, pagers, modems, CD-ROM drives, RAM, motherboards and more depend on high-density components.

Internet users may go online to check stock quotes and perform transactions. Some may research product specifications, prices, inventory, and shipping schedules as well as exchange information before making purchases. Others may go online to listen to music. As the Internet enters every home and business environment, the need for efficient semiconductors continues to expand.

Driving on the fast-track to success
in classy comfort and sensational style...

Automotive

SOT23

Racing down the road of product innovation, automobiles are using more electronics than ever before. Providing drivers the supreme pleasure of effortless excursion, remote keyless entries, automatic seat and mirror settings, and climate controls are just the beginning. Cruising in ever-increasing comfort and style, drivers chart their destinations with GPS devices, relax with cruise control, and listen to music on high-performance audio systems.

Emergent automotive electronics require highly reliable discrete devices. At Diodes Incorporated's QS-9000 and ISO-9000 certified facilities, reliability testing is a top priority. There's no faster way to drive to the competitive edge. We deliver quality. We focus on customer satisfaction.

>

From suspension systems to airbags to windshield wipers to cruise and rpm controls, the electronics built into cars for convenience, comfort, safety and style are limitless. At Diodes Incorporated, we design and manufacture high-reliability components for the new wave of automotive electronics.

The new generation of automotive electronics is boosting the market demand for efficient high-reliability discrete components. Automobiles, with their sophisticated instrumentation panels, powerful sound systems, automatic headlights, navigation systems, and more are becoming so rich with electronics that they practically drive themselves.

Changing our daily lives

with smart consumer and industrial appliances...

Electronics

SOD123

We're moving into a world of timesaving and convenience products. Before long, microprocessor-embedded home and industrial appliances linked through the Internet will handle our routine tasks. As our cars pull into the driveway, the lights, WebTV, coffeemaker, and microwave oven will automatically turn on. To ensure that our appliances are always up and running, monitoring devices will automatically perform maintenance checks, search for low-cost services, and schedule repairs.

In this world of Internet-enabled consumer and industrial electronics, we see growth opportunities for Diodes Incorporated. With our engineering and manufacturing expertise and organizational flexibility, we are confident in our ability to meet our customers' changing needs.

Manufacturers of garage door openers, power tools, stereos, VCR and DVD systems, blenders, washers and dryers, remote control units for everything from TV channel changing to opening window blinds and powering up ceiling fans, turn to Diodes Incorporated for quick delivery on cost-effective quality discrete components.

Whether for fire alarm and security systems, ballast lighting systems, home HVAC control systems, or a myriad of other consumer and industrial applications, the efficiency and quality of our products and services allow our customers to deliver their products in short cycle times.

State-of-the-Art Manufacturing

In the midst of exciting and industrious Shanghai sits our world class Diodes-China manufacturing facility. This QS-9000 and ISO-9002 certified facility produces high-quality surface mount discrete components for the new generation of smaller, more powerful products.

Equipped with cutting-edge technology as a result of our nearly $40 million investment since 1995, we reached new levels of productivity in 1999 and look forward to even greater achievements in the year 2000.

Diodes-China and Diodes-Taiwan, our two manufacturing facilities, together accounted for about 44% of Diodes Incorporated's sales in 1999. As the call for high-circuit density components continues, the contribution from our manufacturing facilities is expected to climb.

With a commitment to quality products and customer service excellence, Diodes Incorporated manufactures and supplies cost-effective discrete semiconductor components that allow our customers to advance their technologies as together we move into the Changing World.

Management's Discussion and Analysis of Financial Condition and Results of Operations

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 below under the heading "Cautionary Statement for Purposes of the "Safe Harbor" Provision of the Private Securities Litigation Reform Act of 1995" and elsewhere in this Report on Form 10-K, that could cause actual results to differ materially from those anticipated by the Company's management. The Private Securities Litigation Reform Act of 1995 (the "Act") provides certain "safe harbor" provisions for forward-looking statements. All forward-looking statements made in this Annual Report on Form 10-K are made pursuant to the Act.

General

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

The Company's products are sold primarily in North America and Asia, both directly to end-users and through electronic component distributors. In 1999, approximately 56% and 44% of the Company's products were sold in North America and the Far East, respectively, compared to 71% and 29% in 1998, respectively. The increase in the percentage of sales in the Far East is expected to continue as the Company believes there is greater potential to increase market share in that region.

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

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

In March 2000, Vishay agreed to sell its 65% interest in the Vishay/LPSC joint venture to the Lite-On Group, the 35% owner. Because of this transaction, LPSC, a wholly-owned subsidiary of the Lite-On Group, is the Company's largest shareholder, holding approximately 38% of the Company's Common Stock. The Company considers its relationship with LPSC to be mutually beneficial and the Company and LPSC will continue its strategic alliance as it has since 1991. The Company will continue to compete, as it always has, with Vishay's Telefunken division. The overlap in comparable products is insignificant and is not expected to have any material impact on the financial results of the Company.

Products are sold under two brand names: Diodes, Inc. and Vishay/Lite-On Power Semiconductor. The Company is unifying product lines under a limited number of brand names in order to establish brand name unity and consistency of product, and to capitalize on brand name recognition, where possible. Although customers continue to recognize Diodes' brand products and view the Company as a separate vendor from Vishay, at this time it is uncertain as to the effect that the Vishay/LPSC transaction will have on brand recognition or major distributors. However, management believes that with the Company's competitive pricing, internal manufacturing capabilities and capacity, customer/applications engineering, and strong customer service reputation, it has proven itself to be a valuable supplier, and as such the impact of the Vishay/LPSC transaction is not anticipated to have an adverse impact on customer relations.

The Company's Far East subsidiaries, Diodes-Taiwan and Diodes-China, both manufacture product for sale to North America and the Far East. Diodes-Taiwan manufacturing focuses on products such as axial Schottky and MELF rectifiers, to name a few. These "general use" products are destined for end products in

MANAGEMENT'S DISCUSSION & ANALYSIS

the automotive industry as well as for use in commercial appliances, household lighting, and electric hand tools, among others. Diodes-China manufacturing, for the most part, focuses on SOT-23 and SOD-123 products. These surface mount devices ("SMD") are used in the computer and telecommunications industries and are destined for cellular phones, notebook computers, pagers, PCMCIA cards, modems, and garage door transmitters, among others. Diodes-China's state-of-the-art facilities have been designed to develop even smaller, higher-density products as electronic industry trends to portable and hand-held devices continue.

The discrete semiconductor industry has, for the last few years, been subject to severe pricing pressures, compounded by the Asian economic situation. Although manufacturing costs have been falling, excess manufacturing capacity and over-inventory has caused selling prices to fall at a greater extent than manufacturing cost. Because of this competitive environment, gross profit margins have declined from 28.3% in 1995 to 24.8% in 1998. Beginning in the second half of 1999, manufacturing profit from Diodes-China coupled with an apparent easing of pricing pressures contributed to a gross profit margin of 26.4%. To compete in this highly competitive industry, in recent years, the Company has committed substantial resources to the development and implementation of two areas of operation: (i) sales and marketing, and (ii) manufacturing.

Emphasizing the Company's focus on customer service, additional personnel and programs have been added. In order to meet customers' needs at the design stage of end-product development, the Company has employed additional applications engineers. These applications engineers work directly with customers to assist them in "designing in" the correct products to produce optimum results. Regional sales managers, working closely with manufacturers' representative firms and distributors, have also been added in the U.S. and the Far East to help satisfy customers' requirements. In addition, the Company has developed relationships with major distributors who inventory and sell the Company's products. The relationship with Vishay has provided additional opportunities for the Company to have its products offered by some of the world's largest distributors.

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

Since 1997, the Company's manufacturing focus has primarily been in the development and expansion of Diodes-China. To date, the Company and its minority partner have increased property, plant and equipment at the facility to approximately $25 million. The equipment expansion allows for the manufacture of additional SOT-23 packaged components as well as other surface-mount packaging, including the smaller SOD packages. Approximately $8.0 million of the Company's existing credit facility has been used to finance the additional manufacturing capacity.

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

In 1999, Diodes-Taiwan began purchasing silicon wafers, a new product line, from FabTech for resale to customers in the Far East. Silicon wafer sales in 1999 were $4,005,000. The gross margin percentage on sales of silicon wafers, though still profitable, is far below that of the Company's standard product lines. Silicon wafer sales are a complementary service for some customers, rather than a focused product line. It is anticipated that sales of silicon wafers may not continue beyond the second half of 2000 as the Company evaluates other, more profitable complementary products.

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

The Company's effective tax rate decreased to 19.3% in 1999 from 36.0% in 1998. The decrease in the Company's effective tax rate is due primarily to the increase in Diodes-China's contribution to net income at a tax rate of 0%. From 2001 through 2003, the tax rate at Diodes-China will be 50% of the normal tax rate of 27%. Changes in Taiwan income tax policies in 1998 caused management to reconsider its investment strategies in the fourth quarter of 1998 for current and future earnings at Diodes-Taiwan, resulting in a distribution of approximately $4.5 million made by Diodes-Taiwan to the Company. The decision was made, in part, because the changes in Taiwan income tax policies made it less favorable to accumulate earnings at Diodes-Taiwan and, in part, to allow the Company to redirect its financial resources from Diodes-Taiwan to its expansion of the Diodes-China joint venture. See "Results of Operations – 1999 Compared to 1998" for a more detailed explanation.

Net Sales, Cost of Goods Sold and Other Income for the years ended December 31, 1998, 1997, 1996, and 1995 have been restated to be consistent with the current presentation of certain transactions. In the past, profit realized on drop shipments from Diodes-Taiwan was accounted for as "Commission Income" under "Other Income." These shipments (which are expected to become an increasingly significant part of the Company's business) are now included in "Net Sales," with an appropriate charge to "Cost of Goods Sold." The income derived from these transactions is now included in Gross Profit. These changes have no effect on Net Income and Earnings per Share.

The increase to Net Sales for the years ended December 31, 1998, 1997, 1996, and 1995 was $1,067,000, $1,317,000, $1,708,000, and $3,131,000, respectively. The increase to Gross Profit was $458,000, $384,000, $231,000, and $271,000, respectively. The decrease in Other Income was $458,000, $384,000, $231,000, and $271,000, respectively. In addition, Minority Interest in Joint Venture Earnings is presented after Provision for Income Taxes as per Rule 5-03(b)12 of Regulation S-X.

The Company has conducted a comprehensive review of its computer systems to identify the systems that could be affected by the Year 2000 Issue ("Y2K"). The total cost of Y2K compliance was not considered a material expense, and as of March 17, 2000, no significant operational problems for the Company's computer systems occurred as a result of Y2K. However, if problems surface that have not yet been identified that will require substantial time and resources to remedy, they could have a material adverse effect on the Company's business.

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,	1995	1996	1997	1998	1999
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	(72.7)	(73.9)	(72.1)	(74.9)	(73.6)
Gross profit	27.3	26.1	27.9	25.1	26.4
Operating expenses	(15.5)	(18.0)	(16.6)	(18.0)	(17.2)
Income from operations	11.8	8.1	11.3	7.2	9.2
Interest expense, net	(0.2)	(0.6)	(0.1)	(0.5)	(0.4)
Other income	0.4	0.1	0.4	0.2	0.2
Income before taxes and minority interest	11.9	7.6	11.6	6.8	9.0
Income taxes	4.2	2.9	3.9	2.4	1.7
Minority interest	0.0	0.4	(0.1)	0.0	(0.3)
Net income	7.7	5.1	7.6	4.4	7.0

Percentage Dollar Increase (Decrease)

Year Ended December 31,	'95 to '96	'96 to '97	'97 to '98	'98 to '99
Net sales	(5.9)%	16.1%	(8.5)%	29.2%
Cost of goods sold	(4.3)	13.2	(4.9)	26.9
Gross profit	(9.9)	24.2	(17.8)	36.0
Operating expenses	9.1	7.2	(1.1)	24.1
Income from operations	(35.0)	61.9	(42.2)	65.9
Interest expense, net	143.8	(82.3)	353.2	3.9
Other income	(73.6)	279.7	(61.7)	95.7
Income before taxes and minority interest	(39.8)	76.6	(46.0)	70.7
Income taxes	(35.9)	57.3	(42.6)	(8.7)
Minority interest	–	(106.3)	(6.7)	(1,464.3)
Net income	(36.9)	72.8	(47.8)	108.3

MANAGEMENT'S DISCUSSION & ANALYSIS

1999 Compared to 1998

Net sales for 1999 increased approximately $17,923,000 to $79,251,000 from $61,328,000 for 1998. The 29.2% increase was due primarily to (i) a 36.0% increase in units sold, as a result of an increased demand for the Company's products, primarily in the Far East and (ii) $4,005,000 sales of silicon wafers, a new product line. Diodes-China's trade sales in 1999 were $3,389,000, compared to $280,000 in the same period last year. The increase in units sold was partly offset by a 7.1% decrease in the Company's average selling price, primarily in the Far East. In the fourth quarter of 1999, average selling prices rose 3.6% and 5.0%, compared to the fourth quarter 1998 and the third quarter 1999, respectively. The Company anticipates pricing pressures could continue, though the severity may slowly diminish.

In 1999, Diodes-Taiwan began purchasing silicon wafers, a new product line, from FabTech for resale to customers in the Far East. The gross margin percentage on sales of silicon wafers, though still profitable, is far below that of the Company's standard product line. Silicon wafer sales are a complementary service for some customers, rather than a focused product line. It is anticipated that sales of silicon wafers will not continue through the second half of 2000 as the Company evaluates other, more profitable complementary products.

Gross profit for 1999 increased $5,546,000 to $20,948,000 from $15,402,000 for 1998. The 36.0% increase was due primarily to the 29.2% increase in net sales. Manufacturing profit at Diodes-China at higher gross profit margins contributed to an increase in gross margin percentage to 26.4% for 1999 compared to 25.1% for 1998. Although gross profit margins strengthened in the third and fourth quarters of 1999, pricing pressures continue to exist on many of the Company's product lines, and there can be no guarantee that margins will continue to improve. Average selling prices in 1999 decreased approximately 7.1%, which represents decreases in average selling prices in the Far East and North America of approximately 18.3% and 7.9%, respectively, compared to 1998. In addition, as the trend of consolidation among electronic component distributors continues, the Company anticipates that a greater portion of its distributor sales will be to larger distributors, usually under agreements resulting in lower than historical gross profit margins.

For 1999, selling, general and administrative expenses ("SG&A") increased $2,654,000 to $13,670,000 from $11,016,000 for 1998. The 24.1% increase in SG&A was due primarily to increases in management expenses at Diodes-China, higher Company-wide marketing and advertising expenses, increased sales commissions at Diodes-Taiwan, and additional sales and engineering personnel. SG&A as a percentage of sales decreased to 17.2% from 18.0% in the comparable period last year, primarily due to the 29.2% increase in net sales.

Net interest expense for 1999 increased $11,000, due primarily to an increased use of the Company's credit facility to support the expansion of Diodes-China versus the same period last year. The Company's interest expense is primarily the result of the term loan by which the Company is financing (i) the investment in Diodes-China's manufacturing facility and (ii) the $2.6 million receivable, including accrued interest, advanced to FabTech. Interest income is primarily the interest charged to FabTech, a related party, under the Company's formal loan agreement, as well as earnings on its cash balances.

Other income for 1999 increased approximately $89,000 compared to the same period last year, due primarily to currency exchange fluctuations at the Company's subsidiaries in Taiwan and China.

The Company's overall effective federal, state, and foreign tax rate decreased to 19.3% in 1999 from 36.0% in 1998. This decrease is due primarily to the increase in Diodes-China's contribution to net income at a tax rate of 0% through 2000. From 2001 through 2003, the tax rate at Diodes-China will be 50% of the normal tax rate of 27%. Based upon tax rates in the U.S. and Taiwan and the expected profitability of each of the Company's three business segments during the balance of the year, it is anticipated that for 2000 the provision for income taxes will be in the range of 10-20% of pre-tax income.

Through December 31, 1997, the Company had undistributed earnings at Diodes-Taiwan for which no deferred income tax liability had been recorded since, at that time, management considered this investment to be permanent, and no plans or intentions existed to distribute the capital of its Taiwan subsidiary. Changes in Taiwan income tax policies in 1998 caused management to reconsider its investment strategies in the fourth quarter of 1998 for current and future earnings at Diodes-Taiwan. While a portion of its investment will remain in Taiwan, a distribution of approximately $4.5 million will be made by Diodes-Taiwan to the Company. Approximately $1.5 million was distributed in 1999, and the remaining is scheduled to be distributed in 2000. The decision was made, in part, because the changes in Taiwan income tax policies made it less favorable to accumulate earnings at Diodes-Taiwan and, in part, to allow the Company to redirect its financial resources from Diodes-Taiwan to its expansion of Diodes-China.

In 1999, Diodes-China contributed to the Company's profitability and, therefore, the $219,000 minority interest in joint venture represents the minority investor's 5% share of the joint venture's profit. The increase in the joint venture earnings for 1999 is primarily the result of increased sales. The joint venture investment is eliminated in consolidation of the Company's financial statements and the activities of Diodes-China are included therein. As of December 31, 1999, the Company had a 95% controlling interest in the joint venture.

The Company generated net income of $5,569,000 (or $1.10 basic earnings per share, $1.02 diluted earnings per share), as compared to $2,673,000 (or $0.53 basic earnings per share, $0.50 diluted earnings per share) for 1998. This $2,896,000 or 108.3% increase is due primarily to the 29.2% sales increase at gross profit margins of 26.4% compared to gross profit margins of 25.1% in 1998, as well as to the tax effect in 1998 of the Diodes-Taiwan earnings distribution.

1998 Compared to 1997

Net sales for 1998 compared to 1997 decreased $5,688,000, or approximately 8.5%. The decrease in net sales was due primarily to industry-wide pricing pressures that offset increased unit sales of approximately 3.3%. The increase in unit sales is comprised of an increase in unit sales in the Far East of approximately 36.9%, offset by a decrease of approximately 3.8% in North America. Also contributing to lower sales in 1998 was the loss of approximately $3.0 million in supplier-specific business due to the previously announced acquisition of a major supplier by a competitor. The Company anticipates that a portion of this supplier-specific business will be recovered as the Diodes-China manufacturing facility develops additional product types.

The decrease in gross profit for 1998 compared to 1997 of $3,325,000, or approximately 17.8%, was due primarily to the 8.5% decrease in net sales. Pricing pressures within the industry resulting from decreased demand and excess on-hand inventory contributed to a decrease in gross margin percentage to 25.1% in 1998 from 27.9% in 1997. Average selling prices in 1998 decreased approximately 11.6%, which represents decreases in average selling prices in the Far East and North America of approximately 24.5% and 9.0%, respectively, compared to 1997. In addition, as the consolidation of electronic component distributors continues, the Company anticipates that a greater portion of its distributor sales will be to larger distributors, usually under agreements resulting in lower gross profit margins.

For 1998, SG&A decreased $121,000, or approximately 1.1%, compared to 1997. The decrease in SG&A was due primarily to a decrease in sales commissions due to the 8.5% decrease in net sales, partly offset by an increase in wages due to additional sales, engineering and customers service personnel. SG&A for 1998, as a percentage of net sales, increased to 18.0% from 16.6% for 1997, primarily due to the 8.5% decrease in net sales.

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

Other income for 1998 decreased approximately $150,000 compared to the same period last year, due primarily to currency exchange fluctuation at the Company's subsidiaries in Taiwan and China.

The Company's overall effective federal, state, and foreign tax rate increased to 36.0% in 1998 from 33.9% in 1997. Through December 31, 1997, the Company had undistributed earnings at Diodes-Taiwan for which no deferred income tax liability had been recorded since, at that time, management considered this investment to be permanent, and no plans or intentions existed to distribute the capital of its Taiwan subsidiary. Changes in Taiwan income tax policies in 1998 caused management to reconsider its investment strategies in the fourth quarter of 1998 for current and future earnings at Diodes-Taiwan. While a portion of its investment will remain in Taiwan, a distribution of approximately $4.5 million will be made by Diodes-Taiwan to the Company in 1999. The decision was made, in part, because the changes in Taiwan income tax policies made it less favorable to accumulate earnings at Diodes-Taiwan and, in part, to allow the Company to redirect its financial resources from Diodes-Taiwan to its expansion of the Diodes-China joint venture. Accordingly, deferred income tax liabilities amounting to $512,000 have been recorded. Income tax rates vary among the U.S., Taiwan, and China, therefore, income tax expense may fluctuate depending upon the separate profitability of the three business segments. Tax rates vary from 0% at Diodes-China for the next three years, to rates between 25-35% at Diodes-Taiwan, to 41% in the U.S.

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

For 1998, the Company generated net income of $2,673,000 (or $0.53 basic earnings per share, $0.50 diluted earnings per share), as compared to $5,125,000 (or $1.03 basic earnings per share, $0.93 diluted earnings per share) for 1997. This 47.8% decrease is due primarily to the 8.5% sales decrease at gross profit margins of 25.1% compared to gross profit margins of 27.9% in 1997, as well as to the tax effect of the Diodes-Taiwan earnings distribution.

Financial Condition

Liquidity and Capital Resources

Cash provided by operating activities in 1999 was $8.0 million compared to $5.5 million in 1998 and $4.0 million in 1997. The primary sources of cash flows from operating activities in 1999 were net income of $5.6 million and an increase in accounts payable of $5.3 million. The primary use of cash flows from operating activities in 1999 was an increase in accounts receivable of $5.4 million and an increase in inventories of $2.8 million. The primary sources of cash flows from operating activities in 1998 were net income of $2.7 million and a decrease in accounts receivable of $1.8 million. The primary use of cash flows from operating activities in 1998 was a decrease in accounts payable of $1.3 million. In 1997, the primary sources of cash flows from operating activities were net income of $5.1 million and an increase in accounts payable of $966,000, while the primary use was a $3.0 million increase in accounts receivable.

Since December 31, 1998, accounts receivable from customers has increased 64.3% due primarily to a slowing trend in payments from major distributors. The Company does not expect this trend to result in additional bad debt expense. The Company continues to closely monitor its credit policies, while at times providing more flexible terms, primarily to its Asian customers, when necessary. The ratio of the Company's current assets to current liabilities on December 31, 1999 was 1.7 to 1, compared to a ratio of 2.6 to 1 and 2.1 to 1 as of December 31, 1998 and 1997, respectively.

Cash used by investing activities was $9.3 million in 1999, compared to $9.8 million in 1998 and $3.5 million in 1997. The primary investment in all three years was for additional manufacturing equipment at the Diodes-China manufacturing facility.

Cash provided by financing activities was $2.4 million in 1999, compared to $4.3 million in 1998 and $77,000 in 1997. In March 1998, the Company amended an August 1996 loan agreement whereby the Company obtained a $23.1 million credit facility with a major bank consisting of: a working capital line of credit up to $9 million and term commitment notes providing up to $14 million for plant expansion, advances to vendors, and letters of credit for Diodes-China. Interest on outstanding borrowings under the credit agreement is payable monthly at LIBOR plus a negotiated margin. Fixed borrowings require fixed principal plus interest payments for sixty months thereafter. The agreement has certain covenants and restrictions, which, among other matters, require the maintenance of certain financial ratios and operating results, as defined in the agreement. The Company was in compliance as of December 31, 1999. The working capital line of credit expires June 30, 2000 and contains a sublimit of $3.0 million for issuance of commercial and stand-by letters of credit. As of December 31, 1999, approximately $6.9 million was outstanding under the term note commitment, and the average interest rate on outstanding borrowings was approximately 6.5%.

The Company has used its credit facility primarily to fund the advances to Diodes-China and FabTech as well as to support its operations. At December 31, 1999, amounts due from FabTech, including accrued interest, were approximately $2.6 million, and the entire amount is due February 2001. The Company believes that the continued availability of this credit facility, together with internally generated funds, will be sufficient to meet the Company's current foreseeable operating cash requirements.

In July 1998, the Company replaced two previously filed guarantees to Diodes-China and the minority investor of the Diodes-China joint venture for $1.0 million and $850,000, respectively, as well as a $1.0 million letter of credit, with a $3.0 million guarantee. The Company is in the process of extending this agreement as well as increasing the borrowing limits.

Total working capital decreased approximately 4.4% to $15.9 million as of December 31, 1999, from $16.6 million as of December 31, 1998. The Company believes that such working capital position will be sufficient for growth opportunities.

The Company's debt to equity ratio decreased to 0.29 at December 31, 1999, from 0.32 at December 31, 1998. It is anticipated that this ratio may increase as the Company continues to use its credit facilities to fund additional sourcing opportunities.

As of December 31, 1999, the Company has no material plans or commitments for capital expenditures other than as previously announced in connection with the expansion at Diodes-China. However, to ensure that the Company can secure reliable and cost effective sourcing to support and better position itself for growth, the Company is continuously evaluating additional 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.

Inflation did not have a material effect on net sales or net income in fiscal years 1999, 1998 or 1997.

CONSOLIDATED BALANCE SHEETS

(in thousands) December 31,	1998	1999
ASSETS		
CURRENT ASSETS		
Cash	$ 2,415	$ 3,557
Accounts receivable		
Customers	9,107	14,962
Related party	125	90
Other	496	300
	9,728	15,352
Allowance for doubtful accounts	110	297
	9,618	15,055
Inventories	13,777	16,575
Deferred income taxes, current	1,098	1,700
Prepaid expenses and other current assets	448	762
Total current assets	27,356	37,649
PROPERTY, PLANT AND EQUIPMENT, net	13,750	20,909
ADVANCES TO RELATED PARTY VENDOR	3,024	2,561
DEFERRED INCOME TAXES, non-current	–	146
OTHER ASSETS		
Goodwill, net	1,013	969
Other	246	173
Total assets	$ 45,389	$ 62,407
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Line of credit	$ 812	$ 3,237
Accounts payable		
Trade	2,991	7,716
Related party	1,213	1,821
Accrued liabilities	3,421	5,782
Income taxes payable	169	878
Current portion of long-term debt	2,111	2,312
Total current liabilities	10,717	21,746
DEFERRED COMPENSATION	56	57
DEFERRED INCOME TAXES	521	–
LONG-TERM DEBT, net of current portion	5,991	4,672
MINORITY INTEREST IN JOINT VENTURE	644	959
STOCKHOLDERS' EQUITY		
Class A convertible preferred stock – par value $1 per share; 1,000,000 shares authorized; no shares issued	–	–
Common stock – par value $.66 2/3 per share; 9,000,000 shares authorized; 5,764,352 shares in 1998 and 6,005,521 shares in 1999 issued and outstanding	3,843	4,004
Additional paid-in capital	6,105	7,888
Retained earnings	19,294	24,863
	29,242	36,755
Less: Treasury stock – 717,115 shares of common stock, at cost	1,782	1,782
	27,460	34,973
Total liabilities and stockholders' equity	$ 45,389	$ 62,407

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

>>>

CONSOLIDATED STATEMENT OF INCOME

(in thousands except for share data) Years ended December 31,	1997	1998	1999
NET SALES	$ 67,016	$ 61,328	$ 79,251
COST OF GOODS SOLD	48,289	45,926	58,303
Gross profit	18,727	15,402	20,948
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	11,137	11,016	13,670
Income from operations	7,590	4,386	7,278
OTHER INCOME (EXPENSES)			
Interest income	343	304	316
Interest expense	(405)	(585)	(608)
Other	243	93	182
Income before income taxes and minority interest	7,771	4,198	7,168
INCOME TAX PROVISION	(2,631)	(1,511)	(1,380)
Income before minority interest	5,140	2,687	5,788
MINORITY INTEREST IN JOINT VENTURE	(15)	(14)	(219)
NET INCOME	$ 5,125	$ 2,673	$ 5,569
EARNINGS PER SHARE			
Basic	$ 1.03	$ 0.53	$ 1.10
Diluted	$ 0.93	$ 0.50	$ 1.02
Number of shares used in computation			
Basic	4,971	5,029	5,084
Diluted	5,482	5,371	5,469

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

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Years ended December 31, 1997, 1998, and 1999	COMMON STOCK Shares	Shares in treasury	Amount	Additional paid-in capital	Retained earnings	Common stock in treasury
BALANCE, December 31, 1996	5,675,794	717,115	$ 3,784,000	$ 5,768,000	$ 11,694,000	$ 1,782,000
Increase in ownership of Subsidiary joint venture	–	–	–	–	(198,000)	–
Exercise of stock options	25,225	–	17,000	45,000	–	–
Net income for the year ended December 31, 1997	–	–	–	–	5,125,000	–
BALANCE, December 31, 1997	5,701,019	717,115	3,801,000	5,813,000	16,621,000	1,782,000
Exercise of stock options including $78,000 income tax benefit	63,333	–	42,000	292,000	–	–
Net income for the year ended December 31, 1998	–	–	–	–	2,673,000	–
BALANCE, December 31, 1998	5,764,352	717,115	3,843,000	6,105,000	19,294,000	1,782,000
Exercise of stock options including $961,000 income tax benefit	241,169	–	161,000	1,783,000	–	–
Net income for the year ended December 31, 1999	–	–	–	–	5,569,000	–
BALANCE, December 31, 1999	6,005,521	717,115	$ 4,004,000	$ 7,888,000	$ 24,863,000	$ 1,782,000

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

>>>

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands) Years ended December 31,	1997	1998	1999
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 5,125	$ 2,673	$ 5,569
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,004	1,168	2,787
Minority interest earnings	15	14	219
Loss (gain) on sale of property, plant and equipment	(3)	53	45
Interest income accrued on advances to vendor	(190)	(203)	(195)
Changes in operating assets and liabilities			
Accounts receivable	(3,021)	1,779	(5,437)
Inventories	(257)	(252)	(2,798)
Prepaid expenses and other assets	(572)	278	(240)
Deferred income taxes	330	519	(1,269)
Accounts payable	966	(1,315)	5,333
Accrued liabilities	(114)	1,480	2,361
Income taxes payable	689	(665)	1,670
Net cash provided by operating activities	3,972	5,529	8,045
CASH FLOWS FROM INVESTING ACTIVITIES			
Collection of advances to related party vendor	–	–	658
Investment in joint venture	(2,050)	–	–
Purchases of property, plant and equipment	(1,495)	(9,793)	(9,942)
Proceeds from sales of property, plant and equipment	1	27	1
Net cash used by investing activities	(3,544)	(9,766)	(9,283)
CASH FLOWS FROM FINANCING ACTIVITIES			
Advances (repayments) on line of credit, net	1,000	(188)	2,425
Net proceeds from the issuance of common stock	62	256	983
Proceeds from long-term debt	–	10,388	1,000
Repayments of long-term debt	(985)	(6,534)	(2,124)
Minority interest of joint venture investment	–	405	96
Net cash provided by financing activities	77	4,327	2,380
INCREASE IN CASH	505	90	1,142
CASH, beginning of year	1,820	2,325	2,415
CASH, end of year	$ 2,325	$ 2,415	$ 3,557
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	$ 405	$ 584	$ 602
Income taxes	$ 1,908	$ 1,658	$ 1,171
Non-Cash Financing Activity:			
Tax benefit related to exercise of stock options credited to paid-in capital	$ –	$ 78	$ 961

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 automotive, electronics, computing and telecommunications industries. The Company's products include small signal transistors and MOSFETs, transient voltage suppressers (TVSs), zeners, Schottkys, diodes, rectifiers and bridges. The products are sold primarily throughout North America and Asia.

> **PRINCIPLES OF CONSOLIDATION** – The consolidated financial statements include the accounts of the U.S. Corporation, Diodes Incorporated, its wholly-owned subsidiary, Diodes Taiwan Corporation, Ltd. (Diodes-Taiwan) and its majority owned subsidiary Shanghai KaiHong Electronics Co., Ltd. (Diodes – China) (both foreign subsidiaries, Notes 10 and 11). All significant intercompany balances and transactions have been eliminated.

> **REVENUE RECOGNITION** – Revenue is recognized when the product is shipped 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.

> **PRODUCT WARRANTY** – The Company generally warrants its products for a period of one year from the date of sale. Warranty expense historically has not been significant.

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

> **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 1 to 10 years for machinery and equipment. Leasehold improvements are amortized using the straight-line method over 1 to 5 years.

> **GOODWILL** – The excess of the cost of purchased companies over the fair value of the net assets at the dates of acquisition comprises goodwill. Goodwill is amortized on the straight-line method over 25 years. Amortization expense for each of the years ended December 31, 1997, 1998, and 1999 was $44,000. As of December 31, 1998 and 1999, accumulated amortization is $88,000 and $132,000, respectively.

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

> **CONCENTRATION OF CREDIT RISK** – Financial instruments which potentially subject the Company to concentrations of credit risk include trade accounts receivable. Credit risk is limited by the dispersion of the Company's customers over various geographic areas, operating primarily in the electronics manufacturing and distribution industries. The Company performs on-going credit evaluations of its customers and generally requires no collateral from its customers. Historically, credit losses have not been significant. The Company maintain cash balances at major financial institutions in the United States, Taiwan, and China. Accounts at each institution in the United States are insured by the Federal Deposit Insurance Corporation up to $100,000. Accounts at each institution in Taiwan are insured by the Central Deposit Insurance Company up to NT $1,000,000 (approximately US$30,000 as of December 31, 1999).

> **FOREIGN OPERATIONS** – Through its subsidiaries the Company maintains operations in Taiwan and China for which the functional currency is the U.S. dollar. Assets and liabilities of its foreign operations which are denominated in currency other than the U.S. dollar are not hedged and therefore are subject to fluctuations in the currency exchange rate between the U.S. dollar and foreign currencies (NT dollar and Renminbi Yuan). Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rate. Included in net income are foreign currency exchange gains (losses) of approximately $297,000, $111,000 and $(3,000) for the years ended December 31, 1997, 1998 and 1999, respectively.

> **EARNINGS PER SHARE** – Earnings per share are based upon the weighted average number of shares of common stock and common stock equivalents outstanding, net of common stock held in treasury.

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

> **STOCK-BASED COMPENSATION** – As permitted by SFAS 123, Accounting for Stock-Based Compensation, the Company continues to apply APB Opinion No. 25 (APB 25) and related interpretations in accounting for its stock option plans. Under SFAS 123, a fair value method is used to determine compensation cost for stock options or similar equity instruments. Compensation is measured at the grant date and is recognized over the service or vesting period. Under APB 25, compensation cost is the excess, if any, of the quoted market price of the stock at the measurement date over the amount that must be paid to acquire the stock. The new standard requires disclosure of the proforma effect on income, as if the Company had adopted SFAS 123, which is disclosed in Note 8.

NOTE 1
SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

> **RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS** – During 1999, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standard No. 135 ("Rescission of FASB Statement No. 75 and Technical Corrections"), No. 136 ("Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others") and No. 137 ("Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of Financial Accounting Standard Statement No. 133—an amendment of Financial Accounting Standard Statement No. 133") which are effective for years after 1999. Management believes these pronouncements will not have a material effect on the Company's financial statements or disclosures.

> **RECLASSIFICATIONS** – Certain 1998 and 1997 amounts as well as unaudited quarterly financial data presented in the accompanying financial statements have been reclassified to conform with 1999 financial statement presentation.

NOTE 2
INVENTORIES
(in thousands)

	1998	1999
Finished goods	$ 12,968	$ 10,176
Work-in-progress	259	886
Raw materials	550	5,513
	$ 13,777	$ 16,575

NOTE 3
PROPERTY, PLANT AND EQUIPMENT
(in thousands)

	1998	1999
Buildings	$ 1,238	$ 1,539
Leasehold improvements	224	3,026
Machinery and equipment	15,289	21,737
	16,751	26,302
Less accumulated depreciation and amortization	(3,324)	(5,716)
	13,427	20,586
Land	323	323
	$ 13,750	$ 20,909

NOTE 4
BANK CREDIT AGREEMENT AND LONG-TERM DEBT

The Company has a $23.1 million credit agreement with a major bank providing a working capital line of credit up to $9 million, term commitment notes providing up to $10 million for plant expansion and advances to vendors, and letters of credit of $4.1 million for Diodes-China operations. Interest on outstanding borrowings under the complete credit agreement is payable monthly at LIBOR plus a negotiated margin. Fixed borrowings require fixed principal plus interest payments for sixty months thereafter. The agreement has certain covenants and restrictions which, among other matters requires the maintenance of certain financial ratios and operating results, as defined in the agreement. The Company was in compliance with the covenants as of December 31, 1999.

The working capital line of credit expires June 30, 2000. The line contains a sublimit of $3 million for issuance of commercial and stand-by letters of credit. During 1999, average and maximum borrowings outstanding on the line of credit were $786,000, and $3,900,000, respectively. The weighted average interest rate on outstanding borrowings was 7.4% for the year ended December 31, 1999.

Long-term debt as of December 31 is comprised of the following (in thousands):

	1998	1999
Loan payable to bank secured by buildings and land, monthly principal payments of NT $84,000 (approximately $3,000 U.S.) plus interest at 7% per annum through November 2003	$ 144	$ 116
Loans payable to bank secured by substantially all assets, due in aggregate monthly principal payments of $190,000 plus interest at LIBOR plus 1.1% to 1.5% through January 2004	7,958	6,868
	8,102	6,984
Current portion	2,111	2,312
	$ 5,991	$ 4,672

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

2000	$ 2,312
2001	2,312
2002	1,479
2003	833
2004	48
	$ 6,984

NOTE 5
ACCRUED LIABILITIES
(in thousands)

	1998	1999
Employee compensation and payroll taxes	$ 780	$ 1,552
Sales commissions	313	553
Refunds to product distributors	424	347
Other	96	1,824
Equipment purchases	1,808	1,506
	$ 3,421	$ 5,782

NOTE 6
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 does not hold or issue derivative financial instruments and 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 7
INCOME TAXES

The components of the income tax provisions are as follows (in thousands):

	1997	1998	1999
Current tax provision (benefit)			
Federal	$ 1,268	$ (82)	$ 804
Foreign	1,252	1,089	1,845
State	330	(15)	-
	2,850	992	2,649
Deferred tax provision (benefit)	(219)	519	(1,269)
	$ 2,631	$ 1,511	$ 1,380

A reconciliation between the effective tax rate and the statutory tax rates for the years ended December 31, 1997, 1998 and 1999 are as follows (in thousands):

	1997		1998		1999	
	Amount	Percent of pretax earnings	Amount	Percent of pretax earnings	Amount	Percent of pretax earnings
Federal tax	$ 2,637	34.0%	$ 1,422	34.0%	$ 2,363	34.0%
State franchise tax, net of federal benefit	453	5.8	242	5.8	403	5.8
Foreign income taxed at lower rates	(428)	(5.5)	(145)	(3.5)	(1,416)	(20.4)
Other	(31)	(.4)	(8)	(.2)	30	.4
Income tax provision	$ 2,631	33.9%	$ 1,511	36.1%	$ 1,380	19.8%

Under current tax policy in China, the earnings of Diodes-China, the Company's subsidiary located in Shanghai, China, were not subject to taxation in 1999. Tax rates for Diodes-China in future years, under current tax policy, in 2000, 2001 through 2003, and thereafter is expected to be 0%, 13.5%, and 27%, respectively.

At December 31, 1998 and 1999, the Company's deferred tax assets and liabilities are comprised of the following items (in thousands):

	1998	1999
Deferred tax assets, current		
Inventory cost	$ 769	$ 1,008
Accrued expenses and accounts receivable	83	325
Net operating loss carryforwards and other	246	367
	$ 1,098	$ 1,700
Deferred tax assets, non-current		
Plant and equipment	$ -	$ 146
Deferred tax liabilties, non-current		
Undistributed foreign earnings	$ 521	$ -

Under Federal tax law, foreign earnings are taxed when funds are distributed by foreign subsidiaries to the parent Company. A temporary difference between financial and tax reporting exists for profits earned at the foreign subsidiary level not distributed to the parent. As of December 31, 1998, a long-term deferred tax liability of $521,000 was reflected in the balance sheet for a dividend of approximately $4.5 million expected to be issued from the Diodes-Taiwan to its parent Company. During 1999, Diodes-Taiwan distributed a dividend of approximately $1.5 million, which is included in taxable income in the U.S. for 1999. A liability of approximately $340,000, which is recorded as income tax payable, represents the estimated tax effect of the remaining undistributed earnings from Taiwan that are expected to be distributed to the parent Company in 2000.

NOTE 7
INCOME TAXES (continued)

The Company has not established a deferred tax liability for the remaining undistributed earnings of approximately $5 million of this subsidiary since the Company views this amount as a permanent investment and has no current plans, intentions or obligation to distribute all or part of that amount from Taiwan to the United States. Should these earnings ultimately be distributed, the Company believes the net tax effect in the U.S. would not be significant since credits for foreign income taxes paid on those earnings would be available to offset all or substantially all U.S. taxes.

The R.O.C. taxing authorities assessed Diodes-Taiwan approximately $370,000 in 1997 related to an examination of tax returns through 1995. This assessment pertained specifically to a tax on excessive accumulated earnings through 1995. Diodes-Taiwan has paid or accrued all taxes which it believes are due as a result of accumulated earnings.

As of December 31, 1999, accumulated and undistributed earnings of Diodes-China is approximately $4.2 million. The Company has not recorded a deferred tax liability (estimated to be $1.6 million) on these earnings since the Company considers this investment to be permanent, and has no plans, intentions or obligation to distribute all or part of that amount from China to the United States.

NOTE 8
STOCK OPTION PLANS

The Company has stock option plans for directors, officers, and employees, which provide for non-qualified and incentive stock options. The Board of Directors determines the option price (not to be less than fair market value for the incentive options) at the date of grant. The options generally expire ten years from the date of grant and are exercisable over the period stated in each option. At December 31, 1999, options for 747,338 shares were vested and exercisable and 559,000 shares were available for future grants under the plans.

Outstanding Options
(in thousands)

		Exercise Price Per Share	
	Number	Range	Weighted Average
Dec 31, 1996			
Balance	1,026	$ .875-$11.25	$5.09
Granted	-	-	-
Exercised	(25)	1.88-6.00	2.43
Canceled	(10)	6.00	6.00
Dec 31, 1997			
Balance	991	.875-11.25	5.15
Granted	400	5.00-10.00	7.51
Exercised	(63)	1.88-6.00	4.05
Canceled	(47)	6.00	6.00

Outstanding Options (continued)
(in thousands)

		Exercise Price Per Share	
	Number	Range	Weighted Average
Dec 31, 1998			
Balance	1,281	.875-11.25	$ 5.91
Granted	117	6.75-12.75	7.51
Exercised	(241)	.875-6.00	4.07
Canceled	(49)	5.00-10.00	7.18
Dec 31, 1999			
Balance	1,108	$ 1.875-$12.75	$ 6.42

The Company also has an incentive bonus plan which reserves shares of stock for issuance to key employees. As of December 31, 1999, 124,000 shares remain available for issuance under this plan.

Had compensation cost for the Company's 1997, 1998 and 1999 options granted been determined consistent with SFAS 123, the Company's net income and diluted earnings per share would approximate the proforma amounts below (in thousands):

	As Reported	Pro Forma
1997 Net income	$ 5,125	$ 4,478
Diluted earnings per share	.93	.82
1998 Net income	$ 2,673	$ 1,719
Diluted earnings per share	.50	.32
1999 Net income	$ 5,569	$ 4,309
Diluted earnings per share	1.02	.79

NOTE 9
MAJOR SUPPLIERS

The Company purchases a significant amount of its inventory from two suppliers, one of which is a related party (Note 10). During 1997, 1998, and 1999, purchases from these suppliers amounted to approximately 49%, 43%, and 26%, respectively, of total inventory purchases including 32%, 25% and 18%, respectively, from the related party. There is a limited number of suppliers for these materials.

NOTE 10
RELATED PARTY TRANSACTIONS

LITE-ON POWER SEMICONDUCTOR CORPORATION - In July 1997, Vishay Intertechnology, Inc. ("Vishay") and the Lite-On Group, a Taiwanese consortium, formed a joint venture - Vishay/Lite-On Power Semiconductor Pte., LTD. ("Vishay/LPSC) - to acquire Lite-On Power Semiconductor Corp. ("LPSC"), a 39% shareholder of the Company and a member of the Lite-On Group of the Republic of China. The Vishay/LPSC joint venture includes the worldwide discrete power semiconductor business of LPSC and the Asian passive component business of Vishay. Vishay holds a 65% controlling interest in the joint venture, and the Lite-On Group holds the remaining 35%. The Company's subsidiaries

NOTE 10
RELATED PARTY TRANSACTIONS (continued)

buy product from and sell product to Vishay/LPSC. Transactions with Vishay/LPSC and LPSC for the years ended December 31 and outstanding balances as of December 31 are as follows (in thousands):

	1997	1998	1999
Net sales	$ 2,224	$ 905	$ 1,064
Purchases	15,630	12,320	10,844
Accounts receivable	213	126	90
Accounts payable	952	902	1,680

> **DIODES-CHINA** – The Company owns 95% of the outstanding capital stock of Diodes-China, which produces small-signal diodes and transistors. To date, Diodes-China's sales have been primarily to the Company. Diodes-China expects to expand its selling markets to unrelated customers as production capacity is increased. The Company initially owned 70% of Diodes-China. In 1997 the Company purchased an additional 25% from its minority-interest partner for $2,151,000. The $1,101,000 excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill. The assets of Diodes-China at the date of this acquisition consisted primarily of plant and equipment.

Diodes-China purchases some of its inventory from a company owned by its 5% minority shareholder. As of December 31, 1999 approximately $96,000 was payable to the supplier.

> **FabTech Incorporated** – Under a compensation-trade agreement, the Company provided advances to a related party vendor, FabTech Incorporated, a wholly owned subsidiary of LPSC. Interest accrues monthly at LIBOR plus 1.1%. Outstanding principal and accrued interest as of December 31, 1999 totals $2,561,000. Amounts advanced, including interest, are payable through February 2001 when any outstanding balances become due on demand, and are secured by FabTech's accounts receivables. The compensation-trade agreement allows the Company to recover interest and principal due by deducting $10 per wafer purchased from the vendor. The vendor may also repay its debt in cash. During 1999, the Company collected cash of $600,000 on the note.

NOTE 11
SEGMENT INFORMATION

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

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief decision-making group consists of the President and Chief Executive Officer, Chief Financial Officer and Vice President of Far East Operations. The operating segments are managed separately because each operating segment represents a strategic business unit whose function and purpose differs from the other segments.

The Company's reportable operating segments include Diodes Incorporated, located in the United States; Diodes-Taiwan located in Taipei, Taiwan; and Diodes-China located in Shanghai, China. Diodes Incorporated markets discrete semiconductor devices to manufacturers and distributors in North America. Diodes-Taiwan manufactures discrete semiconductor devices and markets and sells discrete semiconductor devices throughout Asia and to Diodes Incorporated. Diodes-China manufacturers discrete semiconductor devices primarily, to date, for sale to Diodes Incorporated and Diodes-Taiwan.

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

NOTE 11
SEGMENT INFORMATION (continued)

(in thousands)

	Diodes-China (China)	Diodes-Taiwan (Taiwan)	Diodes Incorporated (United States)	Consolidated Segments
> 1999				
Total sales	$ 13,250	$ 45,682	$ 47,688	$ 106,620
Intersegment sales	(9,861)	(14,042)	(3,466)	(27,369)
Net sales	$ 3,389	$ 31,640	$ 44,222	$ 79,251
Depreciation and amortization	$ 2,320	$ 128	$ 339	$ 2,787
Interest expense	$ 27	$ 9	$ 572	$ 608
Income tax provision (benefit)	$ –	$ 1,857	$ (477)	$ 1,380
Net income (loss)	$ 4,166	$ 3,115	$ (1,712)	$ 5,569
Segment assets	$ 19,016	$ 16,808	$ 26,583	$ 62,407
Expenditures for property	$ 8,686	$ 752	$ 504	$ 9,942
> 1998				
Total sales	$ 3,773	$ 27,029	$ 45,600	$ 76,402
Intersegment sales	(3,493)	(10,423)	(2,225)	(16,141)
Net sales	$ 280	$ 16,606	$ 43,375	$ 60,261
Depreciation and amortization	$ 799	$ 50	$ 319	$ 1,168
Interest expense	$ 62	$ 11	$ 512	$ 585
Income tax provision	$ –	$ 912	$ 599	$ 1,511
Net income (loss)	$ 273	$ 2,786	$ (386)	$ 2,673
Segment assets	$ 13,880	$ 10,315	$ 21,194	$ 45,389
Expenditures for property	$ 9,647	$ 11	$ 135	$ 9,793
> 1997				
Total sales	$ 5,129	$ 28,804	$ 50,493	$ 84,426
Intersegment sales	(4,850)	(12,715)	(1,162)	(18,727)
Net sales	$ 279	$ 16,089	$ 49,331	$ 65,699
Depreciation and amortization	$ 589	$ 64	$ 351	$ 1,004
Interest expense	$ 66	$ 18	$ 321	$ 405
Income tax provision	$ –	$ 1,252	$ 1,379	$ 2,631
Net income	$ 290	$ 2,659	$ 2,176	$ 5,125
Segment assets	$ 6,925	$ 7,157	$ 24,272	$ 38,354
Expenditures for property	$ 1,117	$ 18	$ 360	$ 1,495

NOTE 12
COMMITMENTS

The Company leases its main office and warehouse under an operating lease agreement which expires in December 2004. The Company may at its option, extend the lease for a five year term upon termination. Rent expense amounted to approximately $162,000, $269,000, and $327,000, for the years ended December 31, 1997, 1998 and 1999, respectively.

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

2000	$ 328
2001	311
2002	320
2003	330
2004	340
Thereafter	–
	$ 1,629

NOTE 13
EMPLOYEE BENEFIT PLAN

The Company maintains a 401(k) profit sharing plan (the Plan) for the benefit of qualified employees. Employees who participate may elect to make salary deferral contributions to the Plan up to 6% of the employees' eligible payroll. The Company makes a contribution of $1 for every $2 contributed by the participant. In addition, the Company may make a discretionary contribution to the entire qualified employee pool, in accordance with the Plan. For the years ended December 31, 1997, 1998, and 1999, the Company's total contribution to the Plan was approximately $110,000 $161,000, and $204,000, respectively.

NOTE 14
SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

(in thousands except per share amounts)

FISCAL 1999

	Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
Net sales	$ 16,032	$ 18,229	$ 21,750	$ 23,240
Gross profit	3,910	4,429	5,888	6,721
Net income	690	825	1,684	2,370
Basic earnings per share	.14	.16	.33	.46
Diluted earnings per share	.13	.16	.31	.41

FISCAL 1998

	Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
Net sales	$ 16,946	$ 14,500	$ 14,963	$ 14,916
Gross profit	4,493	3,724	3,717	3,467
Net income	1,186	521	554	412
Basic earnings per share	.24	.10	.11	.08
Diluted earnings per share	.22	.10	.11	.08

INDEPENDENT AUDITORS' REPORT

BOARD OF DIRECTORS AND STOCKHOLDERS
Diodes Incorporated and Subsidiaries

We have audited the accompanying consolidated balance sheet of Diodes Incorporated and Subsidiaries as of December 31, 1999 and 1998 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, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Diodes Incorporated and Subsidiaries as of December 31, 1999 and 1998, and the consolidated results of their operations and cash flows for each of the years in the three year period ended December 31, 1999, in conformity with generally accepted accounting principles.

MOSS ADAMS LLP

Moss Adams LLP

Los Angeles, California
January 28, 2000

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.

DIRECTORS AND OFFICERS

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

C.H. CHEN
President and Chief Executive Officer, Diodes, Inc.
Vice Chairman and President, Dyna Image Corporation
Director

MICHAEL R. GIORDANO [1,2,3]
Senior Vice President, Paine Webber, Inc.
Director

DAVID LIN
President, Silitek Corporation
Director

M.K. LU
Group Vice President, Lite-On Group
Chief Executive Officer, Actron Technology Corp.
President, Lite-On Power Semiconductor Corp.
Director

DR. SHING MAO [1,2,3]
Chairman of the Board, Lite-On, Inc.
Director

DR. LEONARD M. SILVERMAN [1,3]
Dean of Engineering, USC
Director

JOSEPH LIU
Vice President, Far East Operations, Diodes, Inc.

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

MARK KING
Vice President, Sales and Marketing,
Diodes, Inc.

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

SHAREHOLDER INFORMATION

Diodes Incorporated common stock is listed and traded on the American Stock Exchange. Ticker symbol: DIO

No cash dividends have been paid, and no stock splits have occurred to date. 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 upon request to:
Investor Relations
Silverman Heller Associates
1100 Glendon Avenue, Suite 1801
Los Angeles, California 90024
(310) 208-2550 or via eMail to
diodes-fin@diodes.com

December 31, 1999

	High	Low
1st Quarter	$ 6 11/16	$ 4 3/8
2nd Quarter	8 5/16	4 1/16
3rd Quarter	9 5/8	5 3/4
4th Quarter	21 1/2	6

December 31, 1998

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

INDEPENDENT ACCOUNTANTS

Moss Adams LLP
Los Angeles, California

TRANSFER AGENT AND REGISTRAR

Continental Stock Transfer and Trust Company
New York, New York

LEGAL COUNCIL

Sheppard, Mullin, Richter & Hampton
Los Angeles, California

FINANCIAL INFORMATION ONLINE

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

Design > McNulty & Co., Thousand Oaks, California

DIODES INCORPORATED CORPORATE OFFICES
3050 East Hillcrest Drive
Westlake Village, CA
91362-3154
phone: (805) 446-4800
fax: (805) 446-4850
www.diodes.com

DIODES-TAIWAN
Diodes Incorporated Taiwan Company, Ltd.
2 Fl. 501-15 Chung-Cheng Road
Hsin-Tien City, Taipei, Taiwan

DIODES-CHINA
Shanghai KaiHong
Electronics Co., Ltd.
No. 61 Xinnan Street
Xingqiao Town, Songjiang County
Shanghai, China