The world is going micro.

Instant communications across continents, and cultures.

Internet-enabled handhelds, to keep us connected and organized.

Transact business on the move, in light-speed.

Theatre and arcade quality entertainment, in your living room.

A library of books and songs, in your pocket.

More packed into tools, toys and time…

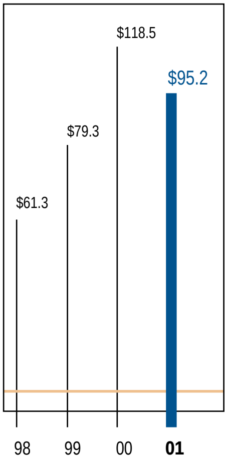
Big ideas, lead to smaller devices.

(shown actual size)

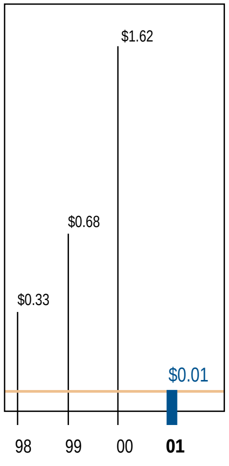
Diodes Incorporated

2001 Annual Report

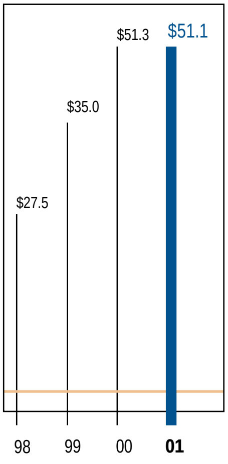
Net Sales
(in millions)



Earnings Per Share



Stockholders' Equity
(in millions)



Diodes Incorporated (Nasdaq: DIOD) is a leading manufacturer and supplier of high-quality discrete semiconductors primarily to the communications, computing, industrial, consumer electronics, and automotive markets. With its (QS- and ISO-9000-certified) manufacturing in China and the United States; corporate sales, marketing, engineering and North American logistics headquarters in Southern California; Asia-Pacific sales, logistics and distribution center in Taiwan; sales offices in Europe; and world-class sales representatives and distributors in strategic points across the globe, Diodes, Inc. delivers a broad line of products.

Our products include Schottky diodes and rectifiers, switching diodes, zener diodes, high-density diode and transistor arrays in ultra-miniature multi-pin surface mount packages, Transient Voltage Suppressors (TVSs), small signal transistors and MOSFETs, and super-/ultra fast-/fast-/standard recovery rectifiers and bridge rectifiers. Some products are designed and manufactured to meet specific customer specifications.

Visit the Company's web site at www.diodes.com.

FINANCIAL HIGHLIGHTS

(in thousands, except share data)

	1999	2000	**2001**
Net sales	$ 79,251	$ 118,462	**$ 95,233**
Gross profit	20,948	37,427	**14,179**
Operating expenses	13,670	18,955	**14,303**
Income (loss) from operations	7,278	18,472	**(124)**
Interest expense, net	292	940	**2,074**
Other income	182	501	**777**
Income (loss) before taxes and minority interest	7,168	18,033	**(1,421)**
Income tax benefit (provision)	(1,380)	(2,496)	**1,769**
Minority interest in joint venture earnings	(219)	(642)	**(224)**
Net income	5,569	14,895	**124**
Earnings per share:			
Basic	$ 0.73	$ 1.85	**$ 0.02**
Diluted	$ 0.68	$ 1.62	**$ 0.01**
Number of shares used in computation:			
Basic	7,625	8,071	**8,144**
Diluted	8,204	9,222	**8,881**

	1999	2000	**2001**
Total assets	$ 62,407	$ 112,950	**$ 103,258**
Working capital	15,903	17,291	**19,798**
Long-term debt, net of current portion	4,672	15,997	**21,164**
Stockholders' equity	34,973	51,253	**51,124**

TO OUR shareholders

Year 2001 was difficult for the semiconductor industry, and challenging for Diodes Incorporated. Demand for semiconductor products dropped precipitously across the globe. The speed of this decline caught our Company, our customers and our competitors unaware. Diodes' management took decisive action to adjust to these new economic realities. We took steps that enabled Diodes to improve our financial condition, reduce expenses, and continue to build market share. In the face of adversity, we made dramatic progress in building a modern, streamlined and flexible Company driven by a strategy of technological innovation.

During 2001, worldwide sales of semiconductors fell by 32%, the steepest decline in the history of the industry. Diodes' revenues in 2001 were $95.2 million, which represents a decline of 19.6% from our record revenues of $118.5 million in 2000. This industry correction has reshaped the semiconductor industry and investor expectations. Yet while many of our competitors were retrenching, Diodes pursued strategic initiatives that will position us as an even stronger competitor as demand recovers.

In the areas that were within our control, 2001 was a year of solid accomplishments:

- By adjusting our cost structure early in the downturn, Diodes ended profitable for the year, reporting net income of $124,000, or $0.01 per diluted share. This was our 11th consecutive year of profitability.
- By carefully managing our working capital, we generated nearly $15 million in positive cash flow from operations.
- And in the worst year in the history of the semiconductor industry, we ended the year with a stronger balance sheet than when we began. We reduced our debt by nearly $3 million, increased our cash position by 81% to $8.1 million, and increased our available credit facility to over $46 million, but that's only part of the story.

Our Strategy Is To Be A Total Solution Provider

Over the course of 2001, we have transformed Diodes into a company with a true technology focus, laying the foundation for our future success.

We advanced towards becoming a total solution provider by integrating wafer fabrication and R&D capabilities with our world-class manufacturing in China. This enables us to add value to our existing customer relationships, extend our growth horizons, and create greater distinctiveness for the Diodes' brand in the marketplace.

Our goal is to become our customers' first choice for discrete semiconductor solutions. To meet our goals, we developed a strategy to supply devices that are unique in our industry, to develop technology that significantly improves the trade-off between device size and performance, and to provide our customers with greater design flexibility and more rapid time to market for the next generation of electronic devices.

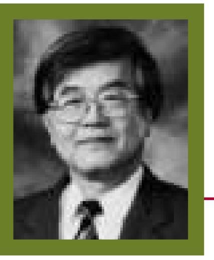
We are executing this strategy at a time of accelerating change in discrete semiconductor technology, driven by the migration of information technology to a truly mobile environment. Discrete devices must become smaller, more energy efficient, and

We have a very clear operating plan that is designed to make Diodes a stronger competitor in our industry, a more valued supplier for our customers, and a more profitable company for our shareholders.

more integrated than ever before. Our flexibility, responsiveness and customer focus has enabled us to accelerate the innovation cycle. In addition, many of our competitors have focused their product development resources on other market segments. This creates the opportunity for Diodes, Inc. to continue to outperform the market growth over the next industry cycle.

During 2001, we made measurable progress towards achieving these goals along a number of fronts:

- Integrating the core manufacturing and management strengths of Diodes, Inc. with the wafer fabrication and design capabilities of FabTech. This process of aligning our organization has proceeded on both a technical and strategic level, and we have begun to realize the benefits with early design successes. This affords us complete control of the manufacturing process and will lessen our dependence on outside providers of wafers during tight supply conditions.
- Identifying and developing new devices and application-specific designs in line with customer needs. By shifting our product mix away from generic offerings toward specialized configurations, such as our high-density array devices, we have been able to enter new customer relationships and set the stage for sustainable margin improvement. Year 2001 saw Diodes, Inc. introduce a range of new products that improve the trade-off between size, performance and power consumption for surface-mount packages, including the BAT750 Schottky rectifier and our new SOT-523 product line. The new devices are targeted to the needs of battery-powered and handheld applications and expand Diodes, Inc.'s position as a leader in performance Schottky and performance zener product ranges.
- Innovating next-generation processes that correspond to Diodes, Inc.'s product development road map. In October of 2001 we announced a breakthrough high-precision manufacturing process for zener diodes, which offers significant performance improvements over other zener products on the market today. The development of the process is the first in what we believe will be a series of technology breakthroughs by our R&D team. Based on this success, we expect to increase our investment in R&D by over 200% in 2002.
- Expanding our sales' reach into new territories and capitalizing on existing market growth opportunities. The Asian market was, and will continue to be, a major growth sector for Diodes, Inc. This year we doubled the size of our sales force and increased the number of applications engineers in the region so as to be able to call on and service a far greater range of accounts. In Mainland China, one of the fastest expanding markets on the globe, our Company established a sales force on the ground so as to take full advantage of our manufacturing presence there. In 2001, Diodes, Inc. established a sales presence in Europe for the first time, and has since developed several significant customer relationships.
- Winning new customers and significantly increasing the number of design wins with new and existing customers. From this perspective, 2001 was one of the most successful years in Diodes, Inc.'s history. Our customer base is broadly diversified, and includes market leaders in the communications, computing, industrial, consumer electronics, and automotive segments. As we enter 2002, Diodes, Inc.'s share of our serviceable markets is the highest in our corporate history. Our success in building market share during challenging times provides concrete evidence that our growth strategy is correct.



Our Outlook

As we move into 2002, the semiconductor industry appears to be on the edge of a recovery, with customer inventory at reasonable levels and early indications of an improving global economic climate. Diodes' fourth quarter 2001 revenues increased almost 14% sequentially, indicating that the worst of the correction may be behind us, and that we continue to outperform the industry.

While we expect market conditions to improve over the course of the year, we are not counting on a stronger market to get us where we need to go. We have a very clear operating plan that is designed to make Diodes a stronger competitor in our industry, a more valued supplier for our customers, and a more profitable company for our shareholders. Our goals for 2002 include:

- Building upon our progress in developing unique devices that are at the cutting edge of discrete technology.
- Continuing to shift our product mix towards differentiated products so as to drive sustainable gross margin improvement.
- Improving the efficiency of our manufacturing facilities so as to have an industry-leading cost structure across our product lines.
- Continuing to outperform the industry.

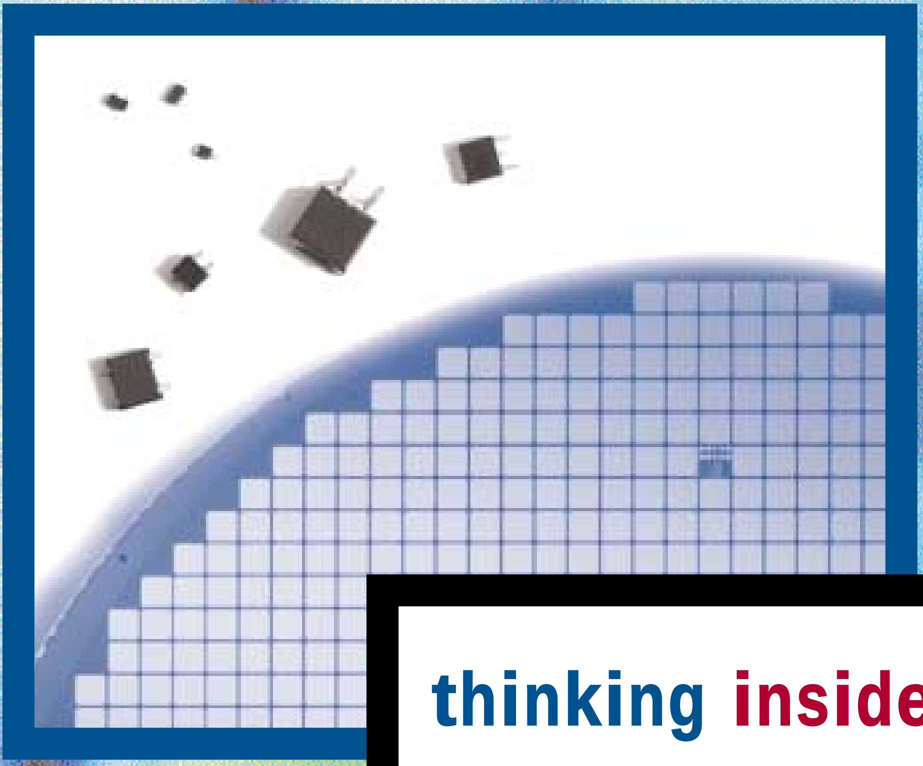
As always, we would like to thank all those who have contributed to the success of our organization:

Our shareholders for your continuing faith in our strategic vision; all our customers for your support and feedback, enabling us to continue providing you with higher service levels and innovative design technology; and all our dedicated employees and distributors for your exceptional work during a challenging year.

Sincerely,

Raymond Soong
Chairman of the Board

C.H. Chen
President and Chief Executive Officer



thinking inside a smaller box

As information technologies and Internet-enabled devices become mobile, products are coming to market that are richer with features, yet smaller in size. And, these require discrete semiconductors to perform. At Diodes, Inc., we're focused on producing power and performance in small packages for these emerging products, to pack as much as possible in a smaller box. It takes creative thinking to provide the size- and cost-efficiencies that give next-generation

Our ideas help make big ideas, a reality.

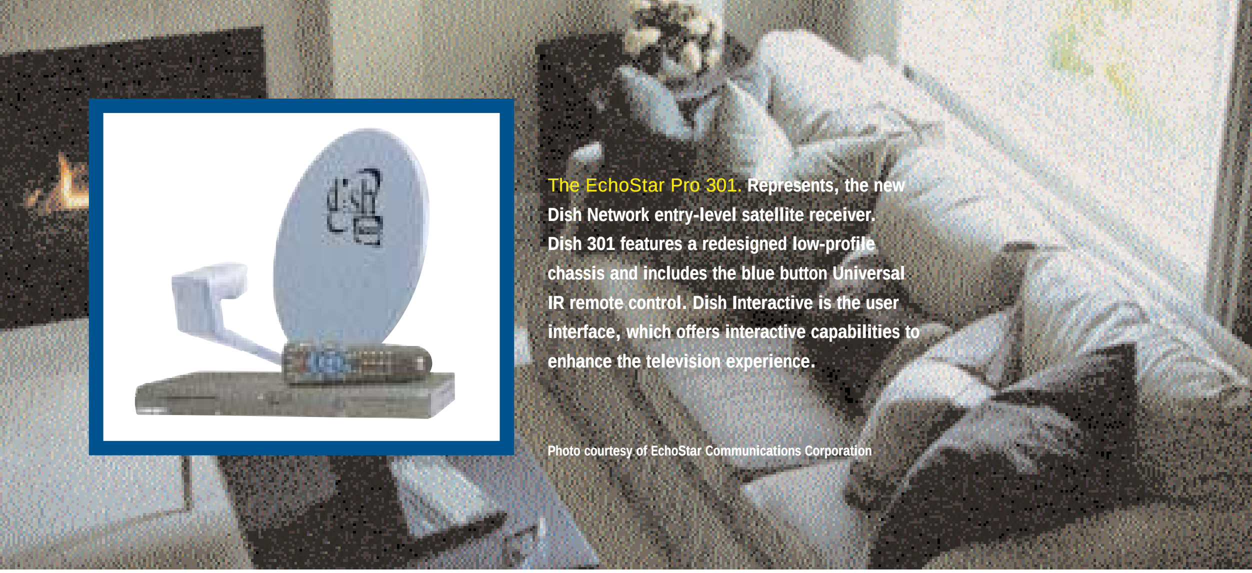
Our discrete products are making a **SMALL MARK** on technology.

But they are having a **big impact**

on consumer electronics and personal entertainment.

At Diodes, our goal is to partner with manufacturers to develop customized solutions that streamline production, increase profitability and reduce cost to consumers. Service through innovation and customization takes our relationship to a higher level. It's the Diodes' difference. **Here's a look at some exciting new products that use our efficient discrete semiconductor solutions.**

Samsung Electronics' SyncMaster™ 151MP/171MP
Featuring sleek ultra-portable designs and modular capabilities, these high-performance monitors provide state-of-the-art digital imaging, for a viewing experience like no other, with razor sharp pictures, and rich, vivid colors.



The EchoStar Pro 301. Represents, the new Dish Network entry-level satellite receiver. Dish 301 features a redesigned low-profile chassis and includes the blue button Universal IR remote control. Dish Interactive is the user interface, which offers interactive capabilities to enhance the television experience.

Photo courtesy of EchoStar Communications Corporation

creative thinking

At Diodes, we design product solutions for our customers' advancing technologies, to support their success in the marketplace. When they win, Diodes wins. By offering design flexibility and reducing time-to-market, we provide solutions which enable manufacturers to make their ideas a reality.

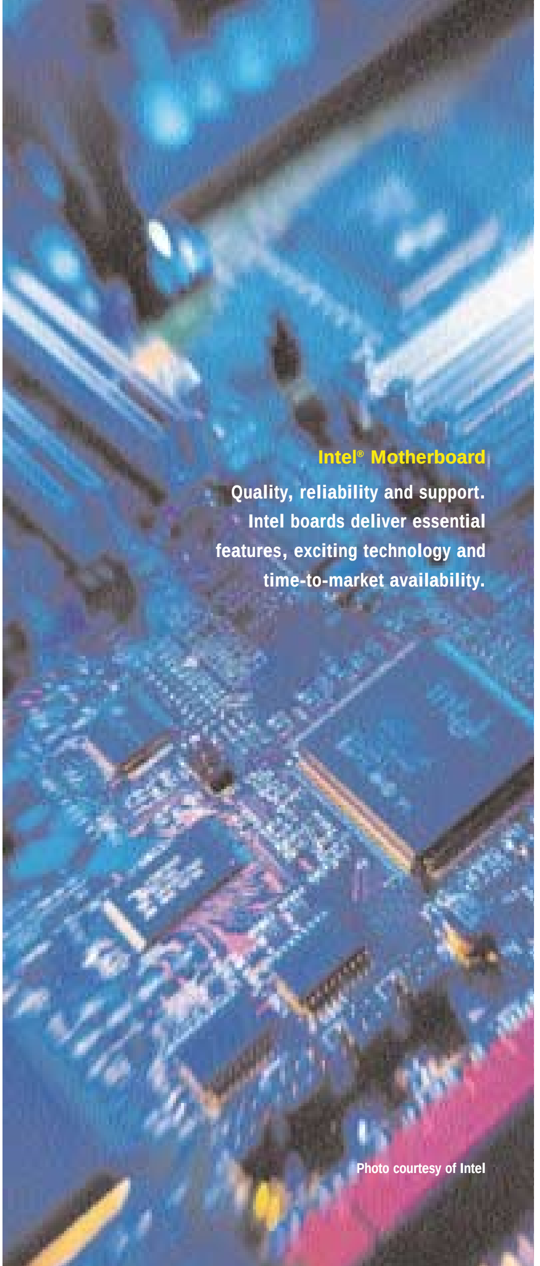
Logitech's WingMan® Cordless Rumblepad™

Play where you want without cords to clutter your desktop. The same RF technology found in today's best cordless phones gives you the freedom to move about your gaming environment. Designed for comfort, easy setup and quick installation.

We actively listen and work with our expanding customer base to develop application-specific designs and new devices, that result in bringing to market a broad range of products that offer very real benefits, in both performance and size.

ADC® Avidia 8000™ DSL Modem

The Avidia System enables the delivery of next-generation data, voice and video applications over common voice-grade copper wire.



Intel® Motherboard

Quality, reliability and support. Intel boards deliver essential features, exciting technology and time-to-market availability.

Photo courtesy of Intel

Handspring Treo 180

The Treo communicator is one of the smallest Palm OS® handhelds available. This stylish communicator has been jam-packed with features without compromising functionality or ease of use.

By making our products smaller, we help make big ideas happen.

As we reduce our package sizes, our products are being designed into ever-smaller circuit boards, for the growing number of next-generation portable electronics and Internet-enabled devices. Miniaturization in discrete semiconductors is key: condensed circuitry in smaller packages fits more features in a smaller box.

About Diodes Incorporated

DISCRETE SEMICONDUCTORS is our business.

PRODUCTS are marketed under the Diodes Incorporated brand and include:

- Schottky Diodes and Rectifiers, Switching Diodes, and Zener Diodes
- High-Density Diode and Transistor Arrays in Ultra-Miniature Multi-Pin Surface Mount Devices
- Transient Voltage Suppressors (TVSs)
- Small Signal Transistors, and MOSFETs
- Super-/Ultra Fast-/Fast-/Standard Recovery Rectifiers and Bridge Rectifiers.

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

INDUSTRIES SERVED include communications, computing, industrial, consumer electronics, and automotive markets.

DIRECT SALES & MARKETING are accomplished through an ISO-9000 certified corporate office in Southern California, regional U.S. sales offices, and sales 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.

FINANCIAL STATEMENTS

MANAGEMENT'S DISCUSSION & ANALYSIS
of Financial Condition and Results of Operations

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 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 customers in these markets. The Company's products include small signal transistors and MOSFETs, transient voltage suppressors (TVSs), zeners, diodes, rectifiers and bridges, as well as silicon wafers used in manufacturing these products.

In addition to the Company's corporate headquarters in Westlake Village, California, which provides sales, marketing, engineering and warehousing functions, the Company's wholly-owned subsidiar y, 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, with sales offices in Shanghai and Shenzhen, China. In addition, in December 2000, the Company acquired FabTech Incorporated ("Diodes-FabTech" or "FabTech"), a silicon wafer manufacturer located near Kansas City, Missouri.

Sales

The Company's products are sold primarily in North America and the Far East, both directly to end users and through electronic component distributors. In 2001, approximately 55% and 45% of the Company's products were sold in North America and the Far East, respectively, compared to 54% and 46% in 2000, respectively. An increase in the percentage of sales in the Far East is expected as the Company significantly increases 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.

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.

Reporting Segments

For financial reporting purposes, the Company is deemed to engage in one industry segment - discrete semiconductors. The Company has separated its operations into geographical areas: North America and Asia. North America includes the corporate offices in Southern California ("Diodes-North America") as well as FabTech, Inc. ("FabTech" or "Diodes-FabTech"), the 5-inch wafer foundry located in Missouri. Diodes-North America procures and distributes products primarily throughout North America and provides management, warehousing, engineering and logistics support. Diodes-FabTech manufactures silicon wafers for use by Diodes-China as well as for sale to its customer base. Asia includes the operations of Diodes-Taiwan and Diodes-China. Diodes-China manufactures product for, and distributes product to, both Diodes-North America and Diodes-Taiwan, as well as directly to end customers. Diodes-Taiwan procures product from, and distributes product primarily to, customers in Taiwan, Korea, Singapore and Hong Kong.

Diodes-Taiwan

Until October 2000, Diodes-Taiwan manufactured product for sale to Diodes-North America and to trade customers. The Company moved its Taiwan manufacturing to China because the Taiwan manufactured products were lower technology products, fairly labor intensive, and the cost savings of moving the manufacturing to the Company's qualified minority partner in Diodes-China were attractive and necessary to meet market demand. In connection with the manufacturing move, the Company sold approximately $150,000 of equipment to the minority partner of Diodes-China. Diodes-Taiwan continues as the Company's Asia-Pacific sales, logistics and distribution center. Diodes-China participates in final testing, inspection and packaging of these products, formerly manufactured by Diodes-Taiwan. Diodes-Taiwan also procures some product for the Company's North American operations.

LSC

Lite-On Semiconductor Corporation ("LSC"), formerly Lite-On Power Semiconductor Corporation ("LPSC"), is the Company's largest stockholder, holding approximately 37.6% of the outstanding shares. LSC is a member of The Lite-On Group of companies of the Republic of China. The Lite-On Group, with worldwide sales of approximately $4.5 billion, is a leading manufacturer of power semiconductors, computer peripherals, and communication products. In December 2000, LPSC merged with Dyna Image Corporation of Taipei, Taiwan, the world's largest contact image sensor ("CIS") manufacturer. CIS are primarily used in fax machines, scanners and copy machines. C.H. Chen, the Company's President and Chief Executive Officer, is Vice Chairman of the combined company, which is called LSC.

In 2001, the Company sold silicon wafers to LSC totaling 7.7% of the Company's sales, making LSC the Company's largest customer. Also in 2001, 15% of the Company's sales were from discrete semiconductor products purchased from LSC, making LSC the Company's largest outside vendor. In addition, in December 2000, the Company acquired FabTech from LSC. As part of the purchase price, at December 31, 2001, LSC holds a subordinated, interest-bearing note for approximately $10 million, payable beginning in July 2002. As per the terms of the acquisition, LSC entered into a volume purchase agreement to purchase wafers from FabTech. LSC is currently in compliance with the terms of the wafer purchase agreement.

In June 2001, as per the Company's U.S. bank covenants, the Company 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 are

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

scheduled to begin again in July 2002. Provided the Company meets the terms of its U.S. bank's expected new covenants, payments will be made to LSC. However, if the bank covenants are not met, the Company may be required to re-negotiate its indebtedness to LSC on such terms, if any, as LSC may find acceptable. The Company is currently in negotiations for new U.S. bank covenants.

Manufacturing and 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 primarily in the computer and communication industries, destined for cellular phones, notebook computers, pagers, PCMCIA cards and modems, as well as in 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 Diodes-FabTech, the majority are currently purchased from other wafer vendors.

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 $45.2 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, and even smaller packaging such as SOT-523 and SC-59.

The Company will continue its strategic plan of locating alternate sources of its products and raw materials, including those provided by its major suppliers. 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.

Diodes-FabTech

Acquired by the Company from LSC on December 1, 2000, 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.

The acquisition purchase price consisted of approximately $6 million in cash and an earn-out of up to $30 million if FabTech meets specified earnings targets over a four-year period. 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.

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.

Recent Results

Beginning in the second half of 1999, and continuing through the first three quarters of 2000, industry demand exceeded industry capacity. The Company's gross profit margins reached a peak of 34.4% in the third quarter of 2000 and 31.6% for the year 2000. In addition, OEM customers and distributors increased their inventory levels. Then, as semiconductor manufacturers, including the Company, increased manufacturing capacity, the global economy slowed causing a sharp decline in sales in the fourth quarter of 2000. Due to excess capacity and demand-induced product mix changes, combined with overall decreased product demand and higher customer inventory levels, gross margins decreased from 31.6% in 2000 to 14.9% in 2001. The Company expects gross margin pressure to continue until such a time as demand increases and the Company utilizes more of its available manufacturing capacity. Although selling prices began to stabilize in the fourth quarter of 2001, suggesting an easing of pricing pressures, and sales increased 13.6% sequentially, there can be no assurance this trend will continue for 2002.

The discrete semiconductor industry has been subject to severe pricing pressures. Although manufacturing costs have been falling, excess manufacturing capacity and over-inventory has caused selling prices to fall to a greater extent than manufacturing cost. To compete in this highly competitive industry, in recent years, the Company has committed substantial new resources to the development and implementation of sales and marketing, and manufacturing. Emphasizing the Company's focus on customer service, additional sales personnel and programs have been added in Asia, and most recently Europe. In order to meet customers' needs at the design stage of end-product development, the Company has also 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 to help satisfy customers' requirements. In addition, the Company has continued to develop relationships with major distributors who inventory and sell the Company's products.

Beginning late in the fourth quarter of 2000, the Company and the semiconductor industry as a whole experienced a sharp inventory correction primarily in two key markets, communications and computers. This downturn continued throughout year 2001. Although the Company's market share increased, overall selling prices decreased 22.7% and demand for silicon wafers, the fundamental raw materials used in manufacturing discrete semiconductors, deteriorated further.

The Company also experienced reduced capacity utilization of its manufacturing assets and demand-induced changes in product mix, both of which have 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. Some improvement was seen in the fourth quarter of 2001 when capacity utilization increased to 65% and 60%, respectively.

The risks of becoming a fully integrated manufacturer are amplified in an industry-wide slowdown because of the fixed costs associated with manufacturing facilities. During 2001, the Company responded to this cyclical downturn by implementing programs to cut operating costs, including reducing its worldwide workforce by 26%, primarily at the FabTech and

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

Diodes-China manufacturing facilities. 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 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 June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, *Business Combinations*, and No. 142, *Goodwill and Other Intangible Assets* , effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill (and intangible assets deemed to have indefinite lives) will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. The Company will apply the new rules on accounting for goodwill beginning in the first quarter of 2002. During 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002. The Company intends to hire an independent appraiser to complete its step one transition assessment of goodwill. However, because of the extensive effort needed to comply with adopting SFAS 142, it is not practicable to reasonably estimate the impact of adopting this statement on the Company's financial statements at the date of this report, including whether it will be required to recognize any transitional impairment losses as the cumulative effect of a change in accounting principle. Application of the non-amortization provisions of the Statements is expected to result in an increase in net income of approximately $288,000 ($0.03 per share) per year, assuming no impairment adjustment.

Income taxes

In accordance with the current taxation policies of the People's Republic of China, Diodes-China was granted preferential tax treatment for the years ended December 31, 1999 through 2003. Earnings were subject to 0% tax rates in 1999 and 2000, and 12% in 2001. Earnings in 2002 and 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 2001.

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, 1999 and 2000, Diodes-Taiwan distributed dividends of approximately $1.5 million and $2.6million, respectively, which is included in Federal and state taxable income.

As of December 31, 2001, accumulated and undistributed earnings of Diodes-China is approximately $21.5 million. The Company has not recorded deferred Federal or state tax liabilities (estimated to be $8.6 million) on these cumulative earnings since the Company considers its investment in Diodes-China to be permanent, and has no plans, intentions or obligation to distribute any part or all of that amount from China to the United States. The Company will record deferred tax liabilities on future earnings of Diodes-China to the extent such earnings may be appropriated for distribution to Diodes-North America.

Results of Operations

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

	Percent of Net Sales					Percentage Dollar Increase (Decrease)			
	Year Ended December 31,					Year Ended December 31,			
	1997	1998	1999	2000	**2001**	'97 to '98	'98 to '99	'99 to '01	**'01 to '02**
Net sales	100.0 %	100.0 %	100.0 %	100.0 %	**100.0 %**	(8.5) %	29.2 %	49.5 %	**(19.6) %**
Cost of goods sold	(72.1)	(74.9)	(73.6)	(68.4)	**(85.1)**	(4.9)	26.9	39.0	**0.0**
Gross profit	27.9	25.1	26.4	31.6	**14.9**	(17.8)	36.0	78.7	**(62.1)**
Operating expenses	(16.6)	(18.0)	(17.2)	(16.0)	**(15.0)**	(1.1)	24.1	38.7	**(24.5)**
Income (loss) from operations	11.3	7.1	9.2	15.6	**(0.1)**	(42.2)	65.9	153.8	**(100.7)**
Interest expense, net	(0.1)	(0.5)	(0.4)	(0.8)	**(2.2)**	353.2	3.9	221.9	**120.6**
Other income	0.4	0.2	0.2	0.4	**0.8**	(61.7)	95.7	175.3	**55.1**
Income (loss) before taxes and minority interest	11.6	6.8	9.0	15.2	**(1.5)**	(46.0)	70.7	151.6	**(107.9)**
Income tax benefit (provision)	(3.9)	(2.4)	(1.7)	(2.1)	**1.8**	(42.6)	(8.7)	80.9	**(170.9)**
Minority interest	(0.1)	0.0	(0.3)	(0.5)	**(0.2)**	(6.7)	1,464.3	193.2	**(65.1)**
Net income	7.6	4.4	7.0	12.6	**0.1**	(47.8)	108.3	167.5	**(99.2)**

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

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 2001 Compared to Year 2000

Net sales for 2001 decreased $23,229,000 to $95,233,000 from $118,462,000 for 2000. The 19.6% 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. Although selling prices stabilized in the fourth quarter of 2001, suggesting an easing of pricing pressures, there can be no assurance this trend will continue for 2002.

Gross profit for 2001 decreased 62.1% to $14,179,000 from $37,427,000 for 2000. Of the $23,248,000 decrease, $15,909,000 was due to the decrease in gross profit margin from 31.6% in 2000 to 14.9% in 2001, while $7,339,000 was due to the 19.6% 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 related to lower market prices. Average selling prices in 2001 decreased approximately 22.7%.

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 19.6% 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 14.4% for 2001 from 15.9% 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. The Company plans to further substantially expand the R&D expense in 2002 to develop new specialized products.

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 last 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.

Year 2000 Compared to Year 1999

Net sales for 2000 increased $39,211,000 to $118,462,000 from $79,251,000 for 1999. The 49.5% increase was due primarily to (i) a 41.7% increase in units sold, as a result of an increased demand for the Company's products, primarily in the Far East and (ii) sales of silicon wafers totaling $9,837,000, versus $4,005,000 in 1999. Diodes-China's trade sales in 2000 were $6,610,000, compared to $3,389,000 in the same period last year. A 6.3% increase in the Company's average selling price, primarily in the Far East, also contributed to increased sales.

Gross profit for 2000 increased 78.7% to $37,427,000 from $20,948,000 for 1999. Of the $16,479,000 increase, $10,365,000 was due to the 49.5% increase in net sales while $6,113,000 was due to the increase in gross profit margin from 26.4% in 1999 to 31.6% in 2000. Manufacturing profit at Diodes-China at higher gross profit margins was the primary contributor to the increase, partially offset by an increase in the sale of wafers at a generally lower margin than then Company's other products, as well as increased sales to larger distributors. Average selling prices in 2000 increased approximately 6.3%.

For 2000, operating expenses, which includes SG&A and R&D, increased $5,285,000 to $18,955,000 from $13,670,000 for 1999. The 38.7% increase in operating expenses 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. As a percentage of sales, operating expenses decreased to 16.0% from 17.2% last year, primarily due to the 49.5% increase in net sales.

Net interest expense for 2000 increased $648,000, 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

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

(ii) the acquisition of FabTech. Interest income is primarily the interest charged to FabTech for the first eleven months of 2000, under the Company's formal loan agreement, as well as earnings on its cash balances.

Other income for 2000 increased $319,000, compared to the prior year, due primarily to currency exchange gains at the Company's subsidiaries in Taiwan and China.

The Company's overall effective tax rate decreased to 13.8% in 2000 from 19.3% in 1999. The decrease in the Company's effective tax rate is due primarily to Diodes-China's increased net income at a preferential tax rate of 0%.

For the years ended December 31, 2000 and 1999, Diodes-Taiwan distributed dividends of approximately $2.6 million and $1.5 million, respectively, which is included in Federal and state taxable income for the respective years. Deferred taxes have been provided for all remaining undistributed earnings in excess of statutory permanent capital requirements of Diodes-Taiwan.

In 2000, Diodes-China contributed to the Company's profitability and, therefore, the $642,000 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 2000 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, 2000, the Company had a 95% controlling interest in the joint venture.

The Company generated net income of $14,895,000 (or $1.85 basic earnings per share and $1.62 diluted earnings per share) in 2000, as compared to $5,569,000 (or $0.73 basic earnings per share and $0.68 diluted earnings per share) for 1999. This $9,326,000 or 167.5% increase is due primarily to the 49.5% sales increase at gross profit margins of 31.6% compared to gross profit margins of 26.4% in 1999.

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 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 2001 was $14.9 million compared to $10.2 million in 2000 and $8.0 million in 1999. 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 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 2001 was a decrease in accrued liabilities of $3.5 million and an increase in deferred income taxes of $2.9 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. 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.

For the year ended December 31, 2001, accounts receivable decreased only 12.9% compared to the 19.6% decrease 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, 2001 was 1.7 to 1, compared to a ratio of 1.4 to 1 and 1.7 to 1 as of December 31, 2000 and 1999, respectively.

Cash used by investing activities was $8.5 million in 2001, compared to $21.4 million in 2000 and $9.3 million in 1999. The primary investment was 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 $6 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, 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 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, as per the Company's U.S. bank covenants, the Company 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 are scheduled to begin again in July 2002. Provided the Company meets the terms of its U.S. bank's expected new covenants, payments will be made to LSC. However, if the bank covenants are not met, the Company may be required to re-negotiate its indebtedness to LSC on such terms, if any, as LSC may find acceptable. The Company is currently in negotiations for new U.S. bank covenants.

Cash used by financing activities was $2.5 million in 2001, as the Company reduced its overall debt, compared to cash provided by financing activities of $12.1 million in 2000 and $2.4 million in 1999. In 2001, the Company increased its credit facility to $46.3 million, encompassing one major U.S. bank, three banks in Mainland China and two in Taiwan. As of December 31, 2001, the total credit lines were $18.1 million, $25.0 million, and $3.2 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, 2001, the available credit was $5.2 million, $15.5 million, and $1.5 million, for the U.S. facility, the Chinese facilities, and the Taiwanese facilities, respectively.

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 not in compliance with some of its U.S. bank

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

covenants, primarily the minimum earnings covenant as of December 31, 2001, but has obtained a waver from the bank.

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, which was $7.5 million at December 31, 2001. 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 fiscal 2001, variable interest rates decreased resulting in an interest rate swap liability of $147,000 as of December 31, 2001. As a matter of policy, the Company does not enter into derivative transactions for trading or speculative purposes.

Total working capital increased approximately 14.5% to $19.8 million as of December 31, 2001, from $17.3 million as of December 31, 2000. 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 1.02 at December 31, 2001, from 1.20 at December 31, 2000. It is anticipated that this ratio may increase should the Company use its credit facilities to fund additional inventory sourcing opportunities.

The Company has no material plans or commitments for capital expenditures other than in connection with manufacturing expansion at Diodes-China, Diodes-FabTech equipment requirements, and the Company's implementation of an Enterprise Resource Planning ("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 2002 capital expenditures for the manufacturing facilities will run $4.0 to $6.0 million, with an additional approximately $2.0 million for the ERP project.

Inflation did not have a material effect on net sales or net income in fiscal years 1999 through 2001. A significant increase in inflation could affect future performance.

CONSOLIDATED BALANCE SHEETS

December 31, (in thousands, except share data)	2000	**2001**
ASSETS		
CURRENT ASSETS		
Cash	$ 4,476	**$ 8,103**
Accounts receivable		
Customers	19,723	**16,250**
Related parties	615	**1,486**
Other	26	**-**
	20,364	**17,736**
Allowance for doubtful accounts	(311)	**(343)**
	20,053	**17,393**
Inventories	31,788	**17,813**
Deferred income taxes	4,387	**4,368**
Prepaid expenses and other	686	**954**
Prepaid income taxes	-	**312**
Total current assets	61,390	**48,943**
PROPERTY, PLANT AND EQUIPMENT, net	45,129	**44,925**
DEFERRED INCOME TAXES, non-current	616	**3,672**
OTHER ASSETS		
Goodwill, net	5,318	**5,090**
Other	497	**628**
Total assets	$ 112,950	**$103,258**
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Line of credit	$ 7,750	**$ 6,503**
Accounts payable		
Trade	10,710	**6,098**
Related parties	1,008	**3,149**
Accrued liabilities	8,401	**5,062**
Income taxes payable	1,370	**-**
Current portion of long-term debt		
Related party	11,049	**2,500**
Other	3,811	**5,833**
Total current liabilities	44,099	**29,145**
LONG-TERM DEBT, net of current portion		
Related party	2,500	**7,500**
Other	13,497	**13,664**
MINORITY INTEREST IN JOINT VENTURE	1,601	**1,825**
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; 9,201,663 shares in 2000 and 9,227,664 shares in 2001 issued and outstanding	6,134	**6,151**
Additional paid-in capital	7,143	**7,310**
Retained earnings	39,758	**39,882**
	53,035	**53,343**
Less: Treasury stock - 1,075,672 shares of common stock, at cost	1,782	**1,782**
Accumulated other comprehensive loss	-	**437**
	1,782	**2,219**
Total stockholders' equity	51,253	**51,124**
Total liabilities and stockholders' equity	$ 112,950	**$ 103,258**

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

CONSOLIDATED STATEMENTS OF INCOME

December 31, (in thousands, except share data)	1999	2000	**2001**
NET SALES	$ 79,251	$ 118,462	**$ 95,233**
COST OF GOODS SOLD	58,303	81,035	**81,054**
Gross profit	20,948	37,427	**14,179**
OPERATING EXPENSES			
Research and development	-	141	592
Selling, general and administrative	13,670	18,814	**13,711**
Total operating expenses	13,670	18,955	**14,303**
Income (loss) from operations	7,278	18,472	**(124)**
OTHER INCOME (EXPENSES)			
Interest income	316	392	**59**
Interest expense	(608)	(1,332)	**(2,133)**
Other	182	501	**777**
Income (loss) before income taxes and minority interest	7,168	18,033	**(1,421)**
INCOME TAX BENEFIT (PROVISION)	(1,380)	(2,496)	**1,769**
Income before minority interest	5,788	15,537	**348**
MINORITY INTEREST IN EARNINGS OF JOINT VENTURE	(219)	(642)	**(224)**
NET INCOME	$ 5,569	$ 14,895	**$ 124**
EARNINGS PER SHARE			
Basic	$ 0.73	$ 1.85	**$ 0.02**
Diluted	$ 0.68	$ 1.62	**$ 0.01**
Number of shares used in computation			
Basic	7,625	8,071	**8,144**
Diluted	8,204	9,222	**8,881**

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 1999, 2000, and 2001	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, 1998	8,646,401	1,075,672	$ 5,764,000	$(1,782,000)	$ 4,103,000	$ 19,294,000	$ -	$27,379,000
Exercise of stock options including $961,000 income tax benefit	361,756	-	242,000	-	1,783,000	-		2,025,000
Net income for the year ended December 31, 1999	-	-	-	-	-	5,569,000	-	5,569,000
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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, (in thousands)	1999	2000	**2001**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 5,569	$ 14,895	**$ 124**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,787	5,003	**8,670**
Minority interest earnings	219	642	**224**
Loss on disposal of property, plant and equipment	45	13	**239**
Interest income accrued on advances to vendor	(195)	-	**-**
Changes in operating assets and liabilities			
Accounts receivable	(5,437)	(2,161)	**2,660**
Inventories	(2,798)	(9,277)	**13,975**
Prepaid expenses and other	(240)	38	**(399)**
Deferred income taxes	(1,269)	(1,195)	**(2,978)**
Accounts payable	5,333	445	**(2,471)**
Accrued liabilities	2,361	267	**(3,486)**
Income taxes payable (refundable)	1,670	1,538	**(1,620)**
Net cash provided by operating activities	8,045	10,208	**14,938**
CASH FLOWS FROM INVESTING ACTIVITIES			
Collection of advances to related party vendor	658	-	**-**
Investment in subsidiary, net of cash acquired	-	(4,709)	**-**
Purchases of property, plant and equipment	(9,942)	(16,968)	**(8,477)**
Proceeds from sales of property, plant and equipment	1	288	**-**
Net cash used by investing activities	(9,283)	(21,389)	**(8,477)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Advances (repayments) on line of credit, net	2,425	1,496	**(1,247)**
Net proceeds from the issuance of common stock	983	337	**122**
Proceeds from long-term debt	1,000	12,801	**7,000**
Repayments of long-term debt	(2,124)	(2,534)	**(8,360)**
Minority interest of joint venture investment	96	-	**-**
Net cash provided (used) by financing activities	2,380	12,100	**(2,485)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	-	-	**(349)**
INCREASE IN CASH	1,142	919	**3,627**
CASH, beginning of year	2,415	3,557	**4,476**
CASH, end of year	$ 3,557	$ 4,476	**$ 8,103**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	$ 602	$ 1,243	**$ 2,123**
Income taxes	$ 1,171	$ 2,151	**$ 2,992**
Non-cash activities:			
Tax benefit related to stock options credited to paid-in capital	$ 961	$ 1,048	**$ 62**
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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Operations and Significant Accounting Policies

Nature of operations - Diodes Incorporated and its subsidiaries manufacture and distribute discrete semiconductor devices to manufacturers in the communications, computing, electronics and automotive industries. 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) 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 14 for a summary of the acquisition and proforma 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.

In fiscal 2001, Diodes-China received high-technology grants from the local Chinese government of approximately $453,000. The grants are unrestricted and are available upon receipt to fund the operations of Diodes-China. The Company recognizes this grant income when received. Grants are reported within "other income" on the accompanying statements of income.

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

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

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

Goodwill - 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 using the straight-line method over 20 to 25 years. Amortization expense for the years ended December 31, 1999, 2000, and 2001 was $44,000, $62,000, and $280,000, respectively. As of December 31, 2000 and 2001, accumulated amortization was $194,000 and $474,000, respectively. Beginning in fiscal 2002, the Company plans to adopt SFAS 142 ("Goodwill and Other Intangible Assets") which will require that goodwill and certain intangible assets no longer be amortized, but instead be tested for impairment at least annually.

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 Statement of Financial Accounting Standards (SFAS) 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of." 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 cash flows from related operations. As of December 31, 2001, 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 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 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. Accounts at each institution in Taiwan are insured by the Central Deposit Insurance Company up to NT$1,000,000 (approximately US$29,000 as of December 31, 2001).

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.

For the year ended December 31, 2001, options exercisable for 1,379,000 shares of common stock have been excluded from the computation of diluted earnings per share because their effect is currently anti-dilutive.

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.

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 (see Note 8).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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 25% of the Company's long-term debt and expires November 30, 2004. Market value of the swap as of December 31, 2001 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 SFAS 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 $147,000 as of December 31, 2001.

Functional currencies and foreign currency translation - Through its subsidiaries, the Company maintains operations in Taiwan and China. Through June 30, 2001, the functional currency of Diodes-Taiwan was the U.S. dollar. Effective July 1, 2001, the Company changed the functional currency of Diodes-Taiwan to the local currency (NT dollar) in Taiwan. As a result of this change, the translation of the balance sheet and statement of income of Diodes-Taiwan from the local currency into the reporting currency (U.S. dollar) results in translation adjustments, the effect of which is reflected in the accompanying statement of comprehensive income and on the balance sheet as a separate component of shareholders' equity. Included in net income are foreign currency exchange gains (losses) of approximately $(3,000), $266,000 and $74,000 for the years ended December 31, 1999, 2000 and 2001, 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 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.

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.

Recently issued accounting pronouncements and proposed accounting changes - During 2001, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards (SFAS) No. 144 ("Accounting for Impairment or Disposal of Long-Lived Assets"), and No. 143 ("Accounting for Asset Retirement Obligations"). SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. Management does not believe the adoption of SFAS 143 and SFAS 144 will have a material impact on the financial statements.

Also in 2001, the FASB issued SFAS No. 142 ("Goodwill and Other Intangible Assets") and No. 141 ("Business Combinations") which are effective for years after 2001. SFAS 141 requires business combinations initiated after June 30, 2001, to be accounted for using the purchase method of accounting. It also specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill. SFAS 142 will require that goodwill and certain intangible assets no longer be amortized, but instead be tested for impairment at least annually. SFAS 142 is required to be applied starting with fiscal years beginning after December 15, 2001. The Company intends to hire an independent appraiser to complete its step one transition assessment of goodwill. However, because of the extensive effort needed to comply with adopting SFAS 142, it is not practicable to reasonably estimate the impact of adopting this Statement on the Company's financial statements, including whether it will be required to recognize any transitional impairment losses as the cumulative effect of a change in accounting principle.

Reclassifications - Certain 2000 and 1999 amounts as well as unaudited quarterly financial data presented in the accompanying financial statements have been reclassified to conform with 2001 financial statement presentation.

Note 2. Inventories

(in thousands)	2000	2001
Finished goods	$ 20,473	**$ 12,030**
Work-in-progress	2,979	**1,848**
Raw materials	11,037	**6,311**
	$ 34,489	**$ 20,189**
Less: reserves	(2,701)	**(2,376)**
	$ 31,788	**$ 17,813**

Note 3. Property, Plant and Equipment

(in thousands)	2000	**2001**
Buildings and leasehold improvements	$ 2,534	**$ 2,353**
Construction in-progress	5,834	**2,972**
Machinery and equipment	46,934	**57,767**
	55,302	**63,092**
Less: accumulated depreciation and amortization	(10,496)	**(18,429)**
	44,806	**44,663**
Land	323	**262**
	$ 45,129	**$ 44,925**

The Company is in the process of implementing an Enterprise Resource Planning software system for which approximately $1,618,000 is capitalized within construction in-progress.

Note 4. Bank Credit Agreement and Long-Term Debt

Bank 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 totals $46,300,000 as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 4. Bank Credit Agreement and Long-Term Debt (continued)

(in thousands)

2001 Credit Facility	Terms	Outstanding at December 31, 2000	2001
$18,100	Collateralized by all assets, variable interest (LIBOR plus negotiated margin) due monthly	$ 18,500	**$ 12,898**
$25,000	Unsecured, Interest at 2.4% to 5.6% due quarterly	250	**9,483**
$ 3,200	Unsecured, variable interest (prime plus .25%) due monthly	-	**1,720**
		18,750	**24,101**
Less: due after 12 months		(11,000)	**(17,598)**
		$ 7,750	**$ 6,503**

One of the credit facilities contains certain covenants and restrictions which, among other matters, requires the maintenance of certain financial ratios and attainment of certain financial results. The Company failed to meet certain covenants in 2001 but has received a waiver from the lender.

During 2001, the average and maximum borrowings on lines of credit were $3,522,000 and $7,278,000, respectively. The weighted average rate of interest and outstanding borrowings was 6.5% in 2001.

Long-term debt - Long-term debt as of December 31 consists of the following:

(in thousands)	2000	2001
Loan payable to bank secured by buildings and land, monthly principal payments of NT$84 (approximately $3 U.S.) plus interest at 7% per annum. All amounts have been paid as of December 31, 2001.	$ 79	**$ -**
Note payable to a customer for advances made to the Company. Amount to be repaid quarterly by price concessions, with any remaining balance due by February 2003, unsecured and interest-free.	2,458	**1,899**
Note payable to LSC, a major stockholder of the Company (see Note 10), due in equal monthly installments of $417, plus interest beginning July 31, 2002, through June 30, 2004. The unsecured note bears interest at LIBOR plus 1% and is subordinated to the interest of the Company's primary lender.	13,549	**10,000**
Term note portion of $25,000 credit facility due in 2003.	-	**7,000**
Term note portion of $18,100 bank credit facility, secured by substantially all assets, due in aggregate monthly principal payments of $120 plus interest at LIBOR plus 2.1% through December 2002 and then $70 through December 2004.	14,771	**3,098**
Term note portion of $18,100 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**
	30,857	**29,497**
Current portion	14,860	**8,333**
	$ 15,997	**$ 21,164**

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

(in thousands)	
2002	$ 8,333
2003	15,336
2004	5,828
	$ 29,497

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 $7,500,000 at December 31, 2001.

Note 5. Accrued Liabilities

(in thousands)	2000	2001
Employee compensation and payroll taxes	$ 3,937	**$ 1,777**
Sales commissions	1,001	**243**
Refunds to product distributors	491	**168**
Other	2,045	**1,484**
Equipment purchases	927	**1,390**
	$ 8,401	**$ 5,062**

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 estimates the carrying amounts of all financial instruments described above with the exception of interest-free debt, to approximate fair value based upon current market conditions, maturity dates, and other factors. The fair value of interest-free debt of $1.9 million as of December 31, 2001 is approximately $2.0 million.

Note 7. Income Taxes

The components of the income tax provisions are as follows:

(in thousands)	1999	2000	2001
Current tax provision (benefit)			
Federal	$ 804	$ 1,376	**$ -**
Foreign	1,845	2,314	**1,132**
State	-	1	**1**
	2,649	3,691	**1,133**
Deferred tax benefit	(1,269)	(1,195)	**(2,902)**
Total income tax provision (benefit)	$ 1,380	$ 2,496	**$ (1,769)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 7. Income Taxes (continued)

Reconciliation between the effective tax rate and the statutory tax rates for the years ended December 31, 1999, 2000 and 2001 are as follows:

	1999		2000		**2001**	
(dollars in thousands)	Amount	Percent of pretax earnings	Amount	Percent of pretax earnings	Amount	Percent of pretax earnings
Federal tax	$ 2,363	34.0	$ 6,131	34.0	**$ (483)**	**34.0**
State franchise tax, net of federal benefit	403	5.8	1,046	5.8	**(82)**	**5.8**
Foreign income tax rate difference	(1,416)	(20.4)	(4,572)	(25.4)	**(1,204)**	**84.7**
Other	30	0.4	(109)	(0.6)	**-**	**-**
Income tax provision (benefit)	$1,380	19.8	$2,496	13.8	**$ (1,769)**	**124.5**

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, 1999 through 2003. Earnings were subject to 0% tax rates in 1999 and 2000, and 12% in 2001. Earnings in 2002 and 2003 will be taxed at 12% (one half the normal rate of the central government tax rate of 24%), 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 2001.

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, 1999 and 2000, 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, 2001, accumulated and undistributed earnings of Diodes-China is approximately $21.5 million. The Company has not recorded deferred Federal or state tax liabilities (estimated to be $8.6 million) on these cumulative earnings since the Company considers its investment in Diodes-China to be permanent, and has no plans, intentions or obligation to distribute any part or all of that amount from China to the United States. The Company will record deferred tax liabilities on future earnings of Diodes-China to the extent such earnings may be appropriated for distribution to the Parent in the U.S.

At December 31, 2000 and 2001, the Company's deferred tax assets and liabilities are comprised of the following items:

(in thousands)	2000	**2001**
Deferred tax assets, current		
Inventory cost	$ 1,653	**$ 1,087**
Accrued expenses and accounts receivable	1,039	**552**
Net operating loss carryforwards and other	1,695	**2,729**
	$ 4,387	**$ 4,368**
Deferred tax assets, non-current		
Plant, equipment and intangible assets	$ (3,128)	**$ (3,055)**
Net operating loss carryforwards and other	3,744	**6,727**
	$ 616	**$ 3,672**

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 10 years from the date of grant and are exercisable over the period stated in each option. Approximately 1,030,000 shares were available for future grants under the plans as of December 31, 2001.

	Outstanding options		
		Exercise price per share	
(number in thousands)	Number	Range	Weighted average
Balance, December 31, 1998	1,922	$ .58-7.50	$ 3.94
Granted	176	4.50-8.50	4.79
Exercised	(362)	.58-4.00	2.72
Canceled	(74)	3.33-6.67	4.79
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

As of December 31, 2001, approximately 1,718,000 of options granted were exerciseable. The following summarizes information about stock options outstanding at December 31, 2001:

Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price
Plan 1 $1.25 - $23.92	1,032,700	5.76 years	$9.22
Plan 2 $1.25 - $23.92	1,017,392	5.97 years	$8.35
Plan 3 $8.32	65,000	9.58 years	$8.32
	2,115,092		

The Company also has an incentive bonus plan, which reserves shares of stock for issuance to key employees. As of December 31, 2001, 186,000 shares remain available for issuance under this plan. No shares were issued under this incentive bonus plan for years ended December 31, 1999 through 2001.

Had compensation cost for the Company's 1999, 2000, and 2001 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, except per share amounts)		As reported	Pro forma
1999	Net income	$ 5,569	$ 5,040
	Diluted earnings per share	.68	.61
2000	Net income	$ 14,895	$ 11,797
	Diluted earnings per share	1.62	1.28
2001	Net income (loss)	**$ 124**	**$ (3,031)**
	Diluted earnings per share	**.01**	**(.34)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 8. Stock Option Plans (continued)

The fair value of each option granted is estimated at the grant date 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 rate 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
2001	5.00%	5 years	79.55%	N/A
2000	5.00%	5 years	98.44%	N/A
1999	5.00%	5 years	91.17%	N/A

Note 9. 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 38% 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 2000, 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 38% of the Company's common stock. In December 2000, 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)	1999	2000	**2001**
Net sales	$ 1,064	$ 633	**$ 7,435**
Purchases	10,844	12,898	**8,002**

As a result of the acquisition of FabTech from LSC (see Note 14), the Company is indebted to LSC in the amount of $10,000,000 as of December 31, 2001. Terms of the debt are indicated in Note 4. No interest expense is outstanding as of December 31, 2001 on this debt. As per 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, minimum and maximum quantities of wafers through December 2003.

Other related parties - For the years ended December 31, 2000, and 2001, Diodes-China purchased approximately $1,970,000 and $1,097,000, respectively, of its inventory purchases from companies owned by its 5% minority shareholder.

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

(in thousands)	2000	**2001**
Accounts receivable		
LSC	$ 490	**$ 1,414**
Other	125	**72**
	$ 615	**$ 1,486**
Accounts payable		
LSC	$ 712	**$ 2,854**
Other	296	**295**
	$ 1,008	**$ 3,149**

Note 10. 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-North America and FabTech) located in the United States and the Asian operations (Diodes-Taiwan located in Taipei, Taiwan; and Diodes-China located in Shanghai, China).

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)	Asia	U.S.A.	Consolidated
2001			
Total sales	**$ 71,589**	**$55,728**	**$127,317**
Intercompany sales	**(28,978)**	**(3,106)**	**(32,084)**
Net sales	**$ 42,611**	**$52,622**	**$ 95,233**
Assets	**58,877**	**44,381**	**103,258**
Deferred tax assets	**111**	**7,929**	**8,040**
2000			
Total sales	$ 104,815	$ 67,127	$ 171,942
Intercompany sales	(50,781)	(2,699)	(53,480)
Net sales	$ 54,034	$ 64,428	$ 118,462
Assets	61,149	51,801	112,950
Deferred tax assets	134	4,869	5,003
1999			
Total sales	$ 58,932	$ 47,688	$ 106,620
Intercompany sales	(23,903)	(3,466)	(27,369)
Net sales	$ 35,029	$ 44,222	$ 79,251
Assets	35,824	26,583	62,407
Deferred tax assets	70	1,776	1,846

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 11. 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 $327,000, $503,000, and $2,556,000, for the years ended December 31, 1999, 2000 and 2001, respectively.

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

(in thousands)	
2002	$ 2,460
2003	2,286
2004	2,166
2005	2,085
2006	2,094
Thereafter	4,177
	$ 15,268

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. Investigations into the landlord's allegations are ongoing. The Company does not anticipate that the ultimate outcome of this matter will have a material adverse effect on its financial condition.

Note 12. 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, 1999, 2000, and 2001, the Company's total contribution to the Plan was approximately $204,000, $307,000, and $97,000, respectively.

Note 13. Management Incentive Agreements

As part of the FabTech acquisition (see Note 14), 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
2002	$ 375	$ 600	$ 975
2003	375	975	1,350
2004	375	1,200	1,575
	$ 1,125	$ 2,775	$ 3,900

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

Note 14. Business Acquisition

On December 1, 2000, Diodes purchased all of the outstanding capital stock of FabTech, Inc. from LSC (a 38% shareholder of Diodes, Inc.). 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. 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 13). 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 is being amortized on the straight-line method over 20 years. Beginning in fiscal 2002, the Company plans to adopt SFAS 142 ("Goodwill and Other Intangible Assets") which will require that goodwill and certain intangible assets no longer be amortized, but instead be tested for impairment at least annually.

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 1999 and 2000.

(in thousands, except per share data) Year Ended December 31,	1999	2000
Net sales	$ 95,829	$ 138,821
Net income	4,487	14,211
Earnings per share		
Basic	$ 0.59	$ 1.76
Diluted	0.55	1.54

The proforma results do not represent the Company's actual operating results had the acquisition been made at the beginning of 1999 or 2000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 15. Selected Quarterly Financial Data (Unaudited)

(in thousands, except for share data)	Quarter Ended March 31	June 30	Sept. 30	Dec. 31
FISCAL 2001				
Net sales	**$ 25,748**	**$ 21,001**	**$ 22,698**	**$ 25,786**
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)**

	Quarter Ended March 31	June 30	Sept. 30	Dec. 31
FISCAL 2000				
Net sales	$ 27,437	$ 32,600	$ 32,332	$ 26,093
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

	Quarter Ended March 31	June 30	Sept. 30	Dec. 31
FISCAL 1999				
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
Earnings per share				
Basic	$ 0.09	$ 0.11	$ 0.22	$ 0.30
Diluted	0.09	0.10	0.21	0.27

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, 2001 and 2000 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, 2001. 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, 2001 and 2000, and the consolidated results of their operations and cash flows for each of the years in the three year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

MOSS ADAMS, LLP

Moss Adams LLP

Los Angeles, California
January 25, 2002

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]
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*

Dr. Leonard M. Silverman [2,3]
Professor of Electrical Engineering, *USC*

John M. Stich [1,3]
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

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.

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 upon request to:

Investor Relations, Coffin Communications Group
15300 Ventura Blvd., Suite 303, Sherman Oaks, CA 91403-5866
TEL: 818.789.0100 FAX: 818.789.1152
email: crocker.coulson@coffincg.com
diodes-fin@diodes.com

2001	High	Low
1ST QUARTER	$ 15.50	$ 8.38
2ND QUARTER	11.00	6.25
3RD QUARTER	9.90	4.45
4TH QUARTER	7.80	4.50

2000	High	Low
1ST QUARTER	$ 25.58	$ 11.67
2ND QUARTER	33.00	17.00
3RD QUARTER	28.33	15.00
4TH QUARTER	17.75	8.56

INDEPENDENT ACCOUNTANTS
Moss Adams LLP
Los Angeles,
California

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

LEGAL COUNSEL
Sheppard, Mullin,
Richter & Hampton
Los Angeles,
California

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

DIODES INCORPORATED — Corporate Offices
3050 East Hillcrest Drive
Westlake Village, CA 91362-3154
TEL: 805.446.4800
FAX: 805.446-4850

DIODES — CHINA
Shanghai KaiHong Electronic Co., Ltd.,
No. 1 Chenchun Road, Xingqiao Town Songjiang,
Shanghai, P.R.C. 201612

DIODES — TAIWAN
Diodes Incorporated Taiwan Company, Ltd.
2nd Fl, 501-15 Chung–Cheng Road
Hsin–Tien, Taipei, Taiwan, R.O.C.

DIODES — FABTECH
777 N.W. Blue Parkway
Lee's Summit, MO 64086

WWW.DIODES.COM

DIODES INCORPORATED
REGISTERED TO ISO 9002
FILE NUMBER A5109