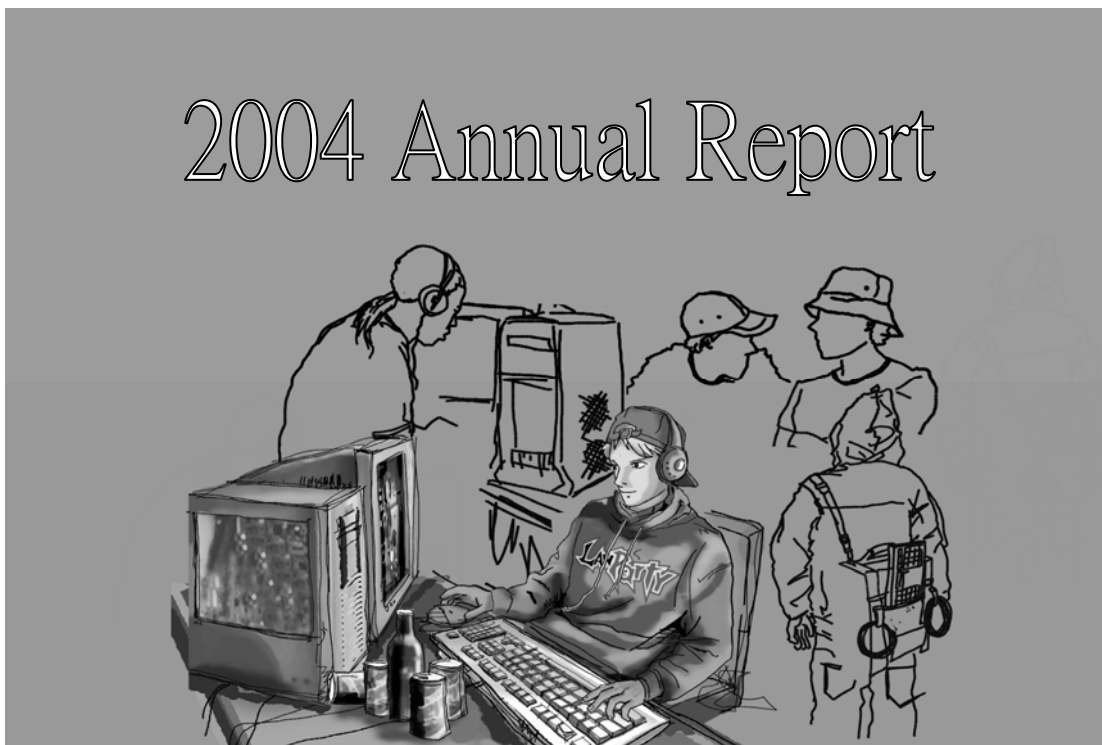




2004 Annual Report



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Chairman's Statement

Last year is a challenging year for information industry. DFI suffers with revenue reduction in face of severe competition under unclear industry prospect. The operating profit has grown, nevertheless, compared to year 2003. Our effort in resource re-allocation and strategy re-direction has achieved the expected results. In future, DFI will keep innovative in product development, technology, channel and thinking to maintain profitable growth through another business transformation. Time to market, quick responsiveness and customer service orientation will be cornerstones to DFI next business models.

Financial Highlight

NT\$000

Item	2004	2003	Delta
Net Sales	2,400,845	2,894,197	(493,352)
Gross Profit	408,695	344,189	64,506
Operating Expenses	248,478	285,370	(36,892)
Income From Operation	160,217	58,819	101,398
Non-operating Income	28,719	77,355	(48,636)
Non-operating Expenses	64,084	35,468	28,616
Income before Taxes	124,852	100,706	24,146
Income Taxes	16,635	12,622	4,013
Net Income	108,217	88,084	20,133
Earnings Per Share	1.00	0.78	0.22

2005 Business Planning

The mature of information technology industry will lead a moderate growth in next years. New application platforms in special fields will drive IT business to another direction. DFI has good connection with those industry leaders in POS, CTI, ATM, Gaming and DVR. With those experiences and technologies, we can adopt to new integrated application platform in short time. We believe this will help DFI return to growth track.

In 2004, we stressed not only in PC based motherboards and cards but also re-direct to ARM based X-scale and ETX R&D. The integration and communication among business units continued to speed up development schedule and cost reduction. Besides that, we also reviewed our business process in ACP and MB segments, in order to keep our competitive advantage through higher quality and better flexibility.

Forecast Volume in 2005

The competition in MB business, especially from Taiwanese tier 1 manufacturers, resulting the poor financial performance of MB industry in 2004. With the help in ACP business and high-end MB- own-brand Lanparty and Infinity, we expect the volume in 2005 to be 1.24M pieces.

Major Policies

MB business kept in China for cheaper costs to deal with fierce competition. ACP products will be manufactured in Taiwan for quality, flexible scheduling and logistic.

We would expect your continued support and encouragement in the future, and hope well for all of you.

Y.C. Lu
Chairman of Board



Company Profile


- 1981 Incorporated in July 14, 1981.
- 1983 Paid-in capital increased to NT\$2.5 million.
- 1984 Factory built up.
- 1986 Paid-in capital increased to NT\$10m.
- 1987 Hsi-Chi plant construction completed. Designed the first handy scanner in the world.
- 1989 Paid-in capital increased to NT\$120m.
- 1980 Being first one to set up PC system assembly line in the US.
- 1992 Implementing ICT and SMT equipment to improve manufacturing quality and efficiency.
- 1994 Phasing in CD-ROM as a new product line. Turnover in notebook computer reached NT\$2,100m.
- 1995 Going public, paid-in capital increased to NT\$400m. ISO 9001 certification acquired.
- 1996 Designing the first 75MHZ system bus motherboard in world, support Cyrus PR200⁺CPU. Setting up third SMT production line. Successfully designed dual-CPU 586 motherboard. Join Philip Asia Pacific sales channel, set foot in third world home market.
- 1997 Being 1996 top 10 computer motherboard manufacturer chosen by CRN magazine. Set up China factory in Dong-Guang, south China. Bremen Germany sales office organized. Designed SCSI onboard & Dual Pentium CPU motherboards, set foot in server market.
- 1998 Being 1997 top 10 computer motherboard manufacturer chosen by CRN magazine. Being Intel Demo Board manufacturer for Intel 810. Increased Capital to NT\$520m.
- 1999 Being 1998 top 10 computer motherboard manufacturer chosen by CRN magazine. Fifth SMT line implemented, monthly capacity increased to 200K pcs. Being Intel 810E Demo Board manufacturer.
- 2000 IPO in January 15, 2000. Being listed company in Taiwan Stock Exchange. Capital increased to NT\$981m. Implemented Sixth SMT line, monthly capacity increased to 270K pcs.
- 2001 Capital increased to NT\$1,150M
Add one more SMT production line.
Celebration of DFI's 20th Anniversary
The Top Performing Pentium 4 Motherboard Line.

- Being The 7th Largest Mainboard Manufacturer Intel Design Partner.
- 2002 Capital increased to NT\$1,176M.
Launched AGP 8X to re-enter graphics market.
Products certified by Hi-Speed USB logo.
Establish ACP subsidiary in Tokyo/ Japan.
Set up Service Contact Office in Shenzhen/ China.
Moved European subsidiary to Rotterdam/ the Netherlands.
Set up Service Center in Poland/ Eastern Europe.
Buy treasury stock for 3,200,000 shares.
- 2003 Buy treasury stock for 5,050,000 shares.
Write off treasury stock for 2M shares.
- 2004 Buy treasury stock 8,200,000 shares.
Write off treasury stock 8,200,000 shares.

Board Member, Supervisor and Executive Management

As of: 2005.4.16

Title	Name	Shares Held	Experiences	Also work for
Chairman & President	Yen Chi Lu	8,138,295 (7.41%)	Taiwan GI	Director of DFI -Tech; DFI - SJ, DFS - NL and Dual-Tech
Director & Vice President	Andy Lu	4,965,194 (4.52%)	Megotronics Co.	Chairman of Yu-Shan investment and Yu-Li investment
Director	Laura Kuo	2,910,886 (2.65%)	Taipei Trading Co.	Chairman of Chia-Tung investment; Director of Yu-Li investment
Director	C.C. Cheng	307,764 (0.28%)	DFI	Procurement director, DFI
Director	Wen Sheng Wang	114,162 (0.10%)	Hsi Hua CPA firm	Partner of Hsi Hua CPA firm
Director	Tseng-Peng Tsai, Wei-Heng Co.	236,000 (0.21%)	Professor of Tamkang University	
Director	Ging Pei Cheng	11,800 (0.01%)	Syntec Semiconductor	President of TonTek Design Technology
Supervisor	Bing Tang Kuo	2,143,641 (1.95%)	Taiwan Petroleum Chemical	Plant Manager of Taiwan Petroleum Chemical
Supervisor	Shen Wu Hsiao	194,000 (0.18%)	Syntec Semiconductor TonTek Design Technology	Director of TonTek Design Technology
Supervisor	Kuo Chi Lin	221,723 (0.20%)	Architect Firm	Architect

Title	Name	Date in position	Shareholding		Shareholding of spouse · under-aged children		Educational/ Career background	Also work for	Spouse or close relatives of President or Vice Presidents			Salary and bonus in thousand 
			Shares	% to total shares	Shares	% to total shares			Title	Name	Relationship	
Chairman & President	Yen Chi Lu	1981.07.01	8,138,295	7.41%	-	0%	Tamsui Oxford University College; Taiwan GI	Director of DFI -Tech; DFI - SJ, DFS - NL and Dual-Tech	Special Assistant	Laura Kuo	Spouse	\$605
Managing Director & Vice President	Andy Lu	1982.02.01	4,968,194	4.52%	648	0.00%	TamKang University; Megotronics Co.	Chairman of Yu-Shan investment and Yu-Li investment	President	Yen Chi Lu	Brother	\$5,563 Company car cost \$684.
Special Assistant	Laura Kuo	1997.11.01	-	0%	8,138,295	7.41%	Ming Chuan College Taipei Trading Co.	Chairman of Chia-Tung investment; Director of Yu-Li investment	President	Yen Chi Lu	Spouse	\$1,332
Director, Procurement	C.C. Cheng	1998.05.11	307,764	0.28%	10,176	0.01%	TamKang University; DFI	-	-	-	-	\$1,892

Operation Overview

Business

1. Business Scope

NT\$000

Item	Year 2004	
Motherboard	2,333,558	97.20%
Others	67,287	2.80%
Total	2,400,845	100.00%

2. Current Main Products

- (1) Commercial MB- Intel P4 875PE, 865GV/G, 875 Infinity, nFII Ultra Infinity; SiS P4 661FX+964; VIA P4 PT880, PM880; VIA K7 KT880; nVidia nF3 250GB.
- (2) ACP- 1U/2U Server; CTI; Touch screen panel PC; Audio broadcasting.

3. Projects under Development:

- (1) OC party series: NF4/C19/RD480
- (2) SiS 662, DDR2, PCI-E.
- (3) C51, PCI-E.
- (4) Pentium-M: 855GME-MGF.
- (5) Co-exist X86 and AMD 64 bit platform in one MB.
- (6) Implement 875P & 865G into ACP fields, together with PCI-X, SATA, RAID, GigaLan to upgrade the performance of higher application.
- (7) EmbATX Pentium MB, 2W amplifier and RS485/422 support for POS, ATM and KIOSK.
- (8) EBX design for chasses, change fixed I/O shield to cable connected I/O devices.
- (9) All-in-one mini IPC MB: Mini-ITX
- (10) Intel 855GME MB, with low-power and LVDS panel support.
- (11) ARM based X-scale and ETX MB.

4. R&D expenditures:

NT\$000

	2004	2003
R&D Expenditure	90,743	90,230
Turnover	2,400,845	2,894,197
Percentage to Turnover	3.78%	3.12%



5. Business Development Planning:

To promote Lanparty through power users for high-end market, and extend the brand value to OC party and push higher turnover. Add features and new technologies on high-end models, creating differentiation from market competitors.

Market and Distribution

Market Analysis

1. Distribution Territory:

NT\$000

Territory	2004		2003	
Domestic Sales	116,270	4.84%	395,793	13.68%
America	673,041	28.03%	573,724	19.82%
Asia, Australia, Africa	929,369	38.71%	1,122,909	38.80%
Europe	682,165	28.42%	801,771	27.70%
Total Sales	2,400,845	100.00%	2,894,197	100.00%

2. Market share:

According to MIC's reports, motherboard manufacturers placed their capacity in China is a must. Another statistics shows 72.7% of Taiwanese motherboard production came from China. Obviously the business model to allocate value chain function across Taiwan Strait has been mature, and the focus is on OEM business. DFI has been marketing our products with own brand. Estimated market share in 2004 will be 1.1% of Taiwanese delivery.

Market share of motherboards

000pcs

	2005(f)	2004
Worldwide market	141,087	137,914
Taiwan delivery (System excluded)	112,350	107,987
DFI delivery	1,240	1,211
DFI market share/worldwide	0.9%	0.9%
DFI market share/Taiwan delivery	1.1%	1.1%

Source: MIC, March 2005

3. Market demand/supply and future growth

Forward-looking in 2005, Taiwanese motherboard total shipment will continue to grow at a slower speed. The forecast growth rate YOY is 2.3%. For the shipment value, due to the market for high-end still stays small and competition shows no sign

to soften, thus the release of 64-bit CPU will just offset the price cut to keep the shipment value even with 2004. In view of 2005 to 2007, following the mature of entire replacement market, the growth rate forecast to be 2.3%, 1.6%, 2.8% YOY, respectively. Since the lifecycle of PC is about 4 years, the replacement demand may re-boost again in 2008, when forecast a 4.4% growth rate.

4. Competitive advantage, strength and weakness

(1) Competitive advantage-

Motherboard market is divided as clone market and OEM market. DFI has been focusing in clone market, and has owned good brand awareness and image. As the clone market always stresses in price-performance ratio, so DFI, which is good at R&D and flexible production and distribution, sees clone market as its niche market. As the clone market has been dominant by Taiwan manufacturers at 96%, growth in future is limited. So DFI has aggressively set foot in ACP research and manufacturing. Some models being developed and delivered successfully. DFI is constructing its new domain for future growth and competing weapons.

(2) Strength for future growth-

- Taiwan's IT industry developed intact, which is in favor of motherboard industry.
- PC demand keep growing, Taiwan's motherboard industry takes advantage of lower costs in mainland China, which makes them more competitive.
- The supply in materials of motherboard is under control of the industry.
- Leading technology in R&D, flexibility for changes, excellent ability for manufacturing.

(3) Weakness for future growth-

- Labor costs continue to rise. Production is therefore uncompetitive in Taiwan.
- Ever-changing CPU and chipset go to market in shorter time, the life cycle of motherboards therefore shortened.
- A matured market brought fierce competition. Gross margin has shrunk accordingly.

Financial Status

1. 5-Year Concise Balance Sheets

NT\$000

	2004	2003	2002	2001	2000
Current Assets	2,524,175	2,651,035	2,864,169	3,490,861	3,135,454
Long-term Investment	102,228	150,265	78,418	55,206	52,347
Fixed Assets	232,132	293,592	363,157	366,183	347,268
Other Assets	44,572	45,235	52,959	56,261	65,859
Total Assets	2,903,107	3,140,127	3,358,703	3,968,511	3,600,928
Current Liabilities	420,943	497,815	621,910	1,078,773	963,404
Other Liabilities	48,643	79,762	69,234	37,442	15,386
Total Liabilities	469,586	577,577	691,144	1,116,215	978,790
Capital Stock	1,098,000	1,168,600	1,176,000	1,150,000	981,200
Additional Paid-in Capital	896,151	947,239	963,602	963,602	1,070,361
Retained Earnings	548,491	558,477	595,623	735,545	639,238
Adjustments to SE	-3,502	-6,175	-9,640	3,149	596
Total Shareholders' Equity	2,433,521	2,562,550	2,667,559	2,852,296	2,622,138

2. 5-Year Concise Income Statements

NT\$000

	2004	2003	2002	2001	2000
Net Sales	2,400,845	2,894,197	3,791,689	5,135,044	4,582,004
Gross Profit	407,713	332,562	473,217	685,282	604,661
Income from Operation	160,217	58,819	120,381	261,160	244,495
Non-operating Income	28,719	77,355	65,052	169,139	114,583
Non-operating Expenses	64,084	35,468	65,798	7,546	34,819
Income before Taxes	124,852	100,706	119,635	422,753	324,259
Income after Taxes	108,217	88,084	118,664	348,229	277,553
EPS	1.00	0.78	1.00	2.96	2.63

5-Year Financial Ratios

Item	Ratio	2004	2003	2002	2001	2000
Financial Structure	Debt to Assets	16	18	21	28	27
	Long-term Capital to Fixed Assets	1,069	900	754	789	760
Liquidity	Current Ratio	600	533	461	324	325
	Quick Ratio	518	476	420	284	286
	Interest Expense Coverage	817	289	177.97	401.14	27.81
Operation Ability	Accounts Receivable Turnover	4.58	4.76	4.9	5.8	6.3
	AR Turnover Days	80	77	75	63	58
	Inventory Turnover	6.43	9.88	10	11.0	11.6
	Inventory Turnover Days	57	37	37	33	31
	Fixed Assets Turnover	10.34	9.86	10.44	14.02	13.2
	Total Assets Turnover	0.83	0.9	1.1	1.3	1.3
Profitability	Return to Total Assets (ROI)	4	3	3	9	10
	Return to Equity (ROE)	4	3	4	13	14
	Income from Operation/Capital	15	5	10	23	25
	Income before Tax/Capital	11	9	10	37	33
	Net Income/Net Sales	5	3	3	7	6
	EPS (Note 1)	1.00	0.78	1.01	3.03	3.18
	EPS (Note 2)	-	0.78	1.00	2.96	2.63
Leverage	Operating Leverage	1.6	2.4	1.9	1.4	1.3
	Financial Leverage	1.0	1.0	1.0	1.0	1.1

Note 1: Calculated based on weighted-average outstanding shares.

Note 2: Calculated based on retroactive shares.



REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of DFI Inc.,

We have audited the accompanying balance sheets of DFI Inc. as of December 31, 2004 and 2003, and the related statements of income, shareholders' equity and cash flows for the years ended. 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. The financial statements of the three subsidiaries listed below were audited by other auditors and unqualified opinions expressed. We expressed our opinions for year 2004 and 2003 based on those auditors' opinions for financial information concerning these three companies.

We conducted our audits in accordance with generally accepted auditing standards in Taiwan. Those standards require that we plan and perform the audit 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 the 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 financial position of DFI, Inc. as of December 31, 2004 and 2003, and results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in Taiwan.

Deloitte & Touche

Taipei, Taiwan
March 8, 2005

DFI Inc.
Balance Sheets
As of December 31, 2004 and 2003

NTS\$000

Assets	2004		2003		Liabilities & Shareholders' Equity	2004		2003	
	Amount	%	Amount	%		Amount	%	Amount	%
Cash and Cash Equivalents	\$ 187,038	6	\$ 115,060	4	Short-term Borrowings				
Short-term Investments	1,561,646	54	1,564,073	50	Notes Payable	\$ 137,169	5	\$ 179,085	6
Notes Receivable	233	-	1,932	-	Accounts Payable	164,828	6	185,950	6
Accounts Receivable	83,166	3	286,858	9	Income Tax Payable	14,709	-	12,010	-
Receivable from Affiliates	287,905	10	353,031	11	Accrued Expenses	68,878	2	75,580	2
Inventory	314,750	11	257,026	8	Payable to Affiliates	8,350	-	14,754	1
Mortgaged Time Deposits	8,301	-	35,922	1	Other Current Liabilities	27,009	1	30,436	1
Other Current Assets	81,136	3	37,133	1	Current Liabilities Subtotal	420,943	14	497,815	16
Current Assets Subtotal	2,524,175	87	2,651,035	84	Other Liabilities	48,643	2	79,762	2
Long-term Investments	102,228	3	150,265	5	Total Liabilities	469,586	16	577,577	18
Fixed Assets					Capital Stock	1,098,000	38	1,168,600	37
Land	25,019	1	25,019	1	Capital Reserve				
Buildings	116,275	4	116,194	4	Additional Paid-in Capital	894,690	31	945,778	30
Machinery	459,649	16	457,540	15	Gain on Disposal of Fixed Assets	808	-	808	-
Office Equipment	13,611	-	12,558	-	From Equity Investments	653	-	653	-
Other Equipment	6,609	-	9,915	-	Capital Reserve Subtotal	896,151	31	947,239	30
Cost Subtotal	621,163	21	621,226	20	Retained Earnings				
Accumulated Depreciation	389,031	13	327,634	11	Legal Reserve	164,723	6	156,117	5
Prepayments					Special Reserve	6,147	-	9,640	-
Net Fixed Assets	232,132	8	293,592	9	Unappropriated Earnings	377,621	13	392,720	13
Other Assets					Retained Earnings Subtotal	548,491	19	558,477	18
Assets Let Out	39,600	2	39,864	2	Unrealized Loss on Equity Investment				
Deferred Charges	4,904	-	4,977	-	Cumulative Exchange Adjustments	(3,502)	-	622	-
Others	68	-	394	-	Unrecognized Pension Loss	-	-	(6,769)	-
Other Assets Subtotal	44,572	2	45,235	2	Treasury Stock	(105,619)	(4)	(105,619)	(3)
Total Assets	\$2,903,107	100	\$3,140,127	100	Total Equity	2,433,521	84	2,562,550	82
					Total Liabilities & Shareholders' Equity	\$2,903,107	100	\$3,140,127	100

DFI Inc.

Income Statements

For the Years from January 1 to December 31, 2004 and 2003

NT\$000

	2004		2003	
Gross Sales	\$2,407,142	100	\$2,921,903	101
Sales Return & Allowance	6,297	-	27,706	1
Net Sales	2,400,845	100	2,894,197	100
Cost of Goods Sold	1,993,132	83	2,561,635	88
Unrealized Profit on Sales to Affiliates	982	-	11,627	-
Gross Profit	408,695	17	344,189	12
Operation Expenses				
Selling Expenses	109,881	4	132,315	5
Administrative Expenses	47,854	2	62,825	2
R&D Expenses	90,743	4	90,230	3
Total Operating Expenses	248,478	10	285,370	10
Income from Operations	160,217	7	58,819	2
Non-operating Income				
Exchange Gain	-	-	4,190	-
Interest Income	3,684	-	5,658	-
Gain on Sale of Investments	-	-	52,458	2
Reverse of Short-term Investment				
Depreciation	-	-	-	-
Income on Equity-Method Investments	-	-	-	-
Other Income	25,035	1	15,049	-
Total Non-operating Income	28,719	1	77,355	2
Non-operating Expenses				
Loss on Equity-Method Investments	16,097	1	11,311	1
Interest Expenses	153	-	350	-
Depreciation on Short-term Investments	2,170	-	-	-
Inventory Obsolescence Loss	8,118	1	11,167	-
Exchange Gain	24,648	1	-	-
Inventory Devaluation loss	8,000	-	8,000	-
Other Expenses	4,898	-	4,640	-
Total Non-operating Expenses	64,084	3	35,468	1
Income before Income Taxes	124,852	5	100,706	3
Income Taxes	16,635	-	12,622	-
Net Income	\$ 108,217	5	88,084	3
EPS	1.16		0.89	

DFI Inc.
Statements of Changes in Shareholders' Equity
For the Years January 1 to December 31, 2004 and 2003

NT\$000

	Capital Stock		Capital Reserve			Retained Earnings					Unrealized Loss on Equity Investment	Cumulative Exchange Adjustment	Unrecog nized Pension Loss	Treasury Stock	Total Shareholde rs' Equity
	Shares	Amount	Additional Paid-in Capital	Treasury Stock	Gain on Disposal of Fixed Assets	From Equity Invest- ment	Legal Reserve	Special Reserve	Unappro- priated Earnings	Total Retained Earnings					
Beginning Balance, 2003	117,600	1,176,000	962,141	-	808	653	144,251	-	451,372	595,623	(649)	3,733	(12,724)	(58,026)	2,667,559
Treasury Stock-5,050,000	-	-	-	-	-	-	-	-	-	-	-	-	-	(85,977)	(85,977)
註銷 Treasury Stock	(2,000)	(20,000)	(16,363)	-	-	-	-	-	(2,021)	(2,021)	-	-	-	38,384	-
Distribution of 2002 Earnings:															
-Legal Reserve	-	-	-	-	-	-	11,866	-	(11,866)	-	-	-	-	-	-
-Special Reserve	-	-	-	-	-	-	-	9,640	(9,640)	-	-	-	-	-	-
-Employee Bonus	1,260	12,600	-	-	-	-	-	-	(12,600)	(12,600)	-	-	-	-	-
-Directors' Remuneration	-	-	-	-	-	-	-	-	(1,259)	(1,259)	-	-	-	-	(1,259)
-Cash Dividend-\$1	-	-	-	-	-	-	-	-	(109,350)	(109,350)	-	-	-	-	(109,350)
Unrecognized Pension Loss	-	-	-	-	-	-	-	-	-	-	-	-	5,955	-	5,955
-Stock Dividend	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Additional Paid-in Capital transferred to Capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reverse of Special Reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unrealized Loss on Equity Investment	-	-	-	-	-	-	-	-	-	-	649	-	-	-	649
Net Income 2003	-	-	-	-	-	-	-	-	88,084	88,084	-	-	-	-	88,084
Cumulative Exchange Adjustments	-	-	-	-	-	-	-	-	-	-	-	(3,111)	-	-	(3,111)
Ending Balance 2003	116,860	1,168,600	945,778	-	808	653	156,117	9,640	392,720	558,477	-	622	(6,769)	(105,619)	2,562,550

DFI Inc.
Statements of Changes in Shareholders' Equity
For the Years January 1 to December 31, 2004 and 2003

NT\$000

	Capital Stock		Capital Reserve			Retained Earnings					Unrealized Loss on Equity Investment	Cumulative Exchange Adjustment	Unrecog nized Pension Loss	Treasury Stock	Total Shareholde rs' Equity
	Shares	Amount	Additional Paid-in Capital	Treasury Stock	Gain on Disposal of Fixed Assets	From Equity Invest- ment	Legal Reserve	Special Reserve	Unappro- priated Earnings	Total Retained Earnings					
Distribution of 2003 Earnings:															
-Legal Reserve	-	-	-	-	-	-	8,606	-	(8,606)	-	-	-	-	-	-
-Special Reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Employee Bonus	1,140	11,400	-	-	-	-	-	-	(11,400)	(11,400)	-	-	-	-	-
-Directors' Remuneration	-	-	-	-	-	-	-	-	(1,202)	(1,202)	-	-	-	-	(1,202)
-Cash Dividend-\$1.0	-	-	-	-	-	-	-	-	(105,601)	(105,601)	-	-	-	-	(105,601)
Reverse of Special Reserve	-	-	-	-	-	-	-	(3,493)	3,493	-	-	-	-	-	-
Unrealized Loss on Equity Investment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income 2004	-	-	-	-	-	-	-	-	108,217	108,217	-	-	-	-	108,217
Cumulative Exchange Adjustments	-	-	-	-	-	-	-	-	-	-	-	(4,124)	-	-	(4,124)
Unrecognized Pension Loss	-	-	-	-	-	-	-	-	-	-	-	-	6,769	-	6,769
Treasury Stock-買回														(133,088)	(133,088)
Treasury Stock-註銷	(8,200)	(82,000)	(66,071)	14,983	-	-	-	-	-	-	-	-	-	-	133,088
Ending Balance 2004	109,800	1,098,000	879,707	14,983	808	653	164,723	6,147	377,621	548,491	-	(3,502)	-	(105,619)	2,433,521

DFI Inc.
Cash Flow Statements
For the Years January 1 to December 31, 2004 and 2003

	2004	2003
		NT\$000
Cash Flow from Operating Activities		
Net Income	108,217	88,084
Depreciation	69,070	72,743
Amortization	7,426	10,824
(Reverse of)Depreciation on Short-term Investments	2170	-
Gain on Sale of Long-term Investment	-	(97)
Inventory Devaluation loss	8,000	8,000
Inventory Obsolescence Loss	8,118	11,167
Gain on Long-term Investment by Equity Method	8,939	11,311
Loss on Sales of Fixed Assets	(58)	-
Deferred Income Taxes	(9,148)	(5,415)
Accrue of Pension Liability	12,170	10,714
Net Changes of Operation Assets and Liabilities		
Notes Receivable	1,699	(1,422)
Accounts Receivable	203,692	(123,683)
Receivable from Affiliates	65,126	34,706
Inventory	(73,842)	(46,587)
Other Current Assets	(6,240)	18,159
Notes Payable	(41,916)	(124,917)
Accounts Payable	(21,122)	5,250
Income Tax Payable	2,699	11,324
Accrued Expenses	(6,702)	1,301
Payable to Affiliates	(6,404)	1,696
Other Current Liabilities	(3,427)	(18,749)
Net Cash Inflow from Operating Activities	328,467	(35,591)
Cash Flow from Investing Activities		
Increase of Short-term Investments	257	111,405
Other finance Assets	(30,289)	-
Increase of Long-term Investments	(67,256)	(68,070)
Sale of Long-term Investment	67,872	500
Proceeds from Sale of Fixed Assets	110	-
Purchase of Fixed Assets	(7,398)	(2,914)
Decrease (Increase) of Guarantee Deposit	7	3
Mortgaged Time Deposits	27,621	(301)
Increase Deferred Charges	(7,353)	(3,367)
Cash Outflow from Investing Activities	(16,429)	37,256
Cash Flow from Financing Activities		
Decrease of Short-term Borrowings	-	-
Cash Dividends	(105,601)	(109,350)
Capital increase by Cash Contribution	-	-
Payment of Directors' Remuneration	(1,202)	(1,259)
Increase (Decrease) in Other Liabilities	(169)	(839)
Treasury Stock	(133,088)	(85,977)
Cash Inflow (Outflow) from Financing Activities	(240,060)	(197,425)
Increase (Decrease) of Cash and Cash Equivalents	71,978	(195,760)
Cash and Cash Equivalents, Beginning of Year	115,060	310,820
Cash and Cash Equivalents, End of Year	\$187,038	\$115,060
Supplementary Information for cash Flows		
Payment of Interest	\$153	\$350
Payment of Income Taxes	\$23,083	\$8,465

Notes to Financial Statements and Attachments

Note 1: Company Profile

The Company was incorporated in July 1981. Since January 15, 2000, the stocks are listed in Taiwan Stock Exchange for trading. It mainly manufactures and sells of computer motherboards, add-on cards and other computer parts.

Note 2: Important Accounting Policy Summary

Cash and Cash Equivalent

Cash equivalents are commercial papers due in three months since investment dates.

Short-term Investments

Re-purchase bond transactions are pricing at costs. When sold, the costs are identified individually. The differences between selling and purchase prices are booked as interest income.

Investments in mutual funds are valued at lower of costs or market. When market prices are lower than costs, an allowance for depreciation is reserved. If the prices reach over costs, the allowance reserved will be reversed.

The costs for sale are calculated over moving average method.

Allowance for Bad Debts

Allowance for bad debts are accrued according to estimate of collection probability.

Inventory

Inventory is priced at lower of weighted-average costs or market.

Long-term Investments

Costs for long-term equity investments, if priced at equity method, include historical costs plus (or minus) net income or loss accrued according to the investment percentage. We accrue income when the invested are in profit, and vice versa. Cash dividends are booked as decrease in investments. Stock dividends are booked in memory entries for only increase in share numbers.

Costs for long-term equity investments, if priced at cost method, include only historical costs. For investments in stocks of listed company, when market prices are lower than book value, the allowance for depreciation is booked as deduction item of shareholders' equity. The allowance shall be reversed if market price recovers the book value. For investments in private companies, when value has decreased and remote hope to recover, the book value shall be adjusted and loss be recognized. Cash dividends are booked as investment income. Stock dividends are booked in memory entries for only increase in share numbers.

Costs for sale are calculated over weighted-average method.

Fixed Assets and Assets Let-out

Fixed Assets and Assets Let-out are priced at cost less accumulated depreciation. Major renovation or improvements are capitalized; maintenance is booked as expenses.

The depreciation is calculated at straight-line method over following years:

Buildings- 3 to 60 years;

Machinery- 3 to 15 years;

Office Equipment- 3 to 8 years;

Other Equipment- 2 to 8 years.

For assets expired but under use, original depreciation method applied and a useful life is estimated.

When fixed assets are obsolete or sold, costs and related accumulated depreciation are removed, gain or loss for the disposal are treated as current period non-operating income or loss or extra-ordinary items. Disposal gain, net of income tax, is transferred to capital reserve at end of year.

Deferred Charges

Deferred charges mainly are computer software, amortized over 3 to 5 years.

Deferred Income

Unrealized gross profit from sales to the invested companies, which priced by equity method, is deferred until realization. For those DFI's share holding over 50%, all unrealized gross profit is deferred; for those under 50%, deferred income is calculated according to investment percentage.

Pension

Pension costs are recorded according to actuarial results. Unrealized net obligations in transition are amortized over 15 years. Pension gain or loss is amortized over the average residual service years of employees.

Treasury Stock

When treasury stocks are written off, the purchase cost of treasury stocks is removed, and additional paid-in capital and capital stocks are decreased in proportion. If book value of treasury stocks is higher than sum of face value of capital stock and additional paid-in capital, the difference is to write off capital reserve arise from similar treasury stock transactions. Any deficit thereafter is debited to retained earnings.

Income Taxes

Income taxes shall be allocated crossing periods. All tax effects on deductible temporary differences, unused prior-period losses carry-forward and unused investment tax credits are deferred as income tax assets, possibility to realization is assessed and allowance for depreciation accrued. Tax effects on taxable timing differences are accrued as deferred income tax liabilities. Deferred income tax assets and liabilities are classified as current or non-current items according to their related assets or liabilities derived from.

Prior period adjustments on income taxes are included in current period income tax expenses.

Unappropriated retained earnings shall be levied at 10%, income tax expenses accordingly are recorded after decision of shareholders' meeting.

Foreign Currency Transactions

Non-derivative financial commodity is recorded at the spot rates of transaction dates. Gain or loss from foreign currency assets and liabilities paid or received in NT dollars is recorded as exchange gain or loss in the paid or received periods. Year-end balances of foreign currency assets or liabilities are re-valuated at year-end spot rates. Gains or losses are treated as follow:

If foreign currency long-term equity investments are valued at equity method, the exchange differences are recorded as "cumulative exchange adjustments" as a shareholders' equity item. Other exchange differences are recorded as current year gains or losses.

On the balance sheet dates, exchange forward contracts to hedge exchange risks are evaluated at spot rates of that dates. Exchange differences accordingly are recorded as current period gains or losses. Discount or premium of the forward contracts is amortized over the duration of those contracts.

Note 3: Cash and Cash Equivalents

	NT\$000	
	2004	2003
Cash		
Petty Cash and Cash on Hand	266	494
Checking and Demand Deposit Accounts	178,009	98,881
Time Deposits	8,763	15,685
	187,038	115,060
Cash Equivalents		
Commercial Papers	-	-
	187,038	\$115,060

Note 4: Short-term Investments

	NT\$000	
	2004	2003
Mutual Funds-		
Bond Fund	1,563,816	1,564,073
Less: Allowance for Depreciation	2,170	-
	1,561,646	\$1,564,073

Note 5: Inventory

	NT\$000	
	2004	2003
Finished Goods	\$ 122,716	\$ 74,057
Work in Progress	19,389	20,361
Outsourced Work in Progress	86,443	57,499
Materials	114,202	125,109
Inventory on the Way	-	-
	342,750	277,026
Less: Allowance for Depreciation	28,000	20,000
	\$ 314,750	\$ 257,026

Note 6: Long-term Investments

	NT\$000			
	2004		2003	
	Book Value	Holding %	Book Value	Holding %
Equity Method				
Itox, Inc	29,821	34.23	26,784	33.00
Dual-Tech International Co., Ltd.	21,282	99.99	20,567	99.99
Diamond Flower H.T. Group (BVI) Inc.	13,276	100.00	14,146	100.00
Diamond Flower (San Jose) Inc.	(1,718)	100.00	(30,954)	100.00
Diamond Flower Service (NL) B.V.	(7,013)	100.00	(12,135)	100.00
	\$55,648		\$18,408	
Cost Method				
Union Bank of Taiwan	3,248	-	3,248	-
	\$3,248		\$3,248	
Other Long-term Investment			50,919	
Fund				
AsiaTech Taiwan Venture Fund	34,601	1.58	34,601	1.58
Plus: Transfer to other Liabilities	8,731		43,089	
	\$102,228		\$150,265	

The above book values and investment income/loss of long-term investments, except Diamond Flower H.T. Group (BVI) Inc., are recorded according to audited financial statements of said companies. The financial statements of Diamond Flower H.T. Group (BVI) Inc., if audited by CPA, are estimated not having material adjustments.

We have consolidated financial statements of Diamond Flower (San Jose) Inc. into that of DFI's. The other three companies, with DFI's investment percentage over 50%, are not consolidated because each of their total assets or total revenues are not over 10% of same items of DFI Inc.

Note 7: Fixed Assets-Accumulated Depreciation

	2004	2003
		NT\$000
Accumulated Depreciation		
Building	\$46,361	\$41,721
Machinery	327,768	268,869
Office Equipment	10,710	8,620
Other Equipment	4,192	8,424
	\$389,031	\$327,634

Depreciation expenses for fixed assets in 2004 and 2003 are 68,806 thousands and 72,479 thousands, respectively. Insurance coverage for fixed assets amounts to 300,000 thousands.

Note 8: Assets Let-out

	2004	2003
		NT\$000
Cost		
Land	\$27,783	\$27,783
Building	16,108	16,108
	43,891	43,891
Accumulated Depreciation	4,291	4,027
	\$39,600	\$39,864

Depreciation expenses for assets let-out are both 264 thousands; Insurance coverage for assets let-out amounts to 12,000 thousands.

Note 9: Shareholders' Equity

Following Taiwan's laws, capital reserve from evaluation of long-term equity investments is not allowed to use elsewhere. Other capital reserve, are not allowed to use unless offset with accumulated losses. But additional paid-in capital is allowed to transfer to capital stocks, with new stocks issued to shareholders in proportion to their share holding percentage. Capital reserve transferred to capital stocks is allowed once a year.

The Article of Incorporation states the rules of earnings appropriation as follows:

1. First to reserve 10% for legal reserve;
2. Accrue special reserve according to article 41-1 of Security Exchange Law, if any.
3. Appropriate all or part of the retained earnings, with Board of Directors' resolution, in following order-
 - (1) Directors' remuneration not over 3%
 - (2) Employee bonus 5% to 15%
 - (3) Others appropriated to shareholders.

According to Company Law, legal reserve shall be accumulated until it equals to paid-in capital. Legal reserve can be used to offset accumulated loss. When it reached 50% of paid-in capital, half of the balance can be transferred to capital stocks.

According to the laws, the deduction items to shareholders' equity shall be reserved before earnings appropriation. If those deduction items recovered in later years, the reserve can be added back to earnings for distribution.

Note 10: Income Taxes

- a. The reconciliation between income tax expense on income before income tax and income tax expense - current is as follows:

	<u>New Taiwan Dollars (000)</u>	
	<u>2004</u>	<u>2003</u>
Income tax expense at statutory rate (25%)	\$ 31,203	\$ 25,167
Add (deduct) tax effects of:		
Permanent differences	5,220	(9,119)
Temporary differences	7,307	7,713
10% undistributed earnings tax	-	5,395
Investment Credits	<u>(21,865)</u>	<u>(14,578)</u>
Income tax expense – current year	<u>\$ 21,865</u>	<u>\$ 14,578</u>

- b. Income tax expense consisted of:

	<u>New Taiwan Dollars (000)</u>	
	<u>2004</u>	<u>2003</u>
Income tax expense - current	\$ 21,865	\$ 14,578
Income tax expense - deferred	(9,148)	(5,415)
Interest income on commercial papers	-	-
Prior period adjustments	<u>3,918</u>	<u>3,459</u>
	<u>\$ 16,635</u>	<u>\$ 12,622</u>

- c. Deferred income taxes consisted of the following:

	<u>New Taiwan Dollars (000)</u>	
	<u>2004</u>	<u>2001</u>
Deferred income tax assets - current		
Unrealized gross profit	\$ 4,576	\$ 4,821
Investment tax credit	5,079	1,663
Bad debt reserve over limit	3,638	3,638
Allowance for losses on inventories	7,000	5,000
Unrealized exchange loss	2,655	784
Other	-	-
	<u>22,948</u>	<u>15,906</u>
Deferred Income tax liabilities - current		
Unrealized exchange gain	-	(737)
Other	<u>(686)</u>	<u>(381)</u>
Net assets	<u>(686)</u>	<u>(1,118)</u>
Non-current deferred income tax assets:		
Equity in net loss of investee companies	\$ 2,971	\$ 5,325
Pension differences between financial accounting and tax accounting	<u>8,057</u>	<u>5,014</u>
	11,028	10,339
Reserve for valuation	<u>(2,971)</u>	<u>(1,667)</u>
	<u>8,057</u>	<u>8,672</u>
Non-current deferred income tax liabilities:		
Depreciation differences between financial accounting and tax accounting	(6,714)	(10,743)
Investment income under equity method	<u>(3,382)</u>	<u>(1,642)</u>
	<u>(10,096)</u>	<u>(12,385)</u>
Net liabilities	<u>\$ (2,039)</u>	<u>\$ (3,713)</u>

The tax authorities have examined and cleared the income tax returns through 2001.

- d. The related information under the Integrated Income Tax System is as follows:

	<u>New Taiwan Dollars (000)</u>	
	<u>2004</u>	<u>2003</u>
Year-end balances of imputation credit account (ICA)	\$ <u>19,308</u>	\$ <u>15,188</u>

The expected and actual ratios of imputation tax credits to undistributed earnings as of December 31, 2004 and 2003 were 14.21% and 18.57%, respectively. The tax credits allocable to shareholders are based on the balance of ICA on the dividend distribution date. Accordingly, the expected tax credit ratio for 2004 may be adjusted because the actual balance of the ICA may differ from its expected balance.

- e. The related information under unappropriated earnings:

The balances of the unappropriated earnings up to December 31, 1997 are both 225,070 thousands as of December 31, 2004 and 2003 while the balances of the unappropriated earnings after December 31, 1997 as of December 31, 2004 and 2003 amounted to 9,796 thousands and 2,568 thousands, respectively.

Note 11: Pension Plan

The Company has a pension plan covering all regular employees that provides benefits based on length of service and average basic pay for the six months before retirement.

The Company makes a monthly contribution, at 2.56% of salaries and wages, to a pension fund (the "Fund"). The Fund is administered by a pension plan committee and deposited in the name of the committee with the Central Trust of China.

Certain information on pensions is as follows:

- a. Pension cost consisted of:

	<u>New Taiwan Dollars (000)</u>	
	<u>2004</u>	<u>2003</u>
Service cost	\$11,209	\$10,223
Interest cost	3,887	3,444
Expected return on pension assets	(1,410)	(1,254)
Amortization	<u>1,842</u>	<u>1,958</u>
Net pension cost	<u>\$ 15,528</u>	<u>\$ 14,371</u>

- b. Accrued pension

Benefit obligation:

Vested benefit obligation	\$ 11,216	\$ 4,368
Non-vested benefit obligation	<u>56,042</u>	<u>65,807</u>
Accumulated benefit obligation	67,258	70,175
Additional benefits based on future salaries	<u>31,778</u>	<u>41,495</u>
Projected benefit obligation	99,036	111,670
Fair value of plan assets	<u>(36,883)</u>	<u>(37,410)</u>
Funded status	62,153	74,260
Unrecognized net transition Obligation	(280)	(319)
Unrecognized pension gains (losses)	<u>(24,026)</u>	<u>(48,264)</u>
Accrued pension	<u>\$ -</u>	<u>\$ 7,088</u>

- c. Vested benefits - undiscounted (Forward)
- | | | |
|--|------------------|------------------|
| | <u>\$ 37,847</u> | <u>\$ 32,765</u> |
|--|------------------|------------------|

d.	Actuarial assumptions		
	Discount rate used in determining present value	3.25%	3.5%
	Future salary increase rate	2.75%	3%
	Expected rate of return on plan assets	3.25%	3.5%
e.	Changes in pension funds		
	Contributions	\$ 3,358	\$ 3,617
	Payments	\$ 4,339	\$ 758

Note 12: Related Party Transactions

1. Relationship between related parties

<u>Related Parties</u>	<u>Relationship with DFI</u>
Dual-Tech International Co. (Dual-Tech)	Major-owned Subsidiary under Equity Method
Diamond Flower (San Jose) Inc. (DFI-SJ)	Wholly-owned Subsidiary
Diamond Flower Information (NL) B.V. (DFI-Information)	Grand son company
ITOX, Inc. (ITOX)	Chairman of DFI is ITOX's major shareholder
Diamond Flower (USA) Inc. (DFI-USA)	Two directors of both companies are brothers.
DFI-Japan	Chairman of DFI is DFI-Japan's director

2. Major Transactions with related parties

	2004		2003	
	Amount	%	Amount	%
NT\$000				
<u>Net Sales</u>				
DFI-Information	\$ 463,715	20	528,099	18
DFI-SJ	307,200	13	336,717	12
ITOX	211,799	9	192,878	7
DFI-TECH	152,648	6	41,000	1
DFI-Japan	53,868	2	13,862	-
	<u>\$1,189,230</u>	<u>50</u>	<u>\$1,112,556</u>	<u>38</u>
<u>Purchase-net</u>				
ITOX	\$ 44	-	4,412	-
DFI-TECH	53	-	1,673	-
	<u>\$ 97</u>	<u>-</u>	<u>\$6,085</u>	<u>-</u>
<u>Processing Charges</u>				
Dual-Tech	<u>\$ 23,510</u>	<u>100</u>	<u>\$27,174</u>	<u>100</u>
<u>Manufacturing Expenses</u>				
ITOX	147	-	141	-
DFI-SJ	-	-	-	-
DFI-TECH	25	-	-	-
Dual-Tech	933	-	-	-
	<u>\$1,105</u>	<u>-</u>	<u>\$141</u>	<u>-</u>
<u>Operating Expenses</u>				
DFI-SJ	\$ 443	-	1,039	1
DFI-Information	901	-	779	-
Dual-Tech	-	-	344	-
ITOX	6	-	50	-
DFI-TECH	49	-	-	-
	<u>\$ 1,399</u>	<u>-</u>	<u>\$2,212</u>	<u>1</u>

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Non-operating Income

ITOX	\$ 690	2	17	-
DFI-TECH	2,220	7	2	-
DFI-Japan	3,281	13	138	1
DFI-Information	164	1	97	-
-DFI-SJ	43	-	222	2
	<u>\$ 6,398</u>	<u>23</u>	<u>\$476</u>	<u>3</u>

Receivable from Affiliates

<u>Trade Debtor</u>				
DFI-Information	112,132	39	166,285	47
DFI-SJ	92,557	32	125,333	36
ITOX	29,889	10	41,911	11
DFI-TECH	16,690	6	10,210	3
DFI-Japan	28,831	10	6,264	2
	<u>280,099</u>	<u>97</u>	<u>\$350,003</u>	<u>99</u>

Other Receivable

DFI-Information	6,810	2	2,322	1
ITOX	-	-	25	-
DFI-SJ	383	-	533	-
DFI-TECH	575	1	2	-
DFI-Japan	38	-	146	-
	<u>7,806</u>	<u>3</u>	<u>3,028</u>	<u>1</u>
	<u>\$287,905</u>	<u>100</u>	<u>\$353,031</u>	<u>100</u>

Equipment Payable

Dual-Tech	3,899	47	-	-
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Payable to Affiliates

Trade Creditor

ITOX	-	-	200	2
DFI-TECH	-	-	1,817	12
	-	-	<u>2,017</u>	<u>14</u>

Expense and other Payable

Dual-Tech	4,434	53	12,622	86
DFI-SJ	6	-	51	-
DFI-TECH	-	-	57	-
ITOX	11	-	7	-
	<u>4,451</u>	<u>53</u>	<u>12,737</u>	<u>86</u>
	<u>\$8,350</u>	<u>100</u>	<u>\$14,754</u>	<u>100</u>

Deferred Income

DFI-Information	8,461	54	\$11,204	58
DFI-SJ	6,420	30	4,791	25
ITOX	3,422	16	3,290	17
	<u>18,303</u>	<u>100</u>	<u>\$19,285</u>	<u>100</u>

Note 13: Mortgaged Assets

The following assets have been mortgaged to banks for collaterals of credit facilities:

	2004	NT\$000 2003
Fixed Assets-net	94,932	\$99,492
Assets Let-out	39,600	39,864
Time Deposits	8,301	35,922
	<u>142,833</u>	<u>\$175,278</u>

Note 14: Commitments and Contingent Items

Up to end of 2002, major commitments are listed below:

1. A patent authorization with IBM signed for products sold with such patent applied. Royalty is calculated and paid every half a year. In 2004 and 2003 the royalty expenses amount to 3,969 thousands and 6,008 thousands, respectively (booked as manufacturing overhead).

Note 15: Financial instruments

Contract value and fair value-

The outstanding contracts as of December 31, 2004 and 2003 are summarized as follows:

2004					
Type of Transaction	Currency	Contract Amount	Book Value	Due Date	Due Value
Forward- put	USD	US\$11,000,000	\$355,482	2005.3.31	\$354,140

2003					
Type of Transaction	Currency	Contract Amount	Book Value	Due Date	Due Value
Forward- put	USD	US\$11,713,000	\$398,451	2004.3.25	\$398,278

The Company incurred gains of NT\$(229) thousands and NT\$5,349 thousands in 2004 and 2003, respectively, on forward exchange contracts.