DFI®

2006 Annual Report

DFI Inc. Address：100, Huan-Ho St., His-Chih City, Taipei Hsien,
Taiwan, R.O.C.
Tel：(886-2)2694-2986
Fax：(886-2)2694-3221
http：www.dfi.com

Satisfied Service, Trusted Quality

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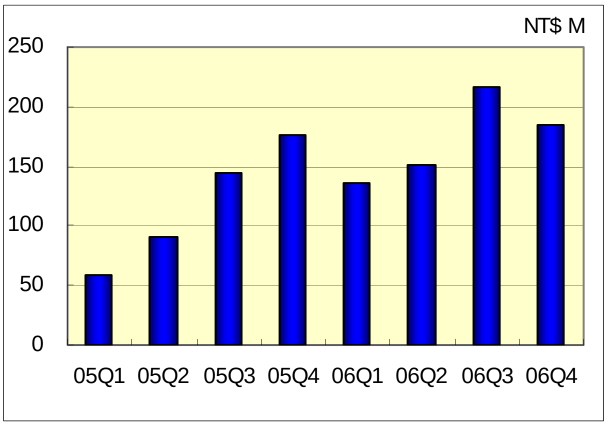
DFI

Chairman's Statement

Standing on the profound base of 2005, we achieved another record high performance in 2006! Though in Q1 we were slightly uncertain facing obscure outlook, later continuous QoQ growth in sales and margin concreted our confidence, and finally proved 2006 a good harvest year!

In 2006 we did not stop the pace of growing and achieved US$86MM in revenue, US$18.8MM in operating income, and 17MM in net income. 2006 EPS is NT$5.09, which is the highest since DFI went public in year 2000. The units sold totaling 880K pcs in 2006, achieving 97% of forecast. The number includes ACP delivery of 690K pcs, running over 25% of forecast 550K. Cash inflow from operating activities is US$17.9MM, which is a US$10.4MM growth over 2005.

YoY Profit Growth Every Quarter



In R&D, we have released Intel Q965 and 945GM platforms, new form factors such as ETX, industry used graphic cards and embedded systems, playing more integrated role in industry PC. In view of booming growth and even farther business needs, we invested 20% more than 2005 in R&D spending in 2006. As to the RoHS requirement from EU, lead-free manufacturing processes have been introduced and applied to all major customers, and at the same time, we started implementing QC080000 certification. For WEEE, we also started registration and engaged recycle partners in several EU countries.

Forward looking in 2007, we are initiating various projects to further improve efficiency and quality in major functions, targeting 6 Sigma level. At business side, in react to the trend of strategic alliance among Taiwan IPC industry, as well as potential competition from MB players, we intend to enhance the connections through intensifying business cooperation with the alliance partner. And to gain customers and technologies, we will seek the opportunities of M&A in embedded field.

Based on the annual forecast from major customers, incorporated past experiences, we set 2007 target at 650K pcs of units sale and US$90MM of revenue for ACP; and 130K pcs and US$15MM for PC motherboards. Following the changes in business, we will increase capacity in system assembly and transfer more orders to China plant to further lower assembly costs.

Y.C. Lu

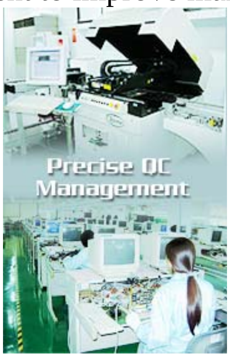
Chairman of Board

Company Profile

1981 Incorporated in July 14, 1981.
1983 Paid-in capital increased to NT$2.5 million.
1984 Started Hsi-Chi plant construction.
1986 Paid-in capital increased to NT$10m.
1987 Hsi-Chi plant construction completed. Designed the first handy scanner in the world.

1988 Paid-in capital increased to NT$120m.
1989 The first PC Company to set up system assembly line in the US.

1992 Implementing ICT and SMT equipment to improve manufacturing quality and efficiency.



1993 Phasing in CD-ROM as a new product line. Turnover in notebook computer reached NT$2,100m.
1995 Paid-in capital increased to NT$400m. ISO 9001 certification granted.
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 Awarded by CRN magazine as 1996 top-10 motherboard manufacturer. Set up China factory in Dongguan, GuanZhou province. Bremen Germany sales office organized. Designed SCSI onboard & Dual Pentium CPU motherboards, set foot in server market.

1998 Awarded by CRN magazine as 1997 top-10 motherboard manufacturer. Chosen as Intel demo board manufacturer for Intel 810. Increased capital to NT$520m.

1999 Awarded by CRN magazine as 1998 top-10 motherboard manufacturer. Fifth SMT line installed, monthly capacity increased to 200K pcs.

2000 IPO in January 15, 2000. The stock listed in Taiwan Stock Exchange, ticker 2397. Capital increased to NT$981m. Installed 6th SMT line, monthly capacity increased to 270K pcs.

2001 Capital increased to NT$1,150M
Installed 7th SMT production line.
Celebration of DFI's 20th Anniversary

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 back treasury stock 3,200,000 shares.

2003 Buy back treasury stock 5,050,000 shares.
Write off treasury stock 2,000, 000shares.

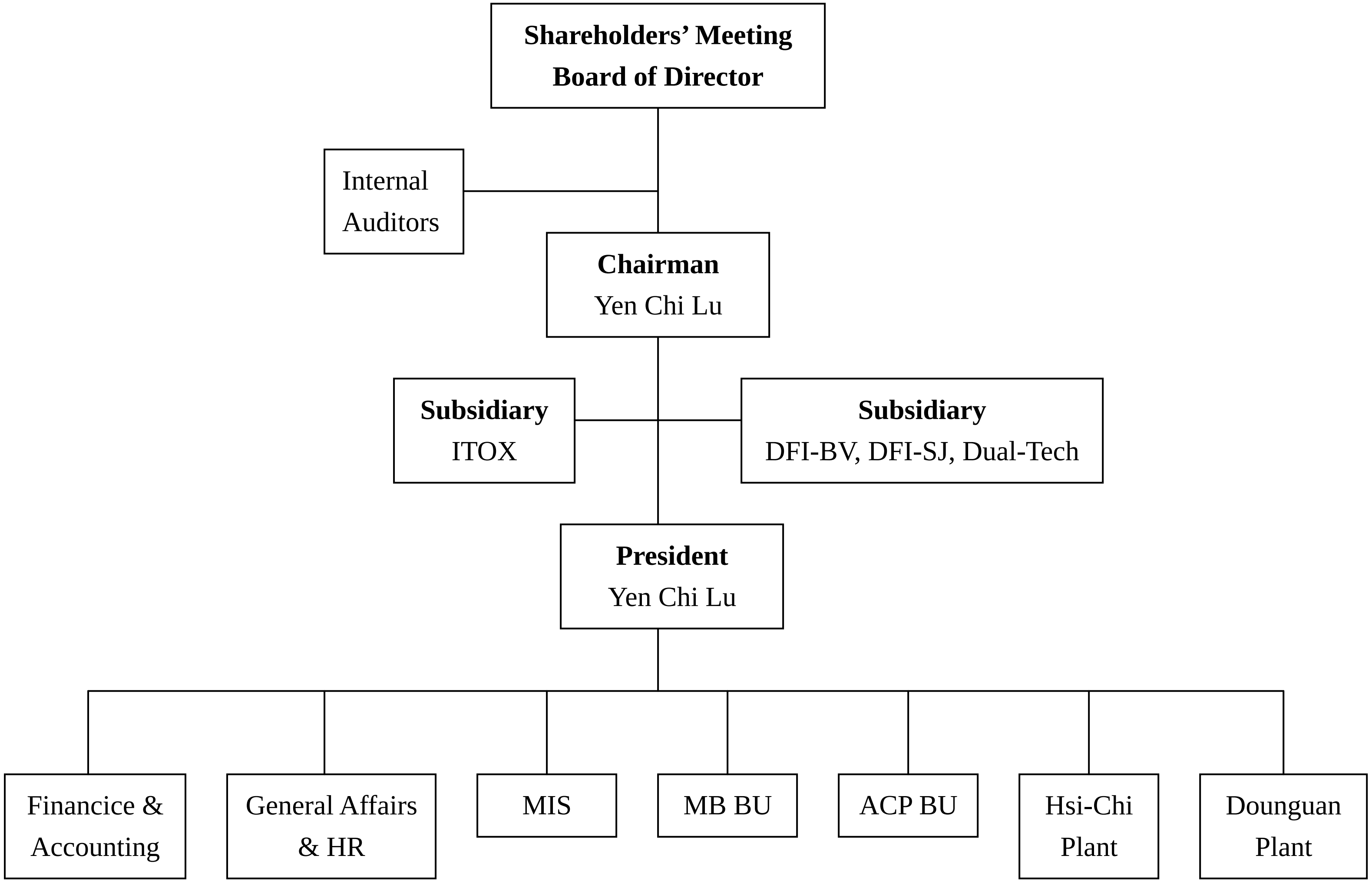
2004 Buy back treasury stock 8,200,000 shares.
Write off treasury stock 8,200,000 shares.

2005 Buy back treasury stock 3,050,000 shares.
DFI-SJ writes off capital of USD1.49M, and DFI injects additional USD0.99M to DFI-SJ. The capital after new injection is USD1M.
ACP represents over 50% of total revenue. DFI succeeds in transforming to embedded computing field.

2006 GE invested DFI 5.26% as 2nd highest holding shareholder after Lu family.
Acquired 100% ownership of DFI-JAPAN at NT$24.5MM.

Organization

1. Organization Chart



2. Functions

Dept.	Main Functions
President's Office	● Take and complete the instructions from President
Internal Auditors	● Plan and perform the auditing of internal procedures and follow up the improvement.
Finance & Accounting	● Budgeting, Accounting, Financial Reporting, Variance Analysis, Tax affairs, Finance and Shareholders' affairs. ● Planning of investment and execution. ● Investor relationship management.
General Affairs & HR	● Human resources, general affairs, legal issues, security and environmental issues.
MIS	● ERP planning and implement, Data base analysis, design and maintain. ● Networking system design, coding, amendment and maintenance.
MB BU	● Product planning, marketing, sales, technical support and after service.
ACP BU	● Embedded product planning, marketing, sales, technical support and after service.
His-Chi Plant and Dongguan Plant	● Quality assurance. ● Manufacturing and assembly from SMT. MI to Packing, including testing. Process control. ● Defects reduction. ● Production planning, adjustment by sales forecast variation, material planning and purchase request.

Board Member, Supervisor and Executive Management

1. Board Members and Supervisors

As of: 2007.4.13

Title	Name	Shares Held	% of Owner-ship	Shares Held by Spouse and Non-adult Children	% of Owner-ship	Used to Serve	Now Also serves as
Chairman & President	Yen Chi Lu	10,905,081	10.07%	6,735,558	6.22%	Taiwan GI	Director of DFI -Tech; DFI - SJ, DFS - NL and Dual-Tech
Managing Director & Vice President	Andy Lu	10,928,058	10.09%	5,182,674	4.78%	Megotronics Co.	Chairman of Yu-Shan investment and Yu-Li investment
Director	Jia-Tun Investment Co., representative: Laura Kuo	3,028,485	2.80%	—	—	Taipei Trading Co.	Chairman of Chia-Tung investment; Director of Yu-Li investment
Director	C.C. Cheng	198,629	0.18%	10,580	0.01%	DFI	Procurement director, DFI
Director	Wen Sheng Wang	99,773	0.09%	—	—	Hsi Hua CPA firm	Partner of Hsi Hua CPA firm
Director	Wei-Heng Co., representative: Tsing-Yuan Hwang,	245,534	0.23%	102,000	0.09%	Daiwa Securities SMBC	Director of Foxconn, UMC, TTV; supervisor of OTC
Director	Ging Pei Cheng	12,276	0.01%	—	—	Syntec Semiconductor	President of TonTek Design Technology
Supervisor	Bing Tang Kuo	1,230,243	1.14%	138,121	0.13%	Taiwan Petroleum Chemical Co.	Plant Manager of Taiwan Petroleum Chemical
Supervisor	Shen Wu Hsiao	102,897	0.09%	—	—	TonTek Design Technology	Director of TonTek Design Technology
Supervisor	Kuo Chi Lin	230,680	0.21%	4,861	0.00%	Architect Firm	Architect

Schedule 1. Major Shareholders of DFI's Institutional Shareholders

As of April 13, 2007

Institutional Shareholder	Major Shareholders of Institutional Shareholder
Wei-Heng Co.	Chien-Rue (BVI) Ltd., Mou-Ching Tsai, Cheng-Peng Tsai
Jia-Tun investment Co. Ltd.	Laura Kuo, Yen Chi Lu, Serena Lu

Schedule 2. Major Shareholders of Institutional Shareholders in Schedule 1.

As of April 13, 2007

Institutional Shareholder	Major Shareholders of Institutional Shareholder
Chien-Rue (BVI) Ltd.	Takako Ishihara, Nancy Tsai

2. Details of Board Members and Supervisors Independence Check

Name	Conditions met	5-year Experiences in			Independence check[1]									
		College instructor above in the fields of commercial, legal, finance, accounting, or company business requirement	Judge, prosecutor, attorney, CPA or other certified practitioners	Commercial, Legal, Finance, accounting or company business required?	1	2	3	4	5	6	7	8	9	10
Chairman	Yen Chi Lu			✓						✓	✓		✓	✓
Director	Yen Hsing Lu			✓		✓			✓	✓	✓		✓	✓
Director	Laura Kuo			✓		✓	✓	✓	✓	✓	✓		✓	
Director	C.C Cheng			✓		✓	✓	✓	✓	✓	✓	✓	✓	✓
Director	Wen Sheng Wang		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Director	Tsing-Yuan Hwang, Wei-Heng Co.			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Director	Ging Pei Cheng			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Supervisor	Bing Tang Kuo			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Supervisor	Shen Wu Hsiao			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Supervisor	Kuo Chi Lin			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

1: Independence check—

1. Not employees of DFI or its affiliates.
2. Not directors or supervisors of DFI or its affiliates.
3. Not shareholders hold over 1% or ranked top 10 (together with spouse or under-aged children).

4. Not spouses, closer than first cousins, 5 times direct descendants of persons in 1.2.and 3.
5. Not directors, supervisors or employees of institutional investors with 5% or above ownership, or of top 5 institutional shareholders, held directly and indirectly together.
6. Not directors, supervisors or employees of Companies or Financial Institutions with business or financial relationship with DFI.
7. Not owners, partners, directors, supervisors, managers, or their spouses of institutions or their related parties rendering services of legal, commercial or financial within one year to DFI.
8. Not spouses or relatives closer than first cousin.
9. Not persons specified in Article 30 of Company Law.
10. Not institutional organizations or their representatives as regulated in Article 27 of Company Law.

3. Information for President, Vice President, Associate VP, Department head or branch head

As of 2007.4.13

Title	Name	Date elected	Shareholding		Shareholding of spouse、under-aged children		Educational/ Career background	Also work for	Spouse or relative closer than first cousin		
			Shares	% Ownership	Shares	% Ownership			Title	Name	Relationship
Chairman & President	Yen Chi Lu	1981.07.01	10,905,081	10.07%	6,735,558	6.22%	Tamsui Oxford University; Taiwan GI	Director of DFI - Tech; DFI-SJ, DFS-NL and Dual-Tech	Special Assistant	Laura Kuo	Spouse
Managing Director & Vice President	Yen Hsing Lu	1982.02.01	10,928,058	10.09%	5,182,674	4.78%	TamKang University; Megotronics Co.	Chairman of Yu-Shan investment and Yu-Li investment	President	Yen Chi Lu	Brother
Special Assistant	Laura Kuo	1997.11.01	6,735,558	6.22%	10,905,081	10.07%	Ming Chuan College; Taipei Trading Co.	Chairman of Jia-Tun investment; Director of Yu-Li investment	President	Yen Chi Lu	Spouse
Director, Procurement	C.C. Cheng	1998.05.11	198,629	0.18%	10,580	0.01%	TamKang University; DFI	-	—	—	—

Remuneration of Board Member, Supervisor, President and Vice President

1. Remuneration of Board Members

<table>
<tr><th rowspan="4">Job Title</th><th rowspan="4">Name</th><th colspan="6">Compensation as a Director</th><th colspan="8">Compensation as an employee</th><th colspan="2" rowspan="2">Sum of 1~6 as % to net income</th></tr>
<tr><th colspan="2">1.Pay as a director</th><th colspan="2">2.Earning distribution</th><th colspan="2">3.Reimbursement</th><th colspan="2" rowspan="2">4.Payroll, bonus and reimbursement</th><th colspan="4">5.Employee earning distribution</th><th colspan="2">6.Stock options</th></tr>
<tr><th rowspan="2">DFI</th><th rowspan="2">Consolidated</th><th rowspan="2">DFI</th><th rowspan="2">Consolidated</th><th rowspan="2">DFI</th><th rowspan="2">Consolidated</th><th colspan="2">DFI</th><th colspan="2">Consolidated</th><th rowspan="2">DFI</th><th rowspan="2">Consolidated</th><th rowspan="2">DFI</th><th rowspan="2">Consolidated</th></tr>
<tr><th>DFI</th><th>Consolidated</th><th>Cash</th><th>Stock</th><th>Cash</th><th>Stock</th></tr>
<tr><td>Director</td><td>Yen Chi Lu</td><td rowspan="7">-</td><td rowspan="7">-</td><td rowspan="7">4,541</td><td rowspan="7">4,541</td><td rowspan="7">-</td><td rowspan="7">-</td><td rowspan="7">7,262</td><td rowspan="7">7,262</td><td rowspan="7">2,955</td><td rowspan="7">64,008</td><td rowspan="7">2,955</td><td rowspan="7">64,008</td><td rowspan="7">-</td><td rowspan="7">-</td><td rowspan="7">14.3%</td><td rowspan="7">14.3%</td></tr>
<tr><td>Director</td><td>Yen Hsing Lu</td></tr>
<tr><td>Director</td><td>Laura Kuo, Jia-Tun Investment Co.</td></tr>
<tr><td>Director</td><td>C.C. Cheng</td></tr>
<tr><td>Director</td><td>Wen Sheng Wang</td></tr>
<tr><td>Director</td><td>Tsing-Yuan Hwang, Wei-Heng Co.</td></tr>
<tr><td>Director</td><td>Ging Pei Cheng</td></tr>
</table>

Note: A company car for chairman costs NT$2.58M.

<table>
<tr><th rowspan="3">Bracket</th><th colspan="4">Number of Director</th></tr>
<tr><th colspan="2">Sum of 1, 2 and 3</th><th colspan="2">Sum of 1 to 5</th></tr>
<tr><th>DFI</th><th>Consolidated</th><th>DFI</th><th>Consolidated</th></tr>
<tr><td>Under $2,000,000</td><td>7</td><td>7</td><td>4</td><td>4</td></tr>
<tr><td>2,000,000～5,000,000</td><td></td><td></td><td>2</td><td>2</td></tr>
<tr><td>5,000,000～10,000,000</td><td></td><td></td><td></td><td></td></tr>
<tr><td>10,000,000～15,000,000</td><td></td><td></td><td></td><td></td></tr>
<tr><td>15,000,000～30,000,000</td><td></td><td></td><td></td><td></td></tr>
<tr><td>30,000,000～50,000,000</td><td></td><td></td><td></td><td></td></tr>
<tr><td>50,000,000～100,000,000</td><td></td><td></td><td>1</td><td>1</td></tr>
<tr><td>Over 100,000,000</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Total</td><td>7</td><td>7</td><td>7</td><td>7</td></tr>
</table>

2. Remuneration of Supervisors

Year 2006, NT$ 000

Job Title	Name	1.Compensation as a Supervisor		2.Earning distribution		3.Reimbursement		% to Net Profit		Other Compensation from affiliates not consolidated
		DFI	Consolidated	DFI	Consolidated	DFI	Consolidated	DFI	Consolidated	
Supervisor	P.T. Kuo	-	-	$417	$417	-	-	0.08%	0.08%	
Supervisor	S. W. Shaw									
Supervisor	K.C. Lin									

Bracket	Number of supervisor Sum of 1,2 and 3	
	DFI	Consolidated
Under NT$2,000,000	3	3
2,000,000~5,000,000		
5,000,000～10,000,000		
10,000,000～15,000,000		
15,000,000～30,000,000		
30,000,000～50,000,000		
50,000,000～100,000,000		
Over $100,000,000		
Total	3	3

3. Remuneration of President and Vice President

Year 2006, NT$ 000

Job Title	Name	1.Salary		2.Bonus and Reimbursement		3.Employee Bonus from Earning Distribution				Sum of 1~3 as % of net income		Employee Stock Option		Other Compensation from affiliates not consolidated
		DFI	Consolidated	DFI	Consolidated	DFI		Consolidated		DFI	Consolidated	DFI	Consolidated	
						Cash	Stock	Cash	Stock					
Director	Yen Chi Lu	3,022	3,022	2,977	2,977	2,874	62,117	2,874	62,117	12.88%	12.88%	-	-	
Director	Yen Hsing Lu													

Bracket of Remuneration	Number of President and Vice President	
	DFI	Consolidated
Under $2,000,000	1	1
$2,000,000~5,000,000		
$5,000,000~10,000,000		
$10,000,000～$15,000,000		
$15,000,000～$30,000,000		
$30,000,000～$50,000,000		
$50,000,000～$100,000,000	1	1
Over $100,000,000		
Total	2	2

4. Managers that Received Earning Distribution

Year 2006, NT$000

	Title	Name	Stock Bonus	Cash Bonus	Total	% to Net income
Manager	Chairman and President	Yen Chi Lu	67,455	3,104	70,559	12.8%
	Managing Director	Yen Hsing Lu				
	Special Assistant	Laura Kuo				
	Procurement Director	C.C. Cheng				
	Financial Director	Baker Tu				

5. Comparison of Last Two Years' Ratios of Remunerations to Net income for Directors, Supervisors, President and Vice President

A. Ratios of Remunerations to Net income for Directors, Supervisors, President and Vice President

Job Title	2006	2005
Director	14.30%	10.28%
Supervisor	0.08%	0.45%
President and Vice President	12.88%	8.18%

B. Policy of Remuneration Rendering and the Co-relation between Remuneration and Performance

The directors and supervisors that not involved in business operation take director or supervisor's remuneration based on distribution ratio specified in Article of Incorporation. Those performing business operation received salary, bonus and earning distribution. Salaries range from NT$100~200 thousand monthly according to their education degree and career experiences. Bonus and earning distribution are decided based on KPI achievement and performance evaluation.

Share Transfer and Holding Status of Board Members, Supervisors, Managers and Major Shareholders Who Own Over 10% Ownership

1. Share Transfer

Share

Job Title	Name	2006		Year-to-Date as of April 13, 2007	
		Increase (Decrease)	Inc.(Dec.) for pledged shares	Increase (Decrease)	Inc.(Dec.) for pledged shares
Directors, Managers, Major Shareholders	Yen Chi Lu	2,604,021	-	-	-
Director, Manager	Yen Hsing Lu	5,628,001	-	-	-
Director	Laura Kuo, rep. of Jia-tun Investment Co.	59,382	-	-	-
Director, Manager	C.C. Cheng	(2,890)	-	(18,000)	-
Director	Wen Sheng Wang	2,328	-	(19,000)	-
Director	Tsing-Yuan Hwang, rep. of Wei-Heng Co.	4,818	-	-	-
Director	Ging Pei Cheng	240	-	(1,000,000)	-
Supervisor	Bing Tang Kuo	43,730	-	-	-
Supervisor	Shen Wu Hsiao	(4,983)	-	-	-
Supervisor	Kuo Chi Lin	4,523	-	-	-
Manager	Baker Tu	14,440	-	(10,000)	-

Note: Major shareholders mean shareholders who own over 10% ownership.

2. There is no share transfer that made to the related parties.
3. There is no share that being pledged.

Relationship Between Top 10 Shareholders as Related Parties

Name	Self-owned		Owned by spouse and under-aged children		Use other persons' accounts		Being related parties as defined in ROC GAAP no.6	
	Shares	% of Ownership	Shares	% of Ownership	Shares	% of Ownership	Name	Relationship
Yen Hsing Lu	10,928,058	10.09%	5,182,674	4.78%	-	-	Yen Chi Lu Laura Kuo	Brother Sister-in-law
Yen Chi Lu	10,905,081	10.07%	6,735,558	6.22%	-	-	Laura Kuo Yen Hsing Lu	Spouse Brother
Laura Kuo	6,735,558	6.22%	10,905,081	10.07%	-	-	Yen Chi Lu Yen Hsing Lu	Spouse Brother-in-law
GE Capital Equity	5,700,000	5.26%	-	-	-	-	-	-
Jui-Hua Liu	5,182,674	4.78%					Yen Chi Lu Laura Kuo	Sister-in-law Sister-in-law
Nan Shan Life Insurance Co.	4,197,000	3.87%	-	-	-	-	-	-
LAPP Capital	4,030,760	3.72%	-	-	-	-	-	-
Serena Lu	3,720,322	3.43%	-	-	-	-	Yen Chi Lu Laura Kuo	Father Mother
Goldman Sachs	3,155,466	2.91%	-	-	-	-	-	-
Jia-Tun Investment Co., representative: Laura Kuo	3,028,485	2.80%	-	-	-	-	Yen Chi Lu Yen Hsing Lu	Spouse Sister-in-law

Investments in Same Entities from the Company, Its Directors, Supervisors, Managers and Controlled Entities

Share, %

Investment	DFI Investment		DFI's Directors, Supervisors, Managers and Controlled Entities		Combined Shareholding	
	Shares	% of ownership	Shares	% of ownership	Shares	% of ownership
Dual-Tech International Co. Ltd.	4,499,999	99.99%	1	0.01%	4,500,000	100.00%
Diamond Flower (San Jose) Inc.	100,000	100.00%	-	-	100,000	100.00%
Diamond Flower Service (NL) B.V.	12,020	100.00%	-	-	12,020	100.00%
ITOX, LLC.	413,820	34.23%	501,650	41.49%	915,470	75.72%
DFI Co., Ltd. (DFI-Japan)	600	100.00%	-	-	600	100.00%

Capitalization and Shares Issued

Capitalization

Thousand Shares, NT$ 000

Year, Month	Issue Price (NT$)	Authorized Capital		Issued Capital		Note	
		Shares	Amount	Shares	Amount	Source	Other than Cash
1981.07	10	100	1,000	100	1,000	Start up	Nil
1983.04	10	250	2,500	250	2,500	Cash injection	Nil
1986.01	10	1,000	10,000	1,000	10,000	Cash injection	Nil
1987.03	10	3,000	30,000	3,000	30,000	Cash injection	Nil
1987.12	10	6,000	60,000	6,000	60,000	Cash injection	Nil
1989.09	10	12,000	120,000	12,000	120,000	Cash injection	Nil
1990.12	10	15,600	156,000	15,600	156,000	Retained Earnings capitalized	Nil
1991.08	10	19,600	196,000	19,600	196,000	Cash injection	Nil
1995.07	10	40,000	400,000	40,000	400,000	Cash injection $106,000 thousands Retained Earnings capitalized $98,000 thousands	Nil
1998.07	10	52,000	520,000	52,000	520,000	Cash injection $40,000 thousands Retained Earnings $40,000 thousands Additional Paid-in Capital $40,000 thousands	Nil
1999.09	10	76,000	760,000	58,400	584,000	Retained Earnings $64,000 thousands	Nil
2000.07	60	177,200	1,772,000	98,120	981,200	Cash injection $200,000 thousands Retained Earnings $197,200 thousands	Nil
2001.03	-	177,200	1,772,000	95,320	953,200	Treasury Stocks written-off $28,000 thousands	Nil
2001.09	10	177,200	1,772,000	115,000	1,150,000	Retained Earnings $120,544 thousands Additional Paid-in Capital $76,256 thousands	Nil
2002.09	10	177,200	1,772,000	117,600	1,176,000	Retained Earnings $26,000 thousands	Nil
2003.09	10	177,200	1,772,000	116,860	1,168,600	Treasury Stocks written-off $20,000 thousands Retained Earnings $12,600 thousands	Nil
2004.06	10	177,200	1,772,000	114,010	1,140,100	Treasury Stocks written-off $28,500 thousands	Nil
2004.09	10	177,200	1,772,000	113,400	1,134,000	Treasury Stocks written-off $17,500 thousands Retained Earnings $11,400 thousands	Nil
2004.12	10	177,200	1,772,000	109,800	1,098,000	Treasury Stocks written-off $36,000 thousands	Nil
2005.09	10	177,200	1,772,000	109,760	1,097,600	Treasury Stocks written-off $30,500 thousands	Nil
2006.01	10	177,200	1,772,000	106,560	1,065,600	Treasury Stocks written-off $32,000 thousands	Nil
2006.03	10	177,200	1,772,000	104,960	1,049,600	Treasury Stocks written-off $16,000 thousands	Nil
2006.06	10	177,200	1,772,000	103,510	1,035,100	Treasury Stocks written-off $14,500 thousands	Nil
2006.09	10	177,200	1,772,000	108,316.9	1,083,169	Retained earnings capitalized $48,069 thousands	Nil

2. Type of Stock

Share

Share	Authorized Capital			Remark
	Outstanding[1]	Un-issued	Total	
Common Stock	108,316,900	68,883,100	177,200,000	

1：Listed in Taiwan Stock Exchange

3.Shareholding Structure

2007.4.13

Structure / Volume	Government	Financial Institution	Other Institution	Natural Person	Foreigners	Total
Shareholder number	0	3	33	5,768	50	5,854
Shares Held	0	5,028,000	10,018,259	63,862,261	29,408,380	108,316,900
% of ownership	0.00%	4.64%	9.25%	58.96%	27.15%	100.00%

4.Distribution of Share Holding

Par $10, NT$/Share 2007.4.13

Bracket	Shareholder	Shares Held	% to Total
1~999	2,820	508,872	0.47%
1,000~5,000	2,361	4,736,277	4.37%
5,001~10,000	319	2,454,236	2.27%
10,001~15,000	83	1,032,517	0.95%
15,001~20,000	52	936,149	0.86%
20,001~30,000	45	1,131,399	1.04%
30,001~50,000	47	1,822,707	1.68%
50,001~100,000	43	2,982,331	2.75%
100,001~200,000	28	3,954,242	3.65%
200,001~400,000	22	6,408,067	5.92%
400,001~600,000	11	5,320,138	4.91%
600,001~800,000	1	629,560	0.58%
800,001~1,000,000	4	3, 702, 000	3.42%
1,000,001 and above	18	72,698,405	67.13%
Total	5,854	108,316,900	100.00%

5. Major Shareholders

Those hold over 5% of ownership or being top 10 shareholders and their shareholdings-

Share/%, 2007.4.13

Shareholders \ Shares	Shares Held	% of ownership
Yen Hsing Lu	10,928,058	10.09%
Yen Chi Lu	10,905,081	10.07%
Laura Kuo	6,735,558	6.22%
GE Capital Equity	5,700,000	5.26%
Jui-Hua Liu	5,182,674	4.78%
Nan Shan Life Insurance Co.	4,197,000	3.87%
LAPP Capital	4,030,760	3.72%
Serena Lu	3,720,322	3.43%
Goldman Sachs	3,155,466	2.91%
Jia-Tun Investment Co., representative: Laura Kuo	3,028,485	2.80%

Share Prices, Net Worth, Earnings and Dividends for Past Two Years

NT$；Thousand Shares

Years			2005[1]	2006[1]	Year to 2007.3.31[2]
Share Prices	Highest		40.40	65.40	90.50
	Lowest		15.60	34.60	58.00
	Average		24.89	50.24	72.53
Net Worth Per Share	Before Distribution		25.15	26.87	28.21
	After Distribution		21.68	-	-
EPS	Weighted-Averaged Shares		108,704	108,317	108,317
	EPS	Before Adjustment	3.66	5.09	1.33
		After Adjustment	3.50	-	-
Dividend Per Share	Cash Dividend		3.0	4.0	NA
	Non-cash Dist.	Earnings	0.2	0.2	NA
		Add. Paid-in	-	-	NA
	Accumulated Undistributed		-	-	NA
ROE Analysis	PE Ratio[3]		6.8	9.87	NA
	PD Ratio[4]		8.3	12.56	NA
	Cash Dividend Yield[5]		12.05%	7.96%	NA

Note 1：Previous Year's Earning Distribution.
Note 2：2007 Q1 financial statements have been reviewed by CPA.
Note 3：PE ratio = Average closing price/EPS.
Note 4：PD ratio= Average closing price/Cash dividend per share.
Note 5：Cash dividend yield = Cash dividend per share/Average closing price.

Dividend Policy

1.Dividend Policy

DFI is in an industry of fierce competition and ever-changing environment. While the business lifecycle is in the stage of stable growth, our dividend policy leverages future investment opportunities, cash need in operations and long-term financial planning. The earning distribution proposal submitted by board of directors, taking consideration of shareholders' need in cash dividend, will be a balanced one that benchmarks industry level.

Cash dividends shall not be less than 15% of total dividends to shareholders. If the cash dividend is less than $0.1 per share, then it will be replaced by stock dividend. Stock dividend derived from additional paid-in capital or other capital surplus shall follow the rules above as well.

2. The Dividend Distribution Proposal in Shareholder Meeting

a. Board of directors has approved the dividend distribution proposal for 2006 earnings. The proposal offers distribution of NT$454,928.6 thousand, comprised of stock dividends $0.2 per share and cash dividend $4.0 per share.
b. Afterwards, if the Company buys back shares or transfer treasury stock to employees, so to change the outstanding shares, the dollar amount of dividends will be adjusted through BOD's approval based on actual outstanding shares at the ex-dividend date.

Employee Bonus and Directors' Remuneration

1. Employee Bonus and Directors' Remuneration

The company's earnings shall first deduct taxes, recover accumulated losses, then reserve 10% as legal reserve, and if applicable, special reserve will be accrued according to Article 41 of Security Exchange Law. The remaining, along with retained earnings from previous years, will be all or partly allocated as earning distribution. The proposal shall be submitted by board of directors, and approved by shareholders' meeting. The priority of distribution will be:

a. Directors and supervisors' remuneration- no more than 3%;
b. Employee bonus- 5%~15% (covering employees of subsidiaries)
c. The remaining is dividends to shareholders.

2. Proposal Submitted by BOD for 2006 Earning Distribution

a. Employee bonus- cash NT$8,920 thousand, stock NT$35,700 thousand (in par $10 per share), totaling NT$44,620 thousand.
b. Directors' remuneration- NT$4,958 thousand.
c. If above employee bonus and directors' remuneration being deducted from net income, the simulated 2006 EPS shall be $4.67.

3. 2005 Earning Distribution

a. Employee bonus- cash NT$6,842 thousand, stock NT$27,367 thousand or 2,736,700 shares, which is 2.53% of outstanding shares as of end of 2005.
b. Directors' remuneration- NT$5,701 thousand.

DFI

Operation Overview

Business

1. Main Business Scope

DFI focuses in design, manufacturing, sale and after service of embedded motherboards and systems. Products applied to vertical markets of life automation, e.g., retail store solution, financial self-service, slot machines and arcade game machines…etc. and other vertical markets such as medical, security and automation. Starting 2004, we stretched downstream, and delivered embedded system solution. Detailed sales numbers and percentage are listed as below：

NT$ 000

Item	2006	
	Net Sales	% to total
Embedded boards and systems	$ 2,292,694	81.17
General commercial motherboards	510,276	18.07
Others	21,685	0.76
Total	$ 2,824,655	100.00

2. Current Products

(1) Applied Computing Platform (ACP):

- Mini-ITX Solution support processors Pentium 4, Pentium M, Celeron M, Celeron D, Pentium D, Core Duo/Solo, VIA C7.
- Micro-ATX solution supports Intel Q965，945G，915GV，915GM and other earlier platforms.
- ATX solution supports Intel Q965，945G，915GV and other earlier platforms.
- Micro-BTX solution supports Intel 945G.
- ETX solution supports Intel 852GM, and its Carrier board。
- ARM-based X-scale System with 6.2" Panel.
- Mini-ITX and Micro-ATX embedded system.
- 15" & 17" Touch-screen panel PCs.

(2)Motherboard：The functions include input/output interface、soft/hard disk control、RAID disk array control、video/audio control、web interface、support PCI Express、support GbE Lan:

- Intel P4 Chipset- 945P、945G、LANParty 925X、LANParty 915P.
- SiS P4 Chipset- 661FX+964.
- VIA K7 Chipset- K8T800Pro、KM800.
- nVidia Chipset- nF3 250、nF3 250Gb、nF3 Ultra、nF4 Standard、nF4 4X、nF4 Ultra、nF4 SLI.
- ATI Chipset- Radeon Xpress 200、Radeon Xpress 200 CrossFire.

3. Projects under Development:

(1) Applied Computing Platform (ACP):

- Mini-ITX、ATX 及 COM Express support Intel 945GM.
- Mini-ITX supports Intel GM965 Express.
- ATX supports Intel Q35 Express chipset.
- ECX supports Intel 945GM.
- Video card 32-bit PCI interface, support solution 1600x1200@60Hz.
- ADD card with PCI Express x16 interface, support dual display DVI interface.

(2) Motherboard：

- Intel 3 series Chipset (X38, P35，G35，G33) and nVidia NF680I, NF650I supporting Intel Core2 Duo CPU.
- ATI RD790 and nVidia MCP73 supporting AMD AM2 GEN2.

Industry Landscape

1. Industry Status Quo and Future Evolvement

Players in America and Europe gained general profit only

VDC forecast market size of embedded boards in 2006 to be USD4bn and CAGR from 2005~2010 to be 7.8%. The market keeps growing but in 2010 the forecast market size is only USD5.5bn, which is a small industry compared to others in mainstream. The major players in the market, like GE Fanuc, Motorola, Kontron, Advantech, Radisys, were estimated to have 2006 revenue at USD290M~500M, with individual market share 7% to 12%. There are numerous even smaller players in the market. Competition is strong. Due to the business nature and limitation of industry PC, net sales are easy to fluctuate between years- some year it may signify good growth and next year flat or even recession. To maintain stable long-term growth is a tough task. To maintain stable profitability is even harder (see below).

Million

Player		Net Sales (Consolidated) 2004	YoY	2005	YoY	2006	YoY
Kontron	Euro	262	14%	300	15%	405	35%
Radisys	USD	246	21%	260	6%	292	12%
Mercury	USD	186	3%	250	35%	236	-6%
SBS	USD	134	16%	152	14%	NA[1]	NA[1]
Performance	USD	53	7%	50	-7%	48	-2%
Interphase	USD	35	8%	31	-12%	33	8%
SBE	USD	11	48%	8	-27%	6	-24%

Player	Gross Margin 2004	2005	2006	Net Margin before Tax 2004	2005	2006
Kontron	38%	34%	32%	7%	7%	8%
Radisys	32%	30%	27%	7%	7%	-5%
Mercury	67%	66%	59%	17%	17%	-7%
SBS	47%	44%	NA[1]	6%	4%	NA[1]
Performance	48%	49%	47%	3%	6%	0%
Interphase	55%	52%	54%	5%	-7%	5%
SBE	51%	46%	34%	-15%	-52%	-264%

1: SBS has been merged by GE Fanuc in March 2006.
Source: Company annual reports.

The companies listed above, together with other private companies, engaged heavily in vertical applications of medical, avionics, military, communication or automation, with pretty high gross margin. But to maintain the high margin, they invested remarkable marketing and R&D resources, which resulted in single-digit net margin. Some even show negative results. And most companies, even some of them have established Asian manufacturing facility, e.g., Kontron's Malaysian base, or engaged EMS, e.g., Radisys to Celestica and Hon Hai, still keep major capacity in EU or US, which makes further cost down difficult.

Fast Growing of IPC Players in Taiwan

The group of IPC board makers in Taiwan, who showed astonishing growth rates, is totally different with western competitors.

NT$ M

Company		04	YoY	05	YoY	06	YoY
研華	Advantech	13,383	20%	12,389	-7%	14,693	19%
瑞傳	Portwell	2,161	74%	2,402	11%	3,677	53%
威達電	ICP	3,285	12%	3,256	-1%	3,385	4%
凌華	Adlink	1,921	30%	1,916	0%	2,492	30%
艾訊	Axiomtek	1,724	22%	2,103	22%	2,677	27%
研揚	Aaeon	1,611	18%	1,388	-14%	1,612	16%
廣積	iBase	840	41%	1,424	70%	1,564	10%
新漢	NexCom	795	21%	1,130	42%	1,572	39%
友通	DFI ACP	1,092	63%	1,649	51%	2,501	52%
	Total	**26,813**	**25%**	**27,656**	**3%**	**34,172**	**24%**

Note: Consolidated, 1USD= NT$32.5
Source: Company filing in MOPS, DFI.

Taiwan's IPC players showed prominent growth momentum in 2006. Many of them differentiated themselves from western competitors in applications their products applied. Combined with lower production and R&D costs, they generally did better in profitability performance.

M&A Prevails in IPC Industry

One major path for IPC players to expand their business scope or acquire technology was merger and acquisition. While organic growth stayed flat, M&A has been one major factor to improve their growth. In 2006 GE Fanuc merged SBS Technologies and Radstone Technology. Emerson Electric Co. merged Artesyn Technologies, Inc. On the contrary, Kontron and Mercury stayed low profile in M&A compared to active acquisitions before and re-focused in organic growth. In Taiwan, strategic alliance overwhelms M&A. There was no major acquisition in 2006.

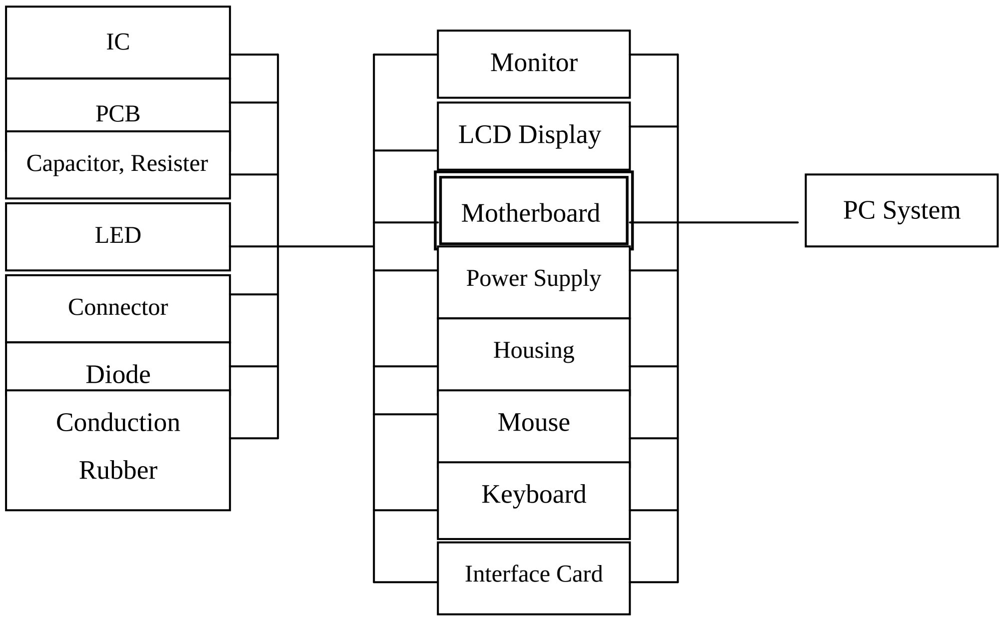
Growth in New Territories

For now top 4 vertical markets for embedded boards are communication, military /aerospace, industry automation and medical equipment. Except military/aerospace that grows in slower pace, the other three projected to maintain double-digit growth rates from 2005 to 2007, according to VDC. In latest years, following 1) the trend of platform transformation into PC, e.g., mechanical reels evolved to electronic in slot machines, and 2) platform convergence, e.g., PowerPC and RTOS converged to Wintel, IPCs applied in life automation markets enjoy booming growth.

On the other hand, due to price pressure in downstream OEMs or SIs, outsourcing motherboards or turnkey systems to professional manufacturer for design and production, has emerged as a trend. And to strengthen competitive advantage in cost, no matter system provider or board maker, Asia will be the first choice if seeking for a strategic partner.

2. The Connection between Industry Up, Middle and Down Stream

Motherboard has played an important role in PC's evolvement. It is in the middle of supply chain, which can be observed as below:



PCB、IC、passive components、connector are key components of motherboards. Management to those key components is critical to order fulfillment.

3. Products and Competition

Product Trend

- **Numerous Standard Establishers**

Not like PC industry that CPU makers establish product standards, in IPC world, specifications are not decided by one institution or company. Besides some organizations or associations formed by embedded companies, there are players themselves interested in establishing and promoting product standards. New standards never stop emerging. Examples are Mini-ITX form factor designed by VIA in 2003, EPIC form factor established by Ampro and others in 2004 and COM Express designed by Kontron, PFU and others. Over the existing standards, embedded companies also tried to revise or extend variation specifications, e.g., ETXexpress derived from COM Express and XTX from ETX. Those combined to create diversification of embedded products and industry and hence prevent convergence and standardization.

- **Computing Platform and OS Converged to Wintel**

Among different embedded architectures, except legacy ones still utilizing more PowerPC CPU and real-time OS, newer architectures have gradually increased percentage of utilization of Wintel base. There are other platforms notwithstanding, like VIA(CPU) and Linux(OS) exist. But X86 architecture has met embedded requirements of low voltage、fanless and high-performance. Microsoft OS provides with advantages of lower development costs and more support. Both will nibble market share of embedded PC. While some companies like DFI, have been highly skilled in said structure, they will deliver eminent advantages in development cost and speed.

Competition

- **New Competitors Keep Joining in, M&A Did Not Reduce Intensity of Competition**

The major international players in embedded field have been enthusiastic in active acquisitions to gain market share and customers, in order to keep growth momentum. This trend has diminished competition within industry with disappearance of notable players. Nevertheless, in last two years, outstanding performance of Taiwanese embedded players has attracted attention of swamped PC motherboard manufacturers and some of them took IPC as an alternative to transformation. The first-tier MB players in Taiwan, e.g., Asus, Gigabyte, MSI and ECS have claimed to enter embedded market, which cast a shadow for future competition.

- **Taiwanese Embedded Players Sought for Strategic Alliance**

In Taiwan, M&A does not prevail. IPC players used to cooperate with other competitors to form alliance. In the near past, there were two allies caught attention of the industry that introduced resources outside IPC industry. The better result of the alliance could be strengthening of their advantages by utilizing allies' competitive costs in procurement and manufacturing. In worse direction, it may introduce new competitors to wash out existing players. In each way, the competition in embedded PC has been intensified. Current players need to actively improve their competitive advantages to keep growth and profitability, and find growth momentum in widespread vertical markets.

R&D Expenditures

DFI has been experienced in design of MB or add-on card for years. In 2006, to meet continuous growth in ACP projects, and to meet requirement of future product evolvement, e.g., module, firmware, software, mechanical and embedded system, we increased over 20% R&D engineers starting from 2^{nd} half of 2006. The R&D expenditures in 2006 grew by 20% over 2005. The percentages of R&D expenses to net sales are listed below:

NT$ 000

Year	2005	2006	1Q 2007
R&D Expenses (A)	78,155	93,445	22,990
Net Sales (B)	2,608,731	2,824,655	645,142
% (A/B)	3.00%	3.31%	3.56%

Business Plan

1. Short-term Business Plan

Duplicate Success Story to Develop Mid-to-High Volume ODM/EMS

DFI's 26-year experiences in design and manufacturing, together with senior and experienced staffs, established cover-all-detail logistic networks, and therefore keeps winning customers' trust with satisfied quality and considerate services. The resulted achievement is a 5-year CAGR of 63% in our ACP business and customer list of numerous world no.1 and regional leading companies in retail solution, financial self-service, gaming, security and medical. The staffs in R&D, manufacturing and logistic are all very senior in electronic industry, familiar with industry operation, able to provide fast and reliable quality and cost effective services. The winning model will be followed and further improved to develop customers who are mid-to-high volume, and desire for quality design and manufacturing services, to create DFI's long-term stable growth.

Expanding Europe and Japan Markets

DFI's penetration in Europe is low. Revenue from Europe in 2006 represented less than 10% of DFI's ACP. Seeing that Europe consists of major developed countries, which is a key market of embedded PC, the potential contribution from Europe can be expected. We therefore invested heavy sales force in the hope to increase Europe contribution to 15% of ACP revenue in 2007.

DFI has been in Japan market for several years and Japan has become more and more important to DFI. In 2006, DFI-Japan represented 12% of ACP revenue. To serve existing key accounts and to develop new customers, we injected more sales force in Japan market, expecting a growth over 20% in there. Several big Japanese companies became DFI's customers implied DFI's quality has been approved by this picky market. We hold more expectation for future growth in this area.

Speed up Growth in Embedded System

DFI used to be successful in embedded boards and add-on cards. While breaking record every year, we did seriously deliberate upon what's the next growth momentum. The credits and experiences established among international leading companies, convinced more customers willingly to outsource DFI with higher degree of integration. In 2006, embedded system represented 10% of ACP revenue; we expect 2007 will demonstrate a growth of 70% above. Embedded system will play an important role in DFI's future roadmap.

2. Long-term Business Plan

Reinforce Cooperation with Alliance Partners

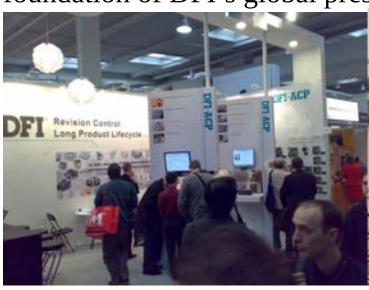
DFI cooperates with alliance partners to enrich product offering and intensify complementarity in design, production and sales channel. The vertical markets that each party focuses in are different stories. Following the alliance, we can make up the weakness that each has and reserve the capacity for competition.

Increase Product Offering and Application

Planned models in 2007 such as COM Express, ECX, EPIC and ready-for-sale ETX are all form factors expected to be fast growing in near future. The applied markets, e.g., industry automation, medical and communication are markets with good growth prospect. With wider-spread offerings, DFI may explore those vertical markets and succeed gaming as next growth momentum of DFI ACP.

Build up Channel Network, "Nibble" Market for A Base Hard to Be Replaced

In 2006 net sales of DFI ACP generated through subsidiaries (sales offices) and distributor to non-OEM customers exceeded 20% and has maintained at this stable percentage over years. Those small/fractional orders have formed a base that is hard to be replaced in short time by competitors. This part has and will stably expand and become a foundation of DFI's global presence.



Markets, Customers and Suppliers

Market Analysis

1. Geographic Distribution

NT$ 000

Region \ Year		2005 Net Sales	2005 %	2006 Net Sales	2006 %
Domestic Sales		75,359	2.89	65,738	2.33
Export	America	858,841	32.92	766,168	27.12
	Asia, Australia and Africa	1,043,481	40.00	1,644,479	58.22
	Europe	631,050	24.19	348,270	12.33
	Subtotal	2,533,372	97.11	2,758,917	97.67
Total		2,608,731	100.00	2,824,655	100.00

2. Market Share, Supply and Demand and Growth

Market Share

VDC estimated that in 2006, the market size of embedded boards to be US$4,006.4M. We calculated our global market share in terms of revenue to be 1.75% accordingly.

As for PC motherboard, our focus has switched to over-clocking MB, no longer in entry and mainstream segments. There is no precise information concerning this market. We estimated our market share to be below 5% according to chipsets delivery by MB industry.

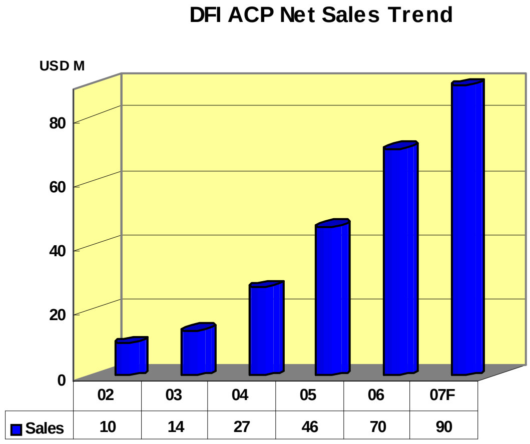
Market Demand, Supply and Future Growth

One of the very differences embedded fields have from other industries is that the applications for embedded are quite diversified, so the information of market growth should be generated from analyzing individual vertical market-which is hard to accomplish. Based on VDC estimate, the CAGR of global market for embedded boards from 2005-2010 is only 7.8%. Notwithstanding, Taiwanese players enjoyed average 24% growth in 2006. Checking the main business focuses of Taiwanese embedded players, some are in IP networking/network security, some in measurement, some in factory automation... not the same to every one. There are many vertical markets waited for development. Although the entire market seems not prove possibility of high growth, each company in the industry was able to find their niche market for growth. With more and more outsourcing projects from OEM, their future growth can be expected.

3. Competitive Advantages, Favorable or Unfavorable Outlook and Actions

Competitive Advantages

DFI ACP has proved itself with its quality, speed, service and cost advantages, and has caught up with competitors within 5 years and became no. 5 among Taiwanese IPC makers. We stand firmly in several application markets, and served more and more new accounts from new vertical markets. Hundreds of service experiences, especially positive feedbacks from leading companies in different industries, have raised the confidence level for potential customers to adopt DFI ACP.



The precise and flexible logistic management not only prevented DFI from huge inventory losses, but also further created profit for DFI, at the same time to fulfill customers' need for swift and in-time delivery. DFI's experienced staffs plan their jobs from the viewpoint of company interest, which escalated efficiency and lowered cost.

Favorable Outlooks

- In non-pc vertical markets, OEMs or SIs are seeking for lower cost solutions and standardized platforms, hence outsourced motherboards or turnkeys from own in-house capacity or switched from EMS with higher costs. The trend just emerged and potential market size is much more than what current players have accessed. The companies that possess industry know-how, mass but flexible production expertise, low cost structure and high design and manufacturing quality will demonstrate devastating growth momentum.

- In top vertical markets like communication, medical, automation…etc., which are markets with higher growth rates as well, DFI has limited access. Looking forward, DFI will gain organic growth in these markets through extensive product offering and enhancement of sales resources. On the other hand, DFI will intensify cooperation with strategic partners to raise the percentage of such revenue so that the growth shall be balanced without serious bias.

Unfavorable Outlooks and Actions

- High profitability is always the guarantee of potential competition. Compared to western embedded players whose profit performance is ordinary and face competition from numerous competitors because of long history of embedded industry, the juicy performance of Taiwanese embedded players has attracted intense attention. Especially the PC makers, who used to be price killers, whose participation in embedded markets may not encourage growth of markets, but on the contrary, scramble the order of prices.

- Various industry standards coexist. Some standards penetrated more in certain vertical markets, e.g., PC104 in automation. Due to IPC characteristics of long lifecycle and enclosed world, older generation replaced by new standards proceeded in slow pace. It's hard to standardize the industry like PC did, and hence all-pervasion and major cost down are not foreseeable in near future.

In response to competition, player in the industry have no choice but to outgrow competitors, or attain and maintain leading position in more vertical markets. To achieve the goals, DFI will expand R&D capacity and sales resources to speed up growth; strengthen capability in higher integration so to bring more added values; and expand coverage in mid-to-high volume DMS to secure leading position in said segment. We will also keep lowering our costs by fast growing volume/economic scale and switching of production site, in the hope to reserve capacity for competition.

Major Suppliers

NT$000

	2005				2006			
	Supplier	**Parts**	**Purchase**	**%**	**Supplier**	**Parts**	**Purchase**	**%**
1	Edom	Chip	264,299	13.5	IBM	Chip	170,686	9.8
2	Prince Tech.	Chip	170,366	8.7	Prince Tech	Chip	132,784	7.6
3	IBM	Chip	168,839	8.6	Synnex	CPU, Chip	119,059	6.9
4	Golden Right	PCB	156,651	8.0	Golden Right	PCB	118,013	6.8
5	World Peace	Chip	76,790	3.9	A supplier	Panel, CPU	83,185	4.8
6	Synnex	CPU, Chip	74,952	3.8	Edom	Chip	81,854	4.7
7	VIA	CPU, Chip	55,069	2.8	World Peace	Chip	69,475	4.0
8	Lotes	Connector	45,030	2.3	Supacon	Connector	43,927	2.5
9	Supacon	Connector	34,727	1.8	E-move	Connector	39,906	2.3
10	Nichidenbo	POS Cap	32,259	1.7	VIA	CPU, Chip	37,424	2.2

Note: 1USD = NT$ 32.5

Major Customers

NT$000

2005			2006		
Customer	**Net Sales**	**%**	**Customer**	**Net Sales**	**%**
DFI-BV	450,659	17.3	GES	795,807	28.2
GES	410,463	15.7	ITOX	425,934	15.1
DFI-SJ	311,752	12.0	DFI-Japan	283,823	10.1
ITOX	296,420	11.4	D customer	222,600	7.9
DFI-Tech	243,457	9.3	DFI-BV	202,753	7.2
DFI-JP	166,835	6.4	DFI-Tech	178,937	6.3
A customer	154,615	5.9	DFI-SJ	151,787	5.4
Futerean	38,719	1.5	A customer	128,756	4.6
B customer	29,490	1.1	E customer	50,334	1.8
C customer	26,403	1.0	F customer	39,256	1.4

Employment

As of 2007/4/30

Year		**2005**	**2005**	**2007/4/30**
Staff number	Direct labor	192	204	202
	Indirect Staff	209	221	222
	Total	401	425	424
Average Age		35	34	34
Average Years in DFI		5.30	5.45	5.73
Education Distribution	Doctor	-	-	-
	Graduate	2.5%	2.35%	2.60%
	College	61.65%	58.59%	59.34%
	High School	23.88%	28.00%	26.48%
	Under High School	11.97%	11.06%	11.58%

Environment Protection Expenditure

There is no air, noise and wastewater pollution throughout the production process. DFI has never been imposed a fine or penalty for environmental issues. We expect there will be no such expenditures in future in view of our product development. For RoHS transition, DFI has acquired and replaced manufacturing and testing equipment to meet RoHS purposes. The manufacturing processes have passed tests of ERSO of ITRI and several major international OEMs. QC080000 certificate has been granted to DFI in early 2007. At vendor side, we obtained the qualification certificates of RoHS compliance from all suppliers, and supply status is normal. Except some customers who asserted that they need not RoHS products now, all others have transited to RoHS models already.

Certificate No.
Issued: January 19, 2007
Revision: N/A
Expiration:

IECQ Certificate of Hazardous Substance Process Management (HSPM) applicable to the European Directive 2002/95/EC ("RoHS") requirements.

DFI, Inc.
No. 100, Huang-Ho St.,
Hsi-Chih Town,
Taipei Hsien, Taiwan, R.O.C.

This certification is applicable to all electronic components and related materials and processes for the design and manufacture of system boards, add-on cards, personal computers and ACP-applied computing platform.

Issued by Certification Authorities:

Electronic Component Certification Board

Signed:

Det Norske Veritas Certification, Inc.

Selected Financial Data

5-Year Concise Balance Sheets

NT$000

Item		2002	2003	2004	2005	2006	2007/3/31
		5-Year Financial Data					
Current Assets		2,864,169	2,651,035	2,524,175	2,700,420	2,838,045	3,073,668
Funds & Investments		78,418	150,265	102,228	366,218	412,190	399,448
Property, plant & equipment		363,157	293,592	232,132	181,539	165,675	152,783
Intangible assets		-	-	-	-	-	1,532
Other assets		52,959	45,235	44,572	48,484	14,630	13,996
Total assets		3,358,703	3,140,127	2,903,107	3,296,661	3,430,540	3,641,427
Current Liabilities	Before distribution	621,910	497,815	420,943	572,107	473,630	537,724
	After distribution	732,519	604,618	505,094	895,180	-	-
Long-term liabilities		-	-	-	-	-	-
Other liabilities		69,234	79,762	48,643	44,261	46,675	47,765
Total Liabilities	Before distribution	691,144	577,577	469,586	616,368	520,305	585,489
	After distribution	801,753	684,380	553,737	939,441	-	-
Capital stock		1,176,000	1,168,600	1,098,000	1,065,600	1,083,169	1,083,169
Capital surplus		963,602	947,239	896,151	851,072	833,980	833,980
Retained Earnings	Before distribution	595,623	558,477	548,491	814,331	994,072	1,137,790
	After distribution	472,414	440,274	434,240	443,189	-	-
Unrealized gain/loss of financial instruments		-	-	-	-	3,456	3,737
Cumulative translation adjustment		3,733	622	-3,502	-3,118	-4,442	-2,738
Net loss not recognized as pension costs		-12,724	-6,769	-	-	-	-
Shareholders' equity	Before distribution	2,667,559	2,562,550	2,433,521	2,680,293	2,910,235	3,055,938
	After distribution	2,556,950	2,455,747	2,349,370	2,357,220	-	-

5-Year Concise Income Statements

NT$000

Item	2002	2003	2004	2005	2006	1Q2007
	5-Year Financial Data					
Net sales	3,791,689	2,894,197	2,400,845	2,608,731	2,824,655	645,142
Gross profit	473,217	332,562	407,713	629,353	829,946	214,683
Operating income	120,381	58,819	160,217	401,502	611,343	146,540
Non-operating incomes	65,052	77,355	28,719	83,824	97,672	38,976
Non-operating expenses	65,798	35,468	64,084	16,353	19,783	3,424
Net income before tax	119,635	100,706	124,852	468,973	689,232	182,092
Net income	118,664	88,084	108,217	380,091	549,657	143,718
Cumulative effects of accounting changes	-	-	-	-	1,226	-
Net income after tax	118,664	88,084	108,217	380,091	550,883	143,718
EPS	1.00	0.78	0.97	3.50	5.09	1.33

Note: All data are audited or reviewed.

DFI®

5-Year Financial Ratios

Item \ Year		5-Year Financial Data					
		2002	2003	2004	2005	2006	2007/3/31
Financial Structure	Debt to Assets	21	18	16	19	15	16
	Long-term Capital to Fixed Assets	754	900	1,069	1,501	1,785	2,031
Liquidity	Current Ratio	461	533	600	456	599	572
	Quick Ratio	420	476	518	371	517	490
	Interest Expense Coverage	177.97	289	817	2,843	3,788	18,210
Operation Ability	Accounts Receivable Turnover	4.9	4.76	4.65	5.66	5.14	5.08
	AR Turnover Days	75	77	78	64	71	72
	Inventory Turnover	10	9.88	6.43	4.78	4.55	4.16
	AP Turnover Days	4.82	4.93	4.93	5.73	5.90	5.63
	Inventory Turnover Days	37	37	57	76	80	88
	Fixed Assets Turnover	10.44	9.86	10.34	14.37	17.05	16.88
	Total Assets Turnover	1.1	0.9	0.83	0.79	0.82	0.72
Profitability	Return to Total Assets (ROI)	3	3	4	12	16	4
	Return to Equity (ROE)	4	3	4	15	20	5
	Income from Operation/Capital	10	5	15	38	56	14
	Income before Tax/Capital	10	9	11	44	64	17
	Net Income/Net Sales	3	3	5	15	20	22
	EPS (Note 1)	1.01	0.78	1.00	3.66	5.09	1.33
	EPS (Note 2)	1.00	0.78	0.97	3.50	-	-
Cash Flow	Cash Flow from Operating Ratio	65	-	78	48	55	-
	Cash Flow Adequacy Ratio	162	146	118	119	172	-
	Cash Flow Reinvestment Ratio	6	-	8	6	-	-
Financial Leverage	Operating Leverage	1.9	2.4	1.6	1.2	1.1	1.2
	Financial Leverage	1.0	1.0	1.0	1.0	1.0	1.0

Note 1: Calculated based on weighted-average outstanding shares.
Note 2: Calculated based on retroactive shares.

INDEPENDENT AUDITORS' REPORT
The Board of Directors and Shareholders
DFI, Inc.

We have audited the accompanying consolidated balance sheets of DFI, Inc. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and 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 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of DFI, Inc. and subsidiaries as of December 31, 2006 and 2005, and the results of their consolidated operations and their consolidated cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting with respect to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the consolidated financial statements, on January 1, 2006, DFI, inc. and its subsidiaries adopted the newly released Statements of Financial Accounting Standards ("Statements") No. 34- "Accounting for Financial Instruments" and No. 36- "Disclosure and Presentation of Financial Instruments", and related revisions of previously released Statements.

Deloitte & Touche

Taipei, Taiwan
February 9, 2007

<u>*Notice to Readers*</u>

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdiction. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.
For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

DFI Inc.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Par Value)

	2006		2005	
Assets	Amount	%	Amount	%
Cash and cash equivalents (Note 4)	$ 659,188	19	$ 880,163	27
Financial assets at fair value through profit or loss (Notes 2, 3, 5, 21 and 22)	1,048,479	31	689,582	21
Available-for-sale financial assets (Notes 2, 3 and 6)	209,887	6	92,483	3
Notes receivable (Note 2)	205	-	376	-
Accounts receivable (Note 2)	353,785	10	225,447	7
Receivable from Affiliates (Note 20)	107,891	3	207,476	6
Inventory (Notes 2 & 7)	397,369	12	550,182	17
Time deposits pledged (Note 21)	14,301	-	8,301	-
Deferred income taxes-current (Notes 2 & 16)	19,381	1	21,188	1
Prepayments and other current asset	63,083	2	53,357	1
Current Assets Subtotal	2,873,569	84	2,728,555	83
LONG-TERM INVESTMENTS				
Available-for-sale financial assets (Notes 2, 3 and 6)	12,198	-	12,766	-
Held-to-maturity financial assets (Notes 2,3 and 8)	200,000	6	200,000	6
Financial assets carried at cost (Notes 2,3 and 9)	30,178	1	34,601	1
Bonds without active markets (Notes 2, 3 and 10)	75,846	2	42,649	1
Investments accounted for using equity method (Notes 2 and 11)	30,654	1	19,577	1
Total long-term investments	348,876	10	309,593	9
PROPERTY, PLANT & EQUIPMENT (Notes 2,11 & 23)				
Land	28,621	1	25,019	1
Buildings	117,866	3	116,532	4
Machinery & equipment	458,314	13	426,988	13
Office equipment	18,992	1	17,452	-
Other equipment	9,405	-	7,989	-
Cost Subtotal	633,198	18	593,980	18
Accumulated Depreciation	460,667	13	411,716	12
Net property, plant & equipment	172,531	5	182,264	6
OTHER ASSETS				
Deferred Income Taxes-non-current (Notes 2 & 16)	7,887	-	4,864	-
Assets leased to others (Notes 2, 13 & 21)	-	-	39,336	2
Deferred charges (Note 2)	6,719	-	4,230	-
Goodwill (Note 2)	9,491	1	-	-
Others	4,268	-	2,965	-
Total other assets	28,365	1	51,395	2
TOTAL	$ 3,423,341	100	$ 3,271,807	100

	2006		2005	
Liabilities& Shareholders' Equity	Amount	%	Amount	%
Notes Payable	$ 117,275	3	$ 142,813	4
Accounts Payable	166,359	5	242,107	7
Payable to Affiliates (Note 20)	817	-	1,031	-
Income Tax Payable (Notes 2 & 16)	83,054	3	59,125	2
Accrued Expenses	62,663	2	80,899	3
Financial liabilities at fair value through profit or loss (Notes 2, 5 and 22)	312	-	-	-
Deferred credits (Notes 2 & 20)	4,339	-	3,309	-
Other Current Liabilities	31,610	1	18,930	1
Total current liabilities	466,429	14	548,214	17
OTHER LIABILITIES				
Accrued pension cost (Notes 2 & 19)	46,621	1	43,206	1
Others (Notes 2 & 11)	54	-	92	-
Total other liabilities	46,675	1	43,298	1
Total liabilities	513,104	15	591,512	18
SHAREHOLDERS' EQUITY				
CAPITAL STOCK	1,083,169	32	1,065,600	33
CAPITAL SURPLUS				
Additional paid-in capital	806,569	23	830,335	25
From treasury stock transaction	25,950	1	19,276	1
Gain on asset disposition	808	-	808	-
From long-term equity investments	653	-	653	-
Total capital surplus	833,980	24	851,072	26
Retained Earnings				
Legal Reserve	213,554	6	175,545	5
Special Reserve	3,118	-	3,502	-
Unappropriated earnings	777,400	23	635,284	20
Total retained earnings	994,072	29	814,331	25
Cumulative translation adjustments	(4,442)	-	(3,118)	-
Unrealized gain or loss on financial instruments	3,456	-	-	-
Treasury stocks (At cost)- 3,050,000 shares	-	-	(47,592)	(2)
Minority interest	2	-	2	-
Total shareholders' equity	2,910,237	85	2,680,295	82
TOTAL	$ 3,423,341	100	$ 3,271,807	100

The accompanying notes are an integral part of the consolidated financial statements.

DFI Inc.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars, Except Consolidated Earnings Per Share)

	2006		2005	
	Amount	**%**	**Amount**	**%**
Gross Sales	$2,976,048	101	$2,696,015	101
Sales Return & Allowance	24,234	1	19,902	1
Net Sales (Notes 2 and 20)	2,951,814	100	2,676,113	100
Cost of Goods Sold (Notes 17,20 and 21)	2,064,838	70	1,965,812	76
Gross Profit	886,976	30	710,301	26
Unrealized Profit on Sales to Affiliates (Note 2)	(1,030)	-	113	-
Gross Profit	885,946	30	710,414	26
Operation Expenses				
Sales & Marketing	101,800	4	112,880	4
General & Administrative	94,479	3	87,780	3
Research & Development	93,372	3	78,155	3
Total Operating Expenses	289,651	10	278,815	10
Income from Operations	596,295	20	431,599	16
Non-operating Income				
Gain on disposal of investments	25,885	1	33,989	1
Equity in earnings of equity method investees, net	17,711	1	8,348	-
Interest income (Note 23)	21,676	1	7,555	-
Gain on valuation of financial asset (Notes 2, 3 and 5)	13,675	-	2,170	-
Exchange gain (Note 2)	13,332	-	-	-
Realized gain on long-term investments	-	-	1,428	-
Other Income (Notes 13 and 20)	20,938	1	10,252	1
Total Non-operating Income	113,217	4	63,742	2
Non-operating Expenses				
Loss on market price decline of inventory (Notes 2 and 7)	12,438	-	6,553	-
Loss on inventory write-off	6,018	-	5,940	-
Exchange Loss (Note 2)	-	-	5,927	-
Interest expenses (Note 23)	652	-	631	-
Loss on valuation of financial liability (Notes 2 and 5)	312	-	-	-
Other Losses (Note 17)	834	-	7,291	1
Total Non-operating Expenses	20,254	-	26,342	1
INCOME BEFORE INCOME TAX	689,258	24	468,999	17
INCOME TAX (Notes 2 and 16)	139,601	5	88,908	3
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	549,657	19	$ 380,091	14

(Continued)

DFI Inc.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars, Except Consolidated Earnings Per Share)

	2006		2005	
	Amount	**%**	**Amount**	**%**
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (Note 3)	1,226	-	-	-
NET CONSOLIDATED INCOME	$ 550,883	19	$ 380,091	14
INCOME ATTRIBUTED TO:				
Stockholders of parent company	$ 550,883	19	$ 380,091	14
Minority interest	-	-	-	-

	2006		2005	
	Before Tax	**After Tax**	**Before Tax**	**After Tax**
NET INCOME PER SHARE				
Basic (Note 18)	$ 6.37	$ 5.09	$ 4.31	$ 3.50

The accompanying notes are an integral part of the consolidated financial statements.

(Concluded)

DFI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

	Capital Stock		Capital Surplus (Notes 2 and 14)				Retained Earnings (Notes 2,14 and 16)			Adjustments				
	Thousand Shares	Amount	Issue of Stock in Excess of Par Value	Treasury Stock	Gain on Disposal of Properties	From Long-term Stock Investments	Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustment (Note 2)	Unrealized Gain or Loss on Financial Instruments (Notes 2,3 and 23)	Treasury Stock (Notes 2 and 15)	Minority Interest	Total Shareholders' Equity
BALANCE, JANUARY 1, 2005	109,800	1,098,000	879,707	14,983	808	653	164,723	6,147	377,621	(3,502)	-	(105,619)	2	2,433,523
Appropriation of prior year's earnings:														-
Legal reserve	-	-	-	-	-	-	10,822	-	(10,822)	-	-	-	-	-
Employee Bonus-Stock	1,000	10,000	-	-	-	-	-	-	(10,000)	-	-	-	-	-
Employee Bonus-Cash	-	-	-	-	-	-	-	-	(2,500)	-	-	-	-	(2,500)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	(1,250)	-	-	-	-	(1,250)
Stock Dividend- $0.2 per share	2,010	20,100	-	-	-	-	-	-	(20,100)	-	-	-	-	-
Cash Dividend - $0.8 per share	-	-							(80,401)					(80,401)
Reverse of Special Reserve	-	-	-	-	-		-	(2,645)	2,645	-	-	-	-	-
Net Income, 2005	-	-	-	-	-	-	-	-	380,091	-	-	-	-	380,091
Cumulative Translation Adjustments	-	-	-	-	-	-	-	-	-	384	-	-	-	384
Purchase of Treasury Stocks- 3,050,000 shares												(49,552)	-	(49,552)
Write-off of Treasury Stock- 6,250,000 shares	(6,250)	(62,500)	(49,732)	4,293	-	-	-	-	-	-	-	107,579	-	-
BALANCE, DECEMBER 31, 2005	106,560	1,065,600	830,335	19,276	808	653	175,545	3,502	635,284	(3,118)	-	(47,592)	2	2,680,295
Effect from first adoption of ROC GAAP no.34											(846)			(846)
Appropriation of prior year's earnings:														
Legal reserve	-	-	-	-	-	-	38,009	-	(38,009)	-		-	-	-
Employee Bonus-Stock	2,737	27,367	-	-	-	-	-	-	(27,367)	-		-	-	-
Employee Bonus-Cash									(6,842)					(6,842)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	(5,701)	-		-		(5,701)
Stock Dividend- $0.2 per share	2,070	20,702	-	-	-	-	-	-	(20,702)	-	-	-		-
Cash Dividend - $0.8 per share	-	-	-	-	-	-	-	-	(310,530)	-		-		(310,530)
Net Income, 2006	-	-	-	-	-	-	-	-	550,883	-	-	-		550,883
Reverse of Special Reserve	-	-	-	-	-		-	(384)	384	-	-	-		
Unrealized loss on financial instruments											4,302			4,302
Cumulative Translation Adjustments	-	-	-	-	-	-	-	-	-	(1,324)	-	-		(1,324)
Write-off of Treasury Stock- 3,050,000 shares	(3,050)	(30,500)	(23,766)	6,674	-	-	-	-	-	-	-	47,592		-
BALANCE, DECEMBER 31, 2006	$ 108,317	1,083,169	$ 806,569	$ 25,950	$ 808	$ 653	$213,554	$ 3,118	$777,400	($ 4,442)	$ 3,456	$ -	$ 2	$ 2,910,237

DFI, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	$ 550,883	380,091
Cumulative effect of changes in accounting principles	(1,226)	-
	549,657	380,091
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	55,636	60,978
Amortization	5,341	5,088
Gain on disposal of investments	(25,885)	(33,989)
Gain on valuation of financial assets	(13,675)	(2,170)
Loss on impairment of financial liabilities	312	-
Translation loss on financial assets	(1,244)	-
Loss on inventory devaluation and write off	18,456	12,493
Equity in earnings of equity method investees, net	(17,711)	(8,348)
Gain on liquidation of investments accounted for by equity method	-	(1,428)
Gain on disposal of property, plant and equipment and assets leased to others, net	(399)	(750)
Deferred income taxes	(1,216)	(5,829)
Accrued pension liability	3,415	5,359
Cash dividend received	-	14,026
Net changes in operating assets and liabilities:		
Financial assets and liabilities at fair value through profit or loss	(318,783)	910,587
Notes receivable	171	(143)
Accounts receivable	(151,066)	(35,975)
Receivable from affiliates	99,585	(131,374)
Inventory	147,946	(180,407)
Other Current Assets	(2,986)	(19,298)
Notes Payable	(25,538)	5,644
Accounts Payable	(71,577)	75,081
Payable to Affiliates	(214)	(7,448)
Income Tax Payable	23,929	44,389
Accrued Expenses	(18,236)	8,669
Deferred Income	11,243	(113)
Other Current Liabilities	8,337	4,531
Net cash provided by operating activities	275,498	1,099,664
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase of investments accounted for using equity method	(24,549)	-
Purchase of ready-for-sale financial assets	(110,960)	(71,712)
Purchase of bonds without active market	(50,328)	(42,649)
Proceeds from disposal of bonds without active market	16,627	-
Refund from financial assets carried at cost	4,423	-
Purchase of held-to-maturity financial assets-non current	-	(200,000)
Proceeds from liquidation of investments accounted using equity method	-	15,763

(Continued)

DFI, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
Proceeds from disposal of property, plant and equipment and assets leased to others	39,603	13,570
Purchase of property, plant and equipment	(40,836)	(22,700)
Increase of pledged time deposits	(6,000)	-
Increase of deferred charges	(7,830)	(4,227)
Increase of other assets	(634)	(187)
Net cash used in investing activities	(180,484)	(312,142)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) of other liabilities	(38)	67
Payment of directors and supervisors' remuneration	(5,701)	(1,250)
Payment of employee bonus	(6,842)	(2,500)
Payment of cash dividends	(310,530)	(80,401)
Purchase cost of treasury stock	-	(49,552)
Net cash used in financing activities	(323,111)	(133,636)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(570)	302
EFFECT OF FIRST INCLUSION FOR CONSOLIDATION OF CERTAIN SUBSIDIARIES	7,692	19,315
Increase (Decrease) of Cash and Cash Equivalents	(220,975)	673,503
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	880,163	206,660
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 659,188	$ 880,163
SUPPLEMENTAL INFORMATION		
Payment of Interest	$ 652	$ 631
Payment of Income Taxes	116,285	50,295
NONCASH FINANCING ACTIVITIES		
Write off of treasury stock	$ 47,592	$ 107,579

The accompanying notes are an integral part of the consolidated financial statements. (Concluded)

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

NOTE 1: COMPANY PROFILE

DFI, Inc. (parent company), a Republic of China (R.O.C.) corporation, was incorporated in July 1981. On January 15, 2000, its shares were listed on the Taiwan Stock Exchange (TSE). DFI engaged mainly in the design, manufacturing, and sale of computer motherboards, add-on cards and other PC components. Since 2002, the company transformed as an embedded PC maker.

As of December 31, 2006 and 2005, DFI and its subsidiaries had 454 and 421 employees, respectively.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are presented in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guideline Governing Business Accounting, and accounting principles generally accepted in the R.O.C.

For the convenience of readers, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the R.O.C. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language consolidated financial statements shall prevail.

Significant accounting policies are summarized as follows:

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of all directly and indirectly majority owned subsidiaries of DFI, and the accounts of investees in which DFI's ownership percentage is less than 50% but over which DFI has a controlling interest.

All significant inter-company balances and transactions are eliminated upon consolidation.

The consolidated entities were as follows:

Name of Investee	Percentage of Ownership at December 31, 2006	Business Functions
Diamond Flower (San Jose) Inc.	100%	Sale and after service of PC motherboards.
Diamond Flower Service (NL) B.V.	100%	After service of PC motherboards.
Dual-Tech International Co., Ltd.	99.99%	Subcontractor of PC equipment.
Diamond Flower H.T. Group (BVI) Inc.	100%[1]	Holding company
DFI, Co., Ltd.	100%[2]	Sales of embedded PC.

1. Liquidated in December 2005.
2. DFI acquired 100% shares of this company on October 31, 2006.

Use of Estimates

The preparation of consolidated financial statements in conformity with the aforementioned guidelines, law and principles requires management to make reasonable assumptions and estimates of matters that are inherently uncertain. The actual results may differ from management' s estimates.

Classification of Current and Non-current Assets and Liabilities

Current assets are assets held for trading purposes and assets expected to be converted to cash, sold or consumed within one year from the balance sheet date. Current liabilities are obligations incurred for trading purposes and obligations expected to be settled within one year from the balance sheet date. Assets and liabilities that are not classified as current are non-current assets and liabilities, respectively.

Cash Equivalents

Corporate notes and treasury bills acquired with maturities of less than three months from the date of purchase are classified as cash equivalents. The carrying amount approximates fair value.

Financial Assets/Liabilities at Fair Value Through Profit or Loss

Derivatives that do not meet the criteria for hedge accounting and financial assets acquired principally for the purpose of selling them in the near term are initially recognized at fair value, with transaction costs expensed as incurred. The derivatives and financial assets are remeasured at fair value subsequently with changes in fair value recognized in earnings. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

Fair value is determined as follows: publicly traded stocks - closing price at the end of the year; and derivatives - using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions. When the fair value is positive, the derivative is recognized as a financial asset; when the fair value is negative, the derivative is recognized as a financial liability.

Available-for-Sale Financial Assets

Investments designated as available-for-sale financial assets include debt securities and equity securities. Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Changes in fair value from subsequent remeasurement are reported as a separate component of shareholders' equity. The corresponding accumulated gains or losses are recognized in earnings when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

Fair value is determined as follows: Structured time deposits - using valuation techniques; open-end mutual funds and money market funds - net asset value at the end of the year; publicly-traded stocks - closing prices at the end of the year; and other debt securities - average of bid and asked prices at the end of the year.

Cash dividends are recognized as investment income upon resolution of shareholders of an investee but are accounted for as reductions to the original cost of investments if such dividends are declared on the earnings of the investees attributable to periods prior to the purchase of the investments. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the new total number of shares. Any difference between the initial carrying amount of a debt security and the amount due at maturity is amortized using the effective interest method, with the amortization recognized in earnings.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to shareholders' equity; for debt securities, the amount of the decrease is recognized in earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

Held-to-Maturity Financial Assets

Debt securities for which the Company has a positive intention and ability to hold to maturity are categorized as held-to-maturity financial assets and are carried at amortized cost under the effective interest method. Those financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Gains or losses are recognized at the time of derecognition, impairment or amortization. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversal may not result in a carrying amount that exceeds the amortized cost that would have been determined as if no impairment loss had been recognized.

Allowance for Doubtful Receivables

An allowance for doubtful receivables is provided based on a review of the collectibility of accounts receivable. The Company determines the amount of allowance for doubtful receivables by examining the aging analysis of outstanding accounts receivable and current trends in the credit quality of its customers as well as its internal credit policies.

Revenue Recognition

The Company recognizes revenue when ownership and major risks are transferred to customers. At which time the most of revenue-generating processes have been completed and have been realized or can be realized. Consigned materials are not recognized as revenue as ownership and major risks are not transferred.

Inventories

Inventories including material, finished goods, work in progress (WIP) and outsourced goods. Inventories in DFI, DFI Co., Ltd. And Diamond Flower Service (NL) B.V. are stated at lower of costs or market (LCM). The comparison bases of LCM are total costs and total market values. Inventory costs are recorded at weighted average method. Market value represents replacement cost for raw materials and net realizable value for work in process, finished goods and outsourced goods.

The inventories of Diamond Flower (San Jose) Inc. are stated at lower of First-in-First-out costs and market values (replacement cost or net realizable value).

Financial Assets Carried at Cost

Investments whose fair value cannot be reliably measured are carried at their original cost, such as non-publicly traded stocks and mutual funds. The costs of non-publicly traded stocks and mutual funds are determined using the weighted-average method. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

The accounting treatment for cash dividends and stock dividends arising from financial assets carried at cost is the same as that for cash and stock dividends arising from available-for-sale financial assets.

Bonds without Active Market

Investments of bonds and non-derivatives that do not have a quoted market price in an active market but have fixed or determinable value of collection are stated at amortized costs. The accounting treatment is similar with held-to-maturity financial assets but timing of disposition is not limited.

Investments Accounted for Using Equity Method

Investments in companies wherein the Company owns over 20% of shareholding or exercises significant influence over the operating and financial policy decisions are accounted for using the equity method. Prior to January 1, 2006, the difference, if any, between the cost of investment and the Company's proportionate share of the investee's equity was amortized by the straight-line method over five years, with the amortization recorded in the "equity in earnings/losses of equity method investees, net" account. Effective January 1, 2006, pursuant to the revised Statement of Financial Accounting Standards No. 5, "Long-term Investments in Equity Securities" (SFAS No. 5), the cost of an investment shall be analyzed and the difference between the cost of investment and the fair value of identifiable net assets acquired, representing goodwill, shall not be amortized and instead shall be tested for impairment annually.

The accounting treatment for the investment premiums acquired before January 1, 2006 is the same as that for goodwill which is no longer being amortized; while investment discounts continue to be amortized over the remaining periods. When an indication of impairment is identified, the carrying amount of the investment is reduced, with the related impairment loss recognized in earnings.

When the Company subscribes for additional investee's shares at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment in the investee differs from the amount of the Company's share of the investee's equity. The Company records such a difference as an adjustment to long-term investments with the corresponding amount charged or credited to capital surplus.

Gains or losses on sales from the Company to equity method investees are deferred in proportion to the Company's ownership percentage in the investees until such gains or losses are realized through transactions with third parties. Gains or losses on sales from equity method investees to the Company are deferred in proportion to the Company's ownership percentages in the investees until they are realized through transactions with third parties.

If an investee's functional currency is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported as a separate component of shareholders' equity

Property, Plant and Equipment and Assets Leased to Others

Property, Plant and Equipment and Assets Leased to Others are stated at cost less accumulated depreciation. Major renovation or improvements are capitalized; maintenance is booked as expenses.

We adopted ROC GAPP no. 35 "Accounting Principles for Impairment of Assets" starting first quarter of 2005. There is no material impact to financial statements of DFI to apply these principles.

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 still under use, original depreciation method applied and a useful life is estimated.

When Property, Plant and Equipment 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 Credits

Unrealized gross profit from sales to the invested companies, which booked at equity method, is deferred until the profit is realized. For those invested that DFI's shareholding exceeds 50%, all unrealized gross profit is deferred; for those not exceed 50%, deferred income is calculated according to investment percentage.

Pension

Pension costs are booked over actuarial results for defined contribution pension plan. Pension costs are booked at accrued contribution costs for defined contribution pension plan over periods which employees providing services.

Treasury Stock

The purchase costs of treasury stock are booked as deduction of shareholders' equity. When treasury stocks are written off, the purchase costs of treasury stocks are offset against "additional paid-in capital" and "capital stocks" according to the share number percentage that are written-off. If book value of treasury stocks is lower than the sum of face value of capital stock and additional paid-in capital, the difference is credited against "capital surplus" arose from similar treasury stock transactions. If book value of treasury stocks is higher than the sum of face value of capital stock and additional paid-in capital, the difference is offset against "capital surplus" arose from similar treasury stock transactions. If there is deficit after the offset, the gap 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 annual 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 valuated 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.

3. ACCOUNTING CHANGES

On January 1, 2006, the Company adopted the newly released Statements of Financial Accounting Standards No. 34, "Financial Instruments: Recognition and Measurement" (SFAS No. 34) and No. 36, "Financial Instruments: Disclosure and Presentation" and related revisions of previously released SFASs.

a. Effect of adopting the newly released SFASs and related revisions of previously released SFASs

The Company had categorized its financial assets and liabilities upon initial adoption of the newly released SFASs. The adjustments made to the carrying amounts of the financial instruments categorized as financial assets or financial liabilities at fair value through profit or loss were included in the cumulative effect of changes in accounting principles; the adjustments made to the carrying amounts of those categorized as available-for-sale financial assets were recognized as adjustments to shareholders' equity.

The effect of adopting the newly released SFASs is summarized as follows:

	Recognized as Cumulative Effect of Changes in Accounting Principles (Net of Tax)	Recognized as a Separate Component of Shareholders' Equity
Financial assets at fair value through profit or loss	$ 3,033	$ -

Available-for-sale financial assets	-	846
Financial liabilities at fair value through profit or loss	(1,807)	-
	$ 1,226	$ 846

The adoption of the newly released SFASs resulted in an increase in net income of NT$1,226 thousand, and an increase in basic earnings per share (after income tax) of NT$0.01 for the year ended December 31, 2006.

b. Reclassifications

Upon adoption of SFAS No. 34, certain accounts in the consolidated financial statements as of and for the year ended December 31, 2005 were reclassified to conform to the consolidated financial statements as of and for the year ended December 31, 2006. The previously issued consolidated financial statements as of and for the year ended December 31, 2005 were not required to be restated.

Certain accounting policies prior to the adoption of the newly released SFASs are summarized as follows:

1) Short-term investments

Short-term investments that were publicly-traded, easily converted to cash, and not acquired for the purpose of controlling the investees or establishing close business relationship with the investees were carried at the lower of cost or market value at the balance sheet date, with any temporary decline in value charged to current income. The market value of publicly-traded stocks was determined using the average-closing prices for the last month of the year.

2) Long-term Investments

For those valued at equity method, long-term investments are booked at historical costs plus (or minus) net income or loss accrued according to the investment percentage. We accrue investment income (loss) when the invested companies are in profit (loss). Cash dividends received are booked as decrease of investments. Stock dividends are booked with memory entries for share number increase only. If the invested companies' loss causes credit balance of the investment account, the credit balance is reclassified as other liability.

For those valued at cost method, long-term investments are booked at historical costs. For investments in stocks of listed company, when market prices are lower than book value, the allowance for devaluation is booked as a deduction item of shareholders' equity. The allowance shall be reversed if market price recovers the book value. For investments in non-public companies, when the value has been impaired permanently and hope of recovery is remote, the book value shall be adjusted and loss be recognized. Cash dividends are booked as investment income. Stock dividends are booked with memory entries for share number increase only. Costs of sale are calculated over weighted-average method.

3) Derivative financial instruments

The Company entered into forward exchange contracts to manage foreign exchange exposures on foreign-currency-denominated assets and liabilities. The contracts were recorded in New Taiwan dollars at the current rate of exchange at the contract date. The differences in the New Taiwan dollar amounts translated using the current rates and the amounts translated using the contracted forward rates were amortized over the terms of the forward contracts using the straight-line method.

At the end of each year, the receivables or payables arising from forward contracts were restated using the prevailing exchange rates with the resulting differences credited or charged to income.

In addition, the receivables and payables related to the same forward contracts were netted with the resulting amount presented as either an asset or a liability. Any resulting gain or loss upon settlement was credited or charged to income in the year of settlement.

Certain accounts in the consolidated financial statements as of and for the year ended December 31, 2005 have been reclassified to conform to the classifications prescribed by the newly released SFASs. The reclassifications of the whole or a part of the account balances of certain accounts are summarized as follows:

	Before Reclassification	**After Reclassification**
Balance sheet		
Short-term investments, net	$ 617,208	$ -
Long-term investments	297,849	-
Other financial assets-current	73,307	-
Other financial assets-non-current	81,353	-
Other current assets	2,364	-
Financial assets at fair value through profit or loss-current	-	689,582
Available-for-sale financial assets-current	-	92,483
Available-for-sale financial assets-non-current	-	12,766
Held-to-maturity financial assets	-	200,000
Financial assets carried at cost	-	34,601
Bonds without active market	-	42,649

	Before Reclassification	**After Reclassification**
Income statement		
Reversal of unrealized valuation loss on short-term investments	$ 2,170	$ -
Valuation gain on financial instruments, net	-	2,170

4: CASH AND CASH EQUIVALENTS

NT$000

	2006	2005
Petty Cash and Cash on Hand	1,095	$ 200
Checking and Demand Deposit Accounts	392,144	498,020
Time Deposits, interest rates 1.99-4.9% in 2006, and 1.40-3.90% in 2005.	118,806	381,943
Cash equivalent-short-term notes, 5-5.4%	147,143	-
	861,067	187,038

The information for overseas deposits at the end of 2006 is:

	2006	2005
US-Newark (2006-$5,052 thousand; 2005-$4,850 thousand)	$ 164,418	$ 159,115
US-Los Angeles (2006-$272 thousand, 2005-$267 thousand)	8,857	8,758
Netherlands-Amsterdam (2006-Eur88 thousand, US$582 thousand; 2005-Eur109 thousand, US$185 thousand)	22,681	10,315
China-HK (2006-US$73 thousand, HK$53 thousand; 2005-US$78 thousand, HK$45 thousand)	2,607	2,732

Japan- Tokyo (Yen 21,141 thousand)	5,746	-
	$ 204,309	$ 180,920

5. FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2006	NT$000 2005
Trading financial assets		
Bond funds	$ 947,559	$ 687,218
Publicly-traded stocks	80,948	-
Convertible bonds	3,264	-
Forward exchange contracts	-	2,364
Add: Valuation adjustments	16,708	-
Subtotal	$ 1,048,479	$ 689,582
Trading financial liabilities		
Forward exchange contracts	$ 312	$ -

The Company entered into derivative contracts during the years ended December 31, 2006 and 2005 to manage exposures due to the fluctuations of foreign exchange rates.

Outstanding forward contracts as of December 31, 2006 and 2005:

	Currency	**Maturity Date**	**Contract Amount (in Thousands)**
December 31, 2006			
Sell	US$/NT$	2007.01.09~2007.02.09	USD4,500/NT$146,299
December 31, 2005			
Sell	US$/NT$	2006.01.06~2006.02.06	USD4,000/NT$133,592

Net gains arising from derivative financial instrument assets for the year ended December 31, 2006 and 2005 were NT$39,089 thousand and NT$36,159 thousand, respectively. Net losses arising from derivative financial instrument liabilities for the year ended December 31, 2006 were NT$312 thousand.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2006		2005	NT$000
	Current	Non-current	Current	Non-current
Open-end mutual funds	$ 73,725	$ -	$ -	$ -
Corporate Bonds	68,992	12,664	29,235	12,766
Preferred stocks	60,000	-	60,000	-
Public-traded stocks	3,248	-	3,248	-
	205,965	12,664	92,483	12,766
Add (Less): unrealized gain (loss)	3,922	(466)	-	-
	$ 209,887	$ 12,198	$ 92,483	$ 12,766

1. The parent company acquired Fu-Hwa privately offered fund at $73,725 thousand on December 2006.
2. The parent company purchased corporate bonds issued by foreign companies during July 2005 to October 2006, at coupon rates 5.75~7.625%.
3. The parent company purchased preferred stocks 2,000,000 shares issued by TaiSin financial holding company with par $10 at $30 per share, totaling NT$60 millions. The condition of issuance of the preferred stocks: 3.5% p.a., cash distribution each year, accumulated but not participating. The stocks were public traded on 2005.10.13.
4. The parent company holds 403 thousand shares of United commercial bank at the end of 2006 and 2005.

7. INVENTORIES, NET

NT$000

	2006	2005
Finished Goods	$ 165,312	$ 212,108
Work in Progress	21,134	23,129
Outsourced Work in Progress	76,628	106,905
Materials	182,605	243,912
	445,679	586,054
Less: Allowance for Devaluation and obsolesce	48,310	35,872
	$ 397,369	$ 550,182

8. HELD-TO-MATURITY FINANCIAL ASSETS

NT$000

	2006	2005
Preferred stocks	$ 200,000	$ 200,000

The parent company purchased preferred stock of China trust financial holding company on December 28, 2005 by 5 million shares, par $10, issued at $40 per share, totaling NT$200,000 thousand. The conditions of issuance: pay at 3.5% p.a. fixed over issuance price, cash dividend paid once a year, accumulated but not participating. Not allowed to transfer in 3 years, compulsory redemption after 7 years, and intended to be public traded 3 years after issuance.

9. FINANCIAL ASSETS CARRIED AT COST

NT$000

	2006	2005
Overseas funds- Asia tech Taiwan venture fund	$ 30,178	$ 34,601

The fund held by parent company is carried at cost due to no quoted prices at active market and hence the fair value cannot be measured reliably.

10. BONDS WITHOUT ACTIVE MARKET- NONCURRENT

NT$000

	2006	2005
Mutual funds	$ 50,328	$ -
JPM callable fixed range note	15,959	16,404
China Trust range note	9,559	9,841
JPM CDC note	-	16,404
	$ 75,846	$ 42,649

1) The parent company purchased Corporate Loan Securitization Special Purpose Trust issued by Taiwan Industry Bank on November 2006, totaling NT$50,328.
2) The parent company purchased JPM callable fixed range note issued by JPM International Derivatives Ltd. on May 2005 totaling US$500 thousand.
3) The parent company purchased China Trust note issued by China Trust Financial Holding Company on September 2005 totaling US$300 thousand.
4) The company purchased JPM CDC note issued by JPM International Derivatives Ltd. on August 2005 totaling US$500 thousand and has disposed of on March 2006.

11. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

NT$000

	2006		2005	
	Book Value	% of Ownership	Book Value	% of Ownership
ITOX LLC.	$ 30,654	34.23	$ 19,577	34.23

For the years ended December 31, 2006 and 2005, net equity in earnings of NT$17,711 thousand and NT$8,348 thousand were recognized, respectively, determined based on the audited financial statements of the investees for the same periods ended as the Company.

12. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation consisted of the following:

NT$000

	2006	2005
Building	$ 54,245	$ 50,499
Machinery	384,817	340,104
Office Equipment	16,265	15,287
Other Equipment	5,340	5,826
	$ 460,667	$ 411,716

Depreciation expenses for Property, Plant and Equipment in 2006 and 2005 are NT$55,504 thousand and NT$60,714 thousand, respectively.

13. ASSETS LEASED TO OTHERS

	2006	2005
		NT$000
Cost		
Land	-	$ 27,783
Building	-	16,108
	-	43,891
Accumulated Depreciation	-	4,555
	$ -	$ 39,336

The parent company has sold assets leased to others on May 2006. The proceeds of disposal are NT$39,603 thousand, and gain of disposal is NT$399 thousand, recorded as Other Income-others.

14. SHAREHOLDERS' EQUITY

According to Taiwan's laws, capital surplus generated from valuation of long-term equity investments is not allowed to be used elsewhere. Other capital surpluses can be used for the purpose of offsetting 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 surplus 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 Act, if any.
3. Appropriate all or part of the retained earnings, with Board of Directors' resolution, in following order-
   (1) Directors' remuneration no more than 3%
   (2) Employee bonus 5% to 15%
   (3) The remaining is appropriated to shareholders.

According to the 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 reaches 50% of paid-in capital, half of the balance can be transferred to capital stocks.

According to the laws, the deducting 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.

If the earnings appropriated belong to years before 1997, shareholders are not entitled to imputation credit. If appropriated earnings belong to years after 1997, except non-residents, other shareholders are entitled to imputation credit at the rate calculated on dividend date.

The appropriations of earnings for 2006 and 2005 had been approved in the shareholders' meetings held on June 14, 2006 and 2005, respectively. The appropriations and dividends per share were as follows:

	Amount	Thousand Shares	% to Outstanding Shares as of Dec. 31, 2005
Employees' profit sharing - in stock	$ 27,367	2,737	2.57
Employees' profit sharing - in cash	6,842		
Bonus to directors and supervisors	5,701		
	$ 39,910		

	Amount	Thousand Shares	% to Outstanding Shares as of Dec. 31, 2004
Employees' profit sharing - in stock	$ 10,000	1,000	0.97
Employees' profit sharing - in cash	2,500		
Bonus to directors and supervisors	1,250		
	$ 13,750		

If the above bonus to employees, directors and supervisors had been paid entirely in cash and charged to earnings of 2005 and 2004, the basic earnings per share (after income tax) for the years ended December 31, 2005 and 2004 shown in the respective financial statements would have decreased from NT$3.50 to NT$3.22 and NT$0.97 to NT$0.88, respectively.

The appropriation for legal capital reserve shall be made until the reserve equals DFI's paid-in capital. The reserve may be used to offset a deficit, or be distributed as dividends and bonuses for the portion in excess of 50% of the paid-in capital if DFI has no unappropriated earnings and the reserve balance has exceeded 50% of DFI's paid-in capital. The Company Law also prescribes that, when the reserve has reached 50% of DFI's paid-in capital, up to 50% of the reserve may be transferred to capital.

As of report date, the Board of Directors had not resolved the appropriation for earnings of 2006. The above information about the appropriations of bonus to employees, directors and supervisors is available at the Market Observation Post System website.

Under the Integrated Income Tax System that became effective on January 1, 1998, R.O.C. resident shareholders are allowed a tax credit for their proportionate share of the income tax paid by DFI on earnings generated since January 1, 1998.

15. TREASURY STOCK

Thousand shares

Reason to Purchase	Shares, Beginning of Year	Addition	Decrease	Shares, End of Year
2006				
Intended to transfer to employees	3,050	-	3,050	-
2005				
Intended to transfer to employees	6,250	-	3,200	3,050
Maintain the interest of shareholders and company credit	-	3,050	3,050	-

According to Security Exchange law, the company can purchase treasury stock up to 10% of outstanding shares. The treasury stocks cannot be pledged, and are not entitled to shareholders' rights before re-issued.

The parent company holds 3,050,000 shares and 9,300,000 shares in 2006 and 2005, with highest amount of NT$47,592 thousand and NT$155,171 thousand, respectively, which conform to the law.

The parent company wrote off 1,450,000 shares and 1,600,000 shares on June 15 and March 14, 2006. The purchase costs of the treasury stocks are NT$22,355 thousand and 25,237 thousand. The purchase costs offset capital stock NT$14,500 thousand and NT$16,000 thousand, decreased capital surplus-additional paid-in capital NT$11,298 thousand and NT$12,468 thousand, and increase capital surplus-treasury stock NT$3,443 thousand and NT$3,231 thousand.

The parent company wrote off 3,050,000 shares and 3,200,000 shares on August 24 and December 13, 2005. The purchase costs totaling NT$107,579 thousand offset capital stock NT$62,500 thousand, decreased capital surplus-additional paid-in capital NT$49,372 thousand, and increase capital surplus-treasury stock NT$4,293 thousand.

16. INCOME TAXES

1) Income tax expense consisted of:

		NT$ 000
	2006	2005
Income tax payable	$ 135,945	$87,295
Deferred income tax	220	(5,829)
Prior period adjustments	3,423	7,442
Isolate taxation	13	-
	$ 139,601	$ 88,908

2) Deferred income taxes consisted of the following:

	2006	2005
Deferred tax assets - current		
Allowance for losses on inventories	$ 10,849	$ 7,739
Unrealized gross profit	4,764	7,575
Bad debt reserve over limit	4,543	4,295
Valuation loss on financial instruments	147	-
Unrealized exchange loss	-	2,364
	20,303	21,973
Deferred liabilities - current		
Unrealized exchange gain	(239)	-
Others	(683)	(785)
	(922)	(785)
Net deferred income tax assets	$ 19,381	$ 21,188
Deferred tax assets-Non-current:		
Net loss carry forward	$ 28,703	$ 268
Pension differences between financial accounting and tax accounting	10,795	9,648
Investment loss under equity method	4,364	836
Other	989	-
	44,851	10,752
Less: Allowance for valuation	(29,692)	(268)
	15,159	10,484
Deferred tax liabilities-Non-current:		

Depreciation differences between financial accounting and tax accounting	(2,074)	(4,445)
Investment income under equity method	(5,198)	(1,175)
	(7,272)	(5,620)
Net deferred income tax assets	$ 7,887	$ 4,864

3) The related information under the Integrated Income Tax System is as follows:

	2006	2005
Year-end balances of imputation credit account (ICA)	$ 55,041	$ 30,122

The imputation creditable ratio for distribution for 2006 and 2005 are 25% and 22.15%, respectively.

The imputation credit allocated to shareholders is based on its balance as of the date of dividend distribution. The estimated creditable ratio may change when the actual distribution of imputation credit is made.

The unappropriated retained earnings that belong to years before 1997 amount to NT$225,070 thousand.

The tax authorities have examined income tax returns of DFI through 2004.

17. PERSONNEL EXPENSES, DEPRECIATION AND AMORTIZATION

NT$ 000

	2006			
	Costs of Sales	Operating Expenses	Non-operating Expenses	Total
Personnel-				
Payroll	$ 99,209	$ 135,266	$ -	$ 234,475
Insurance	6,835	9,903	-	16,738
Pension	5,157	6,619	-	11,776
Others	4,313	4,409	-	8,722
Subtotal	115,514	156,197	-	271,711
Depreciation	49,326	6,178	132	55,636
Amortization	1,366	3,975	-	5,341
Total	$ 166,206	$ 166,350	$ 132	$ 332,688

	2005			
	Costs of Sales	Operating Expenses	Non-operating Expenses	Total
Personnel-				
Payroll	$ 83,546	$ 120,829	$ -	$ 204,375
Insurance	5,900	8,565	-	14,465
Pension	4,500	6,206	-	10,706
Others	3,529	3,916	-	7,445
Subtotal	97,475	139,516	-	236,991
Depreciation	55,526	5,188	264	60,978
Amortization	52	5,036	-	5,088
Total	$ 153,053	$ 149,740	$ 264	$ 303,057

18. EARNINGS PER SHARE

The numerator and denominator to calculate EPS are summarized as below:

	Earnings (Numerator)		Thousand Shares	EPS (NT$)	
	Before Tax	After Tax	(Denominator)	Before Tax	After Tax
2006					
Basic EPS					
Income Before Cumulative effect of accounting changes	$ 689,258	$ 549,657	108,317	$6.36	$5.08
Cumulative effect of accounting changes	623	1,226	108,317	0.01	0.01
Net Income	$ 689,881	$ 550,883	108,317	$6.37	$5.09
2005					
Basic EPS					
Calculated on weighted average shares	$ 468,999	$ 380,091	108,704	$4.31	$3.50

The calculation of EPS has included consideration of retroactive effects on gratuitous shares rendering. 2005 EPS before tax and after tax therefore adjusted to $4.31 and $3.50 from $4.51 and $3.66 after retroactive adjustment.

19. PENSION PLAN

The Labor Pension Act (LPA) has been put into enforcement starting July 1, 2006. Employees hired before June 30, 2006 and still in position on July 1, 2006 can choose to apply pension rules in Labor Standard Law (LSL) or choose to apply LPA and at the same time entitled to the working years under LSL. Employees hired after July 1, 2006 can choose LPA only.

The pension plan drawn under LPA is one of defined contribution pension plans. Starting July 1, 2006, the company contributes 6% of salary to employees' pension accounts in Labor Insurance Bureau. The pension cost for 2nd halves of 2006 and 2005 are NT$6,503 thousand and NT$2,856 thousand, respectively.

The pension plan drawn under LSL is one of defined benefit pension plans. The pension payment is calculated based on the years of service and the 6-month averaged basic pay before retirement. DFI contributes 5% of employee salary to employee retirement fund, monitored by a pension monitoring committee and the contribution is deposited to Central Trust of China.

Certain information concerning pension plan under LSL is disclosed as follows:

1) Pension costs consist of:

NT$ 000

	2006	2005
Service cost	$ 3,172	$ 5,518
Interest cost	2,575	2,806
Expected return on pension assets	(1,022)	(1,091)
Amortization	548	617
Net pension cost	$ 5,273	$ 7,850

2) Funded pension and pension payable:

Benefit obligation:		
Vested benefit obligation	$ 13,123	$7,124
Non-vested benefit obligation	69,404	70,336
Accumulated benefit obligation	82,527	77,460
Additional benefits based on future salaries discrepancy	28,864	25,546
Projected benefit obligation	111,391	103,006
Fair value of plan assets	(42,822)	(39,929)
Funded status	68,569	63,077
Unrecognized net Obligation at transition	(202)	(241)
Un-amortized balance	(21,746)	(19,630)
Accrued pension liability	$ 46,621	$ 43,206

3) Vested benefits	$ 14,803	$ 7,746

4) Actuarial assumptions

Discount rate used to calculate present value	2.75%	2.50%
Future salary increase rate	2.25%	2.00%
Expected rate of return on fund assets	2.75%	2.50%

5) Changes in pension funds

Contributions	$ 1,858	$ 2,491
Payments	-	-

20. RELATED PARTY TRANSACTIONS

1.Names and Relationship between Related Parties

Related Parties	Relationship with DFI
ITOX, LLC. (ITOX)	Investment accounted for using equity method
DFI Technologies, LLC. (DFI-TECH)	The general manager is brother of DFI chairman.
DFI Co., Ltd. (DFI-JAPAN)	Subsidiary

2. Major Transactions with related parties

NT$000

	2006		2005	
	Amount	%	Amount	%
Net Sales				
ITOX	$ 425,934	15	$ 296,420	11
DFI-TECH	178,937	6	243,881	9
DFI-Japan	236,519	8	166,835	6
	$ 841,390	29	$ 707,136	26
Purchase				
DFI-JAPAN	$13,348	1	-	-
DFI-TECH	91	-	340	-
ITOX	-	-	155	-
	$ 13,439	1	$ 495	-
Manufacturing Expenses				
ITOX	$ -	-	$ 113	-

Operating Expenses				
DFI-TECH	$ 600	-	$ 9	-
ITOX	73	-	-	-
DFI-JAPAN	37	-	-	-
	$ 710	-	$ 9	-
Non-operating Income				
DFI-JAPAN	$ 2,171	10	$ 4,299	42
DFI-TECH	1,021	5	3,446	34
ITOX	7	-	15	-
	$ 3,199	15	$ 7,760	76
Non-operating Expenses				
ITOX	$ 11	1	$ -	-
Receivable from Affiliates				
Trade Debtor				
ITOX	$ 79,099	73	$ 63,622	31
DFI-TECH	28,684	27	53,782	26
DFI-JAPAN	-	-	89,891	43
	107,783	100	207,295	100
Other Receivable				
ITOX	108	-	-	-
DFI-TECH	-	-	148	-
DFI-JAPAN	-	-	33	-
	108	-	181	-
	$ 107,891	100	$ 207,476	100
Payable to Affiliates				
Trade Creditor				
DFI-TECH	$ 808	100	$ 1,022	99
Accrued Expense and Other Payable				
DFI-TECH	9	-	9	1
	$ 817	100	$ 1,031	100
Deferred Income				
ITOX	$ 4,339	100	$ 3,309	100

The prices of related party sales are not significantly different from sales to third parties except custom-design motherboards, which need to conform to customers' specifications. Parent company's terms of sales to affiliates are open account 60-90 days, compared to that of non-affiliates which are 30-60 days. Subsidiaries' terms of sales to affiliates are 30 days after receipt of goods, compared to that of third parties, which are 45 days after invoice dates. Purchase payment terms from affiliates are 60 days after receipt of goods while 45 days after invoice dates for third parties.

21. MORTGAGED OR PLEDGED ASSETS

The following assets have been mortgaged or pledged to banks as collaterals of credit facilities, guarantee deposits for foreign labors and L/C facilities:

NT$000

	2006	2005
Time deposits	$ 14,301	$ 8,301
Property, plant and equipment	-	91,051
Assets leased to others	-	39,336
Bond funds	-	6,876
	$ 14,301	$ 145,564

22. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Subsidiaries' significant commitments as of end of 2006 is:
DFI (San Jose) Inc. signed a lease agreement and the rent to pay in 2007 amounts to NT$4,225 thousand.

23. DISCLOSURES FOR FINANCIAL INSTRUMENTS

1) Methods and assumptions used in the determination of fair values of financial instruments

a. The aforementioned financial instruments do not include cash and cash equivalents, receivables, other financial assets, short-term bank loans, payables, and payables to contractors and equipment suppliers. The carrying amounts of these financial instruments approximate their fair values.

b. Fair values of financial assets at fair value through profit or loss, available-for-sale and held-to-maturity financial assets other than derivatives and structured time deposits were based on their quoted market prices.

2) Gains recognized for the changes in fair value of derivatives estimated using valuation techniques were NT$312 thousand and NT$2,364 thousand for the years 2006 and 2005, respectively.

3) As of December 31, 2006 and 2005, the parent company's financial assets exposed to fair value interest rate risk were NT$157,789 thousand and NT$84,606 thousand, respectively.

4) In 2006 and 2005, the parent company's financial instruments not valuated by fair market values and recognized gains/losses through market value changes generate interest incomes of NT$21,676 thousand and NT$7,555 thousand, and bear interest expenses of NT$652 thousand and NT$631 thousand, respectively. The Company recognized an unrealized gain of NT$3,456 thousand in shareholder's equity for the changes in fair value of available-for-sale financial assets for the year ended December 31, 2006.

5) Information about financial risk

a. Market risk. The public-traded stocks categorized as financial assets at fair value through profit or loss are exposed to market risk. The derivative financial instruments categorized as financial assets/liabilities at fair value through profit or loss are mainly used to hedge the exchange rate fluctuations of foreign-currency-denominated assets and liabilities. Therefore, the market risk of derivatives will be offset by the foreign exchange risk of these assets and liabilities.

Available-for-sale financial assets held by the Company are mainly fixed-interest-rate debt securities. Therefore, the fluctuations in market interest rates would result in changes in fair values of these debt securities.

b. Credit risk. Credit risk represents the potential loss that would be incurred by the Company if the counter parties or third parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counter parties or third parties to the foregoing financial instruments are reputable financial institutions, business organizations, and government agencies. Management believes that the Company's exposure to default by those parties is low.

c. Liquidity risk. The Company has sufficient operating capital to meet cash needs upon settlement of derivative financial instruments. Therefore, the liquidity risk is low.

d. Cash flow interest rate risk. The Company mainly engages in investments in fixed-interest-rate debt securities. Therefore, cash flows are not expected to fluctuate significantly due to changes in market interest rates.

24. ADDITIONAL DISCLOSURES

1) The company engages in PC, components and peripheral manufacturing, assembly and sales, belong to single industry.
2) There is no branch office set up in overseas areas.
3) Export net sales separated by geography:

Region	**2006**	**2005**
Asia, Australia and Africa	$1,644,479	$ 1,052,794
Europe	565,023	650,958
America	2,086	63,235

C. Major Customer

	2006		**2005**	
Customer	Sales	%	Sales	%
GES Singapore Pte Ltd.	$795,807	27	$ 410,463	15
ITOX	425,934	14	296,420	11