



DELTA ELECTRONICS, INC.

**2005 | Annual Report**





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## A Letter to Our Shareholders

Dear Shareholders:

Delta Electronics, Inc. experienced an exceptional year in 2005. Not only did we achieve record breaking revenues and earnings while remaining in a dominant position in the power supply industry, we also successfully launched high-demand new products such as solar cells and cold cathode fluorescent lamps (CCFL) into the marketplace. I am pleased to brief you on these achievements.

Delta generated revenues of NT\$ 80.83 billion on a consolidated basis in 2005, an increase of 43% compared to 2004. Gross profit was NT\$ 16.07 billion, a 31% increase from 2004; net operating profit was NT\$ 7.44 billion for a 39% increase; and, net income after tax was NT\$ 7.55 billion for an increase of 13% compared to 2004. EPS for the year 2005 was NT\$ 4.26.

For our power supply business, Delta continued to strengthen its dominant position in the global switching power supply market. We successfully assured our competitive advantage through new product development and a strategic alliance with a major U.S. telecom power service provider to offer customers a full product range and services. In view of potential explosive opportunities in the digital display market, we constantly monitor market trends to guide our development efforts so that Delta is a first mover in meeting customer needs. As for the components business, Delta maintained strong growth while successfully bringing a new product, CCFL, into mass production. Our CCFL was well accepted by the market and has been certified by most major TFT players. Aggressive expansion plans for CCFL were also executed to meet strong demand. Our networking business was another area of excellent performance. Delta Networks, Inc. elevated its revenues and profits through business with several first-tier global networking customers, while improving quality and manufacturing efficiency. In light of its competitiveness and market growth potential, Delta Networks is expected to maintain similar high growth rates over the next few years.

As a global leader in power management, Delta is vigorously pursuing energy efficiency and environmental protection. Besides continuously increasing power conversion efficiency, Delta is taking the lead in developing environmentally-friendly, energy efficient electronics products, such as electronic ballasts, mercury-free displays, AC motor drives, inverters for renewable energies, and fuel cell components.

Furthermore, Delta has established a subsidiary, DelSolar, to focus on the development of solar cells. Although still a start-up, DelSolar has brought together a team of highly experienced professionals who have worked in this field for the previous 10 years. As a result, DelSolar's progress in the past year has exceeded our expectations. For example, DelSolar has already achieved an industry high for conversion efficiency and first-time throughput rate in manufacturing. Given the increasing market demand for solar cells, we believe DelSolar will be an important contributor to Delta's business growth as well as to energy conservation and environmental sustainability.

Delta's commitment to the environment is fully integrated into our product development as well as our daily operations. For instance, we have installed PV arrays and set up energy recycling systems in all of our major manufacturing facilities worldwide to reduce energy consumption. Waste management, material recycling and reuse are also enforced to meet the highest standards. Our "green" factory in Tainan, the first of its kind in Taiwan, was put into operation last year. It not only announces Delta's efforts to achieve a balance between industrial development and the ecosystem, but it also contributes to our recruiting high caliber employees with a similar sense of mission. Delta was the first electronics manufacturer in Taiwan to roll out lead-free soldering for production systems. We believe the adoption of RoHS and WEEE in mid-2006, although challenges remain, will further Delta's competitive advantage on the global stage.

Our committed employees and loyal customers have contributed to Delta's high growth. Named "Supplier of the Year" by both Microsoft and Cisco in 2004, Delta was then recognized by Siemens Communications as Best Supplier in 2005. Aside from long-term partnerships with major customers, Delta considers employees as its most valuable asset and we are investing heavily in all aspects of employee development. In preparation for future demand of large numbers of general managers with international perspectives and capabilities, we not only develop from within but also attract external talent to join Delta. We believe with Delta's reputation, track record, and abundant opportunities in the future, we are a first choice for international talent.

Delta is fully aware of our social responsibility and we are striving to maximize value while striking a balance for our shareholders, employees, and society as a whole. Delta published its first Corporate Social Responsibility Report in 2005 that shares with society our views and actions in fulfilling our social responsibilities. Through this effort, we hope to make a profound and positive impact towards a better society in the future.

With a 20% compound annual growth rate, Delta has increased its revenues and profits by almost five times in the past ten years. I would like to thank the Board of Directors and Supervisors, our shareholders, customers, suppliers and employees for your continued support and contribution to Delta's success. Looking forward, we will continue to do our absolute best to achieve our business goals and bring Delta to the next level of success.

  
Bruce CH Cheng  
Chairman



## Power Management

Delta Group holds the world's number one position in switching power supplies. The company shipped its first switching power supply in 1980, and by 2002 Delta had become the world's largest provider of merchant switching power supplies with market shares of over 50% in the server power market and 35% in the notebook market. Delta's switching power supplies use state-of-the-art circuits and advanced packaging technologies such as ASIC, hybrid circuits, and thin film to achieve high efficiencies and power densities.

As a result of technological advances, Delta has steadily increased the efficiency of power supply products and has introduced products with energy-saving features such as electronic ballasts, AC motor drives, renewable energy inverters, and fuel cell components. The 97.5% efficiency of Delta's photovoltaic inverters, for example, is the highest achieved in its class so far. Delta offers custom design and high volume manufacturing capability of power supplies for PCs, servers, workstations, networking, peripherals and office equipment.

Delta's high power density DC/DC converter product line covers commercial, industrial and military grade applications. Delta also offers high efficiency Voltage Regulator Modules (VRMs) for low voltage microprocessors.

Uninterruptible Power Systems (UPS) provide uninterrupted and reliable protection against power disturbances. Available in Rack-mount, tower and slim types, Delta UPSs include Off-Line, Line-Interactive and On-Line topologies. All units are UL/cUL and/or TUV/CE approved.

Delta is a leading provider of telecom power systems for the telecommunications industry. These systems are widely used in wireless and fixed line environments and are applicable to Network Equipment, xDSL, Broadband Wireless (WLL and LMDS), Cellular/PCS, and Fiber applications.

Delta is one of the world's largest producers of AC/DC adapters, DC/AC inverters and DC/DC converters for portable computer/peripheral, communication and other external power source applications. This product line was the first to comply with lead-free production standards beginning in 2000 and it has been approved for RoHS and certified by major safety agencies.

Delta develops and produces energy-saving electronic ballasts for fluorescent lamps, metal halide lamps and LEDs. Delta is now developing LED backlight drivers for LCD displays with world-class display makers, as well as LED headlights with key automotive lighting manufacturers.



Server / Workstation  
Switching Power Supplies



Energy Recycling Systems



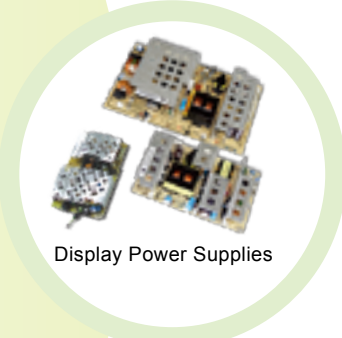
Networking Switching  
Power Supplies



Desktop Switching  
Power Supplies



Telecom Power Systems



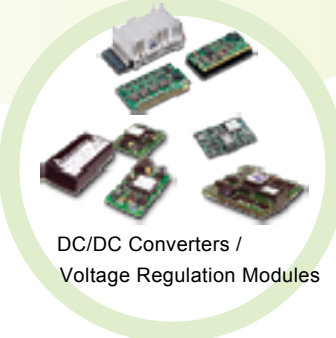
Display Power Supplies



AC/DC Adapters



Uninterruptible Power  
Systems (UPS)



DC/DC Converters /  
Voltage Regulation Modules



Energy-saving Ballasts /  
Ballasts for HID Lamps /  
LED Drivers

## Visual Displays

Delta provides a wide range of visual displays for a variety of applications. For the business presentation market, we supply digital front projectors. For home entertainment, Delta offers TFT-LCD TVs, home cinema projectors, and Digital Light Processing (DLP\*) TVs. For control rooms and public information systems, Delta offers DLP™ rear projection video walls. For auditoriums and exhibition halls, Delta has developed high performance large venue projectors with ultra-high brightness of up to 5,000 lumens. Delta strives to develop visual display technologies that meet people's ever expanding visual needs.

Delta develops and manufactures digital projectors based on DLP™ True Vision™ Image Processing, which produces the highest image quality and allows for the most compact designs. Delta's digital projectors are rich in features for business users. Delta continues to develop new products to meet specific needs for a growing market.

Delta offers LCD televisions in a range of screen sizes. These state-of-the-art LCD televisions feature an integrated digital TV tuner, rich audio and video input and output connections, and dynamic sound quality. A slim and stylish design, small footprint, and wall-mounting capability enhance flexibility and room compatibility. An environmentally-friendly product, Delta's LCD televisions provide low power consumption and are EPA Energy Star compliant.

Delta's DLP™ televisions utilize Texas Instruments' DLP™ technology for outstanding high-definition picture quality and color reproduction. Our DLP™ televisions are currently available in a range of screen sizes, and all have wide-screen 16:9 aspect ratios to enable full-screen viewing of HDTV broadcasts and DVD videos. Compared with other technologies, DLP™ televisions are affordable, energy-saving, and free of harmful radiation.

Delta's high performance projectors are suitable for large venues such as auditoriums or theatres. Delivering ultra-high brightness up to 5,000 lumens, these projectors offer both 4:3 and 16:9 aspect ratios and are compatible with a wide range of video formats including HDTV. Lenses include features such as power zoom, power focus, and vertical keystone correction. Delta's high performance projectors offer excellent image quality and high reliability.

\*DLP is a trademark of Texas Instruments





DLP™ TVs



LCD TVs



DLP™ Rear Projection Video Walls



Large Venue



Home Theater Projectors



Business Projectors

## Components

Delta's global components business covers industries such as IT, home appliances, consumer electronics, telecommunications, and automobile electronics. Many of our components are market leaders in their own categories. Delta's component products are becoming increasingly competitive due to IP-based innovations and continuously improving cost structures.

Delta is a primary source for supplying the world with magnetic components. We offer a wide range of permanent and soft magnetic products and assemblies to markets such as: computers, consumer electronics, telecom and network systems, wireless communications, industrial products, medical, automotive, and more. Delta is a leader in low-profile high-current magnetics for power applications. Our RF components include the world's smallest modules for handheld devices.

Delta is a world-leading provider of cooling fans and devices for microprocessors, PCs, servers and industrial equipment. Our DC brushless fans are low-noise and energy efficient. Delta's energy-saving DC brushless motor products consist of spindle motors, stepping motors, and DLP motors. Applications include CD/DVD/RW-ROM drives, color wheels for projectors, and many more. Delta's thermal management products (coolers) provide thermal solutions for desktops, servers, game boxes, telecom devices, household appliances and VGA cards. Delta's coolers offer quality, reliability, and superior performance for many diverse applications.

Delta fiber optical transceiver modules are traditional bi-directional and PLC-based products for fiber-to-the-home (FTTH) EPON and GPON applications, and feature small form-factor pluggable (SFP) and Gigabit interface converters (GBIC). Applications include Optical Access and Medium Converter, Ethernet Hub/Switching, Fiber Channel, as well as ATM and SDH/SONET.

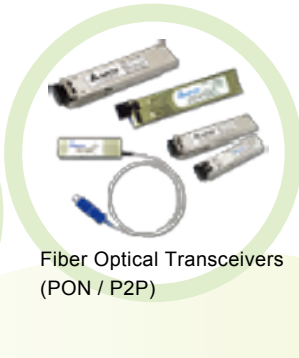
Delta designs, manufactures and markets optical components such as color wheels, light integrators, prisms, UV-IR filters, reflecting mirrors and SP&DB actuators. We offer total solutions for Digital Light Processing (DLP\*) TVs and front projectors including SmoothPicture\* and DynamicBlack\* technology. A leading color wheel supplier, Delta provides total solutions with advantages such as patents and unique processes, key component access, and mass production capabilities.

Delta's cold cathode fluorescent lamps (CCFL) and inverters are used for LCD backlighting and include straight lamps, L-lamps, and U-lamps with different phosphor recipes and electrode combinations. Providing stable color, brightness control, reliability, high efficiency, and long life performance, Delta CCFLs are used in monitors and TVs. Delta's DC/AC inverters are low noise, high frequency tube triggers for LCD backlights of notebooks, sub-notebooks and monitors.

\*DLP, SmoothPicture and DynamicBlack are trademarks of Texas Instruments



DC Brushless Fans



Fiber Optical Transceivers (PON / P2P)



Thermal Management Products



Solenoids & Magnetics



EMI Filters



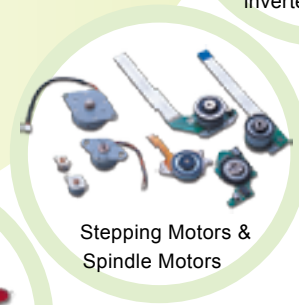
Optical Components & Modules



Flat Fluorescent Lamps (Mercury-free Backlights)



DC/AC Backlight Inverters



Stepping Motors & Spindle Motors



CCFLs for LCD Displays



Networking Components



RF / Microwave Components

## Industrial Automation

Delta's strength in power electronics and control technology has made us a leader in the industrial automation marketplace. The focus of our product line is on drive, motion, and control (DMC) to offer a complete solution for OEMs and end-users. Delta began to design and manufacture variable speed AC motor drives in 1995 and today provides a full range of industrial automation products.

Delta's AC motor drives offer superior microprocessor-based digital control and high frequency pulse width modulation for smooth motor operation. Our wide range of AC motor drive products employs sensorless vector, space-vector PWM and other technologies. All offer high torque and smooth operation with low harmonic distortion. Servo drives and motors provide high-speed and high-precision motion control for a wide range of industrial applications. Delta's new servo drives use optical encoders for superior resolution and robust control technology to maximize performance and minimize setup time. Delta's Servo products deliver complete functionality, excellent performance, and energy-savings.

For industrial processes that require precise heating or cooling, Delta's temperature controllers come in various sizes, and feature auto-tuning. An optional or built-in RS-485 interface allows easy and stable Modbus ASCII and RTU communications among various external devices. Delta's programmable logic controllers (PLC) deliver superior functionality and are available in both nano- and micro-class products. Advantages include built-in commands for ease of programming and reduced maintenance costs, easy-to-operate communication functions, high processing speed, and high reliability. Delta's PLCs are among the most flexible in the industry.

Delta's human machine interface (HMI) products offer fast and convenient control of manufacturing automation through a user-friendly graphical interface, and support many well-known brands. Delta HMIs feature touch screen control, Windows-based editor software, a powerful ARM-based CPU, and flexible user-defined graphics libraries and protocols. Delta's optical incremental encoders include both shaft and hollow shaft models. These compact encoders are rugged and reliable, and offer high resolutions for use in a variety of applications.

Delta's RS-422 / 485 communication modules include an RS-232 isolated converter and a RS-486 / RS-422 isolated repeater. Flexible for use in various applications and easy to install, these modules isolate and maintain proper data transmission, and are equipped with



AC Servo Drives & Motors



Programmable Logic Controllers (PLC)



Human Machine Interfaces (HMI)



AC Motor Drives (AMD)



Temperature Controllers



RS-455 / RS-422 Communication Modules



Optical Incremental Encoders

## Automotive Products

Delta Electronics is a leading design, manufacturing and service/solution (DMS) provider of automotive systems, sub-systems, and components. Our vision is to become a world leader in the vehicle electronics industry and to leverage our superior engineering and service capabilities to satisfy market demand for diverse automotive products. Delta's international experience and its close-knit network of regional sales offices, service centers, and logistical hubs in Europe, North America, and Asia allows us to provide first class service in all major automotive markets.

Delta offers a wide range of BCDT products for automotive applications based on modular design. Our core products include power memory seat electronic control units (ECU) and power window ECUs (Anti-pinch). Other core products under development are exterior lighting (CHMSL, headlamp and turn light) and tire pressure monitoring systems (TPMS). Delta's BCDT products use state-of-the-art modular design technology based on "sensorless" and "MOSFET" control to provide customers with flexibility, high reliability and excellent quality.

Delta specializes in components for many types of automotive applications. Among the vehicle components Delta offers are climate sensor fans, seat cooling blowers, spindle motors for car audio and navigation, audio cooling blowers, and cooling fans for E-Box. Our DC fans/blowers feature innovative designs that greatly increase cooling performance and reduce system noise. For automotive applications Delta offers high power density DC/DC converters that allow parallel operation for easy expansion and maximum reliability.

With over 10 years experience in display technology, Delta offers automotive display products such as high quality rearview displays and headrest displays in a variety of configurations. Our core infotainment products include In-Car Media/DVD Players, In-car Multi-media Entertainment Centers, and Vehicle Data Recorders (VDR). With state-of-the-art design and system integration capabilities, Delta provides the most advanced in-car wired and wireless entertainment products.



Tire Pressure Monitoring Systems (TPMS)



Power Memory Seat Control Units



Infotainment Displays



Rear Window Sunshade Controllers



Engine Control Modules



Vehicle Data Recorders

## Networking

Delta Networks, Inc. (DNI) was established in 1989 as a business unit of Delta Electronics and became an independent company in 1999. DNI has since become one of Taiwan's largest network equipment companies. Principle products made by DNI include enterprise switching equipment, broadband access products, and wireless networking devices. DNI's engineers continue to develop products for the newest technologies, such as MIMO, WiMAX, VDSL, and IPv6 Layer 3 Switches.

DNI produces a range of enterprise switching products including telecom-grade linecards and server switch cards, gigabit & fast Ethernet L2-L3 switches, and chassis switches. Switches are available in a rich variety of configurations and features to meet any and all enterprise switching requirements. DNI's products feature standard and the latest network protocols, stack mounting, rack mounting, friendly configuration interface and support via web or CLI.

DNI offers wireless networking products for both 802.11g and 802.11a/g standards. Products include a USB 2.0 wireless adapter, Cardbus wireless adapters, Mini-PCI wireless adapters, and wireless access points. DNI's wireless products are backward compatible with 802.11b and supports security protocols such as WPA, 802.1x and others.

DNI's broadband access products include broadband routers and ADSL gateways. DSL/Cable routers with 4-port switches are available in both wired and wireless models. ADSL gateways offered range include an upgradeable 1-port ADSL modem as well as a 4-port ADSL II+ gateway router. Cost-effective and versatile, DNI's broadband products are ideally suited for the home or small enterprise office environment.





L2 / L3 Stackable Switches



Chassis Switch Systems



Gigabit Ethernet Solutions



24 Port Server Blades



Managed / Unmanaged Switches with PoE Options



ADSL / VDSL / VoIP Solutions



AP / Wireless Router with PoE Solutions / Broadband Router & FTTH Solutions



WiMAX Subscriber Stations



Wireless Client Adapters / Wireless USB Solutions



Powerline Adapters

## Renewable Energy

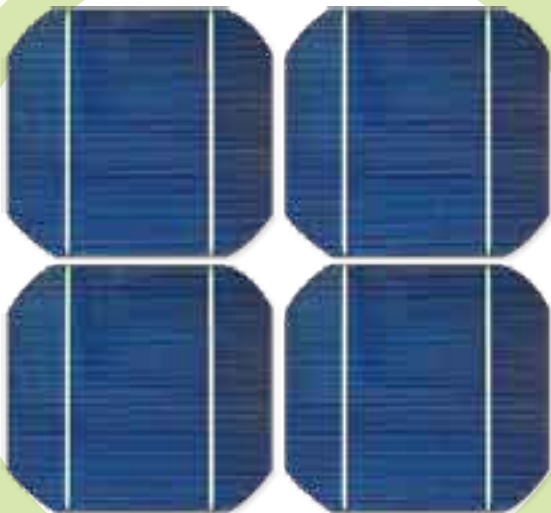
Delta Electronics established DelSolar Co., Ltd. in 2004 to develop solar energy technology and products such as solar cells and photovoltaic (PV) systems. The company has the most advanced and experienced solar cell technology team in Taiwan through strategic cooperation with the Industrial Technology Research Institute (ITRI) and is focused on bringing to market low-cost, high-efficiency solar cells.

DelSolar's major products include 5-inch and 6-inch single crystalline silicon solar cells, and 6-inch poly crystalline silicon solar cells. With certified high capacity production equipment and the automation expertise of Delta Electronics, DelSolar is developing high yield production capabilities. Solar energy is our most abundant renewable energy source, and DelSolar is committed to developing solar energy products to enhance our quality of life.

Delta Electronics is continuously exploring new technologies for the environment. Our R&D is currently developing fuel cells, another promising renewable energy source. Fuel cells use innovative technology that is highly energy efficient, minimally polluting, and provides a multi-use energy source. Like solar energy, fuel cells are a new technology that offers a clean and efficient way of producing energy.



Fuel Cells



Solar Cells



Fuel Cell Inverters



Solar Inverters

## Corporate Governance

Although corporate governance is a widely accepted term today, its precise definition has yet to be determined. To Delta, quality corporate governance is our primary responsibility to ensure the Company is operating in the best and balanced interest of all stakeholders. We believe that stakeholders' rights can be best protected through not only an independent and accountable board but also through timely disclosure of accurate information. As a result, Delta has reconfigured its board composition and separated the roles of Chairman and CEO to enhance the functioning of the board.

In addition, we have initiated the disclosure of consolidated financial information and have institutionalized periodic analyst meetings to ensure information is accurate and delivered to all investors in a timely manner.

### Introduction of Independent Directors and Supervisors

Delta reorganized its board composition in 2003 by introducing two new independent directors, Mr. Lo, Y.C. and Dr. Fred Lee, and one new independent supervisor, Professor Huang, Chung-Hsing. Mr. Lo served on the board of Philips for several years and has extensive experience and insight into international business management. Dr. Lee is president of Delta Power Electronics Center (DPEC) in Shanghai. A widely respected expert in power electronics with extensive knowledge of the power industry, Dr. Lee is also a distinguished professor at Virginia Polytechnic Institute and State University and director of the Center for Power Electronics Systems in the U.S. Professor Huang, now with the College of Management at National Taiwan University, has both industry experience and excellent academic achievements in business and operational management.

Delta's board now consists of nine directors and two supervisors. To enhance responsibility and accountability of the board, board meetings are held at least once every quarter to review business performance as well as address major strategic issues.

### Separation of Chairman and CEO Roles

With the appointment of the new CEO, Yancey Hai, on January 1, 2004, Delta officially separated the role of CEO from the Chairmanship to empower the board with sufficient independence to oversee management on a structural basis. As the tasks of the chairman and the CEO are different and potentially conflicting, we believe by separating these two roles the function of the board is significantly enhanced and the management of the Company is more objectively supervised.



Corporate Governance Award for 2003  
from Asset magazine

### Timely and Transparent Information Disclosure

Besides complying with all reporting requirements ordered by the Taiwan Stock Exchange, Delta is the first and so far the only listed company in Taiwan to publish semi-annual consolidated financial statements to give investors a complete and accurate picture of the Company's operational results. In addition, analyst meetings are held quarterly to discuss business performance and exchange information with institutional investors to ensure accurate information is delivered to all shareholders in a timely manner.

Our efforts in realizing quality corporate governance are widely recognized. Delta was rated as one of the companies having the best corporate governance in the Asia Pacific region by Asset Benchmark Research in December 2003. Going forward, Delta will continue to enhance our practice in corporate governance to sustain our commitment of efficient and transparent operations to all stakeholders.

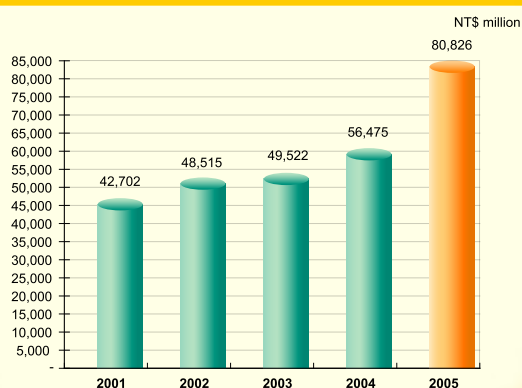


# Consolidated Financial Highlights

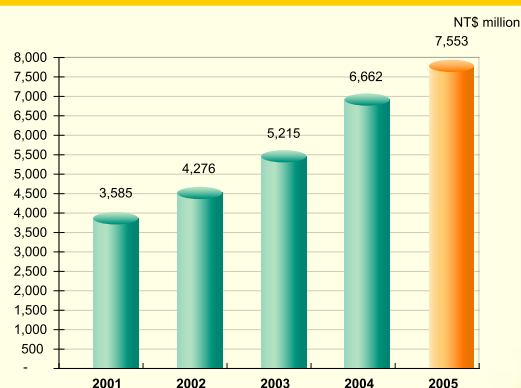
(in NT\$ million, except otherwise indicated)

|                            | 2005   | 2004   |
|----------------------------|--------|--------|
| Net Sales                  | 80,826 | 56,475 |
| Gross profit               | 16,068 | 12,264 |
| Gross margin               | 19.9%  | 21.7%  |
| Operating profit           | 8,356  | 5,346  |
| Operating margin           | 10.3%  | 9.5%   |
| Net income                 | 7,553  | 6,662  |
| Net margin                 | 9.3%   | 11.8%  |
| EPS (NT\$)                 | 4.26   | 3.94   |
| Total assets               | 81,844 | 64,883 |
| Total shareholders' equity | 43,400 | 33,124 |
| ROE                        | 19.7%  | 20.6%  |

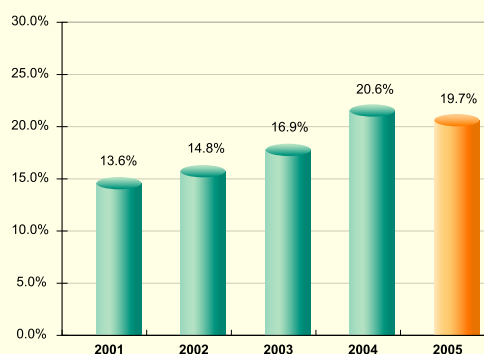
## Revenues



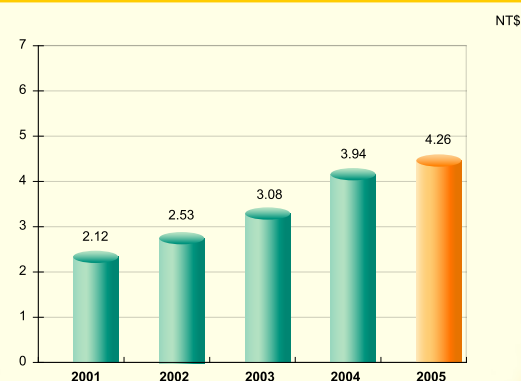
## Net Profits



## Return on Stockholders' Equity



## Earnings Per Share



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**DELTA ELECTRONICS, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS AND**

**REPORT OF INDEPENDENT ACCOUNTANTS**

**DECEMBER 31, 2004 AND 2005**

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The English consolidated financial statements were translated from the consolidated financial statements originally prepared in Chinese language.



(05) D24P.R05000016

**Report of Independent Accountants**

To Delta Electronics, Inc.

We have audited the accompanying consolidated balance sheets of Delta Electronics, Inc. and its subsidiaries as of December 31, 2004 and 2005, and the related consolidated statements of income, of changes in stockholders' equity and of 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. As explained in Note 1(2), we did not audit the financial statements of certain directly and indirectly owned consolidated subsidiaries for the years ended December 31, 2004 and 2005, which statements reflected total assets of \$383,637,000 and \$397,284,000 constituting 0.6% and 0.5%, respectively, of the Company's consolidated total assets as of December 31, 2004 and 2005, respectively, and total operating revenue of \$723,481,000 and \$1,174,009,000 constituting 1.3% and 1.5% of the Company's consolidated operating revenue for the years then ended, respectively. Those statements were audited by other auditors whose reports thereon have been furnished to us. In addition, as explained in Note 4(5), the financial statements of certain investee companies for the years ended December 31, 2004 and 2005, accounted for under the equity method, were audited by other auditors whose reports thereon have been furnished to us. The total amount of long-term investments in these investee companies were \$4,251,481,000 and \$4,381,646,000 constituting 6.6% and 5.35%, respectively, of the Company's consolidated total assets as of December 31, 2004 and 2005, respectively, and the related investment income were \$83,791,000 and \$217,237,000 constituting 1.4% and 2.6%, respectively, of the Company's consolidated income before income tax and minority interest for the years then ended, respectively. Our opinion expressed herein, insofar as it relates to the amounts included in the consolidated financial statements in respect of the above mentioned directly and indirectly owned consolidated subsidiaries and investee companies are based solely on the reports of the other auditors.

We conducted our audits in accordance with the “Rules Governing Examinations of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China. Those standards and rules require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statements presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Delta Electronics, Inc. and its consolidated subsidiaries as of December 31, 2004 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with the "Rules Governing the Preparation of the Financial Statements of Securities Issuers" and generally accepted accounting principles in the Republic of China.

As described in Notes 1 and 3, effective January 1, 2005, the Company adopted the newly amended Statements of Financial Accounting Standards No. 7 “Consolidated Financial Statements”, which require consolidation of all majority owned subsidiaries.

The consolidated financial statements of the Company as of and for the year ended December 31, 2005, expressed in US dollars are presented solely for the convenience of the reader and were translated from the New Taiwan dollars financial statements using the exchange rate of NT\$32.85 to US\$1.00 at December 31, 2005. This basis of translation is not in accordance with generally accepted accounting principles in the Republic of China.

February 14, 2006

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The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such consolidated financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of the independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

**DELTA ELECTRONICS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31,**  
**(EXPRESSED IN THOUSANDS OF DOLLARS)**

|   | New Taiwan Dollars   |                      | %          | US Dollars           |                     |
|---|----------------------|----------------------|------------|----------------------|---------------------|
|   | 2004                 | 2005                 |            | (Unaudited - Note 2) | 2005                |
| <b>ASSETS</b>   |                      |                      |            |                      |                     |
| <b>Current Assets</b>   |                      |                      |            |                      |                     |
| Cash and cash equivalents (Note 4(1))                                   | \$ 17,898,886        | \$ 23,779,563        | 28         | \$                   | 723,883             |
| Short-term investments (Note 4(2))                                      | 2,305,115            | -                    | 4          | -                    | -                   |
| Notes receivable, net   | 80,642               | 172,041              | -          | -                    | 5,237               |
| Accounts receivable (Note 4(3))   | 12,659,075           | 19,589,237           | 19         | -                    | 596,324             |
| Accounts receivable, net - related parties (Note 5)                     | 930,732              | 1,131,164            | 1          | 1                    | 34,434              |
| Other receivables (Note 4(15))  | 385,290              | 761,935              | 1          | 1                    | 23,194              |
| Other receivables - related parties (Note 5)                            | 167,017              | 57,809               | -          | -                    | 1,760               |
| Other financial assets - current (Note 6)                               | 40,883               | 1,361,928            | -          | 2                    | 41,459              |
| Inventories (Note 4(4))   | 4,895,044            | 6,888,311            | 8          | 9                    | 209,690             |
| Prepayments   | 144,532              | 323,836              | -          | 1                    | 9,858               |
| Deferred income tax assets - current (Note 4(15))                       | 22,980               | 309,661              | -          | -                    | 9,427               |
| Other current assets - other  | 153,364              | 63,093               | -          | -                    | 1,921               |
| Total current assets  | <u>39,683,660</u>    | <u>54,438,578</u>    | <u>61</u>  | <u>-</u>             | <u>1,657,187</u>    |
| <b>Funds and Long-term Investments</b>                                  |                      |                      |            |                      |                     |
| Long-term investments accounted for under the equity method (Note 4(5)) | 6,320,956            | 5,272,920            | 10         | 7                    | 160,515             |
| Long-term investments accounted for under the cost method (Note 4(5))   | 2,108,050            | 1,629,991            | 3          | 2                    | 49,619              |
| Cash surrender value of life insurance                                  | 72,431               | 77,699               | -          | -                    | 2,366               |
| Total funds and long-term investments                                   | <u>8,501,437</u>     | <u>6,980,610</u>     | <u>13</u>  | <u>9</u>             | <u>212,500</u>      |
| Other financial assets - non-current (Note 4(6))                        | 5,880,225            | 7,227,000            | 9          | 9                    | 220,000             |
| <b>Property, Plant and Equipment, Net (Note 4(7))</b>                   |                      |                      |            |                      |                     |
| <b>Cost</b>   |                      |                      |            |                      |                     |
| Land  | 1,309,877            | 1,288,490            | 2          | 2                    | 39,223              |
| Buildings   | 5,425,476            | 5,777,152            | 8          | 7                    | 175,865             |
| Machinery and equipment   | 4,793,466            | 6,923,148            | 7          | 9                    | 210,750             |
| Molding equipment   | 1,020,270            | 1,178,400            | 2          | 1                    | 35,872              |
| Computer and communication equipment                                    | 721,401              | 811,450              | 1          | 1                    | 24,702              |
| Testing equipment   | 3,133,920            | 3,921,042            | 5          | 5                    | 119,362             |
| Transportation equipment  | 119,014              | 132,312              | -          | -                    | 4,028               |
| Office equipment  | 1,031,898            | 1,166,608            | 2          | 1                    | 35,513              |
| Leasehold improvements  | 16,026               | 74,158               | -          | -                    | 2,257               |
| Land value appraisal increments   | 168,738              | 168,738              | -          | -                    | 5,137               |
| Cost and revaluation increments   | <u>17,740,086</u>    | <u>21,441,488</u>    | <u>27</u>  | <u>-</u>             | <u>652,709</u>      |
| Less: Accumulated depreciation  | (7,874,569)          | (9,995,872)          | (12)       | (12)                 | (304,288)           |
| Construction in progress and prepayments for equipment                  | 418,263              | 1,098,556            | 1          | 1                    | 33,441              |
| Total property, plant and equipment, net                                | <u>10,283,780</u>    | <u>12,544,182</u>    | <u>16</u>  | <u>15</u>            | <u>381,862</u>      |
| <b>Intangible Assets</b>  |                      |                      |            |                      |                     |
| Deferred pension costs (Note 4(10))                                     | 489                  | 6,261                | -          | -                    | 190                 |
| Other intangible assets - other   | 201,613              | 226,459              | -          | -                    | 6,894               |
| Total intangible assets   | <u>202,102</u>       | <u>232,720</u>       | <u>-</u>   | <u>-</u>             | <u>7,084</u>        |
| <b>Other Assets</b>   |                      |                      |            |                      |                     |
| Refundable deposits   | 40,407               | 43,866               | -          | -                    | 1,335               |
| Deferred expenses   | 291,821              | 313,765              | 1          | -                    | 9,552               |
| Other assets - other  | -                    | 63,149               | -          | -                    | 1,922               |
| Total other assets  | <u>332,228</u>       | <u>420,780</u>       | <u>1</u>   | <u>-</u>             | <u>12,809</u>       |
| <b>TOTAL ASSETS</b>   | <u>\$ 64,883,432</u> | <u>\$ 81,843,870</u> | <u>100</u> | <u>100</u>           | <u>\$ 2,491,442</u> |

The accompanying notes are an integral part of these consolidated financial statements.  
See report of independent accountants dated February 14, 2006.

**DELTA ELECTRONICS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31,**  
**(EXPRESSED IN THOUSANDS OF DOLLARS)**

|   | New Taiwan Dollars |               | US Dollars |                      |
|---|--------------------|---------------|------------|----------------------|
|   | 2004               | 2005          | %          | 2005                 |
|   |                    |               |            | (Unaudited - Note 2) |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                             |                    |               |            |                      |
| <b>Current Liabilities</b>  |                    |               |            |                      |
| Short-term loans (Note 4(8))  | \$ 4,082,358       | \$ 7,891,215  | 10         | \$ 240,220           |
| Notes and bills payable   | 155,000            | -             | -          | -                    |
| Notes payable   | 64                 | 64            | -          | 2                    |
| Accounts payable  | 11,515,606         | 17,330,667    | 21         | 527,570              |
| Accounts payable - related parties (Note 5)                             | 307,400            | 441,256       | -          | 13,433               |
| Income tax payable (Note 4(15))   | 34,202             | 79,525        | -          | 2,421                |
| Accrued expenses  | 1,899,859          | 2,273,584     | 3          | 64,211               |
| Other payables  | 1,359,213          | 2,195,019     | 3          | 66,819               |
| Advance collections   | 375,935            | 484,148       | 1          | 14,738               |
| Long-term liabilities - current portion (Note 4(9))                     | -                  | 440,847       | -          | 13,420               |
| Other current liabilities   | 74,237             | 152,078       | -          | 4,629                |
| Total current liabilities   | 19,803,874         | 31,288,403    | 38         | 952,463              |
| <b>Long-term Liabilities</b>  |                    |               |            |                      |
| Bonds payable (Note 4(9))   | 6,337,929          | -             | -          | -                    |
| Total long-term liabilities   | 6,337,929          | -             | -          | -                    |
| <b>Reserves</b>   |                    |               |            |                      |
| Land value incremental reserve (Note 4(7))                              | 80,945             | 44,836        | -          | 1,365                |
| Total reserves  | 80,945             | 44,836        | -          | 1,365                |
| <b>Other Liabilities</b>  |                    |               |            |                      |
| Accrued pension liabilities (Note 4(10))                                | 772,117            | 953,051       | 1          | 29,012               |
| Guarantee deposits received   | 6,248              | 65,377        | -          | 1,990                |
| Deferred income tax liabilities - non-current (Note 4(15))              | 1,986,770          | 2,175,492     | 3          | 66,225               |
| Other liabilities - other   | -                  | 42,922        | -          | 1,307                |
| Total other liabilities   | 2,765,135          | 3,236,842     | 4          | 98,534               |
| Total liabilities   | 28,987,883         | 34,570,081    | 42         | 1,052,362            |
| <b>Stockholders' Equity</b>   |                    |               |            |                      |
| Common stock (Notes 1, 4(9) and 4(11))                                  | 15,859,720         | 18,303,815    | 22         | 557,194              |
| Capital reserves (Notes 4(9) and 4(12))                                 | 6,577,417          | 11,140,668    | 14         | 339,138              |
| Conversion of convertible bonds   | 275,613            | 311,721       | -          | 9,489                |
| Other   | -                  | -             | -          | -                    |
| Retained earnings   | 3,237,641          | 3,903,811     | 5          | 118,837              |
| Legal reserve (Note 4(13))  | -                  | 447,112       | 1          | 13,611               |
| Special reserve   | -                  | -             | -          | -                    |
| Undistributed earnings (Note 4(14))                                     | 7,620,513          | 8,895,809     | 11         | 270,801              |
| Other adjustments to stockholders' equity                               | -                  | -             | -          | -                    |
| Unrealized loss on market value decline of long-term equity investments | (2,967)            | (3,252)       | -          | (99)                 |
| Cumulative translation adjustments                                      | (444,144)          | 399,867       | -          | 12,172               |
| Minority interest   | 33,123,793         | 43,399,551    | 53         | 1,321,143            |
| Total stockholders' equity  | 2,771,756          | 3,874,238     | 5          | 117,937              |
| Commitments and contingent liabilities (Notes 5, 7 and 10(3))           | 35,895,549         | 47,273,789    | 58         | 1,439,080            |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>                       | \$ 64,883,432      | \$ 81,843,870 | 100        | \$ 2,491,442         |

The accompanying notes are an integral part of these consolidated financial statements.  
 See report of independent accountants dated February 14, 2006.

**DELTA ELECTRONICS, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**YEARS ENDED DECEMBER 31,**

(EXPRESSED IN THOUSANDS OF DOLLARS, EXCEPT EARNINGS PER SHARE DATA)

|  | New Taiwan Dollars       |           | US Dollars               |           |
|--|--------------------------|-----------|--------------------------|-----------|
|  | 2004                     | %         | 2005                     | %         |
| Operating Revenues (Note 5)  |                          |           |                          |           |
| Sales revenue  | \$ 56,475,856            | 100       | \$ 81,120,153            | 100       |
| Sales discounts  | (352,128)                | (1)       | (526,624)                | (1)       |
| Net Sales  | \$ 55,933,237            | 99        | \$ 80,414,216            | 99        |
| Services income  | 541,749                  | 1         | 411,304                  | 1         |
| Net Operating Revenues   | \$ 56,474,986            | 100       | \$ 80,825,520            | 100       |
| Net Operating costs (Notes 4 (17) and 5)                               | (44,211,328)             | (78)      | (64,757,079)             | (80)      |
| Cost of goods sold   | (12,263,658)             | (22)      | (16,068,441)             | (20)      |
| Gross profit   | 815                      | —         | 11                       | —         |
| Unrealized gain from intercompany transactions                         | —                        | —         | —                        | —         |
| Realized gain (loss) from intercompany transactions                    | 12,264,484               | 22        | (16,068,430)             | (20)      |
| Gross profit, net  | —                        | —         | —                        | —         |
| Operating Expenses (Note 4(17))  |                          |           |                          |           |
| Sales and marketing expenses   | (2,104,063)              | (4)       | (2,735,229)              | (3)       |
| General and administrative expenses                                    | (1,592,438)              | (3)       | (2,048,375)              | (3)       |
| Research and development expenses                                      | (3,221,720)              | (5)       | (3,844,519)              | (5)       |
| Total Operating Expenses   | (6,918,221)              | (12)      | (8,628,123)              | (11)      |
| Operating income   | 5,346,263                | 10        | 7,440,307                | 9         |
| Non-operating Income and Gains   |                          |           |                          |           |
| Interest income  | 380,354                  | 1         | 530,184                  | 1         |
| Investment income accounted for under the equity method (Note 4(5))    | —                        | —         | 152,691                  | —         |
| Dividend income  | 52,395                   | —         | 60,471                   | —         |
| Gain on disposal of investments  | 900,652                  | —         | 342,299                  | —         |
| Foreign exchange gain, net   | 334,696                  | 1         | 78,236                   | —         |
| Other non-operating income   | 1,124,467                | 2         | 881,000                  | 1         |
| Non-operating Income and Gains   | 2,092,564                | 4         | 2,044,901                | 3         |
| Non-operating Expenses and Losses                                      |                          |           |                          |           |
| Interest expense   | (126,099)                | —         | (276,012)                | —         |
| Investment loss accounted for under the equity method (Note 4(5))      | (74,177)                 | —         | —                        | —         |
| Other investment loss (Note 4(5))                                      | (66,126)                 | —         | (328,211)                | (1)       |
| Loss on disposal of property, plant and equipment                      | (27,401)                 | —         | (14,304)                 | —         |
| Loss on physical count of inventories                                  | (1,570)                  | —         | —                        | —         |
| Provision for loss on inventory obsolescence and market price declines | (398,051)                | (1)       | (74,978)                 | —         |
| Other non-operating losses   | (343,154)                | (1)       | (435,241)                | (1)       |
| Non-operating Expenses and Losses                                      | (1,036,578)              | (2)       | (1,128,746)              | (2)       |
| Income before income tax   | 6,402,249                | 12        | 8,356,462                | 10        |
| Income tax (expense) benefit (Note 4(15))                              | (635,400)                | (1)       | (148,863)                | —         |
| Net income   | \$ 7,037,649             | 13        | \$ 8,207,599             | 10        |
| Attributable to:   |                          |           |                          |           |
| Shareholders of the Parent   | \$ 6,661,698             | 12        | \$ 7,552,940             | 9         |
| Minority interest  | 375,951                  | 1         | 654,659                  | 1         |
|  | \$ 7,037,649             | 13        | \$ 8,207,599             | 10        |
|  | Income before income tax |           | Income before income tax |           |
|  | Net income               |           | Net income               |           |
|  | \$ 3.56                  | \$ 3.94   | \$ 4.35                  | \$ 4.26   |
| Earnings Per Share (In Dollars) (Note 4(16))                           |                          |           |                          |           |
| Basic Earnings Per Share   | 0.22                     | 0.22      | 0.37                     | 0.37      |
| Equity holder of the Company   | —                        | —         | —                        | —         |
| Minority interest  | \$ 3.78                  | \$ 4.16   | \$ 4.72                  | \$ 4.63   |
| Net income   |                          |           |                          |           |
| Diluted earnings per share   | \$ 3.28                  | \$ 3.62   | \$ 4.32                  | \$ 4.24   |
| Equity holder of the Company   | 0.20                     | 0.20      | 0.37                     | 0.37      |
| Minority interest  | \$ 3.48                  | \$ 3.82   | \$ 4.69                  | \$ 4.61   |
| Net income   |                          |           |                          |           |
|  | Income before income tax |           | Income before income tax |           |
|  | Net income               |           | Net income               |           |
|  | \$ 0.1297                | \$ 0.1324 | \$ 0.1324                | \$ 0.1297 |
|  | 0.0112                   | 0.0113    | 0.0113                   | 0.0112    |
|  | \$ 0.1403                | \$ 0.1437 | \$ 0.1437                | \$ 0.1403 |
|  |                          |           |                          |           |
|  | Income before income tax |           | Income before income tax |           |
|  | Net income               |           | Net income               |           |
|  | \$ 0.1291                | \$ 0.1315 | \$ 0.1315                | \$ 0.1291 |
|  | 0.0112                   | 0.0113    | 0.0113                   | 0.0112    |
|  | \$ 0.1403                | \$ 0.1428 | \$ 0.1428                | \$ 0.1403 |

The accompanying notes are an integral part of these consolidated financial statements.  
See report of independent accountants dated February 14, 2006.

**DELTA ELECTRONICS, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**(EXPRESSED IN THOUSANDS OF DOLLARS)**

|   | Retained earnings    |                      |                     |                   |                        |   |                                   | Minority interest   | Total                |
|---|----------------------|----------------------|---------------------|-------------------|------------------------|---|-----------------------------------|---------------------|----------------------|
|   | Common stock         | Capital reserves     | Legal reserve       | Special reserve   | Undistributed earnings | Unrealized loss on market value decline of long-term equity investments | Cumulative translation adjustment |                     |                      |
| <b>2004 New Taiwan Dollars</b>  |                      |                      |                     |                   |                        |   |                                   |                     |                      |
| Balance at January 1, 2004  | \$ 14,802,730        | \$ 6,836,540         | \$ 2,716,104        | \$ -              | \$ 5,942,366           | (\$ 2,690)  | \$ 1,386,452                      | \$ 3,328,097        | \$ 35,009,599        |
| Distribution of 2003 earnings:  |                      |                      |                     |                   |                        |   |                                   |                     |                      |
| Appropriation of legal reserve  | -                    | -                    | 521,537             | -                 | ( 521,537)             | -   | -                                 | -                   | -                    |
| Directors' and supervisors' remuneration  | -                    | -                    | -                   | -                 | ( 13,000)              | -   | -                                 | -                   | ( 13,000)            |
| Employees' bonus  | 312,734              | -                    | -                   | -                 | 312,734                | -   | -                                 | -                   | -                    |
| Issuance of stock dividends   | 740,136              | -                    | -                   | -                 | 740,136                | -   | -                                 | -                   | -                    |
| Cash dividends  | -                    | -                    | -                   | -                 | ( 3,330,613)           | -   | -                                 | -                   | ( 3,330,613)         |
| Convertible bonds converted into common stock   | 4,120                | 16,490               | -                   | -                 | -                      | -   | -                                 | -                   | 20,610               |
| Adjustments due to change in long-term investment ownership percentage                    | -                    | -                    | -                   | -                 | ( 65,531)              | -   | -                                 | -                   | ( 65,531)            |
| Adjustment on investees' unrealized loss on market value decline of long-term investments | -                    | -                    | -                   | -                 | -                      | ( 277)  | -                                 | -                   | ( 277)               |
| Cumulative translation adjustment   | -                    | -                    | -                   | -                 | -                      | -   | ( 1,830,596)                      | -                   | ( 1,830,596)         |
| Net income for the year   | -                    | -                    | -                   | -                 | 6,661,698              | -   | -                                 | 375,951             | 7,037,649            |
| Changes in minority interest  | -                    | -                    | -                   | -                 | -                      | -   | -                                 | ( 932,292)          | ( 932,292)           |
| Balance at December 31, 2004  | <u>\$ 15,859,720</u> | <u>\$ 6,853,030</u>  | <u>\$ 3,237,641</u> | <u>\$ -</u>       | <u>\$ 7,620,513</u>    | <u>(\$ 2,967)</u>   | <u>(\$ 444,144)</u>               | <u>\$ 2,771,756</u> | <u>\$ 35,895,549</u> |
| <b>2005 New Taiwan Dollars</b>  |                      |                      |                     |                   |                        |   |                                   |                     |                      |
| Balance at January 1, 2005  | \$ 15,859,720        | \$ 6,853,030         | \$ 3,237,641        | \$ -              | \$ 7,620,513           | (\$ 2,967)  | (\$ 444,144)                      | \$ 2,771,756        | \$ 35,895,549        |
| Distribution of 2004 earnings:  |                      |                      |                     |                   |                        |   |                                   |                     |                      |
| Appropriation of legal reserve  | -                    | -                    | 666,170             | -                 | ( 666,170)             | -   | -                                 | -                   | -                    |
| Directors' and supervisors' remuneration  | -                    | -                    | -                   | 447,112           | ( 447,112)             | -   | -                                 | -                   | -                    |
| Employees' bonus  | 320,775              | -                    | -                   | -                 | 320,775                | -   | -                                 | -                   | ( 16,700)            |
| Issuance of stock dividends   | 803,693              | -                    | -                   | -                 | 803,693                | -   | -                                 | -                   | -                    |
| Cash dividends  | -                    | -                    | -                   | -                 | ( 4,018,467)           | -   | -                                 | -                   | ( 4,018,467)         |
| Convertible bonds converted into common stock   | 1,319,627            | 4,563,251            | -                   | -                 | -                      | -   | -                                 | -                   | 5,882,878            |
| Adjustments due to change in long-term investment ownership percentage                    | -                    | -                    | -                   | -                 | ( 4,727)               | -   | -                                 | -                   | ( 4,727)             |
| Adjustment on investees' unrealized loss on market value decline of long-term investments | -                    | -                    | -                   | -                 | -                      | ( 285)  | -                                 | -                   | ( 285)               |
| Cumulative translation adjustment   | -                    | -                    | -                   | -                 | -                      | -   | 844,011                           | -                   | 844,011              |
| Adjustment of reserve for land value incremental tax                                      | -                    | 36,108               | -                   | -                 | -                      | -   | -                                 | 654,659             | 36,108               |
| Net income for the year   | -                    | -                    | -                   | -                 | 7,552,940              | -   | -                                 | 447,823             | 8,207,599            |
| Changes in minority interest  | -                    | -                    | -                   | -                 | -                      | -   | -                                 | ( 447,823)          | ( 447,823)           |
| Balance at December 31, 2005  | <u>\$ 18,303,815</u> | <u>\$ 11,452,389</u> | <u>\$ 3,903,811</u> | <u>\$ 447,112</u> | <u>\$ 8,895,809</u>    | <u>(\$ 3,252)</u>   | <u>\$ 399,867</u>                 | <u>\$ 3,874,238</u> | <u>\$ 47,273,789</u> |

The accompanying notes are an integral part of these consolidated financial statements.  
 See report of independent accountants dated February 14, 2006.

**DELTA ELECTRONICS, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**(EXPRESSED IN THOUSANDS OF DOLLARS)**

|   | Retained earnings |                 |               |                 |                        |  | Minority interest | Total        |
|---|-------------------|-----------------|---------------|-----------------|------------------------|--|-------------------|--------------|
|   | Common stock      | Capital reserve | Legal reserve | Special reserve | Undistributed earnings | Unrealized loss on market value decline of equity long-term investment |                   |              |
| 2005 US Dollars (Unaudited-Note 2)  |                   |                 |               |                 |                        |  |                   |              |
| Balance at January 1, 2005  | \$ 482,792        | \$ 208,616      | \$ 98,558     | \$ -            | \$ 231,980             | (\$ 90)  | \$ 84,376         | \$ 1,092,711 |
| Distribution of 2004 earnings:  |                   |                 |               |                 |                        |  |                   |              |
| Appropriation of legal reserve  | -                 | -               | 20,279        | -               | (20,279)               | -  | -                 | -            |
| Appropriation of special reserve  | -                 | -               | -             | 13,611          | (13,611)               | -  | -                 | -            |
| Directors' and supervisors' remuneration  | -                 | -               | -             | -               | (508)                  | -  | -                 | (508)        |
| Employees' bonus  | 9,765             | -               | -             | -               | (9,765)                | -  | -                 | -            |
| Issuance of stock dividends   | 24,466            | -               | -             | -               | (24,466)               | -  | -                 | -            |
| Cash dividends  | -                 | -               | -             | -               | (122,328)              | -  | -                 | (122,328)    |
| Convertible bonds converted into common stock   | 40,171            | 138,912         | -             | -               | -                      | -  | -                 | 179,083      |
| Adjustments due to change in long-term investment ownership percentage                    | -                 | -               | -             | -               | (144)                  | -  | -                 | (144)        |
| Adjustment on investees' unrealized loss on market value decline of long-term investments | -                 | -               | -             | -               | -                      | (9)  | -                 | (9)          |
| Cumulative translation adjustment   | -                 | -               | -             | -               | -                      | -  | 25,693            | 25,693       |
| Adjustment of reserve for land value incremental tax                                      | -                 | 1,099           | -             | -               | -                      | -  | -                 | 1,099        |
| Net income for the year   | -                 | -               | -             | -               | 229,922                | -  | 19,929            | 249,851      |
| Changes in minority interest  | -                 | -               | -             | -               | -                      | -  | 13,632            | 13,632       |
| Balance at December 31, 2005  | \$ 557,194        | \$ 348,627      | \$ 118,837    | \$ 13,611       | \$ 270,801             | (\$ 99)  | \$ 117,937        | \$ 1,439,080 |

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

See report of independent accountants dated February 14, 2006.



**DELTA ELECTRONICS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31,**  
**(EXPRESSED IN THOUSANDS OF DOLLARS)**

|  | <u>New Taiwan Dollars</u> |                  | <u>US Dollars</u>    |
|--|---------------------------|------------------|----------------------|
|  | <u>2004</u>               | <u>2005</u>      | <u>2005</u>          |
| <u>Cash flows from operating activities</u>  |                           |                  | (Unaudited - Note 2) |
| Net income attributable to shareholders of the Parent                                  | \$ 6,661,698              | \$ 7,552,940     | \$ 229,922           |
| Adjustments to reconcile net income to net cash provided by operating activities:      |                           |                  |                      |
| Net income attributable to minority interest   | 375,951                   | 654,659          | 19,929               |
| (Reversion of) allowance for doubtful account  | 2,975                     | ( 21,787)        | ( 663)               |
| Depreciation and amortization  | 2,111,988                 | 2,598,361        | 79,098               |
| Cash dividends from investees accounted for under the equity method                    | 224,114                   | 204,026          | 6,211                |
| Investment income or loss recognized under equity method, net of other investment loss | 140,303                   | 175,520          | 5,343                |
| Gain on disposal of long-term investments  | ( 112,533)                | ( 329,006)       | ( 10,016)            |
| Loss on disposal of property, plant and equipment, net                                 | 27,401                    | 14,304           | 436                  |
| Provision for inventory  | 398,051                   | 74,978           | 2,283                |
| Exchange gain on revaluation of foreign currency denominated convertible bonds         | ( 436,461)                | ( 14,204)        | ( 432)               |
| Changes in assets and liabilities:   |                           |                  |                      |
| (Increase) decrease in :   |                           |                  |                      |
| Notes and accounts receivable, net   | ( 3,271,373)              | ( 7,002,926)     | ( 213,179)           |
| Accounts receivable - related parties  | 55,998                    | ( 200,432)       | ( 6,102)             |
| Other receivables  | 419,193                   | ( 376,645)       | ( 11,466)            |
| Other receivables - related parties  | ( 3,825)                  | 109,208          | 3,324                |
| Inventories  | ( 1,086,901)              | ( 2,048,764)     | ( 62,367)            |
| Prepayments  | 342,724                   | ( 179,304)       | ( 5,458)             |
| Other current assets - other   | ( 85,244)                 | 90,271           | 2,748                |
| Deferred pension costs   | ( 489)                    | ( 5,772)         | ( 176)               |
| Increase (decrease) in :   |                           |                  |                      |
| Notes and accounts payable   | 2,574,685                 | 5,815,061        | 177,019              |
| Accounts payable - related parties   | ( 130,852)                | 133,856          | 4,075                |
| Income tax payable   | 11,455                    | 45,323           | 1,379                |
| Accrued expenses, other payables and received in advance                               | 652,347                   | 1,317,744        | 40,114               |
| Other current liabilities  | ( 225,391)                | 77,841           | 2,369                |
| Deferred income tax  | ( 698,621)                | ( 97,959)        | ( 2,982)             |
| Accrued pension liabilities  | 98,319                    | 180,934          | 5,508                |
| Other liabilities - others   | ( 817)                    | 42,922           | 1,307                |
| Net cash provided by operating activities  | <u>8,044,695</u>          | <u>8,811,149</u> | <u>268,224</u>       |

(Continued)

**DELTA ELECTRONICS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31,**  
**(EXPRESSED IN THOUSANDS OF DOLLARS)**

|   | <u>New Taiwan Dollars</u> |               | <u>US Dollars</u>    |
|---|---------------------------|---------------|----------------------|
|   | <u>2004</u>               | <u>2005</u>   | <u>2005</u>          |
| <u>Cash flows from investing activities</u>   |                           |               | (Unaudited - Note 2) |
| Decrease in short-term investments, net   | \$ 2,500,228              | \$ 2,385,979  | \$ 72,632            |
| Increase in other financial assets, net of current and non-current                                | ( 5,705,305)              | ( 2,667,720)  | ( 81,209)            |
| Increase in long-term investments   | ( 1,235,276)              | ( 267,400)    | ( 8,140)             |
| Increase in cash surrender value of life insurance  | ( 3,396)                  | ( 5,268)      | ( 160)               |
| Net cash received from the acquisition of subsidiary  | 145,375                   | -             | -                    |
| Proceeds from the disposal of long-term investments   | 161,961                   | 821,710       | 25,014               |
| Acquisition of property, plant and equipment and deferred expenses                                | ( 2,266,800)              | ( 4,729,828)  | ( 143,983)           |
| Increase in other intangible assets   | -                         | ( 1,000)      | ( 31)                |
| Proceeds from disposal of property, plant and equipment   | 62,864                    | 46,417        | 1,413                |
| Increase in refundable deposits, net  | ( 8,398)                  | ( 3,459)      | ( 105)               |
| Increase in other assets - other  | -                         | ( 63,149)     | ( 1,922)             |
| Net cash used in investing activities   | ( 6,348,747)              | ( 4,483,718)  | ( 136,491)           |
| <u>Cash flows from financing activities</u>   |                           |               |                      |
| Increase in short-term loans, net   | 251,636                   | 3,808,857     | 115,947              |
| Decrease in long-term liabilities - current portion   | ( 31,791)                 | -             | -                    |
| Decrease in notes and bills payable   | ( 1,593,148)              | ( 155,000)    | ( 4,718)             |
| Increase (decrease) in guarantee deposits received  | ( 7,355)                  | 59,129        | 1,800                |
| Increase (decrease) in minority interest  | ( 1,122,457)              | 447,823       | 13,632               |
| Payment of directors' and supervisors' remuneration   | ( 13,000)                 | ( 16,700)     | ( 508)               |
| Payment of cash dividends   | ( 3,330,613)              | ( 4,018,467)  | ( 122,328)           |
| Net cash provided (used in) by financing activities   | ( 5,846,728)              | 125,642       | 3,825                |
| Foreign exchange difference   | ( 1,308,586)              | 344,545       | 10,488               |
| Effect on changes of consolidated subsidiaries  | -                         | 1,083,059     | 32,970               |
| Increase (decrease) in cash and cash equivalents  | ( 5,459,366)              | 5,880,677     | 179,016              |
| Cash and cash equivalents at beginning of the year  | 23,358,252                | 17,898,886    | 544,867              |
| Cash and cash equivalents at end of the year  | \$ 17,898,886             | \$ 23,779,563 | \$ 723,883           |
| <u>Supplemental disclosures of cash flow information</u>  |                           |               |                      |
| Cash paid during the year for:  |                           |               |                      |
| Interest  | \$ 109,358                | \$ 168,613    | \$ 5,133             |
| Income taxes  | \$ 48,411                 | \$ 208,339    | \$ 6,342             |
| <u>Non-cash flows from investing and financing activities:</u>                                    |                           |               |                      |
| Employees' stock bonus  | \$ 312,734                | \$ 320,775    | \$ 9,765             |
| Convertible bonds (par value) converted into common stock   | \$ 20,610                 | \$ 5,882,878  | \$ 179,083           |
| <u>The fair market value of assets and liabilities of the acquired subsidiary was as follows:</u> |                           |               |                      |
| Cash and cash equivalents   | \$ 288,408                | -             | -                    |
| Accounts receivable   | 73,487                    | -             | -                    |
| Inventories   | 267,339                   | -             | -                    |
| Other current assets  | 6,706                     | -             | -                    |
| Property, plant and equipment   | 165,564                   | -             | -                    |
| Other assets  | 1,232                     | -             | -                    |
| Short-term loans  | ( 79,463)                 | -             | -                    |
| Accounts payable  | ( 192,539)                | -             | -                    |
| Accrued expenses  | ( 16,151)                 | -             | -                    |
| Other current liabilities   | ( 3,792)                  | -             | -                    |
| Minority interest   | ( 190,166)                | -             | -                    |
| Less: Long-term investments in the subsidiary before the acquisition                              | ( 177,592)                | -             | -                    |
|   | \$ 143,033                | \$ -          | \$ -                 |
| Cash and cash equivalents of the acquired subsidiary  | \$ 288,408                | \$ -          | \$ -                 |
| Less: Acquisition price   | ( 143,033)                | -             | -                    |
| Net cash received from the acquisition of subsidiary  | \$ 145,375                | \$ -          | \$ -                 |

The accompanying notes are an integral part of these consolidated financial statements.  
See report of independent accountants dated February 14, 2006.

**DELTA ELECTRONICS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2004 AND 2005****(EXPRESSED IN THOUSANDS OF DOLLARS, EXCEPT AS INDICATED)****1. HISTORY AND ORGANIZATION**

## 1) Delta Electronics, Inc.

The Company was incorporated in April 1971 under the provisions of the Company Law of the Republic of China (R.O.C.) as a company limited by shares. The authorized capital of the Company amounted to \$20,000,000 and the issued and outstanding capital was \$18,303,815 as of December 31, 2005. The main activities of the Company are installation of electronic control systems and manufacturing of communication products and components, computer information system and power supply. The Company had approximately 4,450 employees as of December 31, 2005.

## 2) Consolidated subsidiaries

| <u>Name of company</u>  | <u>Relationship</u> | <u>Main activities</u>                         | <u>% of shares held as of December 31,</u> |             |
|---|---------------------|--|--|-------------|
|   |                     |  | <u>2004</u>                                | <u>2005</u> |
| 1. Delta International Holding Ltd. (DIH)                       | Note A              | Equity investments                             | 94.00%                                     | 94.00%      |
| (1) Delta Electronics (H.K) Ltd. (DHK)                          | Note B              | Operations management and engineering services | 94.00%                                     | 94.00%      |
| (2) Delta Electronics Agent Ltd. (DAL)                          | Note B              | Operations management and engineering services | 94.00%                                     | 94.00%      |
| (3) Delta Electronics International Ltd. (DEIL)                 | Note B              | Sales of electronic products                   | 94.00%                                     | 94.00%      |
| (4) Delta Electronics International Ltd. (Labuan) (DEIL-Labuan) | Note B              | Sales of electronic products                   | -  | 94.00%      |
| (5) Delta Electronics Trading Ltd. (DTL)                        | Note B              | Sales of electronic products                   | 94.00%                                     | 94.00%      |
| (6) Delta Power Sharp Ltd. (DPS)                                | Note B              | Operations management and engineering services | 94.00%                                     | 94.00%      |

| Name of company  | Relationship | Main activities  | % of shares held as of December 31, |        |
|--|--------------|--|-------------------------------------|--------|
|  |              |  | 2004                                | 2005   |
| (7) DEI Logistics (USA) Corp. (ALI)                          | Note B       | Warehousing and logistics services                             | 94.00%                              | 94.00% |
| (8) Delta Electronics (Dong Guan) Co., Ltd. (DDG)            | Note B       | Manufacturing of power supplies                                | 94.00%                              | 94.00% |
| (9) Delta Electronics Components (Dong Guan) Co., Ltd. (DEC) | Note B       | Manufacturing of transformers                                  | 94.00%                              | 94.00% |
| (10) Delta Electronics Power (Dong Guan) Co., Ltd. (DEP)     | Note B       | Manufacturing of power supplies                                | 94.00%                              | 94.00% |
| (11) Delta Electronics (Shanghai) Co., Ltd. (DPEC)           | Note B       | Product design   | 94.00%                              | 94.00% |
| (12) Delta Electronics (Jiang Su) Co., Ltd. (DWJ)            | Note B       | Manufacturing of power supplies                                | 51.70%                              | 51.70% |
| (13) Delta Electronics Components (Wu Jiang) Co., Ltd. (DWC) | Note B       | Manufacturing of transformers                                  | 51.70%                              | 51.70% |
| (14) Delta Electro-optics (Wu Jiang) Ltd. (DWO)              | Note B       | Manufacturing of peripherals and electronic control equipments | 51.70%                              | 51.70% |
| (15) Delta Video Display System (Wu Jiang) Co., Ltd. (DWV)   | Note B       | Manufacturing of monitors                                      | 51.70%                              | 51.70% |
| (16) Delta Electronics (Japan) Inc. (DEJ)                    | Note B       | Sales of electronic products                                   | 94.00%                              | 94.00% |
| A. Addtron Technology (Japan) Co., Ltd. (AT Japan)           | Note C       | Trading of networking system and peripherals                   | 94.00%                              | 94.00% |
| B. Delta Electronics (Korea) Inc. (Delta Korea)              | Note C       | Sales of electronic products                                   | 94.00%                              | 94.00% |
| (17) DAC Holding Ltd. (DAC)                                  | Note B       | Equity investments   | 55.78%                              | 55.78% |

| <u>Name of company</u>                                      | <u>Relationship</u> | <u>Main activities</u>   | <u>% of shares held as of December 31,</u> |                     |
|---|---------------------|--|--|---------------------|
|   |                     |  | <u>2004</u>                                | <u>2005</u>         |
| A. Delta Electronics Mexico S.A. DE C.V. (DEM)              | Note D              | Manufacturing of electronic products   | 55.78%                                     | 55.78%              |
| B. Delta Video Technology Ltd. (DVT)                        | Note D              | Sales of electronic products   | 55.78%                                     | 55.78%              |
| 2. Delta Networks Holding Ltd. (DNH)                        | Note A              | Equity investments   | 100.00%                                    | 100.00%             |
| (1) Delta Networks Inc. (DNI Cayman)                        | Note E              | Equity investments   | 94.00%                                     | 94.00%              |
| A. Delta Electronics Industrial (Dong Guan) Co., Ltd. (DII) | Note F              | Manufacturing of electronic ballast for energy saving lighting and interface cards | 94.00%                                     | 94.00%              |
| B. Delta Networks, Inc. (DNIT) (registered in Taiwan)       | Note F              | Manufacturing of networking system and peripherals.                                | 93.25%                                     | 93.25%              |
| C. Delta Networks International Ltd. (DNIL)                 | Note F              | Trading of networking system and peripherals                                       | 94.00%                                     | 94.00%              |
| D. DNI Logistics (USA) Corp. (ALN)                          | Note F              | Warehousing and logistics services   | 94.00%                                     | 94.00%              |
| E. Delta Networks International Ltd. (Labuan) (DNIL-Labuan) | Note F              | Trading of networking system and peripherals                                       | –  | 94.00%              |
| 3. Pyramis corporation (Pyramis) (registered in Taiwan)     | Note A              | Design and sales of electronic products  | 99.24%                                     | 99.24%              |
| Pyramis Holding Ltd. (Pyramis Holding)                      | Note G              | Equity investments   | 99.24%                                     | 99.24%              |
| Pyramis Corporation (Pyramis US)                            | Note H              | Development of electronic products   | 99.24%                                     | 99.24%              |
| 4. Deltronics (Netherlands) B.V. (DEN)                      | Note A              | Trading of equipment, components and material of telecom and computer system       | 100.00%                                    | 100.00%<br>(Note I) |

| <u>Name of company</u>                                | <u>Relationship</u> | <u>Main activities</u>  | <u>% of shares held as of December 31,</u> |                 |
|---|---------------------|---|--|-----------------|
|   |                     |   | <u>2004</u>                                | <u>2005</u>     |
| 5. Delta Optoelectronics Inc. (Delta Optoelectronics) | Note A              | Manufacturing of displays with polymer light emission display (PLED) and carbon nano-tube electronic emitter (ENT) technology | 95.21%                                     | 95.21% (Note I) |
| 6. Delsolar Co., Ltd. (Delsolar)                      | Note A              | Manufacturing of solar batteries and related systems  | 82.50%                                     | 82.50% (Note I) |

Note A: Majority owned subsidiary.

Note B: A subsidiary of Delta International Holding Ltd. (DIH), an indirectly majority owned subsidiary.

Note C: A subsidiary of Delta Electronics (Japan) Inc. (DEJ), an indirectly majority owned subsidiary.

Note D: A subsidiary of DAC Holding Ltd. (DAC), an indirectly majority owned subsidiary.

Note E: A subsidiary of Delta Networks Holding Ltd. (DNH), an indirectly majority owned subsidiary.

Note F: A subsidiary of Delta Networks Inc. (DNI Cayman), an indirectly majority owned subsidiary.

Note G: A subsidiary of Pyramis Corporation (Pyramis), an indirectly majority owned subsidiary.

Note H: An indirectly majority owned subsidiary. Originally a subsidiary of Delta International Holding Ltd. (DIH), in 2004, the shares were sold to Pyramis Holding Ltd. (Pyramis Holding). As a result, Pyramis US became a consolidated subsidiary of Pyramis Holding. The Company owns total voting rights over 50% indirectly.

Note I: A new consolidated subsidiary under the newly amended Statements of Financial Accounting Standards No. 7 "Consolidated Financial Statements".

The financial statements of DEN, Pyramis US and ALN for the years ended December 31, 2004 and 2005 were audited by other independent accountants. The total assets of these subsidiaries at December 31, 2004 and 2005 were \$383,637 and \$397,284, constituting 0.6% and 0.5% of the Company's consolidated total assets, respectively, and the related total operating revenues were \$723,481 and \$1,174,009, constituting 1.3% and 1.5% of the Company's consolidated operating revenues for the years ended December 31, 2004 and 2005, respectively.

### 3) Changes in the consolidated subsidiaries

A. The following subsidiaries are new additions to the consolidated financial statements:

| <u>Name of Company</u>   | <u>Relationship</u> | <u>Main activities</u>       | <u>% of shares held as of</u><br><u>December 31,</u> |             | <u>Note</u> |
|--|---------------------|------------------------------|--|-------------|-------------|
|  |                     |                              | <u>2004</u>  | <u>2005</u> |             |
| (1) Deltronics<br>(Netherlands) B.V.<br>(DEN)                            | Note A              | Please refer to<br>Note 1 2) | 100. 00%   | 100. 00%    |             |
| (2) Delta Optoelectronics<br>Inc. (Delta<br>Optoelectronics)             | Note A              | "                            | 95. 21%  | 95. 21%     |             |
| (3) Delsolar Co., Ltd.<br>(Delsolar)                                     | Note A              | "                            | 82. 50%  | 82. 50%     |             |
| (4) Delta Electronics<br>International Ltd.<br>(Labuan)<br>(DEIL-Labuan) | Note B              | "                            | -  | 94. 00%     | Note D      |
| (5) Delta Networks<br>International Ltd.<br>(Labuan)<br>(DNIL-Labuan)    | Note C              | "                            | -  | 94. 00%     | Note D      |

Note A: Majority owned subsidiary.

Note B: A subsidiary of DIH, an indirectly majority owned subsidiary.

Note C: A subsidiary of DNI Cayman, an indirectly majority owned subsidiary.

Note D: Established in the third quarter of 2005.

The financial statements of DEN, Pyramis US and ALN for the years ended December 31, 2004 and 2005 were audited by other independent accountants. The total assets of these subsidiaries at December 31, 2004 and 2005 were \$383,637 and \$397,284, constituting 0.6% and 0.5% of the Company's consolidated total assets, respectively, and the related total operating revenues were \$723,481 and \$1,174,009, constituting 1.3% and 1.5% of the Company's consolidated operating revenues for the years ended December 31, 2004 and 2005, respectively.

### 3) Changes in the consolidated subsidiaries

A. The following subsidiaries are new additions to the consolidated financial statements:

| Name of Company  | Relationship | Main activities              | % of shares held as of<br>December 31, |          | Note   |
|--|--------------|------------------------------|--|----------|--------|
|  |              |                              | 2004                                   | 2005     |        |
| (1) Deltronics<br>(Netherlands) B.V.<br>(DEN)                            | Note A       | Please refer to<br>Note 1 2) | 100. 00%                               | 100. 00% |        |
| (2) Delta Optoelectronics<br>Inc. (Delta<br>Optoelectronics)             | Note A       | "                            | 95. 21%                                | 95. 21%  |        |
| (3) Delsolar Co., Ltd.<br>(Delsolar)                                     | Note A       | "                            | 82. 50%                                | 82. 50%  |        |
| (4) Delta Electronics<br>International Ltd.<br>(Labuan)<br>(DEIL-Labuan) | Note B       | "                            | -                                      | 94. 00%  | Note D |
| (5) Delta Networks<br>International Ltd.<br>(Labuan)<br>(DNIL-Labuan)    | Note C       | "                            | -                                      | 94. 00%  | Note D |

Note A: Majority owned subsidiary.

Note B: A subsidiary of DIH, an indirectly majority owned subsidiary.

Note C: A subsidiary of DNI Cayman, an indirectly majority owned subsidiary.

Note D: Established in the third quarter of 2005.



The financial statements of DEN, Pyramis US and ALN for the years ended December 31, 2004 and 2005 were audited by other independent accountants. The total assets of these subsidiaries at December 31, 2004 and 2005 were \$383,637 and \$397,284, constituting 0.6% and 0.5% of the Company's consolidated total assets, respectively, and the related total operating revenues were \$723,481 and \$1,174,009, constituting 1.3% and 1.5% of the Company's consolidated operating revenues for the years ended December 31, 2004 and 2005, respectively.

### 3) Changes in the consolidated subsidiaries

A. The following subsidiaries are new additions to the consolidated financial statements:

| Name of Company  | Relationship | Main activities              | % of shares held as of<br>December 31, |         | Note   |
|--|--------------|------------------------------|--|---------|--------|
|  |              |                              | 2004                                   | 2005    |        |
| (1) Deltronics<br>(Netherlands) B.V.<br>(DEN)                            | Note A       | Please refer to<br>Note 1 2) | 100.00%                                | 100.00% |        |
| (2) Delta Optoelectronics<br>Inc. (Delta<br>Optoelectronics)             | Note A       | "                            | 95.21%                                 | 95.21%  |        |
| (3) Delsolar Co., Ltd.<br>(Delsolar)                                     | Note A       | "                            | 82.50%                                 | 82.50%  |        |
| (4) Delta Electronics<br>International Ltd.<br>(Labuan)<br>(DEIL-Labuan) | Note B       | "                            | -                                      | 94.00%  | Note D |
| (5) Delta Networks<br>International Ltd.<br>(Labuan)<br>(DNIL-Labuan)    | Note C       | "                            | -                                      | 94.00%  | Note D |

Note A: Majority owned subsidiary.

Note B: A subsidiary of DIH, an indirectly majority owned subsidiary.

Note C: A subsidiary of DNI Cayman, an indirectly majority owned subsidiary.

Note D: Established in the third quarter of 2005.

### **Translation of foreign currency transactions**

The accounts of the Company are maintained in New Taiwan dollars. Receivables, other monetary assets and liabilities denominated in foreign currencies are translated into New Taiwan dollars at the rates of exchange prevailing at the balance sheet date. Transactions denominated in foreign currency are translated into New Taiwan dollars at the exchange rates prevailing at the transaction dates. Foreign currency gains or losses are included in current net income.

### **Cash equivalents**

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and with maturity dates that do not present significant risk of change in value because of change in interest rates.

### **Forward currency option contracts**

Premiums or discounts on option contracts are recorded as liabilities or assets at cost and are amortized over the contract period on a straight line basis and are included in current net income.

Prior to fourth quarter of 2004, the settled option contracts are recorded as current gain/loss and disclose fair value of outstanding option contracts at balance sheet date. Effective the fourth quarter of 2004, outstanding put options at balance sheet date are accounted for at their fair values with the differences included in the current net income.

### **Forward exchange contracts**

Forward exchange contracts entered into for hedging purposes are recorded using the spot rate on the contract date. Discounts or premiums on forward contracts are amortized over the periods of the contract. Gains or losses on forward contracts are determined by the difference between the spot rate at the balance sheet date and the spot rate at the date of inception of the contract. Exchange gains or losses are included in current net income.

**Cross currency swap contracts**

Cross currency swap contracts entered into for hedging purposes are recorded using the contract rate on the contract date and recorded as accrued receivable and accrued payable, respectively. Interest receivable and interest payable are accrued in accordance with the contract rate. Gains or losses on cross currency swap contracts are determined by the difference between the spot rate at the balance sheet date and the spot rate at the date of inception of the contract. Exchange gains or losses are included in current net income.

**Short-term investments**

Short-term investments are stated at the lower of cost or market value. Cost is determined by the weighted-average method. The market value of open-end fund is based on the net asset value at the balance sheet date. The market values of listed securities are determined based on the average closing prices of the last month of the period.

**Allowance for doubtful accounts**

Allowance for doubtful accounts is provided based on an evaluation of the collectibility and aging of ending balances of notes receivable, accounts receivable and other receivables.

**Inventories**

Inventories are stated at the lower of cost or market value; cost is determined using the average method. When comparing with market value, current replacement price is used as market value for materials; net realizable value is used as market value for work in process and finished goods. Provision is made for obsolete and slow-moving inventories at balance sheet date.

**Funds and long-term investments****1) Long-term investments**

- A. Long-term investments in which the Company owns less than 20% of the voting rights of the investee company and has no significant influence on the investee company's operational decisions are stated under the lower of cost or market value method if the investee company is listed, and under the cost method if the investee company is not listed. When it becomes evident that there has been a permanent impairment in value and the chance of recovery is minimal, loss is recognized in the current year's income.

If the Company owns at least 20% of the voting rights of the investee company, the investment is accounted for by the equity method, unless there is evidence that the Company has no ability to exercise significant influence over the investee company. The unrealized gains or losses arising from transactions between the Company and investee companies accounted for under the equity method are eliminated.

- B. The translation difference from foreign investments are included in a cumulative translation adjustments account in the stockholders' equity.
- C. The capital reserve and long-term investment amounts are adjusted by the variance between the investment cost and the net asset of the investee company due to the disproportionate acquisition of shares in connection with the capital increase by the investee company accounted for under the equity method. If the capital reserve arising from long-term investment is not sufficient, then retained earnings is debited.
- D. The Company recognizes its proportionate share in the changes to the unrealized loss on market value decline of long-term investments accounted for under the equity method by its consolidated subsidiaries and includes it in the stockholder's equity.
- E. Under the equity method, and at the date of changing to use equity method from cost method is not retroactive, the excess of investment cost over the underlying equity in net assets of the investee companies at the date of investment is amortized over 5~20 years.
- F. Long-term investment in which the Company intends to dispose should be reclassified to short-term investment which will be stated at the lower of cost or market value. Any loss is recognized in current operation.
- G. Prior to 2005, the use of the equity method is discontinued if losses on investment reduce the balance of the investment to zero, unless the Company has a commitment to provide financial support to the investee company or acts as guarantor for loans made to the investee company. The credit balances of the investments should reduce the receivables from the investee company and the remaining balances are reported in the balance sheet as other liabilities.

Effective January 1, 2005, for investee company accounted for under the equity method, if the Company has the ability to exercise significant influence but does not have control over the investee company, the use of the equity method is discontinued if losses on investment reduce the balance of the investment to zero, unless the Company has a commitment to provide financial support to the investee company or acts as guarantor for loans made to the investee company. However, if the Company has control over the investee company, losses of the investee company is fully recognized, unless other stockholders of the investee company have the duty and are able to provide additional capital to assume the loss. Any subsequent profit of the investee company is recognized as recovery of prior years losses until the loss recognized by the Company is fully recovered.

H. The Company recognizes dividend income or credits long-term investment under the cost method or equity method, respectively, on ex-dividend date of the investee companies.

2) Cash surrender value of life insurance

The cash surrender value of life insurance is recorded as an asset and classified as long-term investment. The increase in cash surrender value during the period is accounted for as an adjustment to insurance premiums paid.

**Other financial assets - non-current**

Structured product - time deposits (shown as other financial assets) are stated at cost at balance sheet date. When there is objective evidence indicating that the future cash flow of the financial assets may decrease, the Company should recognize the impairment loss of the financial assets. An impairment loss is recognized for the amount by which the carrying amount of the other financial assets exceeds the recoverable amount.

**Property, plant and equipment**

- 1) Property, plant and equipment are stated at cost except for land which is stated at appraised value.
- 2) Depreciation of the fixed assets is provided on a straight-line method over the estimated economic lives of the assets. Leasehold improvements are amortized over the life of the leases.

The estimated useful lives of fixed assets are 2 to 8 years, excepts for buildings which are 5 to 55 years.

- 3) Major renewals and improvements are capitalized and depreciated accordingly. Maintenance and repairs are charged to expense as incurred. When an asset is disposed, the cost and accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in current non-operating results.
- 4) Rental assets are classified under other assets at book value. Depreciation expenses of the rental assets are included in the non-operating expenses and losses.

#### **Other intangible assets**

- 1) Land use rights are stated at cost and amortized over the lease term.
- 2) Intangible assets acquired by technology investment are amortized over the estimated useful period.

#### **Deferred charges**

Deferred charges are recorded at actual cost and amortized over the estimated useful lives based on the straight-line method, except for the issuance costs for convertible bonds which are amortized over the life of the bonds. The unamortized bonds issuance costs relating to the bonds converted or redeemed before the maturity date are transferred to expense at the date of redemption or conversion.

#### **Retirement plan**

- 1) Pension benefits under the defined benefit pension plan are calculated based on the independent actuarial valuation. Under the defined benefit pension plan, the Company recognizes net periodic pension cost, which includes services cost, interest cost, expected return on plan assets, amortization of unrecognized transition obligation and pension losses.
- 2) For defined contribution pension plan, the Company recognizes the monthly pension expense based on certain percentage of the employees monthly salaries and wages and deposits the pension amount into each employee's personal pension account with the Bureau of Labor Insurance.

**Convertible bonds**

- 1) The excess of estimated redemption price below the par value is treated as a contingent gain; no gain is recognized on bond redemption. When bonds are redeemed, the difference between the redemption price and book value is recognized in current operation.
- 2) When bonds are converted, the book value of bonds is credited to common stock at an amount equal to the par value of the stock and the excess is credited to capital reserve. No gain or loss is recognized on bond conversion.

**Income tax**

- 1) The Company, Pyramis, Delsolar, Delta Optoelectronics and DNIT adopted R.O.C. SFAS No. 22, "Accounting for Income Taxes". Income tax is provided based on accounting income after adjusting for permanent differences. The provision for income tax includes deferred income tax resulting from items reported in different periods for tax and financial reporting purposes. Deferred income tax assets or liabilities are further classified into current and non-current items based on the classifications of the related assets or liabilities or on the expected reversal date of the temporary differences and are presented on the financial statements as net balance. Valuation allowance for deferred income tax assets is recognized if it is more likely than not that the tax benefits will not be realized. Tax credits resulting from equipment purchase, technology acquisition, research and development expenditure, training expense and long-term equity investment, etc. are recognized as current income tax benefit when incurred.
- 2) The Company's overseas subsidiaries adopted liability method.
- 3) Over or under provision of prior years' income tax liabilities are included in the current year's income tax expense.
- 4) According to the Taiwan imputation tax system, undistributed current earnings of a company derived on or after January 1, 1998 is subject to an additional 10% corporate income tax if the earnings are not distributed in the following year. This 10% additional corporate income tax is recorded as income tax expense in the period the stockholders approved a resolution to retain the earnings.

**Earnings per share**

- 1) In accordance with R.O.C. SFAS No. 24 "Earnings Per Common Share" as revised in November 1, 2001, the basic earnings and diluted earnings per share

are disclosed in income statements. The computation of earnings per share is as follows:

- A. Basic earnings per share: net income is divided by the weighted average number of shares outstanding during the period.
  - B. Diluted earnings per share: the computation is the same as basic earnings per share, except that potential common shares are assumed to have been converted to common stock at the beginning of the period and net income is adjusted by the amount associated with the conversion.
- 2) The potentially dilutive securities consist of Euro convertible bonds. The Company adopted the "if converted method" in computing the dilutive effect of the Euro convertible bonds.

#### **Revenue, costs and expenses recognition**

Revenue is recognized when the earning process is completed and realized or realizable. Costs and expenses are recognized as incurred.

#### **Accounting estimates**

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the Republic of China requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those assumptions and estimates.

#### **Impairment of assets**

Effective in 2005, the Company adopted Statements of Financial Accounting Standards No. 35 "Accounting for Impairment of Asset". Assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the assets exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. Net selling price is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

When there is any indication that an impairment loss recognized in prior periods for an asset may no longer exist or may have decreased, the Company should reverse



the impairment loss within the extent of impairment loss recognized in the prior period.

### **Convenience translation into US dollars**

The Company maintains its accounting records and prepares its financial statements in New Taiwan dollars. The United States dollar amounts disclosed in the 2005 financial statements are presented solely for the convenience of the reader and were translated to US dollar using the exchange rate of NT\$32.85=US\$1.00, the average of buying and selling exchange rate published by Hua Nan Bank on December 31, 2005. Such translation amounts are unaudited and should not be construed as representations that the New Taiwan dollar amounts represent, or have been or could be converted into United States dollars at the or any other rate.

### **3. CHANGES IN ACCOUNTING PRINCIPLES**

- 1) Effective the fourth quarter of 2004, the Company adopted No. 32 interpretation issued by Accounting Research and Development Foundation in 2005, "The Accounting Treatment of Foreign Exchange Option Contract Before the Implementation of Statements of Financial Accounting Standards No. 34". Outstanding put options at balance sheet date is accounted for at fair value and any difference is charged to current operations. As a result of this change in accounting principle, the net income attributable to parent for the year ended December 31, 2005 was increased by \$3,476, and total consolidated liabilities and stockholder's equity as of December 31, 2005 were increased and decreased, respectively, by \$3,476.
- 2) Effective January 1, 2005, the Company adopted Statements of Financial Accounting Standards No. 35 "Accounting for Impairments of Asset" and the newly amended Statements of Financial Accounting Standards No. 5 "Accounting for Long-term Equity Investments" which require losses of the controlled entities be fully recognized. The adoption of these accounting principles had no significant impact on the consolidated financial statements for the year ended December 31, 2005.

- 3) Effective January 1, 2005, in accordance with the newly amended Statements of Financial Accounting Standards No. 7 “Consolidated Financial Statements”, all majority owned subsidiaries are consolidated. As a result, consolidated assets and consolidated liabilities were increased by \$1,494,082 and \$453,997, constituting 1.8% and 1.3% of the respective consolidated total assets and liabilities as of December 31, 2005, respectively and the consolidated operating revenue was increased by \$389,806, constituting 0.5% of the consolidated operating revenues for the year ended December 31, 2005.

#### 4. DESCRIPTION OF SIGNIFICANT ACCOUNTS

##### (1) Cash and cash equivalents

|   | <u>December 31,</u> |                     |
|---|---------------------|---------------------|
|   | <u>2004</u>         | <u>2005</u>         |
| Cash on hand  | \$ 5,482            | \$ 6,994            |
| Checking and demand deposits                            | 6,517,788           | 5,423,850           |
| Time deposit  | 9,708,968           | 16,741,106          |
| Cash equivalent-commercial paper<br>and government bond | <u>1,666,648</u>    | <u>1,607,613</u>    |
|   | <u>\$17,898,886</u> | <u>\$23,779,563</u> |

As of December 31, 2004 and 2005, the Company’s and its subsidiaries’ overseas checking and demand deposits were \$314,248 (USD\$9,277 thousand、HKD\$1,914 thousand、KRW\$28,700 thousand、JPY\$1,484 thousand、THB\$16 thousand and \$20) and \$2,172,706 (USD\$65,746 thousand、HKD\$3,328 thousand、KRW\$89,573 thousand、JPY\$17,052 thousand、THB\$16 thousand and \$20). The overseas time deposits were \$229,950 (USD\$7,000 thousand) and \$144,540 (USD\$4,400 thousand).

**(2) Short-term investments**

|                                     | <u>December 31,</u> |             |
|-------------------------------------|---------------------|-------------|
|                                     | <u>2004</u>         | <u>2005</u> |
| Open-end fund                       | \$ 89,588           | \$ -        |
| Foreign bond with resale agreements | 2,215,527           | -           |
|                                     | <u>\$ 2,305,115</u> | <u>\$ -</u> |
| Market value                        | <u>\$ 2,305,254</u> | <u>\$ -</u> |

**(3) Accounts receivable and overdue receivable**

|  | <u>December 31,</u>  |                      |
|--|----------------------|----------------------|
|  | <u>2004</u>          | <u>2005</u>          |
| Accounts receivable                        | \$ 12,694,592        | \$ 19,608,578        |
| Less: Allowance for doubtful accounts      | ( 35,517)            | ( 19,341)            |
|  | <u>12,659,075</u>    | <u>19,589,237</u>    |
| Overdue receivable (shown as other assets) | 179,817              | 176,563              |
| Less: Allowance for doubtful accounts      | ( 179,817)           | ( 176,563)           |
|  | -                    | -                    |
|  | <u>\$ 12,659,075</u> | <u>\$ 19,589,237</u> |

**(4) Inventories**

|  | <u>December 31,</u> |                     |
|--|---------------------|---------------------|
|  | <u>2004</u>         | <u>2005</u>         |
| Raw materials  | \$ 2,341,292        | \$ 2,884,631        |
| Work in process  | 670,066             | 755,102             |
| Finished goods   | 2,385,923           | 3,337,106           |
| Inventory in transit   | <u>73,900</u>       | <u>387,029</u>      |
|  | 5,471,181           | 7,363,868           |
| Less: Allowance for inventory obsolescence and market price declines | ( 576,137)          | ( 475,557)          |
|  | <u>\$ 4,895,044</u> | <u>\$ 6,888,311</u> |

**(5) Long-term investments**

A. List of long-term investments:

| <u>Investee company</u>   | <u>December 31, 2004</u> |                     | <u>December 31, 2005</u> |                     |
|---|--------------------------|---------------------|--------------------------|---------------------|
|   | <u>%<br/>(Note B)</u>    | <u>Book value</u>   | <u>%<br/>(Note B)</u>    | <u>Book value</u>   |
| Equity method:  |                          |                     |                          |                     |
| Delta Electronics (Thailand) Public Co., Ltd. (DET) (Note A)              | 21.05                    | \$ 4,224,283        | 21.05                    | \$ 4,363,163        |
| Cyntec Co., Ltd (Cyntec)  | 36.57                    | 814,945             | 36.22                    | 878,386             |
| Grand Advance Technology Ltd. (Grand Advance)                             | 39.20                    | 184,785             | 39.20                    | 12,888              |
| Delta Optoelectronics Inc. (Delta Optoelectronics) (Note C)               | 95.21                    | 575,166             | -                        | -                   |
| Delsolar Co., Ltd. (Delsolar) (Note C)                                    | 82.50                    | 494,579             | -                        | -                   |
| Others (individual amount less than \$100,000)                            |                          | <u>27,198</u>       |                          | <u>18,483</u>       |
|   |                          | <u>6,320,956</u>    |                          | <u>5,272,920</u>    |
| The lower of cost or market value method:                                 |                          |                     |                          |                     |
| D-Link Co., Ltd.  | 2.09                     | \$ 433,275          | 2.07                     | 433,275             |
| Macronix International Co., Ltd.  | 1.22                     | 225,040             | -                        | -                   |
| Others (individual amount less than \$100,000)                            |                          | <u>185,168</u>      |                          | <u>209,984</u>      |
|   |                          | <u>843,483</u>      |                          | <u>643,259</u>      |
| Less: Allowance for loss on market value decline of long-term investments |                          | <u>( 1,718)</u>     |                          | <u>( 1,896)</u>     |
|   |                          | <u>841,765</u>      |                          | <u>641,363</u>      |
| Cost method:  |                          |                     |                          |                     |
| Union Optronics Corp.   | 12.70                    | 348,072             | 12.70                    | 80,572              |
| Primarion Inc.  | -                        | -                   | Preferred shares         | 204,071             |
| WK Technology Fund  | 4.56                     | 118,782             | 4.56                     | 95,032              |
| Delta American Ltd.   | Preferred shares         | 101,076             | Preferred shares         | 100,536             |
| Deltron-Cimic Electric and Electronics Co., Ltd.                          | 10.38                    | 97,440              | 10.38                    | 100,705             |
| Others (individual amount less than \$100,000)                            |                          | <u>600,915</u>      |                          | <u>407,712</u>      |
|   |                          | <u>1,266,285</u>    |                          | <u>988,628</u>      |
|   |                          | <u>2,108,050</u>    |                          | <u>1,629,991</u>    |
|   |                          | <u>\$ 8,429,006</u> |                          | <u>\$ 6,902,911</u> |

(Note A) : The combined ownership percentage of DET's common share held by the Company and DIH was more than 20%. Accordingly, the investment was accounted for under the equity method.

(Note B) : The percentage of long-term investments was combined with the percentages of common shares held by the Company and its subsidiaries.

(Note C) : Due to the adoption of newly amended Statements of Financial Accounting Standards No.7 "Consolidated Financial Statements", these subsidiaries are included in the consolidated financial statement for the year ended December 31, 2005 and the book value of long-term investment had been eliminated.

B. Details of investment (loss) income under the equity method are as follows:

| <u>Name of investee company</u> | <u>For the years ended December 31,</u> |                   |
|---------------------------------|---|-------------------|
|                                 | <u>2004</u>                             | <u>2005</u>       |
| DET                             | \$ 82,692                               | \$ 213,708        |
| Cyntec                          | 81,569                                  | 107,350           |
| Delta Optoelectronics (Note)    | ( 202,584)                              | -                 |
| Grand Advance                   | ( 36,321)                               | ( 171,896)        |
| Others                          | 467                                     | 3,529             |
|                                 | <u>(\$ 74,177)</u>                      | <u>\$ 152,691</u> |

Note: In 2005, Delta Optoelectronics was consolidated under Statements of Financial Accounting Standards No. 7.

C. Certain investee companies accounted for under the equity method for the years ended December 31, 2004 and 2005 were audited by other auditors. The investment income recognized in these investee companies under equity method was \$83,791 and \$217,237 for the years ended December 31, 2004 and 2005, respectively, and the related balance of long-term investment was \$4,251,481 and \$4,381,646 as of December 31, 2004 and 2005, respectively.

D. The Company recognized impairment loss of \$66,126 and \$328,211 on certain investees, accounted for under the cost method, for the years ended December 31, 2004 and 2005, respectively.

**(6) Other financial assets - non-current**

|                                    | <u>December 31,</u> |                     |
|------------------------------------|---------------------|---------------------|
|                                    | <u>2004</u>         | <u>2005</u>         |
| Structured product - time deposits | <u>\$ 5,880,225</u> | <u>\$ 7,227,000</u> |

The interest rates of structured product are based on the contract.

(7) **Property, plant and equipment**

| Item   | December 31, 2004    |                     |                      |                          |                      |
|--|----------------------|---------------------|----------------------|--------------------------|----------------------|
|  | Original cost        | Appraisal increment | Total                | Accumulated depreciation | Net book value       |
| Land   | \$ 1,309,877         | \$ 168,738          | \$ 1,478,615         | \$ -                     | \$ 1,478,615         |
| Buildings  | 5,425,476            | -                   | 5,425,476            | ( 1,069,763)             | 4,355,713            |
| Machinery and equipment                                | 4,793,466            | -                   | 4,793,466            | ( 2,465,212)             | 2,328,254            |
| Molding equipment                                      | 1,020,270            | -                   | 1,020,270            | ( 773,161)               | 247,109              |
| Computer and communication equipment                   | 721,401              | -                   | 721,401              | ( 531,060)               | 190,341              |
| Testing equipment                                      | 3,133,920            | -                   | 3,133,920            | ( 2,302,010)             | 831,910              |
| Transportation equipment                               | 119,014              | -                   | 119,014              | ( 79,473)                | 39,541               |
| Office equipment                                       | 1,031,898            | -                   | 1,031,898            | ( 638,195)               | 393,703              |
| Leasehold improvement                                  | 16,026               | -                   | 16,026               | ( 15,695)                | 331                  |
| Prepayments for equipment and construction in progress | 418,263              | -                   | 418,263              | -                        | 418,263              |
|  | <u>\$ 17,989,611</u> | <u>\$ 168,738</u>   | <u>\$ 18,158,349</u> | <u>(\$ 7,874,569)</u>    | <u>\$ 10,283,780</u> |

| Item   | December 31, 2005    |                     |                      |                          |                      |
|--|----------------------|---------------------|----------------------|--------------------------|----------------------|
|  | Original cost        | Appraisal increment | Total                | Accumulated depreciation | Net book value       |
| Land   | \$ 1,288,490         | \$ 168,738          | \$ 1,457,228         | \$ -                     | \$ 1,457,228         |
| Buildings  | 5,777,152            | -                   | 5,777,152            | ( 1,219,022)             | 4,558,130            |
| Machinery and equipment                                | 6,923,148            | -                   | 6,923,148            | ( 3,384,474)             | 3,538,674            |
| Molding equipment                                      | 1,178,400            | -                   | 1,178,400            | ( 901,411)               | 276,989              |
| Computer and communication equipment                   | 811,450              | -                   | 811,450              | ( 662,846)               | 148,604              |
| Testing equipment                                      | 3,921,042            | -                   | 3,921,042            | ( 2,869,860)             | 1,051,182            |
| Transportation equipment                               | 132,312              | -                   | 132,312              | ( 92,418)                | 39,894               |
| Office equipment                                       | 1,166,608            | -                   | 1,166,608            | ( 810,501)               | 356,107              |
| Leasehold improvement                                  | 74,158               | -                   | 74,158               | ( 55,340)                | 18,818               |
| Prepayments for equipment and construction in progress | 1,098,556            | -                   | 1,098,556            | -                        | 1,098,556            |
|  | <u>\$ 22,371,316</u> | <u>\$ 168,738</u>   | <u>\$ 22,540,054</u> | <u>(\$ 9,995,872)</u>    | <u>\$ 12,544,182</u> |

Note: The appraisal increment of land in property, plant and equipment and leased assets amounted to \$168,738 and the reserve for land value incremental tax was \$80,945. Effective 2005, under the amended Land Tax Act, the land value incremental tax rate was decreased, accordingly, the reserve for land value incremental tax was decreased and capital reserve was increased by \$36,108.

**(8) Short-term loans**

|                         | <u>December 31,</u>  |                      |
|-------------------------|----------------------|----------------------|
|                         | <u>2004</u>          | <u>2005</u>          |
| Unsecured bank loans    | \$ 4,082,358         | \$ 6,577,246         |
| Secured bank loans      | -                    | 1,313,969            |
|                         | <u>\$ 4,082,358</u>  | <u>\$ 7,891,215</u>  |
| Credit lines            | <u>\$ 16,074,215</u> | <u>\$ 24,616,231</u> |
| Interest rate per annum | <u>0.78%~2.75%</u>   | <u>0.465%~4.83%</u>  |

**(9) Convertible bonds**

A. As of December 31, 2004 and 2005 the details of the fourth foreign currency Euro convertible bonds (ECB IV) are as follows:

|   | <u>December 31, 2004</u> | <u>December 31, 2005</u> |
|---|--------------------------|--------------------------|
| Issuance amount                             | \$ 6,876,910             | \$ 6,876,910             |
| Converted amount                            | ( 20,610)                | ( 6,415,469)             |
| Outstanding amount                          | 6,856,300                | 461,441                  |
| Less: foreign currency revaluation          | ( 518,371)               | ( 20,594)                |
| Book value                                  | 6,337,929                | 440,847                  |
| Less: long-term liabilities-current portion | -                        | ( 440,847)               |
|   | <u>\$ 6,337,929</u>      | <u>\$ -</u>              |

B. The issuance of ECB IV was approved by SFB (Securities and Futures Bureau). The issuance and condition of ECB IV are summarized as follows:

|  | <u>ECB IV</u>                                |
|--|--|
| (A) Trustee                            | The Bank of New York                         |
| (B) Amount of issuance                 | US\$200,000                                  |
| (C) Nominal interest rate (net of tax) | 0%   |
| (D) Period of issuance                 | 5 years (July 30, 2003 ~July 30, 2008)       |
| (E) Place of issuance                  | Luxembourg                                   |
| (F) Period of conversion               | August 30, 2003 ~ June 30, 2008              |
| (G) Exchange rate of conversion        | Fixed exchange rate of NT\$34.35 to US\$1.00 |



|  | <u>ECB IV</u>  |
|--|--|
| (H) Redemption price and adjustment<br>(in NT dollars)   | The initial conversion price was NT\$55, and it may be adjusted for change in the number of common shares outstanding. The conversion price as of December 31, 2005 was NT\$45.91  |
| (I) Redemption of bonds  | <p>a. Redemption at principal amount on due date.</p> <p>b. Early redemption</p> <p>(a) Redemption price: 94.63% of outstanding principal amount.</p> <p>(b) Redemption date: At any time on or after July 30, 2006.</p> <p>(c) The condition of early redemption:</p> <ol style="list-style-type: none"> <li>1. the closing price of the common shares of the Company on each of 20 consecutive trading days is at least 125% of the conversion price,</li> <li>2. at least 90% in principal amount of the bonds have been converted, redeemed or purchased and cancelled.</li> </ol> |
| (J) Purchase of bonds  | <p>a. Purchase date: July 30, 2005</p> <p>b. Purchase price: 97.82% of outstanding principal amount</p>  |
| C. As of December 31, 2005, US\$186,580 of ECB IV had been converted into 132,375,000 shares of common stock with the premium recognized as capital reserve amounting \$4,579,741. |  |

**(10) Accrued pension liabilities**

- A. The Company, Pyramis, Delsolar, Delta Optoelectronics and DNIT have a non-contributory and funded defined benefit plan in accordance with the Labor Standards Law, covering all regular employees before the implementation of the Labor Pension Act on July 1, 2005. The defined benefit plan will continue to cover the employees who chose to remain with the defined benefit plan. Upon retirement, pension payments are calculated based on total years of service and average salary of the six months prior to retirement. Two base units are earned for the first 15 years of service and one unit for each year thereafter, with a maximum number of 45 units. The Company contributes 2% of the employees' monthly salaries and wages to an independent retirement trust fund, with the Central Trust of China, the trustee. As of December 31, 2004 and 2005, the net periodic pension cost of the Company was \$176,015 and \$161,582, respectively, and the retirement trust fund of the Central Trust of China was \$395,891 and \$441,957, respectively. The fund balances are not reflected in the consolidated financial statements.

The subsidiaries, DIH and DNH, do not maintain an employee retirement plan. However, certain subsidiaries of DIH and DNH, located in Mainland China maintain a defined contribution retirement plan covering all employees. Under the plan, the employees of DIH and DNH subsidiary contribute to a separate fund an amount based on certain percentage of the monthly basic salary of employees. And each DIH's and DNH's subsidiary also provide pension reserves for its employees for amounts depending on employee's positions.

The subsidiaries, DIH, DNH and Pyramis located in United States have defined contribution plans in accordance with the local regulations.

- B. Effective July 1, 2005, the Company, Pyramis, Delta Optoelectronics, Delsolar and DNIT have established a defined contribution pension plan under the Labor Pension Act (the "New Plan") for eligible employees holding Republic of China citizenship. The Company, Pyramis, Delta Optoelectronics, Delsolar and DNIT deposit the pension amount based on 6% of the employees monthly salaries and wages into each employee's personal pension account with the Bureau of Labor Insurance. As of December 31, 2005, the pension cost of the Company and the subsidiaries was \$59,144.

C. The reconciliation of the funded status to accrued pension liability of the Company, Pyramis, Delta Optoelectronics, Delsolar and DNIT as of December 31, 2004 and 2005, the respective measurement dates, are as follows:

|  | <u>December 31,</u> |                     |
|--|---------------------|---------------------|
|  | <u>2004</u>         | <u>2005</u>         |
| Vested benefit obligation                            | (\$ 117,172)        | (\$ 131,800)        |
| Non-vested benefit obligation                        | ( 699,851)          | ( 854,036)          |
| Accumulated benefit obligation                       | ( 817,023)          | ( 985,836)          |
| Additional benefits based on future salary increases | ( 597,413)          | ( 479,725)          |
| Projected benefit obligation                         | ( 1,414,436)        | ( 1,465,561)        |
| Fair value of plan assets                            | <u>395,891</u>      | <u>441,957</u>      |
| Funded status  | ( 1,018,545)        | ( 1,023,604)        |
| Unrecognized transition obligation                   | 85,795              | 88,851              |
| Unrecognized net pension loss                        | 337,965             | 245,840             |
| Additional pension liability                         | ( 489)              | ( 6,260)            |
| Accrued pension liability                            | <u>(\$ 595,274)</u> | <u>(\$ 695,173)</u> |

The related assumptions used for the actuarial valuation were as follows:

|                                     | <u>2004</u> | <u>2005</u> |
|-------------------------------------|-------------|-------------|
| Discount rate                       | 3.50%       | 3.50%       |
| Expected return rate on plan assets | 2.50%       | 2.50%       |
| The average rate of salary increase | 4.00%       | 3.00%       |

D. In 2004 and 2005, the details of net periodic pension cost are as follows:

|  | <u>December 31,</u> |                   |
|--|---------------------|-------------------|
|  | <u>2004</u>         | <u>2005</u>       |
| Service cost                                       | \$ 122,113          | \$ 104,346        |
| Interest cost                                      | 40,644              | 51,407            |
| Expected return on plan assets                     | ( 9,592)            | ( 10,439)         |
| Amortization of unrecognized transition obligation | 9,403               | 6,893             |
| Unrecognized pension loss                          | <u>13,447</u>       | <u>9,375</u>      |
| Net pension cost                                   | <u>\$ 176,015</u>   | <u>\$ 161,582</u> |

E. As of December 31, 2004 and 2005, the total balance of the reserve for retirement plan of DIH's and DNH's subsidiaries located in Mainland China was \$176,843 and \$254,322, respectively.

**(11) Common stock**

A. In accordance with the Company's Articles of Incorporation, the total shares of authorized common stock were 2,000,000,000 shares (including 60,000,000 shares for warrant bonds conversion). As of December 31, 2005, the total issued and outstanding common stock was 1,830,382,000 shares with par value of \$10 (in dollars).

B. As of December 31, 2005, 132,375,000 shares of common stock were issued for conversion of ECB IV.

C. On December 20, 2004, the board of directors of the Company adopted a resolution that allow certain stockholders to issue 16,000,000 units of global depository receipts (GDRs), represented by 80,000,000 shares of common stock (Deposited Shares). After obtaining approval from SFB, these GDRs were listed on the Securities Exchange of Luxembourg, with total proceeds of US\$134,666. The issuance of GDRs were based on the outstanding shares, accordingly, there is no diluted effect on the common shares. The main terms and conditions of the GDRs are as follows:

a) Voting rights

GDR holders may, pursuant to the Depositary Agreement and the relevant laws and regulations of the R.O.C., exercise the voting rights pertaining to the underlying the Company common shares represented by the GDRs.

b) Sales and redemption of the underlying common shares represented by the GDRs

When the holders of the GDRs request the Depositary to redeem the GDRs in accordance with the relevant R.O.C. regulations and the provisions in the Depositary Agreement, the Depositary may (i) deliver the underlying common shares represented by the GDRs to the GDR holders, or (ii) sell the underlying common shares represented by the GDRs in the R.O.C. stock market on behalf of the GDR holder. The payment of proceeds from such sale shall be made subject to the relevant R.O.C. laws and regulations and the provisions in the Depositary Agreement.

- c) Distribution of dividends, preemptive rights and other rights and interests

GDR units bear the same rights as common shares.

**(12) Capital reserve**

The R.O.C. Company Law requires that the capital reserve shall be exclusively used to offset against accumulated deficit or increase capital and shall not be used for any other purpose. The capital reserve can be used to offset against accumulated deficit only when legal reserve and special reserve are insufficient. Only capital reserve from paid-in capital in excess of par value and donated surplus can be used to increase capital and the total amount shall be limited to 10% of outstanding capital each year.

**(13) Legal reserve**

The R.O.C. Company Law requires that the Company shall set aside 10% of its net income as the legal reserve after offsetting against prior years' losses until the legal reserve equals the Company's capital. The legal reserve can be used only to offset against accumulated deficit or increase capital. The legal reserve can be used to increase capital only when the reserve exceeds 50% of the Company's capitals, and shall be limited to 50% of the excess portion of the reserve.

**(14) Undistributed earnings**

A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall be distributed in the following order:

- a) Payment of all taxes and dues.
- b) Offset against prior years' operating losses, if any.
- c) Set aside 10% of the remaining amount as legal reserve.
- d) Set aside a certain amount as special reserve, if necessary.
- e) The amount of distributable earnings after deducting items (a), (b), (c) and (d), plus beginning undistributed earnings (the earnings), shall be distributed in the following percentage according to the resolution of the meeting of stockholders:
  - (i) Directors' and supervisors' remuneration: up to 1% of the earnings.

(ii) Employees' bonus: at least 3% of the earnings. In addition, under the shareholders resolution at their annual meeting on May 19, 2005, the Company can issue the employee stock bonus to qualified employees of subsidiaries.

(iii) Stockholders' bonus: balance of the earnings after deducting (i) and (ii).

Under the Company's Articles of Incorporations, at least 50% of the distributable retained earnings shall be distributed as dividends to stockholders, of which at least 5% is in cash dividends.

- B. In addition to the legal reserve, the Company may, under its Articles of Incorporation or by a resolution adopted at the meeting of stockholders, set aside an additional special reserve to cover other accounts under stockholders' equity negative balance. Subsequently, the special reserves can be available for distribution under approvals of the stockholders after the negative balance in these accounts has been fully recovered.
- C. As of February 14, 2006, the distribution of 2005 earnings had not been approved by the Company's board of directors. The subsequent resolutions of board of directors' and stockholders' meeting on the 2005 earnings will be disclosed in the "Market Observation Post System" of the Taiwan Stock Exchange Corporation. The distribution of 2004 earnings was approved by the shareholders' meeting on May 19, 2005, which included the employees' bonuses of \$320,775, stock dividends of \$803,693 and cash dividends of \$4,018,467. The distribution of 2004 earnings had been approved by SFB and the Company set June 30, 2005 as the ex-rights/dividend date.

In accordance with the resolutions adopted at the shareholders' meeting, the Company paid cash dividends of \$2.25 (in dollars) and \$2.41194 (in dollars) per share, and stock dividends of \$0.5 (in dollars) and \$0.48238 (in dollars) per share in 2004 and 2005, respectively.

For the distribution of 2003 and 2004 earnings, details on employees' bonus are as follows:

- a) The distribution of employees' bonus and directors' and supervisors' remuneration set forth in the Articles of Incorporation: Please refer to Note 4(14) A.(e)

- b) The actual payment of employees' bonus and directors' and supervisors' remuneration from the distribution of 2003 and 2004 earnings were \$312,734 ; \$320,775 and \$13,000 ; \$16,700, respectively. The Company issued 31,273,000 and 32,078,000 shares of common stock as employees' bonus, which accounted for 2.11% and 2.02% of the outstanding common shares as December 31, 2003 and 2004, respectively.

The effect on the 2003 and 2004 earnings per share (EPS) is as follows:

|   | <u>2003 EPS (Note)</u> |                | <u>2004 EPS (Note)</u> |                |
|---|------------------------|----------------|------------------------|----------------|
|   | <u>Basic</u>           | <u>Diluted</u> | <u>Basic</u>           | <u>Diluted</u> |
| Original EPS in the financial statements of current year                | \$ 3.52                | \$ 3.25        | \$ 4.20                | \$ 3.87        |
| Effect of employees' bonus and directors' and supervisors' remuneration | ( 0.22)                | ( 0.20)        | ( 0.21)                | ( 0.20)        |
| Pro forma EPS   | <u>\$ 3.30</u>         | <u>\$ 3.05</u> | <u>\$ 3.99</u>         | <u>\$ 3.67</u> |

Note: The EPS was calculated based on net income excluding minority interest.

- c) The distribution of 2003 earnings approved at the stockholders' meeting was the same as that proposed at the board of directors' meeting.

D. The Taiwan imputation tax system requires that any undistributed current earnings, on tax basis, be subject to an additional 10% corporate income tax if the earnings are not distributed in the following year. This 10% additional tax on undistributed earnings paid by the company may be used as tax credit by the stockholders, including foreign stockholders, against the withholding tax on dividends. In addition, the domestic stockholders can claim a proportionate share in the company's corporate income tax as tax credit against their individual income tax liability.



E. As of December 31, 2004 and 2005, details on tax credits are as follows:

|                                       | <u>December 31,</u>  |                         |
|---------------------------------------|----------------------|-------------------------|
|                                       | <u>2004</u>          | <u>2005</u>             |
| Imputation tax credit account balance | <u>\$ 7,433</u>      | <u>\$ 12,580</u>        |
|                                       | <u>2004 (Actual)</u> | <u>2005 (Estimated)</u> |
| Creditable tax ratio                  | <u>0.30%</u>         | <u>0.15%</u>            |

The actual creditable tax ratio will be adjusted based on the imputation tax credit account balance as of the distribution date. The earnings of 2003 have been distributed, and June 30, 2005 was the effective date for distribution of stock dividends and cash dividends.

F. As of December 31, 2004 and 2005, the undistributed earnings balances are as follows:

|                                | <u>December 31,</u> |                     |
|--------------------------------|---------------------|---------------------|
|                                | <u>2004</u>         | <u>2005</u>         |
| Before January 1, 1998         | \$ 685,952          | \$ 685,952          |
| On and after January 1, 1998   |                     |                     |
| -10% additional tax assessed   | 338,394             | 661,644             |
| -10% additional tax unassessed | <u>6,596,167</u>    | <u>7,548,213</u>    |
|                                | <u>\$ 7,620,513</u> | <u>\$ 8,895,809</u> |

### (15) Income tax

A. Deferred income tax assets and liabilities as of December 31, 2004 and 2005 are as follows:

|  | <u>December 31,</u> |                     |
|--|---------------------|---------------------|
|  | <u>2004</u>         | <u>2005</u>         |
| (A) Total deferred income tax assets         | <u>\$ 2,247,436</u> | <u>\$ 2,049,422</u> |
| (B) Allowance for deferred income tax assets | <u>\$ 1,311,872</u> | <u>\$ 1,188,881</u> |
| (C) Total deferred income tax liabilities    | <u>\$ 2,899,354</u> | <u>\$ 2,726,372</u> |

B. The components of deferred income tax assets and liabilities are as follows:

|  | <u>December 31, 2004</u> |                       | <u>December 31, 2005</u> |                       |
|--|--------------------------|-----------------------|--------------------------|-----------------------|
|  | <u>Original amount</u>   | <u>Tax effects</u>    | <u>Original amount</u>   | <u>Tax effects</u>    |
| Current:   |                          |                       |                          |                       |
| Allowance for inventory obsolescence                         | \$ 251,041               | \$ 62,760             | \$ 199,455               | \$ 49,864             |
| Unrealized exchange (gain) loss                              | ( 191,149)               | ( 47,787)             | 421,032                  | 105,258               |
| Others   | 15,944                   | 3,986                 | 229,458                  | 57,365                |
| Investment tax credits                                       |                          | <u>278,279</u>        |                          | <u>336,074</u>        |
|  |                          | 297,238               |                          | 548,561               |
| Less: allowance for deferred income tax assets-current       |                          | ( <u>274,258</u> )    |                          | ( <u>238,900</u> )    |
| Net deferred income tax assets-current                       |                          | <u>\$ 22,980</u>      |                          | <u>\$ 309,661</u>     |
| Non-current:   |                          |                       |                          |                       |
| Investment income accounted for under the equity method, net | (\$11,206,914)           | (\$ 2,801,728)        | (\$ 10,761,617)          | (\$ 2,690,404)        |
| Unfunded pension   | 594,561                  | 148,640               | 689,000                  | 172,250               |
| Loss carryforwards   | 259,842                  | 64,961                | 1,100,894                | 275,223               |
| Others   | 129,058                  | 32,264                | 221,612                  | 55,403                |
| Investment tax credits                                       |                          | <u>1,606,707</u>      |                          | <u>962,017</u>        |
|  |                          | ( 949,156)            |                          | ( 1,225,511)          |
| Less: allowance for deferred income tax assets-non current   |                          | ( <u>1,037,614</u> )  |                          | ( <u>949,981</u> )    |
| Net deferred income tax liabilities-non current              |                          | <u>(\$ 1,986,770)</u> |                          | <u>(\$ 2,175,492)</u> |

C. As of December 31, 2004 and 2005, income tax payable (refund) is arrived at as follows:

|  | <u>For the years ended December 31,</u> |                  |
|--|---|------------------|
|  | <u>2004</u>                             | <u>2005</u>      |
| Current year's income tax (benefit) expense      | (\$ 635,400)                            | \$ 148,863       |
| Effect of deferred income tax                    | 698,621                                 | 97,959           |
| Interest income subject to separate tax          | ( 483)                                  | ( 7,497)         |
| Over provision of income tax in prior years, net | 13,299                                  | 12,072           |
| Prepaid income tax                               | ( 44,530)                               | ( 190,327)       |
| Others   | ( 2,014)                                | ( 2,516)         |
| Income tax payable-net                           | <u>\$ 29,493</u>                        | <u>\$ 58,554</u> |
| Income tax refund                                | (\$ 4,709)                              | (\$ 20,971)      |
| Income tax payable                               | <u>34,202</u>                           | <u>79,525</u>    |
|  | <u>\$ 29,493</u>                        | <u>\$ 58,554</u> |

D. As of December 31, 2005, according to "Income Tax Law" and "Statute for Upgrading Industries", investments tax credits are as follows:

| Sources of<br>investments tax credits                  | <u>Total credits</u> | <u>Unused credits</u> | <u>Year of expiration</u> |
|--|----------------------|-----------------------|---------------------------|
| R&D expenditure  | \$ 1,484,606         | \$ 1,258,947          | Between 2006 and 2009     |
| Training expenditure                                   | 15,586               | 15,997                | Between 2006 and 2009     |
| Expenditure for procurement of machinery and equipment | 30,883               | 23,147                | Between 2006 and 2009     |
| Investment in important technology based enterprise    | 176,670              | -                     | Between 2006 and 2008     |
|  | <u>\$ 1,707,745</u>  | <u>\$ 1,298,091</u>   |                           |

- E. DEC, DEP, DWC, DWO, DWV and DII are subject to tax laws applicable to foreign investment enterprises in the P.R.C. and are fully exempt from PRC income tax for two years starting from the first profit-making year followed by a 50% reduction for the next three years. The current enterprise income tax rate is 24%.

DDG is a export oriented company (i.e. export sales constituting 70% of total sales) and a high-investment, low-return company (i.e. minimum capital of US\$30 million). According to the related regulations, the enterprise income tax rate is 10%.

DWJ is a export oriented company. According to related regulations, after the maturity of income tax exempt period, DWJ can apply the tax preference of 50% discount of enterprise tax rate of 24%, when the company's export sales exceed 70% of total sales in current year.

- F. The Company and its subsidiaries' assessed and approved conditions of income tax returns are as follows:

|                                | <u>Year Assessed by Tax Authority</u> |
|--------------------------------|---------------------------------------|
| The Company                    | 2003                                  |
| Delta Optoelectronics and DNIT | 2002                                  |
| Delsolar and Pyramis           | Not assessed yet                      |

**(16) Earnings per share (Note a)**

| For the year ended December 31, 2004                          |                             |              |  |                                 |            |
|---|-----------------------------|--------------|--|---------------------------------|------------|
|   | Amount                      |              | Weighted average<br>outstanding<br>common shares<br>(in thousands)<br>(Note b) | Earnings per share (in dollars) |            |
|   | Income before<br>income tax | Net income   |  | Income before<br>income tax     | Net income |
| Basic EPS   | \$ 6,026,298                | \$ 6,661,698 | 1,692,583  | \$ 3.56                         | \$ 3.94    |
| Effect of potential<br>common shares with<br>dilutive effect: |                             |              |  |                                 |            |
| 0% Euro convertible<br>bonds                                  | -                           | -            | 146,145  |                                 |            |
| Diluted EPS   | \$ 6,026,298                | \$ 6,661,698 | 1,838,728  | \$ 3.28                         | \$ 3.62    |

| For the year ended December 31, 2004                          |                             |              |  |                                 |            |
|---|-----------------------------|--------------|--|---------------------------------|------------|
|   | Amount                      |              | Weighted average<br>outstanding<br>common shares<br>(in thousands) | Earnings per share (in dollars) |            |
|   | Income before<br>income tax | Net income   |  | Income before<br>income tax     | Net income |
| Basic EPS   | \$ 7,701,803                | \$ 7,552,940 | 1,772,056  | \$ 4.35                         | \$ 4.26    |
| Effect of potential<br>common shares with<br>dilutive effect: |                             |              |  |                                 |            |
| 0% Euro convertible<br>bonds                                  | -                           | -            | 10,041   |                                 |            |
| Diluted EPS   | \$ 7,701,803                | \$ 7,552,940 | 1,782,097  | \$ 4.32                         | \$ 4.24    |

Note a: Income before income tax and net income amounts are based on amounts exclusive of minority interest.

Note b: The weighted average outstanding common shares were retroactively adjusted for stock dividends and employee bonuses distributed in 2005.

**(17) Personnel expense, depreciation and amortization expense**

|                             | For the years ended December 31, |                     |                     |                     |                     |                     |
|-----------------------------|----------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|                             | 2004                             |                     | 2005                |                     |                     |                     |
|                             | Operating cost                   | Operating expense   | Total               | Operating cost      | Operating expense   | Total               |
| Personnel expense           |                                  |                     |                     |                     |                     |                     |
| Salaries                    | \$ 1,740,971                     | \$ 2,357,592        | \$ 4,098,563        | \$ 2,742,779        | \$ 2,902,713        | \$ 5,645,492        |
| Labor and health insurances | 40,485                           | 171,994             | 212,479             | 51,899              | 200,112             | 252,011             |
| Pension                     | 33,313                           | 173,949             | 207,262             | 82,486              | 217,896             | 300,382             |
| Others                      | 242,659                          | 102,961             | 345,620             | 274,476             | 120,388             | 394,864             |
|                             | <u>\$ 2,057,428</u>              | <u>\$ 2,806,496</u> | <u>\$ 4,863,924</u> | <u>\$ 3,151,640</u> | <u>\$ 3,441,109</u> | <u>\$ 6,592,749</u> |
| Depreciation expense        | <u>\$ 1,471,126</u>              | <u>\$ 475,074</u>   | <u>\$ 1,946,200</u> | <u>\$ 1,873,313</u> | <u>\$ 526,077</u>   | <u>\$ 2,399,390</u> |
| Amortization expense        | <u>\$ 11,801</u>                 | <u>\$ 153,987</u>   | <u>\$ 165,788</u>   | <u>\$ 38,703</u>    | <u>\$ 160,268</u>   | <u>\$ 198,971</u>   |

## 5. RELATED PARTY TRANSACTIONS

### (1) Name and relationship of related parties

| <u>Names of related parties</u>  | <u>Relationship with the Company</u>  |
|--|---|
| Cyntec Co., Ltd. (Cyntec)  | Investee accounted for under the equity method                                |
| Grand Advance Technology Inc. (Grand Advance)                            | "   |
| Delta Electronics (Thailand) Public Co., Ltd. (DET)                      | "   |
| Delta Products Corporation (DPC)   | Affiliated enterprise   |
| Deltron-Cimic Electric and Electronics Co., Ltd (Deltron-Cimic)          | "   |
| Delta Energy Systems (Switzerland) AG. (DES Switzerland)                 | A subsidiary of DET   |
| Delta Electronics Europe Ltd. (DEU)                                      | A subsidiary of DES Switzerland   |
| Delta Energy Systems (Germany) Gmbh                                      | "   |
| Delta Energy Systems (India) PVT (DES India)                             | "   |
| Delta Energy Systems (Brasil) S.A.                                       | "   |
| Delta Video Technology Ltd (DVT)   | Indirectly held investee, accounted for under the equity method by DIH (Note) |
| Delta Green (Tianjin) Industries Company Limited (Delta Green (Tianjin)) | Indirectly held investee, accounted for under the equity method by DET        |

Note: DAC Holding was acquired during the third quarter of 2004 by DIH. As the results, all significant intercompany transactions between the DVT and consolidated entities were eliminated after July 31, 2004.

**(2) Significant transactions with related parties**

A. Sales

|             | <u>For the years ended December 31,</u> |                     |
|-------------|---|---------------------|
|             | <u>2004</u>                             | <u>2005</u>         |
| Delta-Cimic | \$ 1,054,299                            | \$ 1,493,261        |
| DPC         | 1,010,030                               | 783,462             |
| DET         | 165,326                                 | 293,360             |
| DEU         | 301,414                                 | 244,718             |
| DES India   | 259,095                                 | 206,577             |
| DVT         | 563,030                                 | -                   |
| Others      | <u>12,573</u>                           | <u>117,927</u>      |
|             | <u>\$ 3,365,767</u>                     | <u>\$ 3,139,305</u> |

The sales terms, including prices and collections, were negotiated based on cost, market, competitors and other factors.

B. Purchases

|                       | <u>For the years ended December 31,</u> |                     |
|-----------------------|---|---------------------|
|                       | <u>2004</u>                             | <u>2005</u>         |
| DET                   | \$ 934,823                              | \$ 939,763          |
| Delta Green (Tianjin) | 265,236                                 | 270,951             |
| DVT                   | 317,800                                 | -                   |
| Others                | <u>61,776</u>                           | <u>53,296</u>       |
|                       | <u>\$ 1,579,635</u>                     | <u>\$ 1,264,010</u> |

The purchases terms, including prices and payments, were negotiated based on cost, market, competitors and other factors.



C. Accounts receivable

|             | <u>For the years ended December 31,</u> |                       |
|-------------|---|-----------------------|
|             | <u>2004</u>                             | <u>2005</u>           |
| Delta-Cimic | \$ 317, 884                             | \$ 491, 829           |
| DPC         | 245, 923                                | 309, 916              |
| DEU         | 108, 952                                | 119, 172              |
| DES India   | 189, 430                                | 121, 404              |
| DET         | 51, 843                                 | 58, 644               |
| Others      | <u>16, 700</u>                          | <u>30, 199</u>        |
|             | <u>\$ 930, 732</u>                      | <u>\$ 1, 131, 164</u> |

D. Other receivables

|  | <u>December 31,</u> |                   |
|--|---------------------|-------------------|
|  | <u>2004</u>         | <u>2005</u>       |
| DET                                      | \$ 128, 015         | \$ 18, 948        |
| Others                                   | <u>40, 404</u>      | <u>38, 861</u>    |
|  | 168, 419            | 57, 809           |
| Less: Allowance for doubtful<br>accounts | ( <u>1, 402</u> )   | <u>-</u>          |
|  | <u>\$ 167, 017</u>  | <u>\$ 57, 809</u> |

Other receivables are mainly prepayment on behalf of related parties.

E. Accounts payable

|                       | <u>December 31,</u> |                    |
|-----------------------|---------------------|--------------------|
|                       | <u>2004</u>         | <u>2005</u>        |
| DET                   | \$ 218, 784         | \$ 317, 818        |
| Delta Green (Tianjin) | 56, 037             | 102, 447           |
| Others                | <u>32, 579</u>      | <u>20, 991</u>     |
|                       | <u>\$ 307, 400</u>  | <u>\$ 441, 256</u> |

F. Endorsements and guarantees

The amount of endorsements and guarantees provided by the Company on behalf of related party as of December 31, 2004 and 2005 are listed below:

|     | <u>December 31,</u> |                   |
|-----|---------------------|-------------------|
|     | <u>2004</u>         | <u>2005</u>       |
| DPC | <u>\$ 317,850</u>   | <u>\$ 328,500</u> |

**6. DETAILS OF PLEDGED ASSETS**

As of December 31, 2004 and 2005, the details of pledged assets are as follows:

| <u>Assets</u>   | <u>December 31,</u> |                     | <u>Purpose</u>              |
|---|---------------------|---------------------|-----------------------------|
|   | <u>2004</u>         | <u>2005</u>         |                             |
| Time deposit (shown as other financial assets-current)  | \$ 39,173           | \$ 20,000           | Collaterals for patent suit |
| Time deposits (shown as other financial assets-current) | 1,810               | 1,123               | Performance bonds           |
| Time deposits (shown as other financial assets-current) | -                   | <u>1,340,805</u>    | Collateral for bank loans   |
|   | <u>\$ 40,983</u>    | <u>\$ 1,361,928</u> |                             |

## 7. COMMITMENTS AND CONTINGENT LIABILITIES

Except for Note 5, the Company's commitments in relation to the leases was as follows:

- 1) Effective May, 2004, the Company has a 20-year land and building lease in Tainan Science-Based Industrial Park. As of December 31, 2005, the future lease payments and the net present value discounted at 2.015%, one-year time deposit interest rate given by the Chunghwa Post Co., Ltd., as of December 31, 2005, are as follows:

| <u>Year</u>                                   | <u>Amount</u>    |
|---|------------------|
| 2006  | \$ 2,931         |
| 2007  | 2,931            |
| 2008  | 2,931            |
| 2009  | 2,931            |
| 2010  | 2,931            |
| 2011~2015 (the net present value is \$12,496) | 14,653           |
| 2016~2020 (the net present value is \$11,310) | 14,653           |
| 2021~2023 (the net present value is \$ 6,264) | <u>8,791</u>     |
|   | <u>\$ 52,752</u> |

- 2) As of December 31, 2005, unused letter of credits amount was \$146,960.
- 3) Minimum future payments for land lease of DDG were approximately \$91,675.

## 8. MAJOR CATASTROPHE

None.

## 9. SUBSEQUENT EVENTS

None.

## 10. OTHER

(1) Certain accounts in the consolidated financial statements for the year ended December 31, 2004 have been reclassified to conform with the presentation adopted for the year ended December 31, 2005.

(2) Fair value of non-derivative assets and liabilities

|  | <u>December 31, 2004</u> |                   | <u>December 31, 2005</u> |                   |
|--|--------------------------|-------------------|--------------------------|-------------------|
|  | <u>Book value</u>        | <u>Fair value</u> | <u>Book value</u>        | <u>Fair value</u> |
| <u>ASSETS</u>  |                          |                   |                          |                   |
| Non-derivative assets with fair values equal to book values      | \$32,275,463             | \$32,275,463      | \$46,975,242             | \$46,975,242      |
| Short-term investments   | 2,305,115                | 2,305,254         | -                        | -                 |
| Long-term investments  | 8,429,006                | 8,287,467         | 6,902,911                | 6,682,630         |
| <u>LIABILITIES</u>   |                          |                   |                          |                   |
| Non-derivative liabilities with fair values equal to book values | 25,772,116               | 25,772,116        | 30,869,632               | 30,869,632        |
| Accrued pension liabilities                                      | 772,117                  | 1,195,388         | 953,051                  | 1,281,482         |

The related assumptions on the fair value of non-derivative assets and liabilities are as follows:

A. Non-derivative assets and liabilities with fair values equal to book values.

(A) The carrying amounts of short-term non-derivative assets and liabilities including cash and cash equivalents, notes and accounts receivable, other receivables, other financial assets-current, cash surrender value of life insurance, refundable deposits, short-term loans, notes and bills payable, notes and accounts payable, income tax payable, accrued expenses, other payables, other current liabilities and guarantee deposits received approximate their fair values because of their short-term maturities.

- (B) The fair value of cash surrender value of life insurance is based on the book value at balance sheet date.
- (C) The fair values of refundable deposits and guarantee deposits received are based on book values, which approximate present value.
- (D) The fair value of convertible bonds is based on the book value at balance sheet date. According to the terms and condition of convertible bonds, the interest rate is zero and the redemption price is lower than the face value. The discounted value was not easily determinable due to uncertain redemption or conversion dates and the amount denominated in foreign currency was translated into New Taiwan dollars using the exchange rate at the balance sheet date.
- B. The short-term investments are open-ended funds, the fair values are based on the net assets of the open-ended funds at the balance sheet date. If market values is not available, then the fair values are based on book values.
- C. The fair values of long-term investments are based on their market values at the balance sheet date or the underlying equity in net assets if market value is not available.
- D. The fair value of accrued pension liabilities is the funded status based on the retirement actuarial report as of December 31, 2004 and 2005. The fair value of reserve for retirement plan was not based on an actuarial report is based on book value.
- (3) Financial instruments with credit risk:

|                                   | <u>December 31,</u> |                   |
|-----------------------------------|---------------------|-------------------|
|                                   | <u>2004</u>         | <u>2005</u>       |
| Loan guarantees for related party | <u>\$ 317,850</u>   | <u>\$ 328,500</u> |

Loan guarantees provided by the Company are in compliance with the Company “Procedures for Provision of Endorsements and Guarantees” and are only provided affiliated companies of which the Company owns directly or indirectly more than 50% ownership or a company which trades with the Company. As the Company is fully aware of the credit conditions of these related parties, it has not asked for collateral for the loan guarantees provide. In these events that these related parties fail to comply with loan agreements with banks, the maximum loss to the Company is the total amount of loan guarantees as listed above.

#### (4) Information on derivative transactions

##### A. General information disclosure:

(A) The Company and its subsidiaries entered into certain foreign currency option contracts, forward foreign currency contracts, credit-linked notes and cross currency swap contracts, which are not held to sale, but to hedge foreign exchange and interest risks in foreign currency denominated accounts receivable and payable. The purpose of the Company and its subsidiaries is to hedge the most of foreign exchange risks and evaluate periodically.

(B) Accounting policy: See Note 2.

(C) Credit risk:

The banks, which the Company and its subsidiaries deal with, are all in good credit standing and the Company and its subsidiaries deal with several banks to disperse the credit risk, therefore, the possibility is low for the banks not to comply with the terms of the contracts.

(D) Market risk:

The Company and its subsidiaries entered into these contracts in order to hedge foreign exchange losses. The exchange gain or loss from exchange rate fluctuation of hedge item will be offset by these transactions. Accordingly, no material market risk is expected.

(E) The information on derivative transactions of the Company and its subsidiaries for the years ended December 31, 2004 and 2005 are as follows (unit: thousands of dollars):

|   | Par value, contracts amount or nominal principal | Transaction terms     |                                 | Recognized gain (loss) | Related future cash flows |              |
|---|--|-----------------------|---------------------------------|------------------------|---------------------------|--------------|
|   |  | Exercise dates        | Exercise prices/ Exercise rates |                        | Cash inflow               | Cash outflow |
| <b>Derivative transactions of the Company during 2004</b> |  |                       |                                 |                        |                           |              |
| Buy option (USD PUT/TWD CALL)                             | USD 208,000                                      | 2004.07.27-2005.01.03 | USD:NTD32.23-34.10              | \$ -                   | \$ 1,009,900              | USD 31,000   |
| Sell option (USD CALL/TWD PUT)                            | USD 257,900                                      | 2004.07.27-2005.06.28 | USD:NTD32.23-33.878             | 4,815                  | \$ 6,296,805              | USD 192,900  |
| Sell option (USD CALL/JPY PUT)                            | USD 9,500  | 2004.09.22-2005.04.17 | USD:JPY102.20-108.70            | -                      | JPY 617,000               | USD 6,000    |
| Sell option (USD PUT/TWD CALL)                            | USD 62,000                                       | 2004.04.27-2004.12.23 | USD:NTD32.97-33.5               | -                      | USD (Note d)              | (Note d)     |
| Buy option (USD CALL/TWD PUT)                             | USD 110,000                                      | 2004.01.02-2004.12.23 | USD:NTD32.807-33.392            | 22,191                 | USD "                     | "            |
| Buy option (USD PUT/JPY CALL)                             | USD 2,000  | 2004.12.21-2004.12.28 | USD:JPY102.20                   | -                      | USD "                     | JPY "        |
| Sell option (USD PUT/JPY CALL)                            | USD 2,500  | 2004.12.15            | USD:JPY125.80                   | ( 13,418)              | USD "                     | JPY "        |
| Forward foreign currency contracts                        | USD 37,694                                       | 2004.03.26-2004.09.14 | USD:THB39.27-40.6075            | -                      | USD "                     | THB "        |
| "   | USD 37,684                                       | 2004.03.26-2004.09.14 | USD:THB39.28-40.6175            | 317                    | THB "                     | USD "        |
| "   | USD 63,000                                       | 2004.04.12-2004.06.29 | USD:NTD33.054-33.71             | -                      | JPY "                     | USD "        |
| Interest Rate Swap  | USD 1,000  | 2004.09.30            | USD:JPY105.50                   | -                      | NTD "                     | USD "        |
|   | NTD 1,500,000                                    | 2002.10.01-2006.06.10 | 1.73%-2.7%                      | ( 2,142)               | (Note c)                  | (Note c)     |
| Callible Range Accrual Swap                               | USD 190,000                                      | 2002.07.18-2008.07.30 | 1%-4.3%                         | ( 47,013)              | (Note d)                  | (Note d)     |
|   |  |                       |                                 | ( \$ 35,250)           |                           |              |

(Note a): The Company will pay or receive the difference between the floating and predetermined interest rate multiplied by the notional amount.

(Note b): If LIBOR is between the contract rate range, the Company will receive the difference between the predetermined and floating rate multiplied by the notional amount from the bank. However, when LIBOR falls outside the contract rate range, the Company will pay predetermined rate multiplied by the notional amount to the bank.

(Note c): The Interest Rate Swap in the amount of \$500,000 was closed. For the remaining outstanding contract amount, as the Company will pay or receive the difference net of total transactions, so future cash flows cannot be reasonably estimated.

(Note d): These transactions were closed.

| Derivative transactions   | Par value, contracts amount or nominal principal | Transaction terms     |                                 | Recognized gain (loss) | Related future cash flows |              |
|---|--|-----------------------|---------------------------------|------------------------|---------------------------|--------------|
|   |  | Exercise dates        | Exercise prices/ Exercise rates |                        | Cash inflow               | Cash outflow |
| <u>Derivative transactions of the consolidated subsidiaries during 2004</u> |  |                       |                                 |                        |                           |              |
| 1. Delta International Holding Ltd. (DIH)                                   |  |                       |                                 |                        |                           |              |
| Forward foreign currency contracts  | USD 207,241                                      | 2004.01.08-2004.12.03 | USD1:THB39, 2205-41, 61         | \$ -                   | (Note e)                  | (Note e)     |
| "   | USD 207,178                                      | 2004.01.08-2004.12.03 | USD1:THB39, 2305-41, 6225       | 63                     | "                         | "            |
| Total   |  |                       |                                 | \$ 63                  |                           |              |
| 2. Delta Electronics International Ltd. (the subsidiary of DIH)             |  |                       |                                 |                        |                           |              |
| Buy option (USD PUT/RMB CALL)   | USD 1,000  | 2004.01.28            | USD1:RMB8, 28                   | \$ 0.35                | (Note e)                  | (Note e)     |
| Forward foreign currency contracts  | USD 6,000  | 2004.01.30-2004.03.22 | USD1:RMB8, 2030-8, 2270         | 8                      | "                         | "            |
| "   | USD 119,000                                      | 2004.01.30-2005.12.07 | USD1:RMB7, 8340-8, 2580         | 858                    | (Note c)                  | (Note c)     |
| "   | USD 25,500                                       | 2004.04.15-2005.01.25 | USD1:JPY103, 20-111, 00         | 31                     | JPY 417,023               | USD 4,000    |
| Range Accrued Swap  | USD 5,000  | 2007.07.19            | (Note d)                        | ( 72)                  | (Note e)                  | (Note e)     |
|   | (Note b)   |                       |                                 |                        |                           |              |
| Libor-linked USD/YEN Strategy   | USD 60,000                                       | 2004.07.29            |                                 | ( 159)                 | "                         | "            |
| Total   |  |                       |                                 | \$ 666                 |                           |              |



| Derivative transactions   | Par value, contract amount or nominal principal | Transaction terms     |                                    | Recognized gain (or loss) | Related future cash flows |              |
|---|---|-----------------------|------------------------------------|---------------------------|---------------------------|--------------|
|   |   | Exercise dates        | Exercise prices/<br>Exercise rates |                           | Cash inflow               | Cash outflow |
| 3. Delta Electronics (Dong Guan) Co., Ltd (the subsidiary of DIH)<br>Forward foreign currency contracts                   | USD 16,000                                      | 2005.01.07~2005.12.07 | USD1:RMB8.1122-8.2235              | (\$ 1,450)                | USD 16,000                | USD 130,965  |
| 4. Delta Electronics Power (Dong Guan) Co., Ltd (the subsidiary of DIH)<br>Forward foreign currency contracts             | USD 34,000                                      | 2005.01.07~2005.12.07 | USD1:RMB8.1122-8.2235              | (\$ 2,346)                | RMB 278,097               | USD 34,000   |
| 5. Delta Electronics Components (Dong Guan) Co., Ltd (the subsidiary of DIH)<br>Forward foreign currency contracts        | USD 34,000                                      | 2005.01.08~2005.12.07 | USD1:RMB8.1122-8.2235              | (\$ 2,537)                | RMB 278,467               | USD 34,000   |
| 6. Delta Electronics Industrial (Dong Guan) Co., Ltd (the subsidiary of DNI Cayman)<br>Forward foreign currency contracts | USD 1,000                                       | 2005.01.07            | USD1:RMB8.2160                     | (\$ 227)                  | RMB 8,216                 | USD 1,000    |

| Derivative transactions   | Par value, contract amount or nominal principal | Transaction terms     |                                | Recognized gain (or loss) | Related future cash flows |              |
|---|---|-----------------------|--------------------------------|---------------------------|---------------------------|--------------|
|   |   | Exercise dates        | Exercise prices/Exercise rates |                           | Cash inflow               | Cash outflow |
| 7. Delta Networks, Inc (registered in Taiwan, the subsidiary of DNI Cayman) |   |                       |                                |                           |                           |              |
| Sell option (USD CALL/TWD PUT)  | USD 117,900                                     | 2004.08.06-2005.09.28 | USD: NTD31.82~34.50            | \$ 600                    | NTD 3,181,643             | USD 97,000   |
| Sell option (USD PUT/TWD CALL)  | USD 39,400                                      | 2004.02.02-2005.08.25 | USD: NTD31.00~34.00            | ( 2,649)                  | USD 17,900                | NTD 560,250  |
| Sell option (USD CALL/JPY PUT)  | USD 4,200                                       | 2004.12.30-2005.02.24 | USD: JPY104.50-108.00          | 64                        | JPY 316,500               | USD 3,000    |
| Buy option (USD PUT/TWD CALL)   | USD 32,100                                      | 2004.01.14-2005.03.22 | USD: NTD32.00~34.14            | 5,612                     | (Note e)                  | (Note e)     |
| Buy option (USD CALL/TWD PUT)   | USD 11,000                                      | 2004.03.24-2005.02.22 | USD: NTD32.887~33.45           | 3,077                     | "                         | "            |
| Buy option (USD CALL/JPY PUT)   | USD 2,000                                       | 2004.12.17            | USD: JPY97.40~99.45            | 4,231                     | "                         | "            |
| Forward foreign currency contracts  | USD 980   | 2004.04.26            | USD: NTD32.881                 | -                         | "                         | "            |
|   | USD 19,000                                      | 2004.01.02-2004.08.04 | USD: NTD32.946~33.733          | -                         | "                         | "            |
| Interest Rate Swap  | NTD 500,000                                     | 2002.07.01-2004.07.01 | 2.1%-2.7%                      | ( 6,436)                  | "                         | "            |
|   | USD 5,000                                       | 2002.10.19-2007.07.19 | 4.30%                          | ( 3,754)                  | "                         | "            |
| Total   | (Note a)  |                       |                                | \$ 745                    |                           |              |

(Note a): The Company will pay or receive the difference between the floating and fixed predetermined interest rate multiplied by the notional amount.

(Note b): If LIBOR is between the contract rate range, the company will receive the difference between the predetermined and floating rate multiplied by the notional amount from the bank. However, when LIBOR falls outside the contract rate range, the Company will pay predetermined rate multiplied by the notional amount to the bank.

(Note c): The Company will pay or receive the difference net of all transactions, so future cash flow cannot be reasonably estimated.

(Note d): The exercise rates of the transactions will be decided on exercise dates.

(Note e): These transactions were closed.

| Derivative transactions of the Company   | Par value, contract amount or nominal principal | Transaction terms     |                                | Realized gain (or loss) | Related future cash flows |              |
|--|---|-----------------------|--------------------------------|-------------------------|---------------------------|--------------|
|  |   | Exercise dates        | Exercise prices/Exercise rates |                         | Cash inflow               | Cash outflow |
| <u>Derivative transactions of the Company during 2005</u>  |   |                       |                                |                         |                           |              |
| Sell option(USD CALL/TWD PUT)  | USD 9,000                                       | 2006.02.23-2006.04.20 | USD1:NTD33.255                 | (\$ 632)                | \$ 299,295                | USD 9,000    |
| Multiple-Stage Inflating Forward   | USD 30,000                                      | 2006.01.18-2006.03.20 | (Note a)                       | 4,108                   | (Note b)                  | (Note b)     |
| Interest Rate Swap   | \$ 1,000,000                                    | 2005.12.10            | 2.26909%                       | ( 20,764)               | (Note c)                  | (Note c)     |
| Credit-Linked Notes  | \$ 150,000                                      | 2005.12.12            | 90 Days CP interest rate+1.45% | 3,434                   | (Note c)                  | (Note c)     |
|  |   |                       |                                | <u>(\$ 13,854)</u>      |                           |              |
| <u>Derivative transactions of the subsidiaries during 2005</u>   |   |                       |                                |                         |                           |              |
| 1.Delta Electronics International Ltd. (the subsidiary of DIH)   |   |                       |                                |                         |                           |              |
| Forward foreign currency contracts   | USD 238,000                                     | 2006.01.13-2006.07.11 | USD1:RMB7.8315-7.9845          | \$ 57,427               | (Note)                    | (Note)       |
| "  | USD 284,000                                     | 2005.01.11-2005.12.30 | USD1:RMB7.8340-8.1385          | 155,124                 | (Note c)                  | (Note c)     |
| Total  |   |                       |                                | <u>\$ 212,551</u>       |                           |              |
| Note: Delta Electronics International Ltd. will pay or receive the difference net of all transactions, so future cash flow cannot be estimated reasonably. |   |                       |                                |                         |                           |              |
| 2.Delta Electronics (Dong Guan) Co., Ltd. (the subsidiary of DIH)  |   |                       |                                |                         |                           |              |
| Forward foreign currency contracts   | USD 16,000                                      | 2005.01.07-2005.12.07 | USD1:RMB8.1563-8.2235          | (\$ 6,998)              | (Note c)                  | (Note c)     |
| "  | USD 14,000                                      | 2006.01.19-2006.07.07 | USD1:RMB7.9632-8.0460          | ( 10,574)               | RMB 112,039               | USD 14,000   |
| Total  |   |                       |                                | <u>(\$ 17,572)</u>      |                           |              |
| 3.Delta Electronics Power (Dong Guan) Co., Ltd. (the subsidiary of DIH)  |   |                       |                                |                         |                           |              |
| Forward foreign currency contracts   | USD 203,000                                     | 2005.01.07-2005.12.28 | USD1:RMB8.1295-8.2235          | (\$ 56,124)             | (Note c)                  | (Note c)     |
| "  | USD 144,000                                     | 2006.01.11-2006.07.07 | USD1:RMB7.9632-8.0972          | ( 108,827)              | RMB 1,153,358             | USD 144,000  |
| "  | USD 30,536                                      | 2006.07.28-2006.08.18 | USD1:RMB7.8552-7.8566          | 12,414                  | USD 30,536                | RMB 239,880  |
| Total  |   |                       |                                | <u>(\$ 152,537)</u>     |                           |              |

| Derivative transactions  | Par value, contract amount or nominal principal | Transaction terms     |                                | Realized gain (or loss) | Related cash flows |              |
|--|---|-----------------------|--------------------------------|-------------------------|--------------------|--------------|
|  |   | Exercise dates        | Exercise prices/Exercise rates |                         | Cash inflow        | Cash outflow |
| 4. Delta Electronics Components (Dong Guan) Co., Ltd. (the subsidiary of DIH)        |   |                       |                                |                         |                    |              |
| Forward foreign currency contracts   | USD 68,000                                      | 2005.01.07-2005.12.28 | USD1:RMB8.1563-8.2235          | (\$ 18,667)             | (Note c)           | (Note c)     |
| "  | USD 80,000                                      | 2006.01.11-2006.07.07 | USD1:RMB7.9632-8.0972          | ( 59,001)               | RMB 641,792        | USD 80,000   |
| "  | USD 10,480                                      | 2006.07.28            | USD1:RMB7.8557-7.8566          | 4,797                   | USD 10,480         | RMB 82,336   |
| Total  |   |                       |                                | <u>(\$ 72,871)</u>      |                    |              |
| 5. Delta Electronics (Japan) Inc. (the subsidiary of DIH)                            |   |                       |                                |                         |                    |              |
| Forward foreign currency contracts   | USD 300   | 2005.09.30            | USD1:JPY 111.50                | (\$ 378)                | (Note c)           | (Note c)     |
| "  | USD 300   | 2005.10.31            | USD1:JPY 111.18                | ( 1,203)                | "                  | "            |
| "  | USD 300   | 2005.11.30            | USD1:JPY 110.80                | ( 2,496)                | "                  | "            |
| Total  |   |                       |                                | <u>(\$ 4,077)</u>       |                    |              |
| 6. Delta Electronics Industrial (Dong Guan) Co., Ltd. (the subsidiary of DNI Cayman) |   |                       |                                |                         |                    |              |
| Forward foreign currency contracts   | USD 68,000                                      | 2005.06.14-2006.07.07 | USD1:RMB7.9632-8.1872          | (\$ 417)                | RMB 328,215        | USD 41,000   |
| 7. Delta Networks, Inc. (registered in Taiwan, the subsidiary of DNI Cayman)         |   |                       |                                |                         |                    |              |
| Buy option (USD PUT/TWD CALL)  | USD 21,900                                      | 2005.02.14-2005.06.24 | USD1:NTD31.00-32.20            | (\$ 1,064)              | (Note c)           | (Note c)     |
| Buy option (USD CALL/TWD PUT)  | USD 20,000                                      | 2005.03.22-2005.11.29 | USD1:NTD31.30-33.20            | ( 6,214)                | "                  | "            |
| Sell option (USD CALL/TWD PUT)   | USD 127,600                                     | 2005.02.23-2005.12.29 | USD1:NTD31.00-33.85            | 3,321                   | "                  | "            |
| Sell option (USD PUT/TWD CALL)   | USD 80,700                                      | 2005.02.23-2005.12.29 | USD1:NTD30.57-33.65            | 5,652                   | "                  | "            |
| Sell option (USD CALL/JPY PUT)   | USD 23,000                                      | 2005.01.26-2005.10.27 | USD1:JPY104.75-112.00          | 1,618                   | "                  | "            |
| Buy option (USD PUT/JPY CALL)  | USD 1,000                                       | 2005.02.25            | USD1:JPY105.7                  | 306                     | "                  | "            |
| Total  |   |                       |                                | <u>\$ 3,619</u>         |                    |              |
| 8. Delta Networks International Ltd. (the subsidiary of DNI Cayman)                  |   |                       |                                |                         |                    |              |
| Forward foreign currency contracts   | USD 68,000                                      | 2005.06.14-2006.07.07 | USD1:RMB7.8385-8.0565          | \$ 826                  | USD 41,000         | RMB 323,651  |

(Note a): The exercise rate is determined by the exchange rate of exercise date. Therefore, the exercise rate cannot be estimated reasonably.

(Note b): The Company will pay or receive predetermined nominal principal by the exercise rate of contract, so future cash flow can't be estimated reasonably.

(Note c): The transaction had been closed.

(F) The Company and its subsidiaries combined the buy and sell option contracts to form the range forward contracts. The premiums expense and income from buy and sell options are to be offset and the net premium income of the Company and its subsidiaries was \$41,517 and \$0 for the years ended December 31, 2004 and 2005, respectively.

(G) Fair value:

|                                   | December 31,         |             |                      |            |
|-----------------------------------|----------------------|-------------|----------------------|------------|
|                                   | 2004                 |             | 2005                 |            |
|                                   | Nominal<br>principal | Fair value  | Nominal<br>principal | Fair value |
| Foreign currency option contracts | \$11,054,824         | (\$ 10,148) | \$ 295,650           | (\$ 632)   |
| Interest Rate Swap                | \$ 1,000,000         | (\$ 16,883) | -                    | -          |
| Forward foreign currency contract | \$ 5,403,450         | \$ 45,559   | \$19,677,676         | \$ 148,604 |
| Multiple-Stage Inflating Forward  | -                    | -           | \$ 985,500           | \$ 4,108   |

(H) The book value for related derivative transactions of the Company and its subsidiaries are as follows:

|   | December 31, |               |
|---|--------------|---------------|
|   | 2004         | 2005          |
| Foreign currency options and forward foreign currency contracts |              |               |
| Other receivables   | \$ 5,398,531 | \$ 19,706,311 |
| Other payables  | ( 5,357,077) | ( 19,537,314) |
| Other receivables (payables)-net                                | \$ 41,454    | \$ 168,997    |

(I) As of December 31, 2004 and 2005, the Company and its subsidiaries entered into derivatives contracts with overseas institution (including the foreign institutions operate in local territory) and the relevant nominal principal were \$1,000,000 ; USD\$154,000 and USD\$239,000, respectively. The fair value of derivatives at December 31, 2004 and 2005 were (\$11,477) and \$56,263, respectively. The book value at December 31, 2004 and 2005 were \$279 and \$233,373, respectively.

**B. Additional disclosure information**

Pursuant to the terms of the contracts, the premiums are delivered or paid on the trade date. There was no any collateral as of December 31, 2004 and 2005.



### 11. Disclosure information of the Company and its subsidiaries

#### (1) Related information of significant transactions

The disclosure information of the investee companies was based on their audited financial statements and the transactions with subsidiaries disclosed below had been eliminated when preparing consolidated financial statements. All the disclosure information is for reference only.

- A. Financing activities to any company or person: None.  
B. Guarantee information:

| Number<br>(Note a) | Name of the company<br>providing guarantee | Parties being guaranteed             |  | Limit on<br>guarantee<br>for such party<br>(Note c) | Maximum<br>outstanding guarantee<br>amount in 2005<br>(Note e) | Outstanding<br>guarantee amount<br>at 12/31/2005 | Amount of<br>guarantee with<br>collateral placed | Ratio of<br>accumulated guarantee<br>amount to net value<br>of the Company | Ceiling on<br>outstanding guarantee<br>to the respective party |
|--------------------|--|--------------------------------------|--|---|--|--|--|--|--|
|                    |  | Name                                 | Relationship with<br>the Company<br>(Note b) |   |  |  |  |  |  |
| 0                  | Delta Electronics, Inc.                    | Delta Products Corp.                 | 1  | \$ 328,500  | \$ 335,500   | 328,500  | -  | 0.69%  | (Note d)   |
| 0                  | "  | Delta Networks<br>International Ltd. | 2  | 262,800   | 214,676  | 42,048   | -  | 0.09%  | (Note d)   |
| 0                  | "  | Delta Optoelectronics Inc.           | 2  | 450,000   | -  | -  | -  | -  | (Note d)   |
| 0                  | "  | Delsolar Co., Ltd.                   | 2  | 200,000   | 200,000  | 200,000  | -  | 0.42%  | (Note d)   |

(Note a): Number 0 represents the Company.

(Note b): Number 1 means the Company has business transactions with the party. Number 2 means the subsidiaries of the Company.

(Note c): The limit was determined by the Board of Directors.

(Note d): In accordance with the guarantee procedure of the Company, the Company's guarantee to others should not be in excess of 80% of the Company's net assets.  
As of December 31, 2005, the maximum amount of guarantee that the Company can provide was \$34,719,641.

(Note e): The highest outstanding guarantee amount in 2005 were translated using the exchange rate when the Company declared to SFB.

#### C. Marketable securities held by the Company at December 31, 2005: (Combine the amount less than 100,000 on December 31, 2005)

| Name of investor<br>Delta Electronics, Inc | Type of<br>marketable securities<br>Common Stock | Name of<br>marketable securities<br>Delta International Holding Ltd. | Relationship of the<br>issuers with the Company<br>A subsidiary of the<br>Company | General<br>ledger accounts<br>Long-term<br>investments | December 31, 2005                 |               |                         | Market value  | Note |
|--|--|--|---|--|-----------------------------------|---------------|-------------------------|---------------|------|
|  |  |  |   |  | Number of shares<br>(In thousand) | Book value    | Percentage<br>ownership |               |      |
| "  | "  | Delta Networks Holding Ltd.  | "   | "  | 39,800                            | \$ 2,173,234  | 100.00                  | 2,189,244     | -    |
| "  | "  | Delta Electronics (Thailand)<br>Public Co., Ltd.                     | Investee company<br>accounted for under the<br>equity method                      | "  | 69,128                            | 1,420,146     | 5.82                    | 896,523       | -    |
| "  | "  | Cyntec Co., Ltd.   | "   | "  | 53,018                            | 878,386       | 36.22                   | 1,325,991     | -    |
| "  | "  | D-Link Co., Ltd.   | None  | "  | 12,599                            | 653,362       | 2.07                    | 483,925       | -    |
| "  | "  | Delsolar Co., Ltd.   | A subsidiary of the<br>Company  | "  | 49,500                            | 514,010       | 82.50                   | 510,773       | -    |
| "  | "  | Delta Optoelectronics Inc.   | "   | "  | 128,057                           | 357,859       | 95.21                   | 357,859       | -    |
| "  | Preferred Shares                                 | Delta America Ltd.   | None  | "  | 2,100                             | 100,535       | Preferred<br>shares     | 100,535       | -    |
| "  | Common Stock                                     | Others   | "   | "  |                                   | 725,733       |                         | 1,150,356     | -    |
| Total                                      |  |  |   |  |                                   | \$ 25,431,194 |                         | \$ 25,890,122 |      |



D. Marketable securities acquired or sold during 2005 in excess year of \$100,000 or over 20% of capital:

| Acquirer / seller       | Name of marketable security      | General ledger accounts        | Name of transaction parties | Relationship | January 1, 2005                 |            | Addition                        |                    | Disposal                        |           | December 31, 2005               |           |               |
|-------------------------|----------------------------------|--------------------------------|-----------------------------|--------------|---------------------------------|------------|---------------------------------|--------------------|---------------------------------|-----------|---------------------------------|-----------|---------------|
|                         |                                  |                                |                             |              | Number of shares (in thousands) | Amount     | Number of shares (in thousands) | Amount             | Number of shares (in thousands) | Amount    | Number of shares (in thousands) | Amount    |               |
| Delta Electronics, Inc. | NITC Bond Fund                   | Short-term investments         | -                           | -            | \$ -                            | 1,860      | \$ 298,000                      | (1,860)            | \$ 298,125                      | (298,000) | \$ 125                          | \$ -      |               |
| "                       | Prudential Financial Bond Fund   | "                              | -                           | -            | -                               | 20,920     | 298,000                         | (20,920)           | 298,126                         | (298,000) | 126                             | -         |               |
| "                       | TLAM Solomon Bond Fund           | "                              | -                           | -            | -                               | 17,436     | 198,000                         | (17,436)           | 198,092                         | (198,000) | 92                              | -         |               |
| "                       | Macromix International Co., Ltd. | Long-term investments (Note a) | -                           | -            | 61,335                          | 225,040    | -                               | (61,335)           | 293,114                         | (225,040) | 68,074                          | -         |               |
| "                       | Delta International Holding Ltd. | Long-term investments          | A subsidiary of the Company | -            | 51,700                          | 14,140,739 | 15,980                          | 4,467,190 (Note b) | -                               | -         | -                               | \$ 67,680 | \$ 18,607,929 |

Note a: The investment in Macromix International Co., Ltd. was a long-term investment before first quarter of 2005. After first quarter of 2005, the Company held the investment for short-term purpose, therefore, the related investment was transferred to short-term investment.

Note b: Delta International Holding Ltd. ("DIH") issued new shares and the Company subscribed shares totaling \$4,496,581. The net amount of investment income, cumulative translation adjustment and deducted the dividend declaration was \$29,391. The net increased amount for 2005 was \$4,467,190.

E. Acquisition of real estate in excess of \$100,000 or over 20% of capital:

| Property acquired by Delta Electronics Inc. | Property acquired | Date of transaction | Transaction amount | Status of payment | Counterparty                | Relationship with the Company | Previous transfer information (as the transaction parties were related parties) |  |                                     | Reason for acquisition of properties and status of the properties | Other commitment |
|---|-------------------|---------------------|--------------------|-------------------|-----------------------------|-------------------------------|---|--|-------------------------------------|---|------------------|
|   |                   |                     |                    |                   |                             |                               | Original owner who sold the property to counterparty                            | Relationship of the owner with the Company | Date of the original transfer       |   |                  |
| Buildings                                   | Buildings         | 94.12.30            | \$ 249,743         | Cash              | Lijin Engineering Co., Ltd. | -                             | -   | -  | Actual payment of construction cost | Built factory building in Taiwan Science-Based Industrial Park    | None             |

F. Disposal of real estate in excess of \$100,000 or over 20% of capital: None.

G. Related party purchases or sales transactions in excess of \$100,000 or over 20% of capital: Please refer to Note 5 (2) A and C.

## H. Receivables from related parties in excess of \$100,000 or over 20% of capital:

| Name of creditor        | Transaction parties                                   | Relationship   | Balance of receivable |                   | Turnover rate | Overdue receivable |                                       | Subsequent collections (Note) | Allowance for doubtful accounts provided |
|-------------------------|---|--|-----------------------|-------------------|---------------|--------------------|---------------------------------------|-------------------------------|--|
|                         |   |  | Accounts receivable   | Other receivables |               | Amount             | Action adopted for overdue accounts   |                               |  |
| Delta Electronics, Inc. | Delta International Holding Ltd.                      | A subsidiary of the Company  | \$ 1,950,630          | 1,581,040         | 2.86          | \$ -               | -                                     | \$ -                          | -  |
| "                       | DEI Logistics (USA) Corp.                             | A subsidiary of DIH  | 515,940               | 43,271            | 5.67          | 42,899             | Continued collection expected in 2006 | 205,959                       | -  |
| "                       | Delta Products Corporation                            | Affiliated enterprise  | 309,916               | 4,005             | 2.82          | -                  | -                                     | 110,353                       | -  |
| "                       | Delta Video Display System (Wu Jiang) Co., Ltd. (DWV) | A subsidiary of DIH  | 271,197               | 50                | 2.77          | -                  | -                                     | 68,662                        | -  |
| "                       | Delta Electronics International Ltd.                  | A subsidiary of DIH  | 5,541                 | 202,524           | 2.27          | -                  | -                                     | 72                            | -  |
| "                       | Delta Video Technology Ltd.                           | A subsidiary of DAC  | 105,723               | 744               | 5.92          | -                  | -                                     | 194,727                       | -  |
| "                       | Delta Energy Systems (India) PVT Ltd.                 | A subsidiary of the investee company accounted for under the equity method | 121,401               | -                 | 1.33          | -                  | -                                     | 69,344                        | -  |
| "                       | Delta Electronics Europe Ltd.                         | "  | 119,014               | 5,114             | 2.15          | -                  | -                                     | 50,566                        | -  |

(Note): The amounts collected subsequently by February 14, 2006.

## I. Information on derivative transactions: Please refer to Note 10 (3).

(2) Disclosure information of investee company

Information related to investee companies' investment income or loss was translated at the average exchange rate of 2005 while others were translated at the rate of exchange prevailing at the balance sheet date.

A. Information of investee company: (Combine the individual book value less than \$100,000 on December 31, 2005)

| Name of investor        | Name of investee company                      | Address   | Main activities   | Original investment (Note g)    |                                 | Held as of December 31, 2005    |                         |              | Income (loss) of the investee company | Investment income (loss) recognized by the Company | Note |
|-------------------------|---|---|---|---------------------------------|---------------------------------|---------------------------------|-------------------------|--------------|---------------------------------------|--|------|
|                         |   |   |   | Balance as of December 31, 2005 | Balance as of December 31, 2004 | Number of shares (in thousands) | Percentage of ownership | Book value   |                                       |  |      |
| Delta Electronics, Inc. | Delta International Holding Ltd.              | Cayman Islands                                      | Equity investment   | \$ 8,922,118                    | \$ 4,425,537                    | 67,680                          | 94.00                   | \$ 3,973,264 | \$ 3,762,349                          | (Note e)   |      |
| "                       | Delta Networks Holding Ltd.                   | Cayman Islands                                      | Equity Investment   | 1,377,206                       | 1,377,206                       | 39,800                          | 100.00                  | 731,628      | 723,934                               | -  |      |
| "                       | Delta Electronics (Thailand) Public Co., Ltd. | Thailand  | Manufacturing and sales of electronic products  | 114,615                         | 114,615                         | 69,128                          | 5.82                    | 1,817,123    | 213,708                               | (Note f)   |      |
| "                       | Cyntec Co., Ltd.                              | Science-Based Industrial Park, Hsinchu City, Taiwan | Research, development, manufacturing and sales of various thin film components  | 455,814                         | 455,814                         | 53,018                          | 36.22                   | 292,805      | 107,350                               | -  |      |
| "                       | Deisolar Co., Ltd.                            | "   | Manufacturing of solar batteries and related systems  | 495,000                         | 495,000                         | 49,500                          | 82.50                   | 19,597       | 19,431                                | -  |      |
| "                       | Delta Optoelectronics, Inc.                   | "   | Manufacturing of displays with polymer light emission display (PLED) and carbon nano-tube electronic emitter (CNT) technology | 1,418,882                       | 1,418,882                       | 128,057                         | 95.21                   | ( 224,977)   | ( 217,306)                            | -  |      |
| "                       | Others  |   |   | 727,569                         | 727,569                         |                                 |                         | ( 575,473)   | ( 315,729)                            | -  |      |
|                         |   |   |   | \$ 9,014,623                    | \$ 24,057,137                   |                                 |                         | \$ 4,293,737 | \$ 4,293,737                          |  |      |

| Name of investor                 | Name of investee company                           | Address                                    | Main activities  | Original investment (Note g)    |                                 | Held as of December 31, 2005    |                         |              |                                       | Investment income (loss) recognized by the Company (Note a) | Note |
|----------------------------------|--|--|--|---------------------------------|---------------------------------|---------------------------------|-------------------------|--------------|---------------------------------------|---|------|
|                                  |  |  |  | Balance as of December 31, 2005 | Balance as of December 31, 2004 | Number of shares (in thousands) | Percentage of ownership | Book value   | Income (loss) of the investee company |   |      |
| Delta International Holding Ltd. | Delta Electronics International Ltd.               | British Virgin Islands                     | Sales of electronic products                                   | \$ 29,565                       | \$ 29,565                       | 900                             | 100.00                  | \$ 9,655,198 | \$ 5,683,439                          | -   | -    |
| "                                | Delta Electronics (Dong Guan) Co., Ltd.            | Dongguan City, Guangdong, Province, P.R.C. | Manufacturing of power supplies                                | 1,238,445                       | 1,215,450                       | -                               | 100.00                  | 1,481,887    | 318,081                               | "   | -    |
| "                                | Delta Electronics Power (Dong Guan) Co., Ltd.      | Dongguan City, Guangdong Province, P.R.C.  | Manufacturing of power supplies                                | 886,950                         | 591,300                         | -                               | 100.00                  | 1,748,432    | 404,137                               | "   | -    |
| "                                | Delta Electronics Components (Dong Guan) Co., Ltd. | Dongguan City, Guangdong Province, P.R.C.  | Manufacturing of transformers                                  | 1,051,200                       | 1,051,200                       | -                               | 100.00                  | 1,373,388    | 326,092                               | "   | -    |
| "                                | Delta Electronics (Shanghai) Co., Ltd.             | Pudong new district, Shanghai City, P.R.C. | Product design   | 327,919                         | 327,919                         | -                               | 100.00                  | 254,593      | ( 58,555)                             | "   | -    |
| "                                | DAC Holding Ltd.                                   | Cayman Islands                             | Equity investment  | 432,733                         | 432,733                         | 13,173                          | 59.34                   | 142,248      | ( 139,920)                            | "   | -    |
| "                                | Delta Electronics (Jiang Su) Co., Ltd.             | Wujiang City, Jiang Su Province, P.R.C.    | Manufacturing of power supplies                                | 722,700                         | 722,700                         | -                               | 55.00                   | 991,776      | 282,252                               | "   | -    |
| "                                | Delta Electronics Components (Wu Jiang) Co., Ltd.  | Wujiang City, Jiang Su Province, P.R.C.    | Manufacturing of transformers and peripherals                  | 722,700                         | 722,700                         | -                               | 55.00                   | 984,290      | 443,025                               | "   | -    |
| "                                | Delta Electro-optics (Wu Jiang) Co., Ltd.          | Wujiang City, Jiang Su Province, P.R.C.    | Manufacturing of peripherals and electronic control equipments | 451,688                         | 451,688                         | -                               | 55.00                   | 557,582      | 110,047                               | "   | -    |
| "                                | Delta Video Display System (Wu Jiang) Co., Ltd.    | Wujiang City, Jiang Su Province, P.R.C.    | Manufacturing of monitors                                      | 523,958                         | 234,878                         | -                               | 55.00                   | 493,683      | 112,053                               | "   | -    |
| "                                | Others   |  |  | 279,204                         | 219,557                         |                                 |                         | 289,962      | 35,573                                |   | -    |

| Name of investor            | Name of investee company                           | Address                                   | Main activities  | Original investment (Note h)    |                                 | Held as of December 31, 2005    |                         |              | Investment income (loss) recognized by the Company | Note |
|-----------------------------|--|---|--|---------------------------------|---------------------------------|---------------------------------|-------------------------|--------------|--|------|
|                             |  |   |  | Balance as of December 31, 2005 | Balance as of December 31, 2004 | Number of shares (in thousands) | Percentage of ownership | Book value   |  |      |
| Delta Networks Holding Ltd. | Delta Networks Inc.                                | Cayman Islands                            | Equity Investment  | \$ 1,293,213                    | \$ 1,293,213                    | 39,367                          | 94.00                   | \$ 2,175,159 | 769,764  | -    |
| Delta Networks Inc.(Cayman) | Delta Networks Inc.                                | Gueishan Township, Taoyuan County         | Manufacturing of networking system and peripherals.                                    | 458,969                         | 458,969                         | 49,599                          | 99.20                   | 376,732      | 151,964  | -    |
| "                           | Delta Networks International Ltd.                  | British Virgin Islands                    | Trading of networking system and peripherals   | 283,824                         | 283,824                         | 10                              | 100.00                  | 921,577      | 444,797  | -    |
| "                           | Delta Electronics Industrial (Dong Guan) Co., Ltd. | Dongguan City, Guangdong Province, P.R.C. | Manufacturing and of electronic ballast for energy saving lighting and interface cards | 630,574                         | 630,574                         | -                               | 100.00                  | 940,840      | 181,412  | -    |
| "                           | Others   |   |  | 51,116                          | 18,266                          |                                 |                         | 56,887       | 1,673  | -    |
| Pyramis Corporation Ltd.    | Pyramis Holding Corporation Ltd.                   | Cayman Islands                            | Equity Investment  | 132,285                         | 132,285                         | 4,100                           | 100.00                  | 4,647        | 56,327   | -    |

Note a: Investment income/loss recognized by Delta International Holding Ltd.

Note b: Investment income/loss recognized by Delta Networks Holding Ltd.

Note c: Investment income/loss recognized by Delta Networks Inc.

Note d: Investment income/loss recognized by Pyramis Corporation.

Note e: The investment income is net of the elimination of intercompany transactions.

Note f: The weighted average shareholding ratio was 20.14%, and the investment income included the amortization of the excess of investment cost over the net assets of the investee as well as the elimination of intercompany transactions.

Note g: The original investment represented the capital certified.

- B. Financing activities to any company or person: None.  
 C. Guarantee information: None.  
 D. Marketable securities held by the company at December 31, 2005: (Combine the individual amount less than 100,000 on December 31, 2005)

| Name and kind of marketable securities    |                                   | December 31, 2005                                  |  |                         |                                 |            |                  |              |
|---|-----------------------------------|--|--|-------------------------|---------------------------------|------------|------------------|--------------|
| Name of investor                          | Type of marketable securities     | Name of marketable securities                      | Relationship of the issuers with the Company       | General ledger accounts | Number of shares (in thousands) | Book value | Percentage       | Market value |
|   |                                   |  |  |                         |                                 | \$         | 100.00           | \$           |
| Delta International Holding Ltd. (DIH)    | Common stock                      | Delta Electronics International Ltd.               | A subsidiary of DIH                                | Long-term investments   | 900                             | 9,655,198  | 100.00           | 9,655,198    |
| "   | Certificate of amount contributed | Delta Electronics (Dong Guan) Co., Ltd.            | "  | "                       | -                               | 1,481,887  | 100.00           | 1,481,887    |
| "   | "                                 | Delta Electronics Power (Dong Guan) Co., Ltd.      | "  | "                       | -                               | 1,748,432  | 100.00           | 1,748,432    |
| "   | "                                 | Delta Electronics Components (Dong Guan) Co., Ltd. | "  | "                       | -                               | 1,373,388  | 100.00           | 1,373,388    |
| "   | "                                 | Delta Electronics (Shanghai) Co., Ltd.             | "  | "                       | -                               | 254,593    | 100.00           | 254,593      |
| "   | "                                 | Delta Electronics (Jiang Su) Co., Ltd.             | "  | "                       | -                               | 991,776    | 55.00            | 991,776      |
| "   | "                                 | Delta Electronics Components (Wu Jiang) Co., Ltd.  | "  | "                       | -                               | 984,290    | 55.00            | 984,290      |
| "   | "                                 | Delta Electro-optics (Wu Jiang) Ltd.               | "  | "                       | -                               | 557,582    | 55.00            | 557,582      |
| "   | Common stock                      | DAC Holding Ltd.                                   | "  | "                       | 13,173                          | 142,248    | 59.34            | 142,248      |
| "   | "                                 | Delta Electronics (Thailand) Public Co., Ltd.      | Investee company accounted for under equity method | "                       | 180,984                         | 4,511,690  | 15.23            | 2,318,682    |
| "   | Preferred shares                  | Primarion Inc.                                     | None   | "                       | 16,013                          | 204,071    | Preferred shares | 204,071      |
| "   | Certificate of amount contributed | Delta Video System (Wu Jiang) Co., Ltd.            | A Subsidiary of DIH                                | "                       | -                               | 493,683    | 55.00            | 493,683      |
| "   | "                                 | Deltron-Cimic Electronic ad Electronics Co., Ltd.  | Affiliated enterprise                              | "                       | 34,036                          | 100,705    | 10.38            | 100,705      |
| "   | "                                 | Others   | "  | "                       | 39,367                          | 682,530    | 94.00            | 682,530      |
| Delta Networks Holding Ltd.(DNH)          | Common stock                      | Delta Networks Inc.                                | A subsidiary of DNH                                | "                       | 49,599                          | 2,175,159  | 99.20            | 2,175,159    |
| Delta Networks Inc. (Cayman) (DNI Cayman) | "                                 | Delta Networks Inc.                                | A subsidiary of DNI Cayman                         | "                       | -                               | 376,732    | 99.20            | 376,732      |
| "   | Certificate of amount contributed | Delta Electronics Industrial (Dong Guan) Co., Ltd. | "  | "                       | -                               | 940,840    | 100.00           | 940,840      |

December 31, 2005

Name and kind of marketable securities

| Name of investor    | Type of marketable securities | Name of marketable securities | Relationship of the issuers with the Company | December 31, 2005               |              |
|---------------------|-------------------------------|-------------------------------|--|---------------------------------|--------------|
|                     |                               |                               |  | Number of shares (in thousands) | Market value |
| Delta Networks Inc. | Common stock                  | Delta Networks                | A subsidiary of DNI                          | 10                              | \$ 921,577   |
| "                   | "                             | International Ltd.            | Cayman                                       |                                 |              |
| "                   | "                             | Others                        | "  |                                 | 56,887       |
| Pyramis Corporation | "                             | Pyramis Holding Ltd.          | A subsidiary of Pyramis Corporation          | 4,100                           | 4,647        |

E. Marketable securities acquired or sold in excess of NT\$100,000 or over 20% capital:

| Acquirer/seller                        | Name of marketable security                     | General ledger accounts | Name of transaction parties                     | Relationship        | January 1, 2005                 |         | Addition                        |            | Disposal                        |         | December 31, 2005               |            |
|--|---|-------------------------|---|---------------------|---------------------------------|---------|---------------------------------|------------|---------------------------------|---------|---------------------------------|------------|
|  |   |                         |   |                     | Number of shares (in thousands) | Amount  | Number of shares (in thousands) | Amount     | Number of shares (in thousands) | Amount  | Number of shares (in thousands) | Amount     |
| Delta International Holding Ltd. (DIH) | Primaron Inc.                                   | Long-term investments   | -   | None                | -                               | \$ -    | 16,013                          | \$ 204,071 | -                               | \$ -    | 16,013                          | \$ 204,071 |
| "                                      | Netgear Inc.                                    | "                       | -   | "                   | 506                             | 54,204  | -                               | -          | 263,700                         | 54,204  | 209,496                         | -          |
| "                                      | Delta Video Display System (Wu Jiang) Co., Ltd. | "                       | Delta Video Display System (Wu Jiang) Co., Ltd. | A subsidiary of DIH | -                               | 133,289 | -                               | 360,394    | -                               | -       | -                               | 493,683    |
| Delsolar Ltd.                          | Co., JF (Taiwan) Bond Fund                      | Short-term investments  | -   | "                   | 18,279                          | 250,000 | -                               | -          | 251,427                         | 250,000 | 1,427                           | -          |
| "                                      | UBS Taiwan Bond Fund                            | "                       | -   | "                   | 9,802                           | 141,579 | -                               | -          | 141,776                         | 141,579 | 197                             | -          |
| Delta Networks Inc.                    | NITC Taiwan Bond Fund                           | "                       | -   | "                   | -                               | -       | 20,955                          | 288,000    | 288,597                         | 288,000 | 597                             | -          |

Note: Delta Video Display System (Wu Jiang) Co., Ltd. issued new shares and DIH subscribed shares totaling \$289,080. DIH recognized investment income and cumulative translation adjustment in the amount of \$71,314 under the equity method. As a result, the net increased amount was \$360,394 for 2005.

F. Acquisition of real estate in excess of NT\$100,000 or over 20% of Capital: None.

G. Disposal of real estate in excess of NT\$100,000 or over 20% of Capital: None.

H. Related party purchases or sales transactions in excess of NT\$100,000 or over 20% of Capital:  
The transaction of the Company and its consolidated subsidiaries: Please see note 5(2) A. and C.

| Name of the counterparty             | Name of transaction parties                        | Transaction terms |              |                              |              | Description of and reasons for difference in transaction terms compared to non-related party transactions |               |            |        | Accounts or notes receivable (payable)            |  |
|--------------------------------------|--|-------------------|--------------|------------------------------|--------------|---|---------------|------------|--------|---|--|
|                                      |  | Purchases (sales) | Amount       | % of total purchases (sales) | Credit terms | Unit price  | Credit period | Balance    | (Note) | % of total accounts or notes receivable (payable) |  |
| Delta Electronics International Ltd. | Delta Electronics Co., Ltd.                        | Purchase          | \$ 3,051,173 | 4.13                         | 75 days      | According to the contract   | -             | \$ -       | -      | -   |  |
| "                                    | Delta Electronics Components (Dong Guan) Co., Ltd. | "                 | 4,928,040    | 6.68                         | "            | "   | -             | ( 134,379) |        | 27.00   |  |
| "                                    | Delta Electronics Power (Dong Guan) Co., Ltd.      | "                 | 22,397,798   | 30.35                        | "            | "   | -             | -          |        | -   |  |
| "                                    | Delta Electronics Guan Co, Ltd.                    | "                 | 205,201      | 0.28                         | "            | -   | -             | ( 44,688)  |        | 2.65  |  |
| "                                    | Delta Electronic (Japan), Inc.                     | "                 | 152,882      | 0.21                         | "            | -   | -             | ( 28,835)  |        | 1.71  |  |
| "                                    | Delta Electronics (Thailand) Public Co., Ltd.      | "                 | 269,447      | 0.37                         | "            | -   | -             | ( 95,828)  |        | 5.68  |  |
| "                                    | Delta Green (Tianjin) Industries Co., Ltd.         | "                 | 136,090      | 2.22                         | "            | According to the contract   | -             | 63,414     |        | 13.80   |  |
| "                                    | Delta Electronics Industrial (Dong Guan) Co., Ltd. | "                 | 160,183      | 2.61                         | "            | "   | -             | 37,546     |        | 8.20  |  |
| "                                    | Delta Electronics Power (Dong Guan) Co., Ltd.      | "                 | 611,100      | 34.72                        | "            | -   | -             | 174,057    |        | 10.98   |  |
| "                                    | Delta Electronics (Japan), Inc.                    | "                 | 139,905      | 8.17                         | "            | According to the contract   | -             | 73,304     |        | 16.30   |  |
| "                                    | Delta Electronics International Ltd.               | "                 | 2,000,522    | 2.48                         | "            | "   | -             | 219,811    |        | 1.19  |  |
| "                                    | Delta Electronics (Dong Guan) Co., Ltd.            | "                 | 19,159,154   | 23.79                        | "            | "   | -             | 1,092,564  |        | 5.91  |  |
| "                                    | Delta Electronics Power (Dong Guan) Co., Ltd.      | "                 | 4,563,089    | 5.66                         | "            | "   | -             | -          |        | -   |  |
| "                                    | Delta Electronics Components (Dong Guan) Co., Ltd. | "                 | 55,135,869   | 68.45                        | "            | -   | -             | 17,134,838 |        | 92.80   |  |
| "                                    | The ultimate parent company                        | "                 |              |                              | "            |   |               |            |        |   |  |



| Name of the counterparty                           | Name of transaction parties                        | Relationship          | Transaction terms |            |                              | Description of and reasons for difference in transaction terms compared to non-related party transactions |            |                           | Accounts or notes receivable (payable) |   |
|--|--|-----------------------|-------------------|------------|------------------------------|---|------------|---------------------------|--|---|
|  |  |                       | Purchases (sales) | Amount     | % of total purchases (sales) | Credit terms  | Unit price | Credit period             | Balance (Note)                         | % of total accounts or notes receivable (payable) |
| Delta Networks International Ltd.                  | DNI Logistic (USA) Corp.                           | Affiliated enterprise | Sales             | \$ 955,830 | 7.56                         | 75 days   | -          | -                         | \$ 204,572                             | 10.70   |
| "  | Delta Electronics Industrial (Dong Guan) Co., Ltd. | "                     | "                 | 5,806,688  | 45.95                        | "   | -          | According to the contract | 257,889                                | 13.50   |
| Delta Electronics Components (Dong Guan) Co., Ltd. | Delta Electronics Power (Dong Guan) Co., Ltd.      | "                     | "                 | 939,995    | 14.44                        | "   | -          | "                         | 546,387                                | 78.12   |
| Delta Electronics Components (Wu Jiang) Co., Ltd.  | Delta Electronics (Jiang Su) Co., Ltd.             | "                     | "                 | 489,270    | 10.46                        | "   | -          | -                         | 11,463                                 | 1.19  |
| "  | Delta Video Display System (Wu Jiang) Co., Ltd.    | "                     | "                 | 208,489    | 4.46                         | "   | -          | -                         | 50,829                                 | 5.29  |
| "  | Delta Electronics International Ltd.               | "                     | "                 | 1,686,822  | 36.06                        | "   | -          | -                         | 144,658                                | 15.04   |
| Delta Electronics (Jiang Su) Co., Ltd.             | Deltron-Cimic Electric and Electronics Co., Ltd.   | Related party         | "                 | 532,398    | 4.25                         | "   | -          | -                         | 223,178                                | 12.92   |
| "  | Delta Electronics International Ltd.               | Affiliated enterprise | "                 | 9,517,314  | 76.04                        | "   | -          | -                         | 826,884                                | 47.88   |
| Delta Electro-optics (Wu Jiang) Ltd.               | Deltron-Cimic Electric and Electronics Co., Ltd.   | Related party         | "                 | 866,769    | 50.11                        | "   | -          | -                         | 241,697                                | 74.12   |
| "  | Delta Electronics International Ltd.               | Affiliated enterprise | "                 | 846,709    | 48.95                        | "   | -          | -                         | 83,201                                 | 25.52   |
| Delta Video Display System (Wu Jiang) Co., Ltd.    | Delta Electronics International Ltd.               | "                     | "                 | 5,635,804  | 87.62                        | "   | -          | -                         | 776,995                                | 84.74   |
| Delta Video Technology Limited                     | Delta Electronics (Thailand) Public Co., Ltd.      | "                     | "                 | 291,244    | 16.00                        | "   | -          | -                         | -                                      | -   |

(Note): According to the agreements between Delta Electronics International Ltd., Delta Networks International Ltd. and the companies in Dong Guan, the accounts receivable (payable) from the sales (purchases) among these companies are settled in net, therefore, they were presented on balance sheets in net amount.

## I. Receivable from related parties in excess of NT\$100,000 or over 20% capital:

| Name of creditor                                  | Transaction parties                                | Relationship                | Balance of receivable from related parties (Note a) | Turnover rate | Overdue receivable |  | Subsequent collections (Note b) | Allowance for doubtful accounts provided |
|---|--|-----------------------------|---|---------------|--------------------|--|---------------------------------|--|
|   |  |                             |   |               | Amount             | Action adopted for overdue accounts    |                                 |  |
| Delta Electronics International Ltd.              | Delta Electronics (Dong Guan) Co., Ltd.            | Affiliated enterprise       | \$ 219, 811   | 3. 27         | \$ -               | \$ -                                   | \$ -                            | \$ -                                     |
| "   | Delta Electronics Power (Dong Guan) Co., Ltd.      | "                           | 1, 092, 564   | 18. 01        | -                  | -                                      | 355, 454                        | -  |
| "   | Delta Electronics Inc.                             | The ultimate parent company | 17, 134, 838  | 3. 81         | -                  | -                                      | 3, 949, 558                     | -  |
| Delta Electronics Component (Dong Guan) Co., Ltd. | Delta Electronics International Ltd.               | Affiliated enterprise       | 134, 379  | 4. 28         | -                  | -                                      | 81, 201                         | -  |
| "   | Delta Electronics Power (Dong Guan) Co., Ltd.      | "                           | 546, 387  | 2. 19         | -                  | -                                      | 71, 353                         | -  |
| Delta Video Display System (Wu Jiang) Co., Ltd.   | Delta Electronics International Ltd.               | "                           | 776, 995  | 12. 60        | -                  | -                                      | 95, 170                         | -  |
| Delta Electronics Components (Wu Jiang) Co., Ltd. | "  | "                           | 144, 658  | 11. 87        | -                  | -                                      | 15, 653                         | -  |
| Delta Electro-optics (Wu Jiang) Ltd.              | Deltron-Cimic Electric and Electronics Co., Ltd.   | Related party               | 241, 697  | 4. 15         | 765                | Continued collection expected in 2006. | 66, 022                         | -  |
| Delta Electronics (Jiang Su) Co., Ltd.            | "  | "                           | 223, 178  | 2. 96         | 37                 | "                                      | 71, 416                         | -  |
| "   | Delta Electronics International Ltd.               | Affiliated enterprise       | 826, 884  | 13. 12        | -                  | -                                      | 102, 290                        | -  |
| Delta Networks International Ltd.                 | Delta Electronics Industrial (Dong Guan) Co., Ltd. | "                           | 257, 889  | 22. 52        | -                  | -                                      | -                               | -  |
| "   | DNI Logistics (USA) Corp.                          | "                           | 204, 572  | 4. 67         | -                  | -                                      | 183, 483                        | -  |
| Delta Electronics (Japan) Inc.                    | Delta Video Display System (Wu Jiang) Co., Ltd.    | "                           | 174, 057  | 3. 56         | -                  | -                                      | 2, 443                          | -  |

(Note a): According to the agreement between Delta Electronics International Ltd., Delta Networks International Ltd. and the companies in Dong Guan, the accounts receivable (payable) from the sales (purchases) amount these companies are settled in net, therefore they were presented on balance sheet in net amount.

(Note b): The amount collected subsequently by February 14, 2006.

(4) Information on derivative transactions

A. General information disclosure:

(A) The investee companies entered into certain foreign currency option contracts and forward foreign currency contracts, to hedge foreign exchange risks in foreign currency denominated accounts receivable and payable.

(B) Accounting policy: See Note 2.

(C) Credit risk:

The banks, which the investee companies and its subsidiaries deal with, are all in good credit standing and the investee companies will deal with several banks to disperse the credit risk, therefore, the possibility is low for the banks not to comply with the terms of the contracts.

(D) Market risk:

The investee companies entered into these contracts in order to hedge foreign exchange losses. The exchange gain or loss from exchange rate fluctuation of hedge item will be offset by these transactions. Accordingly, no material market risk is expected.

(E) The information on derivative transactions of investee companies for the year ended December 31, 2005 are as follows (unit: thousands of dollars):

| Derivative transactions of the subsidiaries during 2005<br>(the subsidiary of DIH) | Par value, contract amount or nominal principal (Note a) | Transaction terms     |                                    | Realized gain (or loss) | Related cash flows |              |
|--|--|-----------------------|------------------------------------|-------------------------|--------------------|--------------|
|  |  | Exercise dates        | Exercise prices/<br>Exercise rates |                         | Cash inflow        | Cash outflow |
| 1.Delta Electronics International Ltd.<br>(the subsidiary of DIH)                  |  |                       |                                    |                         |                    |              |
| Forward foreign currency contracts   | USD 238,000  | 2006.01.13-2006.07.11 | USD1:RMB7.8315-7.9845              | \$ 57,427               | (Note)             | (Note)       |
| "  | USD 284,000  | 2005.01.11-2005.12.30 | USD1:RMB7.8340-8.1385              | 155,124                 | closed             | closed       |
| Total  |  |                       |                                    | \$ 212,551              |                    |              |
| 2.Delta Electronics (Dong Guan) Co., Ltd.<br>(the subsidiary of DIH)               |  |                       |                                    |                         |                    |              |
| Forward foreign currency contracts   | USD 16,000   | 2005.01.07-2005.12.07 | USD1:RMB8.1563-8.2235              | (\$ 6,998)              | closed             | closed       |
| "  | USD 14,000   | 2006.01.19-2006.07.07 | USD1:RMB7.9632-8.0406              | (10,574)                | RMB 112,039        | USD 14,000   |
| Total  |  |                       |                                    | (\$ 17,572)             |                    |              |
| 3.Delta Electronics Power (Dong Guan) Co., Ltd.<br>(the subsidiary of DIH)         |  |                       |                                    |                         |                    |              |
| Forward foreign currency contracts   | USD 203,000  | 2005.01.07-2005.12.28 | USD1:RMB8.1295-8.2235              | (\$ 56,124)             | closed             | closed       |
| "  | USD 144,000  | 2006.01.11-2006.07.07 | USD1:RMB7.9632-8.0972              | (108,827)               | RMB 1,153,358      | USD 144,000  |
| "  | USD 30,536   | 2006.07.28-2006.08.18 | USD1:RMB7.8552-7.8566              | 12,414                  | USD 30,536         | RMB 239,880  |
| Total  |  |                       |                                    | (\$ 152,537)            |                    |              |
| 4.Delta Electronics Components (Dong Guan) Co., Ltd.<br>(the subsidiary of DIH)    |  |                       |                                    |                         |                    |              |
| Forward foreign currency contracts   | USD 68,000   | 2005.01.07-2005.12.28 | USD1:RMB8.1563-8.2235              | (\$ 18,667)             | closed             | closed       |
| "  | USD 80,000   | 2006.01.01-2006.07.07 | USD1:RMB7.9632-8.0972              | (59,001)                | RMB 641,792        | USD 80,000   |
| "  | USD 10,480   | 2006.07.28            | USD1:RMB7.8557-7.8566              | 4,797                   | USD 10,480         | RMB 82,336   |
| Total  |  |                       |                                    | (\$ 72,871)             |                    |              |

| Derivative transactions   | Par value, contract amount or nominal principal | Transaction terms     |                                 | Realized gain (or loss) | Related cash flows |              |
|---|---|-----------------------|---------------------------------|-------------------------|--------------------|--------------|
|   |   | Exercise dates        | Exercise prices/ Exercise rates |                         | Cash inflow        | Cash outflow |
| 5.Delta Electronics (Japan) Inc. (the subsidiary of DIH)                            |   |                       |                                 |                         |                    |              |
| Forward foreign currency contracts  | USD 300   | 2005.09.30            | USD1:JPY 111.50                 | (\$ 378)                | closed             | closed       |
| "   | USD 300   | 2005.10.31            | USD1:JPY 111.18                 | ( 1,203)                | "                  | "            |
| "   | USD 300   | 2005.11.30            | USD1:JPY 110.80                 | ( 2,496)                | "                  | "            |
| Total   |   |                       |                                 | (\$ 4,077)              |                    |              |
| 6.Delta Electronics Industrial (Dong Guan) Co., Ltd. (the subsidiary of DNI Cayman) |   |                       |                                 |                         |                    |              |
| Forward foreign currency contracts  | USD 68,000                                      | 2005.06.14-2006.07.07 | USD1:RMB7.9632-8.1872           | (\$ 417)                | RMB 328,215        | USD 41,000   |
| 7. Delta Networks, Inc. (registered in Taiwan, the subsidiary of DNI Cayman)        |   |                       |                                 |                         |                    |              |
| Buy option (USD PUT/TWD CALL)   | USD 21,900                                      | 2005.02.14-2005.06.24 | USD1:NTD31.00-32.20             | (\$ 1,064)              | closed             | closed       |
| Buy option (USD CALL/TWD PUT)   | USD 20,000                                      | 2005.03.22-2005.11.29 | USD1:NTD31.30-33.20             | ( 6,214)                | "                  | "            |
| Sell option (USD CALL/TWD PUT)  | USD 127,600                                     | 2005.02.23-2005.12.29 | USD1:NTD31.00-33.85             | 3,321                   | "                  | "            |
| Sell option (USD PUT/TWD CALL)  | USD 80,700                                      | 2005.02.23-2005.12.29 | USD1:NTD30.57-33.65             | 5,652                   | "                  | "            |
| Sell option (USD CALL/JPY PUT)  | USD 23,000                                      | 2005.01.26-2005.10.27 | USD1:JPY104.75-112.00           | 1,618                   | "                  | "            |
| Buy option (USD PUT/JPY CALL)   | USD 1,000                                       | 2005.02.25            | USD1:JPY105.7                   | 306                     | "                  | "            |
| Total   |   |                       |                                 | \$ 3,619                |                    |              |
| 8.Delta Networks International Ltd. (the subsidiary of DNI Cayman)                  |   |                       |                                 |                         |                    |              |
| Forward foreign currency contracts  | USD 68,000                                      | 2005.06.14-2006.07.07 | USD1:RMB7.8385-8.0565           | \$ 826                  | USD 41,000         | RMB 323,651  |

Note: Delta Electronics International Ltd. will pay or receive the difference net of all transactions, so future cash flow cannot be estimated reasonably.

f. The information of book value on derivative transactions of investee company as of December 31, 2005 are as follows :

|  | Book Value          |                     |                                   |
|--|---------------------|---------------------|-----------------------------------|
|  | Other receivable    | Other payable       | Other receivable<br>(payable)-net |
| Delta Electronics International Ltd.               | <u>\$ 7,818,300</u> | <u>\$ 7,759,703</u> | <u>\$ 58,597</u>                  |
| Delta Electronics (Dong Guan) Co., Ltd.            | <u>\$ 461,098</u>   | <u>\$ 459,900</u>   | <u>\$ 1,198</u>                   |
| Delta Electronics Power (Dong Guan) Co., Ltd.      | <u>\$ 5,745,858</u> | <u>\$ 5,720,835</u> | <u>\$ 25,023</u>                  |
| Delta Electronics Components (Dong Guan) Co., Ltd. | <u>\$ 2,980,736</u> | <u>\$ 2,967,387</u> | <u>\$ 13,349</u>                  |
| Delta Electronics Industrial (Dong Guan) Co., Ltd. | <u>\$ 1,349,993</u> | <u>\$ 1,346,850</u> | <u>\$ 3,143</u>                   |
| Delta Networks Inc.                                | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>                       |
| Delta Networks International Ltd.                  | <u>\$ 1,346,850</u> | <u>\$ 1,282,639</u> | <u>\$ 64,211</u>                  |

(B) Additional disclosure

Pursuant to the terms of the contracts. The investee companies does not provide any pledged assets.

(3) Disclosure of information on indirect investments in Mainland China (Units: In thousands)

A. Basic information

| Name of investee in Mainland China                 | Main activities of investee  | Capital (Note a and g.)                   | Investment method                            | Accumulated remittance as of |                              | Remitted or collected this period |           | Accumulated remittance as of December 31, 2005 | Ownership held by Company (direct and indirect) | Investment income (loss) recognized by the Company during the year | Ending balance of investment | The investment income (loss) remitted back as of December 31, 2005 (Note b) |
|--|--|---|--|------------------------------|------------------------------|-----------------------------------|-----------|--|---|--|------------------------------|---|
|  |  |   |  | January 1, 2005              | December 31, 2005            | Remitted out                      | Collected |  |   |  |                              |   |
| Delta Electronics (Dong Guan) Co., Ltd.            | Manufacturing of power supplies  | \$ 1,238,445 (US\$ 37,700) (RMB\$304,277) | Invested by Delta International Holding Ltd. | NT\$ 1,218,953 (US\$ 37,107) | NT\$ 1,218,953 (US\$ 37,107) | -                                 | -         | NT\$ 1,218,953 (US\$ 37,107)                   | 94.00%  | \$ 298,996   | \$ 1,392,974                 |   |
| Deltron-Cmic Electric and Electronics Co., Ltd.    | Manufacturing and sales of uninterruptible power systems                           | \$ 1,335,002 (US\$ 40,639) (RMB\$328,000) | "  | NT\$ 98,618 (US\$ 3,002)     | NT\$ 98,618 (US\$ 3,002)     | -                                 | -         | NT\$ 98,618 (US\$ 3,002)                       | 9.76%   | -  | 94,663                       | (Note c)  |
| Delta Electronics Industrial (Dong Guan) Co., Ltd. | Manufacturing of electronic ballast for energy saving lighting and interface cards | \$ 735,840 (US\$ 22,400) (RMB\$180,790)   | Invested by Delta Networks Inc. (Cayman)     | NT\$ 692,721 (US\$ 21,087)   | NT\$ 692,721 (US\$ 21,087)   | -                                 | -         | NT\$ 692,721 (US\$ 21,087)                     | 94.00%  | 170,527  | 884,390                      | -   |
| Delta Electronics Components (Dong Guan) Co., Ltd. | Manufacturing of transformers  | \$ 1,051,200 (US\$ 32,000) (RMB\$258,272) | Invested by Delta International Holding Ltd. | NT\$ 989,585 (US\$ 30,124)   | NT\$ 989,585 (US\$ 30,124)   | -                                 | -         | NT\$ 989,585 (US\$ 30,124)                     | 94.00%  | 306,526  | 1,290,985                    | -   |
| Delta Electronics Power (Dong Guan) Co., Ltd.      | Manufacturing of power supplies  | \$ 886,950 (US\$ 27,000) (RMB\$217,917)   | "  | NT\$ 555,822 (US\$ 16,920)   | NT\$ 555,822 (US\$ 16,920)   | -                                 | -         | NT\$ 555,822 (US\$ 16,920)                     | 94.00%  | 379,889  | 1,643,526                    | (Note d)  |
| Delta Electronics Components (Wu Jiang) Co., Ltd.  | Manufacturing of transformers and peripherals                                      | \$ 1,348,100 (US\$ 41,038) (RMB\$331,218) | "  | NT\$ 679,338 (US\$ 20,680)   | NT\$ 679,338 (US\$ 20,680)   | -                                 | -         | NT\$ 679,338 (US\$ 20,680)                     | 51.70%  | 416,444  | 925,233                      | -   |
| Delta Electronics Co., Ltd.                        | Manufacturing of power supplies  | \$ 1,348,710 (US\$ 41,057) (RMB\$331,368) | "  | NT\$ 679,338 (US\$ 20,680)   | NT\$ 679,338 (US\$ 20,680)   | -                                 | -         | NT\$ 679,338 (US\$ 20,680)                     | 51.70%  | 265,317  | 932,269                      | -   |
| Delta Electronics (Jiang Su) Co., Ltd.             | Manufacturing and of peripherals and electronic control equipments                 | \$ 842,671 (US\$ 25,652) (RMB\$207,038)   | "  | NT\$ 424,586 (US\$ 12,925)   | NT\$ 424,586 (US\$ 12,925)   | -                                 | -         | NT\$ 424,586 (US\$ 12,925)                     | 51.70%  | 103,444  | 524,127                      | -   |

| Name of investee in Mainland China              | Main activities of investee | Capital (Note a and g)                  | Investment method | Accumulated remittance as of |                           | Remitted or collected this period |           | Ownership held by Company (direct and indirect) | Investment income (loss) recognized by the Company during the year | Ending balance of investment | The investment income (loss) remitted back as of December 31, 2005 (Note e) |
|---|-----------------------------|---|-------------------|------------------------------|---------------------------|-----------------------------------|-----------|---|--|------------------------------|---|
|   |                             |   |                   | January 1, 2005              | December 31, 2005         | Remitted out                      | Collected |   |  |                              |   |
| Delta Video Display System (Wu Jiang) Co., Ltd. | Manufacturing of monitors   | \$ 966,480 (US\$ 29,421) (RMB\$237,457) | "                 | NT\$ 220,785 (US\$ 6,721)    | NT\$ 220,785 (US\$ 6,721) | -                                 | -         | 51.70%  | \$ 105,330   | \$ 464,062                   |   |
| Delta Electronics (Shanghai) Co., Ltd.          | Product design              | \$ 328,500 (US\$ 10,000) (RMB\$ 80,710) | "                 | -                            | -                         | -                                 | -         | 94.00%  | ( 55,042)  | 239,317                      | (Note f)  |

Note a: The capital was translated from the functional currencies of the investee companies into New Taiwan Dollars at the average exchange rate of RMB 8.071 to US\$1.

Note b: Except for the facility of US\$37,107 permitted by Investment Commission, the capitalization of earnings of US\$3,008 permitted by Investment Commission on December 24, 2004 and December 7, 2005, respectively, therefore, the capitalization of earnings is excluded from the Company's amount of investment in Mainland China.

Note c: Except for the facility of US\$3,034 permitted by Investment Commission, the capitalization of earnings of US\$980 permitted by Investment Commission on September 13, 2001 is excluded from the Company's amount of investment in Mainland China.

Note d: Except for the facility of US\$17,104 permitted by Investment Commission, the capitalization of earnings of US\$8,460 permitted by Investment Commission on September 29, 2004 is excluded from the Company's amount of investment in Mainland China.

Note e: Except for the facility of US\$6,721 permitted by Investment Commission, the capitalization of earnings of US\$8,272 permitted by Investment Commission on May 19, 2005 is excluded from the Company's amount of investment in Mainland China.

Note f: The Company is permitted by Investment Commission on December 1, 2003 and September 2, 2004, respectively, to use Delta Electronics (Dong Guan) Co., Ltd.'s earning distribution of US\$ 9,400 and paid via Delta Electronics (Dong Guan) Co., Ltd. to increase capital of Delta Electronics (Shanghai) Co., Ltd. This capitalization earnings of US\$9,400 is excluded from the Company's amount of investment in Mainland China.

Note g: Capital represented the capital certified.

Note h: The investment income of US\$ 14,351 was remitted back on December 29, 2005 from the investee companies in Mainland China and was permitted by Investment Commission on January 6, 2006 which is deductible from the Company's accumulated amount remitted out of Taiwan to Mainland China.



| Accumulated amount remitted out of Taiwan to Mainland China | Investment amount approved by the Investment Commission | Ceiling of investment amount of the Company |
|---|---|---|
| (Note h)<br>NT\$ 5,088,300<br>(US\$ 154,895)                | (Note h)<br>NT\$ 5,172,613<br>(US\$ 157,462)            | NT\$ 10,179,910                             |

B. The significant direct and indirect transactions of the Company with the investee companies in Mainland China:

The significant purchases, sales, accounts payable and accounts receivable of the Company indirectly conducted with investee companies in Mainland China through the DIH's subsidiary, Delta Electronics International Ltd. (DEIL), and DNI Cayman's subsidiary, Delta Networks International Ltd. (DNIL) and Delta Electronics (Japan) Inc. for the year ended December 31, 2005 : Please refer to Note 11(2)H.

(4) The relationship and significant transactions between the Company and its subsidiaries

A. 2004

| Number<br>(Note a) | Name of counterparty                               | Name of transaction parties                        | Relationship<br>(Note b) | Subject          | Amount<br>(Note e) | Transaction<br>terms<br>(Note d) | Transaction terms |   |
|--------------------|--|--|--------------------------|------------------|--------------------|----------------------------------|-------------------|---|
|                    |  |  |                          |                  |                    |                                  | Services revenue  | The percentage of total<br>combined revenue or<br>total assets (Note c) |
| 0                  | Delta Electronics Inc.                             | Delta International Holding Ltd.                   | 1                        | Services revenue | \$ 3,237,389       | "                                |                   | 0.06  |
| 0                  | "  | Delta Electronics (Japan) Inc.                     | 1                        | Sales            | 339,916            | "                                |                   | 0.01  |
| 0                  | "  | DEI Logistics (USA) Corp.                          | 1                        | "                | 2,372,005          | "                                |                   | 0.04  |
| 0                  | "  | Delta Networks International Ltd.                  | 1                        | "                | 224,082            | "                                |                   | 0.00  |
| 0                  | "  | Delta Video Technology Ltd.                        | 1                        | "                | 264,090            | "                                |                   | 0.00  |
| 1                  | Delta Electronics International Ltd.               | Delta Electronics Inc.                             | 2                        | "                | 39,761,526         | "                                |                   | 0.70  |
| 1                  | "  | Delta Electronics (Dong Guan) Co., Ltd.            | 3                        | "                | 1,555,587          | "                                |                   | 0.03  |
| 1                  | "  | Delta Electronics Power (Dong Guan) Co., Ltd.      | 3                        | "                | 13,206,296         | "                                |                   | 0.23  |
| 1                  | "  | Delta Electronics Components (Dong Guan) Co., Ltd. | 3                        | "                | 4,201,611          | "                                |                   | 0.07  |
| 2                  | Delta Electronics Components (Dong Guan) Co., Ltd. | Delta Electronics Power (Dong Guan) Co., Ltd.      | 3                        | "                | 593,213            | "                                |                   | 0.01  |
| 3                  | Delta Electronics (Jiang Su) Co., Ltd.             | Delta Electronics International Ltd.               | 3                        | "                | 4,907,616          | "                                |                   | 0.09  |
| 4                  | Delta Electronics Components (Wu Jiang) Co., Ltd.  | Delta Electronics (Jiang Su) Co., Ltd.             | 3                        | "                | 698,405            | "                                |                   | 0.01  |

| Number<br>(Note a) | Transaction terms                                     |   |                          |         |                    |                                  |      | The percentage of total<br>combined revenue or<br>total assets (Note c) |
|--------------------|---|---|--------------------------|---------|--------------------|----------------------------------|------|---|
|                    | Name of counterparty                                  | Name of transaction parties                           | Relationship<br>(Note b) | Subject | Amount<br>(Note e) | Transaction<br>terms<br>(Note d) |      |   |
| 4                  | Delta Electronics Components<br>(Wu Jiang) Co., Ltd.  | Delta Electronics International<br>Ltd.               | 3                        | Sales   | \$ 1,390,266       | (Note d)                         | 0.02 |   |
| 5                  | Delta Electro-optics (Wu Jiang)<br>Co., Ltd.          | "   | 3                        | "       | 641,503            | "                                | 0.01 |   |
| 6                  | Delta Video Display System<br>(Wu Jiang) Co., Ltd.    | "   | 3                        | "       | 1,062,198          | "                                | 0.02 |   |
| 7                  | Delta Electronics (Dong Guan)<br>Co., Ltd.            | Delta Electronics Power (Dong<br>Guan) Co., Ltd.      | 3                        | "       | 1,085,745          | "                                | 0.02 |   |
| 8                  | "   | Delta Electronics International Ltd.                  | 3                        | "       | 1,244,615          | "                                | 0.02 |   |
| 8                  | Delta Electronics Industrial<br>(Dong Guan) Co., Ltd. | Delta Networks International Ltd.                     | 3                        | "       | 4,489,022          | "                                | 0.08 |   |
| 9                  | Delta Electronics Components<br>(Dong Guan) Co., Ltd. | Delta Electronics International Ltd.                  | 3                        | "       | 4,888,777          | "                                | 0.09 |   |
| 10                 | Delta Electronics Power<br>(Dong Guan) Co., Ltd.      | "   | 3                        | "       | 16,824,414         | "                                | 0.30 |   |
| 11                 | Delta Networks International<br>Ltd.                  | Delta Electronics Industrial (Dong<br>Guan) Co., Ltd. | 3                        | "       | 4,256,510          | "                                | 0.08 |   |
| 11                 | "   | DNI Logistics (USA) Corp.                             | 3                        | "       | 774,077            | "                                | 0.01 |   |
| 12                 | Delta Networks Inc.                                   | Delta Networks International Ltd.                     | 3                        | "       | 116,945            | "                                | 0.00 |   |
| 12                 | "   | Delta Electronics Inc.                                | 2                        | "       | 217,626            | "                                | 0.00 |   |
| 13                 | Delta electronics (Japan) Inc.                        | Delta Video Display System (Wu<br>Jiang) Co., Ltd.    | 3                        | "       | 287,966            | "                                | 0.01 |   |
| 13                 | "   | Delta Electronics International Ltd.                  | 3                        | "       | 186,849            | "                                | 0.00 |   |

| Number<br>(Note a) | Name of counterparty                               | Name of transaction parties                     | Relationship<br>(Note b) | Subject             | Transaction terms  |                                  | The percentage of total<br>combined revenue or<br>total assets (Note c) |
|--------------------|--|---|--------------------------|---------------------|--------------------|----------------------------------|---|
|                    |  |   |                          |                     | Amount<br>(Note e) | Transaction<br>terms<br>(Note d) |   |
| 0                  | Delta Electronics Inc.                             | Delta International Holding Ltd.                | 1                        | Accounts receivable | \$ 398,383         | (Note d)                         | 0.01  |
| 0                  | "  | Delta Video Display System (Wu Jiang) Co., Ltd. | 1                        | "                   | 145,882            | "                                | 0.00  |
| 0                  | "  | DEI Logistics (USA) Corp.                       | 1                        | "                   | 899,778            | "                                | 0.01  |
| 0                  | "  | Delta Electronics International Ltd.            | 1                        | Other receivables   | 164,458            | "                                | 0.00  |
| 0                  | "  | Delta International Holding Ltd.                | 1                        | "                   | 5,935,204          | "                                | 0.09  |
| 1                  | Delta Electronics International Ltd.               | Delta Electronics Inc.                          | 2                        | Accounts receivable | 12,021,809         | "                                | 0.19  |
| 1                  | "  | Delta Networks Inc.                             | 3                        | "                   | 197,357            | "                                | 0.00  |
| 1                  | "  | Delta Networks International Ltd.               | 3                        | "                   | 191,410            | "                                | 0.00  |
| 1                  | "  | Delta Electronics (Dong Guan) Co., Ltd.         | 3                        | "                   | 1,029,951          | "                                | 0.02  |
| 2                  | Delta Electronics (Jing Su) Co., Ltd.              | Delta Electronics International Ltd.            | 3                        | "                   | 588,353            | "                                | 0.01  |
| 3                  | Delta Electronics Components (Wu Jiang) Co., Ltd.  | "   | 3                        | "                   | 131,659            | "                                | 0.00  |
| 3                  | "  | Delta Electronics (Jing Su) Co., Ltd.           | 3                        | "                   | 231,797            | "                                | 0.00  |
| 4                  | Delta Video Display System (Wu Jiang) Co., Ltd.    | Delta Electronics International Ltd.            | 3                        | "                   | 110,651            | "                                | 0.00  |
| 5                  | Delta Electronics Power (Dong Guan) Co., Ltd.      | "   | 3                        | "                   | 1,078,506          | "                                | 0.02  |
| 6                  | Delta Electronics Components (Dong Guan) Co., Ltd. | "   | 3                        | "                   | 1,249,341          | "                                | 0.02  |
| 6                  | "  | Delta Electronics Power (Dong Guan) Co., Ltd.   | 3                        | "                   | 312,773            | "                                | 0.00  |
| 7                  | Delta Electronics (Dong Guan) Co., Ltd.            | "   | 3                        | "                   | 315,650            | "                                | 0.00  |

| Number<br>(Note a) | Name of counterparty                       | Name of transaction parties                           | Relationship<br>(Note b) | Transaction terms      |                    |                      | The percentage of total<br>combined revenue or<br>total assets (Note c) |
|--------------------|--|---|--------------------------|------------------------|--------------------|----------------------|---|
|                    |  |   |                          | Subject                | Amount<br>(Note e) | Transaction<br>terms |   |
| 7                  | Delta Electronics (Dong Guan)<br>Co., Ltd. | Delta Electronics Components<br>(Dong Guan) Co., Ltd. | 3                        | Accounts<br>receivable | \$ 754, 969        | (Note d)             | 0. 01   |
| 8                  | Delta Networks International<br>Ltd.       | Delta Networks Inc.                                   | 3                        | "                      | 144, 950           | "                    | 0. 00   |
| 8                  | "  | DNI Logistics (USA) Corp.                             | 3                        | "                      | 266, 148           | "                    | 0. 00   |
| 9                  | Delta Networks Inc.                        | Delta Networks International Ltd.                     | 3                        | "                      | 255, 150           | "                    | 0. 00   |
| 10                 | Delta Electronics (Japan) Inc.             | Delta Video Display System (Wu<br>Jiang) Co., Ltd.    | 3                        | "                      | 161, 824           | "                    | 0. 00   |
| 0                  | Delta Electronics Inc.                     | Delta Networks Inc.                                   | 1                        | Leased assets          | 665, 627           | (Note f)             | 0. 01   |

## B. 2005

| Number<br>(Note a) | Name of counterparty                              | Name of transaction parties                        | Relationship<br>(Note b) | Transaction terms |                    |                      | The percentage of total<br>combined revenue or<br>total assets (Note c) |
|--------------------|---|--|--------------------------|-------------------|--------------------|----------------------|---|
|                    |   |  |                          | Subject           | Amount<br>(Note e) | Transaction<br>terms |   |
| 0                  | Delta Electronics Inc.                            | Delta International Holding Ltd.                   | 1                        | Services revenue  | \$ 3,364,154       | (Note d)             | 0.04  |
| 0                  | "   | Delta Electronics (Japan) Inc.                     | 1                        | Sales             | 386,610            | "                    | 0.00  |
| 0                  | "   | DEI Logistics (USA) Corp.                          | 1                        | "                 | 3,509,548          | "                    | 0.04  |
| 0                  | "   | Delta Networks International Ltd.                  | 1                        | "                 | 168,342            | "                    | 0.00  |
| 0                  | "   | Delta Video Technology Ltd.                        | 1                        | "                 | 338,282            | "                    | 0.00  |
| 1                  | Delta Electronics International Ltd.              | Delta Electronics Inc.                             | 2                        | "                 | 55,135,869         | "                    | 0.68  |
| 1                  | "   | Delta Electronics (Dong Guan) Co., Ltd.            | 3                        | "                 | 2,000,522          | "                    | 0.02  |
| 1                  | "   | Delta Electronics Power (Dong Guan) Co., Ltd.      | 3                        | "                 | 19,159,154         | "                    | 0.24  |
| 1                  | "   | Delta Electronics Components (Dong Guan) Co., Ltd. | 3                        | "                 | 4,563,089          | "                    | 0.06  |
| 2                  | Delta Electronics (Jiang Su) Co., Ltd.            | Delta Electronics International Ltd.               | 3                        | "                 | 9,517,314          | "                    | 0.12  |
| 3                  | Delta Electronics Components (Wu Jiang) Co., Ltd. | Delta Electronics (Jiang Su) Co., Ltd.             | 3                        | "                 | 489,270            | "                    | 0.01  |
| 3                  | "   | Delta Video Display System (Wu Jiang) Co., Ltd.    | 3                        | "                 | 208,489            | "                    | 0.00  |
| 3                  | "   | Delta Electronics International Ltd.               | 3                        | "                 | 1,686,822          | "                    | 0.02  |

| Number<br>(Note a) | Transaction terms                                     |   |                          |         |                    |                                  |      | The percentage of total<br>combined revenue or<br>total assets (Note c) |
|--------------------|---|---|--------------------------|---------|--------------------|----------------------------------|------|---|
|                    | Name of counterparty                                  | Name of transaction parties                           | Relationship<br>(Note b) | Subject | Amount<br>(Note e) | Transaction<br>terms<br>(Note d) |      |   |
| 4                  | Delta Electro-optics (Wu Jiang)<br>Co., Ltd.          | Delta Electronics International<br>Ltd.               | 3                        | Sales   | \$ 846,709         | (Note d)                         | 0.01 |   |
| 5                  | Delta Video Display System<br>(Wu Jiang) Co., Ltd.    | "   | 3                        | "       | 5,635,804          | "                                | 0.07 |   |
| 6                  | Delta Electronics (Dong Guan)<br>Co., Ltd.            | "   | 3                        | "       | 3,051,173          | "                                | 0.04 |   |
|                    | "   | Delta Electronics Industrial (Dong<br>Guan) Co., Ltd. | 3                        | "       | 136,090            | "                                | 0.00 |   |
| 7                  | Delta Electronics Components<br>(Dong Guan) Co., Ltd. | Delta Electronics International Ltd.                  | 3                        | "       | 4,928,040          | "                                | 0.06 |   |
|                    | "   | Delta Electronics Power (Dong<br>Guan) Co., Ltd.      | 3                        | "       | 939,995            | "                                | 0.01 |   |
| 8                  | Delta Electronics Power<br>(Dong Guan) Co., Ltd.      | Delta Electronics International Ltd.                  | 3                        | "       | 22,397,798         | "                                | 0.28 |   |
| 8                  | "   | Delta Electronics Industrial<br>(Dong Guan) Co., Ltd. | 3                        | "       | 160,183            | "                                | 0.00 |   |
| 9                  | Delta Electronics (Japan) Inc.                        | Delta Video Display System (Wu<br>Jiang) Co., Ltd.    | 3                        | "       | 611,100            | "                                | 0.01 |   |
|                    | "   | Delta Electronics International Ltd.                  | 3                        | "       | 205,201            | "                                | 0.00 |   |
| 10                 | Delta Networks International<br>Ltd.                  | Delta Electronics Industrial (Dong<br>Guan) Co., Ltd. | 3                        | "       | 5,806,688          | "                                | 0.07 |   |
| 10                 | "   | DNI Logistics (USA) Corp.                             | 3                        | "       | 955,830            | "                                | 0.01 |   |
| 11                 | Delta Networks Inc.                                   | Delta Networks International Ltd.                     | 3                        | "       | 139,905            | "                                | 0.00 |   |

| Number<br>(Note a) | Name of counterparty                               | Name of transaction parties                        | Relationship<br>(Note b) | Subject             | Transaction terms  |                                  | The percentage of total<br>combined revenue or<br>total assets (Note c) |
|--------------------|--|--|--------------------------|---------------------|--------------------|----------------------------------|---|
|                    |  |  |                          |                     | Amount<br>(Note e) | Transaction<br>terms<br>(Note d) |   |
| 0                  | Delta Electronics Inc.                             | Delta International Holding Ltd.                   | 1                        | Accounts receivable | \$ 1,950,630       | (Note d)                         | 0.02  |
| 0                  | "  | Delta Video Display System (Wu Jiang) Co., Ltd.    | 1                        | "                   | 271,197            | "                                | 0.00  |
| 0                  | "  | DEI Logistics (USA) Corp.                          | 1                        | "                   | 515,940            | "                                | 0.01  |
| 0                  | "  | Delta Video Technology Ltd.                        | 1                        | "                   | 105,723            | "                                | 0.00  |
| 0                  | "  | Delta Electronics International Ltd.               | 1                        | Other receivables   | 202,524            | "                                | 0.00  |
| 0                  | "  | Delta International Holding Ltd.                   | 1                        | "                   | 1,581,040          | "                                | 0.02  |
| 1                  | Delta Electronics International Ltd.               | Delta Electronics Inc.                             | 2                        | Accounts receivable | 17,134,838         | "                                | 0.21  |
| 1                  | "  | Delta Electronics Power (Dong Guan) Co., Ltd.      | 3                        | "                   | 1,092,564          | "                                | 0.01  |
| 1                  | "  | Delta Electronics (Dong Guan) Co., Ltd.            | 3                        | "                   | 219,811            | "                                | 0.00  |
| 2                  | Delta Electronics (Jing Su) Co., Ltd.              | Delta Electronics International Ltd.               | 3                        | "                   | 826,884            | "                                | 0.01  |
| 3                  | Delta Electronics Components (Wu Jiang) Co., Ltd.  | "  | 3                        | "                   | 144,658            | "                                | 0.00  |
| 4                  | Delta Video Display System (Wu Jiang) Co., Ltd.    | "  | 3                        | "                   | 776,995            | "                                | 0.01  |
| 5                  | Delta Electronics Components (Dong Guan) Co., Ltd. | "  | 3                        | "                   | 134,379            | "                                | 0.00  |
| 5                  | "  | Delta Electronics Power (Dong Guan) Co., Ltd.      | 3                        | "                   | 546,387            | "                                | 0.01  |
| 6                  | Delta Networks International Ltd.                  | Delta Electronics Industrial (Dong Guan) Co., Ltd. | 3                        | "                   | 257,889            | "                                | 0.00  |
| 6                  | "  | DNI Logistics (USA) Corp.                          | 3                        | "                   | 204,572            | "                                | 0.00  |

| Number<br>(Note a) | Name of counterparty           | Name of transaction parties                     | Relationship<br>(Note b) | Transaction terms   |                    |                      | The percentage of total<br>combined revenue or<br>total assets (Note c) |
|--------------------|--------------------------------|---|--------------------------|---------------------|--------------------|----------------------|---|
|                    |                                |   |                          | Subject             | Amount<br>(Note e) | Transaction<br>terms |   |
| 7                  | Delta Electronics (Japan) Inc. | Delta Video Display System (Wu Jiang) Co., Ltd. | 3                        | Accounts receivable | \$ 174,057         | (Note d)             | 0.00  |
| 0                  | Delta Electronics Inc.         | Delta Networks Inc.                             | 1                        | Leased assets       | 671,243            | (Note f)             | 0.01  |

Note a: The transaction informations of the Company and the consolidated subsidiaries should be noted in column "Number". The number means:

1. Number 0 presents the Company.
2. The consolidated subsidiaries are in order from number 1.

Note b: The relationships with the transaction parties are as follows:

1. The Company to the consolidated subsidiary.
2. The consolidated subsidiary to the Company.
3. The consolidated subsidiary to another consolidated subsidiary.

Note c: Ratios of asset/liability are divided by consolidated total assets, and ratios of gain/loss accounts are divided by consolidated sales revenue.

Note d: There is no similar transaction to compare. It will follow the promised price and transaction terms and all the credit terms are 75 days.

Note e: According to the agreement between Delta Electronics International Ltd., Delta Networks International Ltd. and the companies in Dong Guan, the accounts receivable (payable) from the sales (purchases) among these companies are settled in net, therefore they were presented on balance sheet in net amount.

Note f: There is no similar transaction to compare. It will follow the promised price and transaction terms and charge the rental monthly.

## 12. SEGMENT FINANCIAL INFORMATION

### A. Financial information by industry

The Company and its consolidated subsidiaries operate in one single industry-the electronics industry. Accordingly, no different industry information is presented in 2004 and 2005.



B. Financial information by geographic area  
Geographic area information in 2004 and 2005 were as follows:

|   | 2004                 |                     |                      |                      |
|---|----------------------|---------------------|----------------------|----------------------|
|   | Asia                 | Others              | Domestic             | Consolidated         |
| Operating revenues from unaffiliated customers                        | \$ 7,369,303         | \$ 7,923,201        | \$ 41,182,482        | \$ 56,474,986        |
| Operating revenues from the Company and its consolidated subsidiaries | 267,518              | 39,559,870          | 6,547,228            | ( 46,374,616)        |
| Total operating revenues  | <u>\$ 7,636,821</u>  | <u>\$47,483,071</u> | <u>\$ 47,729,710</u> | <u>\$ 56,474,986</u> |
| Segment profits   | <u>\$ 2,037,673</u>  | <u>\$ 6,959,419</u> | <u>\$ 1,229,406</u>  | <u>\$ 6,938,700</u>  |
| Investment loss under equity method                                   |                      |                     |                      | ( 74,177)            |
| General expense   |                      |                     |                      | ( 336,175)           |
| Interest expense  |                      |                     |                      | ( 126,099)           |
| Net income before income tax and minority interest                    |                      |                     |                      | <u>\$ 6,402,249</u>  |
| Identifiable assets   | <u>\$ 17,798,370</u> | <u>\$23,368,034</u> | <u>\$ 35,796,752</u> | <u>\$ 56,454,426</u> |
| Long-term investments   |                      |                     |                      | 8,429,006            |
| General assets  |                      |                     |                      | -                    |
| Total assets  | <u>\$ 1,253,887</u>  | <u>\$ 253,082</u>   | <u>\$ 439,231</u>    | <u>\$ 64,883,432</u> |
| Depreciation expense  |                      |                     |                      | <u>\$ 1,946,200</u>  |
| Capital expenditure   | <u>\$ 1,344,631</u>  | <u>\$ 72,848</u>    | <u>\$ 629,144</u>    | <u>\$ 2,046,623</u>  |

## 2005

|   | Asia                 | Others              | Domestic             | Elimination             | Consolidated         |
|---|----------------------|---------------------|----------------------|-------------------------|----------------------|
| Operating revenues from unaffiliated customers                        | \$ 9,984,339         | \$14,635,124        | \$ 56,206,057        | \$ -                    | \$ 80,825,520        |
| Operating revenues from the Company and its consolidated subsidiaries | 460,367              | 54,358,398          | 8,907,194            | ( 63,725,959)           | -                    |
| Total operating revenues  | <u>\$ 10,444,706</u> | <u>\$68,993,522</u> | <u>\$ 65,113,251</u> | <u>( \$ 63,725,959)</u> | <u>\$ 80,825,520</u> |
| Segment profits   | <u>\$ 8,099,444</u>  | <u>\$ 259,957</u>   | <u>\$ 4,444,717</u>  | <u>( \$ 3,315,436)</u>  | <u>\$ 9,488,682</u>  |
| Investment income under equity method                                 |                      |                     |                      |                         | 152,691              |
| General expense   |                      |                     |                      |                         | ( 1,008,899)         |
| Interest expense  |                      |                     |                      |                         | ( 276,012)           |
| Net income before income tax and minority interest                    |                      |                     |                      |                         | <u>\$ 8,356,462</u>  |
| Identifiable assets   | <u>\$ 49,820,463</u> | <u>\$ 4,990,538</u> | <u>\$ 43,304,130</u> | <u>( \$ 23,174,172)</u> | <u>\$ 74,940,959</u> |
| Long-term investments   |                      |                     |                      |                         | 6,902,911            |
| General assets  |                      |                     |                      |                         | -                    |
| Total assets  |                      |                     |                      |                         | <u>\$ 81,843,870</u> |
| Depreciation expense  | <u>\$ 1,812,978</u>  | <u>\$ 28,827</u>    | <u>\$ 557,585</u>    | <u>\$ -</u>             | <u>\$ 2,399,390</u>  |
| Capital expenditure   | <u>\$ 2,442,318</u>  | <u>\$ 19,182</u>    | <u>\$ 1,562,594</u>  | <u>\$ -</u>             | <u>\$ 4,024,094</u>  |

C. Information about export sales

The export sales of the Company and its consolidated subsidiaries in 2004 and 2005 were as follows:

| Destination    | 2004          | 2005          |
|----------------|---------------|---------------|
| Southeast Asia | \$ 28,758,837 | \$ 33,244,682 |
| U.S.A.         | 12,281,384    | 19,752,418    |
| Europe         | 6,035,965     | 7,961,437     |
| Northeast Asia | 3,280,435     | 3,699,877     |
| Americas       | 652,549       | 1,683,605     |
| Others         | 567,733       | 1,194,070     |
|                | \$ 51,576,903 | \$ 67,536,089 |

D. Major customer information

The customer accounting for more than 10% of the Company's operating revenues for the years ended December 31, 2004 and 2005 is set forth below:

|            | 2004                    |          | 2005                    |          |
|------------|-------------------------|----------|-------------------------|----------|
|            | % of total<br>operating |          | % of total<br>operating |          |
|            | Amount                  | revenues | Amount                  | revenues |
| Customer A | \$6,227,149             | 13%      | \$7,968,934             | 12%      |



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