

**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		2005	(Unaudited - Note 2)
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and cash equivalents (Note 4(1))	\$ 17,898,886	28	\$ 23,779,563	29	\$ 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	19,589,237	24	596,324	
Accounts receivable, net – related parties (Note 5)	930,732	1	1,131,164	1	34,434	
Other receivables (Note 4(15))	385,290	1	761,935	1	23,194	
Other receivables – related parties (Note 5)	167,017	-	57,809	-	1,760	
Other financial assets – current (Note 6)	40,983	-	1,361,928	2	41,459	
Inventories (Note 4(4))	4,895,044	8	6,888,311	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>61</u>	<u>54,438,578</u>	<u>67</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	10	5,272,920	7	160,515	
Long-term investments accounted for under the cost method (Note 4(5))	2,108,050	3	1,629,991	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>13</u>	<u>6,980,610</u>	<u>9</u>	<u>212,500</u>	
<b>Other financial assets - non-current</b> (Note 4(6))	<u>5,880,225</u>	<u>9</u>	<u>7,227,000</u>	<u>9</u>	<u>220,000</u>	
<b>Property, Plant and Equipment, Net</b> (Note 4(7))						
<b>Cost</b>						
Land	1,309,877	2	1,288,490	2	39,223	
Buildings	5,425,476	8	5,777,152	7	175,865	
Machinery and equipment	4,793,466	7	6,923,148	9	210,750	
Molding equipment	1,020,270	2	1,178,400	1	35,872	
Computer and communication equipment	721,401	1	811,450	1	24,702	
Testing equipment	3,133,920	5	3,921,042	5	119,362	
Transportation equipment	119,014	-	132,312	-	4,028	
Office equipment	1,031,898	2	1,166,608	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	17,740,086	27	21,441,498	26	652,709	
Less: Accumulated depreciation	( 7,874,569 )	( 12 )	( 9,995,872 )	( 12 )	( 304,288 )	
Construction in progress and prepayments for equipment	418,263	1	1,098,556	1	33,441	
Total property, plant and equipment, net	<u>10,283,780</u>	<u>16</u>	<u>12,544,182</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>-</u>	<u>232,720</u>	<u>-</u>	<u>7,084</u>	
<b>Other Assets</b>						
Refundable deposits	40,407	-	43,866	-	1,335	
Deferred expenses	291,821	1	313,765	-	9,552	
Other assets - other	-	-	63,149	-	1,922	
Total other assets	<u>332,228</u>	<u>1</u>	<u>420,780</u>	<u>-</u>	<u>12,809</u>	
<b>TOTAL ASSETS</b>	<u>\$ 64,883,432</u>	<u>100</u>	<u>\$ 81,843,870</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><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>						
<b><u>Current Liabilities</u></b>						
Short-term loans (Note 4(8))	\$ 4,082,358	6	\$ 7,891,215	10	\$ 240,220	
Notes and bills payable	155,000	-	-	-	-	
Notes payable	64	-	64	-	2	
Accounts payable	11,515,606	18	17,330,667	21	527,570	
Accounts payable – related parties (Note 5)	307,400	1	441,256	-	13,433	
Income tax payable (Note 4(15))	34,202	-	79,525	-	2,421	
Accrued expenses	1,899,859	3	2,273,584	3	69,211	
Other payables	1,359,213	2	2,195,019	3	66,819	
Advance collections	375,935	1	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	<u>19,803,874</u>	<u>31</u>	<u>31,288,403</u>	<u>38</u>	<u>952,463</u>	
<b><u>Long-term Liabilities</u></b>						
Bonds payable (Note 4(9))	6,337,929	10	-	-	-	
Total long-term liabilities	<u>6,337,929</u>	<u>10</u>	<u>-</u>	<u>-</u>	<u>-</u>	
<b><u>Reserves</u></b>						
Land value incremental reserve (Note 4(7))	80,945	-	44,836	-	1,365	
Total reserves	<u>80,945</u>	<u>-</u>	<u>44,836</u>	<u>-</u>	<u>1,365</u>	
<b><u>Other Liabilities</u></b>						
Accrued pension liabilities (Note 4(10))	772,117	1	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	3	2,175,492	3	66,225	
Other liabilities – other	-	-	42,922	-	1,307	
Total other liabilities	<u>2,765,135</u>	<u>4</u>	<u>3,236,842</u>	<u>4</u>	<u>98,534</u>	
Total liabilities	<u>28,987,883</u>	<u>45</u>	<u>34,570,081</u>	<u>42</u>	<u>1,052,362</u>	
<b><u>Stockholders' Equity</u></b>						
Common stock (Notes 1, 4(9) and 4(11))	15,859,720	25	18,303,815	22	557,194	
Capital reserves (Notes 4(9) and 4(12))						
Conversion of convertible bonds	6,577,417	10	11,140,668	14	339,138	
Other	275,613	-	311,721	-	9,489	
Retained earnings						
Legal reserve (Note 4(13))	3,237,641	5	3,903,811	5	118,837	
Special reserve	-	-	447,112	1	13,611	
Undistributed earnings (Note 4(14))	7,620,513	12	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)	( 1)	399,867	-	12,172	
Minority interest	33,123,793	51	43,399,551	53	1,321,143	
Total stockholders' equity	<u>2,771,756</u>	<u>4</u>	<u>3,874,238</u>	<u>5</u>	<u>117,937</u>	
Commitments and contingent liabilities (Notes 5, 7 and 10(3))	<u>35,895,549</u>	<u>55</u>	<u>47,273,789</u>	<u>58</u>	<u>1,439,080</u>	
<b><u>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>	<u>\$ 64,883,432</u>	<u>100</u>	<u>\$ 81,843,870</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 STATEMENTS OF INCOME**  
**YEARS ENDED DECEMBER 31.**

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

	New Taiwan Dollars				US Dollars	
	2004	%	2005	%	2005	
Operating Revenues (Note 5)					(Unaudited - Note 2)	
Sales revenue	\$ 56,475,856	100	\$ 81,120,153	100	\$ 2,469,411	
Sales returns	( 352,128)	( 1)	( 526,624)	( 1)	( 16,031)	
Sales discounts	( 190,491)	-	( 179,313)	-	( 5,459)	
Net Sales	55,933,237	99	80,414,216	99	2,447,921	
Services income	541,749	1	411,304	1	12,521	
Net Operating Revenues	56,474,986	100	80,825,520	100	2,460,442	
Operating costs (Notes 4 (17) and 5)						
Cost of goods sold	( 44,211,328)	( 78)	( 64,757,079)	( 80)	( 1,971,296)	
Gross profit	12,263,658	22	16,068,441	20	489,146	
Unrealized gain from intercompany transactions	11	-	-	-	-	
Realized gain (loss) from intercompany transactions	815	-	( 11)	-	-	
Gross profit, net	12,264,484	22	16,068,430	20	489,146	
Operating Expenses (Note 4(17))						
Sales and marketing expenses	( 2,104,063)	( 4)	( 2,735,229)	( 3)	( 83,264)	
General and administrative expenses	( 1,592,438)	( 3)	( 2,048,375)	( 3)	( 62,356)	
Research and development expenses	( 3,221,720)	( 5)	( 3,844,519)	( 5)	( 117,033)	
Total Operating Expenses	( 6,918,221)	( 12)	( 8,628,123)	( 11)	( 262,653)	
Operating income	5,346,263	10	7,440,307	9	226,493	
Non-operating Income and Gains						
Interest income	380,354	1	530,184	1	16,140	
Investment income accounted for under the equity method (Note 4(5))	-	-	152,691	-	4,648	
Dividend income	52,395	-	60,471	-	1,841	
Gain on disposal of investments	200,652	-	342,299	1	10,420	
Foreign exchange gain, net	334,696	1	78,256	-	2,382	
Other non-operating income	1,124,467	2	881,000	1	26,819	
Non-operating Income and Gains	2,092,564	4	2,044,901	3	62,250	
Non-operating Expenses and Losses						
Interest expense	( 126,099)	-	( 276,012)	-	( 8,402)	
Investment loss accounted for under the equity method (Note 4(5))	( 74,177)	-	-	-	-	
Other investment loss (Note 4(5))	( 66,126)	-	( 328,211)	( 1)	( 9,991)	
Loss on disposal of property, plant and equipment	( 27,401)	-	( 14,304)	-	( 436)	
Loss on physical count of inventories	( 1,570)	-	-	-	-	
Provision for loss on inventory obsolescence and market price declines	( 398,051)	( 1)	( 74,978)	-	( 2,283)	
Other non-operating losses	( 343,154)	( 1)	( 435,241)	( 1)	( 13,249)	
Non-operating Expenses and Losses	( 1,036,578)	( 2)	( 1,128,746)	( 2)	( 34,361)	
Income before income tax	6,402,249	12	8,356,462	10	254,382	
Income tax (expense) benefit (Note 4(15))	635,400	1	148,863	-	4,531	
Net income	\$ 7,037,649	13	\$ 8,207,599	10	\$ 249,851	
Attributable to:						
Shareholders of the Parent	\$ 6,661,698	12	\$ 7,552,940	9	229,922	
Minority interest	375,951	1	654,659	1	19,929	
	\$ 7,037,649	13	\$ 8,207,599	10	\$ 249,851	
	Income before income tax	Net income	Income before income tax	Net income	Income before income tax	Net income
Earnings Per Share (In Dollars) (Note 4(16))						
Basic Earnings Per Share						
Equity holder of the Company	\$ 3.56	\$ 3.94	\$ 4.35	\$ 4.26	\$ 0.1324	\$ 0.1297
Minority interest	0.22	0.22	0.37	0.37	0.0113	0.0112
Net income	\$ 3.78	\$ 4.16	\$ 4.72	\$ 4.63	\$ 0.1437	\$ 0.1409
Diluted earnings per share						
Equity holder of the Company	\$ 3.28	\$ 3.62	\$ 4.32	\$ 4.24	\$ 0.1315	\$ 0.1291
Minority interest	0.20	0.20	0.37	0.37	0.0113	0.0112
Net income	\$ 3.48	\$ 3.82	\$ 4.69	\$ 4.61	\$ 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					Unrealized loss on market value decline of long-term equity investments	Cumulative translation adjustment	Minority interest	Total
	Common stock	Capital reserves	Legal reserve	Special reserve	Undistributed earnings				
2004 New Taiwan Dollars									
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>
2005 New Taiwan Dollars									
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)	-	-	-	-
Appropriation of special reserve	-	-	-	447,112	( 447,112)	-	-	-	-
Directors' and supervisors' remuneration	-	-	-	-	( 16,700)	-	-	-	( 16,700)
Employees' bonus	320,775	-	-	-	( 320,775)	-	-	-	-
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	-	-	-	-	-	-	36,108
Net income for the year	-	-	-	-	7,552,940	-	-	654,659	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)**

	Common stock	Capital reserve	Retained earnings			Unrealized loss on market value decline of equity long-term investment	Cumulative translation adjustment	Minority interest	Total
			Legal reserve	Special reserve	Undistributed earnings				
2005 US Dollars (Unaudited-Note 2)									
Balance at January 1, 2005	\$ 482,792	\$ 208,616	\$ 98,558	\$ -	\$ 231,980	(\$ 90)	(\$ 13,521)	\$ 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	<u>\$ 557,194</u>	<u>\$ 348,627</u>	<u>\$ 118,837</u>	<u>\$ 13,611</u>	<u>\$ 270,801</u>	<u>(\$ 99)</u>	<u>\$ 12,172</u>	<u>\$ 117,937</u>	<u>\$ 1,439,080</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 CASH FLOWS**  
**YEARS ENDED DECEMBER 31,**  
**(EXPRESSED IN THOUSANDS OF DOLLARS)**

	New Taiwan Dollars		US Dollars
	2004	2005	2005
<b><u>Cash flows from operating activities</u></b>			(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	8,044,695	8,811,149	268,224

(Continued)

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

	New Taiwan Dollars		US Dollars
	2004	2005	2005
<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	<u>\$ 17,898,886</u>	<u>\$ 23,779,563</u>	<u>\$ 723,883</u>
<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)	-	-
	<u>\$ 143,033</u>	<u>\$ -</u>	<u>\$ -</u>
Cash and cash equivalents of the acquired subsidiary	\$ 288,408	\$ -	\$ -
Less: Acquisition price	( 143,033)	-	-
Net cash received from the acquisition of subsidiary	<u>\$ 145,375</u>	<u>\$ -</u>	<u>\$ -</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.**

**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%

<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>
(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% (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 December 31,</u>		<u>Note</u>
			<u>2004</u>	<u>2005</u>	
(1) Deltronics (Netherlands) B.V. (DEN)	Note A	Please refer to Note 1 2)	100. 00%	100. 00%	
(2) Delta Optoelectronics Inc. (Delta Optoelectronics)	Note A	"	95. 21%	95. 21%	
(3) Delsolar Co., Ltd. (Delsolar)	Note A	"	82. 50%	82. 50%	
(4) Delta Electronics International Ltd. (Labuan) (DEIL-Labuan)	Note B	"	-	94. 00%	Note D
(5) Delta Networks International Ltd. (Labuan) (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.

B. The decrease in consolidated subsidiaries were as follows:

None.

C. As mentioned in Note 1 3), DEN, Delta Optoelectronics and Delsolar are new consolidated subsidiaries for the year ended December 31, 2005. They were not consolidated in the year ended December 31, 2004 because they did not meet the related criteria for consolidation. Under Statements of Financial Accounting Standards No. 7 “Consolidated Financial Statements”, restatement of prior years’ consolidated financial statements is not required. As a result of this change in consolidated entities, the total assets and liabilities at December 31, 2005, and the related total operating revenue for the year ended December 31, 2005 were increased by \$1,494,082, \$453,997 and \$389,806 constituting 1.8%, 1.3% and 0.5%, respectively.

4) Majority owned subsidiaries not consolidated: None.

5) Difference in accounting period between the Company and the subsidiaries: None.

6) Difference in the accounting policies adopted between the Company and the subsidiaries: No significant differences.

7) Nature and extent of the restrictions on fund remittance from subsidiaries to the parent company: None.

8) Special operating risk of foreign subsidiaries: No significant special operating risks which would have impact on the Company.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements are prepared in accordance with the “Rules Governing the Preparation of Financial Statements of Securities Issuers” and generally accepted accounting principles in the Republic of China. Significant accounting policies are as follows:

### **Principles of consolidation**

- 1) The consolidated financial statements include the accounts of the Company and its majority owned subsidiaries after eliminating all significant intercompany accounts and transactions.
- 2) Prior to 2004, certain majority owned subsidiaries were not included in the consolidated financial statements and were accounted for under the equity method as the total assets and the operating revenues constituted less than 10% of the respective unconsolidated total assets and operating revenue of the Company, and did not meet the related criteria of the “Rules Governing the Preparation of Financial Statements of Securities Issuers”.

Effective January 1, 2005, majority owned subsidiaries or controlled entities, which meets the criteria of the amended Statements of Financial Accounting Standards No. 7 “Consolidated Financial Statements”, although the Company owns less than 50% of the voting rights of the investee companies directly or indirectly, are included in consolidated financial statements. For the initial year of adoption of SFAS No. 7 “Consolidated Financial Statements”, restatement of prior year’s financial statements is not required.

- 3) The results of operations of a subsidiary are included in the consolidated financial statements as from the date of acquisition. If the Company lost the control over the subsidiary in the interim, prior to 2004, the results of operations during the year will be excluded in the consolidated financial statements and should be restated. Effective January 1, 2005, under amended Statements of Financial Accounting Standards No. 7 “Consolidated Financial Statements”, the results of operations of such subsidiary are excluded from the consolidated statements of income effective the date on which the Company loses control over the subsidiaries.

### **Translation of financial statements of foreign subsidiaries**

Assets and liabilities of the foreign subsidiaries are translated into New Taiwan dollars using the exchange rate at the balance sheet date; equity accounts are translated at historical rates, except for beginning retained earnings which are transferred from prior year's ending retained earnings, and profit and loss accounts which are translated using weighted average rate. Exchange differences are recorded as cumulative translation adjustments and are included as a component of the stockholders' equity.

### **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 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	<u>2,215,527</u>	<u>-</u>
	<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>-</u>	<u>-</u>
	<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>% (Note B)</u>	<u>Book value</u>	<u>% (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>
		843,483		643,259
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	<u>467</u>	<u>3,529</u>
	<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 increment 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

ECB IV

- (H) Redemption price and adjustment  
(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
- a. Redemption at principal amount on due date.
- b. Early redemption
- (a) Redemption price: 94.63% of outstanding principal amount.
- (b) Redemption date: At any time on or after July 30, 2006.
- (c) The condition of early redemption:
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,
  2. at least 90% in principal amount of the bonds have been converted, redeemed or purchased and cancelled.
- (J) Purchase of bonds
- a. Purchase date: July 30, 2005
- b. Purchase price: 97.82% of outstanding principal amount
- 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>
Creditable tax ratio	<u>2004 (Actual) 0.30%</u>	<u>2005 (Estimated) 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			
<u>investments tax credits</u>	<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 outstanding common shares (in thousands) (Note b)	Earnings per share (in dollars)	
	Income before income tax	Net income		Income before income tax	Net income
Basic EPS	\$ 6,026,298	\$ 6,661,698	1,692,583	<u>\$ 3.56</u>	<u>\$ 3.94</u>
Effect of potential common shares with dilutive effect: 0% Euro convertible bonds	<u>-</u>	<u>-</u>	<u>146,145</u>		
Diluted EPS	<u>\$ 6,026,298</u>	<u>\$ 6,661,698</u>	<u>1,838,728</u>	<u>\$ 3.28</u>	<u>\$ 3.62</u>

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

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		
	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>
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	<u>242,659</u>	<u>102,961</u>	<u>345,620</u>	<u>274,476</u>	<u>120,388</u>	<u>394,864</u>
	<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 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>-</u>	<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:

	December 31,	
	2004	2005
Loan guarantees for related party	\$ 317,850	\$ 328,500

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):

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 Company during 2004</u>						
Buy option (USD PUT/TWD CALL)	USD 208,000	2004.07.27~2005.01.03	USD1: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	UAD1: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	USD1:JYP102.20~108.70	-	JPY 617,000	USD 6,000
Sell option (USD PUT/TWD CALL)	USD 62,000	2004.04.27~2004.12.23	USD1:NTD32.97~33.5	-	USD (Note d)	\$ (Note d)
Buy option (USD CALL/TWD PUT)	USD 110,000	2004.01.02~2004.12.23	USD1:NTD32.807~33.392	22,191	USD "	\$ "
Buy option (USD PUT/JPY CALL)	USD 2,000	2004.12.21~2004.12.28	UAD1:JYP102.20	-	USD "	JPY "
Sell option (USD PUT/JPY CALL)	USD 2,500	2004.12.15	USD:JYP125.80	( 13,418)	USD "	JPY "
Forward foreign currency contracts	USD 37,694	2004.03.26~2004.09.14	USD1:THB39.27~40.6075	-	USD "	THB "
"	USD 37,684	2004.03.26~2004.09.14	USD1:THB39.28~40.6175	317	THB "	USD "
"	USD 63,000	2004.04.12~2004.06.29	USD1:NTD33.054~33.71	-	JPY "	USD "
"	USD 1,000	2004.09.30	USD:JYP105.50	-	NTD "	USD "
Interest Rate Swap	NTD 1,500,000 (Note a)	2002.10.01~2006.06.10	1.73%~2.7%	( 2,142)	(Note c)	(Note c)
Callable Range Accrual Swap	USD 190,000 (Note b)	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/ Exercise rates		Cash inflow	Cash outflow
3.Delta Electronics (Dong Guan) Co., Ltd (the subsidiary of DIH)						
Forward foreign currency contracts	USD 16,000	2005.01.07~2005.12.07	USD1:RMB8.1122~8.2235	(\$ 1,450)	USD 16,000	USD 130,965
4.Delta Electronics Power (Dong Guan) Co., Ltd (the subsidiary of DIH)						
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)						
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)						
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	USD1: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	USD1: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	USD1: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	USD1: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	USD1:NTD32.887~33.45	3,077	"		"	
Buy option (USD CALL /JPY PUT)	USD	2,000	2004.12.17	USD1:JPY97.40~99.45	4,231	"		"	
Forward foreign currency contracts	USD	980	2004.04.26	USD1:NTD32.881	-	"		"	
"	USD	19,000	2004.01.02-2004.08.04	USD1: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)	"		"	
		(Note a)							
Total					\$ 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	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%	<u>3,434</u>	(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	<u>155,124</u>	(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	<u>( 10,574)</u>	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	<u>12,414</u>	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	<u>( 2,496)</u>	"	"	
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	<u>(\$ 417)</u>	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	<u>306</u>	"	"	
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	<u>\$ 826</u>	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 principal	Fair value	Nominal 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.

(5) Significant intercompany transactions between the Company, DIH, DNH, Pyramis, DEN, Delta Optoelectronics, Delsolar and the consolidated subsidiaries are eliminated when preparing the consolidated financial statements. The details are as follows:

<u>Transactions</u>	2004						
	<u>The Company</u>	<u>DIH</u>	<u>DNH</u>	<u>Pyramis</u>	<u>DEN</u>	<u>Delta Optoelectronics</u>	<u>Delsolar</u>
1.Elimination of long-term investments	(\$ 15,788,696)	\$ 14,140,739	\$ 1,423,303	\$ 224,654	\$ -	\$ -	\$ -
2.Elimination of intercompany receivable (AR) and payable (AP) accounts	10,314,169	( 10,562,720)	248,551	-	-	-	-
3.Elimination of profit and loss accounts							
(1)Sale and purchase transactions							
A. Downstream transactions	3,022,310	( 2,796,012)	( 226,298)	-	-	-	-
B. Upstream transactions	( 39,763,928)	39,547,086	216,842	-	-	-	-
C. Sidestream transactions	-	194,077	( 194,077)	-	-	-	-
(2)Services revenue, selling expenses, management and administrative expenses	3,198,407	( 3,181,084)	( 17,323)	-	-	-	-
(3)Unrealized (realized) intercompany profit from downstream transactions	( 3,566)	3,566	-	-	-	-	-
4.Elimination of minority interest	375,950	( 379,243)	-	3,293	-	-	-
5.Elimination of other transactions							
(1) Refundable deposits and guarantee deposits received	3,194	-	( 4,400)	1,206	-	-	-
(2) Rental revenue and rental expense	33,829	-	( 33,829)	-	-	-	-

  

<u>Transactions</u>	2005						
	<u>The Company</u>	<u>DIH</u>	<u>DNH</u>	<u>Pyramis</u>	<u>DEN</u>	<u>Delta Optoelectronics</u>	<u>Delsolar</u>
1.Elimination of long-term investments	(\$ 21,745,716)	\$ 18,607,929	\$ 2,173,234	\$ 80,558	\$ 12,126	\$ 357,859	\$ 514,010
2.Elimination of intercompany receivable (AR) and payable (AP) accounts	12,229,786	( 12,450,208)	188,571	119	12,388	3,608	15,736
3.Elimination of profit and loss accounts							
(1)Sale and purchase transactions							
A. Downstream transactions	5,362,801	( 5,139,419)	( 168,917)	-	( 53,921)	( 116)	( 428)
B. Upstream transactions	( 54,737,686)	54,615,273	122,413	-	-	-	-
C. Sidestream transactions	-	420,744	( 420,744)	-	-	-	-
(2)Services revenue, selling expenses, management and administrative expenses	3,397,219	( 3,484,128)	( 39,978)	-	126,915	-	( 28)
4.Elimination of minority interest	227,501	( 229,200)	-	( 5,805)	-	7,670	( 166)
5.Elimination of other transactions							
(1) Refundable deposits and guarantee deposits received	5,632	-	( 4,400)	( 1,232)	-	-	-
(2) Rental revenue and rental expense	30,111	-	( 30,111)	-	-	-	-

# 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 (Note a)	Name of the company providing guarantee		Parties being guaranteed		Limit on	Maximum	Outstanding	Amount of	Ratio of	Ceiling on
	Name	Name	Relationship with the Company (Note b)	for such party (Note c)	guarantee amount in 2005 (Note e)	outstanding guarantee amount at 12/31/2005	guarantee amount with collateral placed	amount to net value of the Company	accumulated guarantee amount to net value of the Company	outstanding guarantee to the respective party
0	Delta Electronics, Inc.	Delta Products Corp.	1	\$ 328,500	\$ 335,500	\$ 328,500	-	0.69%		(Note d)
0	"	Delta Networks 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	Name and kind of marketable securities				December 31, 2005					Note
	Type of marketable securities	Name of marketable securities	Relationship of the issuers with the Company	General ledger accounts	Number of shares (In thousand)	Book value	Percentage ownership	Market value		
Delta Electronics, Inc	Common Stock	Delta International Holding Ltd.	A subsidiary of the Company	Long-term investments	67,680	\$ 18,607,929	94.00	\$ 18,874,916	-	
"	"	Delta Networks Holding Ltd.	"	"	39,800	2,173,234	100.00	2,189,244	-	
"	"	Delta Electronics (Thailand) Public Co., Ltd.	Investee company accounted for under the 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 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 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		Number of shares (in thousands)	Disposal			December 31, 2005	
					Number of shares (in thousands)	Amount	Number of shares (in thousands)	Amount		Selling price	Book value	Disposal gain	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	-	-
"	Macronix International Co., Ltd.	Long-term investments (Note a)	Centralized securities exchange market	-	61,335	225,040	-	-	( 61,335)	293,114	( 225,040)	68,074	-	-
"	Delta International Holding Ltd.	Long-term investments	Delta International Holding Ltd.	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 Macronix 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	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)				Basis or reference used in setting the price	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	Amount			
Delta Electronics Inc.	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 from related parties		Turnover rate	Overdue receivable		Subsequent collections (Note)	Allowance for doubtful accounts provided
						Amount	Action adopted for overdue accounts		
Delta Electronics, Inc.	Delta International Holding Ltd.	A subsidiary of the Company	Accounts receivable	\$ 1,950,630	2.86	\$ -	-	\$ -	\$ -
			Other receivables	1,581,040	-	-	-	-	-
"	DEI Logistics (USA) Corp.	A subsidiary of DIH	Accounts receivable	515,940	5.67	42,899	Continued collection expected in 2006	205,959	-
			Other receivables	43,271	-	-	-	34,520	-
"	Delta Products Corporation	Affiliated enterprise	Accounts receivable	309,916	2.82	-	-	110,353	-
			Other receivables	4,005	-	-	-	1,048	-
"	Delta Video Display System (Wu Jiang) Co., Ltd. (DWV)	A subsidiary of DIH	Accounts receivable	271,197	2.77	-	-	68,662	-
			Other receivables	50	-	-	-	-	-
"	Delta Electronics International Ltd.	A subsidiary of DIH	Accounts receivable	5,541	2.27	-	-	72	-
			Other receivables	202,524	-	-	-	194,727	-
"	Delta Video Technology Ltd.	A subsidiary of DAC	Accounts receivable	105,723	5.92	-	-	69,344	-
			Other receivables	744	-	-	-	-	-
"	Delta Energy Systems (India) PVT Ltd.	A subsidiary of the investee company accounted for under the equity method	Accounts receivable	121,401	1.33	-	-	50,566	-
			Other receivables	-	-	-	-	-	-
"	Delta Electronics Europe Ltd.	"	Accounts receivable	119,014	2.15	-	-	26,323	-
			Other receivables	5,114	-	-	-	-	-

(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	\$ 18,607,929	\$ 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	2,173,234	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	1,420,146	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	878,386	292,805	107,350	-
"	Delsolar Co., Ltd.	"	Manufacturing of solar batteries and related systems	495,000	495,000	49,500	82.50	514,010	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	357,859	( 224,977)	( 217,306)	-
"	Others			727,569	<u>727,569</u>			<u>105,573</u>	( 575,473)	( <u>315,729</u> )	-
					<u>\$ 9,014,623</u>			<u>\$ 24,057,137</u>		<u>\$ 4,293,737</u>	

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 a)	Note
				Balance as of December 31, 2005	Balance as of December 31, 2004	Number of shares (in thousands)	Percentage of ownership	Book value			
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			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 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	(Note b)	-
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	(Note c)	-
"	Delta Networks International Ltd.	British Vigin 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	Pyramis Holding Ltd.	Cayman Islands	Equity Investment	132,285	132,285	4,100	100.00	4,647	56,327	(Note d)	-

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 of investor	Name and kind of marketable securities			December 31, 2005				
	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
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	"	"	"	682,530	"	682,530
Delta Networks Holding Ltd.(DNH)	Common stock	Delta Networks Inc.	A subsidiary of DNH	"	39,367	2,175,159	94.00	2,175,159
Delta Networks Inc. (Cayman) (DNI Cayman)	"	Delta Networks Inc.	A subsidiary of DNI Cayman	"	49,599	376,732	99.20	376,732
"	Certificate of amount contributed	Delta Electronics Industrial (Dong Guan) Co., Ltd.	"	"	-	940,840	100.00	940,840

Name of investor	Name and kind of marketable securities				December 31, 2005			
	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
Delta Networks Inc.	Common stock	Delta Networks International Ltd.	A subsidiary of DNI Cayman	Long-term investments	10	\$ 921,577	100.00	\$ 921,577
"	"	Others	"	"		56,887		56,887
Pyramis Corporation	"	Pyramis Holding Ltd.	A subsidiary of Pyramis Corporation	"	4,100	4,647	100.00	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)	Selling price	Book value	Disposal gain/(loss)	Number of shares (in thousands)	Amount
Delta International Holding Ltd. (DIH)	Primarion Inc.	Long-term investments	-	None	-	\$ -	16,013	\$ 204,071	-	\$ -	\$ -	\$ -	16,013	\$ 204,071
"	Netgear Inc.	"	-	"	506	54,204	-	-	506	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	-	-	18,279	251,427	250,000	1,427	-	-
"	UBS Taiwan Bond Fund	"	-	"	9,802	141,579	-	-	9,802	141,776	141,579	197	-	-
Delta Networks Inc.	NITC Taiwan Bond Fund	"	-	"	-	-	20,955	288,000	20,955	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	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) Purchase	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 (Dong Guan) Co., Ltd.	Affiliated enterprise	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 Electronic (Japan), Inc.	"	"	205,201	0.28	"	-	-	( 44,688)	2.65
"	Delta Electronics (Thailand) Public Co., Ltd.	"	"	152,882	0.21	"	-	-	( 28,835)	1.71
"	Delta Green (Tianjin) Industries Co., Ltd.	"	"	269,447	0.37	"	-	-	( 95,828)	5.68
Delta Electronics Industrial (Dong Guan) Co., Ltd.	Delta Electronics (Dong Guan) Co., Ltd.	"	"	136,090	2.22	"	According to the contract	-	63,414	13.80
"	Delta Electronics Power (Dong Guan) Co., Ltd.	"	"	160,183	2.61	"	"	-	37,546	8.20
Delta Electronics (Japan), Inc.	Delta Video Display System (Wu Jiang) Co., Ltd.	"	Sales	611,100	34.72	"	-	-	174,057	10.98
Delta Networks Inc.	Delta Networks International Ltd.	"	"	139,905	8.17	"	According to the contract	-	73,304	16.30
Delta Electronics International Ltd.	Delta Electronics (Dong Guan) Co., Ltd.	"	"	2,000,522	2.48	"	"	-	219,811	1.19
"	Delta Electronics Power (Dong Guan) Co., Ltd.	"	"	19,159,154	23.79	"	"	-	1,092,564	5.91
"	Delta Electronics Components (Dong Guan) Co., Ltd.	"	"	4,563,089	5.66	"	"	-	-	-
"	Delta Electronics Inc.	The ultimate parent company	"	55,135,869	68.45	"	-	-	17,134,838	92.80

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	\$ -	-	\$ 34,001	\$ -
"	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	Par value, contract amount or nominal principal (Note a)		Transaction terms		Realized gain (or loss)	Related cash flows				
			Exercise dates	Exercise prices/ Exercise rates		Cash inflow		Cash outflow		
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	<u>155,124</u>		closed		closed	
Total					<u>\$ 212,551</u>					
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)		closed		closed	
"	USD	14,000	2006.01.19-2006.07.07	USD1:RMB7.9632-8.0406	<u>( 10,574)</u>	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)		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	<u>12,414</u>	USD	30,536	RMB	239,880	
Total					<u>(\$ 152,537)</u>					
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)		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	<u>4,797</u>	USD	10,480	RMB	82,336	
Total					<u>(\$ 72,871)</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	
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 :

	<u>Book Value</u>		
	<u>Other receivable</u>	<u>Other payable</u>	<u>Other receivable (payable)-net</u>
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

Investment income or loss recognized are translated at the average rate for the year ended December 31, 2005, others are translated at the rate of exchange prevailing at the balance sheet date.

Name of investee in Mainland China	Main activities of investee	Capital (Note a and g)	Investment method	Accumulated remittance as of January 1, 2005	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
					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)	94.00%	\$ 298,996	\$ 1,392,974	(Note b)
Deltron-Cimic 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)	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)	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)	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)	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)	51.70%	416,444	925,233	-
Delta Electronics (Jiang Su) 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)	51.70%	265,317	932,269	-
Delta Electro-optics (Wu Jiang) 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)	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 January 1, 2005	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
					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	(Note e)
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.

<u>Accumulated amount remitted out of Taiwan to Mainland China</u>	<u>Investment amount approved by the Investment Commission</u>	<u>Ceiling of investment amount of the Company</u>
(Note h) NT\$ 5,088,300 (US\$ 154,895)	(Note h) NT\$ 5,172,613 (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 (Note a)	Name of counterparty	Name of transaction parties	Relationship (Note b)	Transaction terms			The percentage of total combined revenue or total assets (Note c)
				Subject	Amount (Note e)	Transaction terms	
0	Delta Electronics Inc.	Delta International Holding Ltd.	1	Services revenue	\$ 3,237,389	(Note d)	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 (Note a)	Name of counterparty	Name of transaction parties	Relationship (Note b)	Transaction terms			The percentage of total combined revenue or total assets (Note c)
				Subject	Amount (Note e)	Transaction terms	
4	Delta Electronics Components (Wu Jiang) Co., Ltd.	Delta Electronics International Ltd.	3	Sales	\$ 1,390,266	(Note d)	0.02
5	Delta Electro-optics (Wu Jiang) Co., Ltd.	"	3	"	641,503	"	0.01
6	Delta Video Display System (Wu Jiang) Co., Ltd.	"	3	"	1,062,198	"	0.02
7	Delta Electronics (Dong Guan) Co., Ltd.	Delta Electronics Power (Dong Guan) Co., Ltd.	3	"	1,085,745	"	0.02
	"	Delta Electronics International Ltd.	3	"	1,244,615	"	0.02
8	Delta Electronics Industrial (Dong Guan) Co., Ltd.	Delta Networks International Ltd.	3	"	4,489,022	"	0.08
9	Delta Electronics Components (Dong Guan) Co., Ltd.	Delta Electronics International Ltd.	3	"	4,888,777	"	0.09
10	Delta Electronics Power (Dong Guan) Co., Ltd.	"	3	"	16,824,414	"	0.30
11	Delta Networks International Ltd.	Delta Electronics Industrial (Dong 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 Jiang) Co., Ltd.	3	"	287,966	"	0.01
13	"	Delta Electronics International Ltd.	3	"	186,849	"	0.00

Number (Note a)	Name of counterparty	Name of transaction parties	Relationship (Note b)	Transaction terms			The percentage of total combined revenue or total assets (Note c)
				Subject	Amount (Note e)	Transaction terms	
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 (Note a)	Name of counterparty	Name of transaction parties	Relationship (Note b)	Transaction terms			The percentage of total combined revenue or total assets (Note c)
				Subject	Amount (Note e)	Transaction terms	
7	Delta Electronics (Dong Guan) Co., Ltd.	Delta Electronics Components (Dong Guan) Co., Ltd.	3	Accounts receivable	\$ 754,969	(Note d)	0.01
8	Delta Networks International 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 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 (Note a)	Name of counterparty	Name of transaction parties	Relationship (Note b)	Transaction terms			The percentage of total combined revenue or total assets (Note c)
				Subject	Amount (Note e)	Transaction 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 (Note a)	Name of counterparty	Name of transaction parties	Relationship (Note b)	Subject	Transaction terms		The percentage of total combined revenue or total assets (Note c)
					Amount (Note e)	Transaction terms	
4	Delta Electro-optics (Wu Jiang) Co., Ltd.	Delta Electronics International Ltd.	3	Sales	\$ 846,709	(Note d)	0.01
5	Delta Video Display System (Wu Jiang) Co., Ltd.	"	3	"	5,635,804	"	0.07
6	Delta Electronics (Dong Guan) Co., Ltd.	"	3	"	3,051,173	"	0.04
	"	Delta Electronics Industrial (Dong Guan) Co., Ltd.	3	"	136,090	"	0.00
7	Delta Electronics Components (Dong Guan) Co., Ltd.	Delta Electronics International Ltd.	3	"	4,928,040	"	0.06
	"	Delta Electronics Power (Dong Guan) Co., Ltd.	3	"	939,995	"	0.01
8	Delta Electronics Power (Dong Guan) Co., Ltd.	Delta Electronics International Ltd.	3	"	22,397,798	"	0.28
8	"	Delta Electronics Industrial (Dong Guan) Co., Ltd.	3	"	160,183	"	0.00
9	Delta Electronics (Japan) Inc.	Delta Video Display System (Wu Jiang) Co., Ltd.	3	"	611,100	"	0.01
	"	Delta Electronics International Ltd.	3	"	205,201	"	0.00
10	Delta Networks International Ltd.	Delta Electronics Industrial (Dong 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 (Note a)	Name of counterparty	Name of transaction parties	Relationship (Note b)	Transaction terms			The percentage of total combined revenue or total assets (Note c)
				Subject	Amount (Note e)	Transaction terms	
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 (Note a)	Name of counterparty	Name of transaction parties	Relationship (Note b)	Subject	Transaction terms		The percentage of total combined revenue or total assets (Note c)
					Amount (Note e)	Transaction 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 rations 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				
	<u>Asia</u>	<u>Others</u>	<u>Domestic</u>	<u>Elimination</u>	<u>Consolidated</u>
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	<u>267,518</u>	<u>39,559,870</u>	<u>6,547,228</u>	<u>( 46,374,616)</u>	<u>-</u>
Total operating revenues	<u>\$ 7,636,821</u>	<u>\$47,483,071</u>	<u>\$ 47,729,710</u>	<u>(\$ 46,374,616)</u>	<u>\$ 56,474,986</u>
Segment profits	<u>\$ 2,037,673</u>	<u>\$ 6,959,419</u>	<u>\$ 1,229,406</u>	<u>(\$ 3,287,798)</u>	\$ 6,938,700
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>(\$ 20,508,730)</u>	\$ 56,454,426
Long-term investments					8,429,006
General assets					<u>-</u>
Total assets					<u>\$ 64,883,432</u>
Depreciation expense	<u>\$ 1,253,887</u>	<u>\$ 253,082</u>	<u>\$ 439,231</u>	<u>\$ -</u>	<u>\$ 1,946,200</u>
Capital expenditure	<u>\$ 1,344,631</u>	<u>\$ 72,848</u>	<u>\$ 629,144</u>	<u>\$ -</u>	<u>\$ 2,046,623</u>

	2005				
	<u>Asia</u>	<u>Others</u>	<u>Domestic</u>	<u>Elimination</u>	<u>Consolidated</u>
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	<u>460,367</u>	<u>54,358,398</u>	<u>8,907,194</u>	( <u>63,725,959</u> )	<u>-</u>
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> )	\$ 9,488,682
Investment income under equity method					152,691
General expense					( 1,008,899 )
Interest expense					( <u>276,012</u> )
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> )	\$ 74,940,959
Long-term investments					6,902,911
General assets					<u>-</u>
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	
	Amount	% of total operating revenues	Amount	% of total operating revenues
Customer A	\$6,227,149	13%	\$7,968,934	12%