TONG HSING ELECTRONIC INDUSTRIES, LTD.
AND SUBSIDIARIES

Consolidated Financial Statements

June 30, 2011 and 2010

(With Auditors' Report Thereon)

Independent Auditor's Report

The Board of Directors
Tong Hsing Electronic Industries, Ltd.:

We have audited the accompanying consolidated balance sheets of Tong Hsing Electronic Industries, Ltd. and subsidiaries as of June 30, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the six-month periods then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and auditing standards generally accepted in the Republic of China. Those regulations and standards require that we plan and perform the audit 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Tong Hsing Electronic Industries, Ltd. and subsidiaries as of June 30, 2011 and 2010, and the results of their operations and their cash flows for the six-month periods then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

August 10, 2011

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

The auditors' report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language auditors' report and financial statements, the Chinese version shall prevail.

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Consolidated Statements of Income

Six-month periods ended June 30, 2011 and 2010

(Expressed in thousands of New Taiwan dollars, except net income per share, which is expressed in New Taiwan dollars)

	2011 Amount	%	2010 Amount	%
Gross sales	$ 3,172,500	103	2,621,408	101
Less: sales returns and allowances	79,376	3	34,090	1
Net sales	3,093,124	100	2,587,318	100
Cost of sales (notes 7 and 21)	2,206,616	71	1,855,335	72
Gross profit	886,508	29	731,983	28
Operating expenses (note 21):				
Selling expenses	85,838	3	70,687	3
Administrative expenses	284,832	9	232,657	9
Research and development expenses	31,749	1	32,919	1
	402,419	13	336,263	13
Operating income	484,089	16	395,720	15
Non-operating income:				
Interest income	4,751	-	1,257	-
Gain on foreign currency exchange, net	1,927	-	-	-
Other (note 5)	14,315	-	4,420	-
	20,993	-	5,677	-
Non-operating expenses and losses:				
Interest expense	2,200	-	2,042	-
Loss on foreign currency exchange, net	-	-	3,127	-
Other (note 5)	1,677	-	11,380	1
	3,877	-	16,549	1
Income before tax	501,205	16	384,848	14
Income tax expense (note 15)	74,391	2	50,426	2
Consolidated net income	$ 426,814	14	334,422	12

	2011 Before income tax	2011 After income tax	2010 Before income tax	2010 After income tax
Basic net income per share (note 14)	$ 3.53	3.01	3.07	2.67
Diluted net income per share	$ 3.50	2.98	3.03	2.63

See accompanying notes to consolidated financial statements.

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

Six-month periods ended June 30, 2011 and 2010
(Expressed in thousands of New Taiwan dollars)

	Common stock	Capital collected in advance	Capital surplus-additional paid-in capital	Capital surplus-Employee stock options	Retained earnings: Legal reserve	Retained earnings: Special reserve	Retained earnings: Unappropriated	Accumulated currency translation adjustments	Unrealized land revaluation increment	Total
Balance on January 1, 2010	$ 1,250,176	690	1,447,091	-	269,414	-	637,122	13,490	42,669	3,660,652
Appropriation:										
Legal reserve	-	-	-	-	45,374	-	(45,374)	-	-	-
Dividends (cash)	-	-	-	-	-	-	(375,260)	-	-	(375,260)
Cash injection	160,000	-	1,360,000	-	-	-	-	-	-	1,520,000
Adjustment for increase in capital reserved for employees	-	-	37,920	-	-	-	-	-	-	37,920
Consolidated net income for the six-month period ended June 30, 2010	-	-	-	-	-	-	334,422	-	-	334,422
Issuance of stock for employee stock options exercised	690	(690)	-	-	-	-	-	-	-	-
Foreign currency translation adjustments	-	-	-	-	-	-	-	5,384	-	5,384
Balance on June 30, 2010	**1,410,866**	**-**	**2,845,011**	**-**	**314,788**	**-**	**550,910**	**18,874**	**42,669**	**5,183,118**
Balance on January 1, 2011	1,417,906	200	2,852,106	-	314,788	-	1,005,047	(124,145)	42,669	5,508,571
Appropriation:										
Legal reserve	-	-	-	-	78,856	-	(78,856)	-	-	-
Special reserve	-	-	-	-	-	137,634	(137,634)	-	-	-
Dividends (cash)	-	-	-	-	-	-	(567,242)	-	-	(567,242)
Consolidated net income for the six-month period ended June 30, 2011	-	-	-	-	-	-	426,814	-	-	426,814
Adjustment for increase in capital reserved for employees	-	-	-	45,000	-	-	-	-	-	45,000
Issuance of stock for employee stock options exercised	200	(200)	-	-	-	-	-	-	-	-
Foreign currency translation adjustments	-	-	-	-	-	-	-	(25,598)	-	(25,598)
Balance on June 30, 2011	**$ 1,418,106**	**-**	**2,852,106**	**45,000**	**393,644**	**137,634**	**648,129**	**(149,743)**	**42,669**	**5,387,545**

Note 1: Directors' and supervisors' remuneration amounting to $7,630 and employee bonuses amounting to $31,370 were recognized in the 2009 statements of income.
Note 2: Directors' and supervisors' remuneration amounting to $8,000 and employee bonuses amounting to $56,000 were recognized in the 2010 statements of income.

See accompanying notes to consolidated financial statements.

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Six-month periods ended June 30, 2011 and 2010

(Expressed in thousands of New Taiwan dollars)

		2011	2010
Cash flows from operating activities:			
Net income	$	426,814	334,422
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization		212,948	162,073
Salaries and wages from increasing capital for employees		45,000	37,920
Loss on disposal of property, plant and equipment		1,677	10,167
Increase in allowance for inventory obsolescence		(3,829)	12,251
Decrease (increase) in financial assets at fair value through profit or loss – current		(210,705)	310,288
Decrease (increase) in notes and accounts receivable		111,414	(244,391)
Decrease (increase) in inventories		(9,501)	(287,998)
Decrease (increase) in prepayment and other current assets		(26,319)	14,700
Decrease (increase) in other current financial assets		(12,073)	(18,859)
Increase (decrease) in deferred income tax liabilities, net		2,654	(16,839)
Increase (decrease) in notes and accounts payable		24,837	198,768
Increase (decrease) in accrued expenses and other current liabilities		(59,814)	51,032
Others		(801)	(2,531)
Cash provided by (used in) operating activities		502,302	561,003
Cash flows from investing activities:			
Additions to property, plant and equipment		(702,598)	(481,308)
Proceeds from sale of fixed assets		235	1,668
Decrease (increase) in restricted assets		508	(14,015)
Others		(1,856)	(2,870)
Cash provided by (used in) investing activities		(703,711)	(496,525)
Cash flows from financing activities:			
Increase (decrease) in short-term loans		99,868	238,850
Cash injection		-	1,520,000
Cash dividend		-	(375,260)
Cash provided by (used in) financing activities		99,868	1,383,590
Effects of exchange rate change on cash and cash equivalents		(13,485)	2,736
Net increase (decrease) in cash and cash equivalents		(115,026)	1,450,804
Cash and cash equivalents at beginning of year		2,250,439	858,758
Cash and cash equivalents at end of period	**$**	**2,135,413**	**2,309,562**
Supplementary disclosures of cash flow information:			
Cash paid during the period for:			
Interest	**$**	**2,001**	**1,859**
Income tax	**$**	**134,115**	**55,419**
Supplementary disclosures of additions to property, plant and equipment by paying cash:			
Additions to property, plant and equipment	$	610,836	570,397
Decrease (increase) in payable for purchase of equipment		91,762	(89,089)
Cash paid	**$**	**702,598**	**481,308**
Supplementary disclosures of financing activities not affecting cash flows:			
Cash dividends payable	**$**	**567,242**	**-**

See accompanying notes to consolidated financial statements.

(1) Organization

Tong Hsing Electronic Industries, Ltd. ("the Company") was incorporated as a company limited by shares in August 1974. The major business activities of the Company are the manufacture and sale of RF modules, hybrid integrated circuits, metalized ceramic substrates and image sensor. The Company's common shares were listed on the Taiwan Stock Exchange (TSE) on November 16, 2007.

Based on a resolution of the directors' meeting held on August 27, 2009, the Company decided to merge with Impac Technology Co., Ltd. ("Impac"). The merger effective date was December 31, 2009. Impac was dissolved.

Tong Hsing Electronic Phils., Inc. ("THEPI") was incorporated as a company limited by shares in 1994. The major business activities of THEPI are the manufacture and sale of RF modules, metalized ceramic substrates, hybrid integrated circuits and image sensor. As of June 30, 2011, the Company had 100% ownership of THEPI, amounting to US$47,059 thousand.

As of June 30, 2011 and 2010, the number of employees hired by the Group was approximately 2,825 and 2,364, respectively.

(2) Summary of Significant Accounting Policies

The accompanying consolidated financial statements are prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles and practices generally accepted in the Republic of China. The consolidated financial statements of the Group have been prepared in the local currency and in Chinese. The financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language financial statements, the Chinese version shall prevail. The significant accounting policies and measurement basis adopted in preparing the accompanying financial statements are summarized as follows:

(a) Reporting entities of the consolidated financial statements and basis of consolidation

The Company uses the equity method to evaluate investees which it has the power to control, and consolidates the investees into its financial statements at the end of each quarter and full fiscal year. As of June 30, 2011 and 2010, the subsidiary included in the consolidated financial statements and the Company's direct and indirect percentage of ownership was as follows:

(Continued)

Investor	Name of subsidiary	Nature of operation	Percentage of ownership June 30 2011	Percentage of ownership June 30 2010
The Company	THEPI	Sales and manufacturing of RF modules, metalized ceramic substrates, hybrid integrated circuits and image sensor.	100 %	100 %

(b) Use of estimates

The preparation of the accompanying consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

(c) Foreign currency transactions and translation

Each member of the Group records its books in its functional currency. Transactions not quoted in the functional currency are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities not denominated in the functional currency are translated into the functional currency using the exchange rates on that date. The resulting realized and unrealized exchange incomes (losses) from such translations are recorded as non-operating gains or losses. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the exchange rate ruling at the balance sheet date. If the non-monetary assets or liabilities are measured at fair value through profit and loss, the resulting unrealized exchange income (loss) from such translations is reflected in the accompanying statements of income. If the non-monetary assets or liabilities are measured at fair value through stockholders' equity, the resulting unrealized exchange income (loss) from such translations is recorded as a separate component of stockholders' equity.

For long-term equity investments in foreign investees, which are accounted for by the equity method, their foreign currency financial statements have to be translated into the Group's reporting currency. Translation adjustments resulting from the translation of foreign currency financial statements into the Group's reporting currency are accounted for as translation adjustment, which is a separate component of stockholders' equity.

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(d) Classification of current and non-current assets and liabilities

Cash or cash equivalents, and assets that will be held primarily for the purpose of being traded or are expected to be realized within 12 months after the balance sheet date are classified as current assets; all other assets shall be classified as non-current.

Liabilities that will be held primarily for the purpose of being traded or are expected to be settled within 12 months after the balance sheet date are classified as current liabilities; all other liabilities shall be classified as non-current.

(e) Asset impairment

The Group assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. The Group recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount.

The Group reverses an impairment loss recognized in prior periods for assets other than goodwill if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

The Group assesses the cash-generating unit to which goodwill is allocated on an annual basis and recognizes an impairment loss on the carrying value in excess of the recoverable amount.

(f) Cash equivalents

Cash equivalents are short-term investments that are readily convertible to known amounts of cash and so near maturity that they present insignificant risk of change in value because of changes in interest rates, including bonds purchased under resale agreements, exchequer bills and commercial paper with a maturity of three months or less from the date of investment.

(g) Financial assets measured at fair value through profit or loss

These financial instruments include financial assets held for trading and designated as at fair value through profit and loss. The main purposes of the financial instruments are selling or repurchasing within a short period of time. The derivative instruments held by the Group are classified in this account, except if they are designated and effective hedging instruments. If a financial instrument that the Group holds is a hybrid instrument that includes an embedded derivative and a non-derivative host contract, the embedded derivative shall be recorded as financial assets measured at fair value through profit or loss as of the acquisition date.

(Continued)

(h) Notes and accounts receivable, other receivables, and refundable deposits

Notes and accounts receivable are the creditors' rights from selling goods or rendering services. Other receivables and refundable deposits are created from non-operating income.

Effective from January 1, 2011, concerning financial assets, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Impairment loss is recognized and measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognized in profit or loss. The present value of estimated future cash flows includes the recoverable amount of collateral and insurance.

If, in a subsequent period, the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in profit or loss.

(i) Derivative financial instruments and hedging

The derivative financial instruments held by the Group are for hedging the risk of changes in foreign currency exchange rates and interest rates resulting from operational, financial and investing activities. The derivatives are recognized as financial instruments held for trading when they do not meet the criteria for hedge accounting.

When each of the three types of hedger—"fair value hedge", "cash flow hedge" and "hedge of a net investment in a foreign operation"—meets all the criteria for hedge accounting, the offsetting effects on gain or loss of changes in the fair value of the hedging instruments and the hedged item will be recognized.

(j) Allowance for doubtful accounts

Before December 31, 2010, allowance for doubtful accounts is provided according to the collectability of each account. The amount is determined by considering the past collection experience, customers' credit, an aging analysis, and the Group's internal controls on credit policy.

(Continued)

(k) Inventories

The cost of inventories consists of all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Fixed production overheads are allocated to finished goods and work in progress based on the normal capacity of the production facilities. Variable production overheads are allocated to each unit of production based on the actual use of the production facilities. Inventories are measured individually at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses at the end of the period.

(l) Property, plant and equipment, and depreciation

Property, plant and equipment are stated at cost and can be revalued at government-declared values or indexes. Interest in connection with the acquisition or construction of property, plant and equipment is capitalized. Major renewals and improvements are capitalized and depreciated accordingly. Gains or losses on the disposal of property, plant and equipment are included in non-operating income or losses.

Excluding land, depreciation of property, plant and equipment is provided using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the shorter of the estimated useful lives or the contract periods by the straight-line method. If the property, plant and equipment have reached the end of their estimated useful lives but are still in use, the Group will estimate the remaining useful lives and residual value, and depreciate the residual value using the same method. The useful lives of respective assets are summarized as follows:

1. Buildings: 25~50 years

2. Improvement to buildings: 3~20 years

3. Machinery and equipment: 2~10 years

4. Office equipment: 3~10 years

5. Leasehold improvement: 2~10 years

(m) Intangible assets

The Group adopted SFAS No. 37 “Intangible Assets”. In accordance with SFAS No. 37, other than an intangible asset acquired by way of a government grant, which should be measured at its fair value, an intangible asset shall be measured initially at cost. After initial recognition, an intangible asset shall be measured at its cost plus revaluation increment revalued in accordance with the laws, less any accumulated amortization and any accumulated impairment losses.

(Continued)

The depreciable amount of capitalized development expenditure is determined after deducting its residual value. Amortization is recognized as an expense on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. Patents, costs of computer software, and other intangible assets are amortized using the straight-line method over three to seven years.

The residual value, the amortization period, and the amortization method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. Such changes shall be accounted for as changes in accounting estimates.

In accordance with SFAS No. 37, except when it forms part of the cost of a business combination, expenditure on research is recognized as an expense when it is incurred. An intangible asset arising from development shall be recognized if, any only if, the Group cash demonstrate all of the following:

1. the technical feasibility of completing the intangible asset so that it will be available for use or sale.

2. its intention to complete the intangible asset and use or sell it.

3. its ability to use or sell the intangible asset.

4. how the intangible asset will generate probable future economic benefits.

5. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

6. its ability to measure reliably the expenditure attributable to the intangible asset during its development.

(n) Deferred expenses

Construction of electricity supply, improvements, and mold expenses are amortized using the straight-line method over two to three years.

(o) Goodwill

The cost of investment in excess of the fair value of identifiable net assets is recognized as goodwill, and is determined by the original cost less its accumulated impairment.

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(p) Retirement plan

The Company has established an employee noncontributory pension plan covering all regular employees. According to this plan, employees are eligible for retirement or are required to retire after meeting certain age or service requirements. The retirement benefits are lump-sum payments. Payments of employee retirement benefits are based on the years of service and average salary for the six months before the employee's retirement. Each employee will earn two months' salary for the first 15 years of service and one month's salary for each service year after the sixteenth year. The total number of months each employee can earn is limited to 45 months.

In accordance with the requirements of the ROC Labor Standards Law, the Company has made monthly cash contributions of 8% of salaries and wages incurred to a pension fund maintained with Bank of Taiwan (originally the "Central Trust of China"). Retirement benefits are paid first from the fund and then by the Company if the fund is insufficient.

THEPI has established an employee noncontributory pension plan covering all regular employees. Employees are eligible for retirement or are required to retire after meeting certain age or service requirements. The retirement benefits are lump-sum payments. Payments of employee retirement benefits are based on the years of service and half of the final month's salary before the employee's retirement.

The Company and THEPI have their pension plans actuarially valued on the year-end date and recognize net periodic pension cost, including service costs, interest cost, expected return on plan assets, and amortization of net unrecognized transition costs, over the average remaining service period of employees (15 and 14 years, respectively).

Under the Labor Pension Act, which came into force on July 1, 2005, a defined contribution pension plan should be implemented by the Company for all new employees and for any employees employed before that date who chose the new plan. For the employees who are under for the defined contribution pension plan, the Company has made a monthly cash contribution of 6% of salaries and wages to employees' individual pension fund accounts at the Bureau of Labor Insurance based on the Labor Pension Act, and the contribution was recorded as pension expenses in the accompanying statements of income.

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(q) Share-based payment

The employee stock options granted before January 1, 2008, are accounted for by interpretations (92)070, 071, and 072 issued by the Accounting Research and Development Foundation (ARDF). The Company adopts the intrinsic value method for the employee stock options. Compensation costs are the excess, if any, of the fair value of the stock at the measurement date over the amount employees must pay to acquire the stock. Meanwhile, the compensation costs mentioned above are recorded as current expense and a separate component of stockholders' equity during the service period of the employees specified in the employee stock option plan. According to SFAS No. 39 "Share-based Payment", the Company need not apply SFAS No. 39 retrospectively to the share-based payments that were granted before January 1, 2008; however, the pro-forma net income and earnings per share must still be disclosed.

If the Company increases its capital through a cash injection, it will reserve 10% to 15% of the capital injection for employees to purchase in accordance with Article 267 of the ROC Company Act. The amount reserved is evaluated at fair value on the grant date, and recorded as salary expense and capital surplus－employee stock options. After purchasing, the capital surplus－employee stock options are reclassified into capital surplus－paid-in capital in excess of par value, in accordance with Interpretation (96) 267 issued by the ARDF.

(r) Employees' bonuses and directors' and supervisors' remuneration

Employees' bonuses and directors' and supervisors' remuneration based on the ROC Company Act and the Company's articles of incorporation and appropriated after January 1, 2008, are accounted for by Interpretation (96)052 issued by the ARDF. The Company estimates the amount of employees' bonuses and directors' and supervisors' remuneration according to the Interpretation and recognizes it as expenses. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss.

(s) Income tax

Income tax is calculated based on accounting income. The amount of deferred tax liabilities or assets is calculated by applying the provisions of enacted tax law to determine the amount of tax payable or refundable, currently or in future years. The tax effects of taxable temporary differences are recorded as deferred income tax liabilities. The tax effects of deductible temporary differences and tax credits are recognized as deferred income tax assets. The realization of deferred income tax assets is evaluated, and if it is considered more likely than not that the asset will not be realized, a valuation allowance is recognized accordingly.

(Continued)

Deferred income tax assets or liabilities are classified as current or non-current based on the classification of the asset or liability relating to the deferred item or, for certain transactions not directly related to an asset or liability, based on the timing of the expected reversal date.

Investment tax credits are accounted for using the flow-through method. Therefore, deferred income tax credits generated from purchases of machinery for automation of production and production technology are recognized in the year in which the credit arises.

The 10% surtax on undistributed earnings is recorded as current income tax expense after the resolution to appropriate retained earnings is approved in a stockholders' meeting.

The Group's income tax returns are calculated and filed based on the Company's and THEPI's local tax law. The Group's income tax expenses are the aggregation of all consolidated entities' income tax expenses.

(t) Revenue recognition

Sales of goods are recognized when products are shipped and the significant risks and rewards of ownership are transferred to the customers. Costs and expenses are recognized when the revenue is earned.

(u) Net income per share

Net income per share of common stock is computed based on the weighted-average number of common shares outstanding during the year. Net income per share for the prior year is retroactively adjusted to reflect the effects of new shares issued by transferring capital surplus and retained earnings.

The employee stock options issued by the Company and employee stock bonuses which have not yet been approved by the stockholders' meeting are potential common shares. Only basic net income per share is disclosed if there is no dilution effect. Otherwise, both basic net income and diluted net income per share are disclosed. For the purpose of calculating diluted net income per share, the potential common shares are deemed to have been converted into common stock at the beginning of the period, and the effect on net income of the additional common shares outstanding is considered accordingly.

(v) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity). The segment's operating results are reviewed regularly by the entity's chief operating decision maker to make decisions pertaining to the allocation of the resources to the segment and to assess its performance for which discrete financial information is available.

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(3) Change in Accounting Policy and Its Influence

(a) Effective from January 1, 2011, the Group adopted the third amended SFAS No. 34 "Financial instruments: Recognition and Measurement". In accordance with SFAS No. 34, loans and receivables originated by the Group shall apply the regulations on initial recognition, subsequent recognition and impairment. The change in accounting policy had no material effects on the Group's net income and net income per share for the six-month period ended June 30, 2011.

(b) Effective from January 1, 2011, the Group adopted the newly issued SFAS No. 41 "Operating Segments". In accordance with SFAS No. 41, an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. The Group determines and presents operating segments based on the information that is internally provided to the chief operating decision maker. In accordance with SFAS No. 41, the operating segment information are disclosed within the consolidated financial statements but withheld in the separate financial statement. The Standard also supersedes SFAS No. 20 "Segment Reporting." Such changes in accounting principle did not have the cumulative effect for the six-month period ended June 30, 2011. The comparative information for the initial year of application was restated.

(4) Cash and Cash Equivalents

	June 30, 2011	June 30, 2010
Petty cash and foreign currency on hand	$ 1,254	1,310
Checking accounts and demand deposits	1,104,315	2,066,417
Time deposits	1,029,844	141,835
Commercial paper purchased under resale agreements	-	100,000
	$ 2,135,413	2,309,562

(5) Financial Instruments

(a) Non-derivative financial instruments

As of June 30, 2011 and 2010, the non-derivative financial instruments held by the Group were as follows:

	June 30, 2011	June 30, 2010
Financial assets at fair value through profit or loss – current:		
Financial assets held for trading:		
Open-end mutual funds	$ 130,398	30,273
Bonds purchased under resale agreements with a maturity of three months or more from the date of investment	100,000	-
Bonds Investment-convertible bonds payable	9,900	-
	$ 240,298	30,273

1. As of June 30, 2011 and 2010, the unrealized gain on financial assets through profit or loss resulting from changes in fair value amounted to $398 and $273, respectively, and was recorded under non-operating income.

(b) Derivative financial instruments (expressed in thousands of US dollars)

As of June 30, 2010, there were no derivative financial instruments. As of June 30, 2011, the details of the derivative financial instruments were as follows (in thousands of New Taiwan and US dollars):

	June 30, 2011	
	Book value	Nominal amount
Derivative financial assets:		
USD forward foreign exchange contracts sold (USD/NTD)	$ 728	USD 24,000

The above derivative financial instruments were accounted for as financial assets measured at fair value through profit or loss – current financial assets.

To hedge the exchange rate, the Group signed forward foreign currency contracts with several banks for the six-month period, ended June 30, 2011 and 2010. The gain or loss resulting from changes in fair value of these contracts were a gain of $612 and a gain of $0 for the six-month

(Continued)

periods ended June 30, 2011 and 2010, respectively, and were recorded under non-operating income.

(6) Notes and Accounts Receivable – Third Parties

	June 30, 2011	June 30, 2010
Notes receivable	$ 242	298
Accounts receivable	794,186	916,694
	794,428	916,992
Less: allowance for doubtful accounts	(9,652)	(14,552)
	$ 784,776	**902,440**

Short – term notes and accounts receivables are not discounted and its book value is considered to be an approximation of fair value.

(7) Inventories

	June 30, 2011	June 30, 2010
Finished goods	$ 31,466	28,620
Less: allowance for inventory valuation loss and obsolescence	(4,699)	(8,071)
Sub-total	26,767	20,549
Semi – finished goods	107,271	75,321
Less: allowance for inventory valuation loss and obsolescence	(16,931)	(18,923)
Sub-total	90,340	56,398
Work in process	176,923	181,819
Less: allowance for inventory valuation loss and obsolescence	(8,093)	(6,845)
Sub-total	168,830	174,974
Raw materials	365,914	349,038
Less: allowance for inventory valuation loss and obsolescence	(9,960)	(12,088)
Sub-total	355,954	336,950
Supplies	30,755	34,334
Less: allowance for inventory valuation loss and obsolescence	(748)	(1,187)
Sub-total	30,007	33,147
	$ 671,898	**622,018**

(Continued)

(a) The allowance for inventory valuation loss and obsolescence amounted to $40,431 and $47,114 as of June 30, 2011 and 2010, respectively.

(b) Inventory-related expenses amounted to a gain of $3,829 and a loss of $12,251 for the six-month periods ended June 30, 2011 and 2010, as follows:

		June 30, 2011	June 30, 2010
Write-downs (recovery) on inventory valuation and obsolescence	$	(8,809)	-
Write-downs of inventories to net realized value which were included in the cost of sale		-	12,251
Loss on scrapping of inventory		4,980	-
	$	**(3,829)**	**12,251**

Due to the fact that the Group sold and scrapped obsolete inventories in the six-month period ended June 30, 2011, therefore, the net realized value of inventories is no longer lower than the cost, and the Group recognized recovery on the inventory valuation and obsolescence which amounted to $8,809.

(c) The Group does not provide inventories as collateral for its loans as of June 30, 2011 and 2010, respectively.

(8) Property, Plant and Equipment, and Other Assets

(a) Land was revalued based on the government-declared value in 1990. The revaluation increments were as follows:

Land revaluation increments	$	69,850
Less: provision for land value increment tax		(14,352)
Net revaluation increments	**$**	**55,498**

(b) For extending factory and building a dormitory for employees, the Company bought land for $54,773, and the ownership was transferred on January 9, 2008. As of December 31, 2009, the payables had been fully paid. As of June 30, 2011, the dormitory had been completed and reclassified under buildings, but the factory had not been finished yet. As of June 30, 2011, the Company prepaid the architectural design fee and related construction cost of $145,882, recorded as unfinished construction and prepayment for purchase of equipment. The factory is expected to be finished by the fourth quarter of 2011.

(Continued)

(c) Because Philippine regulations prohibited foreigners from owning land, THEPI paid for land and owned it in the name of Multi-field Holdings Corp. (Multi-field). As of June 30, 2011 and 2010, the land amounted to $57,713 (91,110 thousand pesos) and was recorded as other asset. To assure the right to the land, THEPI provided the land as collateral for a credit line from a local bank. Please refer to note 17.

(d) The Group provided property, plant and equipment as collateral for its loans. Please refer to note 18 for details.

(9) Intangible Assets

		Patents	Cost of computer software	Goodwill	Others	Total
Balance on January 1, 2011	$	17,890	7,962	51,936	35,808	113,596
Acquisition		-	573	-	-	573
Amortization		(1,789)	(1,902)	-	(2,984)	(6,675)
Balance on June 30, 2011	**$**	**16,101**	**6,633**	**51,936**	**32,824**	**107,494**
Balance on January 1, 2010	$	21,468	2,920	51,936	41,776	118,100
Acquisition		-	2,280	-	-	2,280
Amortization		(1,789)	(909)	-	(2,984)	(5,682)
Balance on June 30, 2010	**$**	**19,679**	**4,291**	**51,936**	**38,792**	**114,698**

(10) Short-term Loans

		June 30, 2011	June 30, 2010
Secured loans	$	160,695	285,474
Loans for letter of credit		203,805	489
Commercial paper, net of prepaid interest expense		19,997	19,988
	$	**384,497**	**305,951**
Unused short-term credit lines	**$**	**795,961**	**945,685**

Annual interest rates on short-term loans for the six-month periods ended June 30, 2011 and 2010, ranged from 0.96% to 4.00% and 0.2% to 4.5%, respectively. The commercial paper was credit loans. The Group provided land and building as the collateral for part of the secured loans. Please refer to note 18 for details.

(11) Long-term Loans

Bank	Purpose and repayment term		June 30, 2011	June 30, 2010
Tai Shin Bank	Increase investment to extend productivity (2013.05.31)	$	65,000	65,000
Unused long-term credit lines		$	-	-

The annual interest rates on long-term loans for the six-month periods ended June 30, 2011 and 2010, ranged from 1.25% to 1.30% and 1.50%, respectively. The aforementioned long-term loans were credit loans.

(12) Pensions

The Group made an actuarial valuation of its defined benefit pension plans on June 30, 2011 and 2010. According to the actuarial reports, the reconciliation of the funded status and accrued pension liability was as follows:

		Six-month period ended June 30, 2011		Six-month period ended June 30, 2010	
		The Company	THEPI	The Company	THEPI
Net pension cost					
Defined benefit pension plan	$	10,644	995	10,394	-
Defined contribution pension plan	$	13,395	-	9,615	-
Pension fund deposits in Bank of Taiwan	$	150,778	-	136,660	-
Prepaid pension cost (accrued pension liability)	$	36,772	(6,369)	25,517	(4,481)
Vested benefit obligation	$	66,648	-	45,339	-

(13) Stockholders' Equity

(a) Capital increase

Based on a resolution at the annual stockholders' meeting held on April 28, 2010, the Company increased the authorized common stock to $2,000,000 and declared a 3 New Taiwan dollar cash dividend per share amounting to $375,260.

(Continued)

Based on a resolution of the board of directors' meeting held on April 28, 2010, the Company increased its common stock by issuing 16,000 thousand shares through a cash injection at NT$95 per share. The effective date of share issuance was June 28, 2010, and the registration procedures related to the above issuance was completed on July 14, 2010.

Based on a resolution at the annual stockholder's meeting held on June 2, 2011, the company declared a 4 New Taiwan dollar cash dividend per share amounting to $567,242. The effective date of ex-dividend is July 2, 2011.

The Company's employees exercised stock options to acquire the Company's common stock amounting to $7,240 and the new shares issued were 724 thousand shares for the year ended December 31, 2010. As of June 30, 2011, the registration processes was completed.

As of June 30, 2011, the authorized common stock with par value of 10 New Taiwan dollars per share was $2,000,000, of which $100,000 was reserved for the issuance of employee stock option.

As of June 30, 2010, the authorized common stock with par value of 10 New Taiwan dollars per share was $1,500,000, of which $100,000 was reserved for the issuance of employee stock option.

(b) Capital surplus

Pursuant to the ROC Company Act, capital surplus must be used exclusively to offset a deficit and cannot be used to declare a cash dividend, except that paid-in capital in excess of par value may be transferred to common stock when the Company has no deficits. According to Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring paid-in capital in excess of par value should not exceed 10% of total common stock outstanding. In addition, capital increases by transferring paid-in capital in excess of par value can only commence in the following year.

Based on the resolution of the board of directors' meeting held on April 28, 2010, the Company increased its common stock by issuing 16,000 thousand shares through a cash injection and retained 15% of the capital for employees to purchase, accounted for by Interpretation (96) 267 issued by the ARDF. The fair value was $37,920 on the grant day, recorded as capital surplus－paid-in capital in excess of par value.

In addition, the Company increased capital surplus – additional paid-in capital amounting to $1,360,000 by cash injection in 2010.

Based on the resolution of the board of directors' meeting held on March 16, 2011, the Company increased its common stock by issuing 20,000 thousand shares through a cash injection and retained 15% of the capital for the employees to purchase. Accounted for by Interpretation (96) 267 issued by the ARDF, the fair value was $45,000 on the grant day, and it was recorded as capital surplus－employee stock options.

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(c) Employee stock options

In the meeting of the board of directors held on May 15, 2007, the board decided to issue 4,000 units of employee stock options with an exercisable right of 1,000 shares of the Company's common stock per unit. The information on total options issued is summarized as follows:

	2011		**2010**	
	Units (in thousands)	**The weighted-average exercise price (NT dollars)**	**Units (in thousands)**	**The weighted-average exercise price (NT dollars)**
Outstanding units on January 1	1,116	$ 19.8	1,840	20.3
Current units granted	-	-	-	-
Current units abandoned	20	19.8	40	19.8
Current units exercised	-	-	-	-
Current units expired	-	-	-	-
Outstanding units on June 30	1,096	19.8	1,800	19.8
Exercisable units on June 30	225	19.8	-	-

The weighted-average life of the stock option for the six-month periods ended June 30, 2011 and 2010 were 1.08 and 2.08 years.

1. Exercise price: The exercise price is $19.80 per share after adjustments.

2. Exercisable duration: Employees who received stock options that exceed two years can exercise a specific percentage in each period as below. The exercisable duration of the options is five years. No transference is allowed except for inheritance. After the expiration of the exercisable duration, the Company will retire the unexercised options and not re-issue the options.

Option holding period	**Exercisable percentage (cumulative)**
More than 2 years	50%
More than 3 years	75%
More than 4 years	100%

3. Exercise method: The Company would issue new shares as the options are exercised.

4. Exercise procedure: In accordance with the Company's issuance and exercise rules, the entitlement certification of stock options exercised is registered as common stock at least once a quarter.

(Continued)

The compensation cost of the stock options issued before December 31, 2007, was computed by the intrinsic value method. Because the Company was a publicly owned company and the net value of the Company's common stock on the measurement date was not in excess of the exercise price of the stock options, the Company did not need to recognize compensation cost. The compensation cost for the six-month periods ended June 30, 2011 and 2010, would be $8,592 and $15,052, respectively, if the Company adopted paragraph fifty of SFAS No. 39, which states that changes in intrinsic value after the measurement date should be treated as compensation cost. The pro-forma information would be as follows:

		2011	2010
Net income	Actual	$ 426,814	334,422
	Pro forma	418,222	319,370
Basic net income per share	Actual	3.01	2.67
	Pro forma	2.95	2.55

(d) Limitation on distribution of retained earnings

Based on the Company's articles of incorporation, 10% of annual net income after covering accumulated deficit, if any, is to be set aside as a legal reserve, and an amount equal to a net debit balance of stockholders' equity is appropriated as a special reserve. The remuneration to directors and supervisors cannot be higher than 2% of the remaining balance, and no less than 5% is distributed as bonus to employees. The remaining balance and the accumulated unappropriated earnings of prior years, if any, can be distributed as dividends to stockholders. The amount of dividends is determined by the board of directors and approved by the stockholders at their annual meeting. Dividends are paid in cash and/or stock from retained earnings, and cash dividends cannot be less than 30% of the total cash and stock dividends.

According to SFB (former SFC) regulations, when there is a deduction item in stockholders' equity during the year, an amount equal to the reduction before appropriation must be included as a special reserve within retained earnings. The special reserve could be available for dividend distribution only after the related stockholders' equity deduction item has been reversed. Based on the resolution approved by the stockholders during the annual meeting on June 2, 2011, the special reserve was set aside $137,634.

(Continued)

(e) Based on the resolution approved by the stockholders during their annual meetings on June 2, 2011, and April 28, 2010, the employees' bonuses, and directors' and supervisors' remuneration were appropriated from the distributable retained earnings of 2010 and 2009 as follows:

	2010	2009
Employees' bonuses – cash	$ 56,000	31,370
Directors' and supervisors' remuneration	8,000	7,630
	$ 64,000	**39,000**

The earnings distribution above had no difference from the estimated distribution in the financial report for 2010 and 2009. The related information about earnings distribution for employees' bonuses and directors' and supervisors' remuneration can be accessed from the Market Observation Post System after these meetings are held.

(f) The Company estimates the amount of employees' bonuses and directors' and supervisors' remuneration according to the ROC Company Act and the Company's articles of incorporation for the annual financial statements. The Company recognized employees' bonuses and directors' and supervisors' remuneration amounting to $36,455 and $28,593 in the six-month periods ended June 30, 2011 and 2010, respectively, which were calculated as a proportion of net income after deducting the legal reserve and special reserve. The number of shares of the dividend distribution is based on the closing price of the day before the shareholders' meeting and considering the ex-rights and ex-dividend effects. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss in the distribution year.

(14) Net Income per Share

Net income per share for the six-month periods ended June 30, 2011 and 2010, was computed as follows (all net income per share amounts are expressed in New Taiwan dollars):

	2011		**2010**	
	Before income tax	**After income tax**	**Before income tax**	**After income tax**
Basic net income per share:				
Net income	**$ 501,205**	**426,814**	**$ 384,848**	**334,422**
Weighted-average number of shares outstanding (thousands)	**141,811**	**141,811**	**125,352**	**125,352**
Net income per share	**$ 3.53**	**3.01**	**$ 3.07**	**2.67**

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Notes to Financial Statements

	2011 Before income tax	2011 After income tax	2010 Before income tax	2010 After income tax
Diluted net income per share:				
Weighted-average number of shares outstanding (thousands)	141,811	141,811	125,352	125,352
Effects of dilutive potential common stock:				
Employee stock options	934	934	1,490	1,490
Employee stock bonuses	633	633	457	457
Weighted-average number of shares outstanding for calculation of diluted net income per share (thousands)	143,378	143,378	127,299	127,299
Diluted net income per share	$ 3.50	2.98	$ 3.03	2.63

(15) Income Tax

(a) The Group's income tax returns are calculated and filed based on the Company's and THEPI's local tax law.

(b) The Company's purchase of machinery through proceeds from common stock issuances met the prescribed criteria under the "Statute for Upgrading Industries" as follows:

Year	Tax exemption products	Tax exemption chosen	Tax exemption period
2009	RF modules, hybrid integrated circuits, metalized ceramic substrates, and image products	Tax exemption on the Company's corporate income taxes for five years	Investment plan in progress

(c) THEPI met the prescribed criteria for tax exemption under local tax laws as follows:

Tax exemption products	Tax exemption	Tax exemption period
Digital light projection (DLP) modules	Tax exemption on THEPI's corporate income taxes for four years	November 2006 to November 2010
Chip Size Package/Ball Grid Array (CSP/BGA)	Tax exemption on THEPI's corporate income taxes for four years	May 2007 to May 2011
IR multiphase optimized power block (IMOPB)	Tax exemption on THEPI's corporate income taxes for four years	May 2007 to May 2011
Surface acoustic wave (SAW) filters	Tax exemption on THEPI's corporate income taxes for four years	June 2007 to June 2011
Direct plating Copper (DPC)	Tax exemption on THEPI's corporate income taxes for four years	January 2009 to December 2012

(Continued)

(d) The Company was subject to income tax rate of 17% for the six-month periods ended June 30, 2011 and 2010. The Company is also subject to the "Income Basic Tax Act" to calculate income tax. THEPI's income tax is calculated based on the local tax rate. The components of income tax expense of the Group were as follows:

	2011	2010
Current income tax expense	$ 69,905	$ 70,809
10% surtax on unappropriated earnings	1,832	3,310
Investment tax credits used against current income tax expense	-	(6,806)
	71,737	67,313
Deferred income tax expense (benefit):		
Investment gain (loss) under the equity method	(8,262)	(979)
Tax effect of change in income tax rate	-	(15,351)
Unrealized provision for inventory obsolescence	1,086	18
Unrealized foreign currency exchange loss	9,565	(2,100)
Unrealized foreign currency exchange gain	(3,337)	1,773
Amortized goodwill	2,649	-
Others	953	(248)
	2,654	(16,887)
Income tax expense	**$ 74,391**	**50,426**

(e) The reconciliation of the expected income tax expense computed at the statutory rate to the actual income tax expense for the six-month periods ended June 30, 2011 and 2010, is summarized as follows:

	2011	2010
Expected income tax expense before tax	$ 91,701	65,424
10% surtax on unappropriated earnings	1,832	3,310
Estimated tax effect of change in income tax rate at amendatory tax law date	-	(15,351)
Estimated tax effect of change in income tax rate after amendatory tax law date	-	(407)
Adjustment of prior year's income tax	(18,671)	654
Others	(471)	(3,204)
Income tax expense	**$ 74,391**	**50,426**

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Notes to Financial Statements

(f) Deferred income tax assets (liabilities) as of June 30, 2011 and 2010, were as follows:

	June 30, 2011	June 30, 2010
Deferred income tax assets:		
Provision for inventory obsolescence	$ 5,988	7,002
Foreign currency translation adjustments	29,440	-
Unrealized foreign currency exchange loss	6,704	6,480
Others	220	1,171
	42,352	14,653
Less: valuation allowance	-	-
	42,352	14,653
Deferred income tax liabilities:		
Reserve for overseas investment loss	(14,037)	(18,481)
Prepaid pension cost	(5,159)	(5,159)
Investment income under the equity method	(54,826)	(66,314)
Unrealized foreign currency exchange gain	(629)	(6,549)
Amortized goodwill	(2,649)	-
Foreign currency translation adjustments	-	(5,096)
Other	(191)	-
	(77,491)	(101,599)
	$ (35,139)	**(86,946)**
Net deferred income tax assets – current	$ 12,091	8,104
Net deferred income tax liabilities – non-current	(47,230)	(95,050)
	$ (35,139)	**(86,946)**

(g) The ROC tax authorities have examined the Company's income tax returns through 2008.

(h) Imputation credit account and creditable ratio

Calculation of the ICA balance as of June 30, 2011 and 2010, and the creditable ratio for 2011 and 2010 was as follows:

	June 30, 2011	June 30, 2010
Unappropriated retained earnings after January 1, 1998	**$ 648,129**	**550,910**
Imputation credit account balance	**$ 192,772**	**42,033**

	2010	2009
Creditable ratio for earnings distribution to resident shareholders	**19.18% (estimated)**	**19.41% (actual)**

(Continued)

(16) Related Information about Financial Instruments

(a) Fair value of financial instruments

The book value of non-derivative short-term financial instruments is considered to be the fair value because of the short-term nature of these instruments, and the book value method is considered to be a reasonable basis to assess the fair value. Such method is applicable to cash and cash equivalents, notes and accounts receivable/payable, other current financial assets, short-term loans, and current accrued expenses.

As of June 30, 2011 and 2010, the details of fair value of financial assets and liabilities other than the financial instruments mentioned above were as follows:

	2011		2010	
	Book value	**Fair value**	**Book value**	**Fair value**
Financial assets:				
Financial assets at fair value through profit and loss – current:				
Financial assets held for trading:				
Open-end mutual funds	$ 130,398	130,398	30,273	30,273
Bonds purchased under resale agreements with a maturity of three months or more from the date of investment	100,000	100,000	-	-
Bonds Investment – Convertible bonds payable	9,900	9,900	-	-
Forward foreign currency exchange contracts	728	728	-	-
Financial liabilities:				
Long-term loans	65,000	65,000	65,000	65,000

(b) The following methods and assumptions were used in estimating fair values:

1. The book value of short-term financial instruments is considered to be fair value because of the short-term nature of these instruments, and the book value method is considered to be a reasonable basis to assess the fair value. This method is applicable to cash and cash equivalents, notes and accounts receivable/payable, other current financial assets, short-term loans, and accrued expenses and other current liabilities.

2. If public quoting of financial assets and liabilities is available, then the quoted price will be the fair value. If market value is not available, an assessment method will be used. The assumptions used by financial market traders for similar financial instruments when quoting their prices are used as a reference. The terms of similarity include the credit rating of the debt, the method of computing interest expense for the remaining period of the contract, the payment of principal, and the currency.

3. The fair value of long-term loans is based on the book value because of their floating rate.

(c) As of June 30, 2011 and 2010, the fair value of the financial instruments evaluated by the Group under public quoting or an assessment method was as follows:

	2011		2010	
	Public quote value	**Assessment value**	**Public quote value**	**Assessment value**
Financial assets:				
Cash and cash equivalents	$ 2,135,413	-	2,309,562	-
Financial assets at fair value through profit and loss – current				
Financial assets held for trading:				
Open-end mutual funds	130,398	-	30,273	-
Bonds purchased under resale agreements with a maturity of three months or more from the date of investment	100,000	-	-	-
Bonds Investment – Convertible bonds	9,900	-	-	-
Forward foreign currency exchange contracts	-	728	-	-
Notes receivable and accounts receivable	-	784,776	-	902,440
Other current financial assets	-	100,800	-	92,690
Financial liabilities:				
Short-term loans	-	384,497	-	305,951
Notes payable and accounts payable	-	428,079	-	503,980
Long-term loans	-	65,000	-	65,000

(Continued)

(d) Information on financial risk

1. Market risk

a. The purpose of the derivative financial instruments is to hedge. Therefore, the gains or losses resulting from the changes in exchange rates will be offset from those of the hedged item. Management believes that the related market risk is not significant.

b. The equity securities held by the Group are classified as financial assets measured at fair value through profit or loss. As these assets are measured at fair value, the Group has risk exposure related to changes in fair value in an equity securities market.

2. Credit risk

a. The amount of credit risk is a potential loss of the Group if the counterpart involved in that transaction defaults. Since the Group's derivative financial instrument agreements are entered into with financial institutions with good credit ratings, management does not expect any significant credit risk from these transactions.

b. The primary potential credit risk is from financial instruments like cash, cash equivalents, checking accounts and demand deposits, and accounts receivable. The Group's cash deposits are in different financial institutions. Cash equivalents represent investments in bonds purchased under resale agreements with a maturity of three months or less from the date of investment. The Group manages credit risk exposure related to each financial institution and believes that there is no significant concentration of credit risk of cash and cash equivalents.

c. The aggregation of sales to the Group's major customers exceeding 10% of the Group's total sales accounted for 67% and 64% of the total net sales for the six-month periods ended June 30, 2011 and 2010, respectively. In order to reduce credit risk, the Group assesses the financial status of the customers and the possibility of collection of receivables in order to estimate an adequate allowance for doubtful accounts on a regular basis. The customers have a good credit and profit record. The Group has never been exposed to significant credit risk.

(Continued)

3. Liquidity risk (expressed in thousands of dollars)

   a. The amount of credit risk is a potential loss of the Group if the counterpart involved in that transaction defaults. Since the Group's derivative financial instrument agreements are entered into with financial institutions with good credit ratings, management does not believe that there is a significant credit risk from these transactions.

	June 30, 2011		
Financial instruments	**Date**	**Cash outflow**	**Cash inflow**
Forward foreign currency exchange contracts sold	July 6 to September 6, 2011	USD 24,000	NTD 691,703

   b. The funds, bonds and marketable securities investment held by the Group have the quoted prices and would be sold back at the approximate market price. Management believes that the cash flow risk is not significant.

   c. Management believes that the liquidity risk is not significant because all obligations under signed contracts by the Group are expected to be performed with its working capital.

4. Cash flow risk arising from variation in interest rates

   The short-term and long-term loans are both based on floating interest rates. Changes in market interest rates will affect the interest on short-term and long-term loans and cause variations in future cash flows. For every 1% increase in market interest rates, the cash outflows of the Group in the following year would increase by $4,495.

(17) Related-party Transactions

(a) Names of related parties and relationship

Related Party	**Relationship**
Multi-field	Related party in essence

(b) Summary of significant transactions with related parties

For operational needs, THEPI acquired land for $57,713 (91,110 thousand pesos) beginning in 2004, which was recorded as other asset. Because Philippine regulations prohibited foreigners from owning land, the Group paid for the land and owned it in the name of Multi-field. To assure the right to the land, THEPI provided the land as collateral for a credit line from a local bank.

(18) Pledged Assets

Pledged assets	Subject	June 30, 2011	June 30, 2010
Time deposits (other current financial assets)	THEPI's credit lines for letter of credit	$ 43,401	48,347
Land and land revaluation increments	Short-term loans	77,198	77,198
Buildings	"	133,661	86,189
Other assets – others – land	THEPI's credit lines	57,713	57,713
		$ 311,973	**269,447**

(19) Commitments and Contingencies

As of June 30, 2011, the Group's significant commitments and contingencies were as summarized below:

(a) The Group's future payments for the purchase of equipment were approximately $85,022.

(b) The unused and outstanding letters of credit and the deposit for the Group's customs duties totaled $72,811.

(c) For extending productivity, the Company entered into a contract to build a factory and dormitory for employees on October 18, 2007. Total design and construction costs were estimated to be $291,420. The Company had paid $145,882 as of June 30, 2011. The construction of dormitory was completed, and the dormitory is in use. The factory construction has not been finished yet.

(d) For extending productivity and office, THEPI entered into a contract with GMC Construction and Development Corporation to build a new factory on April 15, 2008. The total price amounted to $298,194 (US$10,381 thousand). THEPI had paid $260,880 (US$9,082 thousand) as of June 30, 2011. The factory and office were completed and are in use, but a part of factory construction has not been verified yet.

(e) According to the existing operating lease contract for office and transportation, the contract will expire in July 2015. The future rental commitments were as follows:

Period	Amount
2011.07.01~2012.06.30	$ 17,672
2012.07.01~2013.06.30	12,319
2013.07.01~2014.06.30	8,222
2014.07.01~2015.06.30	6,491
	$ 44,704

(Continued)

(20) Subsequent Events

Base on the resolution of the director's meeting held on March 16, 2011, the company increased its common stock by issuing 20,000 thousand shares, at par value of NT$10 per share. Base on the resolution of the director's meeting held on June 9, 2011, the company decided that the effective date of share issuance was July 2, 2011. The cash injection amounted to $2,100,000 had all been collected by July 13, 2011.

(21) Other

(a) The Company has provided a loss reserve on outward investment in accordance with the "Statute for Upgrading Industries". The amount was computed at 20% of the total amount of outward investment, which is the limit stipulated by the "Statute for Upgrading Industries". The statute also stipulates that if there are no actual losses in the five years after the initial provision for the reserve, the loss reserve should be reversed and recognized as revenue in the fifth year. However, as such reserve is not in accordance with generally accepted accounting principles, the loss reserve is reversed during the preparation of the financial statements, but the Company does not adjust the books. Accordingly, the net income and retained earnings on the Company's books are decreased by the following amounts:

	2011	**2010**
Increase in net income	$ -	-
Decrease in retained earnings	(82,569)	(108,711)

(b) Employee expenses, depreciation expenses, and amortization expenses for the six-month periods ended June 30, 2011 and 2010, were as follows:

	2011			**2010**		
	Cost of sales	**Operating expense**	**Total**	**Cost of sales**	**Operating expense**	**Total**
Employee expenses						
Salaries and wages	$ 379,309	151,353	530,662	286,559	126,484	413,043
Labor and health insurance	23,729	4,652	28,381	17,200	3,695	20,895
Pension expense	15,625	9,409	25,034	15,474	4,535	20,009
Other	36,931	6,271	43,202	27,934	4,691	32,625
Depreciation expenses	181,224	22,378	203,602	130,331	21,976	152,307
Amortization expenses	2,663	6,683	9,346	2,852	6,914	9,766

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Notes to Financial Statements

(c) Significant impact on the foreign currency financial assets and liabilities (in thousands of New Taiwan dollars and foreign currency) was as follows:

	June 30, 2011			June 30, 2010		
	Foreign Currency	**Rate**	**NTD**	**Foreign Currency**	**Rate**	**NTD**
Financial assets:						
Monetary items –						
USD	$ 56,692	28.73	1,628,761	43,472	32.15	1,397,625
Financial liabilities:						
Monetary items –						
USD	13,500	28.73	387,855	17,876	32.15	574,713
JPY	231,954	0.36	83,503	70,746	0.36	25,469

(22) Operating Segment Information

	June 30, 2011					
	BU1 Segement	**BU2 Segement**	**BU3 Segement**	**Other**	**Adjustment & Elimination**	**Total**
Revenue						
Revenue from external customers	$ 883,187	718,731	1,446,866	44,340	-	3,093,124
Revenue from segments	-	691,268	-	-	(691,268)	-
Total revenue	**$ 883,187**	**1,409,999**	**1,446,866**	**44,340**	**(691,268)**	**3,093,124**
Reportable segment profit	**$ 155,904**	**62,414**	**265,993**	**(223)**	**17,117**	**501,205**
Reportable segment assets	**$ -**	**-**	**-**	**-**	**-**	**-**

	June 30, 2010					
	BU1 Segement	**BU2 Segement**	**BU3 Segement**	**Other**	**Adjustment & Elimination**	**Total**
Revenue						
Revenue from external customers	$ 692,405	858,436	968,995	67,482	-	2,587,318
Revenue from segments	-	776,784	-	-	(776,784)	-
Total revenue	**$ 692,405**	**1,635,220**	**968,995**	**67,482**	**(776,784)**	**2,587,318**
Reportable segment profit	**$ 145,693**	**147,295**	**80,847**	**21,884**	**(10,871)**	**384,848**
Reportable segment assets	**$ -**	**-**	**-**	**-**	**-**	**-**

(Continued)

The Group has three reportable segments: namely, Segment BU1, Segment BU2, and Segment BU3. Segment BU1 engages in SF with gold-plated processing; segment BU2 engages in THEPI's manufacturing process; and segment BU3 engages in COZ, SF with non gold-plated, SMT, AS, RW and CP's processing. The Group's reportable segments are strategic units of business for different products. Each strategic unit of business manages separately because each segment needs different skills and marketing strategy.

The Group does not allocate tax expense or non operation gains and losses to reportable segments. The amount of operating segment information is the same as the amounts in reports used by the chief operating decision maker.

The accounting policies of operating segments are the same as those described in summary of significant accounting policies as stated in note 2. The Group evaluates performance of the basis of income prior to tax deduction (excluding income of non-regular occurred, non-operating gains and non-operating losses). The Group regards the sales and transfers between segments as transactions with the third person measured at the marketing price.

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2011 and 2010

(expressed in thousands of New Taiwan dollars)

Assets	2011 Amount	%	2010 Amount	%
Current assets:				
Cash and cash equivalents (note 4)	$ 2,135,413	29	2,309,562	35
Financial assets at fair value through profit or loss – current (note 5)	241,026	3	30,273	-
Notes and accounts receivable, net (notes 6 and 17)	784,776	11	902,440	14
Other current financial assets (note 18)	100,800	1	92,690	1
Inventories, net (note 7)	671,898	9	622,018	9
Deferred income tax assets and other current assets (note 15)	55,071	1	23,010	-
	3,988,984	54	3,979,993	59
Property, plant and equipment (notes 8, 17 and 18):				
Land	81,021	1	81,021	1
Land revaluation increments	69,850	1	69,850	1
Buildings	610,996	8	624,267	9
Machinery and equipment	3,023,110	41	2,400,826	36
Office equipment	203,690	3	186,137	3
Leasehold improvement	90,081	1	34,444	1
	4,078,748	55	3,396,545	51
Less: accumulated depreciation	1,432,692	19	1,137,596	17
Unfinished construction and prepayment for purchase of equipment	595,636	8	239,838	4
	3,241,692	44	2,498,787	38
Intangible assets				
Patent (note 9)	16,101	-	19,679	-
Cost of computer software (note 9)	6,633	-	4,291	-
Goodwill (notes 9)	51,936	1	51,936	1
Other intangible assets (note 9)	32,824	-	38,792	1
	107,494	1	114,698	2
Other assets:				
Prepaid pension cost (note 12)	36,772	-	25,517	-
Deferred expenses and other assets (notes 8, 17 and 18)	78,870	1	82,404	1
	115,642	1	107,921	1
Total assets	$ 7,453,812	100	6,701,399	100

Liabilities and Stockholders' Equity	2011 Amount	%	2010 Amount	%
Current liabilities:				
Short-term loans (note 10)	$ 384,497	5	305,951	5
Notes and accounts payable	428,079	6	503,980	8
Income tax Payable (note 15)	90,408	1	66,170	1
Accrued expenses and other current liabilities	463,090	6	462,384	6
Dividend Payable (note 13)	567,242	8	-	-
	1,933,316	26	1,338,485	20
Long-term loans (note 11)	65,000	1	65,000	1
Non-current liabilities:				
Provision for land value increment tax (note 8)	14,352	-	14,352	-
Deferred income tax liabilities and other non-current liabilities (notes 12 and 15)	53,599	1	100,444	2
	67,951	1	114,796	2
Total liabilities	2,066,267	28	1,518,281	23
Stockholders' equity:				
Common stock (note 13)	1,418,106	19	1,410,866	21
Capital surplus-additional paid-in capital (note 13)	2,852,106	38	2,845,011	42
Capital surplus-employee stock options (note 13)	45,000	1	-	-
Retained earnings (note 13):				
Legal reserve	393,644	5	314,788	5
Special reserve	137,634	2	-	-
Unappropriated retained earnings	648,129	9	550,910	8
	1,179,407	16	865,698	13
Equity adjustment:				
Accumulated currency translation adjustments	(149,743)	(2)	18,874	-
Unrealized land revaluation increment (note 8)	42,669	-	42,669	1
	(107,074)	(2)	61,543	1
Total stockholders' equity	5,387,545	72	5,183,118	77
Commitments and contingencies (note 19)				
Total liabilities and stockholders' equity	$ 7,453,812	100	6,701,399	100

See accompanying notes to consolidated financial statements.