

Wah Lee Industrial Corp. (3010.TT)

2010Q1 Management Report

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Wah Lee Consolidated Entities include Wah Lee Taiwan and subsidiaries in China, Japan, and Singapore.

Company Profile

As a Technology Solutions Integrator, Wah Lee provides a full range of integrated solutions including high quality materials, equipments, supply chain services and engineering consulting to high technology industries covering semiconductor, computer/communications (C/C), flat panel display, printed circuit board, and green energy opto-electronics industries. The company has sustained its long-term growth by continually expanding its products and services into new advanced technologies and through collaborative partnerships with world leading material suppliers. To maximize its shareholders' value, the company also expands its business scope by bringing new products in more applications to its customers. Traded on the Taiwan Stock Exchange (ticker: 3010.TT), its current capital is NT\$2.3 billion and the market capitalization is about US\$330 million.

Safe Harbor Notice

Wah Lee Industrial Corp. (the Company) has made forward-looking statements in this report. The forward-looking statements contain information regarding, among other things, the Company's financial condition, future expansion plans and business strategies. The Company has based these forward-looking statements on its current expectations and projections about future events. Although the Company believes that these expectations and projections are reasonable, such forward-looking statements are inherently subject to risks, uncertainties and assumptions about it.

The Company undertakes no obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this report might not occur and the actual result could differ materially from those anticipated in these forward-looking statements.

Unaudited 2010 Q1 Consolidated Results Announcement

2010 Q1 posted strong sales revenue growth and positive outlook

Unaudited 1Q10 consolidated sales reached NT\$5.98 billion, a 73.0% YoY growth from 1Q09. If compared to 4Q09, 1Q10 consolidated sales also showed an 8.5% QoQ growth which continued the company's quarterly growth momentum throughout FY2009 into 2010. The strong growth momentum was supported by the following two areas:

1. Existing mainstream industry recovery: Wah Lee's dominant position in providing raw materials to semiconductor, computer/communication, and PCB industries has benefited from the strong underlying industry recovery across the board.
2. New product advancement: Wah Lee has identified Green Energy and Optoelectronics as its major growth driver for the coming years. Specific products in this area include raw materials for Solar, LED, Touch Panel, and Lithium Iron Phosphate (LiFePO₄) rechargeable battery. This sector posted a 186% YoY growth in Q1 2010.

1Q10 profit growth higher than sales growth; 1Q10 EPS of NT\$1.58

Consolidated gross profit for 1Q10 reached NT\$710 million and grew 80% from the same period last year. Gross margin was 11.9%, as compared to 11.6% in Q1 2009. On the other hand, operating expense did not grow proportionally with the sales growth. Operating expense grew at a slower rate of 38.7% YoY and was NT\$440 million. Therefore, operating profit grew 216% from a year ago and reached NT\$270 million. Non-operating profit contributed another NT\$193 million to the overall bottom line. Among the non-op items, L-T equity investment income was the largest contributor with a total profit of NT\$142 million, an obvious sign of Wah Lee's investment companies also posting better results in this year. The company's pretax profit for 1Q10 totaled NT\$463 million. After tax profit was NT\$366 million and EPS was NT\$1.58, based on 231 million outstanding shares.

Cash dividend of NT\$2.2 per share proposed by the Board of Directors

Due to strong operating cash flow the company generated last year (NT\$1.5 billion in 2009) and its business nature of light capital expenditures, the Board of Directors has decided to propose a cash dividend of NT\$2.2 per share to be approved by the Annual General Shareholders Meeting scheduled on June 8. Based on 2009 EPS of NT\$3.51, dividend payout ratio is about 63% and the Management believes similar payout ratio will be maintained in the future.

Table 1 – Sales % by Industry for 1Q 2010

%	Taiwan	Consolidated
Semiconductor	31%	26%
C/C	35%	43%
PCB	13%	14%
Green Energy	10%	7%
LCD	6%	5%
Others	5%	5%
Total	100%	100%

Wah Lee is the leading supplier of key chemicals used in high end IC manufacturing in Taiwan. The company has benefited from the recovering demands in both Foundry and DRAM sectors. Computer/Communication industry is expected to continue to be one of the sales drivers for Wah Lee's future growth with new applications in **touch panel** and **LED**. Wah Lee's PCB sector is also expected to show continuing growth from the increasing demand on high-end HDI (High Density Interface) productions. The company is the exclusive sales agent for the products it carries in Taiwan and for most products it sells in China.

Table 2 – Unaudited income statements (in NT\$ million)

Consolidated	1Q2010	1Q2009	YoY
Sales	5,977	3,455	73.0%
Operating Profit	270	92	216.3%
Non-Op Profit	193	(1)	
L-T investment	142	28	285.2%
Others	51	(29)	
Pre-Tax Income	463	91	384.5%
After Tax Profit	366	69	374.3%
EPS *	1.58	0.30	

* Both years' after tax EPS are based on outstanding capital of 231.40 million shares.

Consolidated sales for 1Q 2010 grew by 73% YoY. As mentioned above, operating profit grew much higher at 216% due to improved gross margin and savings from scale economy in the operating expense. Non-operating profit was another contributor to the overall bottom line due to a better 1Q10 results from the company's L-T investment companies. In conclusion, the company's consolidated 1Q 2010 after tax profit grew by 374% from last year. 1Q 2010 EPS is NT\$1.58.

Table 3 – Consolidated Financial Ratios

	1Q 2010	1Q 2009
Current Ratio	170%	161%
Quick Ratio	130%	113%
Net Debt/Equity	7.6%	20.0%
A/R days	89	140
Inventory days	46	95
A/P days	62	89
Cash conversion days	73	146

Both current and quick ratios in 1Q10 improved from a year ago. As a conservative measure during the year of financial crisis in 2009, the company has reduced its leverage ratio, using the surplus cash generated from its operating activities. As a result, the company now has a low gearing ratio of 7.6%. AR, inventory, and AP days have returned more to their norms as of 1Q 2010 as the overall business environment has been back on track of growth.