

Wah Lee Industrial Corp. (3010.TT)

2010Q3 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\$420 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 Q3 Consolidated Results Announcement

Cumulative 2010 Q3 sales posted strong growth from existing and new sectors

Unaudited year-to-date 3Q10 consolidated sales reached NT\$19.91 billion, a 45.3% YoY growth from the same period last year. This significant sales growth was derived from the following two areas:

1. Stable mainstream industry recovery: Wah Lee's dominant position in providing raw materials to semiconductor, computer/communication, and PCB industries has benefited the company from the stable underlying industry recovery across the board so far this year.
2. Great 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 467% YoY growth as of 1~3Q 2010. (Please refer to the following table)

(NT\$,000)	C/C	LCD	Semicon	PCB	Green Energy	Others	Total
YTD2009Q3	5,966,814	764,667	3,547,019	1,934,932	331,704	1,159,121	13,704,257
YTD2010Q3	8,207,009	924,729	4,619,081	2,980,092	1,880,813	1,295,887	19,907,611
YoY growth	37.5%	20.9%	30.2%	54.0%	467.0%	11.8%	45.3%

Cumulative 3Q10 profit growth higher than sales growth; 3Q10 EPS of NT\$5.21

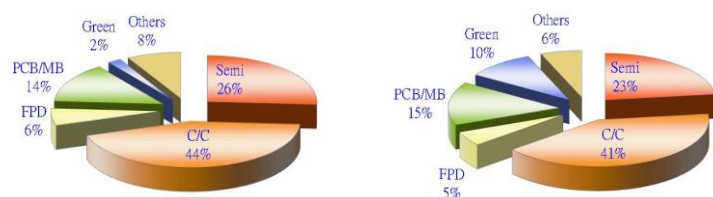
Consolidated year-to-date 3Q10 gross profit reached NT\$2.45 billion and grew 50.5% from the same period last year. Cumulative 3Q10 gross margin was 12.3%, as compared to 11.9% for 1~3Q09. On the other hand, operating expense did not grow proportionally with the sales growth. Operating expense grew at a slower rate of 31.0% YoY and was NT\$1.48 billion. As a result, operating profit grew 94.6% from a year ago and reached NT\$975 million, posting an operating margin of 4.9%. Non-operating profit contributed another NT\$567 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\$425 million (100.2% YoY growth and was about the same growth rate as Wah Lee's operating profit growth), an obvious sign of Wah Lee's investment companies also posting better results in this year. The company's pretax profit for 1~3Q10 totaled NT\$1.54 billion. Net profit after tax and minority interests was NT\$1.21 billion and EPS was NT\$5.21, based on 231.4 million outstanding shares.

Wah Lee as a valuable leading 2.5G player will be worthy of a re-rating

In recent months, Taiwan's renowned professional magazines such as Commonwealth and BusinessWeek had initiated and promoted a concept of 2.5G industry players. By definition, 2.5G players are companies that provide various value-added services to manufacturers (2nd Generation industry) and by nature are categorized in the service industry (3rd Generation industry). Wah Lee has been especially mentioned in the reports as the best representative in the upstream raw material distribution business. We believe as the public and investors alike get to better understand and appreciate our unique business model, a re-rating on the PE multiple of Wah Lee will be given by the market.

Table 1 – Sales % by Industry for 1~3Q 2010

%	Taiwan	Consolidated
Semiconductor	28%	23%
C/C	34%	41%
PCB	13%	15%
Green Energy	13%	10%
LCD	6%	5%
Others	6%	6%
Total	100%	100%

Consolidated sales breakdown (1~3Q 2009 vs. 1~3Q 2010)**1~3Q 2009****1~3Q 2010****Table 2 – Unaudited income statements (in NT\$ million)**

Consolidated	YTD3Q10	YTD3Q09	YoY
Sales	19,908	13,704	45.3%
Operating Profit	975	501	94.6%
Non-Op Profit	567	256	121.3%
L-T investment	425	212	100.2%
Others	142	44	
Pre-Tax Income	1,542	757	103.6%
After Tax Profit	1,206	609	98.0%
EPS *	5.21	2.63	

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

Table 3 – Consolidated Financial Ratios

	3Q 2010	3Q 2009
Current Ratio	166%	174%
Quick Ratio	124%	138%
Net Debt/Equity	19.4%	17.1%
A/R days	89	121
Inventory days	44	67
A/P days	61	83
Cash conversion days	72	105

Wah Lee is the leading supplier of key chemicals used in high end IC manufacturing in Taiwan. With more and more 3C application products and increasing demands from China and other emerging markets, Computer/Communication industry is expected to continue to be one of the sales drivers for Wah Lee's future growth. Wah Lee's PCB sector is also showing continuing growth from the increasing demand on high-end HDI (High Density Interface) productions. Green Energy is taking a more important role in the company's sales contribution from Solar, LED, Touch Panel, and LiFePO4 materials.

Consolidated sales for YTD3Q2010 grew by 45% YoY. As mentioned above, operating profit grew much higher at 95% 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 3Q10 results from the company's L-T investment companies. Among Others in Non-op profit, there were a gain of NT\$35 million from the sale of an old office building and a capital gain of NT\$76 million from the sales of some cost-method investments. In conclusion, the company's consolidated 1~3Q2010 after tax profit grew by 98% from last year. EPS was NT\$5.21.

Current and quick ratios in 3Q10 both maintained at satisfactory levels. The company's net debt to equity ratio was slightly higher in 2010 due to the increased working capital needs from its significant growth in sales this year. As a result, the company now has a gearing ratio of 19.4%. AR, inventory, and AP days have returned more to their norms as of 3Q 2010 as the overall business environment has been back on track of growth.