

Wah Lee Industrial Corp. (3010.TT)

2010Q4 Management Report

February 17, 2011



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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\$475 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 Full Year 2010 Consolidated Results Announcement

Cumulative FY2010 sales posted strong growth from existing and new sectors

Unaudited FY2010 consolidated sales reached NT\$27.02 billion, a 40.5% YoY growth from FY2009. This significant sales growth was derived from the following two areas:

1. Stable mainstream industry recovery in 2010: 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 in 2010.
2. Great new product advancement in Green Energy: 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 518% YoY growth in FY2010. (Please refer to the following table)

(NT\$,000)	C/C	LCD	Semicon	PCB	Green Energy	Others	Total
FY2009	8,275,349	936,365	5,141,581	2,632,501	506,074	1,725,679	19,217,550
FY2010	10,696,018	1,366,316	6,106,089	4,109,711	3,129,803	1,608,993	27,016,930
YoY growth	29.3%	45.9%	18.8%	56.1%	518.4%	-6.8%	40.5%

FY2010 profit growth higher than sales growth: unaudited 2010 EPS of NT\$6.27

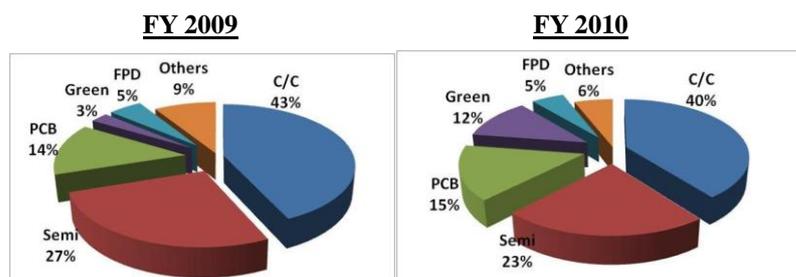
Consolidated FY2010 gross profit reached NT\$3.19 billion and grew 37.9% from 2009. FY2010 gross margin was 11.8%, as compared to 12.1% for 2009. On the other hand, operating expense did not grow proportionally with the sales growth. Operating expense of NT\$1.98 billion grew at a much slower rate of 21.1% YoY compared to sales growth. As a result, operating profit grew 78.6% from a year ago and reached NT\$1.21 billion, posting an operating margin of 4.5%. Non-operating profit contributed another NT\$646 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\$490 million (73.9% YoY growth and was about the same growth rate as Wah Lee's operating profit growth), an obvious sign that Wah Lee's investment companies also posted better results in 2010. The company's pretax profit for 2010 totaled NT\$1.86 billion. Net profit after tax and minority interests was NT\$1.45 billion and EPS was NT\$6.27, based on 231.4 million outstanding shares.

Wah Lee is getting more and more market recognitions, QFII holding 19.2%

During 2010, 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. Wah Lee's share price performance has risen from the low of NT\$40 in the beginning of 2010 and reached the range of NT\$60 by the end of year. During the mean time, QFII holding has increased from 18% to reach around 19.2%.

Table 1 – Sales % by Industry for FY2010

%	Taiwan	Consolidated
Semiconductor	26%	23%
C/C	34%	40%
PCB	13%	15%
Green Energy	16%	12%
LCD	6%	5%
Others	5%	5%
Total	100%	100%

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

Consolidated	FY2010	FY2009	YoY
Sales	27,017	19,226	40.5%
Operating Profit	1,210	677	78.6%
Non-Op Profit	646	370	74.6%
L-T investment	490	282	73.9%
Others	156	88	77.3%
Pre-Tax Income	1,855	1,047	77.2%
After Tax Profit	1,450	810	79.1%
EPS *	6.27	3.50	

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

Table 3 – Consolidated Financial Ratios

	FY 2010	FY 2009
Current Ratio	164%	172%
Quick Ratio	118%	132%
Net Debt/Equity	21.7%	9.0%
A/R days	88	113
Inventory days	47	67
A/P days	61	82
Cash conversion days	74	98

Wah Lee is the leading supplier of key chemicals used in high end IC manufacturing in Taiwan. With new inventions of 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 FY2010 grew by 40.5% YoY. Operating profit grew at a higher rate of 78.6% due to savings from scale economy in the operating expense. Non-operating profit was another contributor to the overall bottom line due to better results from the company's L-T strategic 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\$66 million from the sales of some cost-method investments. In conclusion, the company's consolidated 2010 after tax profit grew by 79% from last year. EPS was NT\$6.27.

Current and quick ratios at the end of 2010 both maintained at satisfactory levels. The company's net debt to equity ratio was 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 21.7%. AR, inventory, and AP days have returned more to their norms at the end of 2010 as the overall business environment has been back on track of growth.