

# Wah Lee Industrial Corp. (3010.TT)

## 2011Q1 Management Report

May 13, 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\$450 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 2011 Q1 Consolidated Results Announcement

### 2011 Q1 sales posted strong growth from existing and new sectors

Unaudited 2011 Q1 consolidated sales reached NT\$8.59 billion, a 43.5% YoY growth from the same period last year. The significant sales growth was derived from the following two areas:

1. **Stable mainstream industry growth momentum in 2011 Q1:** Wah Lee has benefited from the stable underlying industry growth across the board in Q1 of 2011, allowing us to maintain our dominant position in providing raw materials to semiconductor, computer/communication, and PCB industries.
2. **Great new product advancement in Green Energy and optoelectronics:** Wah Lee has identified Green Energy and Optoelectronics as its major growth driver for the coming years. Specific products in this area include Solar polysilicon wafer, time-controller IC, color filter resist, and Lithium Iron Phosphate (LiFePO4) rechargeable battery materials. The Green Energy & Opto sector posted a 252% YoY growth in 2011 Q1. (Please refer to the following table)

(NT\$,000)	C/C	LCD	Semi	PCB	Green Energy	Others	Total
2010 Q1	2,577,361	278,531	1,533,706	829,462	401,962	355,669	5,976,691
2011 Q1	3,206,796	679,365	1,642,246	1,289,723	1,414,628	353,811	8,586,569
YoY growth	24.4%	143.9%	7.1%	55.5%	251.9%	-0.5%	43.7%

### 2011 Q1 EPS of NT\$1.57, which is equivalent to 2010 Q1 EPS

Consolidated 2011 Q1 gross profit reached NT\$916 million and grew 28.1% from Q1 last year. 2011 Q1 gross margin was 10.7%, as compared to 12.0% for 2010 Q1. On the other hand, operating expense grew even slower in 2011 Q1 as compared to 2010 Q1, at 19.4%. Therefore, operating profit for 2011 Q1 was NT\$403 million, which was a 42.3% growth from the NT\$270 million operating profit in 2010 Q1. As a result economy of scales, Wah Lee's operating profit growth grew at a higher rate than gross profit. Operating margin for 2011 Q1 was 4.7%. Non-operating profit contributed NT\$117 million to the overall bottom line and was a decline of 29.6% from a year ago. The main reason for the decline in Non-op is due to the one-off capital gains in Q1 2010, in the total amount of about NT\$83 million. The company's pretax profit for 2011 Q1 totaled NT\$521 million. Net profit after tax and minority interests was NT\$364 million and EPS was NT\$1.57 which is equivalent to 2010 Q1 EPS, both based on 231.4 million outstanding shares.

### Wah Lee's Board has decided on a cash dividend of 3.5 per share

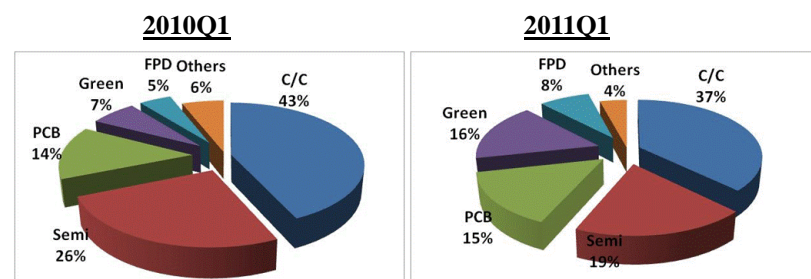
Out of the FY2010 EPS of NT\$6.09, Wah Lee's board of Directors has decided to submit for approval in the AGM to be held on June 3 the proposal to distribute NT\$3.5 per share of cash dividend to shareholders. The amount of cash dividend has been decided based on a consistent payout ratio of 55~60% of the company's EPS each year. The cash yield of the dividend based on recent share price is over 6%.

### Wah Lee has gone for a non-deal roadshow trip to Japan in April

Wah Lee was invited by Daiwa securities to go to Tokyo Japan for a NDR during late April and we received very positive feedback from investors.

**Table 1 – Sales % by Industry for 2011 Q1**

%	Taiwan	Consolidated
Semiconductor	22%	19%
C/C	32%	37%
PCB	11%	15%
Green Energy	22%	16%
LCD	10%	8%
Others	3%	5%
Total	100%	100%

**Consolidated sales breakdown (2010Q1 vs. 2011Q1)****Table 2 – Unaudited income statements (in NT\$ million)**

Consolidated	1Q 2011	1Q 2010	YoY
Sales	8,587	5,985	43.5%
Operating Profit	403	270	42.3%
Non-Op Profit	117	193	-29.6%
L-T investment	91	142	-35.7%
Others	26	51	-49.0%
Pre-Tax Income	521	463	12.3%
After Tax Profit	364	366	-0.4%
EPS *	1.57	1.58	

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

**Table 3 – Consolidated Financial Ratios**

	1Q 2011	1Q 2010
Current Ratio	159%	170%
Quick Ratio	118%	130%
Net Debt/Equity	30.8%	7.6%
A/R days	86	89
Inventory days	42	46
A/P days	55	62
Cash conversion days	73	73

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 2011 Q1 grew by 43.5% YoY. Operating profit grew at a similar rate of 42.3% due to savings from scale economy in the operating expense. Non-operating profit in Q1 2011 declined from a year ago due to some one-off capital gains recognized in Q1 2010, including a gain of NT\$35 million from the sale of an old office building. In conclusion, the company's consolidated 2011 Q1 after tax profit maintained at the same level as 2010 Q1. EPS for 2011 Q1 was NT\$1.57.

Current and quick ratios at the end of Q1 2011 both maintained at satisfactory levels. The company's net debt to equity ratio was gradually becoming higher mainly because of the increase in trade financing needs arising from the increase in sales and the resulting receivables. As a result, the company now has a gearing ratio of 30.8%. AR, inventory, and AP days have been maintained at their reasonable levels in 2011 Q1, so is the cash conversion cycle days.