

Wah Lee Industrial Corp. (3010.TT)

2011 1H Management Report

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IR Contact
Eric Lin
+886-2-2715-2087 ext.22061
ericlin@wahlee.com

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 1H Consolidated Results Announcement

2011 1H sales continued to grow after a strong sales growth in 2010

After an annual revenue of NT\$27.0 billion and a significant 41% sales growth were recorded in year 2010, the unaudited 2011 1H consolidated sales reached NT\$16.8 billion, still posted a decent 30.0% YoY growth from the same period last year. The significant sales growth in 1H2011 was derived from the following two areas:

1. **Stable mainstream industry growth momentum in 2011 1H:** Wah Lee has benefited from the stable underlying industry growth across the board in 1H 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 134% YoY growth in 2011 1H. (Please refer to the following table)

(NT\$,000)	C/C	LCD	Semi	PCB	Green Energy	Others	Total
2010 1H	5,466,897	600,223	3,075,860	1,911,465	1,098,733	811,219	12,964,398
2011 1H	6,347,409	1,299,473	3,409,673	2,420,174	2,573,075	757,269	16,807,072
YoY growth	16.11%	116.50%	10.85%	26.61%	134.19%	-6.65%	29.64%

2011 1H EPS of NT\$3.03, which is a minor decline from 2010 1H EPS of 3.20

Unaudited consolidated 2011 1H gross profit reached NT\$1.74 billion and grew 9.3% from 1H last year. 2011 1H gross margin was 10.4%, as compared to 12.3% for 2010 1H. The underlying reason for the margin decline was due to the sales mix changes, as lower margin products such as solar wafer and IC products grew in the overall product portfolio. On the other hand, operating expense grew slower in 2011 1H at 5.5% YoY and reached NT\$1.01 billion. As a result, operating profit for 2011 1H was NT\$730 million, which enjoyed a 15.0% YoY growth. Operating margin for 2011 1H was maintained at 4.3%, as compared to 4.9% for the same period last year. Non-operating profit contributed NT\$280 million to the overall bottom line and was a decline of 14.1% from a year ago. The main reason for the decline in Non-op is due to the one-off capital gains in 1H 2010, in the total amount of about NT\$83 million. The company's pretax profit for 2011 1H totaled NT\$1.01 billion. Net profit after tax and minority interests was NT\$701 million and EPS was NT\$3.03, a minor decline from 2010 1H EPS of 3.20, both based on 231.4 million outstanding shares.

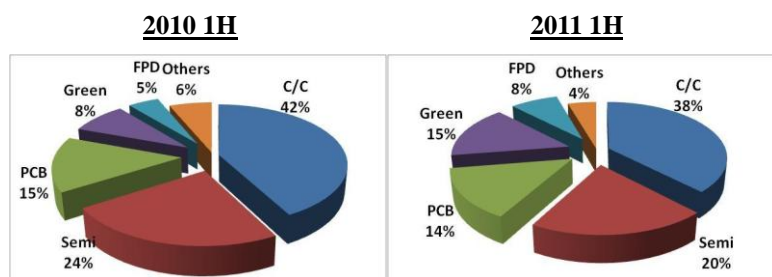
Wah Lee's current in-house view on 1H:2H revenue stands at 49:51

Slower 2011 Q2 sales momentum was mostly due to the excessive pull-off of inventory from customers in March after the Japanese earthquake. Customers were digesting their inventory in Q2 and slowed down further purchases. We expect to see a pickup in 2H sales after the digestion of inventory and Green Energy products shall provide additional push up in sales.

P.S. Please note cash dividend of NT\$3.5 per share was dispatched on Jul. 21.

Table 1 – Sales % by Industry for 2011 1H

%	Taiwan	Consolidated
Semiconductor	23%	20%
C/C	34%	38%
PCB	11%	14%
Green Energy	19%	15%
LCD	10%	8%
Others	3%	5%
Total	100%	100%

Consolidated sales breakdown (2010 1H vs. 2011 1H)**Table 2 – Unaudited income statements (in NT\$ million)**

Consolidated	1H 2011	1H 2010	YoY
Sales	16,807	12,961	29.7%
Operating Profit	730	635	15.0%
Non-Op Profit	280	326	-14.1%
L-T investment	195	278	-29.8%
Others	85	48	
Pre-Tax Income	1,010	961	5.1%
After Tax Profit	701	742	-5.5%
EPS *	3.03	3.20	

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

Table 3 – Consolidated Financial Ratios

	1H 2011	1H 2010
Current Ratio	148%	160%
Quick Ratio	108%	119%
Net Debt/Equity	39.4%	21.7%
A/R days	88	91
Inventory days	47	45
A/P days	54	63
Cash conversion days	81	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 1H grew by 29.7% YoY. Operating profit grew by 15.0% due to lower gross margin as a result of product mix changes as explained above. Operating margin was maintained at 4.3%, as compared to 4.9% same period last year. Non-operating profit in 1H 2011 declined from a year ago due to some one-off capital gains recognized in 1H 2010, including a gain of NT\$35 million from the sale of an old office building. In conclusion, the company's consolidated 2011 1H after tax profit posted a minor decline from 2010 1H. EPS for 2011 1H was NT\$3.03.

Current and quick ratios at the end of 1H 2011 both maintained at satisfactory levels. The company's net debt to equity ratio has gradually become 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 39.4%. AR, inventory, and AP days have been maintained at their reasonable levels in 2011 1H, so is the cash conversion cycle days.