

# Wah Lee Industrial Corp. (3010.TT)

## 2011Q4 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, equipment, 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\$320million.

### 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 2011 Consolidated Results Announcement

### Cumulative FY2011 sales posted moderate growth due to the weakening demands in computer and communication, PCB and semiconductor sectors

Unaudited FY2011 consolidated sales reached NT\$31.25 billion, a 15.6% YoY growth from FY2010. This growth was mainly derived from the following two sectors:

1. FPD: the growth of this sector was mainly contributed by the introduction of a new product: color resist, which is a fundamental material for the making of color filter.
2. Green Energy: Two new products, T-con and sapphire substrate for LED, contributed to the growth of this sector.

(NT\$000)	C/C	FPD	Semicon	PCB	Green Energy	Others	total
<b>FY2011</b>	11,777,780	2,300,237	5,915,284	4,562,834	5,125,379	1,565,834	31,247,349
<b>FY2010</b>	10,696,018	1,366,316	6,106,089	4,109,711	3,129,803	1,608,993	27,016,930
<b>YoY</b>	10.1%	68.4%	-3.1%	11.0%	63.8%	-2.7%	15.7%

### FY2011 profit declined by 33.5% compared to 2010: unaudited 2011 EPS of NT\$4.05

Consolidated FY2011 gross profit reached NT\$2.80 billion, declining by 12.4% from 2010. FY2011 gross margin was 9%, as compared to 11.8% for 2010 mainly due to product mix changes. Operating expense of NT\$1.90 billion declined at a rate of 6.5% YoY in comparison to sales growth of 15.7%. However, due to the decline in gross margin, operating profit decreased by 22.6% from a year ago and reached NT\$907 million with operating margin at 2.9%.

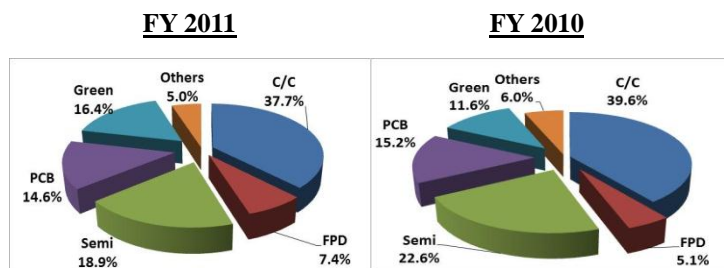
Non-operating profit contributed another NT\$436 million to the overall bottom line. Among the non-op items, L-T equity investment income was the largest contributor with a total profit of NT\$275.7 million (42.7% YoY decline), an obvious sign that Wah Lee's investment companies were also affected by the economic slowdown in 2011 due to the European economic crisis. The company's pretax profit for 2011 totaled NT\$1.34 billion. Net profit after tax and minority interests was NT\$938 million and EPS was NT\$4.05, based on 231.4 million outstanding shares.

### Despite the softening demands of downstream applications and downturn of global economy, Wah Lee still posted an earning above the industry average and maintained a QFII holding of 14.4%

During 2010, Taiwan's renowned professional magazines such as Commonwealth and BusinessWeek 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 (2<sup>nd</sup> Generation industry) and by nature are categorized in the service industry (3<sup>rd</sup> Generation industry). Wah Lee has been especially mentioned in the reports as the best representative in the upstream raw material distribution business. The broaden customer base and comprehensive product line helped Wah Lee weather through the downturn of economy and present a satisfactory operating results for 2011.

**Table 1 – Sales % by Industry for FY2011**

%	Taiwan	Consolidated
C/C	25.6%	37.7%
FPD	10.5%	7.4%
Semicon	25.1%	18.9%
PCB	13.1%	14.6%
Green Energy	22.1%	16.4%
Others	3.8%	5.0%
Total	100%	100%

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

Consolidated	FY2011	FY2010	YoY
Sales	31,247	27,023	15.6%
Operating Profit	907	1,172	-22.6%
Non-Op Profit	436	640	-31.8%
L-T investment	276	481	-42.7%
Others	160	159	0.6%
Pre-Tax Income	1,343	1,812	-25.9%
After Tax Profit	1,001	1,470	-31.9%
EPS *	4.05	6.09	

\* Both years' after tax EPS are based on outstanding capital of 231.4 million shares.

**Table 3 – Consolidated Financial Ratios**

	FY 2011	FY 2010
Current Ratio	165%	164%
Quick Ratio	125%	118%
Net Debt/Equity	34%	22%
A/R days	88.8	87.8
Inventory days	45.5	47.1
A/P days	55.5	60.8
Cash conversion days	78.8	74.1

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 FPD sector is also showing continuing growth from the introduction of new product, color filter resist. 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 FY2011 grew by 15.6% YoY. Operating profit declined by -22.6% due to the increase of sales from low gross margin products. Non-operating profit was another contributor to the overall bottom line due to results from the company's LT investments. However, LT investments still declined by 42.7% due to the recognition of loss of NT\$90M from CWE's recognition of assets impairment from its investment company Sumitomo Bakelite. In conclusion, the company's consolidated 2011 after tax profit declined by 33.5% from last year and 2011's EPS was NT\$4.05.

Current and quick ratios at the end of 2011 both maintained at satisfactory levels. The company's net debt to equity ratio was higher in 2011 due to the increase in trade financing needs from the increase in sales and the receivables. As a result, the company now has a gearing ratio of 34%. AR, inventory, AP days and cash conversion days were maintained at reasonable levels in year-end.