

Wah Lee Industrial Corp. (3010.TT)

2Q12 Management Report

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Wah Lee Consolidated Entities include Wah Lee Taiwan and subsidiaries in China, Japan, Korea, 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\$300 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 2Q12 Consolidated Results Announcement

2Q12 sales posted continuous QoQ growth of 7.2% from 1Q12

Unaudited 2Q12 consolidated sales reached NT\$8.28 billion, a 7.2% QoQ growth from 1Q12. This significant sales growth was derived from the following two areas:

1. Strong demands from semiconductor sector in 2Q12: Semiconductor industry showed strong QoQ growth of 15.9% as the foundry's customers began to build up their inventories for the high season.
2. Seasonal demands from C/C and PCB sectors: PCB and C/C business sales also posed high growth due to EMS and brand PC makers began to prepare for the "back-to-school" sales season.
3. Detailed QoQ growth by segment is following:

NT:000	C/C	FPD	Semi	PCB	Green	others	total
1Q12	2,837,549	1,277,309	1,198,674	563,180	1,429,243	426,229	7,732,183
2Q12	3,055,019	1,306,531	1,389,833	596,325	1,461,628	475,752	8,285,088
QoQ	7.7%	2.3%	15.9%	5.9%	2.3%	11.6%	7.2%

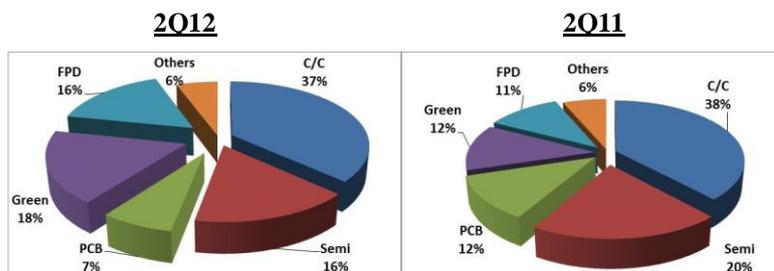
2Q12 EPS reached NT\$0.95

Consolidated 2Q12 gross profit reached NT\$761.4 million, a significant growth from 1Q12's NT\$684.2 million. 2Q12 gross margin of 9.2% was improved from 1Q12's 8.9% mainly because solar wafer makes up a smaller portion of total sales. Operating profit reached NT\$237.2 million with operating margin of 2.9%. Non-operating profit contributed NT\$84.3 million to net profit and is expected to continue growing QoQ as Q1 tends to be the slowest quarter out of the year. The company's pretax profit for 2Q12 totaled NT\$321.6 million. Net profit after tax less minority interests was NT\$220.5 million and EPS was NT\$0.95 based on 231.4 million outstanding shares. YTD financial results are as following: sales: NT\$16,017.3M; gross profit: NT\$1,445.6M; gross margin: 9.0%; non-op profit: NT\$159.2M; net profit: NT\$461.7M; EPS: NT\$2.0.

A cash dividend of \$2.3 per share was approved at AGM on June 5th and the board announced June 26 as the final trading day to get the right of the distribution of the dividend

On June 5, the AGM passed a cash dividend of \$2.3 per share out of the FY2011 EPS of \$4.12. To get the right of the cash dividend, investors had to own or buy the company's shares no later than June 26. The amount of cash dividend was decided based on a consistent payout ratio of 50~60% of the company's earnings each year. The cash yield of the dividend based on recent share price is nearly 6%.

YTD Consolidated sales breakdown (2Q12 vs. 2Q11)



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, semiconductor, and PCB sectors will remain the cash cows for Wah Lee's business, and FPD and green energy sectors will provide growth momentum for Wah Lee in the next few years, with new products like T-con IC, touch panel controller, and color resist in FPD, and solar, LED, and LiFePO4 battery materials in green energy.

Table 2 – Unaudited income statements (in NT\$ million)

Consolidated	YTD	2Q12	1Q12	QoQ
Sales	16,017.3	8,283.2	7,734.1	7.1%
Operating Profit	469.8	237.2	232.6	2.0%
Non-Op Profit	159.2	84.3	74.9	12.6%
L-T investment	174.0	92.8	81.3	14.1%
Others	-14.8	-8.5	-6.4	32.8%
Pre-Tax Income	629.1	321.6	307.5	4.6%
After Tax Profit	461.7	220.5	241.2	-8.6%
EPS *	2.0	0.95	1.04	-8.6%

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

Table 3 – Consolidated Financial Ratios

	2Q12	2Q11
Current Ratio	155%	148%
Quick Ratio	125%	108%
Net Debt/Equity	20.9%	40.0%
A/R days	94.7	88.5
Inventory days	40.0	46.6
A/P days	58.7	53.8
Cash conversion days	76.1	81.4

The sales of Q2 is normally higher than Q1 across all the sectors since customers need to prepare for the sales seasons of "back-to-school" in Sep, and of the long break of Labor Day in China. Therefore, consolidated sales for 2Q12 grew by 7.1% and operating profits grew by 2% QoQ. Non-op profits in 2Q12 grew by 12.6% QoQ mainly due to growth in long term investment. However, because of the 10% of taxation on the retained earnings in Q2 for an amount of \$32.5M, the company's consolidated 2Q12 after tax profit reached \$220.5M, which declined by 8.6% QoQ.

Current and quick ratios at the end of 2Q12 both maintained at satisfactory levels. The company's net debt to equity ratio was reduced mainly because short term borrowing was reduced and more cash was reserved in 2Q12. As a result, the company now has a gearing ratio of 20.9%. AR, inventory, and AP days were maintained at their reasonable levels in 2Q12, so was the cash conversion cycle days.