

Wah Lee Industrial Corp. (3010.TT)

3Q12 Management Report

October 29, 2012



IR Contact
Alex Tu
+886-2-2715-2087 ext.22061
alextu@wahlee.com

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 3Q12 Consolidated Results Announcement

3Q12 operating profit increased by 6.0% and non-op profit increased by 54.4%, resulting in a 34.4% increase in after-tax income compared to 2Q12, even though sales posted QoQ decline of 6.9%.

Unaudited 3Q12 consolidated sales reached NT\$7.71 billion, a 6.9% QoQ decline from 2Q12. The major sales changes came from the following areas:

1. Major growth:

- FPD sector: The recovery of panel industry and the fast ramp-up of TFT LCD players in China. The demands for timing controllers and color resist grew rapidly as China customers ramped up their 8.5G fabs. The sales of touch panel controllers were also spurred by the increasing popularity of tablet PCs and smart phones.
- PCB sector: Demands for PCB materials triggered by the PC and mobile phone markets. (including tablet PC and low cost smart phones) Industry players produced in 3Q to prepare for the sales season of "back-to-school" in US, and the "October 1st" long vacation in China.

2. Major Decline:

- Solar sector: Wah Lee's change of its revenue recognition model from stock-sale to service-charge for some of its solar wafer customers: Beginning in July, part of the solar wafer sales was switched to service-charge base. Therefore sales declined, but the overall profits were not affected, and the margins were improved.

3. Detailed QoQ growth/decline by segment is as follows:

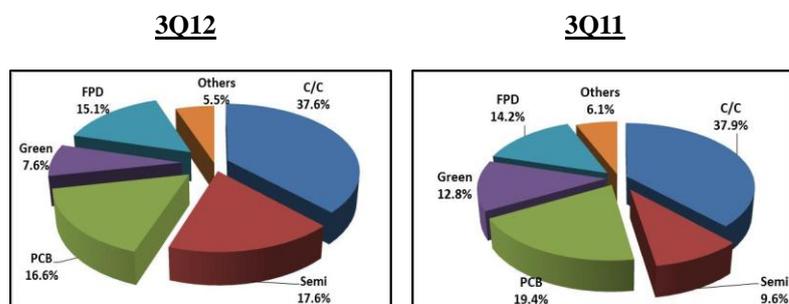
NT\$:000	C/C	FPD	Semi	PCB	Green	Others	total
2Q12	3,052,880	1,305,616	1,388,859	595,908	1,460,604	475,418	8,279,285
3Q12	3,033,730	1,585,244	1,357,165	649,551	682,702	401,027	7,709,420
QoQ	-0.6%	21.4%	-2.3%	9.0%	-53.3%	-15.6%	-6.9%

3Q12 EPS reached NT\$1.28, the highest quarter of the year so far

Consolidated 3Q12 gross profit reached NT\$773.9 million, a consecutively quarterly growth from 2Q12's NT\$754.9 million. 3Q12 gross margin of 10.0% was much better than 1Q12's 8.9% and 2Q12's 9.1%, mainly because part of the solar wafer sales were in service-charge base and the margin was improved. Operating profit reached NT\$241.5 million, an increase of 6% compared to Q2, with operating margin of 3.1%. Non-operating profit reached NT\$143.8 million, which is much better than 2Q12's NT\$93.2M, with the major contribution from long-term investments. The company's pretax profit for 3Q12 totaled NT\$385.3 million. Net profit after tax less minority interests was NT\$296.6 million, a 34% increase compared to Q2; and EPS was NT\$1.28 based on 231.4 million outstanding shares, the highest quarter of the year so far.

YTD financial results are as following: sales: NT\$23,722.8M; gross profit: NT\$2,213.1M; gross margin: 9.3%; non-op profit: NT\$311.9M; net profit: NT\$758.5M; EPS: NT\$3.28.

YTD Consolidated sales breakdown (3Q12 vs. 3Q11)



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 timing controller, 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	3Q12	2Q12	QoQ
Sales	23,722.8	7,709.4	8,279.3	-6.9%
Operating Profit	701.9	241.5	227.9	6.0%
Non-Op Profit	311.9	143.8	93.2	54.4%
L-T investment	308.5	131.8	95.4	38.3%
Others	3.4	12.0	-2.2	645.5%
Pre-Tax Income	1,013.9	385.3	321.0	20.0%
After Tax Profit	758.5	296.6	220.7	34.4%
EPS *	3.28	1.28	0.95	34.4%

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

The major factor affecting Q3's sales and gross profit was the change of the revenue recognition model on solar wafer sales from stock-sale to service-charge for some of the customers since July. Even though the sales declined, the overall profits were not affected and the margins were improved. Therefore, consolidated sales for 3Q12 declined by 6.9%, yet operating profits grew by 6.0% QoQ. Non-op profits in 3Q12 grew by 54.4% QoQ mainly due to the growth in long term investment. The pre-tax increased by 20% QoQ and the consolidated 3Q12 after tax profit reached \$296.6M, which grew by 34.4% QoQ, resulting in an EPS of \$1.28, the highest quarter of the year so far.

Table 3 – Consolidated Financial Ratios

	3Q12	3Q11
Current Ratio	164.5%	162.5%
Quick Ratio	133.1%	117.3%
Net Debt/Equity	23.3%	47.5%
A/R days	92.4	87.9
Inventory days	39.8	46.2
A/P days	55.2	52.2
Cash conversion days	77.1	82.0

Current and quick ratios at the end of 3Q12 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 3Q12. As a result, the company now has a gearing ratio of 23.3%. AR, inventory, and AP days were maintained at their reasonable levels in 3Q12, so was the cash conversion cycle days.