

Wah Lee Industrial Corp. (3010.TT)

4Q12 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, 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\$310 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 4Q12 Consolidated Results Announcement

Even with the global economy downturn triggered by European financial crisis, Wah Lee was still able to maintain a slight growth in 2012 sales.

Unaudited FY2012 consolidated sales reached NT\$31.55 billion, a 1.0% YoY growth from FY2011. The sectors with major changes are as follows:

1. Major growth:

- FPD 30% growth: 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.
- Green Energy 36.4%: The cell makers of solar energy in Taiwan all benefited from the anti-dumping and anti-subsidy policies of US government against Chinese solar players in 1H12.

2. Major decline:

- PCB 27.2% decline: Wah Lee strategically decided to cease the distribution of a product to a low margin customer.
- Semiconductor 11% decline: The demands for DRAM softened, and one DRAM customer ceased its operations in 2012.

2012 EPS reached NT\$4.21, compared to NT\$4.12 in 2011

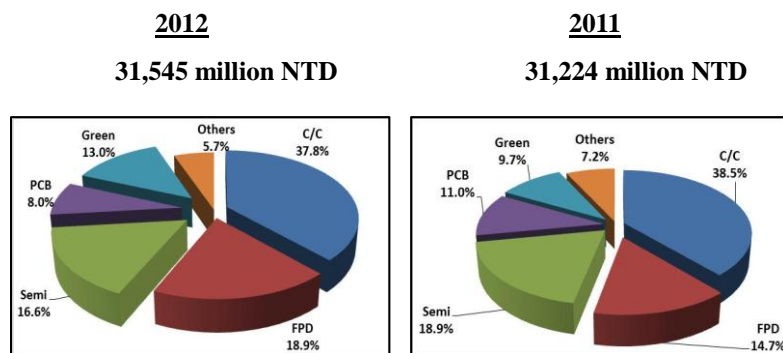
Consolidated FY2012 gross profit reached NT\$2.88 billion, a growth of 2.2% from 2011. FY2012 gross margin was 9.1%, as compared to 9.0% for FY 2011. Due to increase in employee salary expense especially in China, operating expense reached NT\$2.06 billion, resulting in an operating profit of 825.1 million.

With the improvement of long term investment companies in 2012 and foreign exchange from JP Yen depreciation in 4Q12, non-operating profit in FY2012 grew by 19.9% and reached NT\$492.1 million. The company's pretax profit for FY2012 totaled NT\$1,317.1 million. Net profit after tax and minority interests was NT\$975.0 million and EPS was NT\$4.21, based on 231.4 million outstanding shares.

2013 Outlook

As the worldwide recovers from the bottom of 2012, Wah Lee expects both top line and bottom-line growth for FY2013. FPD Industry continues to benefit from production ramp up of 8.5G plants in China; materials for LiFePO4 rechargeable batteries are in mass production and have been qualified by and shipped to customers. The L-T investment companies' performances are also expected to grow, among which Wah Hong looks even more promising as its ITO film for touch panels is expected to perform well given that market supply is in extremely shortage. Onano Corp, another investment of Wah Lee, offering TFT LCD glass slimming service, was listed at the Emerging Stock Market, ticker 6405, on Dec. 19, 2012. Several of the investment companies of Chang Hwa Electro Materials of which Wah Lee has 30% shares are also expected to go IPO.

Consolidated sales breakdown (2012 vs. 2011)



Wah Lee is the leading supplier of key materials 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 and touch panel controller in FPD, and solar, LED, and LiFePO4 battery materials in green energy.

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

Consolidated	1Q12	2Q12	3Q12	4Q12	2012	2011
Sales	7,734.1	8,279.3	7,709.4	7,822.5	31,545.3	31,224.5
GP Margin	8.9%	9.1%	10.1%	8.5%	9.1%	9.0%
Operating Profit	232.6	227.9	240.6	124.0	825.1	939.9
Non-Op Profit	74.9	93.2	146.1	177.9	492.1	410.5
L-T investment	81.3	93.9	120.8	113.2	421.3	264.3
Others	-6.4	-0.7	25.3	64.7	70.8	146.1
Pre-Tax Income	307.5	321.0	386.7	301.9	1,317.1	1,350.3
After Tax Profit	241.2	220.7	294.8	218.3	975.0	952.2
EPS *	1.04	0.95	1.27	0.94	4.21	4.12

Sales contribution from timing controller in FPD grew significantly in 4Q12 resulting in an increase of 1.5% QoQ sales growth. Several one-time factors contributed to the drop in operating profit in Q4 including decrease in overall gross margin as result of increase in the sales of lower margin products, recognition of potential inventory obsolescence allowance, and annual purchase discount given to customers. Non-op profits in 4Q12 grew by 21.8% QoQ mainly due to foreign exchange gain of \$48.8M from JP Yen depreciation. The consolidated 4Q12 after tax profit reached \$218.3M, resulting in an EPS of \$0.94.

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

Table 3 – Consolidated Financial Ratios

	4Q12	4Q11
Current Ratio	161.5%	164.4%
Quick Ratio	132.0%	122.2%
Net Debt/Equity	20.8%	31.0%
A/R days	95.1	88.9
Inventory days	40.9	46.2
A/P days	58.6	56.8
Cash conversion days	76.6	78.2

Current and quick ratios at the end of 4Q12 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 4Q12. As a result, the company now has a gearing ratio of 20.8%. AR, inventory, and AP days were maintained at their reasonable levels in 4Q12, so was the cash conversion cycle days.