Ellipsiz Ltd and its Subsidiaries
Registration Number: 199408329R

Full Year Financial Information and

Dividend Announcement for the year ended

30 June 2017

Review and Commentary

(A) A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-

(i) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors;
(ii) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on; and
(iii) any factors leading to material changes in contributions to turnover and earnings by the business or geographical segments.

The following discussion is based on and should be read in conjunction with, the consolidated financial information of Ellipsiz Ltd and its subsidiaries (the Group), including the notes thereto.

Results of Operations

Revenue and gross profits

The Group had revenue of $116.7 million for the year ended 30 June 2017 (FY2017), a 2% drop compared to the revenue achieved in previous financial year, FY2016. Revenue from Distribution & Services Solution (DSS) and Probe Card Solutions (PCS) in FY2017 were both lower by 1% and 2%, respectively.

Despite the margin decline in revenue, gross profit for the year was maintained at $42 million, mainly due to the 1% improvement in gross profit margin, from 35% in FY2016 to 36% in FY2017.

Revenue from Japan and Singapore grew by 35% and 21% respectively, in FY2017, while Malaysia, China, Taiwan and USA had lower revenue when compared to performance in FY2016.

In the fourth quarter of FY2017 (Q4FY2017), revenue achieved was $29.9 million, a marginal decrease of 1% compared to corresponding quarter of FY2016. Gross profit margin, however, improved by 2%, from 37% in Q4FY2016 to 39% in Q4FY2017. Gross profits in Q4FY2017 was at $11.8 million, an improvement of 4%.

Other income

Other income decreased by 13% from $2.9 million in FY2016 to $2.5 million in FY2017. During this financial year, the Group had net gain of $0.2 million from liquidation of subsidiaries, mainly due to the net translation gain, gain on disposal of associate of $1.2 million and compensation of $0.4 million for an insurance claim. In FY2016, the Group had one-time recovery of bad debts totalling $1.4 million and dividend income from financial assets of $0.7 million. Excluding these one-time gains, other income of the Group declined by 18%, mainly due to the decline in net gain on disposal of assets classified as held for sale. Details of other income is disclosed in note 10 to the financial information.

Operating expenses

Total operating expenses was at $33.2 million, decreased by 5% as compared to FY2016. During FY2017, the Company provided impairment loss of approximately $1.5 million on one of its quoted investments and had also incurred further professional expenses of $0.2 million to manage the mandatory cash offer exercise. In FY2016, the Company recorded provision for impairment loss of $0.4 million for the quoted investment and loss on disposal of jointly controlled entity of $0.1 million. Excluding these expenses, operating expenses decreased by 8% from $34.3 million to $31.5 million.

Net finance expenses

The receipt of higher finance income and incurrence of lower finance expenses led to a net finance income of $38,000 in FY2017 instead of net finance expenses of $64,000 in FY2016.

Share of results of associates and joint ventures

The Group recorded profits of $207,000 from share of results from its associates in FY2017.

Income taxes

In FY2017, the Group recorded tax expenses of $3.1 million, comprised mainly the tax expenses in the current year and an adjustment for the net movement in deferred taxes. Included in current tax expenses was the net tax expenses of $0.6 million related to the disposal of associate. Effective tax rate for FY2017 was higher than that in FY2016 as the impairment loss relating to a financial asset of $1.5 million, provided during the current financial period, was not tax deductible. In FY2016, the impairment loss recorded was only $0.4 million.

Net profit attributable to Owners of the Company

The Group had net profit after taxes and non-controlling interests of $8.5 million for the financial year as compared to FY2016's profit of $9.6 million.

In FY2016, the Group recorded one-time income from recovery of bad debts of $1.2 million (net of tax), dividend income from financial assets of $0.7, loss on disposal of jointly controlled entity of $0.1 million and impairment loss of $0.4 million on the carrying amount of one of its quoted investment. In FY2017, the Group recorded provision for impairment loss of $1.5 million on the financial asset and incurred additional professional fee expenses of $0.2 million to manage the mandatory cash offer exercise. The impact of these one-time expenses was partially offset by gain on liquidation of subsidiaries amounted to $0.2 million, gain on disposal of associate of $0.6 million (net of related tax) and compensation income of $0.4 million from an insurance claim.

Excluding the one-time income and expenses, the Group had profits of $9.0 million from its operating activities in FY2017, an increase of 10% over FY2016's operating profits of $8.2 million. The improvement came mainly from the lower operating expenses during the year.

Financial Conditions

Non-current assets

The non-current assets decreased by 11% from $70.1 million as at 30 June 2016 to $62.1 million as at 30 June 2017. The decrease was mainly attributed to the decline in financial assets as a result of the disposal of investment in an associate.

Current assets

Total current asset as at 30 June 2017 was $96.6 million, an increase of 12% from $86.3 million as at 30 June 2016. The increase came mainly from the higher cash and cash equivalent as at 30 June 2017 as compared to the position a year ago. Cash and cash equivalents increased by 34%, mainly due to the collection of receivables during the year and the receipt of proceeds from disposal of associate, partially offset by the payment dividends and partial repayment of interest-bearing borrowings.

The impact from the increase in cash and cash equivalents was partially offset by a 6% drop in trade and other receivables, as the Group collected its receivables as and when the amounts outstanding fall due, and the 14% decline in inventory.

Current and non-current liabilities

Total liabilities as at 30 June 2017 stood at $26.9 million, a decrease of 5% from $28.3 million as at 30 June 2016. The decrease was mainly due to the repayment of interest-bearing borrowings during the year, partially offset by the increase in current tax payable.

Non-controlling interests

The non-controlling interests as at 30 June 2017 was at $413,000.

Liquidity and Capital Reserves

The net cash inflow of the Group for financial year ended 30 June 2017 was $13.8 million. This can be accounted by:

(a) cash inflow of $17.6 million for operating activities;
(b) cash inflow of $6.1 million for investing activities; and
(c) cash outflow of $9.9 million for financing activities.

The positive results in the financial year coupled with strong collection of receivables led to the cash inflow from operating activities of $17.6 million in FY2017.

Proceeds from disposal of associate partially offset by purchase of plant and equipment as well as intangible assets were the main reasons for the net cash inflow for investing activities.

The payment of FY2016 final dividend approved during the October 2016 annual general meeting, the FY2017 interim dividend paid in March 2017 and the repayment of interest-bearing borrowings were the main causes for the cash outflow of $9.9 million for financing activities.

As at 30 June 2017, the Group's cash and cash equivalents position was $53.8 million.

(B) Where a forecast, a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

Not applicable.

(C) A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

Worldwide sales of new semiconductor manufacturing equipment was projected to increase by 19.8% to US$49.4 billion in 2017 and 7.7% to US$53.2 billion in 2018 *(Source: SEMI Mid-Year Forecast, 11 July 2017)*. Meanwhile, the global semiconductor market is also forecast to grow at double-digit rates by Gartner and IC Insights in 2017 arising from a shortage of memory chips which led to memory vendors increasing their ASPs for DRAM and NAND Flash. Gartner *(Source: Gartner, 11 July 2017)* forecast the worldwide semiconductor revenue to increase by 16.8% to US$401.4 billion in 2017, while IC Insights *(Source: IC Insights, 17 July 2017)* expected the global semiconductor market to surge by 15% to US$419.1 billion for 2017 in their July updates.

The Company also refers to its announcement today in relation to the proposed disposal (the "Proposed Disposal") by the Company of 100% of the entire issued and paid-up capital of its wholly-owned subsidiary, SV Probe Pte. Ltd.. As mentioned in the announcement relating to the Proposed Disposal, the Proposed Disposal allows the Company to realise value in the probe card business.

The Group remains cautiously optimistic of our business and financial prospects across key markets and we will continue to be vigilant of our operating environment. In the event that completion of the Proposed Disposal takes place, additional resources will be available for the Group to explore other opportunities and expand its existing businesses that enhance shareholder value.