Ellipsiz Ltd and its Subsidiaries
Registration Number: 199408329R

Second Quarter Financial Information and

Dividend Announcement for

the period ended

31 December 2015

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 statements of Ellipsiz Ltd and its subsidiaries (the Group), including the notes thereto.

Results of Operations

Revenue and gross profits

The Group had revenue of $57.6 million for the six months ended 31 December 2015 (1HFY2016), a decline of 3% from corresponding period of last financial year. The lower revenue in 1QFY2016 led to the decrease. 2QFY2016 revenue was an increase of 13% from $28.5 million in 2QFY2015 to $32.3million.

1HFY2016 revenue from Probe Card Solutions (PCS) was an improvement of 5% while Distribution and Services solutions had a decrease of 14% in revenue when compared with the first half year of last financial year. Equipment and tools sales saw a greater reduction due to more controlled capital spending by customers.

Gross profits decreased by 8% from $20.9 million to $19.3 million. The 3% drop in revenue and the drop in gross profit margin by 1%, from 35% to 34%, led to the lower gross profits.

Our PCS activities in Taiwan and USA had stronger 1HFY2016 revenue while Singapore and Malaysia had lower revenue due to the slowdowns in DSS activities.

Other income

Other income increased from $0.5 million in 1HFY2015 to $2.2 million in 1HFY2016. During the financial period, the Group recovered certain debts totalling $1.4 million, which were previously written off as the debtor was in bankruptcy proceedings and there was high level of uncertainty in the recovery of the debts. The bankruptcy proceedings was completed in October 2015 and the Group recovered part of the previously written off debts as final payment to creditors.

Other than the above one-time income from recovery of bad debts, the Group recorded gain on disposal of asset classified as held for sale and had higher exchange gain in 1HFY2016. Details of the other income are disclosed in note 7 to the financial information.

Operating expenses

Total operating expenses increased by 1% from $17.0 million to $17.2 million. Included in other expenses in 1HFY2015 was loss of $343,000 on disposal of investment of an associate while in 1HFY2016, there was an impairment loss of $401,000 on investment in other financial asset. Excluding these one-time expenses in both financial periods, operating expenses was a marginal increase from $16.7 million to $16.8 million.

Distribution cost increased due to recording of higher commission in Q2FY2016 while the increase in administrative cost was mainly a result of the incurrence of relocation costs by our Japan operations for moving of offices.

Net finance (expenses)/income

The incurrence of lower finance expenses, partially offset by lower finance income, led to the decrease of net finance expenses from $95,000 to $58,000 in 1HFY2016.

Share of results of associates and joint ventures

The Group recorded profits of $212,000 and $69,000 from share of results from its associates and joint ventures, respectively, for 1HFY2016.

Income taxes

In 1HFY2016, the Group recorded tax expense of $0.9 million, mainly for the tax expense in the current quarter and an adjustment for the net movement in deferred taxes. Included in current quarter tax expenses was one-time tax expenses of $0.2 million incurred in relation to the recovery of bad debts that were explained earlier.

Net profit attributable to Owners of the Company

The Group had net profits after taxes and non-controlling interests of $3.6 million for the financial period as compared to 1HFY2015's profits of $3.5 million. In 1HFY2016, the Group recorded one-time income from recovery of bad debts of $1.2 million (net of tax) and impairment loss of $0.4 million on investment of other financial assets. In 1HFY2015, the Group had a one-time loss on disposal of investment in an associate of $0.3 million. Excluding the one-time income and expenses, the Group had profits of $2.8 million from its operating activities in 1HFY2016, a decrease of 28% over 1HFY2015's operating profits of $3.8 million. The drop in operating results was mainly due to the lower revenue in 1QFY2016.

Net profits after taxes and non-controlling interests (excluding impairment loss on investment in financial asset) in 2QFY2016 was $1.7 million, approximately the operating results in the corresponding quarter of last financial year.

Financial Conditions

Non-current assets

The non-current assets decreased by 1% from $70.9 million as at 30 June 2015 to $70.3 million as at 31 December 2015. The decrease in carrying amount of financial assets, as a result of the adverse movement in the market price of a quoted investment, was the main cause for the 1% movement in non-current assets.

Current assets

Total current assets as at 31 December 2015 was $84.0 million, an increase of 1% from $83.0 million as at 30 June 2015. The 6% increase in receivables, partially offset by 14% decrease in inventories and completion of the disposals of asset classified as held for sale during the financial period, led to the 1% net increase in current assets.

Current liabilities and non-current liabilities

Total liabilities as at 31 December 2015 stood at $29.8 million, a decrease of 7% from $32.1 million as at 30 June 2015. The decrease was mainly due to the repayment of interest-bearing borrowings, partially offset by the increase in deferred tax liabilities.

Non-controlling interests

The decrease in the non-controlling interests was mainly due to the translation loss during the 1HFY2016.

Liquidity and Capital Reserves

The net cash inflow of the Group for financial period ended 31 December 2015 was $1.1 million. This can be accounted by:

(a) cash inflow of $5.6 million for operating activities;
(b) cash inflow of $0.6 million for investing activities; and
(c) cash outflow of $5.1 million for financing activities.

The positive results in the financial period, partially offset by net negative cash movement in working capital, led to the cash inflow from operating activities of $5.6 million in 1HFY2016.

Proceed from disposal of asset classified as held for sale partially offset by purchase of plant and equipment during the financial period led to the net cash inflow of $0.6 million for investing activities.

Repayment of interest-bearing borrowings and payment of dividend were the main causes for the cash outflow of $5.1 million for financing activities.

As at 31 December 2015, the Group's cash and cash equivalents position (including fixed deposits held as securities) was $42.0 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.

The business prospects of the key markets that the Group operates in remain mixed for the rest of FY2016. Equipment spending at our customers and consumer spending remain largely dependent on the economic prospects of major economies such as the U.S., China and emerging markets that impact demand for semiconductors and electronics devices including smartphones, PCs and tablets that have been experiencing slowdown in growth. Macroeconomics coupled with the recent wave of mergers and acquisitions in the semiconductor industry had potentially altered the operating landscape, and hence, we believe the continuing shaping of our core strengths remains relevant towards sustaining growth for the Group forward.