Ellipsiz Ltd and its Subsidiaries
Registration Number: 199408329R

Second Quarter Financial Information and Dividend Announcement

for the period ended

31 December 2016

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 $57.3 million for the six months ended 31 December 2016 (1HFY2017), relatively flat compared to the revenue achieved in the corresponding period of last financial year. Revenue from Distribution & Services Solution (DSS) was a decline of 7% while Probe Card Solutions (PCS) was an increase of 3%. PCS had good revenue growth in Japan while its activities in Taiwan experienced slowdown after a few quarters of good growth. In 1HFY2016, DSS recorded a sizeable order in the second quarter but no similar order was received during the current financial period, thus leading to the drop of 7% in DSS revenue.

Gross profits increased by 3% from $19.3 million to $19.9 million, mainly due to the improved average gross profit margin by 1% to 35% in 1HFY2017.

In the second quarter of FY2017 (Q2FY2017), revenue achieved was $29.7 million, a decrease of 8% compared to corresponding quarter of FY2016. The non-recurrence of the sizeable order in DSS was the main cause for the variance. Despite the lower revenue in Q2FY2017, gross profit margin for the quarter improved from 33% in Q2FY2016 to 35% in Q2FY2017.

Other income

Other income decreased from $2.2 million in 1HFY2016 to $0.9 million in 1HFY2017. During this financial period, the Group had net gain of $0.2 million from liquidation of subsidiaries, mainly due to the net translation gain. In 1HFY2016, the Group had one-time recovery of bad debts totalling $1.4 million. Excluding the one-time gains, other income of the Group declined by 9%, mainly due to the decline in net gain on disposal of property, plant and machinery and assets classified as held for sale. Details of other income is disclosed in note 8 to the financial information.

Operating expenses

Total operating expenses was at $17.3 million, relatively flat as compared to 1HFY2017. During 1HFY2017, 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 1HFY2016, the Company recorded provision for impairment loss of $0.4 million for the quoted investment. Excluding these expenses, operating expenses decreased by 8% from $16.8 million to $15.5 million.

Net finance expenses

The receipt of higher finance income and incurrence of lower finance expenses led to a net finance income of $10,000 in 1HFY2017 instead of net finance expenses of $58,000 in 1HFY2016.

Share of results of associates and joint ventures

The Group recorded profits of $146,000 from share of results from its associates in 1HFY2017.

Income taxes

In 1HFY2017, the Group recorded tax expense of $1.4 million, comprised mainly the tax expense in the current period and an adjustment for the net movement in deferred taxes. Effective tax rate for 1HFY2017 was higher than that in 1HFY2016 as the impairment loss relating to a financial asset of $1.5 million, provided during the current financial period, was not tax deductible. In 1HFY2016, 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 $2.3 million for the financial period as compared to 1HFY2016's profit of $3.6 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 the carrying amount of one of its quoted investment. While in 1HFY2017, 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. These one-time expenses were partially offsetted by gain on liquidation of subsidiaries amounted to $0.2 million. Excluding the one-time income and expenses, the Group had profits of $3.9 million from its operating activities in 1HFY2017, an increase of 41% over 1HFY2016's operating profits of $2.7 million. The improvement came mainly from the improved gross profits and lower operating expenses.

Financial Conditions

Non-current assets

The non-current assets decreased by 13% from $70.1 million as at 30 June 2016 to $61.2 million as at 31 December 2016. The decrease was mainly attributed to the decline in financial assets as a result of the provision for impairment loss on the carrying amount of a quoted investment. In addition, on 15 November 2016, the Group entered into a share purchase agreement with unrelated third party to dispose its investment in an associate. Accordingly, the investment in the associate was reclassified to current assets as assets classified as held for sale.

Current assets

Total current asset as at 31 December 2016 was $94.7 million, an increase of 10% from $86.3 million as at 30 June 2016. Trade and other receivables decreased by 9% as the Group collected its receivables as and when the amounts outstanding fall due while cash and cash equivalents increased by 12% due to the strong collections during the financial period. The reclassification of one of its investments in associates from non-current assets to current assets also contributed to the increase in current assets.

Current and non-current liabilities

Total liabilities as at 31 December 2016 stood at $25.5 million, a decrease of 10% from $28.3 million as at 30 June 2016. The decrease was mainly due to the repayment of interest-bearing borrowings during the period.

Non-controlling interests

The non-controlling interests as at 31 December 2016 was at $412,000.

Liquidity and Capital Reserves

The net cash inflow of the Group for financial period ended 31 December 2016 was $3.8 million. This can be accounted by:

(a) cash inflow of $9.1 million for operating activities;
(b) cash outflow of $0.5 million for investing activities; and
(c) cash outflow of $4.8 million for financing activities.

The positive results in the quarter coupled with strong collection of receivables led to the cash inflow from operating activities of $9.1 million in 1HFY2017.

Purchase of plant and equipment partially offset by the proceeds from disposal of certain equipment resulted in the net cash outflow for investing activities.

Payment of FY2016 final dividend approved during the October 2016 annual general meeting and the repayment of interest-bearing borrowings were the main cause for the cash outflow of $4.8 million for financing activities.

As at 31 December 2016, the Group's cash and cash equivalents position was $45.0 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 Group is cautious over its business and financial prospects across key markets that it operates in for the second half of FY2017.

According to Semiconductor Industry Association's press release dated 3 January 2017, the global semiconductors sales grew by the highest year-to-year rate of 7.4% in November 2016 and growth is expected to continue. The global semiconductor market for calendar year 2016 is expected to roughly match that of 2015, and is well-positioned for a solid start to 2017. Meanwhile, the Semiconductor Equipment and Materials International Year-end Forecast dated 13 December 2016 had forecast the worldwide sales of new semiconductor manufacturing equipment to grow by 8.7% to US$39.7 billion in 2016 and by another 9.3% to US$43.4 billion in 2017, with Taiwan, South Korea and China expected to remain the top three markets.

While the Group welcomes the projected positive outlook for the overall industry, we are vigilant of the volatile macroeconomic and geo-political factors that will continue to generate uncertainties to our businesses. With the higher than expected inventory in the supply chain observed at the end of 2016 coupled with the seasonal nature of the industry, we are cautious over our prospects over the next two quarters.