Ellipsiz Ltd and its Subsidiaries
Registration Number: 199408329R

First Quarter Financial Information and Dividend Announcement for

three months ended

30 September 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 $27.7 million for the three months ended 30 September 2016 (1QFY2017), an improvement of 9% compared with the corresponding quarter of last financial year. Revenue from Distribution & Services Solution (DSS) and Probe Card Solutions (PCS) increased by 11% and 8% respectively. The higher revenue from DSS came from better equipment and tools sales during the quarter while PCS activities saw improvement in all countries except for Taiwan which experienced slowdown, after a few quarters of good growth.

Gross profits increased by 7% from $8.8 million to $9.4 million. As part of the improved revenue came from equipment and tools activities that have gross margin that was lower than Group's average gross profit margin, the average gross profit margin of the Group declined by approximately 1% to 34% in 1QFY2017.

All countries that the Group operates in reported improved revenue except for Taiwan and other region.

Other income

Other income decreased from $1.8 million in 1QFY2016 to $0.5 million in 1QFY2017. 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 1QFY2016, the Group had one-time recovery of certain doubtful debts totalling $1.4 million. Excluding the one-time gains, other income of the Group declined by 28%, mainly due to the decline in exchange gain. Details of other income is disclosed in note 8 to the financial information.

Operating expenses

Total operating expenses increased by 11% from $8.0 million to $8.9 million. During 1QFY2017, the Company provided impairment loss of approximately $1.0 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. Excluding these one-time expenses in 1QFY2017, operating expenses declined by 4% from $8.0 million to $7.6 million.

Net finance expenses

The incurrence of lower finance expenses and higher finance income led to the decrease of net finance expenses from $33,000 to $1,000 in 1QFY2017.

Share of results of associates and joint ventures

The Group recorded profits of $105,000 from share of results from its associates in 1QFY2017.

Income taxes

In 1QFY2017, the Group recorded tax expense of $0.5 million, comprised mainly the tax expense in the current quarter and an adjustment for the net movement in deferred taxes. Effectively tax rate for 1QFY2017 was higher than that in 1QFY2016 as the impairment loss of $1.0 million provided during the financial period was not tax deductible and in 1QFY2016 there were utilisation of previously unrecognised deferred tax assets to offset the income relating to recovery of bad debts.

Net profit attributable to Owners of the Company

The Group had net profits after taxes and non-controlling interests of $0.7 million for the financial period as compared to 1QFY2016's profits of $2.3 million. In 1QFY2016, the Group recorded one-time income from recovery of bad debts of $1.2 million (net of tax) while in 1QFY2017, the Group had a one-time impairment provision of $1.0 million on the financial asset and additional professional fee expenses of $0.2 million to manage the mandatory cash offer exercise. Excluding the one-time income and expenses, the Group had profits of $1.7 million from its operating activities in 1QFY2017, an increase of 63% over 1QFY2016's operating profits of $1.1 million. The improvement came mainly from the increases in revenue and gross profits.

Financial Conditions

Non-current assets

The non-current assets decreased by 2% from $70.1 million as at 30 June 2016 to $68.8 million as at 30 September 2016. The decrease of $1.2 million was mainly attributed to the decline in financial assets resulting from the impairment provision on the carrying amount of a quoted investment.

Current assets

Total current asset as at 30 September 2016 was $87.1 million, an increase of 1% 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 11% due to the strong collections during the quarter.

Current and non-current liabilities

Total liabilities as at 30 September 2016 stood at $26.0 million, a decrease of 8% from $28.3 million as at 30 June 2016. The decrease was mainly due to the repayment of interest-bearing borrowings during the quarter.

Non-controlling interests

The non-controlling interests as at 30 September 2016 was at $392,000.

Liquidity and Capital Reserves

The net cash inflow of the Group for financial period ended 30 September 2016 was $4.3 million. This can be accounted by:

(a) cash inflow of $6.2 million for operating activities;
(b) cash outflow of $0.2 million for investing activities; and
(c) cash outflow of $1.7 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 $6.2 million in 1QFY2017.

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

Repayment of interest-bearing borrowings was the main cause for the cash outflow of $1.7 million for financing activities.

As at 30 September 2016, the Group's cash and cash equivalents position (including fixed deposits held as securities) was $44.6 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 rest of 2016 though outlook seemed to have improved. According to Gartner (*Gartner press releases dated 12 October 2016 and 13 October 2016*), the worldwide semiconductor capital spending and semiconductor revenue are expected to drop 0.3% and 0.9% respectively after a slow start in early 2016. The outlook for semiconductor equipment is expected to improve significantly as logic manufacturers focus their spending on ramping fabs for the introduction of high volume 10nm production in 2017, while memory producers focus on the move to 3D NAND Flash. Meanwhile, inventory replenishment, increasing average selling prices as well as improving conditions in the commodity memory market have contributed to the improved outlook of the global semiconductor revenue market amid stronger supply and demand dynamics. The key electronics equipment markets have bottomed and stabilised, which have contributed to the stronger outlook in some markets, notably smartphones and video game consoles where production estimates had been revised up for 2016. Nevertheless, the semiconductor and its related industries remained largely affected by volatile macroeconomic factors that continue to create uncertainties to our business activities. The Group would continue to manage prudently our businesses towards sustainable business model.