Ellipsiz Ltd and its Subsidiaries
Registration Number: 199408329R

Third Quarter Financial Information and Dividend Announcement

for the period ended

31 March 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 $86.8 million for the nine months ended 31 March 2017 (9MFY2017), a drop of 2% when compared to the revenue achieved in the corresponding period of last financial year. Revenue from Distribution & Services Solution (DSS) was a decline of 6% while Probe Card Solutions (PCS) was relatively flat. DSS recorded a sizeable order in the second quarter of last financial year but no similar order was received during the current financial period, thus leading to the drop of 6% in DSS revenue.

Revenue from Japan and Singapore grew by 51% and 25% in 9MFY2017, respectively, while Malaysia, China, Taiwan and USA had lower revenue when compared to performance in 9MFY2016.

Gross profits margin for 9MFY2017 was relatively flat, maintaining at 35% and gross profits decreased by 1% resulting from the 2% decline in revenue.

In the third quarter of FY2017 (Q3FY2017), revenue achieved was $29.5 million, a decrease of 5% compared to corresponding quarter of FY2016. Resulting from the drop in revenue and the decline in gross profit margin by 1% to 35%, gross profits for the quarter decreased by 8%.

Other income

Other income decreased from $2.8 million in 9MFY2016 to $2.3 million in 9MFY2017. During this financial period, 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 $0.3 million for an insurance claim. In 9MFY2016, the Group had one-time recovery of bad debts totalling $1.4 million and dividend income from financial assets of $0.6 million. Excluding these one-time gains, other income of the Group declined by 24%, 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 $25.6 million, decreased by 3% as compared to 9MFY2016. During 9MFY2017, 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 9MFY2016, the Company recorded provision for impairment loss of $0.4 million for the quoted investment. Excluding these expenses, operating expenses decreased by 8% from $25.9 million to $23.9 million.

Net finance expenses

The receipt of higher finance income and incurrence of lower finance expenses led to a net finance income of $19,000 in 9MFY2017 instead of net finance expenses of $71,000 in 9MFY2016.

Share of results of associates and joint ventures

The Group recorded profits of $190,000 from share of results from its associates in 9MFY2017.

Income taxes

In 9MFY2017, the Group recorded tax expenses of $2.6 million, comprised mainly the tax expenses in the current period and an adjustment for the net movement in deferred taxes. Included in current tax expenses was the net tax expenses of $0.5 million related to the disposal of associate. Effective tax rate for 9MFY2017 was higher than that in 9MFY2016 as the impairment loss relating to a financial asset of $1.5 million, provided during the current financial period, was not tax deductible. In 9MFY2016, 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 $4.6 million for the financial period as compared to 9MFY2016's profit of $5.8 million. In 9MFY2016, the Group recorded one-time income from recovery of bad debts of $1.2 million (net of tax), dividend income from financial assets of $0.6 and impairment loss of $0.4 million on the carrying amount of one of its quoted investment. While in 9MFY2017, 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 (net of related tax) of $0.7 million and compensation income of $0.3 million from an insurance claim. Excluding the one-time income and expenses, the Group had profits of $5.1 million from its operating activities in 9MFY2017, an increase of 19% over 9MFY2016's operating profits of $4.4 million. The improvement came mainly from the lower operating expenses during the financial period.

Financial Conditions

Non-current assets

The non-current assets decreased by 14% from $70.1 million as at 30 June 2016 to $60.4 million as at 31 March 2017. 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 and the disposal of investment in an associate.

Current assets

Total current asset as at 31 March 2017 was $91.9 million, an increase of 6% from $86.3 million as at 30 June 2016. Trade and other receivables decreased by 4% as the Group collected its receivables as and when the amounts outstanding fall due while cash and cash equivalents increased by 21% due to the collection of receivables during the financial period and the receipt of proceeds from disposal of associate, partially offset by the payment dividends and partial repayment of interest-bearing borrowings.

Current and non-current liabilities

Total liabilities as at 31 March 2017 stood at $24.5 million, a decrease of 13% 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 March 2017 was at $413,000.

Liquidity and Capital Reserves

The net cash inflow of the Group for financial period ended 31 March 2017 was $8.2 million. This can be accounted by:

(a) cash inflow of $10.3 million for operating activities;
(b) cash inflow of $7.7 million for investing activities; and
(c) cash outflow of $9.8 million for financing activities.

The positive results in the financial period coupled with strong collection of receivables led to the cash inflow from operating activities of $10.3 million in 9MFY2017.

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 $9.8 million for financing activities.

As at 31 March 2017, the Group's cash and cash equivalents position was $48.4 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.

Research firms had recently revised their growth estimates for the global IC ("Integrated Circuit") market for 2017. IC Insights *(Source: IC Insights Research Bulletin, 29 March 2017)* more than doubled its growth forecast from 5% to 11%, while Gartner *(Source: Digitimes, 17 April 2017)* lifted its growth estimate for the worldwide semiconductor revenue from 7.2% to 12.3%. As for the outlook for emerging opportunities for semiconductors in the IoT ("Internet of Things") and wearable electronics markets, Gartner was of view that these markets are still in the early stages of development and are too small to have significant impact on the overall semiconductor revenue growth in 2017.

Though the Group welcomes the favourable revisions to the growth estimates of the global semiconductor market, we remain cautious over our business and financial prospects across the key markets we operate in for the rest of 2017. We expect the continuing inventory adjustment in the supply chain and cautious capital equipment spending by our customers to affect our level of business activities. Hence, we will continue to be vigilant of our operating environment and are committed to manage our businesses and resources prudently, while exploring sustainable and synergistic opportunities for growth.