

**Ellipsiz Ltd and its Subsidiaries**  
**Registration Number: 199408329R**

Full Year Financial Statement And Dividend  
Announcement for  
Year ended 30 June 2005

***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**

The Group's revenue increased by 70% from \$69.5 million in 2004 to \$118.3 million for 2005.

The increase was attributed by:

- (a) a 11% performance improvement by our Wafer Fab Solutions business segment flowing mainly from the expansion of our reclaim business;
- (b) increased revenue from our Test and Advanced Packaging Solutions business. The Group ventured into test services in early part of the financial year and with the commencement of operations in September 2004, the business contributed revenue of approximately \$7.0 million in 2005 to the Group; and
- (c) the contribution of \$37.3 million revenue by our new subsidiary in the Fabless Solutions business segment. The new subsidiary, SV Probe Pte. Ltd. (formerly known as SV Probe Asia Pte. Ltd.) and its subsidiaries, was acquired by the Group in August 2004.

Our revenue generated out from Singapore and other Asean countries increased by 18% and 28% respectively. The improved revenue in Singapore was due to the expansion of our reclaim operations. The increase in revenue in other Asean countries was due to the better performance in Malaysia from our distribution operations and the inclusion of probe activities. Revenue in Taiwan and China increased by 71% due to the expansion of reclaim business and the inclusion of probe card activities in the United States of America contributed approximately \$22.9 million increase in revenue.

#### **Gross Profit and Gross Profit Margin**

The Group attained \$38.7 million gross profit in 2005, an improvement of 182% over 2004 performance. The higher revenue and better gross profit margin led to this positive variance.

The higher gross profit margin of 32.7% in 2005 (2004: 19.7%) was due to the improved sales mix and the higher gross profit margins contributed by the newly acquired operations.

#### **Other Income**

Other income decreased by 31% or \$2.8 million.

In 2005, other income included among others, gain on disposal of plant and equipment of \$2.8 million and gain on disposal of subsidiaries of \$1.9 million. The exceptional items included in 2004 were the reversal of provision for impairment losses on property, plant and equipment of \$4.7 million, reversal of accrued obligation that no longer exist of \$2.3 million and reversal of provision for doubtful debts from an associate of \$0.5 million. Excluding the exceptional items there is no significant variance in other income.

***Distribution, Administrative and Other Operating Expenses***

The increase in distribution, administrative and other expenses by \$13.8 million or 99% was mainly due to the inclusion of the operating expenses of the newly acquired subsidiaries.

***Finance Costs***

Resulting from the increase in Group's borrowings, finance cost increased from \$146,000 in 2004 to \$591,000 in 2005.

***Share of Results of Associates and Jointly-Controlled Entity***

The Group recorded \$108,000 profit from its associates and \$134,000 loss on its share of results from its jointly-controlled entity in 2005.

***Income Taxes***

The effective tax rate of the Group was approximately 17%. The effective tax is lower than Singapore corporate tax rate of 20% mainly due to the utilisation of previously unrecognised deferred tax assets during the year to offset part of current tax liabilities. Excluding the previously unrecognised deferred tax assets utilised, the effective tax rate is approximately 22%. The higher tax rates in certain countries that the Group operates account for this variance.

***Net Profit after Taxes***

The improved revenue and gross profit margin, partially offset by the non-recurrence of the reversal of provision for impairment loss that was recorded in the previous year, led to the 35% increase in net profit after taxes.

**Financial Conditions**

***Non-current Assets***

The non-current assets of the Group increased by 187%, from \$19.1 million as at 30 June 2004 to \$54.8 million as at 30 June 2005. The increase of \$35.7 million was mainly attributed by

- (a) higher property, plant and equipment;
- (b) increase in intangible assets; and
- (c) acquisition of other investments during the financial period.

Property, plant and equipment increased by 30% or \$4.5 million. During the year, the Group acquired \$40.6 million property, plant and equipment and disposed property, plant and equipment of carrying amount totalling \$25.8 million. Out of the additions of \$40.6 million, \$7.8 million carrying amounts arose from acquisitions of subsidiaries and out of the disposals of \$25.8 million, \$22.4 million arose from disposals of subsidiaries.

The \$11.8 million of intangible assets as at 30 June 2005 comprised mainly goodwill of \$9.9 million and technology license of \$1.9 million. Both the intangible assets were acquired through the acquisition of interest in subsidiaries.

During the year, the Group received quoted equity shares of \$8.2 million for settlement of receivables arising from disposal of certain equipment in the Group and unquoted equity shares of \$13.0 million as part of the consideration in respect of disposal of one of its subsidiaries. Both investments are recorded as other assets.

The 65% decrease in investments in associates was mainly due to the transfer of investments in associates to investments in subsidiaries in view of the change of status in the Company's investments in SV Probe.

### **Current Assets**

There was no significant movement at total current assets level. At the detailed breakdown level,

- (a) inventories increased by 178%;
- (b) project-in-progress decreased by 43%;
- (c) receivables increased by 47%;
- (d) amount due from related parties decreased by 62%; and
- (e) cash and cash equivalents decreased by 43%.

The higher inventories and receivables as at 30 June 2005 were mainly due to the inclusion of balances from newly acquired subsidiaries.

The 43% decrease in cash and cash equivalents was mainly attributed by the cash outflow resulting from the purchase of plant and equipment, repayment of non-trade balances to minority shareholder of a subsidiary and payment of dividends during the financial year, partially offset by capital injection from the minority shareholders of subsidiaries.

### **Current Liabilities and Non-Current Liabilities**

The inclusion of balances from newly acquired subsidiaries, led to the increase in total liabilities.

### **Liquidity and Capital Reserves**

The net cash outflow of the Group during the year was \$ 22.6 million. This can be accounted by:

- (a) cash inflow of \$6.0 million from operating activities;
- (b) cash outflow of \$19.5 million from investing activities; and
- (c) cash outflow of \$9.1 million from financing activities.

The positive cash generated from operations during the year, partially offset by the increase in trade receivables, inventories and the repayment of trade balances with minority shareholders led to the cash inflow of \$6.0million from operating activities.

The purchase of property, plant and equipment of \$21.8 million and acquisition of additional equity interest in subsidiaries of \$2.0 million partially offset by \$1.8 million proceeds from disposal of property, plant and equipment, \$2.6 million net cash inflow on acquisition of subsidiaries and, contributed to the net cash outflow of \$19.5 million from investing activities.

During the year, the Group paid a final dividend of \$1.3 million that was approved at its last Annual General Meeting and an interim dividend of \$1.0 million. Together with the repayment of amount due to minority shareholder of a subsidiary of \$10.1 million and partially offset by the receipt of capital injection of \$3.5 million from the minority shareholders of its subsidiaries, the Group had net cash outflow of \$9.1 million from financing activities.

The Group's cash and cash equivalent position as at 30 June 2005 (including fixed deposit held as security) was \$29.8 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.**

We operate largely in the semiconductor space and thus will be affected by trends in this sector. Global chip sales have been treading water for the first six months of 2005. On a year-on-year basis, global chip sales are up 9% for the first six months of the year to US\$108.9b but the usual uptrend starting from around March has been absent due to continued digestion of over-built inventory and lackluster end-market demand. The Semiconductor Industry Association (SIA) has forecast global chip sales of 6% for 2005 which requires a strong upsurge reminiscent of that in the second half of 2004. This may not come about due to macroeconomic headwinds like record oil prices, rising interest rates and peaking real-estate prices.

The SIA has further forecast global chip sales growth of 9% in 2006, 11% growth in 2007 and 13% growth in 2008. These are all toward the high end of average growth rates observed in recent years, as the chip industry has matured, and thus some downside risk should probably be accorded.

The capital equipment market has continued to be weak in 2005 as chipmakers are still trying to digest the huge amount of capacity added in 2004 (global chip equipment sales grew 67% in 2004). North American chip equipment makers have seen a 4% drop in revenue to US\$7.5b for the first six months of 2005.

The 'consensus' forecast issued in July by Semiconductor Equipment and Materials International (SEMI) calls for a 12% decline in global chip equipment sales in 2005 to 32.6%. The consensus forecast further projects 8%, 10% and 14% growth in 2006, 2007 and 2008 respectively. These forecasts are higher than the mid-to-high single-digit percentage average annual growth rate observed in the last 10 years, and thus will probably prove overly optimistic, especially considering the sector's extreme volatility.