Ellipsiz Ltd and its Subsidiaries
Registration Number: 199408329R

Financial Statements and Dividend Announcement for

full year ended

30 June 2014

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 closed the year with revenue of $144.5 million, growth of 16% compared to the previous financial year. Q4 consolidated revenue was an improvement of 22% from $30.7 million in 4QFY2013 (3 months ended 30 June 2013) to $37.3 million in 4QFY2014 (3 months ended 30 June 2014).

The growth in revenue was mainly contributed by our Probe Card solutions (PCS) which had 83% increase in revenue. The newly acquired business in PCS and 20% improvement in its original activities led to this overall growth. Since the completion of the acquisition transaction on 30 August 2013, the business segment has recorded ten-month revenue of $22.0 million from the newly acquired business. The significant growth in revenue from Japan and Taiwan was from the improved revenue in PCS.

Our Distribution and Services solutions (DSS) reported a drop of 9% in revenue. Lower revenue from facilities activities was the main cause for the decline in revenue for DSS and in Singapore.

Since the growth in revenue was from PCS that generally has higher gross profit margin than the average margin of the group, gross profit margin of the Group improved by 2% from 25% in FY2013 to 27% in FY2014.

Higher revenue coupled with improved consolidated gross profit margin led to the 26% increase in gross profits to $38.8 million in FY2014.

Other income

Other income increased significantly from $910,000 in FY2013 to $14.6 million in FY2014. The recording of negative goodwill of $13.2 million from its acquisition of businesses and dividend income of $0.4 million from its financial investment were the key reasons for the increase in other income. Details of other income is disclosed in note 10 to the financial statements.

Operating expenses

Total operating expenses increased by 41% from $28.1 million to $39.8 million. Included in other expenses were acquisition cost of $1.1 million, post-acquisition integration and restructuring costs of $4.6 million relating to the acquisition of businesses, loss on disposal of investments in subsidiaries of $0.1 million and certain severance cost of $0.3 million to streamline its operation structure. Excluding the one-time costs, operating expenses increased by 21%, mainly due to the additional expenses incurred by the newly acquired operations and the increase in research and development expenses.

Net finance income / (expenses)

Due to the lower finance income and the increase in finance expenses in FY2014, the Group had a net finance expenses of $116,000 instead of finance income of $145,000 a year ago.

Share of results of associates and joint ventures

The Group recorded profits of $665,000 from share of results from associates and had share of losses of $284,000 from its joint ventures for FY2014.

Income taxes

In FY2014, the Group recorded tax expense of $1.1 million, mainly for the tax expense in the current financial year.

Net profit attributable to Owners of the Company

The Group had net profits after taxes and non-controlling interests of $13.5 million for FY2014, an improvement over FY2013's profits of $4.8 million. In FY2014, the Group recorded one-time negative goodwill of $13.2 million as well as post-acquisition integration and restructuring costs of $4.6 million, acquisition cost of $1.1 million, loss on disposal of investments in subsidiaries of $0.1 million and certain severance cost of $0.3 million to streamline its operation structure. Excluding the one-time income and expenses, the Group had profit of $6.4 million from its operating activities, an increase of 29% over FY2013's profits.

Financial Conditions

Non-current assets

The non-current assets increased by 14% from $65.9 million to $75.2 million. Mainly attributing to the business acquisition during the year, property, plant and equipment and intangible assets increased by 93% and 11% respectively. A portion of trade and other receivables as at 30 June 2013 had been re-classified as current trade and other receivables as it becomes receivable within 12 months from 30 June 2014. This led to the 85% drop in non-current trade and other receivables. Due to the increase in market value of the financial assets during the quarter, the financial assets increased by 36% to $9.6 million. The decrease in the carrying amount of joint ventures was mainly due to the share of the losses from the joint ventures during the year.

Current assets

Total current asset as at 30 June 2014 was $79.0 million, an increase of 6% from $74.5 million as at 30 June 2013. Resulting primarily from the acquisition of businesses from TCL, inventory increased by 77% to $12.8 million. The disposal of project based subsidiaries in 4QFY2014 led to the 100% decrease in project-in-progress.

Current liabilities and non-current liabilities

Total liabilities as at 30 June 2014 stood at $37.0 million, a 9% increase from $33.9 million as at 30 June 2013. The higher interest-bearing borrowings and provisions led to the increase in total liabilities.

Non-controlling interests

The decrease in the non-controlling interests was primarily due to the disposal of subsidiaries during the financial year.

Liquidity and Capital Reserves

During the financial year, the Group had

(a) cash inflow of $3.7 million for operating activities;
(b) cash outflow of $6.4 million for investing activities; and
(c) cash inflow of $2.8 million for financing activitires.

The positive results in the year led to cash inflow of $9.9 million. However due to the added working capital requirement in establishing the new market, Japan and some existing business activities, the net cash from operating activities was an inflow of $3.7 million in FY2014.

Purchase of property, plant and equipment and intangible assets, payment of acquisition costs incurred and net cash outflow from disposal of subsidiaries, partially offset by the cash inflow from acquisition of businesses and dividend received from other financial asset, led to the net cash outflow of $6.4 million from investing activities.

Net increase in interest-bearing borrowings, partially offset by the payment of dividend during the year, led to the net cash inflow from financing activities.

As at 30 June 2014, the Group's cash and cash equivalents position (including fixed deposits held as securities) was $32.0 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 cautiously optimistic of our operating and performance prospects for the rest of calendar year 2014. Business activities witnessed an upturn in recent months amidst prospects of new device launches into the second half of 2014. We remained vigilant as to the sustainability of the improvement. As pricing pressure, intense competition, lack of product differentiation and availability of alternative solutions continued to weigh on businesses across the industries that the Group operates in, we are progressing with the building of our core competencies, optimizing valuable business leverages across our products and market portfolios and pursuing opportunities to sustain growth and performance into the future.