Ellipsiz Ltd and its Subsidiaries
Registration Number: 199408329R

First Quarter Financial Statements and Dividend Announcement for

three months ended

30 September 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 had revenue of $31.0 million for the three months ended 30 September 2014 (1QFY2015), a decline of 9% from corresponding period of last financial year. The 42% drop in revenue of the Distribution & Services (DSS) was the main reason for the lower revenue at Group level. Towards the end of last financial year, the Group divested two of its DSS activities, namely facilities and communication activities, and this accounted for the decrease in revenue of DSS.

A major part of the decline in revenue of DSS was replaced by the improved revenue from PCS. Flowing from the strong PCS revenue in last financial year, particularly with added revenue from acquired businesses since August 2013, PCS had a 52% growth in 1QFY2015.

The improved revenue from PCS had also led to higher revenue in Taiwan, China and Japan. However, the decline in revenue of DSS brought a 54% decrease in revenue generated out of Singapore.

Despite the decrease in revenue, gross profit in 1QFY2015 increased by 21% from $8.7 million to $10.6 million. The change in revenue mix brought a 9% improvement in gross profit margin from 25% in 1QFY2014 to 34% in 1QFY2015. Generally PCS had a higher gross profit margin than that generated by DSS. Therefore the replacement of revenue lost in DSS with improved PCS revenue had led to the better margin.

Other income

Other income decreased significantly from $11.9 million in 1QFY2014 to $0.3 million in 1QFY2015. In the last financial year, the Group recorded a one-time negative goodwill of $11.5 million from its acquisition of businesses and this was the main cause for the variance. Details of other income is disclosed in note 9 to the financial statements.

Operating expenses

Total operating expenses decreased by 37% from $13.9 million to $8.7 million. Included in other expenses in 1QFY2015 was loss of $343,000 on disposal of investment of an associate while in 1QFY2014, the Group recorded a one-time acquisition cost of $1.1 million and post-acquisition integration and restructuring costs of $5.2 million relating to the acquisition of businesses. Excluding the one-time cost, operating expenses increased by 10%, mainly due to the additional expenses incurred by the operations since 30 August 2013.

Net finance (expenses)/income

Due to the lower finance income and incurrence of higher finance expenses in 1QFY2015, the Group had net finance expenses of $64,000 instead of net finance income of $24,000 in 1QFY2014.

Share of results of associates and joint ventures

The Group recorded profits of $35,000 and $13,000 from share of results from its associates and joint ventures, respectively, for 1QFY2015.

Income taxes

In 1QFY2015, the Group recorded tax expense of $0.4 million, mainly for the tax expense in the current quarter and an adjustment for the net movement in deferred taxes.

Net profit attributable to Owners of the Company

The Group had net profits after taxes and non-controlling interests of $1.7 million for the financial period as compared to 1QFY2014's profits of $6.3 million. In 1QFY2014, the Group recorded a one-time negative goodwill of $11.5 million as well as post-acquisition integration and restructuring costs of $5.2 million and acquisition cost of $1.1 million while in 1QFY2015, the Group had a one-time loss on disposal of investment in an associate of $0.3 million. Excluding the one-time income and expenses, the Group had profits of $2.0 million from its operating activities in 1QFY2015, an increase of 88% over 1QFY2014's operating profits of $1.1 million.

Financial Conditions

Non-current assets

The non-current assets decreased by 5% from $75.2 million to $71.2 million. The disposal of an associate and the translation movement in the associate led to the 31% decline in investments in associates. The movement in the market price of a quoted investment was the main cause for the decrease in carrying amount of financial assets by 20%.

Current assets

Total current asset as at 30 September 2014 was $83.9 million, an increase of 6% from $79.0 million as at 30 June 2014. The 17% increase in cash and cash equivalent resulting from positive cash flows from operating activities and recovery of its investment in an associate through dividend collected and sales proceeds, which was partially offset by the net collection of amounts due from related parties, were the main reasons for the increase in current assets.

Current liabilities and non-current liabilities

Total liabilities as at 30 September 2014 stood at $37.5 million, an increase of 1% from $37.0 million as at 30 June 2014. The higher trade and other payables as well as tax provisions, partially offset by the lower provisions resulting from utilisation of the provisions during the quarter and the 47% decrease in deferred tax liabilities, led to the net increase in total liabilities.

Non-controlling interests

The increase in the non-controlling interests was due to the share of profits during the financial period.

Liquidity and Capital Reserves

The net cash inflow of the Group for financial period ended 30 September 2014 was $6.7 million. This can be accounted by:

(a) cash inflow of $4.5 million for operating activities;
(b) cash inflow of $2.0 million for investing activities; and
(c) cash inflow of $0.2 million for financing activities.

The positive results in the quarter coupled with the net positive cash movement in working capital, led to the cash inflow from operating activities of $4.5 million in 1QFY2015.

Recovery of its investment of an associate through the collection of dividend of $0.9 million and proceeds from disposal, partially offset by the capital expenditure during the quarter, led to the net cash inflow of $2.0 million from its investing activities. Net increase in its interest-bearing borrowings led to the cash inflow from financing activities.

As at 30 September 2014, the Group's cash and cash equivalents position (including fixed deposits held as securities) was $37.5 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 business environment in which the Group operates in continues to be volatile amidst areas of uncertainties. Although the global semiconductor market exhibited sustained strength for the year with Semiconductor Industry Association reporting monthly growth for seven consecutive months to September 2014, the growth rate for the nine months slowed to 9.96% compared with 10.23% for the January to August period. Meanwhile, Semiconductor Equipment and Materials Industry (SEMI) had reported book-to-bill ratio of below parity as order activity moderated for September 2014 following 11 months of the said ratio above 1. Equipment spending, according to SEMI, is expected to be robust and remain on pace for double-digit growth for 2014. The Group remained cautiously optimistic of our operating and performance prospects for the rest of 2014 and our priority remained with the building of our core competencies, optimising valuable business leverages across our products and market portfolios and pursuing opportunities to sustain growth and performance into the future.