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

Second Quarter Financial Statements and Dividend Announcement

Financial period ended

**31 December 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.*

**<u>Results of Operations</u>**

***Revenue and gross profits***

The Group had revenue of $28.5 million for the three months ended 31 December 2014 (2QFY2015) and year-to-date (1HFY2015) revenue of $59.5 million, declines of 29% and 20% respectively from corresponding periods of last financial year. The 47% 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 28% growth in 1HFY2015.

The improved revenue from PCS had also led to higher revenue in Taiwan, China and Japan. However, the decline in revenue of DSS brought 60% and 27% decreases in revenue generated out of Singapore and other Asean region, respectively.

The divestment of the two activities in DSS did not have material unfavourable negative impact on the profitability of the Group. Despite the decrease in revenue, gross profit in 2QFY2015 increased by 15% from $9.0 million to $10.4 million while gross profit for 1HFY2015 improved by 18% from $17.7 million to $20.9 million. The change in revenue mix brought a 13% improvement in gross profit margin for 2QFY2015 and a 11% improvement for 1HFY2015 when compared with corresponding periods of last financial year. Gross profit margin for 2QFY2015 was 36% and 1HFY2015 average margin was at 35%. 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 led to the better margin.

***Other income***

Other income decreased significantly from $12.1 million in 1HFY2014 to $0.5 million in 1HFY2015. In the last financial year, the Group recorded a one-time negative goodwill of $11.5 million from its acquisition of businesses and dividend income of $0.2 million from financial assets. These were the main causes for the variance. Details of other income is disclosed in note 8 to the financial statements.

***Operating expenses***

Total operating expenses decreased by 22% from $21.8 million to $17.0 million. Included in other expenses in 1HFY2015 was loss of $0.3 million on disposal of investment of an associate while in 1HFY2014, 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 costs, operating expenses increased by 8%, mainly due to the additional expenses incurred by the operations since 30 August 2013.

***Net finance (expenses)/income***

Due to the lower finance income in 1HFY2015, the net finance expenses increased from $4,000 in 1HFY2014 to $95,000 in 1HFY2015.

***Share of results of associates and joint ventures***

The Group recorded profits of $126,000 and $13,000 from share of results from its associates and joint ventures, respectively, for 1HFY2015.

***Income taxes***

In 1HFY2015, the Group recorded tax expense of $0.9 million, mainly for the tax expense in 1HFY2015 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 $3.5 million for 1HFY2015 as compared to 1HFY2014's profits of $7.5 million. In 1HFY2014, 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 1HFY2015, 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 $3.8 million from its operating activities in 1HFY2015, an increase of 63% over 1HFY2014's operating profits of $2.3 million.

## Financial Conditions

***Non-current assets***

The non-current assets decreased by 7% from $75.2 million to $69.9 million. The disposal of an associate and the translation movement in the associate led to the 33% 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 32%.

***Current assets***

Total current assets as at 31 December 2014 was $81.1 million, an increase of 3% from $79.0 million as at 30 June 2014. The 16% increase in cash and cash equivalents 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 and decrease in inventories, were the main reasons for the increase in current assets.

***Current liabilities and non-current liabilities***

Total liabilities as at 31 December 2014 stood at $33.9 million, a decrease of 8% from $37.0 million as at 30 June 2014. The lower trade and other payables, the lower provisions resulting from utilisation of the provisions during the quarters and the 66% decrease in deferred tax liabilities, partially offset by higher tax provisions as at 31 December 2014, led to the net decrease 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 six months ended 31 December 2014 was $5.9 million. This can be accounted by:

(a) cash inflow of $7.1 million for operating activities;
(b) cash inflow of $1.2 million for investing activities; partially offset by
(c) cash outflow of $2.4 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 $7.1 million in 1HFY2015.

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 1HFY2015, led to the net cash inflow of $1.2 million from its investing activities.

Dividend payment of approximately $2.0 million in 2QFY2015 led to the cash outflow for the financing activities of the Group.

As at 31 December 2014, the Group's cash and cash equivalents position (including fixed deposits held as securities) was $37.2 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 remains volatile and macroeconomic uncertainties continued to impact consumer and capital spending. Meanwhile, we are cautious over our business and financial prospects into the third quarter of FY2015 as the quarter has traditionally been a seasonally soft quarter with shorter working days in view of the Chinese New Year. Nevertheless, the Group remained focused on building and optimizing our core strengths and resources to sustain growth and performance.