Ellipsiz Ltd and its Subsidiaries
Registration Number: 199408329R

Third Quarter Financial Statements and Dividend Announcement

Financial period ended

31 March 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 nine months ended 31 March 2014 (9MFY2014) with revenue of $107.2 million, growth of 15% when compared with the corresponding period of last financial year. Q3 consolidated revenue was an improvement of 19% from $27.8 million in 3QFY2013 (3 months ended 31 March 2013) to $33.0 million in 3QFY2014 (3 months ended 31 March 2014).

The growth in revenue was mainly contributed by our Probe Card solutions (PCS) which had 73% increase in revenue. The newly acquired business in PCS and 11% 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 seven-month revenue of $15.6 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 7% in revenue for 9MFY2014. Drop in revenue from facilities activities was the main cause for the decline in revenue.

In line with the growth in revenue, gross profit attained in 9MFY2014 improved by 19% to $26.8 million. Since the growth is from PCS that generally has higher gross profit margin than the average margin of the Group, the consolidated gross profit margin for 9MFY2014 improved by 1% to 25%.

Other income

Other income increased significantly from $377,000 in 9MFY2013 to $12.2 million in 9MFY2014. The recording of negative goodwill of $11.5 million from its acquisition of businesses and dividend income of $0.2 million from its financial investment were the key reasons for the increase in other income. Details of other income is disclosed in note 9 to the financial statements.

Operating expenses

Total operating expenses increased by 46% from $21.0 million to $30.5 million. Included in other expenses was 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 16%, 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 by 8% in 9MY2014, the Group had a net finance expenses of $21,000 instead of finance income of $121,000 a year ago.

Share of results of associates and joint ventures

The Group recorded profits of $368,000 from share of results from associates and had share of losses of $180,000 from its joint ventures for 9MFY2014.

Income taxes

In 9MFY2014, the Group recorded tax expense of $0.9 million, mainly for the tax expense in the current financial period and an adjustment to the under provision of deferred tax expenses in prior year.

Net profit attributable to Owners of the Company

The Group had net profits after taxes and non-controlling interests of $8.1 million for 9MFY2014, an improvement over 9MFY2013's profits of $1.9 million. In 9MFY2014, the Group recorded 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. Excluding the one-time income and expenses, the Group had profit of $2.9 million from its operating activities, an increase of 49% over 9MFY2013's profits.

Financial Conditions

Non-current assets

The non-current assets increased by 11% from $65.9 million to $73.3 million. Mainly attributing to the business acquisition during the period, property, plant and equipment and intangible assets increased by 104% and 3% 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 31 March 2014. This led to the 75% 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 29% to $9.1 million.

Current assets

Total current asset as at 31 March 2014 was $86.7 million, an increase of 16% from $74.5 million as at 30 June 2013. Project-in-progress increased by 65% as at 31 March 2014 due to the higher outstanding projects as at balance sheet date. Resulting primarily from the acquisition of businesses from TCL, inventory increased by 79% to $13.0 million. Trade and other receivables increased by 30% as a result of the classification of certain non-current receivables to current mentioned earlier and the additions from the newly acquired businesses. Due to collection of related parties balances, amount due from related parties decreased by 27%.

Current liabilities and non-current liabilities

Total liabilities as at 31 March 2014 stood at $46.9 million, a 38% increase from $33.9 million as at 30 June 2013. The higher interest-bearing borrowings and the additions arising from the acquisition to trade and other payables as well as provisions led to the increase in total liabilities.

Non-controlling interests

The decrease in the non-controlling interests was primarily due to the share of losses during the financial period.

Liquidity and Capital Reserves

The net cash outflow of the Group for financial period ended 31 March 2014 was $3.1 million. This can be accounted by:

(a) cash outflow of $1.3 million for operating activities;
(b) cash outflow of $2.5 million for investing activities; and
(c) cash inflow of $0.7 million for financing activities.

The positive results in the period led to cash inflow of $4.6 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 outflow of $1.3 million in 9MFY2014.

Purchase of property, plant and equipment and payment of acquisition costs incurred, partially offset by the cash inflow from acquisition of businesses and dividend received from other financial asset, led to the net cash outflow of $2.5 million from investing activities.

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

As at 31 March 2014, the Group's cash and cash equivalents position (including fixed deposits held as securities) was $28.5 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 Group is cautiously optimistic of our operating and performance prospects into the fourth quarter of FY2014 ending 30 June 2014. Though business activities in the industry picked up in March with new product launches and related devices following inventory and seasonality adjustments in preceding months, it remains challenging if the increase is sustainable. Meanwhile, the integration of our newly acquired business in our PCS segment remains on track. The uncertain market conditions coupled with the trend towards lower cost solutions and its pressure on pricing, the Group is progressing to optimize business leverages across our products and market portfolios to respond to market demand. We remained committed to pursue opportunities to sustain our growth and performance.