Ellipsiz Ltd and its Subsidiaries
Registration Number: 199408329R

Third Quarter Financial Statements and Dividend Announcement

Financial period ended

31 March 2015

Commentary and Review

(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 $25.6 million for the three months ended 31 March 2015 (3QFY2015) and year-to-date (9MFY2015) revenue of $85.1 million, declines of 22% and 21% respectively from corresponding periods of last financial year.

Revenue from Distribution & Services (DSS) dropped by 45% and this was the main reason for the lower revenue at Group level. Loss of revenue in FY2015 resulting from the divestments of facilities and communication activities in 4QFY2014 was the main contributing factor to the decrease.

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 15% growth in 9MFY2015.

The improved revenue from PCS had also led to higher revenue in Japan. However, the decline in revenue of DSS brought 53% and 26% decreases in revenue generated out of Singapore and other Asean region, respectively.

Despite the decrease in revenue, gross profit in 3QFY2015 increased by 5% from $9.0 million to $9.5 million while gross profit for 9MFY2015 improved by 14% from $26.8 million to $30.5 million. The change in revenue mix brought a 10% improvement in gross profit margin for 3QFY2015 and 11% improvement for 9MFY2015 when compared with corresponding periods of last financial year. Gross profit margin for 3QFY2015 was 37% and 9MFY2015 average margin was at 36%. Generally PCS has 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 $12.2 million in 9MFY2014 to $1.0 million in 9MFY2015. 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. The negative variance from the non-recurrence of the one-time income was negated by the recording of exchange gain in 9MFY2015. Details of other income is disclosed in note 9 to the financial statements.

Operating expenses

Total operating expenses decreased by 16% from $30.5 million to $25.5 million. Included in other expenses in 9MFY2015 was loss of $0.3 million on disposal of investment of an associate while in 9MFY2014, 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 4%, mainly due to the additional expenses incurred by the operations since 30 August 2013.

Net finance expenses

Due to the lower finance income in 9MFY2015, the net finance expenses increased from $21,000 in 9MFY2014 to $138,000 in 9MFY2015.

Share of results of associates and joint ventures

The Group recorded profits of $181,000 and $13,000 from share of results from its associates and joint ventures, respectively, for 9MFY2015.

Income taxes

In 9MFY2015, the Group recorded tax expense of $1.3 million, mainly for the tax expense in 9MFY2015 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 $4.7 million for 9MFY2015 as compared to 9MFY2014's profits of $8.1 million. In 9MFY2014, 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 9MFY2015, 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 $5.0 million from its operating activities in 9MFY2015, an increase of 74% over 9MFY2014's operating profits of $2.9 million.

Financial Conditions

Non-current assets

The non-current assets decreased by 3% from $75.2 million to $72.7 million. The disposal of an associate and the translation movement in the associate led to the 29% 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%. Reclassification of certain non-current trade receivables to current trade receivables resulted in 52% decrease in the receivables.

Current assets

Total current assets as at 31 March 2015 was $81.3 million, an increase of 3% from $79.0 million as at 30 June 2014. The 21% 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 receivables, were the main reasons for the increase in current assets.

Current liabilities and non-current liabilities

Total liabilities as at 31 March 2015 stood at $32.8 million, a decrease of 11% 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 42% decrease in deferred tax liabilities, partially offset by higher tax provisions as at 31 March 2015, led to the net decrease in total liabilities.

Non-controlling interests

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

Liquidity and Capital Reserves

The net cash inflow of the Group for nine months ended 31 March 2015 was $6.8 million. This can be accounted by:

(a) cash inflow of $11.5 million for operating activities;
(b) cash inflow of $0.4 million for investing activities; partially offset by
(c) cash outflow of $5.1 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 $11.5 million in 9MFY2015.

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 of $2.1 million during 9MFY2015, led to the net cash inflow of $0.4 million from its investing activities.

Dividend payment totalling $3.1 million in 9MFY2015, coupled with the net repayment of interest-bearing borrowings led to the cash outflow for the financing activities of the Group.

As at 31 March 2015, the Group's cash and cash equivalents position (including fixed deposits held as securities) was $38.6 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 cautious over our business and financial prospects for the fourth quarter of FY2015. Capacity utilisation rates at wafer foundries are expected to be slightly lower for the June quarter as most IC design houses are conservative about prospects on weaker than expected global demand for devices, and have reduced their wafer orders. As a result of loosening capacity utilisation at foundry houses, pricing pressure is expected to intensify as second-tier IC suppliers might adopt more aggressive price strategies to ramp up market shares in the second quarter of 2015. Despite the volatile development at the macroeconomic front, the slight slowdown in semiconductor activities for the quarter as well as M&As (merger and acquisition) activities across the semiconductor industry over the past year, we remain committed to the pursuit of building and optimising our core strengths and resources to sustain growth and performances for all of our stakeholders.