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Hi-P posts net profit of S$10.5 million for FY2014

- Revenue down 24.6% yoy to S$951.4 million mainly due to a decline in orders from two key customers
- Board of Directors recommends a final dividend of 1.0 Sing Cents, representing a payout ratio of 78.1%
- Management expects higher revenue and profit in FY2015 as compared to FY2014

Singapore – 12 February 2015, SGX Mainboard-listed Hi-P International Limited (Bloomberg Ticker: HIP SP, "Hi-P", "赫比国际有限公司" or "the Group"), a global contract manufacturer of smart phones, tablet computers and other consumer electronics, has announced its financial results for the fourth quarter ended 31 December 2014 ("4Q2014").

Financial Highlights

Financial Highlights (S$'000)	4Q2014	4Q2013	% Change	FY2014	FY2013	% Change
Revenue	314,429	344,539	(8.7)	951,396	1,262,467	(24.6)
Gross Profit	29,606	15,116	95.9	70,009	97,551	(28.2)
Gross Profit Margin (%)	9.4	4.4	+5.0 pts	7.4	7.7	-0.3 pts
Profit/ (Loss) After Tax	14,996	(14.513)	n.m.	10,469	6,402	63.5
Net Profit Margin (%)	4.8	n.m.	n.m.	1.1	0.5	+0.6 pts
Earnings/ (Loss) per Share (Sing Cents)	1.83	(1.77)	n.m.	1.28	0.78	64.1
Net Asset Value per Share (Sing Cents)	74.14	73.09	1.4	74.14	73.09	1.4

On a full-year basis, the Group's revenue decreased by 24.6% year-on-year ("yoy") to S$951.4 million in FY2014 mainly due to a decline in orders from two customers as a result of the drop in their market demand and changes in business direction. The Group mitigated the order decline with new orders from existing and new customers as part of its strategy to increase allocation from existing customers and diversify customer base.

Largely attributable to the lower revenue, gross profit decreased by 28.2% yoy to S$70.0 million. Albeit a positive shift in product mix and lower inventory provisions, the decrease in labour costs and depreciation were slower as compared to the decrease in revenue[1], resulting in a slight gross profit margin drop from 7.7% in FY2013 to 7.4% in FY2014.

[1] The slower pace of decrease in labour costs was mainly due to the increase in minimum wages imposed by the applicable local governmental authorities in the PRC.

The Group's performance was boosted by other income, which increased by 77.4% yoy to S$19.7 million in FY2014. The increase was mainly attributable to the insurance claim of S$5.2 million received in connection with the fire that occurred at one of the manufacturing plants in Shanghai in 2013, as well as a gain of S$3.9 million recognized following the liquidation of Hi-P Mexico.

The reversal of warranty provision of S$6.9 million, in view of the expiry of warranty period, further contributed to the Group's FY2014 performance. Coupled with the Group's continual push for better cost control initiatives, total selling and distribution and administrative expenses decreased by 21.5% to S$71.0 million in FY2014.

Other expenses decreased by 50.1% yoy to S$3.8 million in FY2014, which was mainly due to lower impairment loss on property, plant and equipment of S$1.8 million in FY2014 versus S$12.9 million in FY2013. The impairment loss of S$12.9 million in FY2013 mainly consisted of S$8.4 million impairment loss due to the consolidation and relocation of the Tianjin plant to Suzhou, and S$3.8 million impairment loss due to the fire that occurred at one of the manufacturing plants in Shanghai in 2013.

The Group recorded an income tax expense of S$5.2 million in FY2014, representing an effective tax rate of 33.4% versus 42.8% in FY2013. The higher effective tax rate as compared to the respective statutory tax rates of the various entities within the Group, was mainly due to certain deferred tax assets not being recognized in FY2014 on certain unutilized tax losses based on conservative accounting approach.

As a result of the above factors, the Group achieved net profit after tax of S$10.5 million in FY2014.

Current and non-current loans and borrowings increased by 108.5% yoy to S$215.3 million as at 31 December 2014 which were mainly used for general working capital and hedging purposes.

Cash and cash equivalents and short term deposits pledged increased by 53.4% yoy to S$213.1 million as at 31 December 2014. As total debt was S$215.3 million, the Group was in a net debt position of S$2.2 million (31 December 2013: net cash S$35.7 million).

To reward shareholders, the Group has recommended a first and final dividend of 1.0 Sing cents per share (FY2013: 0.6 Sing cents), representing a payout ratio of 78.1%.

"FY2014 was below our expectations, but we have made crucial changes that will position Hi-P for future growth. Firstly, we have built up our metal processing capabilities and will be well-positioned to benefit from industry trends going forward. Secondly, we have further consolidated our operations. This improves our efficiency and reduces our cost structure. Thirdly, we have also restructured to form Business Units which allow us to provide dedicated services to different customer segments.

We have started to see the benefit of our actions, with growing contributions to our metal operations. In addition customers have started to co-invest in new projects with us. This showcases their confidence in us and their intention to form lasting partnerships.

Last, but not least, succession planning is essential for every organization and the plan is in place."

Mr. Yao Hsiao Tung (姚晓东), Executive Chairman & CEO

Outlook

IDC expects smartphone sales to grow by 12.2% yoy to 1.4 billion units in 2015, with slower annual growth to 1.9 billion units in 2018. This represents a 9.8% compound annual growth rate ("CAGR") for the 2014–2018 forecast period.

Pricing pressures for smartphones are expected to remain in 2015. Despite continuous improvement in technology with smartphones gaining new features every year, this is not likely to overcome falling smartphone prices. As opined by research firm, IDC, average smartphone pricing will continue to fall by 19% from 2014 to 2018, representing a 4.2% CAGR.

Due to the rising popularity of metal chassis, the smartphone industry is also witnessing a shift in trend to focus on metal rather than plastic material quality. According to IDC, although metal comes with cutting difficulties and network signal restrictions, the smartphone industry will continue to adopt them. To cater to the industry-wide design shift, the Group has consolidated its plastic processes, as well as its metal processes, and has acquired more computer numerical control ("CNC") machines which are used to produce metal components.

Taking into account the industry outlook and challenges for the smartphone market, the Group will continue to:

- Adopt newly restructured Business Unit approach which improves responsiveness towards customers' product demand thereby increasing customer satisfaction.
- Improve acquired technology with CNC equipment to enhance operational efficiency and develop more business for metal components.
- Expand our ODM business into wireless, lifestyle and medical segments to ride on the Internet of Things.

The Group continues to aim for sustainable growth by providing a one-stop solution to fulfill its customers' needs - from product development, component manufacturing to complete product assembly.

Barring any other unforeseen circumstances, the Group wishes to guide its performance as follows:

- The Group expects higher revenue in 1Q2015 as compared to 1Q2014. The Group expects to record a loss in 1Q2015.

- The Group expects higher revenue and profit in FY2015 as compared to FY2014.

-- The End --

About Hi-P International Limited (Bloomberg Code: HIP.SP)

Hi-P started out in 1980 as a tooling specialist in Singapore and has since grown to become one of the region's largest and fastest-growing integrated contract manufacturers today.

The Group provides one stop solution to customers in various industries, including telecommunications, consumer electronics, computing & peripherals, lifestyle, medical and industrial devices from design, electro-mechanical parts, modules to complete product manufacturing services.

The Group has 14 manufacturing plants globally located across six locations in the People's Republic of China (Shanghai, Chengdu, Tianjin, Xiamen, Suzhou and Nantong), and in Poland, Singapore and Thailand. Hi-P has marketing and engineering support centers in China, Singapore, Taiwan and the USA.

The Group's customers include many of the world's biggest names in mobile phones, tablets, household & personal care appliances, computing & peripherals, lifestyle, medical devices and industrial devices.

For more information, please log on www.hi-p.com

Issued for and on behalf of Hi-P International Limited by Financial PR Pte Ltd

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