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Hi-P's 1Q2014 revenue down 33.1% to S$178.9m on lower orders from key customers

- Net loss of S$12.3m mainly due to lower sales, change in product mix, slower pace of decrease in labour costs as compared to the decrease in sales, as well as net fair value loss on forex hedging
- Ongoing diversification strategy for new consumer electronics and smartphone customers partially offset lower orders from key customers
- Expects lower revenue but higher profit in FY2014 as compared to FY2013.

Singapore – 5 May 2014, 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 first quarter ended 31 March 2014 ("1Q2014").

Financial Highlights

(S$'000)	1Q2014	1Q2013	% Change
Revenue	178,927	267,635	(33.1)
Gross Profit	3,372	30,173	(88.8)
Gross Profit Margin (%)	1.9	11.3	-9.4 points
(Loss)/ Profit After Tax	(12,271)	6,887	n.m.
Net Profit Margin (%)	n.m.	2.6	n.m.
(Loss)/Earnings per Share (Sing Cents)	(1.50)	0.83	n.m.
Net Asset Value per Share (Sing Cents)	70.18	71.90	(2.4)

Revenue decreased by S$88.7 million (33.1%) yoy to S$178.9 million in 1Q2014. The decrease was mainly due to lower sales volumes from key customers. The decrease was partially offset by orders from new customers, which was in line with our strategy to diversify our customer base.

Gross profit decreased by S$26.8 million (88.8%) yoy to S$3.4 million in 1Q2014 mainly due to the lower sales, slower pace of decrease in labour costs as compared to the decrease in sales, as well as low manufacturing yield and efficiency during the initial stages of new projects. The decrease was partially offset by lower inventory provision.

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, volatility in customers' demand forecast which causing difficulties in labour arrangement, change in product mix, and maintaining indirect labour for projects which will be ramped up in 2H2014. As such, our gross profit margin decreased from 11.3% in 1Q2013 to 1.9% in 1Q2014.

Other income increased by S$3.2 million (133.9%) yoy to S$5.6 million in 1Q2014 mainly due to the insurance claim of S$3.9 million in 1Q2014 for renovation, machineries and inventories that were damaged by the fire which broke out on 19 February 2013.

Total selling & distribution and administrative expenses decreased by S$3.3 million (15.3%) yoy to S$18.1 million in 1Q2014 mainly due to the decrease in staff costs and provision for warranty.

Other expense increased by S$0.2 million (7.3%) yoy to S$3.4 million in 1Q2014 mainly due to net fair value loss on derivatives used for currency hedging of S$3.2 million in 1Q2014 (1Q2013: gain S$1.4 million), partially offset by the decrease in impairment loss on property, plant and equipment by S$4.5 million.

The Group recorded an income tax credit of S$0.009 million in 1Q2014, representing an effective tax rate of 0.1% versus 17.0% recorded in 1Q2013. The lower effective tax rate was mainly due to deferred tax assets that were not recognized on certain unutilized tax losses in view of the uncertainty of their recoverability. This is partially offset with the tax effect of other income (insurance claim) which was not subjected to taxation.

As a result of the above factors, the Group recorded a net loss after tax of S$12.3 million in 1Q2014.

Current and non-current loans and borrowings decreased by S$25.5 million (24.7%) from S$103.2 million as at 31 December 2013 to S$77.7 million as at 31 March 2014 mainly due to repayment of loans and borrowings.

Cash and cash equivalents including cash and cash equivalents of disposal group classified as held for sale and short term deposits pledged increased by S$25.6 million (18.4%) from S$138.9 million as at 31 December 2013 to S$164.5 million as at 31 March 2014. This resulted in a net cash position of S$86.8 million (31 December 2013: S$35.7million).

"Since the second half of FY2013, a major challenge for Hi-P has been to manage the reduced contribution of a key customer. This development will have a significant impact on our 1H2014 results. To turnaround the situation, our strategy is to strengthen our smartphone ODM operations and diversify our smartphone customer base to achieve a good mix of Chinese and international brands, so as to reduce the impact of any one single customer on our earnings.

In addition, we have identified growth categories within the consumer electronics space which we are actively marketing for.

With our concurrent measures to strengthen both our smartphone and consumer electronics customer base, we are cautiously confident of resuming our growth trajectory by the second half of FY2014. In addition, we also continue to maintain a robust balance sheet with a net cash position of S$86.8 million. This will provide us with financial resilience as we navigate our current challenges."

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

Outlook

According to renowned technology research firm, IDC, sales of tablets and smartphones will grow at 18.0% and 19.3% respectively in 2014. Growth in the tablets and smartphone space will be mainly driven by emerging markets and lower-end smartphones. This represents a shift in product mix to lower-end devices.

Separately, according to U.S. Consumer Electronics Sales and Forecasts, the semi-annual industry report released by the US-based Consumer Electronics Association, revenues for the consumer electronics industry are projected to grow 2.4% in 2014, marking a new high of US$208.0 billion.

Taking into account the industry outlook and challenges for the smartphone and consumer electronics markets, the Group will maintain its focus on:

- Ongoing diversification of its customer base.
- Better utilization of production capacity and capabilities.
- Continuous improvement of its cost structure via automation, lean organization & manufacturing consolidation.

The Group continues to aim for a sustainable growth rate and be one of the top contract manufacturers in Asia, 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 lower revenue in 2Q2014 as compared to 2Q2013, and expects to record a loss in 2Q2014.

The Group expects higher revenue and lower loss in 2Q2014 as compared to 1Q2014.

The Group expects lower revenue but higher profit in FY2014 as compared to FY2013.

-- 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 five locations in the People's Republic of China (Shanghai, Chengdu, Tianjin, Xiamen and Suzhou), and in Poland, Singapore and Thailand. Hi-P has marketing and engineering support centres 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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