Hi-P International Limited
11 International Business Park
Jurong East
Singapore 609926
Tel: (65) 6268 5459 Fax: (65) 6564 1787
www.hi-p.com

Hi-P reports S$8.4 million net profit for 1Q2017 on better product mix, improved operational efficiency and cost management

- Gross profit surges 100.0% yoy to S$33.4 million while gross profit margin expands 7.6 percentage points to 13.7% driven by better product mix, improved operational efficiency and cost management
- Core business operations generate strong positive operating cash flows of S$104.3 million as the Group's net cash position improves to S$119.4 million (31 Dec 2016: S$25.1 million)
- Management expects similar revenue but higher profit for FY2017 as compared to FY2016

Singapore – 4 May 2017, 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 2017 ("1Q2017").

Financial Highlights

(S$'000)	1Q2017	1Q2016	% Change
Revenue	244,190	275,583	(11.4)
Gross Profit	33,444	16,723	100.0
Gross Profit Margin (%)	13.7	6.1	7.6 pts
Profit/(Loss) After Tax	8,400	(12,371)	n.m.
Earnings/(Loss) per Share (Sing Cents)	1.04	(1.52)	n.m.
Net Asset Value per Share (Sing Cents)	71.74	63.93	12.2%

Amid global economic uncertainty and increased competition, the Group's revenue declined 11.4% year-on-year ("yoy") to S$244.2 million for 1Q2017. This was attributed mainly to less high component content assembly products for 1Q2017 as compared to 1Q2016.

Despite the decline in revenue, better product mix, improved operational efficiency and cost management led to a 100.0% yoy surge in gross profit to S$33.4 million. Correspondingly, the Group's gross profit margin expanded 7.6 percentage points to 13.7%.

As the Group improved from a net debt position for 1Q2016 to a net cash position for 1Q2017, net interest expense decreased 87.6% yoy to S$0.1 million. Similarly, the Group's other expenses declined 54.8% yoy to S$3.6 million due to lower net losses arising from net foreign exchange differences and fair value loss on hedging contracts.

Due to less government incentives for 1Q2017 as compared to 1Q2016, the Group's other income decreased by 21.9% yoy to S$1.3 million.

For 1Q2017, the Group reported an income tax expense amounting S$3.5 million, representing an effective tax rate of 29.3%.

As a result of the above factors, the Group posted a strong turnaround, reversing a S$12.4 million net loss for 1Q2016 to a net profit of S$8.4 million for 1Q2017.

In line with its dedication to enhancing operational efficiency, the Group made continuous improvements to inventory management. Accordingly, the Group's inventories decreased 10.5% from S$142.9 million as at 31 December 2016 to S$127.8 million as at 31 March 2017.

The Group continued its ability to generate strong positive operating cash flows amounting S$104.3 million for 1Q2017. This led to a 53.6% increase in cash, cash equivalents and restricted bank deposits from S$120.7 million as at 31 December 2016 to S$185.3 million as at 31 March 2017. Consequently, total borrowings decreased 31.0% from S$95.6 million as at 31 December 2016 to S$65.9 million, bolstering balance sheet strength as the Group's net cash position improved significantly to S$119.4 million (31 December 2016: S$25.1 million).

"With the right measures and the effort of our team, we reversed from a loss-making position a year ago to achieving S$8.4 million net profit. We were also able to make significant improvements to our financial position as our net cash position increased to S$119.4 million as compared to a net debt position of S$122.7 million as at 31 March 2016. The strengthening of our balance sheet can be attributed to our profitability, cash cycle improvements and controlled capital expenditure.

We have made tremendous improvements to overall operational efficiency and remain well-positioned to capture growth opportunities.

Furthermore, projects that are now in their initial stages will be ramped up in the second half of the year. Coupled with our effective cost controls and enhancements to operational efficiency, we expect to achieve a higher profit for FY2017 as compared to FY2016."

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

Outlook

According to the independent research firm International Data Corporation ("IDC"), the worldwide smartphone market will reach a total of 1.53 billion units shipped in 2017, up 4.2% from the 1.47 billion units shipped in 2016[1]. From there, shipments will reach 1.77 billion units in 2021, the final year of their forecast period, resulting in a compound annual growth rate ("CAGR") of 3.7%. The report also highlights that shipments will increase in 2017 and 2018 due to the plethora of new phone releases from major brands during this period.

In another study by the IDC, after a slowdown in 2016, the overall wearables market is expected to return to strong growth[2]. New vendors, emerging form factors, and an expanded number of retail outlets will drive worldwide wearable device shipments from 102.4 million in 2016 to 237.5 million in 2021, a five-year CAGR of 18.3%.

Taking into account the industry outlook for the smartphone and consumer electronics markets and to overcome the industry and business challenges, the Group maintains its focus on:

- Intensifying business development efforts to diversify the Group's customer base
- Improving operational efficiency and cost management in order to adopt a leaner business model
- Enhancing capacity utilisation across all manufacturing sites while controlling capital expenditure

The Group continues to strive for sustainable growth and to be one of the top contract manufacturers in Asia, by providing a one-stop dedicated solution to fulfill its customers' needs – from product development, component manufacturing to complete product assembly.

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

- The Group expects lower revenue for 2Q2017 as compared to 2Q2016 but profit to be comparable.
- The Group expects higher revenue and profit for 2H2017 as compared to 1H2017.
- The Group expects similar revenue but higher profit for FY2017 as compared to FY2016.

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[1] IDC, Worldwide Smartphone Forecast, 2017–2021, Mar 2017

[2] IDC, Wristwear Dominates the Wearables Market While Clothing and Earwear Have Market-Beating Growth by 2021, March 2017

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 a 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), Poland, Singapore and Thailand. Hi-P has marketing and engineering support centres in PRC, 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 to www.hi-p.com

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For more information please contact: Chong Yap TOK /James BYWATER
Email: staff@financialpr.com.sg
Tel: (65) 64382990
Fax: (65) 64380064