HTL INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Singapore)
(Registration Number: 198904162H)

Half Year Financial Statements Announcement

For the Period Ended

30 June 2014

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1. CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

For the Period Ended 30 June 2014 (“1H 2014”)

	Notes	The Group 3 months ended 30 Jun 2014 US$'000	The Group 3 months ended 30 Jun 2013 US$'000	Change %	The Group 6 months ended 30 Jun 2014 US$'000	The Group 6 months ended 30 Jun 2013 US$'000	Change %
Revenue		**145,107**	**145,753**	(0.4)	**265,052**	**272,153**	**(2.6)**
Cost of sales		(98,151)	(99,830)	(1.7)	(181,421)	(186,616)	(2.8)
Gross profit		**46,956**	**45,923**	2.2	**83,631**	**85,537**	**(2.2)**
Other operating income		2,800	3,645	(23.2)	5,389	5,875	(8.3)
Sales, marketing and distribution expenses		(35,287)	(35,917)	(1.8)	(64,556)	(67,516)	(4.4)
Administrative expenses		(8,395)	(9,210)	(8.8)	(16,856)	(18,279)	(7.8)
Other operating expenses		(255)	(141)	80.9	(323)	(329)	(1.8)
Operating profit before finance income and expense and net foreign exchange gain/(loss)	5A	**5,819**	**4,300**	35.3	**7,285**	**5,288**	37.8
Finance income		56	48	16.7	125	112	11.6
Finance expense		(649)	(993)	(34.6)	(1,295)	(2,016)	(35.8)
Operating profit before net foreign exchange gain/(loss)		**5,226**	**3,355**	55.8	**6,115**	**3,384**	80.7
Net foreign exchange gain/(loss)*		5,020	(750)	NM	7,557	(2,221)	NM
Profit before tax		**10,246**	**2,605**	293.3	**13,672**	**1,163**	1,075.6
Income tax expense	5B	(2,685)	(593)	352.8	(3,455)	(1,009)	242.4
Net profit for the period		**7,561**	**2,012**	275.8	**10,217**	**154**	6,534.4
Attributable to:							
Owners of the Company		7,551	1,999	277.7	10,176	111	9,067.6
Non-controlling interest		10	13	(23.1)	41	43	(4.7)
		7,561	**2,012**		**10,217**	**154**	
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME							
Net profit for the period		**7,561**	**2,012**	275.8	**10,217**	**154**	6,534.4
Other comprehensive income/(loss):							
Item that may be reclassified subsequently to income statement:							
Foreign currency translation arising from consolidation		191	1,944	(90.2)	(959)	1,072	NM
Total comprehensive income for the period		**7,752**	**3,956**		**9,258**	**1,226**	
Attributable to:							
Owners of the Company		7,736	3,954	95.6	9,207	1,231	647.9
Non-controlling interest		16	2	700.0	51	(5)	NM
		7,752	**3,956**		**9,258**	**1,226**	
Gross profit margin (GP%)		**32.4%**	**31.5%**		**31.6%**	**31.4%**	
Net profit margin		**5.2%**	**1.4%**		**3.9%**	**0.1%**	
EBITDA		**12,736**	**5,808**		**18,655**	**7,572**	
EBITDA before net foreign exchange gain/(loss)		**7,716**	**6,558**		**11,098**	**9,793**	
EBITDA margin		**8.8%**	**4.0%**		**7.0%**	**2.8%**	
EBITDA margin before net foreign exchange gain/(loss)		**5.3%**	**4.5%**		**4.2%**	**3.6%**	

NM : Not meaningful

	The Group 3 months ended 30 Jun 2014 US$'000	The Group 3 months ended 30 Jun 2013 US$'000	The Group 6 months ended 30 Jun 2014 US$'000	The Group 6 months ended 30 Jun 2013 US$'000
Net foreign exchange gain/(loss) comprises:				
Realised foreign exchange gain/(loss)	1,853	1,004	3,067	(371)
Unrealised foreign exchange gain/(loss)	511	(2,148)	376	(2,085)
Net fair value gain on derivative financial instruments [(1)]	2,656	394	4,114	235
Total net foreign exchange gain/(loss)*	**5,020**	**(750)**	**7,557**	**(2,221)**

Note:

(1) These fair value adjustments are unrealised and non-cash in nature.

2. BALANCE SHEETS

	Notes	The Group 30 Jun 2014 US$'000	The Group 31 Dec 2013 US$'000	The Company 30 Jun 2014 US$'000	The Company 31 Dec 2013 US$'000
Current assets					
Cash and short-term deposits		47,693	70,801	9	9
Trade and other receivables		65,790	66,009	7,543	4,700
Derivative financial instruments	(i)	2,076	-	-	-
Inventories	5C	146,344	154,783	-	-
Tax recoverable		-	406	-	-
Deposits		5,564	5,213	2,534	2,534
Prepayments		4,661	6,053	-	-
		272,128	**303,265**	**10,086**	**7,243**
Non-current assets					
Investments in subsidiaries		-	-	110,458	107,640
Advances to a subsidiary		-	-	9,420	8,914
Property, plant and equipment		42,586	43,698	-	-
Intangible assets	5D	9,770	10,436	-	-
Deferred tax assets		5,456	5,287	-	-
Other receivables		930	1,602	-	-
		58,742	**61,023**	**119,878**	**116,554**
Total assets		**330,870**	**364,288**	**129,964**	**123,797**
Current liabilities					
Trade and other payables		78,122	83,975	3,980	3,994
Current income tax liabilities		4,034	1,224	-	-
Derivative financial instruments	(i)	-	2,038	-	-
Loans and borrowings	5E	59,278	94,655	-	-
Provision for warranty		5,095	4,092	-	-
		146,529	**185,984**	**3,980**	**3,994**
Non-current liabilities					
Loans and borrowings	5E	317	3,134	-	-
Deferred tax liabilities		951	1,370	923	1,286
Advances from a subsidiary		-	-	22,954	24,633
		1,268	**4,504**	**23,877**	**25,919**
Total liabilities		**147,797**	**190,488**	**27,857**	**29,913**
Net assets		**183,073**	**173,800**	**102,107**	**93,884**
Equity attributable to owners of the Company					
Share capital	5F	67,982	67,982	67,982	67,982
Treasury shares	5F	(3,965)	(4,078)	(3,965)	(4,078)
Non-distributable reserves		30,607	31,674	(1,108)	(1,010)
Retained earnings		87,542	77,366	39,198	30,990
		182,166	172,944	102,107	93,884
Non-controlling interest		907	856	-	-
Total equity		**183,073**	**173,800**	**102,107**	**93,884**
Group net borrowings		**11,902**	**26,988**	**NA**	**NA**
Group net gearing (%)		**6.53**	**15.61**	**NA**	**NA**
Net tangible assets per share (cents)		**42.45**	**40.05**	**25.15**	**23.14**

NA : Not applicable

Note :

(i) This represents fair value arising from the mark to market (MTM) on all outstanding foreign exchange forward contracts/options which are entered into to hedge currency exchange exposure as at the end of each financial period.

3. STATEMENTS OF CHANGES IN EQUITY

Group

	ATTRIBUTABLE TO OWNERS OF THE COMPANY										
	Share capital	Treasury shares	Share option reserve	Asset revaluation reserve	Foreign currency translation reserve	Capital reserve	Statutory reserve fund	Retained earnings	Equity attributable to owners of the company, total	Non-controlling interest	Equity, total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Balance at 1 January 2014	67,982	(4,078)	911	-	20,969	(1,921)	11,715	77,366	172,944	856	173,800
Net profit for the quarter	-	-	-	-	-	-	-	2,625	2,625	31	2,656
Other comprehensive (loss)/income											
Foreign currency translation arising from consolidation	-	-	-	-	(1,154)	-	-	-	(1,154)	4	(1,150)
Total comprehensive (loss)/income	-	-	-	-	(1,154)	-	-	2,625	1,471	35	1,506
Treasury shares reissued pursuant to employee share option plan	-	113	-	-	-	(97)	-	-	16	-	16
Balance at 31 March 2014	**67,982**	**(3,965)**	**911**	**-**	**19,815**	**(2,018)**	**11,715**	**79,991**	**174,431**	**891**	**175,322**
Net profit for the quarter	-	-	-	-	-	-	-	7,551	7,551	10	7,561
Other comprehensive income											
Foreign currency translation arising from consolidation	-	-	-	-	185	-	-	-	185	6	191
Total comprehensive income	-	-	-	-	185	-	-	7,551	7,736	16	7,752
Purchase of treasury shares	-	(1)	-	-	-	-	-	-	(1)	-	(1)
Treasury shares reissued pursuant to employee share option plan	-	1	-	-	-	(1)	-	-	-	-	-
	-	-	-	-	-	(1)	-	-	(1)	-	(1)
Balance at 30 June 2014	**67,982**	**(3,965)**	**911**	**-**	**20,000**	**(2,019)**	**11,715**	**87,542**	**182,166**	**907**	**183,073**
Balance at 1 January 2013	67,982	(4,670)	911	186	18,386	(1,417)	11,319	78,528	171,225	849	172,074
Net (loss)/profit for the quarter	-	-	-	-	-	-	-	(1,888)	(1,888)	30	(1,858)
Other comprehensive loss											
Foreign currency translation arising from consolidation	-	-	-	-	(835)	-	-	-	(835)	(37)	(872)
Total comprehensive loss	-	-	-	-	(835)	-	-	(1,888)	(2,723)	(7)	(2,730)
Treasury shares reissued pursuant to employee share option plan	-	160	-	-	-	(136)	-	-	24	-	24
Balance at 31 March 2013	**67,982**	**(4,510)**	**911**	**186**	**17,551**	**(1,553)**	**11,319**	**76,640**	**168,526**	**842**	**169,368**
Net profit for the quarter	-	-	-	-	-	-	-	1,999	1,999	13	2,012
Other comprehensive income/(loss)											
Foreign currency translation arising from consolidation	-	-	-	-	1,955	-	-	-	1,955	(11)	1,944
Total comprehensive income	-	-	-	-	1,955	-	-	1,999	3,954	2	3,956
Treasury shares reissued pursuant to employee share option plan	-	317	-	-	-	(270)	-	-	47	-	47
Dividends on ordinary shares	-	-	-	-	-	-	-	(1,637)	(1,637)	-	(1,637)
Fair value gain transferred to retained earnings on disposal	-	-	-	(186)	-	-	-	186	-	-	-
	-	317	-	(186)	-	(270)	-	(1,451)	(1,590)	-	(1,590)
Balance at 30 June 2013	**67,982**	**(4,193)**	**911**	**-**	**19,506**	**(1,823)**	**11,319**	**77,188**	**170,890**	**844**	**171,734**
Net profit for the quarter	-	-	-	-	-	-	-	82	82	16	98
Other comprehensive income											
Foreign currency translation arising from consolidation	-	-	-	-	918	-	-	-	918	5	923
Total comprehensive income	-	-	-	-	918	-	-	82	1,000	21	1,021
Treasury shares reissued pursuant to employee share option plan	-	73	-	-	-	(62)	-	-	11	-	11
Balance at 30 September 2013	**67,982**	**(4,120)**	**911**	**-**	**20,424**	**(1,885)**	**11,319**	**77,270**	**171,901**	**865**	**172,766**
Net profit for the quarter	-	-	-	-	-	-	-	492	492	14	506
Other comprehensive income/(loss)											
Foreign currency translation arising from consolidation	-	-	-	-	545	-	-	-	545	(23)	522
Total comprehensive income/(loss)	-	-	-	-	545	-	-	492	1,037	(9)	1,028
Treasury shares reissued pursuant to employee share option plan	-	42	-	-	-	(36)	-	-	6	-	6
Transfer from retained earnings to statutory reserve fund	-	-	-	-	-	-	396	(396)	-	-	-
	-	42	-	-	-	(36)	396	(396)	6	-	6
Balance at 31 December 2013	**67,982**	**(4,078)**	**911**	**-**	**20,969**	**(1,921)**	**11,715**	**77,366**	**172,944**	**856**	**173,800**

3. STATEMENTS OF CHANGES IN EQUITY (Cont'd)

Company

	Share capital	Treasury shares	Share option reserve	Capital reserve	Retained earnings	Equity, total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Balance at 1 January 2014	67,982	(4,078)	911	(1,921)	30,990	93,884
Net profit for the quarter, representing total comprehensive income for the quarter	-	-	-	-	7,319	7,319
Treasury shares reissued pursuant to employee share option plan	-	113	-	(97)	-	16
Balance at 31 March 2014	**67,982**	**(3,965)**	**911**	**(2,018)**	**38,309**	**101,219**
Net profit for the quarter, representing total comprehensive income for the quarter	-	-	-	-	889	889
Purchase of treasury shares	-	(1)	-	-	-	(1)
Treasury shares reissued pursuant to employee share option plan	-	1	-	(1)	-	-
	-	-	-	(1)	-	(1)
Balance at 30 June 2014	**67,982**	**(3,965)**	**911**	**(2,019)**	**39,198**	**102,107**
Balance at 1 January 2013	67,982	(4,670)	911	(1,417)	64,074	126,880
Net loss for the quarter, representing total comprehensive loss for the quarter	-	-	-	-	(204)	(204)
Treasury shares reissued pursuant to employee share option plan	-	160	-	(136)	-	24
Balance at 31 March 2013	**67,982**	**(4,510)**	**911**	**(1,553)**	**63,870**	**126,700**
Net loss for the quarter, representing total comprehensive loss for the quarter	-	-	-	-	(1,303)	(1,303)
Treasury shares reissued pursuant to employee share option plan	-	317	-	(270)	-	47
Dividends on ordinary shares	-	-	-	-	(1,637)	(1,637)
	-	317	-	(270)	(1,637)	(1,590)
Balance at 30 June 2013	**67,982**	**(4,193)**	**911**	**(1,823)**	**60,930**	**123,807**
Net loss for the quarter, representing total comprehensive loss for the quarter	-	-	-	-	(273)	(273)
Treasury shares reissued pursuant to employee share option plan	-	73	-	(62)	-	11
Balance at 30 September 2013	**67,982**	**(4,120)**	**911**	**(1,885)**	**60,657**	**123,545**
Net loss for the quarter, representing total comprehensive loss for the quarter	-	-	-	-	(29,667)	(29,667)
Treasury shares reissued pursuant to employee share option plan	-	42	-	(36)	-	6
Balance at 31 December 2013	**67,982**	**(4,078)**	**911**	**(1,921)**	**30,990**	**93,884**

4. CONSOLIDATED CASH FLOW STATEMENT

	The Group 3 months ended 30 Jun		The Group 6 months ended 30 Jun	
	2014	**2013**	**2014**	**2013**
	US$'000	US$'000	US$'000	US$'000
Operating activities				
Net profit for the period	7,561	2,012	10,217	154
Adjustments for :				
Income tax expense	2,685	593	3,455	1,009
Depreciation of property, plant and equipment	1,555	1,700	3,113	3,533
Amortisation of intangible assets	342	558	700	972
Net loss/(gain) on disposal of property, plant and equipment	29	(1,400)	43	(1,396)
Interest income	(56)	(48)	(125)	(112)
Interest expense	649	993	1,295	2,016
Property, plant and equipment written off	1	-	1	-
Warranty provision	3,170	3,225	5,665	5,145
Net fair value gain on foreign exchange derivative instruments	(2,656)	(394)	(4,114)	(235)
Unrealised foreign exchange translation differences	(8)	1,696	(772)	1,679
Operating cash flows before changes in working capital	13,272	8,935	19,478	12,765
Inventories	10,274	28,184	8,439	33,390
Trade and other receivables, deposits and prepayments	(6,694)	(11,740)	1,932	(2,695)
Provision for warranty	(2,894)	(2,534)	(4,662)	(5,241)
Trade and other payables	714	5,651	(5,853)	(11,219)
Cash flows from operations	14,672	28,496	19,334	27,000
Income taxes paid	(40)	(249)	(821)	(1,883)
Net cash flows from operating activities	**14,632**	**28,247**	**18,513**	**25,117**
Investing activities				
Proceeds from disposal of property, plant and equipment	19	1,910	26	1,915
Purchase of property, plant and equipment	(1,226)	(414)	(2,163)	(1,073)
Purchase of intangible assets	(8)	(1,454)	(8)	(1,546)
Interest received	56	48	125	112
Net cash flows (used in)/from investing activities	**(1,159)**	**90**	**(2,020)**	**(592)**
Financing activities				
Interest paid	(649)	(993)	(1,295)	(2,016)
Repayment of bank term loans	(2,252)	(4,408)	(4,613)	(4,582)
Repayment of short-term borrowings	(23,187)	(27,556)	(33,581)	(26,888)
Purchase of treasury shares	(1)	-	(1)	-
Proceeds from re-issuance of treasury shares	-	47	16	71
Dividends paid to shareholders of the Company	-	(1,637)	-	(1,637)
Net cash flows used in financing activities	**(26,089)**	**(34,547)**	**(39,474)**	**(35,052)**
Net decrease in cash and cash equivalents	**(12,616)**	**(6,210)**	**(22,981)**	**(10,527)**
Effect of exchange rate changes on cash and cash equivalents	90	61	(127)	(214)
Cash and cash equivalents at the beginning of the financial period	60,219	72,087	70,801	76,679
Cash and cash equivalents at the end of the financial period (1)	**47,693**	**65,938**	**47,693**	**65,938**
Free Cash Flow (2)	**13,398**	**26,379**	**16,342**	**22,498**

Notes:

(1) Cash and cash equivalents comprise cash on hand, deposits with banks, net of bank overdrafts.

(2) Free cash flow is defined as net cash from operating activities less capital expenditure.

5. NOTES TO THE FINANCIAL STATEMENTS

A. Operating profit before finance income and expense and net foreign exchange gain /(loss)

This is arrived at after charging the following:

	The Group 3 months ended 30 Jun		The Group 6 months ended 30 Jun	
	2014	2013	2014	2013
	US$'000	US$'000	US$'000	US$'000
Depreciation of property, plant and equipment	1,555	1,700	3,113	3,533
Amortisation of intangible assets	342	558	700	972
Total depreciation and amortisation	1,897	2,258	3,813	4,505
Allowance made for impairment of trade receivables	226	102	489	296
Bad trade debts written off	769	24	791	24
(Write back)/allowance made for slow moving and obsolete inventories	(42)	256	250	579
Warranty and claim expenses	3,756	3,773	6,904	6,118
Employee benefits	23,621	22,597	44,884	44,029
Net loss/(gain) on disposal of property, plant and equipment	29	(1,400)	43	(1,396)
Property, plant and equipment written off	1	-	1	-

B. Income tax expense

	The Group 3 months ended 30 Jun		The Group 6 months ended 30 Jun	
	2014	2013	2014	2013
	US$'000	US$'000	US$'000	US$'000
Tax expense attributable to profit is made up of:				
Current income taxes:				
- Current income tax	1,848	971	3,498	1,684
- Under provision in respect of previous years	33	75	31	163
Deferred income taxes:				
- Current deferred tax	662	(353)	(480)	(738)
- Over provision in respect of previous years	-	(100)	(99)	(100)
Witholding taxes [1]	142	-	505	-
	2,685	**593**	**3,455**	**1,009**

Note:

(1) These represent withholding tax paid on the dividends declared by overseas subsidiaries.

Due to higher profitability, the Group's income tax expense increased from US$1.0 million in YTD June 2013 to US$3.5 million in YTD June 2014.

5. NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

C. Inventories

	The Group	
	30 Jun 2014	31 Dec 2013
	US$'000	US$'000
Raw materials	65,703	70,109
Work-in-progress	17,037	22,562
Finished goods	63,604	62,112
	146,344	154,783

D. Intangible assets

	Goodwill on Acquisition	IP Rights	Computer Software Licenses & Development Costs	Total
	US$'000	US$'000	US$'000	US$'000
Group				
Cost				
At 1 January 2013	**675**	**13,140**	**9,511**	**23,326**
Additions	-	-	1,546	1,546
Exchange rate adjustments	29	-	(145)	(116)
At 31 December 2013 and 1 January 2014	**704**	**13,140**	**10,912**	**24,756**
Additions	-	-	8	8
Exchange rate adjustments	(8)	-	45	37
At 30 June 2014	**696**	**13,140**	**10,965**	**24,801**
Accumulated amortisation				
At 1 January 2013	**-**	**4,759**	**7,864**	**12,623**
Charge for the financial year	-	653	1,068	1,721
Exchange rate adjustments	-	-	(24)	(24)
At 31 December 2013 and 1 January 2014	**-**	**5,412**	**8,908**	**14,320**
Charge for the financial year	-	327	373	700
Exchange rate adjustments	-	-	11	11
At 30 June 2014	**-**	**5,739**	**9,292**	**15,031**
Net book value				
At 31 December 2013	**704**	**7,728**	**2,004**	**10,436**
At 30 June 2014	**696**	**7,401**	**1,673**	**9,770**

5. NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

E. Loans and borrowings

	The Group	
	30 Jun 2014	31 Dec 2013
	US$'000	US$'000
Current		
Trust receipts and bank bill payables	35,933	49,531
Bank term loans	7,228	8,991
Short-term bank loans	16,117	36,133
	59,278	94,655
Non-current		
Bank term loans	317	3,134
Total loans and borrowings	59,595	97,789

The Group's total loans and borrowings are unsecured except for the bank term loans of a subsidiary with a carrying amount of US$0.7 million that are secured by the subsidiary's freehold land and building.

F. Share capital

	No of ordinary shares		Amount	
	Issued share capital	Treasury shares	Share capital	Treasury shares
	'000	'000	US$'000	US$'000
At 1 January 2014	416,563	(10,791)	67,982	(4,078)
Treasury shares purchased	-	(7)	-	(1)
Reissued pursuant to employee share option plans:				
- For cash on exercise of employee share options	-	305	-	16
- Loss transferred to capital reserve	-	-	-	98
	-	305	-	114
At 30 June 2014	416,563	(10,493)	67,982	(3,965)
At 1 January 2013	416,563	(12,358)	67,982	(4,670)
Reissued pursuant to employee share option plans:				
- For cash on exercise of employee share options	-	1,262	-	71
- Loss transferred to capital reserve	-	-	-	406
	-	1,262	-	477
At 30 June 2013	416,563	(11,096)	67,982	(4,193)

Treasury shares

The Company is authorised by the shareholders to buy up to 10% of the ordinary shares of the Company. The Company acquired 7,000 (30 June 2013: Nil) shares in the Company through purchases on the Singapore Exchange during the financial period. The total amount paid to acquire the shares was US$1,491 (30 June 2013: Nil) and this was presented as a separate component within shareholders' equity.

The Company reissued 305,000 (30 June 2013: 1,261,300) treasury shares during the financial period pursuant to the HTL International Holdings Limited Share Option Plan 2002 at a weighted average exercise price of US$0.05 (30 June 2013: US$0.06) each for a cash consideration of US$16,000 (30 June 2013: US$71,000).

5. **NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

F. **Share capital (Cont'd)**

<u>Share options</u>

<u>HTL International Holdings Limited Share Option Plan 2002</u>

During the financial period, the Company has not issued any new share options.

Details of the share options to subscribe for ordinary shares of the Company that remains outstanding as at 30 June 2014 are as follows:

	Aggregate options granted since commencement of scheme	Aggregate options exercised since commencement of scheme	Aggregate options lapsed since commencement of scheme	Aggregate options outstanding at end of financial year	Exercise price	Exercise Period
2004 Options	4,502,250	1,538,250	2,964,000	-	S$0.82	19.6.2005 - 18.6.2014
2009 Options	7,120,000	6,112,500	777,500	230,000	S$0.07	26.2.2010 - 26.2.2019
	11,622,250	7,650,750	3,741,500	230,000		

G. **Earnings per share**

	3 months ended 30 Jun		6 months ended 30 Jun	
	2014	2013	2014	2013
Earnings per share (US cents)				
- Basic	1.86	0.49	2.51	0.03
- Diluted	1.86	0.49	2.50	0.03

Basic earnings per share is calculated by dividing the net profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the respective financial period.

For the purpose of calculating the diluted earnings per share, the net profit attributable to owners of the Company and the weighted average number of ordinary shares outstanding are adjusted for the effects of all dilutive potential ordinary shares. As at 30 June 2014, the Company has only one category of dilutive potential ordinary shares which is share options. In the computation of diluted net earnings per share, if the effect of outstanding share options is anti-dilutive, this is disregarded.

For the share options, the weighted average number of shares is adjusted as if all dilutive share options were exercised. The number of shares that could have been issued upon the exercise of all dilutive share options less the number of shares that could have been issued at fair value (determined as the Company's average share price during the financial period) for the same total proceeds is added to the denominator as the number of shares issued for no consideration with no adjustment made to the net profit – numerator.

5. NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

G. Earnings per share (Cont'd)

	3 months ended 30 Jun		6 months ended 30 Jun	
	2014	2013	2014	2013
	US$'000	US$'000	US$'000	US$'000
Net profit attributable to owners of the Company used to determine basic and diluted earnings per share	7,551	1,999	10,176	111
	No. of shares '000	No. of shares '000	No. of shares '000	No. of shares '000
Weighted average number of ordinary shares used in the calculation of basic earnings per share	406,050	404,882	406,061	404,545
Adjustment for assumed conversion of share options	191	1,081	184	1,381
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	406,241	405,963	406,245	405,926
Diluted earnings per share (US cents)	1.86	0.49	2.50	0.03

H. Net asset per share

	The Group		The Company	
	As at 30 Jun 2014	As at 31 Dec 2013	As at 30 Jun 2014	As at 31 Dec 2013
Net asset value per ordinary share based on issued share capital as at the end of the respective period/year (US cents) *	44.86	42.62	25.15	23.14

* Based on issued share capital of 406,070,018 ordinary shares (excluding treasury shares) as at 30 June 2014 and 405,772,018 ordinary shares (excluding treasury shares) as at 31 December 2013.

6. AUDIT

The figures have not been audited or reviewed by our auditors.

7. AUDITOR'S REPORT

Not applicable.

8. ACCOUNTING POLICIES

Except as disclosed in paragraph 9 below, the Group has applied the same accounting policies and methods of computation in the financial statements for the current financial period compared with those of audited financial statements as at 31 December 2013.

9. CHANGES IN THE ACCOUNTING POLICIES

The Group adopted the new/revised Singapore Financial Reporting Standards ("FRS") and Interpretations of FRS ("INT FRS") that are effective for annual periods beginning on or after 1 January 2014.

The adoption of these new/revised FRS did not have any material impact on the financial statements of the Group.

10. REVIEW OF GROUP PERFORMANCE

Overview

	(A)	(B)	(C) = (A) + (B)	(D)	(E)	(F) = (D) + (E)	(G) = (C) - (F)	
	Q1 2014 US$'000	**Q2 2014 US$'000**	**1H 2014 US$'000**	**Q1 2013 US$'000**	**Q2 2013 US$'000**	**1H 2013 US$'000**	**Change US$'000**	%
Sofa Business Unit ("Sofa BU")								
- External	115,017	139,346	254,363	121,084	140,248	261,332	(6,969)	-2.7%
- Internal	1,945	1,991	3,936	2,049	2,651	4,700	(764)	
	116,962	**141,337**	**258,299**	**123,133**	**142,899**	**266,032**	**(7,733)**	
Leather Business Unit ("Leather BU")								
- Internal	**33,404**	**34,726**	**68,130**	**42,581**	**42,305**	**84,886**	**(16,756)**	-19.7%
Home Furnishing Business Unit ("HFBU")								
- External	4,928	5,761	10,689	5,316	5,505	10,821	(132)	-1.2%
- Internal	157	38	195	146	85	231	(36)	
	5,085	**5,799**	**10,884**	**5,462**	**5,590**	**11,052**	**(168)**	
Less : Inter-segment sales	(35,506)	(36,755)	(72,261)	(44,776)	(45,041)	(89,817)	17,556	
Group Turnover	**119,945**	**145,107**	**265,052**	**126,400**	**145,753**	**272,153**	**(7,101)**	-2.6%

Notes:

(i) Core Business comprises the Sofa, Leather Business Units ("BU") and Corporate Office
(ii) Q1 and Q2 2014/2013 – three months ended 31 March and 30 June 2014/2013, respectively
(iii) 1H 2014/2013 – six months ended 30 June 2014/2013
(iv) SG&A – represents the aggregate of total sales, marketing, distribution and administrative expenses

Q2 2014 vs. Q2 2013

Turnover

Group revenue remained fairly stable. The weaker sales in North America was offset by stronger sales in other key markets, especially Europe and Asia, and an overall increase in average selling price.

Profitability

Gross profit margin improved from 31.5% in Q2 2013 to 32.4% in Q2 2014 on the back of selling price increases and lower leather usage, despite higher raw material prices and production costs in China.

Other operating income fell by 23.2% to US$2.8 million in Q2 2014, mainly due to a one-off US$1.4 million gain from disposal of a piece of land in Malaysia in Q2 2013. This was partially mitigated by higher leather scrap sales to external parties.

Cost savings from lower freight rates, cost-cutting initiatives and organisational restructuring at overseas sales and marketing offices have reduced SG&A by 3.2% to US$43.7 million in Q2 2014.

Net finance expense decreased by 37.2% to US$0.6 million in Q2 2014, in tandem with lower loans and borrowings.

Higher gross margin coupled with savings from lower SG&A and net finance expense resulted in higher operating profit before net foreign exchange gain and tax of US$5.2 million for Q2 2014 compared to US$3.4 million in Q2 2013.

10. REVIEW OF GROUP PERFORMANCE (Cont'd)

Q2 2014 vs. Q2 2013 (Cont'd)

Profitability (Cont'd)

The Group managed to achieve a net foreign exchange gain of US$5.0 million in Q2 2014 compared to a loss of US$0.8 million in Q2 2013. This was largely attributable to higher realised gain on delivery of foreign exchange contracts and higher unrealised mark-to-market gain on foreign exchange contracts coupled with a turnaround of unrealised foreign exchange loss on translation of bank balances in Q2 2013 to unrealised gain in Q2 2014.

With higher profitability, income tax expense increased by US$2.1 million to US$2.7 million in Q2 2014.

Consequently, the Group's Q2 2014 net profit increased to US$7.6 million.

1H 2014 vs 1H 2013

Turnover

Turnover fell by 2.6% to US$265.1 million in 1H 2014, primarily weighted down by weaker Japanese and Australian currencies against the United States Dollar ("USD") and lower sales in North America. The impact of these were partially offset by higher sales in Asia, stronger Euro against the USD and increase in average selling price.

Profitability

The Group managed to slightly improve its GP margin, at 31.6% (1H 2013: 31.4%). Contribution from selling price increases and lower leather usage were almost negated by higher input costs.

Other operating income reduced by US$0.5 million to US$5.4 million, mainly due to a one-off gain from disposal of land in Malaysia in 1H 2013, partially mitigated by higher leather scrap sales to external parties.

SG&A fell by 5.1% to US$81.4 million in 1H 2014, primarily due to lower turnover and cost savings from lower freight rates, cost-cutting initiatives and organisational restructuring at overseas sales and marketing offices.

Net finance expense dropped by 38.6% to US$1.2 million in 1H 2014, in line with lower loans and borrowings.

Despite lower revenue, savings from even lower SG&A and net finance expenses enabled the Group to post higher operating profit before net foreign exchange gain and tax of US$6.1 million in 1H 2014 compared to US$3.4 million in 1H 2013.

The Group recorded a net foreign exchange gain of US$7.6 million in 1H 2014 compared to a loss of US$2.2 million in 1H 2013. The 1H 2014 gain was largely attributable to the realised gain on delivery of foreign exchange contracts and the unrealised mark-to-market gain on foreign exchange contracts whilst the 1H 2013 loss was mainly the result of unrealised foreign exchange loss on translation of bank balances.

With higher profitability, income tax expense increased by US$2.4 million to US$3.5 million in 1H 2014.

Overall, the Group's net profit improved from US$0.2 million in 1H 2013 to US$10.2 million in 1H 2014.

10. REVIEW OF GROUP PERFORMANCE (Cont'd)

Analysis by Major Business Units ("BU")

	Core Business [1]			Home Furnishing		
	6 months ended 30 Jun		Change	6 months ended 30 Jun		Change
	2014	2013	%	2014	2013	%
	US$'000	US$'000		US$'000	US$'000	
Revenue (exclude inter-segment sales)	254,363	261,332	(2.7)	10,689	10,821	(1.2)
Operating profit/(loss) before net foreign exchange gain/(loss)	8,291	4,176	98.5	(2,176)	(792)	174.7
EBITDA before net foreign exchange gain/(loss)	12,828	10,166	26.2	(1,730)	(373)	363.8
Net profit/(loss) for the period	12,349	970	1,173.1	(2,132)	(816)	161.3
Net margin	4.9%	0.4%		-19.9%	-7.5%	
Total net foreign exchange gain/(loss)	7,551	(2,286)		6	65	

Note:

(1) Core Business comprises the Sofa, Leather BU and Corporate Office.

Core Business

Sofa BU - Revenue by Regions

	6 months ended 30 Jun		Change	
	2014	2013		
	US$'000	US$'000	US$'000	%
Asia (excluding Greater China)	37,231	33,100	4,131	12.5
Greater China	2,446	2,008	438	21.8
Europe	117,522	116,375	1,147	1.0
North America	57,388	68,455	(11,067)	(16.2)
ANZ	39,075	40,547	(1,472)	(3.6)
Others	701	847	(146)	(17.2)
Total *	254,363	261,332	(6,969)	(2.7)

* Exclude inter-segment sales

Sofa BU posted lower revenue of US$254.4 million compared to US$261.3 million in the same period last year, mainly due to lower sales in North America and the weaker Japanese and Australian currencies against the USD. The lower sales in North America was predominantly the consequence of continuing effort to focus on margin management.

Europe remained our largest market, accounting for 46.2% (1H 2013: 44.5%) of the Core Business's turnover, followed by North America (22.6%), Asia (15.6%) and ANZ (15.4%). Revenue from Europe improved marginally by 1.0% to US$117.5 million whilst sales in Asia continued to expand with a double digit growth of 13.0% to US$39.7 million.

Despite lower revenue and higher input costs, our Core Business almost doubled its operating profit before net foreign exchange gain and tax from US$4.2 million in 1H 2013 to US$8.3 million in 1H 2014. This was primarily a result of selling price increases and lower leather usage coupled with savings in SG&A and lower net finance expense.

10. REVIEW OF GROUP PERFORMANCE (Cont'd)

Home Furnishing BU ("HFBU")

The performance of HFBU remained lacklustre in 1H 2014. Its revenue remained fairly constant at US$10.7 million (1H 2013: US$10.8 million). The new international concept and product range launched by Domicil Home in Germany in early 2014 has yet to gather pace. This, coupled with higher marketing and advertising costs for the launch were mainly the causes of HFBU's higher operating loss before net foreign exchange gain and tax of US$2.2 million in 1H 2014 compared to US$0.8 million in 1H 2013.

Liquidity, financial and working capital resources

The Group continued to maintain a healthy balance sheet amidst the challenging business environment.

Trade and other receivables remained fairly consistent at US$65.8 million (31 December 2013: US$66.0 million) despite higher sales in Q2 2014 as compared to Q4 2013. This was mainly due to higher factoring without recourse. The average day sales outstanding ("DSO") as at 30 June 2014 remained constant at 1.5 months (31 December 2013: 1.5 months).

Inventory reduced by US$8.4 million to US$146.3 million, in tandem with higher business activities. Consequently, the outstanding days in inventory ("DIO") as at 30 June 2014 improved further to 4.8 months (31 December 2013: 5.1 months).

Trade and other payables decreased by US$5.9 million to US$78.1 million. This was mainly attributable to the higher payment made to suppliers. Accordingly, the average day payables outstanding ("DPO") as at 30 June 2014 reduced marginally to 2.6 months (31 December 2013: 2.8 months).

The Group's net borrowings (loans and borrowings less cash and short term deposits) decreased by US$15.1 million from US$27.0 million as at 31 December 2013 to US$11.9 million as at 30 June 2014. This was mainly due to higher profitability coupled with improvement in working capital management. Net gearing improved further to 6.5% (31 December 2013: 15.6%). The Group reported a lower positive free cash flow of US$16.3 million in 1H 2014 (1H 2013: US$22.5 million) mainly as a result of higher leather procurement activities in 1H 2014 compared to 1H 2013.

11. VARIANCE FROM PROSPECT STATEMENT

No prospect statement was previously provided.

12. OUTLOOK

Consumer confidence is expected to remain cautious. Input costs particularly raw leather hide prices and wages at our production plants in China will probably continue to rise in 2014. Major trading currencies, notably the Euro, Japanese Yen, Australian Dollar and Chinese Renminbi will remain volatile against the USD. These factors may put additional pressure on profit margins.

To better meet consumers' changing needs and buying preferences, HTL has embarked on broadening its portfolio by offering innovative and complementary products and establishing new distribution channels, particularly in Asia. These new investments which are all at the infancy stage will take time to bear fruit and are expected to increase the Group's operating costs and would affect profitability in the second half of 2014.

13. KEY BUSINESS RISKS

Macro Risks

Commodity risks

Raw leather hide is the principal raw material in the Group's upholstered furniture accounting for almost half of the sofa upholstery cost. As such, the cost of upholstered furniture is exposed to fluctuations in the price of cattle raw hide. The supply of cattle raw hide is principally dependent on the consumption of beef. The cattle industry is also exposed to veterinary health issues like foot-and-mouth and mad cow disease, which will have an impact on the slaughter rate of cattle. Fluctuations in the price of raw leather hides will significantly affect operating margins.

Cyclical demand for furniture

Historically, the furniture industry has been cyclical, fluctuating with economic cycles, and is sensitive to general economic conditions, housing starts, interest rate levels, credit availability and other factors that affect consumer spending habits. As most furniture purchases are discretionary in nature and may represent a significant expenditure to the average consumer, such purchases may be deferred during times of economic uncertainty. Any prolonged global economic slowdown may have an adverse effect on the Group's operating results.

Seasonal operations

The Group's sale of leather upholstered furniture is subject to seasonal variations given that the increased contribution from the Europe and US markets now accounts for almost 70% of the Group's turnover. In general, shipments of goods from July to August (i.e. the summer months) are lower than in the other months of a calendar year. These seasonality variations may cause short term fluctuations in the Group's turnover and performance.

Changes in the regulations of The People's Republic of China ("PRC") relating to export Value Added Tax ("VAT") rebates and import duties

In order to reduce its massive trade surplus, the PRC government has gradually reduced its export VAT rebates for many business sectors. With effect from 1 July 2007, export VAT rebates for the Group's product segments had been reduced from 8% to nil for finished leather, and from 13% to 11% for sofa upholstery. With effect from 1 June 2009, the export VAT rebate for the sofa upholstery was temporarily reinstated to 15%. Should the PRC government revises the effective export VAT rebates downwards, this would adversely impact the Group's operating margins.

Changes in the PRC processing trade policy

Since 2006, the PRC government has been introducing changes to the processing trade policy, such as moving certain widely used materials to the prohibited category, these changes being aimed at restricting the production and export of high pollution, high energy consumption and resource consuming products. In its latest policy switch in July 2007, the government requested that enterprises engaged in the processing trade industry in the prohibited category pay a mandatory duty deposit for imported raw materials. At this juncture, the Group's products have been exempted from this prohibited category. However, any expansion of the prohibited category to include the Group's products may impact the Group's cash flow and incur increased financial costs.

Environmental risk

The production of leather is generally pollutive. As the PRC government is tightening its environmental protection policy, the Group's production activities may be put under close scrutiny. The Group has always observed a high standard of social and environmental responsibility, and welcomes the PRC government's new initiatives. However, it is possible that further investments may be needed to upgrade the Group's waste treatment facilities and this will in turn increase production costs.

13. KEY BUSINESS RISKS (Cont'd)

Macro Risks (Cont'd)

Company Risks

Foreign exchange risks

The global financial markets remain volatile. The Group transacts primarily in USD which is also its primary functional currency. The Group also transacts in other major foreign currencies like Japanese Yen, Sterling Pound, Euro and Australian Dollar. Majority of the Group's operations are also situated outside of Singapore, most notably in China. Consequently, any movement between Renminbi and USD will also affect the Group's currency exposure risks. Any significant adverse movements in the other major trading currencies against USD will also have an impact on the Group's performance. The Group actively monitors and hedges its foreign currency exchange exposure by using relevant foreign exchange forward contracts and options to hedge its cash flow and margins. Where appropriate, the Group will borrow in the same currency to provide a natural hedge for balance sheet items.

Vulnerable to freight rate increases

The Group exports its upholstery products to more than 40 countries across 6 continents and relies on shipping companies for the shipment of its products to these countries. As such, the Group bears freight costs when it sells on Cost, Insurance and Freight (CIF), Delivered Duty Unpaid (DDU) or Cost and Freight (CFR) terms, and when it purchases on Free on Board (FOB) term. The freight market can be volatile, and freight rates are affected by fluctuations in oil prices. If freight rates are high, the Group's distribution costs will increase and operating margins can be affected. The Group has no control over the supply and demand of freight services and it is therefore difficult for the Group to manage its freight costs. The Group does factor in an appropriate amount of the expected freight rate increases in the quotation of sales price to customers.

14. DIVIDEND

(i) Current financial period reported on - The Directors are pleased to declare a tax exempt one-tier cash dividend of 1.0 Singapore cent per share.

Name of Dividend	Interim
Dividend Type	Cash
Dividend Rate per Ordinary Share (Singapore cent)	1.0
Tax Rate	Exempt (1 tier)

(ii) Corresponding period of the immediately preceding financial period – None

(iii) Date payable – 11 September 2014

(iv) Books closure date – Notice is hereby given that the Register of Members and the Transfer Books of the Company will be closed on 28 August 2014 ("Book Closure Date") for the purpose of determining shareholders' entitlement to the interim dividend.

Duly completed registrable transfers of ordinary shares received by the Company's Share Registrar, Tricor Barbinder Share Registration Services of, 80 Robinson Road, #02-00, Singapore 068898 up to 5.00 pm on 27 August 2014 ("Entitlement Date"), will be registered to determine shareholders' entitlement to the interim dividend.

15. SEGMENTAL INFORMATION

	Sofa US$'000	Leather US$'000	Home Furnishing US$'000	Corporate US$'000	Elimination US$'000	Group US$'000
Financial period ended 30 June 2014						
Revenue						
External sales	254,363	-	10,689	-	-	265,052
Inter-segment sales	3,936	68,130	195	-	(72,261)	-
Total revenue	258,299	68,130	10,884	-	(72,261)	265,052
Segment results	9,346	680	(2,194)	(547)	-	7,285
Finance income						125
Finance expense						(1,295)
Net foreign exchange gain						7,557
Income tax expense						(3,455)
Net profit for the period						10,217
Segment assets	187,950	108,980	25,227	3,257	-	325,414
Tax assets						5,456
Consolidated total assets						330,870
Segment liabilities	(66,089)	(11,570)	(4,134)	(1,424)	-	(83,217)
Loans and borrowings						(59,595)
Tax liabilities						(4,985)
Consolidated total liabilities						(147,797)
Other segment items						
Addition to non-current assets						
- property, plant and equipment	1,846	17	300	-	-	2,163
Depreciation	2,112	867	134	-	-	3,113
Amortisation	254	116	330	-	-	700

15. SEGMENTAL INFORMATION (Cont'd)

Financial period ended 30 June 2013	Sofa US$'000	Leather US$'000	Home Furnishing US$'000	Corporate US$'000	Elimination US$'000	Group US$'000
Revenue						
External sales	261,332	-	10,821	-	-	272,153
Inter-segment sales	4,700	84,886	231	-	(89,817)	-
Total revenue	266,032	84,886	11,052	-	(89,817)	272,153
Segment results	2,430	4,090	(806)	(426)	-	5,288
Finance income						112
Finance expense						(2,016)
Net foreign exchange loss						(2,221)
Income tax expense						(1,009)
Net period for the period						154
Segment assets	218,426	128,694	25,268	3,219	-	375,607
Tax assets						6,593
Consolidated total assets						382,200
Segment liabilities	(67,710)	(6,458)	(5,323)	(1,317)	-	(80,808)
Loans and borrowings						(127,191)
Tax liabilities						(2,467)
Consolidated total liabilities						(210,466)
Other segment items						
Addition to non-current assets						
- property, plant and equipment	526	492	55	-	-	1,073
- intangible assets	1,546	-	-	-	-	1,546
Depreciation	2,244	1,186	103	-	-	3,533
Amortisation	395	247	330	-	-	972

Secondary reporting format – geographical segments

The following table shows the distribution of the Group's consolidated sales by geographical market regardless of where the products were manufactured:

	6 months ended 30 Jun 2014	2013	Change	
	US$'000	US$'000	US$'000	%
Asia (excluding Greater China)	40,478	34,830	5,648	16.2
Greater China	2,638	2,309	329	14.2
Europe	122,663	122,904	(241)	(0.2)
North America	59,006	70,049	(11,043)	(15.8)
ANZ	39,301	40,943	(1,642)	(4.0)
Others	966	1,118	(152)	(13.6)
Total	265,052	272,153	(7,101)	(2.6)

15. SEGMENTAL INFORMATION (Cont'd)

The following table shows the distribution of the Group's non-current assets (excluding deferred tax assets) based on the geographical location of where the Company and its subsidiaries are located:

	Non-current assets (excluding deferred tax assets)	
	30 Jun 2014	**31 Dec 2013**
	US$'000	US$'000
Asia (excluding Greater China)	17,882	18,641
Europe	2,684	3,372
Greater China	32,245	33,338
Others	475	385
Total	53,286	55,736

16. CONFIRMATION PURSUANT TO RULE 705 (5) OF THE LISTING MANUAL

We, the undersigned, being two directors of HTL International Holdings Limited (the "Company") do hereby confirm on behalf of the directors of the Company that, to the best of their knowledge nothing has come to the attention of the Board of Directors of the Company which may render the unaudited financial results of the Group comprising the balance sheets (Group and Company), consolidated income statement, consolidated statement of comprehensive income, statements of changes in equity (Group and Company) and consolidated cash flow statement, (together with the accompanying notes) for the period ended 30 June 2014 to be false or misleading in any material respect.

On behalf of the Board of Directors,

Phua Yong Tat
Director

Phua Yong Sin
Director

BY ORDER OF THE BOARD

Jacqueline Loke
Company Secretary
13 August 2014