HTL INTERNATIONAL HOLDINGS LIMITED

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

First Quarter Financial Statements Announcement

For the Period Ended

31 March 2015

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1. CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

For the First Quarter Ended 31 March 2015 ("Q1 2015")

CONSOLIDATED INCOME STATEMENT

	Notes	The Group 3 months ended 31 Mar 2015 US$'000	2014 US$'000	Change %
Revenue		**109,067**	**119,945**	(9.1)
Cost of sales		(77,920)	(83,270)	(6.4)
Gross profit		**31,147**	**36,675**	(15.1)
Other operating income		986	2,589	(61.9)
Sales, marketing and distribution expenses		(26,774)	(29,269)	(8.5)
Administrative expenses		(7,838)	(8,461)	(7.4)
Other operating expenses		(233)	(68)	242.6
Operating (loss)/profit before finance income and expense and net foreign exchange gain	5A	**(2,712)**	**1,466**	NM
Finance income		23	69	(66.7)
Finance expense		(362)	(646)	(44.0)
Operating (loss)/profit before net foreign exchange gain		**(3,051)**	**889**	NM
Net foreign exchange gain*		3,121	2,537	23.0
Profit before tax		**70**	**3,426**	(98.0)
Income tax expense	5B	(647)	(770)	(16.0)
Net (loss)/profit for the period		**(577)**	**2,656**	NM
Attributable to:				
Owners of the Company		(582)	2,625	NM
Non-controlling interest		5	31	(83.9)
		(577)	**2,656**	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		2015 US$'000	2014 US$'000	Change %
Net (loss)/profit for the period		**(577)**	**2,656**	NM
Other comprehensive (loss)/income:				
Item that may be reclassified subsequently to income statement:				
Foreign currency translation arising from consolidation		(545)	(1,150)	(52.6)
Total comprehensive (loss)/income for the period		**(1,122)**	**1,506**	
Attributable to:				
Owners of the Company		(1,123)	1,471	NM
Non-controlling interest		1	35	(97.1)
		(1,122)	**1,506**	
Gross profit margin (GP%)		**28.6%**	**30.6%**	
Net (loss)/profit margin		**-0.5%**	**2.2%**	
EBITDA		**2,169**	**5,919**	
EBITDA before net foreign exchange gain		**(952)**	**3,382**	
EBITDA margin		**2.0%**	**4.9%**	
EBITDA margin before net foreign exchange gain		**-0.9%**	**2.8%**	

NM : Not meaningful

	The Group 3 months ended 31 Mar 2015 US$'000	2014 US$'000
Net foreign exchange gain comprises:		
Realised foreign exchange gain	6,147	1,214
Unrealised foreign exchange loss	(860)	(135)
Net fair value (loss)/gain on derivative financial instruments (1)	(2,166)	1,458
Total net foreign exchange gain*	**3,121**	**2,537**

Note:

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

2. BALANCE SHEETS

	Notes	The Group 31 Mar 2015 US$'000	The Group 31 Dec 2014 US$'000	The Company 31 Mar 2015 US$'000	The Company 31 Dec 2014 US$'000
Current assets					
Cash and short-term deposits		36,750	35,815	5	1
Trade and other receivables		46,505	52,844	7,516	7,533
Derivative financial instruments	(i)	-	282	-	-
Inventories	5C	146,613	147,898	-	-
Tax recoverable		37	38	-	-
Deposits		4,730	4,826	2,534	2,534
Prepayments		6,237	6,565	-	-
		240,872	**248,268**	**10,055**	**10,068**
Non-current assets					
Investments in subsidiaries		-	-	98,870	98,870
Property, plant and equipment		41,644	41,687	-	-
Intangible assets	5D	8,585	8,922	-	-
Deferred tax assets		4,523	5,065	-	-
Other receivables		460	688	-	-
		55,212	**56,362**	**98,870**	**98,870**
Total assets		**296,084**	**304,630**	**108,925**	**108,938**
Current liabilities					
Trade and other payables		65,580	83,181	4,378	3,928
Current income tax liabilities		4,589	5,012	-	-
Derivative financial instruments	(i)	1,884	-	-	-
Bank loans	5E	10,602	13,094	-	-
Bills payable	5E	35,376	22,857	-	-
Provision for warranty		4,489	5,403	-	-
		122,520	**129,547**	**4,378**	**3,928**
Non-current liabilities					
Bank loans	5E	35	113	-	-
Deferred tax liabilities		923	994	923	923
Advances from a subsidiary		-	-	36,052	37,152
		958	**1,107**	**36,975**	**38,075**
Total liabilities		**123,478**	**130,654**	**41,353**	**42,003**
Net assets		**172,606**	**173,976**	**67,572**	**66,935**
Equity attributable to owners of the Company					
Share capital	5F	67,982	67,982	67,982	67,982
Treasury shares	5F	(4,193)	(3,945)	(4,193)	(3,945)
Non-distributable reserves		29,245	29,786	(1,125)	(1,125)
Retained earnings		78,719	79,301	4,908	4,023
		171,753	173,124	67,572	66,935
Non-controlling interest		853	852	-	-
Total equity		**172,606**	**173,976**	**67,572**	**66,935**
Group net borrowings		**9,263**	**249**	**NA**	**NA**
Group net gearing (%)		**5.39**	**0.14**	**NA**	**NA**
Net tangible assets per share (cents)		**40.31**	**40.43**	**16.70**	**16.48**

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	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
Balance at 1 January 2015	67,982	(3,945)	911	19,141	(2,036)	11,770	79,301	173,124	852	173,976
Net (loss)/profit for the quarter	-	-	-	-	-	-	(582)	(582)	5	(577)
Other comprehensive (loss)/income										
Foreign currency translation arising from consolidation	-	-	-	(541)	-	-	-	(541)	(4)	(545)
Total comprehensive (loss)/income	-	-	-	(541)	-	-	(582)	(1,123)	1	(1,122)
Purchase of treasury shares	-	(248)	-	-	-	-	-	(248)	-	(248)
Balance at 31 March 2015	**67,982**	**(4,193)**	**911**	**18,600**	**(2,036)**	**11,770**	**78,719**	**171,753**	**853**	**172,606**
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**
Net loss for the quarter	-	-	-	-	-	-	(2,258)	(2,258)	-	(2,258)
Other comprehensive loss										
Foreign currency translation arising from consolidation	-	-	-	(744)	-	-	-	(744)	(32)	(776)
Total comprehensive loss	-	-	-	(744)	-	-	(2,258)	(3,002)	(32)	(3,034)
Dividends on ordinary shares	-	-	-	-	-	-	(3,267)	(3,267)	-	(3,267)
Balance at 30 September 2014	**67,982**	**(3,965)**	**911**	**19,256**	**(2,019)**	**11,715**	**82,017**	**175,897**	**875**	**176,772**
Net (loss)/profit for the quarter	-	-	-	-	-	-	(2,661)	(2,661)	8	(2,653)
Other comprehensive (loss)/income										
Foreign currency translation arising from consolidation	-	-	-	(115)	-	-	-	(115)	(31)	(146)
Total comprehensive loss	-	-	-	(115)	-	-	(2,661)	(2,776)	(23)	(2,799)
Treasury shares reissued pursuant to employee share option plan	-	20	-	-	(17)	-	-	3	-	3
Transfer from retained earnings to statutory reserve fund	-	-	-	-	-	55	(55)	-	-	-
	-	20	-	-	(17)	55	(55)	3	-	3
Balance at 31 December 2014	**67,982**	**(3,945)**	**911**	**19,141**	**(2,036)**	**11,770**	**79,301**	**173,124**	**852**	**173,976**

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 2015	67,982	(3,945)	911	(2,036)	4,023	66,935
Net profit for the quarter, representing total comprehensive income for the quarter	-	-	-	-	885	885
Purchase of treasury shares	-	(248)	-	-	-	(248)
Balance at 31 March 2015	**67,982**	**(4,193)**	**911**	**(2,036)**	**4,908**	**67,572**
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**
Net loss for the quarter, representing total comprehensive loss for the quarter	-	-	-	-	(1,071)	(1,071)
Dividends on ordinary shares	-	-	-	-	(3,267)	(3,267)
Balance at 30 September 2014	**67,982**	**(3,965)**	**911**	**(2,019)**	**34,860**	**97,769**
Net loss for the quarter, representing total comprehensive loss for the quarter	-	-	-	-	(30,837)	(30,837)
Treasury shares reissued pursuant to employee share option plan	-	20	-	(17)	-	3
Balance at 31 December 2014	**67,982**	**(3,945)**	**911**	**(2,036)**	**4,023**	**66,935**

4. CONSOLIDATED CASH FLOW STATEMENT

	The Group	
	3 months ended 31 Mar	
	2015	**2014**
	US$'000	US$'000
Operating activities		
Net (loss)/profit for the period	(577)	2,656
Adjustments for :		
Income tax expense	647	770
Depreciation of property, plant and equipment	1,448	1,558
Amortisation of intangible assets	312	358
Net loss on disposal of property, plant and equipment	16	14
Interest income	(23)	(69)
Interest expense	362	646
Property, plant and equipment written off	12	-
Warranty provision	2,440	2,495
Net fair value loss/(gain) on foreign exchange derivative instruments	2,166	(1,458)
Unrealised foreign exchange translation differences	92	(764)
Operating cash flows before changes in working capital	6,895	6,206
Inventories	1,285	(1,835)
Trade and other receivables, deposits and prepayments	6,991	8,626
Provision for warranty	(3,352)	(1,768)
Trade and other payables	(17,601)	(6,567)
Cash flows from operations	(5,782)	4,662
Income taxes paid	(612)	(781)
Net cash flows (used in)/from operating activities	**(6,394)**	**3,881**
Investing activities		
Proceeds from disposal of property, plant and equipment	2	7
Purchase of property, plant and equipment	(1,677)	(937)
Purchase of intangible assets	(47)	-
Interest received	23	69
Net cash flows used in investing activities	**(1,699)**	**(861)**
Financing activities		
Interest paid	(362)	(646)
Repayment of bank term loans	(2,326)	(2,361)
Proceeds from/(Repayment of) short-term borrowings	12,035	(10,394)
Purchase of treasury shares	(248)	-
Proceeds from re-issuance of treasury shares	-	16
Net cash flows from/(used in) financing activities	**9,099**	**(13,385)**
Net increase/(decrease) in cash and cash equivalents	**1,006**	**(10,365)**
Effect of exchange rate changes on cash and cash equivalents	(311)	(217)
Cash and cash equivalents at the beginning of the financial period	35,815	70,801
Cash and cash equivalents at the end of the financial period [(1)]	**36,510**	**60,219**
Free Cash Flow [(2)]	**(8,118)**	**2,944**

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

This is arrived at after charging the following:

	The Group	
	3 months ended 31 Mar	
	2015	2014
	US$'000	US$'000
Depreciation of property, plant and equipment	1,448	1,558
Amortisation of intangible assets	312	358
Total depreciation and amortisation	1,760	1,916
(Reversal of)/Allowance made for impairment of trade receivables	(238)	263
Bad trade debts written off	246	22
Allowance made for slow moving and obsolete inventories	379	292
Warranty and claim expenses	3,241	3,148
Employee benefits	21,561	21,263
Net loss on disposal of property, plant and equipment	16	14
Property, plant and equipment written off	12	-

B. Income tax expense

	The Group	
	3 months ended 31 Mar	
	2015	2014
	US$'000	US$'000
Tax expense attributable to profit is made up of:		
Current income taxes:		
- Current income tax	182	1,650
- Under/(over) provision in respect of previous years	8	(2)
Deferred income taxes:		
- Current deferred tax	457	(1,142)
- Over provision in respect of previous years	-	(99)
Withholding taxes (1)	-	363
	647	**770**

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

Due to lower profitability, the Group's income tax expense decreased from US$0.8 million in Q1 2014 to US$0.6 million in Q1 2015. The effective tax rate for Q1 2015, however, was higher due to losses from certain subsidiaries which could not be utilised to offset against the profits generated by other subsidiaries.

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

C. Inventories

	The Group	
	31 Mar 2015	**31 Dec 2014**
	US$'000	US$'000
Raw materials	59,829	65,452
Work-in-progress	28,324	23,577
Finished goods	58,460	58,869
	146,613	147,898

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 2014	**704**	**13,140**	**10,912**	**24,756**
Additions	-	-	42	42
Exchange rate adjustments	(84)	-	(160)	(244)
At 31 December 2014 and 1 January 2015	**620**	**13,140**	**10,794**	**24,554**
Additions	-	-	47	47
Write-off	-	-	(27)	(27)
Exchange rate adjustments	(67)	-	(8)	(75)
At 31 March 2015	**553**	**13,140**	**10,806**	**24,499**
Accumulated amortisation				
At 1 January 2014	**-**	**5,412**	**8,908**	**14,320**
Charge for the financial period	-	653	726	1,379
Exchange rate adjustments	-	-	(67)	(67)
At 31 December 2014 and 1 January 2015	**-**	**6,065**	**9,567**	**15,632**
Charge for the financial period	-	164	148	312
Write-off	-	-	(27)	(27)
Exchange rate adjustments	-	-	(3)	(3)
At 31 March 2015	**-**	**6,229**	**9,685**	**15,914**
Net book value				
At 31 December 2014	**620**	**7,075**	**1,227**	**8,922**
At 31 March 2015	**553**	**6,911**	**1,121**	**8,585**

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

E. Loans and borrowings

	The Group	
	31 Mar 2015	**31 Dec 2014**
	US$'000	US$'000
Current		
Bank overdrafts	240	-
Bank term loans	310	2,559
Short-term bank loans	10,052	10,535
	10,602	13,094
Bills payable	35,376	22,857
	45,978	35,951
Non-current		
Bank term loans	35	113
Total loans and borrowings	46,013	36,064

The Group's total loans and borrowings are unsecured except for the bank term loans of a subsidiary with a carrying amount of US$0.3 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 2015	416,563	(10,441)	67,982	(3,945)
Treasury shares purchased	-	(1,380)	-	(248)
At 31 March 2015	416,563	(11,821)	67,982	(4,193)
At 1 January 2014	416,563	(10,791)	67,982	(4,078)
Reissued pursuant to employee share option plans:				
- For cash on exercise of employee share options	-	300	-	16
- Loss transferred to capital reserve	-	-	-	97
	-	300	-	113
At 31 March 2014	416,563	(10,491)	67,982	(3,965)

Treasury shares

The Company is authorised by the shareholders to buy up to 10% of the ordinary shares of the Company. The Company acquired 1,379,600 (31 March 2014: 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$248,860 (31 March 2014: Nil) and this was presented as a separate component within shareholders' equity.

The Company has not reissued any treasury shares during the financial period pursuant to the HTL International Holdings Limited Share Option Plan 2002. In the corresponding period last year, the Company reissued 300,000 treasury shares pursuant to the HTL International Holdings Limited Share Option Plan 2002 at the weighted average exercise price of US$0.05 each for a cash consideration of US$16,000.

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

F. Share capital (Cont'd)

Share options

HTL International Holdings Limited Share Option Plan 2002

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 31 March 2015 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 period	Exercise price	Exercise Period
2009 Options	7,120,000	6,165,000	777,500	177,500	S$0.07	26.2.2010 - 26.2.2019

G. Earnings per share

	3 months ended 31 Mar 2015	3 months ended 31 Mar 2014
Earnings per share (US cents)		
- Basic	(0.14)	0.65
- Diluted	(0.14)	0.65

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 31 March 2015, 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 31 Mar	
	2015	2014
	US$'000	US$'000
Net (loss)/profit attributable to owners of the Company used to determine basic and diluted earnings per share	(582)	2,625
	No. of shares	No. of shares
	'000	'000
Weighted average number of ordinary shares used in the calculation of basic earnings per share	405,870	406,056
Adjustment for assumed conversion of share options	130	189
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	406,000	406,245
Diluted earnings per share (US cents)	(0.14)	0.65

H. Net asset per share

	The Group		The Company	
	As at 31 Mar 2015	As at 31 Dec 2014	As at 31 Mar 2015	As at 31 Dec 2014
Net asset value per ordinary share based on issued share capital as at the end of the respective period/year (US cents) *	42.44	42.63	16.70	16.48

* Based on issued share capital of 404,742,918 ordinary shares (excluding treasury shares) as at 31 March 2015 and 406,122,518 ordinary shares (excluding treasury shares) as at 31 December 2014.

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 2014.

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 2015.

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

With effect from 1 January 2015, the Group is reorganised into four business units – Sofa Business Unit ("BU"), Leather BU, Home Furnishing Retail BU and Corporate Office.

Under this new organisational structure, the Group's retail business is consolidated with the existing Home Furnishing BU and renamed "Home Furnishing Retail BU". The retail business, which was previously insignificant to the Group, formed part of the Sofa BU in prior years.

The reorganisation enabled the Group to sharpen its focus in each business unit and better grow the retail business, in line with the objectives set out in the 2014 Annual Report to move up the value chain.

The segmental information in this announcement has been presented based on the new organisational structure with the comparative information restated accordingly.

	(A)	(B)	(C) = (A) - (B)	
	Q1 2015 US$'000	**Q1 2014 [(1)] US$'000**	**Change US$'000**	%
Sofa Business Unit ("Sofa BU")				
- External	105,012	116,359	(11,347)	-9.8%
- Internal	915	396	519	
	105,927	**116,755**	**(10,828)**	
Leather Business Unit ("Leather BU")				
- Internal	**32,557**	**33,404**	**(847)**	-2.5%
Home Furnishing Retail Business Unit ("HFRBU")				
- External	4,055	3,586	469	13.1%
- Internal	1	71	(70)	
	4,056	**3,657**	**399**	
Less : Inter-segment sales	(33,473)	(33,871)	398	
Group Turnover	**109,067**	**119,945**	**(10,878)**	-9.1%

Notes:
(1) The comparatives have been restated due to the aforesaid Group's internal reorganisation.
(2) Core Business comprises the Sofa and Leather Business Units ("BU") and Corporate Office.
(3) Q1 2015/2014 – three months ended 31 March 2015/2014
(4) SG&A – represents the aggregate of total sales, marketing, distribution and administrative expenses

Q1 2015 vs. Q1 2014

Turnover

Revenue declined by 9.1% to US$109.1 million, mainly due to lower sales in North America and Asia (notably, Japan), and the weaker Euro, Japanese Yen ("JPY") and Australian Dollar ("AUD") against the United States Dollar ("USD"). This was partially offset by higher sales in Europe and Australia and New Zealand ("ANZ").

10. REVIEW OF GROUP PERFORMANCE (Cont'd)

Q1 2015 vs. Q1 2014 (Cont'd)

Profitability

The Group's gross profit margin fell from 30.6% in Q1 2014 to 28.6% in Q1 2015, predominantly due to the impact of weaker Euro, JPY and AUD against USD, increased raw material and labour costs in China, and higher factory fixed overhead costs per unit of production arising from lower sales volume. These were partly mitigated by lower leather usage.

Other operating income reduced by 61.9% to US$1.0 million in Q1 2015, mainly due to lower leather scrap sales to external parties and lower supplier rebate received by Domicil Home in Germany.

SG&A fell by 8.3% to US$34.6 million in Q1 2015, primarily as a result of lower revenue, partially offset by higher operating costs arising from expansion of retail presence in Asia.

With lower revenue, gross profit and other operating income, the Group posted operating loss before net foreign exchange gain and tax of US$3.1 million for Q1 2015, a reversal from an operating profit of US$0.9 million in Q1 2014.

Net foreign exchange gain increased by 23.0% to US$3.1 million in Q1 2015, largely attributable to higher realised gain on delivery of foreign exchange contracts, partly mitigated by higher unrealised mark-to-market loss on foreign exchange contracts and higher foreign exchange loss arising from payables/receivables.

Resulting from lower profitability, the Group's income tax expense reduced by 16.0% to US$0.6 million. The effective tax rate for Q1 2015, however, was higher due to losses from certain subsidiaries which could not be utilised to offset against the profits generated by other subsidiaries.

Overall, the Group incurred a loss of US$0.6 million for Q1 2015, compared to a profit of US$2.7 million for Q1 2014.

Analysis by Major Business Units

	Core Business (1)			Home Furnishing Retail		
	3 months ended 31 Mar		Change	3 months ended 31 Mar		Change
	2015	2014 (2)	%	2015	2014 (2)	%
	US$'000	US$'000		US$'000	US$'000	
Revenue (exclude inter-segment sales)	105,012	116,359	(9.8)	4,055	3,586	13.1
Operating (loss)/profit before net foreign exchange gain/(loss)	(104)	2,688	NM	(2,946)	(1,799)	63.8
EBITDA before net foreign exchange gain/(loss)	1,717	5,043	(66.0)	(2,669)	(1,661)	60.7
Net profit/(loss) for the period	2,382	4,488	(46.9)	(2,959)	(1,832)	61.5
Net margin	2.3%	3.9%		-73.0%	-51.1%	
Total net foreign exchange gain/(loss)	3,089	2,550		32	(13)	

Notes:

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

(2) The comparatives have been restated due to the Group's internal reorganisation.

NM : Not meaningful

10. REVIEW OF GROUP PERFORMANCE (Cont'd)

Analysis by Major Business Units (Cont'd)

Core Business

Sofa BU - Revenue by Regions

	3 months ended 31 Mar			
	2015	**2014 (1)**	**Change**	
	US$'000	US$'000	US$'000	**%**
Asia (excluding China)	13,390	18,170	(4,780)	(26.3)
China (including Hong Kong)	1,076	853	223	26.1
Europe	50,259	49,672	587	1.2
North America	22,937	30,751	(7,814)	(25.4)
ANZ	17,139	16,375	764	4.7
Others	211	538	(327)	(60.8)
Total (2)	105,012	116,359	(11,347)	(9.8)

Notes:

(1) The comparatives have been restated due to the Group's internal reorganisation.

(2) These exclude inter-segment sales.

Sofa BU posted lower revenue of US$105.0 million compared to US$116.4 million in Q1 2014, mainly due to lower sales in North America and Asia coupled with the weaker Euro, JPY and AUD against the USD. The lower sales in North America was due in part to extremely harsh winter weather and the US West Coast port strikes. The impact of these were partially offset by higher sales in Europe and ANZ, which increased by 1.2% to US$50.3 million and 4.7% to US$17.1 million respectively.

Europe continued to be HTL's largest market which accounted for 47.9% (Q1 2014: 42.7%) of the Core Business turnover, followed by North America (21.8%), ANZ (16.3%), and Asia (13.8%).

As a result of lower revenue and higher input costs, Core Business posted operating loss before net foreign exchange gain and tax of US$0.1 million in Q1 2015 compared to operating profit of US$2.7 million in Q1 2014.

Home Furnishing Retail BU

HFRBU's revenue improved by 13.1% to US$4.1 million, mainly due to the expansion of retail presence in China. Despite the improvement in turnover, HFRBU's operating loss before net foreign exchange gain and tax widened by 63.8% from US$1.8 million to US$2.9 million. This was primarily a result of higher SG&A costs arising from the development of retail presence in Asia, coupled with lower suppliers rebate received by Domicil Home in Germany.

Liquidity, financial and working capital resources

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

Trade and other receivables decreased by US$6.3 million to US$46.5 million, mainly due to lower sales in Q1 2015 coupled with the higher factoring without recourse. The average day sales outstanding ("DSO") as at 31 March 2015 remained stable at 1.3 months (31 December 2014: 1.3 months).

10. REVIEW OF GROUP PERFORMANCE (Cont'd)

Liquidity, financial and working capital resources (Cont'd)

Inventory reduced marginally by US$1.3 million to US$146.6 million, in tandem with lower revenue. The outstanding days in inventory ("DIO") was higher at 5.6 months as at 31 March 2015 (31 December 2014: 5.1 months) mainly due to the lower production volume and cost of sales as a result of shorter operating period in Q1 2015.

Trade and other payables reduced by US$17.6 million to US$65.6 million. This was mainly attributable to the lower business activities and higher payment made to suppliers as a result of higher leather procurement. Accordingly, the average day payables outstanding ("DPO") as at 31 March 2015 reduced to 2.5 months (31 December 2014: 2.9 months).

The Group's net borrowings (loans and borrowings less cash and short term deposits) increased from US$0.2 million as at 31 December 2014 to US$9.3 million as at 31 March 2015. This was mainly due to lower profitability and higher payment made to suppliers. Consequently, net gearing increased to 5.4% (31 December 2014: 0.1%) and the Group reported a negative free cash flow of US$8.1 million in Q1 2015 compared to positive free cash flow of US$2.9 million in Q1 2014.

11. VARIANCE FROM PROSPECT STATEMENT

No prospect statement was previously provided.

12. OUTLOOK

The operating environment in 2015 is expected to remain challenging. Weaknesses in the major economies and currencies of Europe, Japan and Australia and the slowdown in China are likely to persist, affecting consumer confidence and spending on discretionary and high value goods including sofas. Input costs are expected to stay high and wages at our production plants in China may rise further.

To combat these threats, HTL will further improve on its operational efficiency and cost effectiveness. The restructuring efforts that the Group had started will continue this year. Under-performing trading offices globally will be reorganised to better manage costs and capacity at our factories will be recalibrated more in line with expected demand going forward.

Our commitment to build a strong retail presence is demonstrated in the move to set up our own stores as well as franchise stores in China. The Group will continue to move up the value chain and expand its retail presence in China and South East Asia. These initiatives are expected to increase the Group's operating costs and will take time to bear fruit.

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.

13. KEY BUSINESS RISKS (Cont'd)

Macro Risks (Cont'd)

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 over two-thirds 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

<u>Foreign exchange risks</u>

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.

<u>Vulnerable to freight rate increases</u>

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 - None

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

(iii) Date payable – Not applicable

(iv) Books closure date – Not applicable

15. SEGMENTAL INFORMATION

	Sofa US$'000	Leather US$'000	Home Furnishing Retail US$'000	Corporate US$'000	Elimination US$'000	Group US$'000
Financial period ended 31 March 2015						
Revenue						
External sales	105,012	-	4,055	-	-	109,067
Inter-segment sales	915	32,557	1	-	(33,473)	-
Total revenue	105,927	32,557	4,056	-	(33,473)	109,067
Segment results	709	(150)	(2,934)	(337)	-	(2,712)
Finance income						23
Finance expense						(362)
Net foreign exchange gain						3,121
Income tax expense						(647)
Net loss for the period						(577)
Segment assets	164,874	100,403	22,991	3,256	-	291,524
Tax assets						4,560
Consolidated total assets						296,084
Segment liabilities	(51,763)	(12,232)	(6,509)	(1,449)	-	(71,953)
Loans and borrowings						(46,013)
Tax liabilities						(5,512)
Consolidated total liabilities						(123,478)
Other segment items						
Addition to non-current assets						
- property, plant and equipment	137	6	1,534	-	-	1,677
Depreciation	866	319	263	-	-	1,448
Amortisation	266	44	2	-	-	312

15. SEGMENTAL INFORMATION (Cont'd)

Financial period ended 31 March 2014	Sofa [1] US$'000	Leather US$'000	Home Furnishing Retail [1] US$'000	Corporate US$'000	Elimination US$'000	Group US$'000
Revenue						
External sales	116,359	-	3,586	-	-	119,945
Inter-segment sales	396	33,404	71	-	(33,871)	-
Total revenue	116,755	33,404	3,657	-	(33,871)	119,945
Segment results	3,899	(367)	(1,807)	(259)	-	1,466
Finance income						69
Finance expense						(646)
Net foreign exchange gain						2,537
Income tax expense						(770)
Net profit for the period						2,656
Segment assets	208,472	106,081	22,265	3,230	-	340,048
Tax assets						6,362
Consolidated total assets						346,410
Segment liabilities	(61,706)	(14,846)	(4,846)	(1,408)	-	(82,806)
Loans and borrowings						(85,034)
Tax liabilities						(3,248)
Consolidated total liabilities						(171,088)
Other segment items						
Addition to non-current assets						
- property, plant and equipment	451	3	483	-	-	937
Depreciation	986	436	136	-	-	1,558
Amortisation	289	59	10	-	-	358

Note:

(1) The comparatives have been restated due to the Group's internal reorganisation.

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:

	3 months ended 31 Mar 2015 US$'000	3 months ended 31 Mar 2014 US$'000	Change US$'000	Change %
Asia (excluding China)	15,190	20,391	(5,201)	(25.5)
China (including Hong Kong)	2,263	963	1,300	135.0
Europe	51,328	50,927	401	0.8
North America	22,937	30,751	(7,814)	(25.4)
ANZ	17,139	16,375	764	4.7
Others	210	538	(328)	(61.0)
Total	109,067	119,945	(10,878)	(9.1)

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)	
	31 Mar 2015 US$'000	**31 Dec 2014** US$'000
Asia (excluding China)	16,917	17,056
China (including Hong Kong)	31,725	31,705
Europe	1,695	2,141
Others	352	395
Total	50,689	51,297

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 quarter ended 31 March 2015 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
14 May 2015