HTL INTERNATIONAL HOLDINGS LIMITED

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

First Quarter Financial Statements Announcement

For the Period Ended

31 March 2013

CONTENTS

1. CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

For the First Quarter Ended 31 March 2013 ("Q1 2013")

CONSOLIDATED INCOME STATEMENT

	Notes	The Group 3 months ended 31 Mar 2013 US$'000	2012 US$'000	Change %
Revenue		**126,400**	**130,488**	**(3.1)**
Cost of sales		(86,786)	(86,864)	(0.1)
Gross profit		**39,614**	**43,624**	**(9.2)**
Other operating income		2,230	1,771	25.9
Sales, marketing and distribution expenses		(31,599)	(35,059)	(9.9)
Administrative expenses		(9,069)	(8,522)	6.4
Other operating expenses		(188)	(292)	(35.6)
Operating profit before finance income and expense and net foreign exchange (loss)/gain	A	**988**	**1,522**	(35.1)
Finance income		64	197	(67.5)
Finance expense		(1,023)	(1,063)	(3.8)
Operating profit before net foreign exchange (loss)/gain		**29**	**656**	(95.6)
Net foreign exchange (loss)/gain*		(1,471)	3,247	NM
(Loss)/profit before tax		**(1,442)**	**3,903**	NM
Income tax expense	B	(416)	(2,379)	(82.5)
Net (loss)/profit for the period		**(1,858)**	**1,524**	NM
Attributable to:				
Owners of the Company		(1,888)	1,458	NM
Non-controlling interest		30	66	(54.5)
		(1,858)	**1,524**	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2013	2012	Change %
Net (loss)/profit for the period	**(1,858)**	**1,524**	NM
Other comprehensive loss:			
Item that may be reclassified subsequently to income statement:			
Foreign currency translation arising from consolidation	(872)	(485)	79.8
Total comprehensive (loss)/income for the period	**(2,730)**	**1,039**	
Attributable to:			
Owners of the Company	(2,723)	995	NM
Non-controlling interest	(7)	44	NM
	(2,730)	**1,039**	
Gross profit margin (GP%)	**31.3%**	**33.4%**	
Net profit margin	**-1.5%**	**1.2%**	
EBITDA	**1,764**	**7,152**	
EBITDA before net foreign exchange (loss)/gain	**3,235**	**3,905**	
EBITDA margin	**1.4%**	**5.5%**	
EBITDA margin before net foreign exchange (loss)/gain	**2.6%**	**3.0%**	

	The Group 3 months ended 31 Mar 2013 US$'000	2012 US$'000
Net foreign exchange (loss)/gain comprises:		
Realised foreign exchange (loss)/gain	(1,375)	1,088
Unrealised foreign exchange gain	63	3,182
Net fair value loss on derivative financial instruments [1]	(159)	(1,023)
Total net foreign exchange (loss)/gain*	**(1,471)**	**3,247**

Note:

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

2. BALANCE SHEETS

	Notes	The Group 31 Mar 2013 US$'000	The Group 31 Dec 2012 US$'000	The Company 31 Mar 2013 US$'000	The Company 31 Dec 2012 US$'000
Current assets					
Cash and short-term deposits		72,087	76,679	4	7
Trade and other receivables		53,003	62,778	8,663	8,673
Inventories	C	200,961	206,167	-	-
Tax recoverable		389	392	-	-
Deposits		4,793	4,946	2,534	2,534
Prepayments		8,493	7,425	-	-
		339,726	**358,387**	**11,201**	**11,214**
Non-current assets					
Investments in subsidiaries		-	-	134,154	134,154
Advances to a subsidiary		-	-	10,454	10,396
Property, plant and equipment		47,267	48,999	-	-
Intangible assets	D	10,359	10,703	-	-
Deferred tax assets		6,124	5,789	-	-
Other receivables		2,009	2,194	-	-
		65,759	**67,685**	**144,608**	**144,550**
Total assets		**405,485**	**426,072**	**155,809**	**155,764**
Current liabilities					
Trade and other payables		69,494	86,364	4,022	4,100
Current income tax liabilities		828	1,705	-	-
Derivative financial instruments	(i)	1,907	1,747	-	-
Loans and borrowings	E	141,177	138,313	-	-
Provision for warranty		3,461	4,249	-	-
		216,867	**232,378**	**4,022**	**4,100**
Non-current liabilities					
Loans and borrowings	E	17,978	20,348	-	-
Deferred tax liabilities		1,272	1,272	1,272	1,272
Advances from a subsidiary		-	-	23,815	23,512
		19,250	**21,620**	**25,087**	**24,784**
Total liabilities		**236,117**	**253,998**	**29,109**	**28,884**
Net assets		**169,368**	**172,074**	**126,700**	**126,880**
Equity attributable to owners of the Company					
Share capital	F	67,982	67,982	67,982	67,982
Treasury shares	F	(4,510)	(4,670)	(4,510)	(4,670)
Non-distributable reserves		28,414	29,385	(642)	(506)
Retained earnings		76,640	78,528	63,870	64,074
		168,526	171,225	126,700	126,880
Non-controlling interest		842	849	-	-
Total equity		**169,368**	**172,074**	**126,700**	**126,880**
Group net borrowings		**87,068**	**81,982**	**NA**	**NA**
Group net gearing (%)		**51.66**	**47.88**	**NA**	**NA**
Net tangible assets per share (cents)		**39.09**	**39.71**	**31.31**	**31.39**

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 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**
Balance at 1 January 2012	67,982	(5,107)	911	186	18,716	(1,045)	10,753	74,645	167,041	771	167,812
Net profit for the quarter	-	-	-	-	-	-	-	1,458	1,458	66	1,524
Other comprehensive loss											
Foreign currency translation arising from consolidation	-	-	-	-	(463)	-	-	-	(463)	(22)	(485)
Total comprehensive (loss)/income	-	-	-	-	(463)	-	-	1,458	995	44	1,039
Treasury shares reissued pursuant to employee share option plan	-	253	-	-	-	(216)	-	-	37	-	37
Transfer from retained earnings to statutory reserve fund	-	-	-	-	-	-	13	(13)	-	-	-
	-	253	-	-	-	(216)	13	(13)	37	-	37
Balance at 31 March 2012	**67,982**	**(4,854)**	**911**	**186**	**18,253**	**(1,261)**	**10,766**	**76,090**	**168,073**	**815**	**168,888**
Net profit for the quarter	-	-	-	-	-	-	-	4,072	4,072	14	4,086
Other comprehensive income/(loss)											
Foreign currency translation arising from consolidation	-	-	-	-	27	-	-	-	27	(11)	16
Total comprehensive income	-	-	-	-	27	-	-	4,072	4,099	3	4,102
Treasury shares reissued pursuant to employee share option plan	-	184	-	-	-	(156)	-	-	28	-	28
Dividends on ordinary shares	-	-	-	-	-	-	-	(3,211)	(3,211)	-	(3,211)
	-	184	-	-	-	(156)	-	(3,211)	(3,183)	-	(3,183)
Balance at 30 June 2012	**67,982**	**(4,670)**	**911**	**186**	**18,280**	**(1,417)**	**10,766**	**76,951**	**168,989**	**818**	**169,807**
Net profit for the quarter	-	-	-	-	-	-	-	1,382	1,382	39	1,421
Other comprehensive (loss)/income											
Foreign currency translation arising from consolidation	-	-	-	-	(34)	-	-	-	(34)	9	(25)
Total comprehensive (loss)/income	-	-	-	-	(34)	-	-	1,382	1,348	48	1,396
Balance at 30 September 2012	**67,982**	**(4,670)**	**911**	**186**	**18,246**	**(1,417)**	**10,766**	**78,333**	**170,337**	**866**	**171,203**
Net profit for the quarter	-	-	-	-	-	-	-	748	748	26	774
Other comprehensive income/(loss)											
Foreign currency translation arising from consolidation	-	-	-	-	140	-	-	-	140	(43)	97
Total comprehensive income/(loss)	-	-	-	-	140	-	-	748	888	(17)	871
Transfer from retained earnings to statutory reserve fund	-	-	-	-	-	-	553	(553)	-	-	-
Balance at 31 December 2012	**67,982**	**(4,670)**	**911**	**186**	**18,386**	**(1,417)**	**11,319**	**78,528**	**171,225**	**849**	**172,074**

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 2013	67,982	(4,670)	911	(1,417)	64,074	126,880
Net loss for the quarter, representing total comprehensive income 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**
Balance at 1 January 2012	67,982	(5,107)	911	(1,045)	66,103	128,844
Net loss for the quarter, representing total comprehensive income for the quarter	-	-	-	-	(551)	(551)
Treasury shares reissued pursuant to employee share option plan	-	253	-	(216)	-	37
Balance at 31 March 2012	**67,982**	**(4,854)**	**911**	**(1,261)**	**65,552**	**128,330**
Net profit for the quarter, representing total comprehensive income for the quarter	-	-	-	-	147	147
Treasury shares reissued pursuant to employee share option plan	-	184	-	(156)	-	28
Dividends on ordinary shares	-	-	-	-	(3,211)	(3,211)
	-	184	-	(156)	(3,211)	(3,183)
Balance at 30 June 2012	**67,982**	**(4,670)**	**911**	**(1,417)**	**62,488**	**125,294**
Net profit for the quarter, representing total comprehensive income for the quarter	-	-	-	-	104	104
Balance at 30 September 2012	**67,982**	**(4,670)**	**911**	**(1,417)**	**62,592**	**125,398**
Net profit for the quarter, representing total comprehensive income for the quarter	-	-	-	-	1,482	1,482
Balance at 31 December 2012	**67,982**	**(4,670)**	**911**	**(1,417)**	**64,074**	**126,880**

4. CONSOLIDATED CASH FLOW STATEMENT

	The Group	
	3 months ended 31 Mar	
	2013	**2012**
	US$'000	US$'000
Operating activities		
Net (loss)/profit for the period	(1,858)	1,524
Adjustments for :		
Income tax expense	416	2,379
Depreciation on property, plant and equipment	1,833	1,906
Amortisation of intangible assets	414	477
Net loss on disposal of property, plant and equipment	4	17
Goodwill written off	-	9
Interest income	(64)	(197)
Interest expense	1,023	1,063
Net fair value loss on foreign exchange derivative instruments	159	1,023
Unrealised foreign exchange translation gain	(291)	(254)
Operating cash flows before changes in working capital:	1,636	7,947
Inventories	5,206	(6,308)
Trade and other receivables, deposits and prepayments	9,045	(8,228)
Provision for warranty	(788)	418
Trade and other payables	(16,870)	(5,657)
Cash flows used in operations	(1,771)	(11,828)
Income taxes paid	(1,634)	(3,204)
Net cash flows used in operating activities	**(3,405)**	**(15,032)**
Investing activities		
Net cash inflow on acquisition of a subsidiary	-	189
Proceeds from disposal of property, plant and equipment	5	6
Purchase of property, plant and equipment	(659)	(476)
Purchase of intangible assets	(92)	(237)
Interest received	64	197
Net cash flows used in investing activities	**(682)**	**(321)**
Financing activities		
Interest paid	(1,023)	(1,063)
Repayment of obligation under finance leases	-	(42)
Repayment of bank term loans	(174)	(11,144)
Proceeds from short term borrowings	668	7,238
Proceeds from re-issuance of treasury shares	24	37
Net cash flows used in financing activities	**(505)**	**(4,974)**
Net decrease in cash and cash equivalents	**(4,592)**	**(20,327)**
Cash and cash equivalents at the beginning of the financial period	76,679	88,111
Cash and cash equivalents at the end of the financial period (1)	**72,087**	**67,784**
Free Cash Flow(2)	**(4,156)**	**(15,745)**

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 generated from operating activities less capital expenditure.

4. CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

On 12 January 2012 (the "Acquisition Date"), the Company acquired 100% of the quota capital of Corium Italia S.R.L. ("Corium"). Corium is a company incorporated in Italy engaged in product development, design, manufacturing and sales.

The fair value of the identifiable assets and liabilities of Corium as at the Acquisition Date were:

	Note	2012 US$'000
Current assets		
Cash and short-term deposits *		189
Trade and other receivables		739
Inventories		237
		1,165
Non-current assets		
Property, plant and equipment		14
Intangible assets	D	4
		18
Total assets		**1,183**
Current liabilities		
Trade and other payables		952
Current income tax liabilities		42
		994
Total liabilities		**994**
Total identifiable net assets at fair value		189
Goodwill arising from acquisition		9
		198
<u>Consideration transferred for the acquisition of Corium</u>		
Deferred cash settlement recorded as other payables		198
Total consideration transferred		**198**
<u>Effect of the acquisition of Corium on cash flows</u>		
Total consideration for 100% equity interest acquired		198
Less: Deferred cash settlement		(198)
Consideration settled in cash		-
Less: Cash and short-term deposits of subsidiary acquired *		(189)
Net cash inflow on acquisition		**189**

5. NOTES TO THE FINANCIAL STATEMENTS

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

This is arrived at after charging the following:

	The Group	
	3 months ended 31 Mar	
	2013	**2012**
	US$'000	US$'000
Depreciation on property, plant and equipment	1,833	1,906
Amortisation of intangible assets	414	477
Total depreciation and amortisation	2,247	2,383
Allowance made for impairment of trade receivables	194	174
Allowance made for slow moving and obsolete inventories	323	258
Warranty expenses	2,345	2,719
Employee benefits	21,432	20,867
Goodwill written off	-	9
Net loss on disposal of property, plant and equipment	4	17

B. Income tax expense

	The Group	
	3 months ended 31 Mar	
	2013	**2012**
	US$'000	US$'000
Tax expense attributable to profit is made up of:		
Current income taxes:		
- Current income tax	713	2,229
- Under provision in respect of previous years	88	-
Deferred income taxes:		
- Current deferred tax	(385)	150
	416	**2,379**

Note:

In line with the lower profitability, the Group's income tax expense for Q1 2013 reduced from US$2.4 million in Q1 2012 to US$0.4 million.

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

C. **Inventories**

	The Group	
	31 Mar 2013	**31 Dec 2012**
	US$'000	US$'000
Raw materials	99,237	102,263
Work-in-progress	28,170	25,717
Finished goods	73,554	78,187
	200,961	206,167

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 2012	**661**	**13,140**	**8,450**	**22,251**
Additions	-	-	1,056	1,056
Acquisition of a subsidiary	-	-	4	4
Exchange rate adjustments	14	-	1	15
At 31 December 2012 and 1 January 2013	**675**	**13,140**	**9,511**	**23,326**
Additions	-	-	92	92
Exchange rate adjustments	(22)	-	-	(22)
At 31 March 2013	**653**	**13,140**	**9,603**	**23,396**
Accumulated amortisation				
At 1 January 2012	**-**	**4,106**	**6,533**	**10,639**
Charge for the financial period	-	653	1,331	1,984
At 31 December 2012 and 1 January 2013	**-**	**4,759**	**7,864**	**12,623**
Charge for the financial period	-	164	250	414
At 31 March 2013	**-**	**4,923**	**8,114**	**13,037**
Net book value				
At 31 December 2012	**675**	**8,381**	**1,647**	**10,703**
At 31 March 2013	**653**	**8,217**	**1,489**	**10,359**

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

E. **Loans and borrowings**

	The Group	
	31 Mar 2013	**31 Dec 2012**
	US$'000	US$'000
Current		
Trust receipts and bank bill payables	68,478	76,258
Bank term loans	11,217	9,178
Short-term bank loans	61,482	52,877
	141,177	138,313
Non-current		
Bank term loans	17,978	20,348
	17,978	20,348
Total loans and borrowings	159,155	158,661

The Group's total loans and borrowings are unsecured except for the bank term loans of a subsidiary with a carrying amount of US$1.3 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 2013	416,563	(12,358)	67,982	(4,670)
Reissued pursuant to employee share option plans:				
- For cash on exercise of employee share options	-	424	-	24
- Loss transferred to capital reserve	-	-	-	136
	-	424	-	160
At 31 March 2013	416,563	(11,934)	67,982	(4,510)
At 1 January 2012	416,563	(13,513)	67,982	(5,107)
Reissued pursuant to employee share option plans:				
- For cash on exercise of employee share options	-	670	-	37
- Loss transferred to capital reserve	-	-	-	216
	-	670	-	253
At 31 March 2012	416,563	(12,843)	67,982	(4,854)

Treasury shares

The Company is authorised by the shareholders to buy up to 10% of the ordinary shares of the Company. Acquired shares are held as treasury shares and presented as a separate component within shareholders' equity. The Company did not purchase treasury shares during the financial period.

The Company reissued 423,800 (31 March 2012: 669,950) treasury shares during the financial period pursuant to the HTL International Holdings Limited Share Option Plan 2002 ("The Plan") at the weighted average exercise price of US$0.06 (31 March 2012: US$0.06) each for a cash consideration of US$24,000 (31 March 2012: US$37,000).

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

F. Share capital (Cont'd)

Share options

HTL International Holdings Limited Share Option Plan 2002 ("The Plan")

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 remain outstanding as at 31 March 2013 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
2004 Options	4,502,250	1,538,250	1,454,000	1,510,000	S$0.82	19.6.2005 - 18.6.2014
2009 Options	7,120,000	4,665,000	777,500	1,677,500	S$0.07	26.2.2010 - 26.2.2019
	11,622,250	6,203,250	2,231,500	3,187,500		

G. Earnings per share

	3 months ended 31 Mar 2013	2012
Earnings per share (US cents)		
- Basic	(0.47)	0.36
- Diluted	(0.47)	0.36

Basic earnings per share is calculated by dividing the net (loss)/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 (loss)/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 2013, 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 (loss)/profit – numerator.

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

G. Earnings per share (Cont'd)

	3 months ended 31 Mar 2013	3 months ended 31 Mar 2012
	US$'000	US$'000
Net (loss)/profit attributable to owners of the Company used to determine basic and diluted earnings per share	(1,888)	1,458
	No. of shares	**No. of shares**
	'000	'000
Weighted average number of ordinary shares used in the calculation of basic earnings per share	404,262	403,124
Adjustment for assumed conversion of share options	1,602	2,738
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	405,864	405,862
Diluted earnings per share	(0.47)	0.36

H. Net asset per share

	The Group		The Company	
	As at 31 Mar 2013	As at 31 Dec 2012	As at 31 Mar 2013	As at 31 Dec 2012
Net asset value per ordinary share based on issued share capital as at the end of the respective period (US cents) *	41.65	42.36	31.31	31.39

* Based on issued share capital of 404,629,518 ordinary shares (excluding treasury shares) as at 31 March 2013 and 404,205,718 ordinary shares (excluding treasury shares) as at 31 December 2012.

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 2012.

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 2013.

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)	
	Q1 2013 US$'000	**Q1 2012 US$'000**	**Changes US$'000**	%
Sofa Business Unit ("Sofa BU")				
- External	121,084	123,275	(2,191)	-1.8%
- Internal	2,049	2,365	(316)	
	123,133	**125,640**	**(2,507)**	
Leather Business Unit ("Leather BU")				
- Internal	**42,581**	**42,611**	**(30)**	-0.1%
Home Furnishing Business Unit ("HFBU")				
- External	5,316	7,213	(1,897)	-26.3%
- Internal	146	69	77	
	5,462	**7,282**	**(1,820)**	
Less : Inter-segment sales	(44,776)	(45,045)	269	
Group Turnover	**126,400**	**130,488**	**(4,088)**	-3.1%

Notes:

(i) Core Business comprises the Sofa, Leather Business Units ("BU") and Corporate Office
(ii) Q1 2013/2012 – three months ended 31 March 2013/2012
(iii) SG&A – represents the aggregate of total sales, marketing, distribution and administrative expenses

Q1 2013 vs. Q1 2012

Turnover

The Group's revenue for Q1 2013 declined by 3.1% to US$126.4 million from US$130.5 million in Q1 2012 mainly due to weak market sentiments in Europe and Japan and weaker Euro and Japanese Yen against the US Dollar (presentation currency).

10. REVIEW OF GROUP PERFORMANCE (Cont'd)

Profitability

The Group's GP margin reduced by 2.1% from 33.4% to 31.3%, as input costs continued to rise. Our selling price adjustments to customers still lagged behind these input costs increases.

Lower turnover and further cost-cutting initiatives have reduced SG&A by 6.7% from US$43.6 million in Q1 2012 to US$40.7 million in Q1 2013.

The above factors resulted in a 95.6% decline in operating profit before net foreign exchange (loss)/gain and tax from US$656,000 in Q1 2012 to US$29,000 in Q1 2013.

The Group recorded a net foreign exchange loss of US$1.5 million in Q1 2013 as compared to a gain of US$3.2 million in Q1 2012 mainly due to the weaker Japanese Yen and Euro against US Dollar.

With lower profitability, income tax expense fell by 82.5% from US$2.4 million in Q1 2012 to US$0.4 million in Q1 2013.

Consequently, the Group reported a net loss of US$1.9 million, as compared to a net profit of US$1.5 million in Q1 2012.

Analysis by Major Business Units ("BU")

	Core Business [1]			Home Furnishing		
	3 months ended 31 Mar		Change	3 months ended 31 Mar		Change
	2013	2012	%	2013	2012	%
	US$'000	US$'000		US$'000	US$'000	
Revenue (exclude inter-segment sales)	121,084	123,275	(1.8)	5,316	7,213	(26.3)
Operating profit/(loss) before net foreign exchange (loss)/gain	399	1,790	(77.7)	(370)	(1,134)	(67.4)
EBITDA before net foreign exchange (loss)/gain	3,400	4,642	(26.8)	(165)	(737)	(77.6)
Net (loss)/profit for the period	(1,595)	2,614	NM	(263)	(1,090)	(75.9)
Net margin	-1.3%	2.1%		-4.9%	-15.1%	
Total net foreign exchange (loss)/gain	(1,585)	3,223		114	24	

Note:

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

NM : Not meaningful

10. REVIEW OF GROUP PERFORMANCE (Cont'd)

Analysis by Major Business Units ("BU") (Cont'd)

Core Business

Sofa BU - Revenue by Regions

	3 months ended 31 Mar			
	2013	**2012**	**Change**	
	US$'000	US$'000	US$'000	**%**
Asia (excluding Greater China)	14,809	17,173	(2,364)	(13.8)
Greater China	720	1,229	(509)	(41.4)
Europe	54,358	58,837	(4,479)	(7.6)
North America	32,055	29,771	2,284	7.7
ANZ	18,692	15,938	2,754	17.3
Others	450	327	123	37.6
Total *	121,084	123,275	(2,191)	(1.8)

* Exclude inter-segment sales

Except for North America and Australia and New Zealand (ANZ), our key markets in the Sofa BU reported weaker revenue in Q1 2013. This was underpinned by the subdued economic outlook and weaker Euro and Japanese Yen against US Dollar (presentation currency). If the weaker Euro and Japanese Yen were disregarded, the Core Business's revenue for Q1 2013 would have been higher at US$122.9 million, which was 0.3% or US$0.4 million lower than that reported in Q1 2012.

Europe remains our largest market, accounting for 44.9% (Q1 2012: 47.7%) of the Core Business's turnover. North America sales continued to expand with a growth of 7.7% to US$32.1 million whilst revenue from ANZ was up 17.3% to US$18.7 million.

With lower revenue and rising input costs, our Core Business's operating profit before net foreign exchange (loss) gain and tax fell by 77.7% from US$1.8 million in Q1 2012 to US$0.4 million in Q1 2013.

Home Furnishing BU ("HFBU")

HFBU's revenue decreased by 26.3% from US$7.2 million in Q1 2012 to US$5.3 million in Q1 2013 due to weaker market sentiments. Nevertheless, as a result of tight cost control, it was able to lower its operating loss before net foreign exchange gain and tax to US$0.4 million [Q1 2012: US$1.1 million].

Liquidity, financial and working capital resources

Trade and other receivables decreased by US$9.8 million from US$62.8 million to US$53.0 million, in line with the lower sales in Q1 2013. The average day sales outstanding ("DSO") as at 31 March 2013 remained constant at 1.3 months (31 December 2012: 1.3 months).

Inventory decreased by US$5.2 million to US$201.0 million due to lower procurement activities in view of sufficient stock carried. However, the outstanding days in inventory ("DIO") as at 31 March 2013 was higher at 6.9 months (31 December 2012: 6.3 months) mainly due to the lower production volume and cost of sales as a result of shorter operating period in Q1 2013.

Trade and other payables decreased by US$16.9 million as compared to previous year end, in tandem with the lower procurement activities. The average day payables outstanding ("DPO") as at 31 March 2013 remained relatively stable at 2.4 months (31 December 2012: 2.6 months).

10. REVIEW OF GROUP PERFORMANCE (Cont'd)

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

The Group's net borrowings (loans and borrowings less cash and short term deposits) increased by US$5.1 million from US$82.0 million as at 31 December 2012 to US$87.1 million as at 31 March 2013, mainly for payment to trade creditors due to increased leather procurement in the last few months of 2012. Consequently, net gearing increased to 51.7% (31 December 2012: 47.9%).

Negative free cash flow ("FCF"), however, was reduced to US$4.2 million in Q1 2013 from US$15.7 million in Q1 2012, mainly due to lower procurement in Q1 2013.

11. VARIANCE FROM PROSPECT STATEMENT

No variance from previous statement.

12. PROSPECTS

There are tentative signs of economic recovery at different pace in various major economies worldwide. The Group will continue to be nimble and responsive to changes and opportunities in the marketplace.

While factors such as raw leather hide prices and volatility of foreign currencies are beyond the Group's control, HTL is focused on finding new ways to restructure and better control input costs, improve its supply chain efficiency, achieve higher sales and lower costs.

It expects its operating environment to remain challenging in 2013.

13. KEY BUSINESS RISKS

Macro Risks

Commodity risks

Raw leather hide is the principal raw material in the Group's upholstered furniture accounting for more than 50% 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 the increased contribution from the Europe and US markets which now account for more than 70% of the Group's turnover. In general, shipment of goods will be lower from July to August (i.e. the summer months) relative to shipments for other months in a calendar year. Hence, the Group's turnover will experience seasonality effect which may cause short term fluctuations on the Group's performance.

13. KEY BUSINESS RISKS (Cont'd)

Macro Risks (Cont'd)

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. Effective from 1 July 2007, export VAT rebates for the Group's product segments had been reduced for finished leather, 8% to nil and for sofa upholstery from 13% to 11%. 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, 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. Any changes to expand the classification 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.

Company Risks

Foreign exchange risks

The global financial markets remain volatile. The Group primarily transacts in US Dollar 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 sited outside of Singapore notably China. Consequently, any movement between Renminbi (RMB) and US Dollar will also affect the Group's currency exposure risks. Therefore, any significant adverse movements in the major trading currencies against US Dollar will 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 50 countries across 6 continents and relies on shipping companies for the shipment of its products to these countries. As such, one of the costs that the Group will bear when it sells on Cost, Insurance and Freight (CIF), Delivered Duty Unpaid (DDU) or Cost and Freight (CFR) terms or where it purchases on Free on Board (FOB) term, is freight costs. The freight market has been extremely volatile and changes in oil prices will also have an effect on freight rates. 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 therefore, it is difficult for the Group to manage its freight costs. The Group will endeavour to 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 - 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 US$'000	Corporate US$'000	Elimination US$'000	Group US$'000
Financial period ended 31 March 2013						
Revenue						
External sales	121,084	-	5,316	-	-	126,400
Inter-segment sales	2,049	42,581	146	-	(44,776)	-
Total revenue	123,133	42,581	5,462	-	(44,776)	126,400
Segment results	(794)	2,453	(385)	(286)	-	988
Finance income						64
Finance expense						(1,023)
Net foreign exchange loss						(1,471)
Income tax expense						(416)
Net loss for the period						(1,858)
Segment assets	215,922	154,496	25,303	3,251	-	398,972
Tax assets						6,513
Consolidated total assets						405,485
Segment liabilities	(57,846)	(10,837)	(4,769)	(1,410)	-	(74,862)
Loans and borrowings						(159,155)
Tax liabilities						(2,100)
Consolidated total liabilities						(236,117)
Other segment items						
Addition to non-current assets						
- property, plant and equipment	189	423	47	-	-	659
- intangible assets	92	-	-	-	-	92
Depreciation	1,134	644	55	-	-	1,833
Amortisation	125	124	165	-	-	414

15. SEGMENTAL INFORMATION (Cont'd)

	Sofa US$'000	Leather US$'000	Home Furnishing US$'000	Corporate US$'000	Elimination US$'000	Group US$'000
Financial period ended 31 March 2012						
Revenue						
External sales	123,275	-	7,213	-	-	130,488
Inter-segment sales	2,365	42,611	69	-	(45,045)	-
Total revenue	125,640	42,611	7,282	-	(45,045)	130,488
Segment results	234	2,631	(1,093)	(250)	-	1,522
Finance income						197
Finance expense						(1,063)
Net foreign exchange gain						3,247
Income tax expense						(2,379)
Net profit for the period						1,524
Segment assets	228,771	125,515	32,350	3,253	-	389,889
Tax assets						5,496
Consolidated total assets						395,385
Segment liabilities	(63,037)	(11,076)	(9,229)	(2,144)	-	(85,486)
Loans and borrowings						(137,333)
Tax liabilities						(3,678)
Consolidated total liabilities						(226,497)
Other segment items						
Addition to non-current assets						
- property, plant and equipment	173	250	53	-	-	476
- intangible assets	237	-	-	-	-	237
Depreciation	1,172	667	67	-	-	1,906
Amortisation	95	93	289	-	-	477
Goodwill written off	9	-	-	-	-	9

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 2013 US$'000	2012 US$'000	Change US$'000	%
Asia (excluding Greater China)	15,599	18,084	(2,485)	(13.7)
Greater China	823	1,304	(481)	(36.9)
Europe	57,762	64,195	(6,433)	(10.0)
North America	32,857	30,374	2,483	8.2
ANZ	18,847	16,126	2,721	16.9
Others	512	405	107	26.4
Total	126,400	130,488	(4,088)	(3.1)

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 2013 US$'000	**31 Mar 2012** US$'000
Asia (excluding Greater China)	20,560	22,481
Europe	3,031	1,360
Greater China	35,556	38,771
Others	488	369
Total	59,635	62,981

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 interim 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 2013 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 2013