HTL INTERNATIONAL HOLDINGS LIMITED

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

First Quarter Financial Statements Announcement

For the Period Ended

31 March 2014

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1. CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

For the First Quarter Ended 31 March 2014 ("Q1 2014")

CONSOLIDATED INCOME STATEMENT

	Notes	The Group 3 months ended 31 Mar 2014 US$'000	2013 US$'000	Change %
Revenue		**119,945**	**126,400**	**(5.1)**
Cost of sales		(83,270)	(86,786)	(4.1)
Gross profit		**36,675**	**39,614**	**(7.4)**
Other operating income		2,589	2,230	16.1
Sales, marketing and distribution expenses		(29,269)	(31,599)	(7.4)
Administrative expenses		(8,461)	(9,069)	(6.7)
Other operating expenses		(68)	(188)	(63.8)
Operating profit before finance income and expense and net foreign exchange gain/(loss)	5A	**1,466**	**988**	48.4
Finance income		69	64	7.8
Finance expense		(646)	(1,023)	(36.9)
Operating profit before net foreign exchange gain/(loss)		**889**	**29**	2,965.5
Net foreign exchange gain/(loss)*		2,537	(1,471)	NM
Profit/(loss) before tax		**3,426**	**(1,442)**	NM
Income tax expense	5B	(770)	(416)	85.1
Net profit/(loss) for the period		**2,656**	**(1,858)**	NM
Attributable to:				
Owners of the Company		2,625	(1,888)	NM
Non-controlling interest		31	30	3.3
		2,656	**(1,858)**	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2014 US$'000	2013 US$'000	Change %
Net profit/(loss) for the period	**2,656**	**(1,858)**	NM
Other comprehensive loss:			
Item that may be reclassified subsequently to income statement:			
Foreign currency translation arising from consolidation	(1,150)	(872)	31.9
Total comprehensive income/(loss) for the period	**1,506**	**(2,730)**	
Attributable to:			
Owners of the Company	1,471	(2,723)	NM
Non-controlling interest	35	(7)	NM
	1,506	**(2,730)**	
Gross profit margin (GP%)	**30.6%**	**31.3%**	
Net profit margin	**2.2%**	**-1.5%**	
EBITDA	**5,919**	**1,764**	
EBITDA before net foreign exchange gain/(loss)	**3,382**	**3,235**	
EBITDA margin	**4.9%**	**1.4%**	
EBITDA margin before net foreign exchange gain/(loss)	**2.8%**	**2.6%**	

NM : Not meaningful

	The Group 3 months ended 31 Mar 2014 US$'000	2013 US$'000
Net foreign exchange gain/(loss) comprises:		
Realised foreign exchange gain/(loss)	1,214	(1,375)
Unrealised foreign exchange (loss)/gain	(135)	63
Net fair value gain/(loss) on derivative financial instruments [1]	1,458	(159)
Total net foreign exchange gain/(loss)*	**2,537**	**(1,471)**

Note:

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

2. BALANCE SHEETS

	Notes	The Group 31 Mar 2014 US$'000	The Group 31 Dec 2013 US$'000	The Company 31 Mar 2014 US$'000	The Company 31 Dec 2013 US$'000
Current assets					
Cash and short-term deposits		60,219	70,801	5	9
Trade and other receivables		57,600	66,009	7,594	4,700
Inventories	5C	156,618	154,783	-	-
Tax recoverable		279	406	-	-
Deposits		5,625	5,213	2,534	2,534
Prepayments		5,492	6,053	-	-
		285,833	**303,265**	**10,133**	**7,243**
Non-current assets					
Investments in subsidiaries		-	-	110,458	107,640
Advances to a subsidiary		-	-	9,241	8,914
Property, plant and equipment		42,865	43,698	-	-
Intangible assets	5D	10,095	10,436	-	-
Deferred tax assets		6,083	5,287	-	-
Other receivables		1,534	1,602	-	-
		60,577	**61,023**	**119,699**	**116,554**
Total assets		**346,410**	**364,288**	**129,832**	**123,797**
Current liabilities					
Trade and other payables		77,408	83,975	4,043	3,994
Current income tax liabilities		2,325	1,224	-	-
Derivative financial instruments	(i)	579	2,038	-	-
Loans and borrowings	5E	84,232	94,655	-	-
Provision for warranty		4,819	4,092	-	-
		169,363	**185,984**	**4,043**	**3,994**
Non-current liabilities					
Loans and borrowings	5E	802	3,134	-	-
Deferred tax liabilities		923	1,370	923	1,286
Advances from a subsidiary		-	-	23,647	24,633
		1,725	**4,504**	**24,570**	**25,919**
Total liabilities		**171,088**	**190,488**	**28,613**	**29,913**
Net assets		**175,322**	**173,800**	**101,219**	**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		30,423	31,674	(1,107)	(1,010)
Retained earnings		79,991	77,366	38,309	30,990
		174,431	172,944	101,219	93,884
Non-controlling interest		891	856	-	-
Total equity		**175,322**	**173,800**	**101,219**	**93,884**
Group net borrowings		**24,815**	**26,988**	**NA**	**NA**
Group net gearing (%)		**14.23**	**15.61**	**NA**	**NA**
Net tangible assets per share (cents)		**40.47**	**40.05**	**24.93**	**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**
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 loss 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**
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 31 Mar 2014 US$'000	2013 US$'000
Operating activities		
Net profit/(loss) for the period	2,656	(1,858)
Adjustments for :		
Income tax expense	770	416
Depreciation of property, plant and equipment	1,558	1,833
Amortisation of intangible assets	358	414
Net loss on disposal of property, plant and equipment	14	4
Interest income	(69)	(64)
Interest expense	646	1,023
Warranty provision	2,495	1,920
Net fair value (gain)/loss on foreign exchange derivative instruments	(1,458)	159
Unrealised foreign exchange translation differences	(764)	(17)
Operating cash flows before changes in working capital	6,206	3,830
Inventories	(1,835)	5,206
Trade and other receivables, deposits and prepayments	8,626	9,045
Provision for warranty	(1,768)	(2,707)
Trade and other payables	(6,567)	(16,870)
Cash flows from/(used in) operations	4,662	(1,496)
Income taxes paid	(781)	(1,634)
Net cash flows from/(used in) operating activities	**3,881**	**(3,130)**
Investing activities		
Proceeds from disposal of property, plant and equipment	7	5
Purchase of property, plant and equipment	(937)	(659)
Purchase of intangible assets	-	(92)
Interest received	69	64
Net cash flows used in investing activities	**(861)**	**(682)**
Financing activities		
Interest paid	(646)	(1,023)
Repayment of bank term loans	(2,361)	(174)
(Repayment of)/proceeds from short-term borrowings	(10,394)	668
Proceeds from re-issuance of treasury shares	16	24
Net cash flows used in financing activities	**(13,385)**	**(505)**
Net decrease in cash and cash equivalents	**(10,365)**	**(4,317)**
Effect of exchange rate changes on cash and cash equivalents	(217)	(275)
Cash and cash equivalents at the beginning of the financial period	70,801	76,679
Cash and cash equivalents at the end of the financial period (1)	**60,219**	**72,087**
Free Cash Flow(2)	**2,944**	**(3,881)**

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

This is arrived at after charging the following:

	The Group 3 months ended 31 Mar 2014 US$'000	2013 US$'000
Depreciation of property, plant and equipment	1,558	1,833
Amortisation of intangible assets	358	414
Total depreciation and amortisation	1,916	2,247
Allowance made for impairment of trade receivables	263	194
Bad trade debts written off	22	-
Allowance made for slow moving and obsolete inventories	292	323
Warranty and claim expenses	3,148	2,345
Employee benefits	21,263	21,432
Net loss on disposal of property, plant and equipment	14	4

B. Income tax expense

	The Group 3 months ended 31 Mar 2014 US$'000	2013 US$'000
Tax expense attributable to profit is made up of:		
Current income taxes:		
- Current income tax	1,650	713
- (Over)/under provision in respect of previous years	(2)	88
Deferred income taxes:		
- Current deferred tax	(1,142)	(385)
- Over provision in respect of previous years	(99)	-
Witholding taxes [1]	363	-
	770	**416**

Note:

1. *These represent withholding tax paid on the dividends declared by a subsidiary in China.*

Due to higher profitability, the Group's income tax expense increased from US$0.4 million in Q1 2013 to US$0.8 million in Q1 2014.

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

C. Inventories

	The Group	
	31 Mar 2014	**31 Dec 2013**
	US$'000	US$'000
Raw materials	70,464	70,109
Work-in-progress	24,923	22,562
Finished goods	61,231	62,112
	156,618	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	-	-	-	-
Exchange rate adjustments	(2)	-	25	23
At 31 March 2014	**702**	**13,140**	**10,937**	**24,779**
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	-	164	194	358
Exchange rate adjustments	-	-	6	6
At 31 March 2014	**-**	**5,576**	**9,108**	**14,684**
Net book value				
At 31 December 2013	**704**	**7,728**	**2,004**	**10,436**
At 31 March 2014	**702**	**7,564**	**1,829**	**10,095**

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

E. Loans and borrowings

	The Group	
	31 Mar 2014	**31 Dec 2013**
	US$'000	US$'000
Current		
Trust receipts and bank bill payables	56,756	49,531
Bank term loans	8,982	8,991
Short-term bank loans	18,494	36,133
	84,232	94,655
Non-current		
Bank term loans	802	3,134
Total loans and borrowings	85,034	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$0.8 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)
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)
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)

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 300,000 (31 March 2013: 423,800) treasury shares during the financial period pursuant to the HTL International Holdings Limited Share Option Plan 2002 at the weighted average exercise price of US$0.05 (31 March 2013: US$0.06) each for a cash consideration of US$16,000 (31 March 2013: US$24,000).

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 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	1,610,250	1,353,750	S$0.82	19.6.2005 - 18.6.2014
2009 Options	7,120,000	6,107,500	777,500	235,000	S$0.07	26.2.2010 - 26.2.2019
	11,622,250	7,645,750	2,387,750	1,588,750		

G. Earnings per share

	3 months ended 31 Mar 2014	3 months ended 31 Mar 2013
Earnings per share (US cents)		
- Basic	0.65	(0.47)
- Diluted	0.65	(0.47)

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 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 31 Mar 2014 US$'000	3 months ended 31 Mar 2013 US$'000
Net profit/(loss) attributable to owners of the Company used to determine basic and diluted earnings per share	2,625	(1,888)
	No. of shares '000	**No. of shares** '000
Weighted average number of ordinary shares used in the calculation of basic earnings per share	406,056	404,262
Adjustment for assumed conversion of share options	189	1,602
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	406,245	405,864
Diluted earnings per share (US cents)	0.65	(0.47)

H. **Net asset per share**

	The Group As at 31 Mar 2014	The Group As at 31 Dec 2013	The Company As at 31 Mar 2014	The Company 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) *	42.96	42.62	24.93	23.14

* Based on issued share capital of 406,072,018 ordinary shares (excluding treasury shares) as at 31 March 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)	
	Q1 2014 US$'000	**Q1 2013 US$'000**	**Change US$'000**	%
Sofa Business Unit ("Sofa BU")				
- External	115,017	121,084	(6,067)	-5.0%
- Internal	1,945	2,049	(104)	
	116,962	**123,133**	**(6,171)**	
Leather Business Unit ("Leather BU")				
- Internal	**33,404**	**42,581**	**(9,177)**	-21.6%
Home Furnishing Business Unit ("HFBU")				
- External	4,928	5,316	(388)	-7.3%
- Internal	157	146	11	
	5,085	**5,462**	**(377)**	
Less : Inter-segment sales	(35,506)	(44,776)	9,270	
Group Turnover	**119,945**	**126,400**	**(6,455)**	-5.1%

Notes:

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

Q1 2014 vs. Q1 2013

Turnover

Group revenue fell by 5.1% to US$119.9 million in Q1 2014 due to weaker sales in its key markets, especially Europe, and the weaker Japanese Yen and Australian Dollar against the United States Dollar ("USD"). This was partially offset by an increase in average selling price and higher sales in Asia.

Profitability

Gross profit margin fell from 31.3% in Q1 2013 to 30.6% in Q1 2014 mainly as a result of higher raw material prices and production costs in China, partially negated by an increase in average selling price.

Lower turnover coupled with cost savings from lower freight rates, cost-cutting initiatives and organisational restructuring at overseas sales and marketing offices have reduced SG&A by 7.2% to US$37.7 million in Q1 2014.

Net finance expense decreased by 39.8% to US$0.6 million in Q1 2014, in tandem with lower loans and borrowings.

10. **REVIEW OF GROUP PERFORMANCE (Cont'd)**

Q1 2014 vs. Q1 2013 (Cont'd)

Profitability (Cont'd)

Despite the lower turnover and gross margin, savings from lower SG&A and net finance expense resulted in higher operating profit before net foreign exchange gain and tax of US$0.9 million for Q1 2014 compared to the US$29,000 posted in Q1 2013.

The Group managed to achieve a net foreign exchange gain of US$2.5 million in Q1 2014 compared to a loss of US$1.5 million in Q1 2013. This was largely attributable to the realised gain on delivery of foreign exchange contracts as well as the unrealised mark-to-market gain on foreign exchange contracts in Q1 2014 compared to the losses in Q1 2013.

Income tax expense increased by US$0.4 million to US$0.8 million in Q1 2014 due to the higher profitability.

Consequently, the Group reported a net profit of US$2.7 million for Q1 2014 compared to a net loss of US$1.9 million for Q1 2013.

Analysis by Major Business Units ("BU")

	Core Business [1]			Home Furnishing		
	3 months ended 31 Mar		Change	3 months ended 31 Mar		Change
	2014	2013	%	2014	2013	%
	US$'000	US$'000		US$'000	US$'000	
Revenue (exclude inter-segment sales)	115,017	121,084	(5.0)	4,928	5,316	(7.3)
Operating profit/(loss) before net foreign exchange gain/(loss)	2,062	399	416.8	(1,173)	(370)	217.0
EBITDA before net foreign exchange gain/(loss)	4,333	3,400	27.4	(951)	(165)	476.4
Net profit/(loss) for the period	3,732	(1,595)	NM	(1,076)	(263)	309.1
Net margin	3.2%	-1.3%		-21.8%	-4.9%	
Total net foreign exchange gain/(loss)	2,523	(1,585)		14	114	

Note:

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

NM : Not meaningful

10. REVIEW OF GROUP PERFORMANCE (Cont'd)

Core Business

Sofa BU - Revenue by Regions

	3 months ended 31 Mar			
	2014	2013	Change	
	US$'000	US$'000	US$'000	%
Asia (excluding Greater China)	18,611	14,809	3,802	25.7
Greater China	901	720	181	25.1
Europe	48,874	54,358	(5,484)	(10.1)
North America	29,983	32,055	(2,072)	(6.5)
ANZ	16,280	18,692	(2,412)	(12.9)
Others	368	450	(82)	(18.2)
Total *	115,017	121,084	(6,067)	(5.0)

* Exclude inter-segment sales

Other than Asia which posted double digit growth of 25.6% to US$19.5 million, all our key markets in the Sofa BU reported lower revenue in Q1 2014. The decline was mainly attributable to weak market demand particularly in Europe coupled with the weaker Japanese and Australian currencies against the USD.

Europe remained our largest market, accounting for 42.5% (Q1 2013: 44.9%) of the Core Business's turnover, followed by North America (26.1%), Asia (17.0%) and ANZ (14.2%).

Despite lower revenue and higher input costs, our Core Business posted higher operating profit before net foreign exchange gain and tax of US$2.1 million compared to US$0.4 million in Q1 2013. This was mainly due to the benefits from selling price increases and savings in SG&A and lower net finance expense.

Home Furnishing BU ("HFBU")

The performance of HFBU remained lacklustre in Q1 2014. Its revenue was down by 7.3% to US$4.9 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 had increased HFBU's operating loss before net foreign exchange gain and tax to US$1.2 million from US$0.4 million in Q1 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 decreased by US$8.4 million to US$57.6 million due to lower sales in Q1 2014, partially offset by higher factoring without recourse. The average day sales outstanding ("DSO") as at 31 March 2014 remained stable at 1.4 months (31 December 2013: 1.5 months).

Inventory increased marginally by US$1.8 million to US$156.6 million, primarily due to the replenishment of raw leather hides. The outstanding days in inventory ("DIO") as at 31 March 2014 was higher at 5.6 months (31 December 2013: 5.1 months) mainly due to the lower production volume and cost of sales as a result of shorter operating period in Q1 2014.

10. REVIEW OF GROUP PERFORMANCE (Cont'd)

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

Trade and other payables reduced by US$6.6 million to US$77.4 million, in line with the lower business activities. The average day payables outstanding ("DPO") as at 31 March 2014 remained constant at 2.8 months (31 December 2013: 2.8 months).

The Group's net borrowings (loans and borrowings less cash and short term deposits) decreased by US$2.2 million from US$27.0 million as at 31 December 2013 to US$24.8 million as at 31 March 2014. This was mainly due to improvement in working capital management. Net gearing remained healthy at 14.2% (31 December 2013: 15.6%) and the Group reported a positive free cash flow ("FCF") of US$2.9 million in Q1 2014 compared to a negative FCF of US$3.9 million in Q1 2013.

11. VARIANCE FROM PROSPECT STATEMENT

No prospect statement was previously provided.

12. OUTLOOK

While the economies of various developed countries, notably the US and Europe, showed signs of recent recovery, consumer confidence remained weak and cautious and this will continue to dampen discretionary purchases such as leather sofas, especially in Europe, in the immediate future.

Input costs, particularly raw leather hide prices and wages at our production plants in China are expected to continue rising in 2014. We also expect major currencies like the Euro, Japanese Yen, the Australian Dollar and Renminbi to remain volatile against the USD.

Overall, the operating environment in 2014 is expected to be challenging. The Group will continue to sharpen its focus by optimising cost effectiveness; expanding existing and emerging markets, especially in Asia; and broadening its portfolio of offering with innovative products and new distribution channels to better meet consumers' changing needs and preferences.

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.

13. KEY BUSINESS RISKS (Cont'd)

Macro Risks (Cont'd)

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 - 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

Financial period ended 31 March 2014	Sofa US$'000	Leather US$'000	Home Furnishing US$'000	Corporate US$'000	Elimination US$'000	Group US$'000
Revenue						
External sales	115,017	-	4,928	-	-	119,945
Inter-segment sales	1,945	33,404	157	-	(35,506)	-
Total revenue	116,962	33,404	5,085	-	(35,506)	119,945
Segment results	3,273	(367)	(1,181)	(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	205,374	106,081	25,363	3,230	-	340,048
Tax assets						6,362
Consolidated total assets						346,410
Segment liabilities	(62,562)	(14,846)	(3,990)	(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	791	3	143	-	-	937
Depreciation	1,056	436	66	-	-	1,558
Amortisation	135	59	164	-	-	358

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 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

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		Change	
	2014	**2013**		
	US$'000	US$'000	US$'000	%
Asia (excluding Greater China)	20,391	15,599	4,792	30.7
Greater China	963	823	140	17.0
Europe	50,927	57,762	(6,835)	(11.8)
North America	30,751	32,857	(2,106)	(6.4)
ANZ	16,375	18,847	(2,472)	(13.1)
Others	538	512	26	5.1
Total	119,945	126,400	(6,455)	(5.1)

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 2014	**31 Dec 2013**
	US$'000	US$'000
Asia (excluding Greater China)	18,261	18,641
Europe	3,349	3,372
Greater China	32,471	33,338
Others	413	385
Total	54,494	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 quarter ended 31 March 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
9 May 2014