HTL INTERNATIONAL HOLDINGS LIMITED

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

First Quarter Financial Statements Announcement

For the Period Ended

31 March 2016

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1. CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

For the First Quarter Ended 31 March 2016 ("Q1 2016")

CONSOLIDATED INCOME STATEMENT

	Notes	The Group 3 months ended 31 Mar 2016 US$'000	The Group 3 months ended 31 Mar 2015 US$'000	Change %
Revenue		**106,120**	**109,067**	(2.7)
Cost of sales		(71,269)	(77,920)	(8.5)
Gross profit		**34,851**	**31,147**	11.9
Other operating income		642	986	(34.9)
Sales, marketing and distribution expenses		(22,255)	(26,774)	(16.9)
Administrative expenses		(7,188)	(7,838)	(8.3)
Other operating expenses		(2,144)	(233)	820.2
Operating profit/(loss) before finance income and expense and net foreign exchange gain	5A	**3,906**	**(2,712)**	NM
Finance income		16	23	(30.4)
Finance expense		(352)	(362)	(2.8)
Operating profit/(loss) before net foreign exchange gain		**3,570**	**(3,051)**	NM
Net foreign exchange gain*		1,942	3,121	(37.8)
Profit before tax		**5,512**	**70**	7,774.3
Income tax expense	5B	(1,850)	(647)	185.9
Net profit/(loss) for the period		**3,662**	**(577)**	NM
Attributable to:				
Owners of the Company		3,751	(582)	NM
Non-controlling interest		(89)	5	NM
		3,662	**(577)**	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		2016 US$'000	2015 US$'000	Change %
Net profit/(loss) for the period		**3,662**	**(577)**	NM
Other comprehensive income/(loss):				
Item that may be reclassified subsequently to income statement:				
Foreign currency translation arising from consolidation		1,340	(545)	NM
Total comprehensive income/(loss) for the period		**5,002**	**(1,122)**	
Attributable to:				
Owners of the Company		5,057	(1,123)	NM
Non-controlling interest		(55)	1	NM
		5,002	**(1,122)**	
Gross profit margin (GP%)		**32.8%**	**28.6%**	
Net profit/(loss) margin		**3.5%**	**-0.5%**	
EBITDA		**7,224**	**2,169**	
EBITDA before net foreign exchange gain		**5,282**	**(952)**	
EBITDA margin		**6.8%**	**2.0%**	
EBITDA margin before net foreign exchange gain		**5.0%**	**-0.9%**	

NM : Not meaningful

	The Group 3 months ended 31 Mar 2016 US$'000	The Group 3 months ended 31 Mar 2015 US$'000
Net foreign exchange gain comprises:		
Realised foreign exchange gain	579	6,147
Unrealised foreign exchange loss	(558)	(860)
Net fair value gain/(loss) on derivative financial instruments [(1)]	1,921	(2,166)
Total net foreign exchange gain*	**1,942**	**3,121**

Note:

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

2. BALANCE SHEETS

	Notes	The Group 31 Mar 2016 US$'000	The Group 31 Dec 2015 US$'000	The Company 31 Mar 2016 US$'000	The Company 31 Dec 2015 US$'000
Current assets					
Cash and short-term deposits		35,197	42,487	6	8
Trade and other receivables		55,014	49,970	680	672
Inventories	5C	133,377	133,212	-	-
Tax recoverable		12	-	-	-
Deposits		5,173	5,134	2,534	2,534
Prepayments		6,223	4,315	12	-
		234,996	**235,118**	**3,232**	**3,214**
Non-current assets					
Investments in subsidiaries		-	-	91,049	88,049
Property, plant and equipment		43,767	44,044	-	-
Intangible assets	5D	7,628	7,849	-	-
Deferred tax assets		2,386	2,631	-	-
Other receivables		343	342	-	-
		54,124	**54,866**	**91,049**	**88,049**
Total assets		**289,120**	**289,984**	**94,281**	**91,263**
Current liabilities					
Trade and other payables		68,941	70,612	4,469	4,494
Current income tax liabilities		686	1,147	-	-
Derivative financial instruments	(i)	1,562	3,483	-	-
Bank loans	5E	8,814	5,286	-	-
Bills payable	5E	35,939	42,985	-	-
Provision for warranty		3,490	2,741	-	-
		119,432	**126,254**	**4,469**	**4,494**
Non-current liabilities					
Deferred tax liabilities		1,721	771	771	771
Advances from a subsidiary		-	-	34,023	31,940
		1,721	**771**	**34,794**	**32,711**
Total liabilities		**121,153**	**127,025**	**39,263**	**37,205**
Net assets		**167,967**	**162,959**	**55,018**	**54,058**
Equity attributable to owners of the Company					
Share capital	5F	67,982	67,982	67,982	67,982
Treasury shares	5F	(5,025)	(5,062)	(5,025)	(5,062)
Non-distributable reserves		23,025	21,750	(1,156)	(1,125)
Retained earnings		81,207	77,456	(6,783)	(7,737)
		167,189	162,126	55,018	54,058
Non-controlling interest		778	833	-	-
Total equity		**167,967**	**162,959**	**55,018**	**54,058**
Group net borrowings		**9,556**	**5,784**	**NA**	**NA**
Group net gearing (%)		**5.72**	**3.57**	**NA**	**NA**
Net tangible assets per share (cents)		**39.92**	**38.61**	**13.76**	**13.53**

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/year.

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 2016	67,982	(5,062)	911	10,890	(2,036)	11,985	77,456	162,126	833	162,959
Net profit/(loss) for the quarter	-	-	-	-	-	-	3,751	3,751	(89)	3,662
Other comprehensive income										
Foreign currency translation arising from consolidation	-	-	-	1,306	-	-	-	1,306	34	1,340
Total comprehensive income/(loss)	-	-	-	1,306	-	-	3,751	5,057	(55)	5,002
Treasury shares reissued pursuant to employee share option plan	-	37	-	-	(31)	-	-	6	-	6
Balance at 31 March 2016	**67,982**	**(5,025)**	**911**	**12,196**	**(2,067)**	**11,985**	**81,207**	**167,189**	**778**	**167,967**
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										
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**
Net (loss)/profit for the quarter	-	-	-	-	-	-	(1,878)	(1,878)	10	(1,868)
Other comprehensive income/(loss)										
Foreign currency translation arising from consolidation	-	-	-	574	-	-	-	574	(4)	570
Total comprehensive income/(loss)	-	-	-	574	-	-	(1,878)	(1,304)	6	(1,298)
Balance at 30 June 2015	**67,982**	**(4,193)**	**911**	**19,174**	**(2,036)**	**11,770**	**76,841**	**170,449**	**859**	**171,308**
Net profit for the quarter	-	-	-	-	-	-	73	73	10	83
Other comprehensive loss										
Foreign currency translation arising from consolidation	-	-	-	(5,525)	-	-	-	(5,525)	(26)	(5,551)
Total comprehensive (loss)/income	-	-	-	(5,525)	-	-	73	(5,452)	(16)	(5,468)
Purchase of treasury shares	-	(869)	-	-	-	-	-	(869)	-	(869)
Balance at 30 September 2015	**67,982**	**(5,062)**	**911**	**13,649**	**(2,036)**	**11,770**	**76,914**	**164,128**	**843**	**164,971**
Net profit/(loss) for the quarter	-	-	-	-	-	-	757	757	(1)	756
Other comprehensive loss										
Foreign currency translation arising from consolidation	-	-	-	(2,759)	-	-	-	(2,759)	(9)	(2,768)
Total comprehensive (loss)/income	-	-	-	(2,759)	-	-	757	(2,002)	(10)	(2,012)
Transfer from retained earnings to statutory reserve fund	-	-	-	-	-	215	(215)	-	-	-
Balance at 31 December 2015	**67,982**	**(5,062)**	**911**	**10,890**	**(2,036)**	**11,985**	**77,456**	**162,126**	**833**	**162,959**

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 2016	67,982	(5,062)	911	(2,036)	(7,737)	54,058
Net profit for the quarter, representing total comprehensive income for the quarter	-	-	-	-	954	954
Treasury shares reissued pursuant to employee share option plan	-	37	-	(31)	-	6
Balance at 31 March 2016	**67,982**	**(5,025)**	**911**	**(2,067)**	**(6,783)**	**55,018**
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**
Net loss for the quarter, representing total comprehensive loss for the quarter	-	-	-	-	(245)	(245)
Balance at 30 June 2015	**67,982**	**(4,193)**	**911**	**(2,036)**	**4,663**	**67,327**
Net profit for the quarter, representing total comprehensive income for the quarter	-	-	-	-	2,024	2,024
Purchase of treasury shares	-	(869)	-	-	-	(869)
Balance at 30 September 2015	**67,982**	**(5,062)**	**911**	**(2,036)**	**6,687**	**68,482**
Net loss for the quarter, representing total comprehensive loss for the quarter	-	-	-	-	(14,424)	(14,424)
Balance at 31 December 2015	**67,982**	**(5,062)**	**911**	**(2,036)**	**(7,737)**	**54,058**

4. CONSOLIDATED CASH FLOW STATEMENT

	The Group 3 months ended 31 Mar 2016 US$'000	2015 US$'000
Operating activities		
Net profit/(loss) for the period	3,662	(577)
Adjustments for :		
Income tax expense	1,850	647
Depreciation of property, plant and equipment	1,101	1,448
Amortisation of intangible assets	275	312
Net loss on disposal of property, plant and equipment	96	16
Interest income	(16)	(23)
Interest expense	352	362
Property, plant and equipment written off	1,129	12
Warranty provision	2,609	2,440
Net fair value (gain)/loss on foreign exchange derivative instruments	(1,921)	2,166
Unrealised foreign exchange translation differences	490	92
Operating cash flows before changes in working capital	9,627	6,895
Inventories	(165)	1,285
Trade and other receivables, deposits and prepayments	(6,992)	6,991
Provision for warranty	(1,861)	(3,352)
Trade and other payables	(1,671)	(17,601)
Cash flows used in operations	(1,062)	(5,782)
Income taxes paid	(1,128)	(612)
Net cash flows used in operating activities	**(2,190)**	**(6,394)**
Investing activities		
Proceeds from disposal of property, plant and equipment	16	2
Purchase of property, plant and equipment	(1,533)	(1,677)
Purchase of intangible assets	(1)	(47)
Interest received	16	23
Net cash flows used in investing activities	**(1,502)**	**(1,699)**
Financing activities		
Interest paid	(352)	(362)
Repayment of bank term loans	(79)	(2,326)
(Repayment of)/proceeds from short-term borrowings	(3,439)	12,035
Purchase of treasury shares	-	(248)
Proceeds from re-issuance of treasury shares	6	-
Net cash flows (used in)/from financing activities	**(3,864)**	**9,099**
Net (decrease)/increase in cash and cash equivalents	**(7,556)**	**1,006**
Effect of exchange rate changes on cash and cash equivalents	266	(311)
Cash and cash equivalents at the beginning of the financial period	42,487	35,815
Cash and cash equivalents at the end of the financial period[1]	**35,197**	**36,510**
Free Cash Flow [2]	**(3,724)**	**(8,118)**

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

This is arrived at after charging/(crediting) the following:

	The Group 3 months ended 31 Mar	
	2016	**2015**
	US$'000	US$'000
Depreciation of property, plant and equipment	1,101	1,448
Amortisation of intangible assets	275	312
Total depreciation and amortisation	1,376	1,760
Reversal of impairment of trade receivables	(9)	(238)
Bad trade debts (recovered)/written off	(2)	246
Allowance made for slow moving and obsolete inventories	344	379
Warranty and claim expenses	3,247	3,241
Employee benefits	20,782	21,561
Net loss on disposal of property, plant and equipment	96	16
Property, plant and equipment written off	1,129	12

B. Income tax expense

	The Group 3 months ended 31 Mar	
	2016	**2015**
	US$'000	US$'000
Tax expense attributable to profit is made up of:		
Current income taxes:		
- Current income tax	572	182
- Under provision in respect of previous years	7	8
Deferred income taxes:		
- Current deferred tax	1,207	457
Witholding taxes [1]	64	-
	1,850	**647**

Note:

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

As a result of higher profitability, the Group's income tax expense increased from US$0.6 million in Q1 2015 to US$1.9 million in Q1 2016.

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

C. Inventories

	The Group	
	31 Mar 2016	31 Dec 2015
	US$'000	US$'000
Raw materials	61,757	61,695
Work-in-progress	22,259	20,718
Finished goods	49,361	50,799
	133,377	133,212

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 2015	**620**	**13,140**	**10,794**	**24,554**
Additions	-	-	246	246
Write-off	-	-	(34)	(34)
Exchange rate adjustments	(63)	-	(16)	(79)
At 31 December 2015 and 1 January 2016	**557**	**13,140**	**10,990**	**24,687**
Additions	-	-	1	1
Write-off	-	-	(7)	(7)
Exchange rate adjustments	21	-	85	106
At 31 March 2016	**578**	**13,140**	**11,069**	**24,787**
Accumulated amortisation				
At 1 January 2015	**-**	**6,065**	**9,567**	**15,632**
Charge for the financial year	-	653	592	1,245
Write-off	-	-	(34)	(34)
Exchange rate adjustments	-	-	(5)	(5)
At 31 December 2015 and 1 January 2016	**-**	**6,718**	**10,120**	**16,838**
Charge for the financial period	-	163	112	275
Write-off	-	-	(7)	(7)
Exchange rate adjustments	-	-	53	53
At 31 March 2016	**-**	**6,881**	**10,278**	**17,159**
Net book value				
At 31 December 2015	**557**	**6,422**	**870**	**7,849**
At 31 March 2016	**578**	**6,259**	**791**	**7,628**

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

E. Loans and borrowings

	The Group	
	31 Mar 2016	**31 Dec 2015**
	US$'000	US$'000
Current		
Bank term loans	37	112
Short-term bank loans	8,777	5,174
	8,814	5,286
Bills payable	35,939	42,985
Total loans and borrowings	44,753	48,271

The Group's total loans and borrowings are unsecured except for the bank term loans of a subsidiary with a carrying amount of US$37,000 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 2016	416,563	(16,958)	67,982	(5,062)
Treasury shares purchased	-	-	-	-
Reissued pursuant to employee share option plans:				
- For cash on exercise of employee share options	-	125	-	6
- Loss transferred to capital reserve	-	-	-	31
	-	125	-	37
At 31 March 2016	416,563	(16,833)	67,982	(5,025)
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)

Treasury shares

Treasury shares relate to ordinary shares of the Company that is held by the Company. The Company did not purchase treasury shares during the financial period. In the corresponding period last year, the Company acquired 1,379,600 shares in the Company through purchases on the Singapore Exchange. The total amount paid to acquire the shares was US$248,860 and this was presented as a separate component within shareholders' equity.

The Company reissued 125,000 (31 March 2015: Nil) 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 each for a cash consideration of US$6,000 (31 March 2015: Nil).

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 2016 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	6,290,000	777,500	52,500	S$0.07	26.2.2010 - 26.2.2019

G. Earnings/(loss) per share

	3 months ended 31 Mar 2016	3 months ended 31 Mar 2015
Earnings/(loss) per share (US cents)		
- Basic	0.94	(0.14)
- Diluted	0.94	(0.14)

Basic earnings/(loss) per share is calculated by dividing the net profit/(loss) 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/(loss) per share, the net profit/(loss) 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 2016, the Company has only one category of dilutive potential ordinary shares which is share options. In the computation of diluted net earnings/(loss) 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/(loss) – numerator.

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

G. Earnings/(loss) per share (Cont'd)

	3 months ended 31 Mar	
	2016	**2015**
	US$'000	US$'000
Net profit/(loss) attributable to owners of the Company used to determine basic and diluted earnings/(loss) per share	3,751	(582)
	No. of shares '000	**No. of shares** '000
Weighted average number of ordinary shares used in the calculation of basic earnings/(loss) per share	399,619	405,870
Adjustment for assumed conversion of share options	147	130
Weighted average number of ordinary shares used in the calculation of diluted earnings/(loss) per share	399,766	406,000
Diluted earnings/(loss) per share (US cents)	0.94	(0.14)

H. Net asset per share

	The Group		The Company	
	As at 31 Mar 2016	**As at 31 Dec 2015**	**As at 31 Mar 2016**	**As at 31 Dec 2015**
Net asset value per ordinary share based on issued share capital as at the end of the respective period/year (US cents) *	41.83	40.57	13.76	13.53

* Based on issued share capital of 399,730,718 ordinary shares (excluding treasury shares) as at 31 March 2016 and 399,605,718 ordinary shares (excluding treasury shares) as at 31 December 2015.

6. AUDIT

The figures have been reviewed by the Company's auditor in accordance with Singapore Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by Independent Auditor of the Entity".

7. AUDITOR'S REPORT

Please refer to the Independent Auditor's Review Report dated 12 May 2016 as enclosed in Annexure 1.

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 2015.

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 2016.

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) **Q1 2016** **US$'000**	(B) **Q1 2015** **US$'000**	(C) =(A) - (B) **Change** **US$'000**	%
Sofa Business Unit ("Sofa BU")				
- External	101,168	105,012	(3,844)	(3.7)
- Internal	1,045	915	130	
	102,213	**105,927**	**(3,714)**	
Leather Business Unit ("Leather BU")				
- Internal	**28,798**	**32,557**	**(3,759)**	(11.5)
Home Furnishing Retail Business Unit ("HFRBU")				
- External	4,952	4,055	897	22.1
- Internal	1	1	-	
	4,953	**4,056**	**897**	
Less : Inter-segment sales	(29,844)	(33,473)	3,629	
Group Turnover	**106,120**	**109,067**	**(2,947)**	(2.7)

Notes:

(1) Core Business comprises the Sofa, Leather Business Units ("BU") and Corporate Office
(2) Q1 2016/2015 – three months ended 31 March 2016/2015
(3) SG&A – represents the aggregate of total sales, marketing, distribution and administrative expenses

Q1 2016 vs. Q1 2015

Turnover

Revenue declined by 2.7% to US$106.1 million, mainly due to lower sales in Australia and New Zealand ("ANZ"), and the weaker Euro and Australian Dollar ("AUD") against the United States Dollar ("USD"). This was partially offset by stronger sales in North America.

Profitability

The Group's gross profit margin rose by 4.2% from 28.6% in Q1 2015 to 32.8% in Q1 2016, mainly due to lower leather costs, and lower other materials and overhead costs as a result of weaker RMB against USD. These were partially mitigated by the weaker Euro and AUD against the USD.

Other operating income reduced by US$0.4 million to US$0.6 million, predominantly as a result of lower leather scrap sales and lower suppliers rebate received by Domicil Home in Germany.

10. REVIEW OF GROUP PERFORMANCE (Cont'd)

Q1 2016 vs. Q1 2015 (Cont'd)

Profitability (Cont'd)

SG&A fell by 14.9% to US$29.4 million in Q1 2016, in tandem with the decreased in sales and lower distribution costs due to lower freight rates.

Other operating expenses increased significantly from US$0.2 million in Q1 2015 to US$2.1 million in Q1 2016. This was primarily due to the closure costs of two retail stores and a sofa plant in China. The closure costs included write-off of store renovation costs previously capitalised under property, plant and equipment, employees' redundancy costs and penalties from early termination of tenancy agreements.

Consequently, the Group registered an operating profit before net foreign exchange gain and tax of US$3.6 million, a reversal from an operating loss of US$3.1 million in Q1 2015.

The Group reported lower net foreign exchange gain of US$1.9 million in Q1 2016 compared to US$3.1 million in Q1 2015. This was largely attributable to the realised loss on delivery of foreign exchange contracts compared to a gain in Q1 2015. This was partially offset by a turnaround of unrealised mark-to-market loss on foreign exchange contracts in Q1 2015 to unrealised gain in Q1 2016 coupled with realised gain on payables/receivables compared to a loss in Q1 2015.

Overall, the Group registered a net profit of US$3.7 million for Q1 2016, a turnaround from a net loss of US$0.6 million for Q1 2015.

Analysis by Major Business Units ("BU")

	Core Business [1]			Home Furnishing Retail		
	3 months ended 31 Mar		Change	3 months ended 31 Mar		Change
	2016	2015	%	2016	2015	%
	US$'000	US$'000		US$'000	US$'000	
Revenue (exclude inter-segment sales)	101,168	105,012	(3.7)	4,952	4,055	22.1
Operating profit/(loss) before net foreign exchange gain	6,763	(104)	NM	(3,193)	(2,946)	8.4
EBITDA before net foreign exchange gain	8,141	1,717	374.1	(2,859)	(2,669)	7.1
Net profit/(loss) for the period	6,861	2,382	188.0	(3,199)	(2,959)	8.1
Net margin	6.8%	2.3%		-64.6%	-73.0%	
Total net foreign exchange gain	1,899	3,089		43	32	

NM : Not meaningful

Notes:

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

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			
	2016	**2015**	**Change**	
	US$'000	US$'000	US$'000	**%**
Asia (excluding China)	12,688	13,390	(702)	(5.2)
China (including Hong Kong)	852	1,076	(224)	(20.8)
Europe	49,056	50,259	(1,203)	(2.4)
North America	25,962	22,937	3,025	13.2
ANZ	12,271	17,139	(4,868)	(28.4)
Others	339	211	128	60.7
Total (1)	101,168	105,012	(3,844)	(3.7)

Notes:
(1) These exclude inter-segment sales.

Sofa BU posted lower revenue of US$101.2 million compared to US$105.0 million in Q1 2015, predominantly due to lower sales in ANZ coupled with the weaker Euro and AUD against the USD. This was partially mitigated by the stronger sales in North America.

Europe continued to be our largest market, accounting for 48.5% (Q1 2015: 47.9%) of the Core Business' turnover, followed by North America (25.7%), ANZ (12.1%) and Asia (13.4%).

With higher gross profit, savings from lower SG&A expenses and despite the aforementioned sofa plant's closure costs, the Core Business posted operating profit before net foreign exchange gain and tax of US$6.8 million in Q1 2016 compared to operating loss of US$0.1 million in Q1 2015.

Home Furnishing Retail BU ("HFRBU")

HFRBU's revenue improved by 22.1% to US$5.0 million, largely attributable to the expansion of retail presence in China and Singapore. Despite the increase in turnover, HFRBU's operating loss before net foreign exchange gain and tax increased by US$0.3 million to US$3.2 million in Q1 2016 (Q1 2015: US$2.9 million). This was mainly due to the higher other operating expenses as a result of closure of retail stores in China. Excluding the closure costs, HFRBU's operating loss before net foreign exchange gain and tax would have been lower at US$2.1 million.

Liquidity, financial and working capital resources

Trade and other receivables increased by US$5.0 million to US$55.0 million, primarily due to lower factoring without recourse. Consequently, the average day sales outstanding ("DSO") was higher at 1.6 months as at 31 March 2016 (31 December 2015: 1.3 months).

10. REVIEW OF GROUP PERFORMANCE (Cont'd)

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

Inventory remained fairly stable at US$133.4 million as at 31 March 2016 (31 December 2015: US$133.2 million). The outstanding days in inventory ("DIO") was higher at 5.6 months as at 31 March 2016 (31 December 2015: 4.9 months), partly as a result of higher leather procurement.

Trade and other payables fell by US$1.7 million to US$68.9 million, in line with lower business activities. The average day payables outstanding ("DPO") was higher at 2.9 months, mainly due to lower payments to suppliers.

The Group's net borrowings (loans and borrowings less cash and short term deposits) increased by US$3.8 million to US$9.6 million as at 31 March 2016, predominantly due to higher leather procurement activities. Accordingly, the Group's overall net gearing was also higher at 5.7% (31 December 2015: 3.6%).

Improvement in operating profitability brought about the reduction in negative free cash flow from US$8.1 million in Q1 2015 to US$3.7 million in Q1 2016.

11. VARIANCE FROM PROSPECT STATEMENT

No prospect statement was previously provided.

12. OUTLOOK

Challenging macroeconomic conditions will continue to put pressure on our revenue and profitability. Offsetting the strain will be reduced raw leather hide costs and freight rates, as well as lower operating costs.

Overall, we expect the outlook for the sofa business to remain positive, and the on-going restructuring of our retail business is expected to reduce our operating loss further.

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 North America 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)

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 year – 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 2016						
Revenue						
External sales	101,168	-	4,952	-	-	106,120
Inter-segment sales	1,045	28,798	1	-	(29,844)	-
Total revenue	102,213	28,798	4,953	-	(29,844)	106,120
Segment results	6,738	536	(3,129)	(239)	-	3,906
Finance income						16
Finance expense						(352)
Net foreign exchange gain						1,942
Income tax expense						(1,850)
Net profit for the period						3,662
Segment assets	163,834	94,927	24,551	3,410	-	286,722
Tax assets						2,398
Consolidated total assets						289,120
Segment liabilities	(52,996)	(13,114)	(6,183)	(1,700)	-	(73,993)
Loans and borrowings						(44,753)
Tax liabilities						(2,407)
Consolidated total liabilities						(121,153)
Other segment items						
Addition to non-current assets						
- property, plant and equipment	1,073	20	440	-	-	1,533
- intangible assets	1	-	-	-	-	1
Depreciation	604	232	265	-	-	1,101
Amortisation	247	23	5	-	-	275
	-	-	-	-	-	-
Other non-cash expenses						
Inventories written-down	273	-	71	-	-	344
Provision for warranty	2,609	-	-	-	-	2,609

15. SEGMENTAL INFORMATION (Cont'd)

	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
- intangible assets	47	-	-	-	-	47
Depreciation	866	319	263	-	-	1,448
Amortisation	266	44	2	-	-	312
Other non-cash expenses						
Inventories written-down	81	-	298	-	-	379
Provision for warranty	2,439	-	1	-	-	2,440

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 2016 US$'000	3 months ended 31 Mar 2015 US$'000	Change US$'000	Change %
Asia (excluding China)	14,936	15,190	(254)	(1.7)
China (including Hong Kong)	2,487	2,263	224	9.9
Europe	50,125	51,328	(1,203)	(2.3)
North America	25,962	22,937	3,025	13.2
ANZ	12,271	17,139	(4,868)	(28.4)
Others	339	210	129	61.4
Total	106,120	109,067	(2,947)	(2.7)

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 March 2016 US$'000	**31 Dec 2015** US$'000
China (including Hong Kong)	25,523	27,321
Asia (excluding China)	17,946	17,571
United States	5,071	4,201
Europe	1,668	1,668
Australia	1,530	1,474
Total	51,738	52,235

16. CONFIRMATION PURSUANT TO RULE 720 (1) OF THE LISTING MANUAL

The Company confirms that it has procured undertakings from all its Directors and Executive Officers (in the format set out in Appendix 7.7) pursuant to Rule 720 (1) of the Listing Manual.

17. 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 2016 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
12 May 2016

Annexure 1

To the Board of Directors of HTL International Holdings Limited and its subsidiaries

Report on review of condensed interim financial information

We have reviewed the condensed interim financial information of HTL International Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 2 to 37, which comprise the condensed interim balance sheets of the Group and the Company as of 31 March 2016, and the related condensed interim income statement and statement of comprehensive income of the Group, statements of changes in equity of the Group and the Company and statement of cash flow of the Group for the three months ended 31 March 2016, and certain explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with Singapore Financial Reporting Standard 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of review

We conducted our review in accordance with Singapore Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Singapore Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial information are not prepared, in all material respects, in accordance with Singapore Financial Reporting Standard 34, 'Interim Financial Reporting'.

Ernst & Young LLP

Public Accountants and
Chartered Accountants
Singapore

12 May 2016