Seizing Opportunities to Create Value

ANNUAL REPORT 2015

Letter to Shareholders p.10

Global Presence by Turnover p.16

Group Financial Highlights p.18



HTL


museandyou.com
MUSE&
Inspiring how we live.
SOPHISTICATED. CREATIVE. CHIC.
Elegant fashion with a touch of glamour



Seizing Opportunities to Create Value

HTL is more than a sofa fabricator and purveyor. Underlying our cachet is the capacity to maximise the prevailing environment, attaining financial benefits for stakeholders and assuring uncompromising quality for our consumers.



Purposeful innovation defines consumer aspirations

Complacency does not become us. HTL thrives on new challenges with the resolve to create – and fulfil – lifestyle dreams. Be it a superbly crafted leather piece or deftly embedded technology, our one-stop shop has it all.







Refined operations improves resource allocation

Cost efficiencies derived from rigorous organisational retooling has enabled HTL to channel resources towards property acquisition in the US and Australia, affirming our commitment to these supportive markets.


homestolife



Enhanced retail visibility builds up the HTL brand name

We have made remarkable strides in the expansion of our retail network. The figures stand at 103 franchisees and six HTL-owned boutiques dotted across China, as well as one HomesToLife flagship store in Singapore. The spaces are not merely testaments to HTL's vision to be a trailblazer in lifestyle concepts but are also showcases imbued with fresh insights for the evolving, demanding consumer.

103
Franchise stores

6
Owned stores



SIMPLE. FUNCTIONAL. CALMING.

Reimagine the minimal style

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Letter to Shareholders



Lee Kiam Hwee, Kelvin
Chairman of the Board and
Independent Non-Executive Director

Dear Fellow Shareholders,

2015 was an eventful and enriching year for HTL.

The company started off cautiously against the backdrop of a soft global economy, which struggled to gain momentum over the months: Europe faced stagnation while China data indicated a deepening slowdown. The world also saw a dramatic drop in oil prices and a spike in the value of the US dollar against major currencies.

The year ended economically rocky, with markets and companies all over the world poised for change.

Over the year, we believe we displayed resilience.

Over the year, we believe we displayed resilience.

Despite the surge of the US dollar compounding decreased sales in our dominant market, Europe, as well as Asia, Australia and New Zealand, our Core Business put up a gratifying performance. Profit before net foreign exchange gain and tax from the Core Business, comprising the Sofa, the Leather and the Corporate Office segments, held steady at US$10.0 million, a barely discernible dip from 2014's US$10.1 million.

Our Home Furnishing Retail arm enjoyed higher sales from China, which alleviated the lacklustre revenue that emerged from Germany and Taiwan's feeble retail environments. Operating costs arising from further globalisation into China and aggressive expansion in Singapore also dragged down the sector's achievements. Overall, we encountered an operating loss of US$14.5 million, before net foreign exchange gain and tax. This is an increase of US$2.0 million from the year before.



Phua Yong Tat
Executive Group Managing Director

Although our Group revenue for the year ended 31 December 2015 was US$454.9 million, a drop of 9.1 per cent from 2014 and we reported a net loss of US$1.6 million, the results were cushioned by a remarkable Q4 showing of our Core Business.

Q4 2015 heralded a net profit of US$0.8 million compared to a net loss of US$2.7 million the year before. This is in spite of lower sales, gross profit and other operating income. We attribute the outcome to lower leather costs and tighter cost control.

Pulling HTL back into the black amid the gloomy global business backdrop was a highlight of 2015 for HTL.

Achievements

HTL would not have achieved such quantifiable and credible results without the stringent implementation of a three-pronged strategy in the areas of innovation, operations and retail.

Q4 2015 heralded a net profit of US$0.8 million compared to a net loss of US$2.7 million the year before.









INNOVATION

Anticipating the needs of our customers has always been a key driving force behind HTL. In the past year, we intensified our efforts, the fruition of which can be seen in a more diverse range of product offerings – among which fabric upholstery and complementary furniture pieces command the spotlight – and mechanisms. The intention is to strengthen our position as a one-stop shop that is able to accommodate the progressive requirements of our retailers and end consumers.

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OPERATIONS

Concerted organisational streamlining that started in 2013 led to the restructuring of overseas offices the following year and in 2015, the alignment of manufacturing capacity with demand. Cost efficiencies that emanated from the company-wide retooling strategies were then funnelled through to property acquisition, specifically in High Point, North Carolina, US and Melbourne, Australia. The move anchors HTL's commitment to these two markets, where we have secured an established foothold.





Cost efficiencies that emanated from the company-wide retooling strategies were then funnelled into property acquisition...









RETAIL

The goal at the start of 2015 was to widen HTL's network of retailers and self-run spaces to 100 outlets. Today, we take pride in our 103 franchises and six HTL-owned stores spanning China.

Two years ago, we zoomed in on China to be the launch pad of our franchise programme. To watch it successfully penetrate the competitive market on the back of our valuable reputation as a trustworthy Singapore brand has been rewarding.

To watch it successfully penetrate the competitive market on the back of our valuable reputation as a trustworthy Singapore brand has been rewarding.

On home ground, we have opened our HomesToLife flagship store, a tangible facet of HTL's vision to be a forerunner in the design of lifestyle concepts. The initiative transforms home aspirations into reality, offering consumers in the South-east Asian market the chance to create their dream sanctuary.

Located at Mohamad Sultan Road, the four-storey building irradiates like the gem we visualised it to be.





Outlook

Strong economic growth looks set to remain elusive, as 2016 started off with a global stock market and commodities rout. The US Federal Reserve has begun tightening its monetary policies while Europe is grasping with migrant and debt crises. China too, has been in the spotlight, as worries about its financial stability abound.

The renminbi will continue to be volatile against the greenback, as will other major trading currencies such as the Euro, the Japanese yen and the Australian dollar. We are now more aware than ever of the difficult economic conditions facing us.

It all seems daunting. We acknowledge that such external factors will persist in taxing our revenue and profitability. Offsetting the strain will be reduced raw leather hide prices and freight rates, as well as a lower operating costs.

Internally, our push for greater efficiencies in outlay will not stop as we hope to further shrink operating costs.

Equally important, this is the time for us to step up our diligence in sieving out and leveraging opportunities so that we will shine when the world economy settles into a new balance.

We are also sharpening the way we shape our strategies, with an eye on China and the region as our lead markets.

There is much unrealised potential to be harnessed. And so our job continues as we strive to explore ways to improve ourselves and exceed expectations.

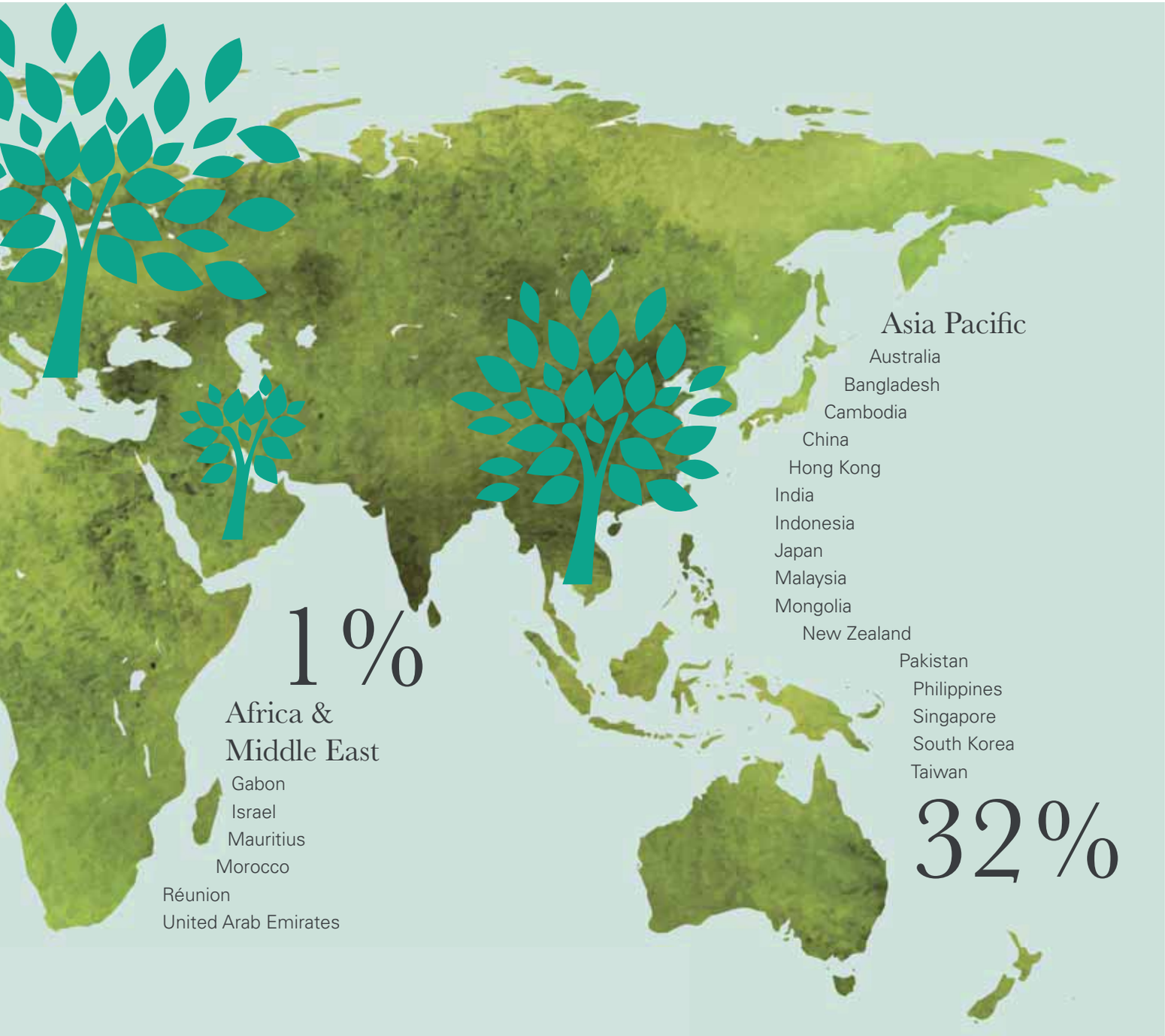
We look forward to another fruitful year ahead with your unwavering support.

Lee Kiam Hwee, Kelvin
Chairman of the Board and Independent Non-Executive Director

Phua Yong Tat
Executive Group Managing Director

Global Presence by Turnover





Our Offices

AUSTRALIA • CHINA • FRANCE • GERMANY • ITALY • JAPAN • SINGAPORE • SOUTH KOREA
TAIWAN • UNITED KINGDOM • UNITED STATES OF AMERICA

Group Financial Highlights

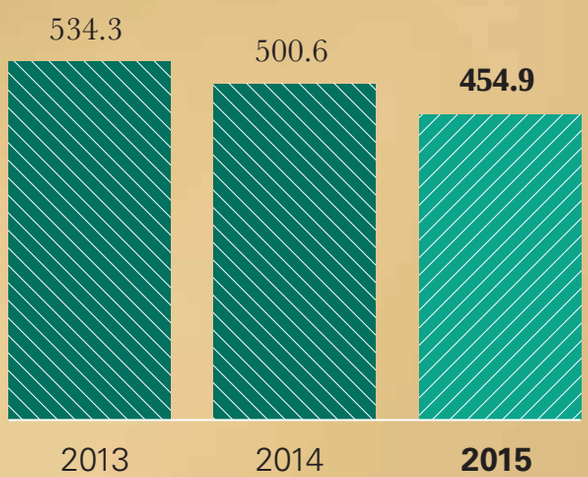
US$'000	**2015**	2014	2013
Income Statement			
Revenue	**454,852**	500,577	534,265
Profit before tax	**2,521**	10,800	4,650
(Loss)/Profit after tax	**(1,606)**	5,306	758
(Loss)/Profit attributable to shareholders	**(1,630)**	5,257	685
Dividends (net of tax, if any) [1]	**–**	3,267	1,637
Cash Flow			
Net cash from operating activities	**8,740**	38,125	61,624
Net cash used in investing activities	**(10,156)**	(5,090)	(1,737)
Net cash from/(used in) financing activities	**9,653**	(67,003)	(66,011)
Financial Ratios			
Earnings per share (cents)			
– basic	**(0.40)**	1.29	0.17
– diluted	**(0.40)**	1.29	0.17
Gross dividends rate (%) [1]	**–**	4.81	2.41
Gross dividends yield (%) [1, 2]	**–**	4.35	1.92
Net tangible assets per share (cents)	**38.61**	40.43	40.05
Return on shareholders' equity (%)	**(1.01)**	3.04	0.40
Balance Sheet			
Non-current assets	**54,866**	56,362	61,023
Current assets	**235,118**	248,268	303,265
Current liabilities	**(126,254)**	(129,547)	(185,984)
Non-current liabilities	**(771)**	(1,107)	(4,504)
Net assets	**162,959**	173,976	173,800
Shareholders' equity	**162,126**	173,124	172,944
Turnover by Geographical Market			
Europe	**202,268**	233,152	226,278
Asia (excluding China)	**65,450**	77,235	75,329
North America	**101,782**	101,930	141,107
Australia and New Zealand	**72,525**	78,472	84,828
China (including Hong Kong)	**11,719**	8,087	4,777
Others	**1,108**	1,701	1,946
	454,852	500,577	534,265

1 For FY 2013, this relates to final dividend paid on ordinary shares for FY 2012.
For FY 2014, this relates to interim dividend paid on ordinary shares for FY 2014.

2 Computed based on closing share price at the respective dates: FY 2015: No dividend paid; FY 2014: S$0.23 on 12 March 2015; FY 2013: S$0.26 on 12 March 2014.

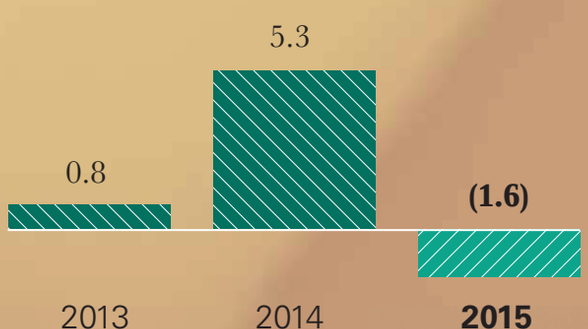
Revenue

(US$ million)



Profit / (Loss) after Tax

(US$ million)



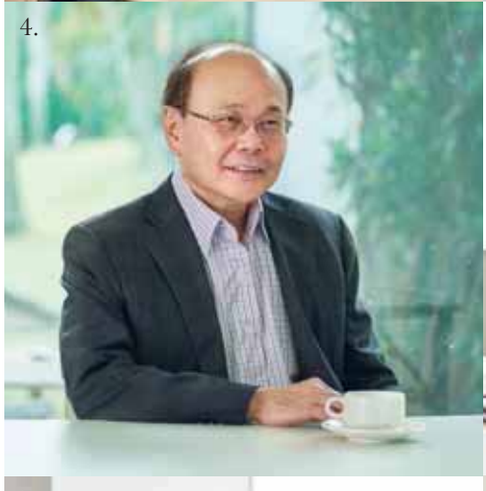


Board of Directors


1.


2.


3.


4.


5.


6.


7.


8.


9.

1. Lee Kiam Hwee, Kelvin
Chairman of the Board and Independent Non-Executive Director

Mr Lee has been an Independent Director of the Company since 11 October 2008. He is the Non-Executive Chaiman of the Board and a member of the Group's Audit and Risk Committee. His career spans more than 27 years in practice and industry, encompassing financial management, audit and strategic planning. Mr Lee is a Fellow of the Association of Chartered Certified Accountants (UK) and a Fellow of the Institute of Singapore Chartered Accountants. He is also a member of the Singapore Institute of Directors.

2. Phua Yong Pin
Executive Group Chairman

Mr Phua has been the Executive Group Chairman since incorporation. A founding member with 49 years of experience in the furniture industry, he relocated to China in 1995. He currently oversees and manages the Group's China-based manufacturing and retail operations.

3. Phua Yong Sin
Executive Deputy Group Chairman

Mr Phua, co-founder of the Group, has been the Executive Deputy Group Chairman since incorporation. For 12 years, he was the Managing Director of the Group's sofa manufacturing operations in Malaysia. Since 2009, he has been stationed in Singapore, taking responsibility for quality assurance and product development.

4. Phua Yong Tat
Executive Group Managing Director

Mr Phua has been the Executive Group Managing Director and Chief Executive Officer since incorporation. A 41-year furniture industry veteran, Mr Phua is responsible for steering the Group's strategy and business development. He also oversees various aspects of the Group's business, such as product development, product design, marketing, sales and foreign currency hedging.

5. Professor Wee Chow Hou
Independent Non-Executive Director

Professor Wee has been an Independent Director of the Company since 24 April 2003. He is the Chairman of the Group's Remuneration Committee, as well as a member of the Audit and Risk and Nominating Committees. Professor Wee lectures on marketing and strategy at the Nanyang Technological University.

6. Lee Ai Ming
Independent Non-Executive Director

Mrs Lee has been an Independent Director of the Company since 7 September 1993. She is the Chairperson of the Group's Nominating Committee, as well as a member of the Remuneration and Audit and Risk Committees. Mrs Lee was previously a Senior Partner at law firm Rodyk & Davidson LLP.

7. Dr Wee Keng Neo, Lynda
Independent Non-Executive Director

Dr Wee was appointed as an Independent Director on 26 February 2013. She is a member of the Group's Nominating Committee and a Fellow at The Chartered Institute of Marketing (UK). The retailing, leadership development and strategic planning specialist also devotes time to the Nanyang Technological University's Nanyang Business School as an Adjunct Associate Professor.

8. Soh Yew Hock
Independent Non-Executive Director

Mr Soh became an Independent Director of the Company on 26 February 2013. He brings to the Board a strong finance background coupled with extensive experience in commerce and industry. He currently leads the Group's Audit and Risk Committee as its Chairman. He concurrently takes on responsibilities as a member of the Remuneration Committee. Mr Soh, a University of Singapore and Harvard University Advanced Management Program graduate, is also a Fellow of the Institute of Singapore Chartered Accountants, the Certified Practising Accountants (Australia), the Association of Chartered Certified Accountants (UK), the Chartered Institute of Marketing (UK) and the Singapore Institute of Directors.

9. Phua Boon Huat
(Alternate Director) Executive Director

Mr Phua, who has been with the Group since 2007, was appointed to the role of Alternate Director to Mr Phua Yong Sin on 13 August 2014. The Sales Director (Europe) of HTL Manufacturing Pte Ltd holds a multifaceted portfolio: management of the Group's sofa sales in Europe, oversight of the region's sales offices, and participation in foreign exchange hedging and freight negotiation. The Honorary Treasurer of the Singapore Furniture Industries Council has an honours degree in economics from the University of Newcastle, Australia and a master's in business administration from the University of Adelaide, Australia.

Group Structure



Sofas*

HTL Furniture (Changshu) Co., Ltd
HTL Furniture (China) Co., Ltd
HTL Furniture (Kunshan) Co., Ltd
HTL Furniture (Yangzhou) Co., Ltd
HTL Furniture (Huai An) Co., Ltd
HTL Manufacturing Pte Ltd
Hwa Tat Lee Japan Co., Ltd
HTL Australia Pty Ltd
H.T.L. Furniture, Inc.
HTL (UK) Limited
HTL Korea Co., Ltd
Terasoh Co., Ltd
TBC Furniture (Shanghai) Co., Ltd
Corium Italia S.R.L.
HTL France SAS

Home Furnishing Retail

Domicil Moebel GmbH
Trends Furniture Pte. Ltd.
HTL Home (Jiang Su) Co., Ltd
HTL Furniture Trading Co., Ltd
Hwatalee G.M. (Taiwan) Co., Ltd

Leather*

HTL Leather (China) Co., Ltd
Trends Leather (Yangzhou) Co., Ltd

* Excludes dormant companies

Corporate Information

Board of Directors

Lee Kiam Hwee, Kelvin
Chairman of the Board and Independent Non-Executive Director

Phua Yong Pin
Executive Group Chairman

Phua Yong Sin
Executive Deputy Group Chairman

Phua Yong Tat
Executive Group Managing Director

Professor Wee Chow Hou
Independent Non-Executive Director

Lee Ai Ming
Independent Non-Executive Director

Dr Wee Keng Neo, Lynda
Independent Non-Executive Director

Soh Yew Hock
Independent Non-Executive Director

Phua Boon Huat
Executive Alternate Director to Phua Yong Sin

Registered Office

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Website: www.htlinternational.com

Registrar & Share Transfer Office

Tricor Barbinder Share
Registration Services
(A division of Tricor Singapore Pte. Ltd.)
80 Robinson Road, #02-00
Singapore 068898

Company Secretary

Jacqueline Joelle Loke Mun-Tze

Auditors

Ernst & Young LLP
One Raffles Quay Level 18
North Tower Singapore 048583

Partner in Charge
Mr Adrian Koh *(Appointed in 2015)*




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Redefining relaxation

Financial Statements

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Corporate Governance Report

The Board of Directors (the "Board") of HTL International Holdings Limited (the "Company") is committed to ensuring that the highest standards of corporate governance and effective self-regulatory corporate practices are practised throughout the Company and its subsidiaries (the "Group") as a fundamental part of its responsibilities to protect and enhance shareholder value and the financial performance of the Group.

Under the revised Code of Corporate Governance issued by the Monetary Authority of Singapore in May 2012 (the "2012 Code"), and the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST"), companies are required to disclose their corporate governance practices and explain deviations from the 2012 Code in their annual reports.

This report outlines the Group's corporate governance practices and structures that were in place during the financial year ended 31 December 2015 with specific reference to the principles and guidelines of the 2012 Code, and where applicable, the Listing Manual of the SGX-ST, the Singapore Companies Act and the Audit Committee Guidance Committee ("ACGC") Guidebook (second edition) which was issued on 19 August 2014, focusing on areas such as internal controls, risk management, financial reporting, and internal and external audits.

The Board has adhered to all principles and guidelines set out in the 2012 Code as set out below.

THE 2012 CODE

The 2012 Code is divided into four main sections, namely:

– Board Matters
– Remuneration Matters
– Accountability and Audit
– Shareholder Rights and Responsibilities

BOARD MATTERS

The Board of Directors as at 24 March 2016 comprises:

Mr Lee Kiam Hwee, Kelvin	(Independent non-executive Chairman of the Board)
Mr Phua Yong Pin	(Executive Group Chairman)
Mr Phua Yong Sin	(Executive Deputy Group Chairman)
Mr Phua Yong Tat	(Executive Group Managing Director)
Mrs Lee Ai Ming	(Independent non-executive Director)
Professor Wee Chow Hou	(Independent non-executive Director)
Mr Soh Yew Hock	(Independent non-executive Director)
Dr Wee Keng Neo, Lynda	(Independent non-executive Director)
Mr Phua Boon Huat	(Alternate Director to Mr Phua Yong Sin)

Note:
A description of the background of each director is presented in the Principle 2 section of this report.

The Board's role is to:

(i) provide entrepreneurial leadership, set strategic aims and ensure that the necessary financial and human resources are in place for the Group to meet its objectives;
(ii) establish a framework of prudent and effective controls which enables risk to be assessed and managed, including safeguarding of shareholders' interests and the Group's assets;
(iii) review management performance;
(iv) identify the key stakeholder groups and recognise that their perceptions affect the Group's reputation;
(v) set the Group's values and standards, and ensure that obligations to shareholders and others are understood and met; and
(vi) consider sustainability issues e.g. environmental and social factors, as part of its strategic formulation.

Corporate Governance Report

Principle 1:

Every company should be headed by an effective board to lead and control the company. The board is collectively responsible for the long-term success of the company. The board works with management to achieve this objective and management remains accountable to the board.

The Board has adopted a set of internal guidelines setting forth matters that require its approval. A summary of the types of matters that require the Board's approval are listed below:

- Review and approval of the Group's corporate strategic and business plans, annual budgets, key operational initiatives, investments (mergers and acquisitions), material transactions and funding decisions;
- Review and approval of the Group's quarterly and annual results announcements and audited financial statements;
- Delegation of authority to make decisions on any board matter to any Board Committee;
- Approval of the recommendations made by the Nominating Committee for appointment to the Board and endorsing the appointment of internal and external auditors;
- Declaration of interim dividends and proposal of final dividends; and
- Endorsement and approval of the remuneration packages recommended by the Remuneration Committee for members of the Board and key executives.

In addition to the above, the Board is also responsible for:

- Ensuring adequate, accurate and timely reporting to, and communication with, shareholders;
- Ensuring the Group's compliance to laws, regulations, policies, directives and guidelines issued by regulating authorities; and
- Overseeing the Group's fulfilment of social responsibilities.

Examples of material transactions requiring specific Board approval include any investment or expenditure not incurred in the ordinary course of business exceeding US$1.0 million.

The Board objectively takes decisions as fiduciaries in the interests of the Group. The Board has delegated specific responsibilities to three Committees as follows:

(i) the Nominating Committee;
(ii) the Remuneration Committee; and
(iii) the Audit and Risk Committee.

Information on each of the three Committees is set out below. The Board accepts that whilst these Committees have the authority to examine particular issues and will report back to the Board with their decisions and/or recommendations, the ultimate responsibility for the final decision on all matters lies with the entire Board.

The Board meets regularly at least 5 times a year and as warranted, including attending the Annual General Meeting. Scheduled meetings are fixed at the start of each year. Ad-hoc meetings are called when there are pressing matters requiring the Board's consideration and decision in between the scheduled meetings. Since 2008, the Board has also included in its list of scheduled meetings an annual Board Strategy meeting to be held to discuss strategic issues, in addition to the other meetings scheduled during the year.

The Articles of Association of the Company allow Directors to participate in a Board meeting by telephone conference or video-conference whereby all persons participating in the meeting are able to communicate as a group without requiring the Directors' physical presence at the meeting.

Corporate Governance Report

The number of Board and Board Committee meetings held for 2015 and the attendance of the Directors during these meetings are as follows:

	Board		Audit and Risk Committee		Remuneration Committee		Nominating Committee	
	No. of meetings[1]		No. of meetings[1]		No. of meetings[1]		No. of meetings[1]	
Name of Directors	**Held**	**Attendance**	**Held**	**Attendance**	**Held**	**Attendance**	**Held**	**Attendance**
Executive Directors:								
Phua Yong Pin	5	5	4	4^	1	–	1	–
Phua Yong Sin	5	4*	4	4^	1	–	1	–
Phua Yong Tat	5	5	4	4^	1	1^	1	1^
Phua Boon Huat	5	4*	4	4^	1	–	1	–
Non-executive Directors:								
Lee Ai Ming (Mrs)[2]	5	4*	4	3*	1	1	1	1
Professor Wee Chow Hou[3]	5	5	4	4	1	1	1	1
Lee Kiam Hwee, Kelvin[4]	5	5	4	4	1	–	1	–
Soh Yew Hock[5]	5	5	4	4	1	1	1	–
Dr Wee Keng Neo, Lynda[6]	5	5	4	4^	1	–	1	1

Notes:
^ attendance by invitation of the respective committees to facilitate discussions.
* the relevant directors were absent with apologies from these meetings, as they were required to attend to other urgent and significant matters.

Denotes:
(1) Number of meetings held/attended for the financial year from 1 January 2015 to 31 December 2015.
(2) Mrs Lee Ai Ming is the Chairman of the Nominating Committee, and a member of the Audit and Risk and Remuneration Committees.
(3) Professor Wee Chow Hou is the Chairman of the Remuneration Committee and a member of the Audit and Risk and Nominating Committees.
(4) Mr Lee Kiam Hwee, Kelvin is the Chairman of the Board and a member of the Audit and Risk Committee.
(5) Mr Soh Yew Hock is the Chairman of the Audit and Risk Committee and a member of the Remuneration Committee.
(6) Dr Wee Keng Neo, Lynda is a member of the Nominating Committee.

The Group conducts an orientation programme for new directors to familiarise them with the business activities of the Group, its strategic direction and corporate governance practices. First-time directors will also receive training in areas such as accounting, legal and industry-specific knowledge. The Group further requires that all directors receive training on relevant new laws, regulations and changing commercial risks from time to time. The Company Secretary will bring to the Directors' attention, information on seminars that may be of relevance or use to them. Directors are also encouraged to attend, at the Group's expense, relevant and useful seminars for their continuing education and skills improvement courses that are conducted by external organisations.

Principle 2:

There should be a strong and independent element on the board, which is able to exercise objective judgement on corporate affairs independently, in particular, from management and 10% shareholders (as defined in the 2012 Code). No individual or small group of individuals should be allowed to dominate the board's decision making.

As at 24 March 2016, the Board comprises nine members, five of whom are non-executive Directors (including the Chairman of the Board), and one of whom is an alternate Director to an executive Director. All non-executive Directors are independent i.e., they have no relationship with the Company, its related companies, its 10% shareholders, or their officers that could interfere, or be reasonably perceived to interfere, with the exercise of the directors' independent business judgement with a view to the best interests of the Group, and they are able to exercise objective judgement on corporate affairs independently from management and its 10% shareholders. Independent and non-executive Directors make up more than half of the Board.

Corporate Governance Report

The Board and its committees are constituted of Directors with varying backgrounds, qualifications and experience, which together as a group provide the Company with an appropriate balance and diversity of skills, experience, gender and knowledge of the Group. They also provide core competencies of accounting, finance, legal, business and management experience, corporate strategic planning and customer-based experience and knowledge. The profiles and key information of the Directors as at the date of this report are as follows:

Mr Lee Kiam Hwee, Kelvin, aged 60, has been an Independent Director of the Company since 11 October 2008. He is the Chairman of the Board and a member of the Group's Audit and Risk Committee. Mr Lee began his career with Coopers & Lybrand and was there for 15 years from 1979 to 1994. As a Senior Audit Manager, he headed audits covering a wide spectrum of industries, including several listed companies. Mr Lee also has experience in financial investigation, litigation support and profit forecasts. From 1994 to 2003, Mr Lee was the Group Financial Controller of IMC Holdings Ltd, a company in the principal business of ship-owning. He contributed towards its strategic business planning and overall financial management and put in place financial control systems for the company. From 2003 to March 2007, he was the Group Financial Controller at Pan United Corporation Limited. He was the chairman of the audit committee and a member of the nominating and remuneration committees in Pacific Healthcare Holdings Ltd from 2 April 2007 to 29 February 2012 and a member of the audit and remuneration committees in AusGroup Limited from 15 October 2010 to 31 October 2013. Mr Lee is also an independent director with KOP Limited and Marco Polo Marine Limited. In KOP Limited he is the lead independent director, audit/risks committee chairman and a member of the remuneration committee. He is a member of the audit, remuneration and nomination committee in Marco Polo Marine Limited. He is a Fellow of the Association of Chartered Certified Accountants (UK) and Fellow of the Institute of Singapore Chartered Accountants. He is also a member of the Singapore Institute of Directors. Mr Lee was last re-elected as a Director at the Annual General Meeting held on 29 April 2013 and will be offering himself for re-election at the forthcoming Annual General Meeting.

Mr Phua Yong Pin, aged 68, has been the Executive Group Chairman since the incorporation of the Company and is one of the co-founders of the Group together with his two younger brothers, Messrs Phua Yong Sin and Phua Yong Tat. He is the eldest of the three Phua brothers, and has been in the furniture industry for over 40 years. He is responsible for steering the Group's expansion in China. He has relocated to China since 1995 in order to effectively oversee and manage the Group's overall manufacturing operations in China. Mr Phua Yong Pin was last re-elected as a Director at the Annual General Meeting held on 28 April 2014.

Mr Phua Yong Sin, aged 66, has been the Executive Deputy Group Chairman since the incorporation of the Company and is a co-founder of the Group. He was the Managing Director of the Group's sofa manufacturing operations in Malaysia for 12 years. He is currently responsible for overseeing quality assurance for the Group's Sofa Business Unit and employee training and development on quality control with respect to the Group's manufacturing operations in China. Mr Phua Yong Sin was last re-elected as a Director at the Annual General Meeting held on 28 April 2014.

Mr Phua Yong Tat, aged 64, is a co-founder of the Group, and has been the Executive Group Managing Director and Chief Executive Officer since the incorporation of the Company. He has been in the furniture industry for over 30 years and is responsible for the overall management of the Group's Business Units. Mr Phua Yong Tat's hands-on approach to management means that he oversees various aspects of the Group's business such as product design and development, sales and marketing, foreign currency hedging and retail. Mr Phua Yong Tat was last re-elected as a Director at the Annual General Meeting held on 28 April 2015.

Mrs Lee Ai Ming, aged 61, was appointed as an independent Director of the Company on 7 September 1993. She is the Chairperson of the Group's Nominating Committee as well as a member of the Audit and Risk and Remuneration Committees. Mrs Lee was a Senior Partner in the law firm, Rodyk & Davidson LLP ("Rodyk"). She holds a Bachelor of Law (Honours) Degree from the University of Singapore and is an advocate and solicitor of the Supreme Court of Singapore. She has practised law for more than 30 years, in the areas of commercial litigation, real estate and intellectual property. Mrs. Lee has been an independent director of Keppel Telecommunications & Transportation Ltd since 1 August 2015. She was an independent non-executive director and member of the audit, board risk and brand review committees of Keppel Land Limited until 30 April 2015. She is also an independent non-executive director and Chairperson of the finance and audit committee of the Agri-Veterinary Board. She was an independent non-executive director and Chairperson of the nominating and remuneration committee of K-Reit Management Ltd until 31 December 2012. Mrs Lee was last re-elected as a Director at the Annual General Meeting held on 29 April 2013 and will not be offering herself for re-election at the forthcoming Annual General Meeting.

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Professor Wee Chow Hou, aged 64, was appointed as an independent Director of the Company on 24 April 2003. He is the Chairman of the Remuneration Committee and is a member of the Audit and Risk and Nominating Committees. He is a Professor at the Nanyang Technological University, and teaches marketing and strategy at its Business School. He also consults and conducts executive training for major organisations around the world, including Fortune 500 companies and has authored several management books. Professor Wee serves as a director of Tembusu Growth Fund I Ltd, Tembusu Growth Fund II Ltd, Tembusu Growth GIP Fund Ltd, Tembusu Growth GIP Fund III Ltd and the Singapore Christian Home. He is also the corporate advisor/consultant to ESMo Technologies Pte Ltd, and an authority member of the Civil Aviation Authority of Singapore. He previously sat on the Boards of NOL Ltd, SembCorp Logistics Ltd., Furama Ltd and China Precision Technology Ltd. Professor Wee was last re-elected as a Director at the Annual General Meeting held on 28 April 2014 and will not be offering himself for re-election at the forthcoming Annual General Meeting.

Mr Soh Yew Hock, aged 71, was appointed as an independent Director of the Company on 26 February 2013. He is the Chairman of the Audit and Risk Committee and a member of the Remuneration Committee. Mr Soh has extensive experience in commerce and industry. He is the lead independent director, audit and risk management committee Chairman, and a member of the nominating and remuneration committees of Kencana Agri Limited. He is also the lead independent director and audit committee Chairman of Japan Residential Assets Manager Limited (Manager of Saizen Reit). Mr Soh had previously served as a director of several listed companies and was Group Managing Director and Chief Executive Officer of Wearnes International (1994) Limited. He holds a Bachelor of Accountancy degree from the University of Singapore and is an Advanced Management Program (AMP) alumnus of Harvard Business School. He is a Fellow of the Institute of Singapore Chartered Accountants, Certified Practising Accountants (Australia), Association of Chartered Certified Accountants (UK), the Chartered Institute of Marketing (UK) and the Singapore Institute of Directors. Mr. Soh was last re-elected as a Director at the Annual General Meeting held on 28 April 2015.

Dr Wee Keng Neo, Lynda, aged 52, was appointed as an independent Director of the Company on 26 February 2013. She is a member of the Nominating Committee. She is a specialist in retailing, leadership development and strategic planning. Prior to founding Bootstrap, she was the Senior Vice President of Learning and Development at CapitaLand Limited ("CapitaLand") and held the concurrent post of Founding Principal for CapitaLand Institute of Management and Business. At CapitaLand, she led the Leadership and People Development initiative. She also spearheaded the Innovation, Creativity and Entrepreneurship (ICE) initiative to develop and implement new business ideas for the group. She served as the founding member of Temasek-Linked Companies Organisation Development Network. Her Customer-centric Initiatives projects include OSIM, DP Architects and Far East Hospitality. She was the Project Leader of a nation-wide research study commissioned by SPRING's Go-the-Extra Mile (GEMS) on Service Excellence and Leadership. She was the lead author of "Go the Extra Smile", a customer service excellence book that was published by Prentice Hall. She serves as an Adjunct Associate Professor at the Nanyang Business School, Nanyang Technological University. She is a Fellow at The Chartered Institute of Marketing (UK) and held the Chartered Marketer Status since 2001. She is also a Senior Certified Practising Management Consultant. Dr Wee received her Doctor of Philosophy (Retailing) from the University of Stirling (UK) in 1998. Dr Wee was last re-elected as a Director at the Annual General Meeting held on 28 April 2015.

Mr Phua Boon Huat, aged 35, was appointed as an alternate Director to Mr Phua Yong Sin on 13 August 2014. Mr Phua has been employed with the Group since 2007 and has held several appointments within the Group, including General Manager, Europe, Senior Manager, Strategic Planning and Regional Sales Manager, Europe of HTL Manufacturing Pte Ltd. In his current role, Sales Director, Europe of HTL Manufacturing Pte Ltd, he is responsible for managing the Group's sofa sales in the European market and overseeing the sales offices in the region, and is involved in foreign exchange hedging and freight negotiation. He is also the Honorary Treasurer of the Singapore Furniture Industries Council. Mr Phua holds a Bachelor of Economics (Honours) Degree from the University of Newcastle, Australia and a Master of Business Administration Degree from the University of Adelaide, Australia. The Board approved the appointment of Mr Phua Boon Huat after reviewing the Nominating Committee's recommendation and Mr Phua's qualifications and experience. As an alternate Director, Mr Phua will not be offered for re-election at the Annual General Meeting of the Company.

The Nominating Committee reviews the size of the Board on an annual basis and considers the present Board size as appropriate for the current scope and nature of the Group's operations and the requirements of the business. The Board is of the view that the composition of independent and non-executive Directors of the Board currently meets the requirements of the Group's corporate governance practices and that no individual or group is able to dominate the Board's decision making process. The current constitution of the Board also facilitates effective decision-making.

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The non-executive Directors are involved in the development of proposals on the Company's strategy. Their role is particularly important in ensuring that the strategies proposed by management are constructively challenged, fully discussed and examined and takes into account the long term interests, not only of the shareholders but also other stakeholders of the Group. The non-executive Directors also review the management's performance in achieving agreed goals and objectives, and monitor the reporting of its performance. They also meet regularly on their own, without the presence of the management.

Principle 3:

There should be a clear division of responsibilities between the leadership of the board and the executives responsible for managing the company's business. No one individual should represent a considerable concentration of power.

The Chairman of the Board and the Group Managing Director are not related to each other. The roles of Chairman of the Board and the Group Managing Director are separate to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making.

The Chairman of the Board, Mr Lee Kiam Hwee, Kelvin is a non-executive and independent Director. He leads the Board to ensure its effectiveness and approves the agenda of Board meetings. The Chairman of the Board will review all Board papers to ensure they are accurate, timely and have clear information before they are presented to the Board.

All major proposals and decisions by the executive Directors are discussed and reviewed by the non-executive Directors. In addition, the Group ensures that access to information is fully extended to the non-executive Directors and with the active participation of these non-executive Directors at Board meetings, the Board is satisfied that the current arrangement provides sufficient checks and balances to ensure that no one individual member of the Board holds a considerable concentration of power, and that there is an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making.

Management staff who have prepared the papers, or who can provide additional insight into the matters to be discussed, are invited to present the paper or attend at the relevant time during the Board meeting to participate in the discussion.

The Chief Financial Officer ("CFO") ensures compliance by the Company with the guidelines on corporate governance by working together with the Company Secretary to ensure that the Board's procedures are followed and that all relevant statutes, rules and regulations are complied with. The Company Secretary generally administers, attends and prepares minutes of all Board and Committee meetings. She assists the Chairman of the Board in ensuring Board procedures are followed and that the Company's Memorandum and Articles of Association and relevant rules and regulations including requirements of the Companies Act and the SGX-ST Listing Manual are complied with. She is also the primary channel of communication between the Company and the SGX-ST.

The Group has an Executive Committee which comprises Messrs Phua Yong Pin, Phua Yong Sin and Phua Yong Tat. They are assisted by the following key executives ("Senior Management"):

Corporate Services:

- **Mr Tan Hong Leong, Steven**, CFO since March 2012, is responsible for the Group's overall accounting and finance functions. He also manages the Group's risk management, insurance, legal affairs and investor relations. He was formerly the Managing Director of HTL (UK) Limited, overseeing the entire UK office based there. He left KPMG, where he had served as Manager, KPMG Business Advisory, in 2003 to join HTL in January 2004. He holds a Master of Science in Accounting and Finance (UK) and is a member of the Institute of Singapore Chartered Accountants and a Fellow of the Association of Chartered Certified Accountants (UK).

- **Ms Phua Mei Ming**, Director, Human Resources, Marketing and Communications, is responsible for human resources, marketing, communications and administrative functions. She joined HTL in 1999, and has been involved in various aspects of product design/development, branding/marketing and strategic business development activities. She graduated with a Bachelor of Business Administration from the National University of Singapore.

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- **Ms Leo Sai Tin, Jane**, Director, Central Procurement Unit, heads the central sourcing unit of raw leather hides and chemicals. She joined HTL in 1983, and has held various positions spanning both the manufacturing and sales aspects of the Group's sofa operations.

Sofa Sales:

- **Mr Lee Teck Sui**, Business Controller, has been responsible for overseeing the Group's overseas trading subsidiaries since January 2013. Prior to that, he was Director, Sales, responsible for developing the Group's market in Canada. He started his career in HTL as the Group Accountant in 1989, and moved to the Group's Sofa Sales division in 1995.

- **Mr Ooi Kai Cheng**, Director, Sales, oversees sofa sales for the Asia Pacific region. He joined HTL in 1989 as the Plant Manager for sofa operations in Singapore, and was re-assigned in 1992 to the Group's Sofa Sales division.

- **Mr Toh Chye Seng**, Director, Design, heads the Group's Sofa Design and Product Management department. He joined HTL in 1981, and was assigned to the Sofa Design and Product Management department in 1984.

Major Overseas Offices:

- **Mr Kazuteru Kinoshita**, President, Hwa Tat Lee Japan Co., Ltd, manages the Group's Japan operations. He is a 36-year veteran in the furniture industry with experience in Japan and overseas. He joined HTL in May 1994.

- **Mr Dan Pekin**, General Manager, HTL Australia Pty Ltd, manages the Group's Australia operations. Prior to joining HTL in March 2007, he was the Chief Executive Officer of Moran Furniture in Australia. He has more than 30 years of relevant experience in the furniture industry.

Factory Operations:

- **Mr Goh Choo Guan**, Director, Group Sofa Manufacturing Operations, oversees the Group's various sofa manufacturing operations in China. He joined HTL in 1991.

Principle 4:

There should be a formal and transparent process for the appointment and re-appointment of directors to the board.

The Nominating Committee comprises the following independent and non-executive Directors:

Mrs Lee Ai Ming (Chairman)
Professor Wee Chow Hou
Dr Wee Keng Neo, Lynda

The Nominating Committee was set up in 2003. The Committee held 1 meeting for the financial year.

Mrs Lee Ai Ming, Chairperson of the Nominating Committee is neither a substantial shareholder of the Company nor directly associated with a substantial shareholder of the Company. The Nominating Committee has written terms of reference endorsed by the Board and performs the following functions:

- Reviewing the structure, size and composition of the Board to facilitate effective decision making and making recommendations to the Board on all board appointments and with regard to any adjustments deemed necessary;
- Identifying candidates and reviewing all nominations for appointment or re-appointment of Directors (including alternate Directors), taking into account composition and progressive renewal of the Board and each director's competencies, commitment and past contributions and performance in the case of re-appointments;
- Determining annually whether a director is independent;
- Ensuring the Board comprises at least one-third or half independent directors (as the case may be) in accordance with the 2012 Code;
- Deciding how the Board's performance may be evaluated and proposing objective performance criteria for the Board's approval;
- Formulating and reviewing the board's succession plan for Directors, in particular, the Chairman and Group Managing Director;
- Developing a process for assessing the effectiveness of the Board as a whole, as well as the contribution by each member of the Board to the effectiveness of the Board; and
- Reviewing training and professional development programs for the Board.

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In its search, nomination and selection process for new Directors, the Nominating Committee identifies the key attributes that an incoming director should have in consultation with the Group Managing Director based on a matrix of the attributes of the existing Board and the requirements of the Group. After endorsement by the Board of the key attributes of a new Director, the Nominating Committee will then tap on the resources of Directors' personal contacts and recommendations of potential candidates and go through a short listing process. Interviews are set up with potential candidates for the Nominating Committee to assess them before a decision is reached.

Under the Articles of Association of the Company, all the Directors submit themselves for re-nomination and re-election at regular intervals and at least once every three years for each director. In addition, the Company's Articles of Association provide that a newly appointed director must retire and offer himself for re-election at the next Annual General Meeting following his appointment. Thereafter, he is subject to being offered for re-election at least once every three years.

The Board recognises the contribution of its independent Directors who over time have developed deep insight into the Group's businesses and operations and who are able to provide valuable contributions and continuity of decision making to the Group. As such, the Board believes there is no necessity to set a fixed term of office for each of its independent Directors so as to be able to retain the services of the Directors as necessary.

The Nominating Committee reviews the independence of the Directors on an annual basis, taking into account factors including whether the Director is employed by the Group, the Director's shareholdings in the Group, the Director's relationships with 10% shareholders, any payments received by the Director and/or his associates from the Group, and the length of that Director's service on the Board, as well as any other relationships the Director may have with the Group which may interfere with the Director's exercise of independent business judgement. In addition to this annual review, the Nominating Committee also reviews the independence of any given Director(s) on an ad hoc basis as and when circumstances arise which may affect the independence of such Director(s). Following its annual review, the Nominating Committee has provided its views to the Board for the Board's consideration and both the Nominating Committee and Board have endorsed the independent status of the five non-executive Directors.

The Board has determined that Professor Wee Chow Hou and Mrs Lee Ai Ming be considered independent notwithstanding that they have served on the Board beyond nine years as they have continued to demonstrate the essential characteristics of independence expected by the Board. They have continued to express their individual viewpoints, debated issues and objectively scrutinised and challenged management. They have sought clarification and implications as they deemed required, including through direct access to the Group's employees. Further, Professor Wee Chow Hou and Mrs Lee Ai Ming contribute to the Board an in-depth understanding of the Group's business and the risks faced by the Group, which understanding had been developed over the course and as a result of their tenure on the Board.

The Board had determined that Mrs. Lee Ai Ming be considered independent notwithstanding that she was, until 31 December 2014, a Senior Partner, and with effect from 1 January 2015 continued as a Consultant, of Rodyk and Davidson LLP ("Rodyk"), which has received payment of S$249,000 in aggregate for provision for professional services to the Group as the fees charged to the Group by Rodyk are charged on an arms-length basis and under terms comparable to the terms under which fees are charged to other customers. These fees are also insignificant in the context of the Group's earnings.

The Board is cognisant of the revisions in 2012 Code to the definition of "independent" and the constitution of the Board and its committees in terms of size and the proportion of independent directors required. Although the revised requirements relating to the composition of the Board are only effective for financial years commencing on or after 1 May 2016, the Board had made changes to the composition of the Board and its committees to achieve full compliance with the revised requirements in 2013.

All Directors are required to declare their board representations. The Nominating Committee has reviewed and is satisfied that sufficient time and attention are being given by the Directors to the affairs of the Group. The Board has determined that the maximum number of listed company board representations which any director may hold is five. In respect of 2015, the Nominating Committee is of the view that the number of each Director's directorships was in line with the Company's guideline of a maximum of five listed company board representations and that each Director has been able to discharge his/her duties as a director of the Company.

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Principle 5:

There should be a formal annual assessment of the effectiveness of the board as a whole and its board committees and the contribution by each director to the effectiveness of the board.

The Board through the Nominating Committee has established a formal assessment process which is carried out annually to assess the effectiveness of the Board as a whole and its Board Committees and to assess the contribution by the Chairman and each individual Director to the Board's effectiveness.

The Group Managing Director will give feedback to the Nominating Committee on the appointment of new Directors or retirement or resignation of existing Directors and the Nominating Committee will take into consideration his views in this regard.

The Board through the Nominating Committee has used its best effort to ensure that directors appointed to the Board possess the background, experience, knowledge in the business, competencies in finance and management skills critical to the Group's business.

The assessment process that is adopted takes into account several factors, including quantitative criteria such as the individual Director's attendance record at meetings and availability for consultation, and qualitative criteria like the Director's level of active participation in discussions, contributions by way of business, accounting or other types of specialised knowledge, and the level of dedication and commitment shown in respect of the Company's affairs. Further, the performance evaluation will also consider the Director's performance in comparison to industry peers.

The evaluation exercise for the Board is carried out by the Nominating Committee. For each individual Director, the evaluation is carried out by the Nominating Committee in consultation with the individual Directors. The evaluation of each Nominating Committee member is conducted by the other members without the participation of the member being evaluated. The aim of the individual evaluation of each Director is to assess whether each Director contributes effectively and demonstrates commitment to the role.

Replacement of Directors, when it happens, does not reflect their contributions to date, but may be driven by the need to align the Board with the medium or long term needs of the Group.

The Board has taken a view that financial indicators such as return on assets, return on investment and return on equity serve only as a guideline for the evaluation of the Board and its Directors as there are other qualitative indicators that are equally important to take into account.

Principle 6:

In order to fulfil their responsibilities, directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.

All Directors receive a set of Board papers prior to the Board meeting. As a general rule, Board papers are required to be sent to Directors at least five working days prior to the Board meeting to enable the Directors to have sufficient time to understand the matters tabled for discussion and prepare for the Board meeting. However, sensitive matters may be tabled only at the meeting itself.

The Board papers include, among others, the following documents and details:

- Minutes of the previous Audit and Risk Committee and Board meetings;
- Follow up on significant matters outstanding following the last Board or Audit and Risk Committee meetings;
- Financial review: actual, quarterly, rolling forecast and any other major financial issues;
- Internal audit reports prepared by the Group's internal auditors;
- External audit reports prepared by the Group's external auditors;
- Annual budgets (actual vs budget); and
- Major operational issues and investment proposals.

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In addition, key matters requiring decision are reserved for resolution at Board meetings rather than by circulation to facilitate discussion. Only follow up matters that have been endorsed at Board meetings are allowed to be circulated for approval. The Directors also receive management reports on the Group's financial performance on a monthly and quarterly basis, which contain adequate and timely major operational and financial information that facilitates an assessment of the Group's performance, position and prospects. The management reports consist of monthly internal financial statements with disclosures and explanations of material variances between past performance, budgets and actual results.

To ensure that Directors are in receipt of sufficient background explanatory information, briefings or formal presentations may also be given or made by Senior Management staff in attendance at Board meetings, or by external consultants engaged on specific projects. Directors are also entitled to request additional information as needed to make informed decisions and management shall provide the same in a timely manner.

Non-executive Directors have separate and independent access to the Company's Senior Management as well as the Group's internal/external auditors and the Company Secretary at all times should they have any queries on the Group's affairs. Queries by individual Directors on circulated papers are directed to the CFO who will then coordinate with the relevant management to respond accordingly. Where relevant, the Directors' queries and management's responses are circulated to all Board members for their information.

The Company Secretary attends all Board and Committee meetings and ensures that Board procedures are followed and that all applicable rules and regulations are complied with. Under the direction of the CFO, the Company Secretary is responsible for ensuring good information flows within the Board and its committees and between Senior Management and non-executive Directors, advising the Board on all governance matters, as well as facilitating orientation and assisting with the professional development of the Directors as required. Directors will also have a separate and independent access to the Company Secretary.

Under the Articles of Association of the Company, the decision to appoint or remove the Company Secretary can only be taken by the Board as a whole.

There is also a process where should the Board or the Directors in their individual capacity, require independent professional advice to fulfil their duties and responsibilities as Directors, such professionals are hired at the Company's expense.

REMUNERATION MATTERS

The Remuneration Committee is responsible for ensuring a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors and Senior Management.

The Remuneration Committee comprises the following non-executive and independent Directors:

Professor Wee Chow Hou (Chairman)
Mrs Lee Ai Ming
Mr Soh Yew Hock

The Remuneration Committee has written terms of reference that describe its responsibilities and these terms include:

- Recommending to the Board a framework of remuneration for the Board and key executives;
- Determining the specific remuneration packages for each executive Director and the Group Managing Director, taking into account factors including the employment conditions within the industry and in comparable companies, as well as the performance of each person;
- Reviewing the procedures for fixing the remuneration packages of non-executive Directors;
- Reviewing the process of determining remuneration for key executives and employees who are immediate family members of certain Directors;
- Recommending to the Board for endorsement the framework of remuneration and specific remuneration packages of key management personnel; and
- All other aspects of remuneration.

The Remuneration Committee's recommendations (which cover all aspects of remuneration) are submitted for endorsement by the Board.

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Principle 7:

There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

The Group has a formal and transparent process for fixing Directors' fees and the remuneration packages of individual Directors.

In setting the remuneration packages for executive Directors, matters like the prevailing salaries and employment conditions of executive Directors of other companies of a comparable size, as well as the Group's relative performance and the performance of individual Directors, are taken into account. The other forms of remuneration drawn by executive Directors are determined in accordance with the Group's remuneration guidelines for all staff.

All executive Directors have standard service contracts with the Company which do not contain onerous removal clauses. Notice periods are generally six months. Executive Directors do not receive Directors' fees. Non-executive Directors have no service contracts with the Company. The total amount of fees paid is based on the level of contribution of the Director, taking into account factors such as effort and time spent, and levels of responsibilities assigned to each Director. Non-executive Directors are remunerated in the form of Director's fees, which has a basic component, and an additional fee above the basic component for Directors who serve on the Board Committees. The aggregate quantum of Directors' fees is submitted annually to shareholders at the Annual General Meeting for approval.

In framing the Group's remuneration policy, the Remuneration Committee from time to time seeks advice confidentially from external consultants at its discretion.

The Remuneration Committee has access to the advice of the Group's Head of Human Resources, who attends the Remuneration Committee meetings at the invitation of the Remuneration Committee. The Remuneration Committee will have access to expert advice outside the Company at the Company's expense.

No Director is involved in deciding his or her own remuneration.

Principle 8:

The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose. A significant and appropriate proportion of executive directors' and key management personnel's remuneration should be structured so as to link rewards to corporate and individual performance.

The annual reviews of the compensation of executive Directors and Senior Management are carried out by the Remuneration Committee to ensure that the remuneration paid commensurate with their individual performance and that of the Company, giving due regard to the long-term financial and commercial health and business needs of the Group.

The Board will consider on an annual basis whether the shareholders at Annual General Meeting should be invited to approve its remuneration policies. The remuneration package of executive Directors and Senior Management and above consists of the following components:

(a) Fixed component

Fixed pay comprises basic salary, fixed allowances and Central Provident Fund contributions. To ensure that the executive Directors' and key executives' remuneration is consistent and comparable with market practice, the Remuneration Committee will periodically conduct benchmarking of the remuneration components against specialist independent remuneration benchmarking reports while continuing to be mindful that there is a general correlation between increased remuneration and performance improvements.

(b) Variable component

This component comprises variable bonuses based on the Group's and the individual's performance. Bonuses payable to executive Directors and Senior Management are reviewed by the Remuneration Committee and approved by the Board to ensure alignment of their interests with those of shareholders.

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(c) Benefits

Benefits provided are consistent with market practice and include medical benefits, car allowance, club benefits, housing subsidy and other flexible benefits.

(d) Share options

Under the HTL International Holdings Limited Share Option Plan 2013, share options are granted to Directors (except for controlling shareholders of the Company or associates of such controlling shareholders as defined in the SGX-ST Listing Manual) and all eligible employees of the Group. The share options component is granted based on the individual employee's performance and contributions to the Group. The share options granted will have a minimum vesting period of one year. More information on the HTL International Holdings Limited Share Option Plan 2013 is set out in the Directors' Statement, and the important terms of the HTL International Holdings Limited Share Option Plan 2013 are set out in the Rules of the HTL International Holdings Limited Share Option Plan 2013 annexed as Appendix A to the Circular to shareholders dated 12 April 2013 and approved in the Company's Extraordinary General Meeting on 29 April 2013.

The remuneration of the Group's Senior Management is subject to approval by the Group Managing Director and this will be endorsed by the Remuneration Committee. Senior Management have standard employment contracts which do not contain onerous removal clauses.

The Company's current fee structure for non-executive Directors for the financial year 2015 is set out below. This fee structure was reviewed in 2011 with a view to achieving the following key objectives:

a) To reflect the increased scope of responsibility of non-executive Directors due to regulatory changes and increase in business complexity; and

b) To provide remuneration at benchmarked rates to retain and/or attract new non-executive Directors.

Remuneration of non-executive Directors is proportionate their level of contribution, having taken into account factors such as effort and time spent and responsibilities of each director. The fees proposed to be paid to non-executive Directors for the financial year 2016 have been determined based on the same formula applied in 2015 as follows:

Types of Appointment	**S$**
Non-executive Directors	
Basic fee	40,000
Chairman	
Board	30,000
Audit and Risk Committee	18,000
Nominating Committee	8,000
Remuneration Committee	8,000
Members	
Audit and Risk Committee	12,000
Nominating Committee	4,000
Remuneration Committee	4,000

Note:
The above proposed fees cover 14 meetings per annum.

If a Director occupies a position for part of the financial year, the fee payable will be pro-rated accordingly.

Shareholders' approval will be sought at the forthcoming Annual General Meeting scheduled to be held on 27 April 2016 for the payment of these proposed fees to non-executive Directors for the financial year ending 31 December 2016 in the amount of up to S$316,000 (2015: S$316,000).

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Principle 9:

Every company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration in the company's annual report. Every company should also provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management personnel, and performance.

The remuneration of the Directors for the financial year 2015 is set out below:

Name of Directors	Base/Fixed Salary[1] S$	Variable or Performance-related Income/Bonus S$	Benefits in Kind S$	Director's Fees S$	Total S$
Executive Directors:					
Phua Yong Pin[2]	453,061	–	102,000	–	555,061
Phua Yong Sin[2]	399,014	–	102,000	–	501,014
Phua Yong Tat[2]	469,154	–	102,000	–	571,154
Phua Boon Huat (alternate to Phua Yong Sin)[2]	141,678	–	–	–	141,678
Non-executive Directors:					
Lee Kiam Hwee, Kelvin	–	–	–	82,000	82,000
Lee Ai Ming (Mrs)	–	–	–	64,000	64,000
Professor Wee Chow Hou	–	–	–	64,000	64,000
Soh Yew Hock	–	–	–	62,000	62,000
Dr Wee Keng Neo, Lynda	–	–	–	44,000	44,000

Denotes:
(1) Includes contributions to Central Provident Fund.
(2) Executive Directors do not receive Directors' fees.

The remuneration of the Group's key management personnel (excluding executive Directors) for the financial year 2015, in bands of S$250,000, is set out below:

Remuneration Band and Name of Key Management Personnel	Base/Fixed Salary[1] (% of total remuneration)	Variable or Performance-related Income/Bonus (% of total remuneration)	Benefits in Kind (% of total remuneration)
S$250,000 – S$499,999			
Tan Hong Leong, Steven	95	–	5
Kazuteru Kinoshita	94	–	6
Dan Pekin	61	–	39
Below S$250,000			
Leo Sai Tin, Jane	95	–	5
Lee Teck Sui	93	–	7
Ooi Kai Cheng	93	–	7
Toh Chye Seng	93	–	7
Goh Choo Guan	89	–	11

Denote:
(1) Includes contributions to Central Provident Fund.

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The total remuneration paid to the above key management personnel (excluding executive Directors) in 2015 was S$1,962,962.

The remuneration paid to the executive Director and key management personnel is strongly linked to the achievement of business and individual performance targets where specific key performance indicators (KPIs) are clearly set out for each financial year for annual performance review. The final amount of the variable or performance-related income/bonus will depend on the achievement of Group and individual performance objectives. Taking into consideration the Group's 2015 performance and the difficult business environment, no variable or performance-related income/bonus was paid to the executive Directors for financial year 2015.

For financial year 2015, there were no termination, retirement and post-employment benefits granted to Directors and the key management personnel.

The remuneration of the employees who are immediate family members of the executive Directors, and whose remuneration exceeded S$50,000 during the financial year 2015, is set out below:

Remuneration Band and Name of Executive	Base/Fixed Salary[1] (% of total remuneration)	Variable or Performance-related Income/Bonus (% of total remuneration)	Benefits in Kind (% of total remuneration)
S$200,000 – S$249,999			
Phua Mei Ming[2]	95	–	5
S$100,000 – S$149,999			
Phua Bo Wen[3]	100	–	–
S$50,000 – S$99,999			
Phua Jing Yuh[4]	100	–	–
Phua Jing Hong[5]	100	–	–
Phua Fang Ming[6]	85	–	15

Denotes:
(1) Includes contributions to Central Provident Fund.
(2) Ms Phua Mei Ming, the daughter of Mr Phua Yong Tat, an executive Director of the Company, is employed by a wholly-owned subsidiary of the Group.
(3) Mr Phua Bo Wen, the son of Mr Phua Yong Tat, an executive Director of the Company, is employed by a wholly-owned subsidiary of the Group.
(4) Mr Phua Jing Yuh, the son of Mr Phua Yong Pin, an executive Director of the Company, is employed by a wholly-owned subsidiary of the Group.
(5) Mr Phua Jing Hong, the son of Mr Phua Yong Pin, an executive Director of the Company, is employed by a wholly-owned subsidiary of the Group.
(6) Ms Phua Fang Ming, the daughter of Mr Phua Yong Pin, an executive Director of the Company, is employed by a wholly-owned subsidiary of the Group.

ACCOUNTABILITY AND AUDIT

Principle 10:

The board should present a balanced and understandable assessment of the company's performance, position and prospects.

The Board provides shareholders with quarterly and annual financial reports. In presenting these statements, the Board aims to present a balanced and understandable assessment of the Group's performance, position and prospects. The Board also ensures timely and full disclosure of material corporate developments to shareholders.

In line with stock exchange requirements, negative assurance statements were issued by the Board to accompany the Group's quarterly financial results announcements, confirming that to the best of its knowledge, nothing had come to its attention which would render the Group's quarterly results false or misleading.

Corporate Governance Report

In preparing the financial statements, the Board has:

- Selected suitable accounting policies and applied them consistently;
- Made judgements and estimates that are reasonable and prudent;
- Ensured that all applicable Financial Reporting Standards have been followed; and
- Prepared financial statements on a going concern basis as the Directors have a reasonable expectation, having made enquiries, that the Group and Company have adequate resources to continue in operational existence for the foreseeable future.

Management provides to all members of the Board for their endorsement on a periodic basis and as the Board may require from time to time, the management accounts (on a monthly basis), annual budgets (capital, operating and manpower establishment), rolling quarterly forecasts and key performance indicators for effective monitoring and decision making.

Principle 11:

The board is responsible for the governance of risk. The board should ensure that management maintains a sound system of risk management and internal controls to safeguard the shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the board is willing to take in achieving its strategic objectives.

The Board and management are fully committed to maintaining sound risk management and internal controls systems to safeguard shareholders' interests and the Group's assets. The Board also determines the Group's levels of risk tolerance and risk policies, and oversees management in the design, implementation and monitoring of these risk management and internal controls systems.

The Board recognises the importance of a robust and effective system of internal controls and risk management practices to address financial, operational, information technology and compliance risks. The Board affirms its responsibility for the Group's system of internal controls and risk management, and for reviewing the adequacy and integrity of those systems on an annual basis. It should be noted that such systems are designed to manage rather than to eliminate the risks. Accordingly, the systems can provide only reasonable and not absolute assurance against misstatement of loss, safeguarding of assets, maintenance of proper accounting records, reliability of financial information and compliance with all relevant legislation.

With the assistance of its internal auditors, KPMG Services Pte Ltd ("KPMG"), the Company established a Group-wide Enterprise Risk Management ("ERM") Framework and Fraud Risk Management ("FRM") Framework to enhance risk and fraud management processes and to promote a "risk and fraud aware" culture. The Group maintains a risk register which identifies the material risks faced by the Group and the internal controls in place to manage or mitigate those risks which is then reviewed by management, the Audit and Risk Committee and the Board. This risk map is central to the Group's internal audit, control and management system. Please refer to the section on "Risk Management" in this report which sets out significant risk factors relevant to the Group's operations.

The Group also has in place a risk management process since 2014 that requires key subsidiaries to perform a half-yearly Control Self Assessment ("CSA") to assess the effectiveness of their internal controls. CSA is a documented process that enables management to review the effectiveness of controls which had been established to meet the respective organisation's business objectives. CSA takes a self-evaluation approach which focuses on accountability and reinforces the responsibility of internal controls in key risk areas. CSA is used to complement the coverage of the internal controls review and be used as an assurance tool to determine the effectiveness of controls. The internal auditors performed independent and random reviews during the year to validate the results of these self assessments.

During the year, KPMG provided quarterly summaries of their internal audit findings and reported to the Audit and Risk Committee, identifying any material non-compliance or failures in internal controls and presenting recommendations for improvements. The Audit and Risk Committee has also reviewed the actions taken by Management on the recommendations made by the internal auditors.

The Company's external auditors also conduct annual reviews of the effectiveness of the Group's material internal controls for the financial reporting in accordance with their external audit plans.

Corporate Governance Report

The Board has received assurance from the Group Managing Director and CFO that, as at 31 December 2015:

(a) the Group's financial records have been properly maintained, and the financial statements give a true and fair view of the Group's operations and finances; and
(b) the Group's risk management and internal control systems were adequate and effective to address the material risks in the Group in its current business environment including material financial, operational, compliance and information technology risks.

Based on the internal control policies and procedures of the Group and work performed by the Group's internal auditors, and external auditors in connection with the Group's statutory audit, as well as the assurance from the Group Managing Director and the CFO, the Board, with the concurrence of the Audit and Risk Committee, is satisfied with the adequacy and effectiveness of the internal controls, including financial, operational, compliance and information technology controls, and risk management systems.

The Board notes that the system of risk management and internal controls established by the Company provides reasonable, but not absolute, assurance that the Group will not be significantly affected by any event that can be reasonably foreseen as it strives to achieve its business objectives. However, the Board also notes that no system of risk management and internal controls can provide absolute assurance in this regard, or absolute assurance against poor judgement in decision making, human error, losses, fraud or other irregularities. These systems and controls will be reviewed on a regular basis to ensure their continuing adequacy and effectiveness.

Principle 12:

The board should establish an Audit and Risk Committee with written terms of reference which clearly set out its authority and duties.

The Audit and Risk Committee comprises the following non-executive and independent Directors:

Mr Soh Yew Hock (Chairman)
Mr Lee Kiam Hwee, Kelvin
Mrs Lee Ai Ming
Professor Wee Chow Hou

The Audit and Risk Committee assists the Board in its oversight of risk management. The Audit and Risk Committee is independent from management.

The Board is of the view that all members of the Audit and Risk Committee are appropriately qualified to discharge their responsibilities. At least two members of the Audit and Risk Committee, namely Mr Lee Kiam Hwee, Kelvin and Mr Soh Yew Hock possess recent and relevant accounting and related financial management expertise and experience.

The Audit and Risk Committee has the express authority to investigate any matter within its terms of reference, has full access to and the co-operation of management and full discretion to invite any Director or Senior Management to attend its meetings, and has reasonable resources to enable it to discharge its functions properly.

The Audit and Risk Committee has carried out its functions in accordance with Section 201(B)(5) of the Singapore Companies Act and has written terms of reference and responsibilities which have been endorsed by the Board, which include the following:

- Reviewing the scope and results of the external audit and the independence and objectivity of the Group's external auditors, including the audit plan, their evaluation of the internal accounting controls (to the extent of their planned reliance as laid out in their audit plan), audit reports and any matters arising from their audit examination;
- Reviewing the internal auditors' plan, the scope and the results of internal audit procedures and their evaluation of the overall internal control systems and management's response;
- Reviewing and reporting to the Board at least annually the adequacy and effectiveness of the Group's internal controls, including financial, operational, compliance and information technology controls;
- Reviewing the effectiveness of the Group's internal audit function;
- Reviewing the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the Company and any announcements relating to the Group's financial performance;

Corporate Governance Report

- Reviewing the financial statements of the Company and the Group before their submission to the Board, as well as the independent auditor's report on the accompanying financial statements of the Company and the Group;
- Reviewing any significant findings of internal investigations and management's response;
- Reviewing quarterly and year end results announcements of the Group, focusing on compliance with accounting standards and regulations, any changes in accounting policies and practices, and other significant issues before their submission to the Board;
- Reviewing interested person transactions and conflict of interest situations that may arise within the Group including any transaction, procedure or course of action that raises questions of management integrity;
- Reviewing annually the cost effectiveness, independence and objectivity of the external auditors, taking into consideration the non-audit services provided to the Group;
- Ensuring that a review of the effectiveness of the Group's material internal controls is conducted at least annually;
- Recommending to the Board the annual appointment, replacement or re-appointment of external and internal auditors; and
- Approving the remuneration and terms of engagement of the external auditor.

The Audit and Risk Committee held 4 meetings during the financial year 2015. These meetings were attended by the executive Directors, CFO, and relevant finance personnel at the invitation of the Audit and Risk Committee. The external and internal auditors were also present at the relevant junctures during these meetings.

The Audit and Risk Committee has conducted an annual review of all non-audit services provided by the Company's external auditors, Ernst & Young LLP during the financial year 2015, and is satisfied that the nature and the extent of provision of these services has not affected their independence and objectivity as external auditors of the Company. For details of the fees paid/or payable by the Group in respect of audit and non-audit services for the financial year 2015, please refer to Note 5 to the Financial Statements.

The Audit and Risk Committee has recommended to the Board the nomination of Ernst & Young LLP for re-appointment.

The Group has complied with Rule 712 and Rule 715 of the Listing Manual issued by SGX-ST in relation to its external auditors.

The Audit and Risk Committee also meets with the internal and external auditors of the Company at least once annually without the presence of the Company's management to obtain feedback on the competency and adequacy of the finance function and enquire if there are any material weaknesses over the Group's financial reporting process and the corresponding effect on the financial statements.

The Group has put in place a whistle-blowing framework, approved by the Audit and Risk Committee and endorsed by the Board, which provides the mechanisms by which employees of the Group and any other persons may, in good faith and in confidence, raise concerns about possible corporate improprieties in financial reporting or other matters directly either to Chairman of the Audit and Risk Committee or the Group's Company Secretary. Details of the whistle-blowing policies and arrangements have been made available to all employees. The Group has a well-defined process which ensures independent investigation of such matters and the assurance that employees will be protected from reprisals within the limits of the law.

The Audit and Risk Committee is kept abreast by external and internal auditors of changes to accounting standards, listing rules of the SGX-ST and other regulations which could have an impact on the Group's business and financial statements.

None of the members nor the Chairman of the Audit and Risk Committee are former partners or directors of the firms acting as the Group's internal and external auditors.

Principle 13 :

The company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.

The internal auditors report directly to the Chairman of the Audit and Risk Committee and administratively to the Group Managing Director. The scope of the internal auditors' role is to perform detailed work to assist the Audit and Risk Committee and Board in the evaluation of risk management and internal control systems, including financial, operational, compliance and information technology controls.

Corporate Governance Report

The Audit and Risk Committee, with the endorsement of the Board, has outsourced the Group's internal audit function to KPMG since the beginning of 2009. KPMG is a corporate member of the Institute of Internal Auditors Singapore, and staffed with professionals with relevant qualifications and experience. The internal audit is guided by KPMG's Internal Audit Methodology which is aligned to the International Standards for the Professional Practice of Internal Auditing (IIA Standards) issued by the Institute of Internal Auditors.

At the beginning of each year, KPMG develops an annual internal audit plan which entails the review of the Group's business processes with a focus on the key risks identified in the risk map which may have an impact on the Group's ability to meet its business objectives. The 2016 internal audit plan has been reviewed and endorsed by the Audit and Risk Committee.

The Audit and Risk Committee reviews the adequacy of the internal audit function to ensure that the internal audits are conducted effectively and that management provides the necessary co-operation to enable the Internal Auditors to perform its function. The Audit and Risk Committee also reviews the Internal Audit reports and remedial actions implemented by management to address any internal control inadequacies identified.

The Audit and Risk Committee is satisfied with the independence and objectivity of the outsourced Internal Auditors and believes that they have appropriate standing to perform their function effectively. The internal auditors have unfettered access to all the Company's documents, records, properties and personnel, including access to the Audit and Risk Committee.

SHAREHOLDERS' RIGHTS

Principle 14:

Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.

The Company treats all its shareholders fairly and equitably and keeps all its shareholders and other stakeholders and analysts informed of its corporate activities, including changes in the Company or its business which would be likely to materially affect the price or value of its shares, on a timely and consistent basis.

The Company ensures that shareholders have the opportunity to participate effectively and vote at general meetings of shareholders and informs shareholders of the rules, including voting procedures, governing such meetings.

The Group strongly encourages shareholder participation during the Annual General Meeting. Shareholders are able to proactively engage the Board and management on the Group's business activities, financial performance and other business related matters. Resolutions are passed through a process of voting by polling and shareholders are entitled to vote in accordance with established voting rules and procedures. The poll results in favour and against for each resolution put forth are presented during the Annual General Meeting.

COMMUNICATION WITH SHAREHOLDERS

Principle 15:

Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.

The Group values dialogue with its shareholders. The Group believes in regular, effective and fair communication with its shareholders and is committed to hearing shareholders' views and addressing their concerns where possible. In this respect, the executive Directors and CFO communicate with its shareholders and analysts on a regular basis and attend to their queries or concerns. The CFO is responsible for managing the dissemination of corporate information to the media, public, institutional investors and public shareholders, and act as a liaison point for such entities and parties. Shareholders can avail themselves of a telephone or email feedback line that goes directly to the CFO.

Corporate Governance Report

The Group monitors the dissemination of material information that is descriptive, detailed and forthcoming, to ensure that it is made publicly available on a timely and non-selective basis. In addition, shareholders are kept informed of any material developments and performances of the Group through announcements released via SGXNET, the press and other information channels including the Group's website (where appropriate) as well as the Group's annual report. Where necessary, other announcements are also made on an ad-hoc basis to ensure the timely dissemination of material information to shareholders. Quarterly results and annual financial reports are announced or issued within the mandatory period.

All materials on the quarterly, half-yearly and full year financial results including media briefing materials and presentations (if any) are made available via SGXNET and on the Group's website at www.htlinternational.com for the information of shareholders. Presentations are made as appropriate, to explain the Group's strategy, performance and major developments.

The Group's priority is achieving long-term capital growth for the benefit of shareholders. When considering dividend payments, the Board reviews a wide range of factors including the Company's profitability, cash flow, future earnings, working capital, capital expenditure requirements, investment plans, as well as other corporate consideration. Taking into consideration these factors, no dividend was declared and recommended for the financial year ended 31 December 2015.

Principle 16:

Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

The Board believes in encouraging active participation from shareholders at its Annual General Meeting. Shareholders are informed of the Company's Annual General Meeting through notices contained in annual reports or circulars sent to shareholders. These notices are also published in the Business Times and posted onto the SGXNET.

To facilitate voting by shareholders, the Company's articles allow shareholders to vote by proxy. Proxy forms can be sent to the Company by mail. Further, with a view to facilitating compliance with paragraph 16.1 of the 2012 Code, the Articles of Association of the Company include Article 69A which enables the Board to approve and implement, subject to such security measures as may be deemed necessary or expedient, such voting methods as may allow shareholders who are unable to vote in person at any general meeting the option to vote in absentia, including but not limited to voting by mail, electronic mail or facsimile.

The Articles of Association of the Company allow each shareholder to appoint up to two proxies to attend Annual General Meetings. Voting in absentia by mail, facsimile or email is currently not permitted as such voting methods would need to be cautiously evaluated for feasibility to ensure that there is no compromise to the integrity of the information and the authenticity of the shareholders' identity.

At meetings of shareholders, distinct issues are voted via separate resolutions. Each item of special business included in the notice of the meeting will be accompanied by a full explanation of the effects of the proposed resolution. Separate resolutions are proposed for substantially separate issues at the meeting. Nevertheless, where resolutions are interdependent and linked so as to form one significant proposal, the Company may "bundle" the resolutions but will in such cases explain the reasons for and material implications of doing so.

At each Annual General Meeting, all the Directors, CFO, external auditors and the Company Secretary are available to respond to shareholders' questions during the meeting. The Board will endeavor to provide responses on the spot and where appropriate, a written response will be given for any significant question that cannot be readily responded to on the spot.

To ensure greater transparency of the voting process, the Company conducts poll voting at the shareholders meetings for all the resolutions to be put to vote to allow the shareholders present or represented at the meetings to vote on a one share, one vote basis. The results of the poll voting on each resolution, including the total number of votes cast for or against each resolution, are announced after the Annual General Meetings via SGXNET.

Minutes of Annual General Meetings are taken and are available to shareholders for their inspection upon their request.

Corporate Governance Report

INTERESTED PERSON TRANSACTIONS

There were no significant interested person transactions during the financial year 2015.

MATERIAL CONTRACTS

There were no material contracts entered into by the Company and its subsidiaries involving the interests of the Group Managing Director, Directors or controlling shareholders, which were either still subsisting at the end of the financial year or, if not then subsisting, entered into since the end of the previous financial year.

DEALINGS IN SECURITIES

The Group has adopted an internal code with respect to dealings in securities. This has been made known to Directors, key management and staff of the Company and the Group. The Directors and other officers are prohibited from dealing in the Company's shares where they are in possession of unpublished material or price sensitive information in relation to such securities and during the "black out period". Under the SGX Best Practices Guide, the black-out period is defined as two weeks before the date of announcement of results for each of the first three quarters of the Group's financial year and one month before the date of announcement of the full year financial results.

However, as the Board views dealing in listed securities of the Company while in possession of unpublished information or price-sensitive information as a serious matter, the Group has defined its black out period as one month before the release of all quarterly and full year financial results and at all times when in possession of price sensitive information. In addition, the Directors and officers are discouraged from dealing in the Group's shares on short-term considerations.

RISK MANAGEMENT

Management oversees the Group's risk management policies and processes, and reports to the Board on areas of significant risks to the Group's operations and the risk management practices put in place to address these risks. The following have been identified as significant risk factors relevant to the Group's operations:

(A) Industry Risks

(i) Anti-dumping duties

The People's Republic of China ("PRC") has been designated a "non-market economy" until 2015 by the World Trade Organisation. The classification of PRC as a non-market economy allows any trading partner to compare the prices of the former products with the prices in an alternative country. This will determine whether Chinese goods have been exported at unfairly low prices. Any imposition of anti-dumping duties on PRC imported furniture may affect the Group's performance.

(ii) 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.

(iii) Cyclical demand for furniture

Historically, the furniture industry has been cyclical, fluctuating with economic cycles, and is sensitive to general economic conditions, housing market conditions, 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.

Corporate Governance Report

(iv) Seasonal operations

The Group's sale of leather upholstered furniture is subject to seasonal variations given that the increased contribution from the Europe and United States 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.

(v) Changes in the PRC regulations 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%. If the PRC government revises the effective export VAT rebates downwards, this will adversely impact the Group's operating margins.

(vi) 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 into 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.

(vii) Environmental risks

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 investment may be needed to upgrade the Group's waste treatment facilities and this will in turn increase production costs.

(B) Company Risks

(i) Foreign exchange risks

The global financial markets remain volatile. The Group transacts primarily in the 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. A majority of the Group's operations are also situated outside of Singapore, most notably in the PRC. Consequently, any movement between the Renminbi and the US Dollar will also affect the Group's currency exposure risks. Any significant adverse movements in the other major trading currencies against the US Dollar will also have an impact on the Group's performance. The Group actively monitors its foreign currency exchange exposure by using relevant foreign exchange forward contracts or structured options to hedge its cash flows and margins. Where appropriate, the Group will borrow in the same currency to provide a natural hedge for balance sheet items.

(ii) 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) terms. 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. However, the Group does factor in an appropriate amount for expected freight rate increases in the quotation of sales price to customers.

Directors' Statement

The directors are pleased to present their statement to the members together with the audited consolidated financial statements of HTL International Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") and the balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2015.

1. OPINION OF THE DIRECTORS

In the opinion of the directors,

(i) the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2015 and the financial performance, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date; and

(ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

2. DIRECTORS

The directors of the Company in office at the date of this statement are:

Mr Lee Kiam Hwee, Kelvin
Mr Phua Yong Pin
Mr Phua Yong Sin
Mr Phua Yong Tat
Mrs Lee Ai Ming
Professor Wee Chow Hou
Mr Soh Yew Hock
Dr Wee Keng Neo, Lynda
Mr Phua Boon Huat (alternate director to Mr Phua Yong Sin)

In accordance with Article 87 of the Company's Articles of Association, Mr Lee Kiam Hwee, Kelvin, Mrs Lee Ai Ming and Professor Wee Chow Hou will retire at the upcoming Annual General Meeting of the Company. Being eligible, Mr Lee Kiam Hwee, Kelvin will offer himself for re-election. Mrs Lee Ai Ming and Professor Wee Chow Hou will not offer themselves for re-election.

3. ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

Except as described in paragraph 5 below, neither at the end of nor at any time during the financial year to which this statement relates was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of, the Company or any other body corporate.

Directors' Statement

4. DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

The following directors, who held office as at the end of the financial year to which this statement relates, had, according to the register of directors' shareholdings required to be kept under Section 164 of the Singapore Companies Act, Chapter 50, interests in shares and share options of the Company and related corporations (other than wholly-owned subsidiaries) as stated below:

	Direct Interest		Deemed Interest	
Name of directors HTL International Holdings Limited (Number of ordinary shares)	**At the beginning of financial year**	**At the end of financial year**	**At the beginning of financial year**	**At the end of financial year**
Mr Phua Yong Pin[1]	141,000	204,300	195,876,530	196,226,530
Mr Phua Yong Sin[2]	588,000	588,000	194,248,530	194,598,530
Mr Phua Yong Tat[3]	4,142,000	4,142,000	194,544,530	194,894,530
Mr Lee Kiam Hwee, Kelvin	40,000	40,000	–	–
Mrs Lee Ai Ming	60,000	60,000	–	–
Professor Wee Chow Hou	480,000	480,000	–	–
Mr Phua Boon Huat	26,000	26,000	–	–

Notes:
(1) Deemed interest of Mr Phua Yong Pin comprises the total interests of BEM Holdings Pte Ltd and those of his wife, Mdm Chua Xiu Chin.
(2) Deemed interest of Mr Phua Yong Sin comprises the total interests of BEM Holdings Pte Ltd.
(3) Deemed interest of Mr Phua Yong Tat comprises the total interests of BEM Holdings Pte Ltd and those of his wife, Mdm Lim Yan Siu.

There was no change in any of the above interests in the Company between the end of financial year and 21 January 2016.

According to the register of directors' shareholdings, the following directors holding office at 31 December 2015 had interests in the options to subscribe for ordinary shares of the Company granted pursuant to the HTL International Holdings Limited Share Option Plan 2002 as set out below and in the paragraphs on "Share options":

	Direct Interest		Deemed Interest	
Name of directors	**At the beginning of financial year**	**At the end of financial year**	**At the beginning of financial year**	**At the end of financial year**
2009 Options				
Mr Lee Kiam Hwee, Kelvin	40,000	40,000	–	–
Mrs Lee Ai Ming	60,000	60,000	–	–

Messrs Phua Yong Pin, Phua Yong Sin and Phua Yong Tat, by virtue of their interests in not less than 20% of the issued share capital of the Company, are each deemed to have an interest in the entire issued share capital of all the Company's wholly-owned subsidiaries.

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares, share options, warrants or debentures of the Company, or of related corporations, either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year.

Directors' Statement

5. SHARE OPTIONS

(a) HTL International Holdings Limited Share Option Plan

A share option plan, the HTL International Holdings Limited Share Option Plan 2013 (the "2013 Plan") was approved by the members of the Company at the Extraordinary General Meeting held on 29 April 2013. This replaced the previous share plan, HTL International Holdings Limited Share Option Plan 2002 (the "2002 Plan"), which had expired in 2013. All awards granted under the previous share plan prior to its termination will continue to be valid and be subject to the terms and conditions of the previous share plan. The duration of the 2013 Plan is 10 years commencing on 29 April 2013. Under the 2013 Plan and the 2002 Plan, share options are/were granted to all eligible HTL Group Employees except for controlling shareholders of the Company or associates of such controlling shareholders [as defined in the Listing Manual issued by the Singapore Exchange Securities Trading Limited ("SGX-ST") (the "Listing Manual")]. The exercise price of the granted share options may either be:

(i) at a price equal to or more than the average of the last dealt prices for the share ("Market Price"), on the SGX-ST over the five consecutive trading days immediately preceding the date of grant (vesting period of one year after the date of grant); or

(ii) at a price which is set at a discount to the Market Price, so long as the maximum discount shall not exceed 20% of the Market Price in respect of that option (vesting period of two years after the date of grant).

The share options may be exercised in whole or in part on the payment of the exercise price. The persons to whom the share options have been issued have no right to participate by virtue of the options in any share issue of any other company.

The 2013 Plan and 2002 Plan are administered by the Remuneration Committee comprising the following non-executive independent directors:

Professor Wee Chow Hou (Chairman)
Mrs Lee Ai Ming
Mr Soh Yew Hock

Since the commencement of the 2013 Plan until the end of the financial year to which this statement relates:

(i) No options have been granted under the 2013 Plan to controlling shareholders of the Company or their associates;

(ii) No options have been granted under the 2013 Plan to the directors and employees of the Company and its subsidiaries;

(iii) No participant, including directors and employees of the Company and its subsidiaries, has received 5% or more of the total number of options available under the 2013 Plan;

(iv) No options that entitle the holder to participate, by virtue of the options, in any share issue of any other corporation have been granted under the 2013 Plan; and

(v) No options have been granted at a discount under the 2013 Plan.

Since the commencement of the 2002 Plan until the end of the financial year to which this statement relates:

(i) No options have been granted under the 2002 Plan to controlling shareholders of the Company or their associates;

(ii) No participant, including directors and employees of the Company and its subsidiaries, has received 5% or more of the total number of options shares under option available under the 2002 Plan;

Directors' Statement

5. SHARE OPTIONS (CONT'D)

(a) HTL International Holdings Limited Share Option Plan (cont'd)

(iii) No options that entitle the holder to participate, by virtue of the options, in any share issue of any other corporation have been granted under the 2002 Plan;

(iv) No options have been granted at a discount under the 2002 Plan; and

(v) No options have been granted under the 2002 Plan to directors and employees of the parent company and its subsidiaries for the financial year under review, and the aggregate number of options granted under the 2002 Plan since commencement of the 2002 Plan to the end of the financial year under review is 11,622,250.

In respect of the 2013 Plan, the disclosure requirements in Rule 852(1)(c) of the Listing Manual relating to disclosure in the Company's annual report of various matters relating to options granted to directors and employees of the parent company of the issuer and its subsidiaries, are not applicable. In respect of the 2002 Plan, the disclosure requirement in Rule 852(1)(c)(i) of the Listing Manual relating to disclosure in the Company's annual report is not applicable.

Details of the options granted to directors of the Company pursuant to the 2002 Plan are as follows:

Name of directors	Options granted during financial year	Aggregate options granted since commencement of scheme to end of financial year	Aggregate options exercised since commencement of scheme to end of financial year	Aggregate options outstanding as at end of financial year
2009 Options				
Mr Lee Kiam Hwee, Kelvin	–	80,000	(40,000)	40,000
Mrs Lee Ai Ming	–	120,000	(60,000)	60,000
Professor Wee Chow Hou	–	120,000	(120,000)	–

(b) Share options outstanding

Details of all the options to subscribe for ordinary shares of the Company pursuant to the 2002 Plan outstanding as at 31 December 2015 are as follows:

	Number outstanding at 31.12.2015	Exercise price per share	Exercise period
HTL International Holdings Limited Share Option Plan 2002:			
2009 Options	177,500	S$0.07	26.02.2010 – 26.02.2019

As at the end of the financial year to which this statement relates, there were no options granted under the 2013 Plan.

No shares were issued during the financial year to which this statement relates by virtue of the exercise of options granted under the 2002 Plan.

Directors' Statement

6. AUDIT AND RISK COMMITTEE

The members of the Audit and Risk Committee who are independent and non-executive directors at the end of the financial year were as follows:

Mr Soh Yew Hock (Chairman)
Mr Lee Kiam Hwee, Kelvin
Mrs Lee Ai Ming
Professor Wee Chow Hou

The Audit and Risk Committee carried out its functions in accordance with Section 201B (5) of the Singapore Companies Act, Cap. 50, including the following:

(i) Reviewing the audit plan of the Company's independent auditor and any recommendations on internal accounting controls arising from their statutory audit;

(ii) Reviewing the assistance given by the Company's management to the independent auditor;

(iii) Reviewing the scope and results of the internal audit procedures with the internal auditor; and

(iv) Reviewing the financial statements of the Company and the Group for the financial year ended 31 December 2015 before their submission to the Board of Directors, as well as the independent auditor's report on the accompanying financial statements of the Company and the Group.

The Audit and Risk Committee, having reviewed all non-audit services provided by the external auditors to the Group, is satisfied that the nature and extent of such services would not affect the independence of the external auditors. The Audit and Risk Committee also conducted a review of interested person transactions.

The Audit and Risk Committee convened 4 meetings during the year with full attendance from all members, except for one where a member was absent. The Audit and Risk Committee has also met with the internal and external auditors, without the presence of the Company's management, at least once during the financial year.

Further details regarding the Audit and Risk Committee are disclosed in the Corporate Governance Report.

The Audit and Risk Committee has recommended to the Board that the independent auditor Ernst & Young LLP, be nominated for re-appointment at the forthcoming Annual General Meeting of the Company.

7. AUDITORS

Ernst & Young LLP have expressed their willingness to accept re-appointment as auditors.

On behalf of the board of directors



Mr Phua Yong Tat
Director



Mr Phua Yong Sin
Director

24 March 2016

Independent Auditor's Report

For the financial year ended 31 December 2015

TO THE MEMBERS OF HTL INTERNATIONAL HOLDINGS LIMITED

Report on the financial statements

We have audited the accompanying financial statements of HTL International Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 53 to 115, which comprise the balance sheets of the Group and the Company as at 31 December 2015, the statements of changes in equity of the Group and the Company and the consolidated income statement, consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2015 and of the financial performance, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.



Ernst & Young LLP
Public Accountants and
Chartered Accountants
Singapore
24 March 2016

Consolidated Income Statement

For the financial year ended 31 December 2015

	Note	2015 US$'000	2014 US$'000
Revenue	4	454,852	500,577
Cost of sales		(327,356)	(347,488)
Gross profit		127,496	153,089
Other operating income		4,007	8,677
Selling, marketing and distribution expenses		(102,383)	(124,406)
Administrative expenses		(30,765)	(34,261)
Other operating expenses		(1,446)	(3,760)
Operating loss before finance income and expense and net foreign exchange gain	5	(3,091)	(661)
Finance income		99	243
Finance expense	6	(1,437)	(2,029)
Operating loss before net foreign exchange gain		(4,429)	(2,447)
Net foreign exchange gain	7	6,950	13,247
Profit before tax		2,521	10,800
Income tax expense	9	(4,127)	(5,494)
Net (loss)/profit for the year		(1,606)	5,306
Attributable to:			
Owners of the Company		(1,630)	5,257
Non-controlling interest		24	49
		(1,606)	5,306
(Loss)/earnings per share (cents)	10		
- Basic		(0.40)	1.29
- Diluted		(0.40)	1.29

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Consolidated Statement of Comprehensive Income

For the financial year ended 31 December 2015

	2015 US$'000	2014 US$'000
Net (loss)/profit for the year	(1,606)	5,306
Other comprehensive loss:		
Items that may be reclassified subsequently to income statement		
Foreign currency translation arising from consolidation	(8,294)	(1,881)
Other comprehensive loss for the year, net of tax	(8,294)	(1,881)
Total comprehensive (loss)/income for the year	(9,900)	3,425
Attributable to:		
Owners of the Company	(9,881)	3,429
Non-controlling interest	(19)	(4)
	(9,900)	3,425

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Balance Sheets

As at 31 December 2015

	Note	Group 2015 US$'000	Group 2014 US$'000	Company 2015 US$'000	Company 2014 US$'000
ASSETS					
Current assets					
Cash and short-term deposits	11	42,487	35,815	8	1
Trade and other receivables	12	49,970	52,844	672	7,533
Derivative financial instruments	29	–	282	–	–
Inventories	13	133,212	147,898	–	–
Tax recoverable	9	–	38	–	–
Deposits	14	5,134	4,826	2,534	2,534
Prepayments		4,315	6,565	–	–
		235,118	248,268	3,214	10,068
Non-current assets					
Investments in subsidiaries	15	–	–	88,049	98,870
Property, plant and equipment	17	44,044	41,687	–	–
Intangible assets	18	7,849	8,922	–	–
Deferred tax assets	22	2,631	5,065	–	–
Other receivables	12	342	688	–	–
		54,866	56,362	88,049	98,870
TOTAL ASSETS		289,984	304,630	91,263	108,938
EQUITY AND LIABILITIES					
Current liabilities					
Trade and other payables	19	70,612	83,181	4,494	3,928
Current income tax liabilities	9	1,147	5,012	–	–
Derivative financial instruments	29	3,483	–	–	–
Bank loans	20	5,286	13,094	–	–
Bills payable	20	42,985	22,857	–	–
Provision for warranty	21	2,741	5,403	–	–
		126,254	129,547	4,494	3,928
NET CURRENT ASSETS/(LIABILITIES)		108,864	118,721	(1,280)	6,140
Non-current liabilities					
Bank loans	20	–	113	–	–
Deferred tax liabilities	22	771	994	771	923
Advances from a subsidiary	16	–	–	31,940	37,152
		771	1,107	32,711	38,075
TOTAL LIABILITIES		127,025	130,654	37,205	42,003
NET ASSETS		162,959	173,976	54,058	66,935
Equity attributable to owners of the Company					
Share capital	23(a)	67,982	67,982	67,982	67,982
Treasury shares	23(a)	(5,062)	(3,945)	(5,062)	(3,945)
Non-distributable reserves	24	21,750	29,786	(1,125)	(1,125)
Retained earnings		77,456	79,301	(7,737)	4,023
		162,126	173,124	54,058	66,935
Non-controlling interest		833	852	–	–
TOTAL EQUITY		162,959	173,976	54,058	66,935
TOTAL EQUITY AND LIABILITIES		289,984	304,630	91,263	108,938

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Changes in Equity

For the financial year ended 31 December 2015

		Attributable to owners of the Company									
	Note	Share capital US$'000	Treasury shares US$'000	Share option reserve US$'000	Foreign currency translation reserve US$'000	Capital reserve US$'000	Statutory reserve fund US$'000	Retained earnings US$'000	Equity attributable to owners of the Company, total US$'000	Non-controlling interest US$'000	Equity, total US$'000
Group											
2015											
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 year		–	–	–	–	–	–	(1,630)	(1,630)	24	(1,606)
Other comprehensive loss											
Foreign currency translation arising from consolidation		–	–	–	(8,251)	–	–	–	(8,251)	(43)	(8,294)
Total comprehensive loss for the year		–	–	–	(8,251)	–	–	(1,630)	(9,881)	(19)	(9,900)
Purchase of treasury shares		–	(1,117)	–	–	–	–	–	(1,117)	–	(1,117)
Transfer from retained earnings to statutory reserve fund	24(d)	–	–	–	–	–	215	(215)	–	–	–
		–	(1,117)	–	–	–	215	(215)	(1,117)	–	(1,117)
Balance at 31 December 2015		67,982	(5,062)	911	10,890	(2,036)	11,985	77,456	162,126	833	162,959

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Changes in Equity

For the financial year ended 31 December 2015

		Attributable to owners of the Company									
	Note	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
Group											
2014											
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 year		–	–	–	–	–	–	5,257	5,257	49	5,306
Other comprehensive loss											
Foreign currency translation arising from consolidation		–	–	–	(1,828)	–	–	–	(1,828)	(53)	(1,881)
Total comprehensive (loss)/ income for the year		–	–	–	(1,828)	–	–	5,257	3,429	(4)	3,425
Purchase of treasury shares		–	(1)	–	–	–	–	–	(1)	–	(1)
Treasury shares reissued pursuant to employee share option plan	23(a)	–	134	–	–	(115)	–	–	19	–	19
Dividends on ordinary shares	25	–	–	–	–	–	–	(3,267)	(3,267)	–	(3,267)
Transfer from retained earnings to statutory reserve fund	24(d)	–	–	–	–	–	55	(55)	–	–	–
		–	133	–	–	(115)	55	(3,322)	(3,249)	–	(3,249)
Balance at 31 December 2014		67,982	(3,945)	911	19,141	(2,036)	11,770	79,301	173,124	852	173,976

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Changes in Equity

For the financial year ended 31 December 2015

	Note	Share capital US$'000	Treasury shares US$'000	Share option reserve US$'000	Capital reserve US$'000	Retained earnings US$'000	Total US$'000
Company							
2015							
Balance at 1 January 2015		67,982	(3,945)	911	(2,036)	4,023	66,935
Net loss for the year, representing total comprehensive loss for the year		–	–	–	–	(11,760)	(11,760)
Purchase of treasury shares		–	(1,117)	–	–	–	(1,117)
Balance at 31 December 2015		67,982	(5,062)	911	(2,036)	(7,737)	54,058
2014							
Balance at 1 January 2014		67,982	(4,078)	911	(1,921)	30,990	93,884
Net loss for the year, representing total comprehensive loss for the year		–	–	–	–	(23,700)	(23,700)
Purchase of treasury shares		–	(1)	–	–	–	(1)
Treasury shares reissued pursuant to employee share option plan	23(a)	–	134	–	(115)	–	19
Dividends on ordinary shares	25	–	–	–	–	(3,267)	(3,267)
		–	133	–	(115)	(3,267)	(3,249)
Balance at 31 December 2014		67,982	(3,945)	911	(2,036)	4,023	66,935

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Consolidated Cash Flow Statement

For the financial year ended 31 December 2015

	Note	2015 US$'000	2014 US$'000
Operating activities			
Net (loss)/profit for the year		(1,606)	5,306
Adjustments for:			
Income tax expense	9	4,127	5,494
Depreciation of property, plant and equipment	17	5,264	6,185
Amortisation of intangible assets	18	1,245	1,379
Net loss on disposal of property, plant and equipment	5	323	141
Interest expense	6	1,437	2,029
Interest income		(99)	(243)
Property, plant and equipment written off		167	1
Warranty provision	21	9,691	11,557
Net fair value loss/(gain) on derivative financial instruments	7	3,764	(2,319)
Unrealised foreign exchange translation differences		(4,771)	289
Operating cash flows before changes in working capital		19,542	29,819
Inventories		14,686	6,885
Trade and other receivables, deposits and prepayments		5,162	13,954
Warranty provision utilised	21	(12,352)	(10,244)
Trade and other payables		(12,569)	(794)
Cash flows from operations		14,469	39,620
Income taxes paid	9	(5,729)	(1,495)
Net cash flows from operating activities		8,740	38,125
Investing activities			
Proceeds from disposal of property, plant and equipment		636	56
Purchase of property, plant and equipment	17	(10,645)	(5,347)
Purchase of intangible assets	18	(246)	(42)
Interest received		99	243
Net cash flows used in investing activities		(10,156)	(5,090)
Financing activities			
Interest paid	6	(1,437)	(2,029)
Repayment of bank term loans		(2,556)	(9,394)
Proceeds from/(repayment of) short-term borrowings		14,763	(52,331)
Purchase of treasury shares	23	(1,117)	(1)
Proceeds from re-issuance of treasury shares	23	–	19
Dividends paid to shareholders of the Company	25	–	(3,267)
Net cash flows from/(used in) financing activities		9,653	(67,003)
Net increase/(decrease) in cash and cash equivalents		8,237	(33,968)
Effect of exchange rate changes on cash and cash equivalents		(1,565)	(1,018)
Cash and cash equivalents at 1 January		35,815	70,801
Cash and cash equivalents at 31 December	11	42,487	35,815

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Notes to the Financial Statements

For the financial year ended 31 December 2015

1. CORPORATE INFORMATION

HTL International Holdings Limited (the "Company") is a limited liability company incorporated and domiciled in Singapore and is listed on the Singapore Exchange Securities Trading Limited ("SGX-ST").

The registered office and principal place of business of the Company is located at 11 Gul Circle, Singapore 629567.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are disclosed in Note 15 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of the Group and balance sheet and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards ("FRS").

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in United States Dollar ("USD" or "US$") and all values in the tables are rounded to the nearest thousand (US$'000), except when otherwise indicated.

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised standards which are effective for annual financial periods beginning on or after 1 January 2015. The adoption of these standards did not have any effect on the financial performance or position of the Group and the Company.

Notes to the Financial Statements

For the financial year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Standards issued but not yet effective

The Group has not adopted the following standards that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
FRS 114 Regulatory Deferral Accounts	1 January 2016
Amendments to FRS 16 and FRS 41 Agriculture – Bearer Plants	1 January 2016
Amendments to FRS 27 Equity Method in Separate Financial Statements	1 January 2016
Amendments to FRS 16 and FRS 38 Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to FRS 111 Accounting for Acquisitions of Interest in Joint Operations	1 January 2016
Improvements to FRSs (November 2014)	
(a) Amendments to FRS 105 Non-current Assets Held for Sale and Discontinued Operations	1 January 2016
(b) Amendments to FRS 107 Financial Instruments: Disclosures	1 January 2016
(c) Amendments to FRS 19 Employee Benefits	1 January 2016
(d) Amendments to FRS 34 Interim Financial Reporting	1 January 2016
Amendments to FRS 110 and FRS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
Amendments to FRS 1 Disclosure Initiative	1 January 2016
Amendments to FRS 110, FRS 112 and FRS 28 Investment Entities: Applying the Consolidation Exception	1 January 2016
FRS 115 Revenue from Contracts with Customers	1 January 2018
FRS 109 Financial Instruments	1 January 2018

Except for FRS 115 and FRS 109, the directors expect that the adoption of the other standards above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of FRS 115 and FRS 109 are described below.

FRS 115 Revenue from Contracts with Customers

FRS 115 establishes a five-step model that will apply to revenue arising from contracts with customers. Under FRS 115, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in FRS 115 provide a more structured approach to measuring and recognising revenue when the promised goods and services are transferred to the customer i.e. when performance obligations are satisfied.

Key issues for the Group include identifying performance obligations, accounting for contract modifications, applying the constraint to variable consideration, evaluating significant financing components, measuring progress toward satisfaction of a performance obligation, recognising contract cost assets and addressing disclosure requirements.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is currently assessing the impact of FRS 115 and plans to adopt the new standard on the required effective date.

Notes to the Financial Statements

For the financial year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Standards issued but not yet effective (cont'd)

FRS 109 Financial Instruments

FRS 109 introduces new requirements for classification and measurement of financial assets, impairment of financial assets and hedge accounting. Financial assets are classified according to their contractual cash flow characteristics and the business model under which they are held. The impairment requirements in FRS 109 are based on an expected credit loss model and replace the FRS 39 incurred loss model. Adopting the expected credit losses requirements will require the Group to make changes to its current systems and processes.

The Group currently measures one of its investments in unquoted equity securities at cost. Under FRS 109, the Group will be required to measure the investment at fair value. Any difference between the previous carrying amount and the fair value would be recognised in the opening retained earnings when the Group apply FRS 109.

FRS 109 is effective for annual periods beginning on or after 1 January 2018 with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Group is currently assessing the impact of FRS 109 and plans to adopt the standard on the required effective date.

2.4 Basis of consolidation and business combinations

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- de-recognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;
- de-recognises the carrying amount of any non-controlling interest;
- de-recognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in income statement;
- re-classifies the Group's share of components previously recognised in other comprehensive income to income statement or retained earnings, as appropriate.

Notes to the Financial Statements

For the financial year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.4 Basis of consolidation and business combinations (cont'd)

(b) Business combinations and goodwill

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any), that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation, is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another FRS.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. The accounting policy for goodwill is set out in Note 2.8(a). In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in income statement on the acquisition date.

2.5 Transactions with non-controlling interest

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

2.6 Foreign currency

The financial statements are presented in United States Dollars, which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(a) Transactions and balances

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Notes to the Financial Statements

For the financial year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.6 Foreign currency (cont'd)

(a) Transactions and balances (cont'd)

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in income statement except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under the foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to income statement of the Group on disposal of the foreign operation.

(b) Consolidated financial statements

For consolidation purposes, the assets and liabilities of foreign operations are translated into USD at the rate of exchange ruling at the end of the reporting period and their income statement are translated at the weighted average exchange rates for the year (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated using the exchange rates at the dates of transactions). The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in income statement.

In the case of a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences are re-attributed to non-controlling interest and are not recognised in income statement. For partial disposals of associates or jointly controlled entities that are foreign operations, the proportionate share of the accumulated exchange differences is reclassified to income statement.

2.7 Property, plant and equipment

(a) Measurement

(i) Land and buildings

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated depreciation and accumulated impairment losses, if any. The land use rights are amortised over the lease term.

Leasehold land and buildings are initially measured at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses, if any.

Freehold land and buildings are initially recognised at cost and subsequently carried at the revalued amount. Any revaluation surplus is recognised in other comprehensive income and accumulated in equity under the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in income statement, in which case the increase is recognised in income statement. A revaluation deficit is recognised in income statement, except to the extent that it offsets an existing surplus on the same asset carried in the asset revaluation reserve.

The Group does not fair value its land and buildings except that prior to 31 December 1996, a one-off revaluation were done to update the book value of a freehold land and building. The Group has not performed any further revaluation of the said freehold land and building. When an asset is revalued, any accumulated depreciation at revaluation date is eliminated against the gross carrying amount of the asset, except for freehold land which is not depreciated. The net amount is then restated to the revalued amount of the asset. The revaluation surplus included in the asset revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

Notes to the Financial Statements

For the financial year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.7 Property, plant and equipment (cont'd)

(a) Measurement (cont'd)

(ii) Other property, plant and equipment

All other items of property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and any accumulated impairment losses, if any.

(iii) Components of costs

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The cost includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in income statement as incurred.

Cost also include borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying property, plant and equipment including the projected cost of dismantlement, removal or restoration if the obligation for the dismantlement, removal or restoration is incurred as a consequence of acquiring or using the assets. The accounting policy for borrowing costs is set out in Note 2.16.

(b) Depreciation

Freehold land has an unlimited useful life and therefore is not depreciated. Assets under construction-in-progress are not depreciated as these assets are yet available for use.

Depreciation on other items of property, plant and equipment is computed on a straight-line basis over their estimated useful lives of the assets as follows:

Freehold buildings and leasehold properties	20 – 50 years
Plant and equipment	3 – 10 years
Information technology ("IT"), furniture and fixtures	2 – 10 years
Motor vehicles	3 – 10 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

(c) De-recognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on de-recognition of the asset is included in income statement in the year the asset is derecognised. Any amount in revaluation reserve relating to that asset is transferred to retained earnings directly.

Notes to the Financial Statements

For the financial year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.8 Intangible assets

(a) Goodwill

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The cash-generating units to which goodwill have been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in income statement. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

Goodwill and fair value adjustments arising on the acquisition of foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated in accordance with the accounting policy set out in Note 2.6.

(b) Intellectual property rights ("IP Rights")

IP Rights were acquired through business combinations. The IP Rights acquired are initially recognised at cost (i.e. the fair value at initial recognition). Following initial acquisition, the IP Rights are carried at cost less accumulated amortisation and any accumulated impairment losses. These costs are amortised to income statement using the straight-line method over its estimated useful life of 20 years. The IP Rights are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The useful lives of the IP Rights are reviewed and adjusted as appropriate at each balance sheet date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. Gains or losses arising from derecognition of IP Rights are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in income statement when it is derecognised.

(c) Computer software licenses and development costs

Acquired computer software licenses are initially capitalised at cost which includes the purchase price (net of any discounts and rebates) and other directly attributable cost of preparing the asset for its intended use. Direct expenditure (including development costs), which enhances or extends the performance of computer software beyond its specifications and which can be reliably measured, is added to the original cost of the software. Costs associated with maintaining the computer software are recognised as an expense when incurred.

Notes to the Financial Statements

For the financial year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.8 Intangible assets (cont'd)

(c) Computer software licenses and development costs (cont'd)

Computer software licenses and development costs are subsequently carried at cost less accumulated amortisation and any accumulated impairment losses. These costs are amortised to income statement using the straight-line method over their estimated useful lives of three to five years. Gains or losses arising from de-recognition of computer software licenses and development costs are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in income statement when it is derecognised. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The amortisation period and amortisation method of intangible assets other than goodwill are reviewed at each balance sheet date. The effects of any revision are recognised in income statement when the changes arise.

2.9 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in income statement, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in income statement unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

Notes to the Financial Statements

For the financial year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.10 Subsidiaries

A subsidiary is an investee that is controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less accumulated impairment losses. On disposal of investments in subsidiaries, the difference between disposal proceeds and the carrying amounts of the investments are recognised in income statement.

2.11 Financial instruments

(a) Financial assets

Initial recognition and measurement

Financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group. Derivatives, including separated embedded derivatives are also classified as held for trading.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial assets are recognised in income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those expected to be realised later than 12 months after the reporting date which are presented as non-current assets. Loans and receivables are presented as "trade and other receivables", "cash and short-term deposits" and "deposits" on the balance sheets.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in income statement when the loans and receivables are derecognised or impaired, and through the amortisation process. Interest income on financial assets is recognised separately in income statement.

Trade receivables that are factored out to banks and other financial institutions with recourse to the Group are not derecognised until the recourse period has expired and the risks and rewards of the receivables have been fully transferred. The corresponding cash received from the financial institutions is recorded as borrowings.

Notes to the Financial Statements

For the financial year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.11 Financial instruments (cont'd)

(a) Financial assets (cont'd)

De-recognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in income statement.

Regular way purchase or sale of a financial asset

All regular way purchases and sales of financial assets are recognised or derecognised on the settlement date i.e., the date that the asset is delivered to or by the Group. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

(b) Financial liabilities

Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial liabilities are recognised in income statement.

Financial liabilities at amortised cost

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in income statement when the liabilities are derecognised, and through the amortisation process.

De-recognition

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in income statement.

Notes to the Financial Statements

For the financial year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.12 Impairment of financial assets

The Group assesses at the end of each reporting date whether there is any objective evidence that a financial asset is impaired.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in income statement.

When the asset becomes uncollectible, the carrying amount of impaired financial asset is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in income statement.

2.13 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and demand deposits. These also include bank overdrafts that form an integral part of the Group's cash management.

2.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and conditions are accounted for as follows:

- Raw materials: purchase costs on a weighted average basis.

- Finished goods and work-in-progress: comprises costs of raw materials, direct labour and other direct costs and related production overheads (based on normal operating capacity) but exclude borrowing costs. These costs are assigned on a weighted average basis.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the applicable variable selling expenses to make the sale.

Notes to the Financial Statements

For the financial year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.15 Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Warranty provisions

The Group recognises the estimated liability to repair or replace products that are still under warranty at the balance sheet date. A provision is recognised at the end of each reporting period for expected warranty claims based on past experience of repairs and replacements.

2.16 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.17 Employee benefits

(a) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as the Central Provident Fund on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

(b) Equity compensation benefits (equity settled share-based payments)

The Group operates an equity-settled, share-based compensation plan (known as the "HTL International Holdings Limited Share Option Plan 2013"). The details of the plan are described in Note 23(b). The value of the employee services received in exchange for the grant of share options is recognised as an employee benefits expense in income statement with a corresponding increase in the share option reserve over the vesting period. The cost of the equity settled share-based compensation to be recognised over the vesting period is determined by reference to the fair value of the options granted at the date of the grant which represents the Group's best estimate of the number of options that will ultimately vest and take into consideration market conditions and non-vesting conditions. Vesting period refers to the period from the date of grant to the date of vesting. Non-market vesting conditions are included in the estimation of the number of shares under options that are expected to become exercisable on the vesting date.

Notes to the Financial Statements

For the financial year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.17 Employee benefits (cont'd)

(b) Equity compensation benefits (equity settled share-based payments) (cont'd)

No expense is recognised for options that do not ultimately vest, except for options where vesting is conditional upon a market or non-vesting condition, which are treated as vested irrespective of whether or not the market condition or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied. In the case where the option does not vest as the result of a failure to meet a non-vesting condition that is within the control of the Group or the employee, it is accounted for as a cancellation. In such case, the amount of the compensation cost that otherwise would be recognised over the remainder of the vesting period is recognised immediately in income statement upon cancellation. The employee share option reserve is transferred to retained earnings upon expiry of the share options.

When the share options are exercised, the proceeds received (net of transaction costs) and the related balance previously recognised in the share option reserve are credited to share capital account, when new ordinary shares are issued, or to the "treasury shares" account, when treasury shares are re-issued to the employees.

(c) Termination benefits

Termination benefits are those benefits which are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

2.18 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

As lessee

The Group leases certain land, factories, plant and equipment under operating lease from non-related parties.

Operating leases

Leases of land, factories, plant and equipment where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases.

Operating lease payments are recognised as an expense in income statement on a straight-line basis over the lease term. Contingent rents, if any, are recognised as an expense in income statement when incurred. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of leased asset.

2.19 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Notes to the Financial Statements

For the financial year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.19 Revenue (cont'd)

(a) Sale of goods

Revenue from sale of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(b) Interest income

Interest income is recognised using the effective interest method.

(c) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

2.20 Taxes

(a) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in income statement except to the extent that the tax relates to items recognised outside income statement, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(b) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

– Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

Notes to the Financial Statements

For the financial year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.20 Taxes (cont'd)

(b) Deferred tax (cont'd)

– Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax relating to items recognised outside income statement is recognised outside income statement. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it incurred during the measurement period or in income statement.

(c) Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

– Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

– Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Notes to the Financial Statements

For the financial year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.21 Segment reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 31, including the factors used to identify the reportable segments and the measurement basis of segment information.

2.22 Share capital and share issuance expenses

Proceeds from the issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against the share capital.

2.23 Treasury shares

When the Company purchases its own ordinary shares ("treasury shares"), the carrying amount which includes consideration paid and any directly attributable transaction cost is presented as a component within equity attributable to the Company's equity holders, until they are cancelled, sold or reissued. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively.

When treasury shares are subsequently cancelled, the carrying amounts are netted off against the share capital account if the shares are purchased out of capital of the Company, or against the retained earnings of the Company if the shares are purchased out of earnings of the Company.

When treasury shares are subsequently sold or reissued pursuant to the employee share option scheme, the cost of treasury shares is reversed from the treasury share account and the realised gain or loss on sale or reissue, net of any directly attributable incremental transaction costs and related income tax, is recognised in the capital reserve of the Company.

2.24 Dividends to Company's shareholders

Dividends to the Company's shareholders are recognised when the dividends are approved for payment.

2.25 Contingencies

A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

(b) a present obligation that arises from past events but is not recognised because:

  (i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

  (ii) The amount of the obligation cannot be measured with sufficient reliability.

Notes to the Financial Statements

For the financial year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.26 Related parties

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Group and Company if that person:

(i) has control or joint control over the Company;
(ii) has significant influence over the Company; or
(iii) is a member of the key management personnel of the Group or Company or of a parent of the Company.

(b) An entity is related to the Group and the Company if any of the following conditions applies:

(i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
(iii) both entities are joint ventures of the same third party.
(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
(v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company.
(vi) the entity is controlled or jointly controlled by a person identified in (a).
(vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each reporting period. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods. Management is of the opinion that there is no significant judgement made in applying accounting policies.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period are discussed below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

(a) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the timing and level of future taxable profits together with future tax planning strategies. In determining the timing and level of future taxable profits together with future tax planning strategies, the Group assessed the probability of expected future cash inflows for the next 5 years.

Where taxable profits are expected in the foreseeable future, deferred tax assets are recognised on the unused tax losses. The carrying value of deferred income tax assets recognised from tax losses carried forward is US$1,824,000 (2014: US$3,865,000) and the unrecognised tax losses at 31 December 2015 was US$36,274,000 (2014: US$27,773,000).

If the Group was able to recognise all unrecognised deferred tax assets, profit would increase by US$8,961,000 (2014: US$7,233,000).

Notes to the Financial Statements

For the financial year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONT'D)

Key sources of estimation uncertainty (cont'd)

(b) Estimated useful life of IP Rights

The IP Rights acquired through the acquisition of the Domicil subsidiary in 2005 is amortised on a straight-line basis over its useful life. Management has estimated the useful life for the IP Rights to be 20 years based on the Domicil's brand past success and its plan to invest and develop the brand further globally.

Such estimate of the useful life may change depending on a number of factors which include the ability of the IP Rights to generate future economic benefits, market share of the Domicil brand, and etc. Such changes may render a revision in the estimated useful life of the IP Rights and, therefore, the amortisation expense could be revised. A 5% increase/decrease in the expected useful lives of these assets from management's estimates would increase/decrease the Group's profit before tax by US$27,000 and US$39,000 respectively (2014: US$27,000 and US$39,000 respectively).

(c) Impairment of loans and receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. Factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments are objective evidence of impairment. In determining whether there is objective evidence of impairment, the Group considers whether there is observable data indicating that there have been significant changes in the debtor's payment ability or whether there have been significant changes with adverse effect in the technological, market, economic or legal environment in which the debtor operates in.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of the Group's loans and receivables at the end of the reporting period is disclosed in Note 12 to the financial statements.

(d) Impairment of Non-Financial Assets

The Group assesses at each balance sheet date whether there are any indicators of impairment for non-financial assets.

Determining whether the carrying amounts of investments in subsidiary companies and IP Rights are impaired requires an estimation of the value-in-use of the asset or the CGU. This requires the Group to estimate the future cash flows expected from the asset or the CGU and an appropriate discount rate in order to calculate the present value of the future cash flows. The carrying amounts of investments in subsidiary companies and IP Rights at the balance sheet date are disclosed in Notes 15 and 18 respectively.

4. REVENUE

	Group	
	2015	2014
	US$'000	US$'000
Sale of goods	**454,852**	500,577

Notes to the Financial Statements

For the financial year ended 31 December 2015

5. OPERATING LOSS BEFORE FINANCE INCOME AND EXPENSE AND NET FOREIGN EXCHANGE GAIN

The following items have been included in arriving at operating loss before finance income and expense and net foreign exchange gain:

	Note	Group 2015 US$'000	Group 2014 US$'000
Depreciation of property, plant and equipment:			
- Freehold land and buildings	17	51	62
- Leasehold properties	17	1,840	1,806
- Plant and equipment	17	2,211	2,915
- IT, furniture and fixtures	17	989	1,194
- Motor vehicles	17	173	208
Amortisation of intangible assets	18	1,245	1,379
Total depreciation and amortisation		6,509	7,564
Professional fees paid to a limited liability partnership in which a director of the Company is a partner	30(a)	183	206
Auditors' remuneration paid/payable to:			
- Auditors of the Company		192	237
- Other auditors*		339	402
Other fees paid/payable to:			
- Auditors of the Company		88	58
- Other auditors*		63	70
Allowance for impairment of trade and other receivables	12	791	507
Trade receivables written off		445	818
Inventories recognised as expense in cost of sales		323,010	343,065
Inventories written off		147	203
Allowance for inventory write-down	13	1,867	1,486
Net loss on disposal of property, plant and equipment		323	141
Rental expense on operating leases	26(b)	11,882	11,967
Employee compensation	8	87,163	89,823
Warranty and claim expenses		11,724	14,752
Property, plant and equipment written off	17	167	1

Note:
* Include members of Ernst & Young Global outside Singapore.

6. FINANCE EXPENSE

	Group 2015 US$'000	Group 2014 US$'000
Interest expense on:		
- Bank term loans	948	1,595
- Bank overdrafts	29	4
- Bills payable	460	430
	1,437	2,029

Notes to the Financial Statements

For the financial year ended 31 December 2015

7. NET FOREIGN EXCHANGE GAIN

	Group	
	2015	2014
	US$'000	US$'000
Realised foreign exchange gain	**8,512**	13,366
Unrealised foreign exchange gain/(loss)	**2,202**	(2,438)
Net fair value (loss)/gain on derivative financial instruments@	**(3,764)**	2,319
	6,950	13,247

Note:

@ This represents changes in the fair value of the Group's derivatives which consist mainly of the fair value changes of currency forward contracts and structured currency options entered into to hedge the US Dollar against Euro, Japanese Yen, Australian Dollar, Sterling Pound, Chinese Renminbi and Singapore Dollar (please see Note 29 to the financial statements for the outstanding derivatives).

8. EMPLOYEE BENEFITS

	Group	
	2015	2014
	US$'000	US$'000
Employee benefits expense (including directors):		
- Wages, salaries and bonuses	**73,537**	76,191
- Employer's contribution to defined contribution plans	**10,020**	9,872
- Other employee benefits	**3,606**	3,760
	87,163	89,823

9. INCOME TAX EXPENSE

Major components of income tax expense

The major components of income tax expense for the years ended 31 December 2015 and 2014 are:

	Group	
	2015	2014
	US$'000	US$'000
Current income taxes:		
- Current income tax	**2,208**	5,133
- (Over)/under provision in respect of previous years	**(525)**	33
Deferred income taxes:		
- Origination and reversal of temporary differences	**2,508**	(15)
- Benefits from previously unrecognised tax losses	**(312)**	(63)
- Over provision in respect of previous years	**–**	(99)
	2,196	(177)
Withholding taxes on dividend received from overseas subsidiaries	**248**	505
Income tax expense recognised in income statement	**4,127**	5,494

Notes to the Financial Statements

For the financial year ended 31 December 2015

9. INCOME TAX EXPENSE (CONT'D)

Relationship between tax expense and accounting profit

A reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 December 2015 and 2014 is as follows:

	Group	
	2015	2014
	US$'000	US$'000
Profit before tax	**2,521**	10,800
Tax calculated at a tax rate of 17%	**429**	1,836
Adjustments:		
Benefits from previously unrecognised tax losses	**(312)**	(63)
Deferred tax assets not recognised	**2,412**	2,036
Deferred tax liabilities on undistributed earnings from subsidiaries in PRC	**(152)**	(363)
Effect of approved tax incentives	**(115)**	(30)
Effect of different tax rates in other countries	**324**	(1,067)
Effect of partial tax exemption and tax relief	**–**	(73)
Income not subject to tax	**(158)**	(100)
Non-deductible expenses	**1,976**	2,879
Withholding taxes on dividend received from overseas subsidiaries	**248**	505
	4,652	5,560
(Over)/under provision in respect of previous years:		
- Current income tax	**(525)**	33
- Deferred income tax	**–**	(99)
Income tax expense recognised in income statement	**4,127**	5,494

Movements in current income tax liabilities

	Group	
	2015	2014
	US$'000	US$'000
Beginning of financial year:		
- Current income tax liabilities	**5,012**	1,224
- Tax recoverable	**(38)**	(406)
	4,974	818
Income taxes paid	**(5,729)**	(1,495)
Withholding taxes	**248**	505
Current financial year's tax expense on profit	**2,208**	5,133
(Over)/under provision in respect of previous years	**(525)**	33
Exchange rate adjustments	**(29)**	(20)
Net tax payable at the end of the financial year	**1,147**	4,974
Net tax payable at the end of the financial year is made up of:		
- Current income tax liabilities	**1,147**	5,012
- Tax recoverable	**–**	(38)
	1,147	4,974

Notes to the Financial Statements

For the financial year ended 31 December 2015

10. (LOSS)/EARNINGS PER SHARE (CENTS)

Basic (loss)/earnings per share are calculated by dividing the (loss)/profit, net of tax, attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year.

Diluted (loss)/earnings per share are calculated by dividing the (loss)/profit, net of tax, attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. At 31 December 2015, the Company has only one category of dilutive potential ordinary shares which is share options.

For share options, the weighted average number of shares on issue has been 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 for the financial year) for the same total proceeds is added to the denominator as the number of shares issued for no consideration. No adjustment is made to the net (loss)/profit.

The following tables reflect the (loss)/profit and share data used in the computation of basic and diluted (loss)/earnings per share for the years ended 31 December 2015 and 2014:

	Group	
	2015	2014
	US$'000	US$'000
(Loss)/profit, net of tax, attributable to owners of the Company	**(1,630)**	5,257
	'000	'000
Weighted average number of ordinary shares outstanding for basic (loss)/ earnings per share*	**403,136**	406,071
Basic (loss)/earnings per share (cents)	**(0.40)**	1.29

	Group	
	2015	2014
	US$'000	US$'000
(Loss)/profit, net of tax, attributable to owners of the Company	**(1,630)**	5,257
	'000	'000
Weighted average number of ordinary shares outstanding for basic (loss)/ earnings per share*	**403,136**	406,071
Effects of dilution for share options	**138**	174
Weighted average number of ordinary shares for diluted (loss)/earnings per share*	**403,274**	406,245
Diluted (loss)/earnings per share (cents)	**(0.40)**	1.29

Note:

* The weighted average number of shares takes into account the weighted average effect of changes in treasury shares transactions during the year.

All share options granted to employees under the existing employee share option plan have been included in the calculation of diluted earnings per share.

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

Notes to the Financial Statements

For the financial year ended 31 December 2015

11. CASH AND SHORT-TERM DEPOSITS

	Group		Company	
	2015 US$'000	2014 US$'000	**2015 US$'000**	2014 US$'000
Cash at banks and on hand	**42,159**	33,764	**8**	1
Short-term deposits	**328**	2,051	**–**	–
Cash and short-term deposits	**42,487**	35,815	**8**	1

Cash at banks earns interest at floating rates based on daily bank deposit rates.

Short-term deposits at the end of the reporting period have an average maturity of 1 month (2014: 1 month) and earn interests at the respective short-term deposit rates. The exposure of cash and short-term deposits to interest rate fluctuation is not significant. The weighted average effective interest rates of short-term deposits as at 31 December 2015 for the Group were 0.2% (2014: 2.1%).

Cash and short-term deposits are denominated in the following currencies at the end of the reporting period:

	Group		Company	
	2015 US$'000	2014 US$'000	**2015 US$'000**	2014 US$'000
United States Dollar	**24,791**	13,653	**8**	1
Chinese Renminbi	**8,148**	9,945	**–**	–
Japanese Yen	**1,994**	2,051	**–**	–
Euro	**1,931**	2,231	**–**	–
Sterling Pound	**1,871**	989	**–**	–
New Taiwan Dollar	**1,540**	2,371	**–**	–
Singapore Dollar	**1,129**	1,104	**–**	–
Australian Dollar	**550**	1,270	**–**	–
Korean Won	**478**	497	**–**	–
Malaysian Ringgit	**22**	1,637	**–**	–
Others	**33**	67	**–**	–
	42,487	35,815	**8**	1

For the purpose of presenting the consolidated cash flow statement, the consolidated cash and cash equivalents comprise cash and short-term deposits.

Notes to the Financial Statements

For the financial year ended 31 December 2015

12. TRADE AND OTHER RECEIVABLES

	Note	Group		Company	
		2015	2014	**2015**	2014
		US$'000	US$'000	**US$'000**	US$'000
Trade and other receivables (current):					
Trade receivables		**45,455**	45,259	**–**	–
Less: Allowance for impairment of receivables		**(3,218)**	(3,294)	**–**	–
Trade receivables – net		**42,237**	41,965	**–**	–
Amounts due from subsidiaries		**–**	–	**217**	7,118
Less: Allowance for impairment of receivables		**–**	–	**(184)**	(225)
Amounts due from subsidiaries – net		**–**	–	**33**	6,893
Other receivables due from third parties		**7,545**	10,360	**639**	640
Loans to franchisees		**188**	519	**–**	–
		7,733	10,879	**639**	640
Total trade and other receivables (current)		**49,970**	52,844	**672**	7,533
Other receivables (non-current):					
Loans to franchisees		**342**	921	**–**	–
Less: Allowance for impairment of receivables		**–**	(233)	**–**	–
Loans to franchisees – net		**342**	688	**–**	–
Total trade and other receivables (current and non-current)		**50,312**	53,532	**672**	7,533
Add: Cash and short-term deposits	11	**42,487**	35,815	**8**	1
Add: Deposits	14	**5,134**	4,826	**2,534**	2,534
Total loans and receivables		**97,933**	94,173	**3,214**	10,068

Trade receivables

Trade receivables are non-interest bearing and are generally on 30 to 90 days' terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

At the end of the reporting period, the Group had factored trade receivables with a total carrying amount of US$30.0 million (2014: US$31.2 million) on a non-recourse basis to reputable financial institutions.

Other receivables due from third parties

Other receivables due from third parties are unsecured, non-interest bearing and are to be settled in cash within 30 to 90 days.

Notes to the Financial Statements

For the financial year ended 31 December 2015

12. TRADE AND OTHER RECEIVABLES (CONT'D)

Other receivables due from third parties (cont'd)

Trade and other receivables, loans to franchisees and amounts due from subsidiaries are denominated in the following currencies at the end of the reporting period:

	Group		Company	
	2015	2014	**2015**	2014
	US$'000	US$'000	**US$'000**	US$'000
United States Dollar	**29,986**	27,968	**651**	7,510
Euro	**8,611**	11,064	**–**	–
Japanese Yen	**4,489**	4,953	**–**	–
Chinese Renminbi	**3,823**	5,730	**–**	–
Sterling Pound	**1,765**	1,325	**–**	–
Australian Dollar	**1,094**	2,112	**–**	–
Singapore Dollar	**400**	129	**–**	–
Others	**144**	251	**21**	23
	50,312	53,532	**672**	7,533

Receivables that are past due but not impaired

The Group has trade receivables amounting to US$7,351,000 (2014: US$8,557,000) that are past due at the end of the reporting period but not impaired. These receivables are unsecured and the analysis of their aging at the end of the reporting period is as follows:

	Group	
	2015	2014
	US$'000	US$'000
Trade receivables past due but not impaired:		
- 0 to 60 days	**6,671**	6,566
- 61 to 120 days	**606**	1,592
- Over 120 days	**74**	399
	7,351	8,557

Receivables that are impaired

The Group's trade receivables that are impaired at the end of the reporting period and the movement of the allowance accounts used to record the impairment are as follows:

	Group Individually impaired	
	2015	2014
	US$'000	US$'000
Trade receivables – nominal amounts	**3,218**	3,294
Less: Allowance for impairment	**(3,218)**	(3,294)
	–	–

Notes to the Financial Statements

For the financial year ended 31 December 2015

12. TRADE AND OTHER RECEIVABLES (CONT'D)

Receivables that are impaired (cont'd)

	Group Individually impaired	
	2015 US$'000	2014 US$'000
Movement in allowance accounts:		
At 1 January	**3,294**	3,538
Charge for the year	**791**	507
Written off	**(766)**	(648)
Exchange rate adjustments	**(101)**	(103)
At 31 December	**3,218**	3,294

Trade receivables that are individually determined to be impaired at the end of the reporting period relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

Loans to franchisees

Included in other receivables are loans to franchisees denominated in Euro. The receivables are repayable within 1 to 2 years (2014: 1 to 3 years) with the weighted average interest rates at 4.2% (2014: 2.6%).

Movements in allowance for impairment of other receivables are as follows:

	Group	
	2015 US$'000	2014 US$'000
At 1 January	**233**	869
Written off	**(215)**	(588)
Exchange rate adjustments	**(18)**	(48)
At 31 December	**–**	233

Amounts due from subsidiaries

At the end of the reporting period, the amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. The Company has provided an allowance of US$184,000 (2014: US$225,000) for impairment of the unsecured loan to a fellow subsidiary company with a nominal amount of US$184,000 (2014: US$225,000). This subsidiary has accumulated losses for the current financial year.

Movements in allowance for impairment of amounts due from subsidiaries are as follows:

	Company	
	2015 US$'000	2014 US$'000
At 1 January	**225**	225
Exchange rate adjustments	**(41)**	–
At 31 December	**184**	225

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13. INVENTORIES

	Group	
	2015	2014
	US$'000	US$'000
At cost or net realisable value:		
Raw materials	**61,695**	65,452
Work-in-progress	**20,718**	23,577
Finished goods	**50,799**	58,869
	133,212	147,898

During the financial year, the write-down of inventories to net realisable value included in 'cost of sales' amounted to US$1,867,000 (2014: US$1,486,000) (Note 5).

14. DEPOSITS

Included in deposits is an amount of US$2,534,000 (2014: US$2,534,000) paid for the purchase of a plot of land in Bau Bang Industrial Park, Socialist Republic of Vietnam. The final payment of the total acquisition costs of US$634,000 was due on 30 June 2011 and accrued in the balance sheet of the Company. Interest of 5% per annum (2014: 5% per annum) is payable on the outstanding final payment. The Company had reached an agreement with the lessor to put on hold the completion of the purchase of land.

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2015	2014
	US$'000	US$'000
Shares, at cost	**163,581**	158,973
Less: Impairment loss	**(75,532)**	(60,103)
Carrying amount of investments	**88,049**	98,870
The movement in impairment loss is as follows:		
At 1 January	**60,103**	38,268
Impairment loss made during the year	**15,429**	21,835
At 31 December	**75,532**	60,103

The subsidiaries are:

Name of company	**Principal place of business**	**Principal activities**	**Proportion (%) of ownership interest**	
			2015	2014
Held by the Company				
HTL Manufacturing Pte Ltd [1]	Singapore	Manufacturer, importer and exporter of upholstered furniture and international procurement office for raw leather hides and other raw materials	**100**	100
Kokunn Bedding Concepts Pte. Ltd. [4]	Singapore	Dormant	**100**	100

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15. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Name of company	Principal place of business	Principal activities	Proportion (%) of ownership interest 2015	2014
Held by the Company (cont'd)				
Trends Furniture Pte. Ltd. [1]	Singapore	Sale and distribution of upholstered furniture	100	100
Domicil Pte. Ltd. [1]	Singapore	Dormant	100	100
HTL Furniture (M) Sdn. Bhd. [2]	Malaysia	Dormant	100	100
Multiport Logistics Limited [3]+	Hong Kong	Dormant	–	100
HTL International GmbH [4]	Germany	Dormant	100	100
Domicil Moebel GmbH [5]	Germany	Franchising, sale and provision of total home furnishing and design solutions	100	100
H.T.L. Furniture, Inc. [4]	USA	Sale and distribution of upholstered furniture	100	100
HTL Furniture (China) Co., Ltd [6]◆	People's Republic of China	Manufacturer of upholstered furniture	100	100
HTL Leather (China) Co., Ltd [6]◆	People's Republic of China	Leather tanning and finishing	100	100
Trends Leather (Yangzhou) Co., Ltd [7]◆	People's Republic of China	Leather tanning and finishing	100	100
HTL Furniture (Yangzhou) Co., Ltd [7]◆	People's Republic of China	Provision of cut and sew services for upholstery	100	100
HTL Furniture Trading Co., Ltd [6]	People's Republic of China	Sale and distribution of upholstered furniture	100	100
HTL Furniture (Changshu) Co., Ltd [6]◆	People's Republic of China	Manufacturer of upholstered furniture	100	100
HTL Furniture (Kunshan) Co., Ltd [6]◆	People's Republic of China	Manufacturer of upholstered furniture	100	100
HTL Home (Jiang Su) Co., Ltd [6]	People's Republic of China	Sale and distribution of furniture and home furnishing products	100	100
HTL Furniture (Huai An) Co., Ltd [10]◆	People's Republic of China	Manufacturer of upholstered furniture	100	100
Hwatalee G.M. (Taiwan) Co., Ltd. [8]	Taiwan	Retailer of furniture	100	100
HTL Australia Pty Ltd [4]	Australia	Sale and distribution of upholstered furniture	100	100
HTL (UK) Limited [9]	United Kingdom	Commission agent for upholstered furniture	100	100
HTL Furniture (Vietnam) Co., Ltd [4]	Vietnam	Dormant	100	100

Notes to the Financial Statements

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15. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Name of company	Principal place of business	Principal activities	Proportion (%) of ownership interest 2015	2014
Held by the Company (cont'd)				
HTL Korea Co., Ltd [4]	Korea	Commission agent for upholstered furniture	100	100
Terasoh Co., Ltd [4]	Japan	Manufacture and distribution of fabric upholstered furniture	89.55	89.55
Corium Italia S.R.L. [4]	Italy	Manufacture and distribution of upholstered furniture	100	100
HTL Scandinavia AB [4]	Sweden	Sale and distribution of upholstered furniture	100	100
HTL France SAS [11]	France	Marketing, promotion, sale and distribution of furniture and home furnishing products	100	100
Held through subsidiaries				
Hwa Tat Lee Japan Co., Ltd [4]◆	Japan	Wholesaler of upholstered furniture and home furnishings	100	100
Laauser Design Sdn. Bhd. [2]	Malaysia	Dormant	100	100
TBC Furniture (Shanghai) Co., Ltd [12]	People's Republic of China	Manufacture and distribution of fabric upholstered furniture	89.55	89.55
TBC Trading (Shanghai) Co., Ltd [13]+	People's Republic of China	Dormant	–	89.55

Notes:

◆ For the purpose of the preparation of the Group's financial statements to comply with the Singapore Financial Reporting Standards, these subsidiaries are audited by member firms of Ernst & Young Global
\+ Strike-off during the year
(1) Audited by Ernst & Young LLP, Singapore
(2) Audited by SKW Associates, Malaysia
(3) Audited by Lam Kit Ping and Company, Hong Kong
(4) Not required to be audited under the laws of the country of incorporation
(5) Audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Germany
(6) Audited by Kunshan Gongxin Certified Public Accountants Co., Ltd, the People's Republic of China
(7) Audited by Jiangsu Suya Jincheng LLP (Yangzhou Branch), the People's Republic of China
(8) Audited by KPMG, Taiwan
(9) Audited by Jacksons Chartered Accountants, United Kingdom
(10) Audited by Huaian Xin Rui Certified Public Accountants, the People's Republic of China
(11) Audited by Ernst & Young, France
(12) Audited by Shanghai Ben Liang Certified Public Accountants Co., Ltd, the People's Republic of China
(13) Audited by Shanghai Min Rui Certified Public Accountants Co., Ltd, the People's Republic of China
(14) In accordance to Rule 716 of SGX-ST Listing Rules, the Audit and Risk Committee and Board of Directors of the Company confirmed that they are satisfied that the appointment of different auditors for its subsidiaries would not compromise the standard and effectiveness of the audit of the Company

Notes to the Financial Statements

For the financial year ended 31 December 2015

15. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Impairment testing of investment in subsidiaries

Investments in subsidiaries are assessed for impairment for any objective evidence or indication that these assets may be impaired or any indication that the previous impaired amounts have decreased or no longer exists. An allowance for impairment loss of US$15,429,000 (2014: US$21,835,000) was recognised for the year ended 31 December 2015 to reduce the carrying value of investments to its recoverable amount as the subsidiaries have been making losses. The recoverable amount of the investment in subsidiaries has been determined based on a value in use calculation using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rate applied to the cash flow projection and the forecasted growth rate used to extrapolate cash flow projections beyond the five year period range from 10.9% to 13.3% (2014: 10.0% to 14.0%) and 2.0% (2014: 2.0%), respectively.

16. ADVANCES FROM A SUBSIDIARY

At the end of the reporting period, the advances from a subsidiary are unsecured, interest-free and not expected to be repaid in the next twelve months.

Advances from a subsidiary of US$31,940,000 (2014: US$37,152,000) is denominated in United States Dollar.

17. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings	Leasehold properties[1]	Plant and equipment	IT, furniture and fixtures	Motor vehicles	Construction-in-progress	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Group							
Cost:							
At 1 January 2014	5,241	38,783	60,448	11,830	2,868	468	119,638
Additions	–	1,831	701	929	279	1,607	5,347
Disposals	–	(42)	(285)	(317)	(223)	–	(867)
Write-off	–	–	–	(14)	–	–	(14)
Reclassification	–	–	(570)	567	3	–	–
Exchange rate adjustments	(558)	(104)	(241)	(29)	(71)	(2)	(1,005)
At 31 December 2014 and 1 January 2015	4,683	40,468	60,053	12,966	2,856	2,073	123,099
Additions	1,420	1,569	474	1,025	109	6,048	10,645
Disposals	–	(211)	(1,419)	(1,127)	(282)	(459)	(3,498)
Write-off	–	–	–	(340)	–	–	(340)
Reclassification	–	–	(221)	268	(47)	–	–
Exchange rate adjustments	(18)	(1,674)	(2,762)	388	(121)	(7)	(4,194)
At 31 December 2015	6,085	40,152	56,125	13,180	2,515	7,655	125,712

Notes to the Financial Statements

For the financial year ended 31 December 2015

17. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Freehold land and buildings	Leasehold properties[1]	Plant and equipment	IT, furniture and fixtures	Motor vehicles	Construction-in-progress	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Group							
Accumulated depreciation:							
At 1 January 2014	116	21,900	42,809	9,032	2,083	–	75,940
Charge for the financial year	62	1,806	2,915	1,194	208	–	6,185
Disposals	–	(42)	(233)	(230)	(165)	–	(670)
Write-off	–	–	–	(13)	–	–	(13)
Reclassification	–	–	(318)	315	3	–	–
Exchange rate adjustments	44	(49)	(262)	104	133	–	(30)
At 31 December 2014 and 1 January 2015	222	23,615	44,911	10,402	2,262	–	81,412
Charge for the financial year	51	1,840	2,211	989	173	–	5,264
Disposals	–	(202)	(1,086)	(1,069)	(182)	–	(2,539)
Write-off	–	–	–	(173)	–	–	(173)
Reclassification	–	–	(192)	237	(45)	–	–
Exchange rate adjustments	77	(745)	(1,939)	399	(88)	–	(2,296)
At 31 December 2015	350	24,508	43,905	10,785	2,120	–	81,668
Net book value:							
At 31 December 2014	4,461	16,853	15,142	2,564	594	2,073	41,687
At 31 December 2015	5,735	15,644	12,220	2,395	395	7,655	44,044

Note:
(1) Leasehold properties include leasehold land and buildings.

Assets pledged as security

Freehold land and building of a subsidiary with a carrying amount of US$3.2 million (2014: US$3.3 million) are pledged to secure the subsidiary's bank term loans (Note 20).

Notes to the Financial Statements

For the financial year ended 31 December 2015

17. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

The Group's major properties as at 31 December 2015 are as follows:

Type of properties	Location	Approximate land area (in sq. metre)	Tenure
Factory cum warehouse complex	11 Gul Circle Singapore	36,861	4 years leasehold with effect from November 2014
Factory building*	Kunshan Economic Technical Development Zone, People's Republic of China	9,323	50 years leasehold with effect from June 2014
Factory building and industrial land*	Kunshan Economic Technical Development Zone, People's Republic of China	71,592	50 years leasehold with effect from October 1993
Factory cum warehouse	Kunshan Economic Technical Development Zone, People's Republic of China	8,434	50 years leasehold with effect from September 2001
Warehouse	124-12, 124-13 Roppo-cho, Inage-ku Chiba, Japan	3,803	Freehold
Factory building and industrial land*	No. 111 Jinshan Road Yangzhou Development Zone, People's Republic of China	101,100	50 years leasehold with effect from July 2005
Factory building and industrial land*	No. 111 Jinshan Road Yangzhou Development Zone, People's Republic of China	11,033	50 years leasehold with effect from December 2006
Factory building and industrial land*	Shuang Ma Lu Bei Ce Dian Shan Hu Zhen, People's Republic of China	27,705	50 years leasehold with effect from November 2005
Factory building and industrial land	759, Katabata, Tsubatamachi, Kahoku-gun, Ishikawa, Japan	12,227	Freehold
Office cum showroom complex	2 Kerr Court, Rowville, VIC 3178, Australia	1,501	Freehold
Office cum showroom complex#	301, 305, 309 and 313 North Main Street and 204 West English Road, High Point, North Carolina, United States	4,609	Freehold

Notes:

* The Group has land use rights over 5 plots of state-owned land in the People's Republic of China where certain of the Group's manufacturing and storage facilities reside. There are no restrictions on the transferability of the land use rights.

\# This building is included in construction-in-progress as it is still under renovation.

Notes to the Financial Statements

For the financial year ended 31 December 2015

18. INTANGIBLE ASSETS

	Goodwill on acquisition US$'000	IP Rights US$'000	Computer software licenses and development costs US$'000	Total US$'000
Group				
Cost:				
At 1 January 2014	704	13,140	10,912	24,756
Additions	–	–	42	42
Exchange rate adjustments	(84)	–	(160)	(244)
At 31 December 2014 and 1 January 2015	620	13,140	10,794	24,554
Additions	–	–	246	246
Write-off	–	–	(34)	(34)
Exchange rate adjustments	(63)	–	(16)	(79)
At 31 December 2015	557	13,140	10,990	24,687
Accumulated amortisation:				
At 1 January 2014	–	5,412	8,908	14,320
Charge for the financial year	–	653	726	1,379
Exchange rate adjustments	–	–	(67)	(67)
At 31 December 2014 and 1 January 2015	–	6,065	9,567	15,632
Charge for the financial year	–	653	592	1,245
Write-off	–	–	(34)	(34)
Exchange rate adjustments	–	–	(5)	(5)
At 31 December 2015	–	6,718	10,120	16,838
Net book value:				
At 31 December 2014	620	7,075	1,227	8,922
At 31 December 2015	557	6,422	870	7,849

(a) Goodwill on acquisition has been allocated to the Group's cash generating unit identified as Home Furnishing Retail business unit ("HFRBU"), a reportable segment. The Group has assessed the recoverable amount of the goodwill on acquisition and no impairment loss is required to be made.

(b) The amortisation expense of IP Rights is included in selling, marketing and distribution expenses in income statement.

The Group acquired the global IP Rights of the "Domicil" brand on 1 October 2005 for a purchase price of US$13.1 million (€10.0 million). In September 2006, the Group completed the fair valuation of the "Domicil" brand. Based on this valuation exercise, the Group has determined that the amount of US$13.1 million (€10.0 million) that was initially recorded in the books as at 31 December 2005 represented its fair value at the date of acquisition.

The Group has assessed the recoverable amount of the IP Rights as at 31 December 2015 in relation to the brand valuation and operational position of Domicil and no impairment loss is required to be made.

(c) The amortisation expense of computer software licenses and development costs is included in administrative expenses in income statement.

Notes to the Financial Statements

For the financial year ended 31 December 2015

19. TRADE AND OTHER PAYABLES

	Note	Group		Company	
		2015	2014	**2015**	2014
		US$'000	US$'000	**US$'000**	US$'000
Trade payables to third parties		**67,283**	79,935	**1,545**	1,437
Other payables:					
- amounts due to subsidiaries		**–**	–	**2,949**	2,491
- advances received from customers		**3,329**	3,246	**–**	–
Total trade and other payables		**70,612**	83,181	**4,494**	3,928
Add: Loans and borrowings	20	**48,271**	36,064	**–**	–
Add: Advances from a subsidiary	16	**–**	–	**31,940**	37,152
Less: Advances received from customers		**(3,329)**	(3,246)	**–**	–
Total liabilities at amortised cost		**115,554**	115,999	**36,434**	41,080

Trade and other payables are non-interest bearing, unsecured and normally settled on 30 to 90 day terms.

Trade and other payables are denominated in the following currencies at the end of the reporting period:

	Group		Company	
	2015	2014	**2015**	2014
	US$'000	US$'000	**US$'000**	US$'000
Chinese Renminbi	**35,270**	39,958	**–**	–
United States Dollar	**17,278**	21,973	**3,767**	3,474
Euro	**9,314**	11,435	**51**	51
Singapore Dollar	**3,290**	4,059	**396**	403
Others	**5,460**	5,756	**280**	–
	70,612	83,181	**4,494**	3,928

20. LOANS AND BORROWINGS

	Group	
	2015	2014
	US$'000	US$'000
Current		
Bills payable	**42,985**	22,857
Bank term loans	**112**	2,559
Short-term bank loans	**5,174**	10,535
	48,271	35,951
Non-current		
Bank term loans (repayable between 1 to 5 years)	**–**	113
Total loans and borrowings	**48,271**	36,064

Notes to the Financial Statements

For the financial year ended 31 December 2015

20. LOANS AND BORROWINGS (CONT'D)

(a) Security

The short-term and bank term loans of the Group are secured by negative pledge on certain subsidiaries' present and future assets and corporate guarantees issued by the Company and certain related companies.

(b) Maturity of borrowings

The maturity period of the short-term bank loans and bills payable are usually within 1 to 12 months (2014: 1 to 12 months) from the end of the financial year.

The current portion of the bank term loans has an average maturity of 12 months (2014: 12 months) from the end of the financial year. The non-current portion of the bank term loans has an average maturity of more than 12 months but not later than five years.

(c) Currency risk

The carrying amounts of total borrowings are denominated in the following currencies at the end of the reporting period:

	Group	
	2015	2014
	US$'000	US$'000
United States Dollar	**44,009**	35,615
Sterling Pound	**4,150**	–
Japanese Yen	**112**	449
	48,271	36,064

(d) Interest rate risks

The weighted average effective interest rates of borrowings at the end of the reporting period are as follows:

	Group		
	USD	**Yen**	**Sterling Pound**
2015			
Bills payable	**1.4%**	**–**	**1.7%**
Short-term bank loans	**2.5%**	**–**	**–**
Bank term loans	**–**	**1.5%**	**–**
2014			
Bills payable	1.6%	–	–
Short-term bank loans	2.0%	–	–
Bank term loans	3.4%	1.5%	–

Notes to the Financial Statements

For the financial year ended 31 December 2015

21. PROVISION FOR WARRANTY

	Group	
	2015	2014
	US$'000	US$'000
Movement in provision for warranty during the year are as follows:		
At 1 January	**5,403**	4,092
Charge to income statement	**9,691**	11,557
Provision utilised	**(12,352)**	(10,244)
Exchange rate adjustments	**(1)**	(2)
At 31 December	**2,741**	5,403

22. DEFERRED TAXES

The movements in the Group's deferred tax assets and liabilities and the Company's deferred tax liabilities (prior to offsetting of balances within the same tax jurisdiction) during the year are as follows:

Deferred tax liabilities

	Accelerated tax depreciation	**Undistributed earnings from subsidiaries in PRC**	**Others**	**Total**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Group				
2015				
At 1 January	**1,458**	**923**	**593**	**2,974**
(Credited)/debited to income statement	**(122)**	**(152)**	**23**	**(251)**
Exchange rate adjustments	**–**	**–**	**(2)**	**(2)**
At 31 December	**1,336**	**771**	**614**	**2,721**
2014				
At 1 January	1,778	1,286	122	3,186
(Credited)/debited to income statement	(297)	(363)	505	(155)
Over provision in respect of previous years	(23)	–	–	(23)
Exchange rate adjustments	–	–	(34)	(34)
At 31 December	1,458	923	593	2,974

	Undistributed earnings from subsidiaries in PRC
	US$'000
Company	
2015	
At 1 January	**923**
Credited to income statement	**(152)**
At 31 December	**771**
2014	
At 1 January	1,286
Credited to income statement	(363)
At 31 December	923

Notes to the Financial Statements

For the financial year ended 31 December 2015

22. DEFERRED TAXES (CONT'D)

Deferred tax assets

	Provisions US$'000	Unutilised tax losses US$'000	Others US$'000	Total US$'000
Group				
2015				
At 1 January	(1,960)	(3,865)	(1,220)	(7,045)
Debited/(credited) to income statement	537	2,026	(117)	2,446
Exchange rate adjustments	1	15	2	18
At 31 December	(1,422)	(1,824)	(1,335)	(4,581)
2014				
At 1 January	(1,706)	(3,804)	(1,593)	(7,103)
(Credited)/debited to income statement	(255)	147	185	77
(Under)/over provision in respect of previous years	–	(225)	149	(76)
Exchange rate adjustments	1	17	39	57
At 31 December	(1,960)	(3,865)	(1,220)	(7,045)

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority. The amounts, determined after appropriate offsetting, are shown on the balance sheets as follows:

	Group		Company	
	2015 US$'000	2014 US$'000	2015 US$'000	2014 US$'000
Deferred tax assets	2,631	5,065	–	–
Deferred tax liabilities	(771)	(994)	(771)	(923)
	1,860	4,071	(771)	(923)

At the end of the financial year, the Group has tax losses of approximately US$36,274,000 (2014: US$27,773,000) that are available for offset against future taxable profits of the companies in which the losses arose, for which no deferred tax asset is recognised. The use of these tax losses is subject to agreement of tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which the companies operate.

The tax losses with expiry dates for which no deferred tax asset is recognised are as follows:

	Group	
	2015 US$'000	2014 US$'000
Expiry date		
- Within 1 to 5 years	20,357	14,367
- After 5 years	3,099	3,861
	23,456	18,228

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22. DEFERRED TAXES (CONT'D)

At the end of the financial year, no deferred tax liability (2014: nil) has been recognised for withholding taxes that would be payable on the undistributed earnings of the Group's subsidiaries in the People's Republic of China ("PRC") which amounted to US$3.1 million (2014: US$2.7 million) as the Group has determined that the undistributed earnings of these subsidiaries will not be distributed in the foreseeable future.

There are no income tax consequences (2014: nil) attached to the dividends to the shareholders proposed by the Company but not recognised as a liability in the financial statements (Note 25).

23. SHARE CAPITAL

(a) Share capital and treasury shares

	Group and Company			
	No of ordinary shares		Amount	
	Issued share capital '000	Treasury shares '000	Issued share capital US$'000	Treasury shares US$'000
At 1 January 2015	416,563	(10,441)	67,982	(3,945)
Treasury shares purchased	–	(6,517)	–	(1,117)
At 31 December 2015	416,563	(16,958)	67,982	(5,062)
At 1 January 2014	416,563	(10,791)	67,982	(4,078)
Treasury shares purchased	–	(7)	–	(1)
Reissued pursuant to employee share option plan:				
- For cash on exercise of employee share options	–	357	–	19
- Loss on reissuance of treasury shares transferred to capital reserve	–	–	–	115
	–	357	–	134
At 31 December 2014	416,563	(10,441)	67,982	(3,945)

Ordinary shares

The holders of ordinary shares (except treasury shares) are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. All issued ordinary shares are fully paid. The ordinary shares have no par value.

The Company has one employee share option plan under which options to subscribe for the Company's ordinary shares have been granted to employees of the Group.

Treasury shares

Treasury shares relate to ordinary shares of the Company that is held by the Company. The Company acquired 6,516,800 (2014: 7,000) shares in the Company through purchases on the Singapore Exchange during the financial year. The total amount paid to acquire the shares was US$1,117,041 (2014: US$1,491) and this was presented as a separate component within shareholders' equity.

The Company has not reissued any treasury shares during the financial year pursuant to the HTL International Holdings Limited Share Option Plan 2002. In 2014, the Company reissued 357,500 treasury shares during the financial year pursuant to the HTL International Holdings Limited Share Option Plan 2002 at a weighted average exercise price of US$0.05 each for a cash consideration of US$19,000.

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23. SHARE CAPITAL (CONT'D)

(b) Share options

A share option plan, the HTL International Holdings Limited Share Option Plan 2013 was approved by the members of the Company at the Extraordinary General Meeting held on 29 April 2013. This replaced the previous share plan (HTL International Limited Share Option Plan 2002) which had expired in 2013. All awards granted under the previous share plan prior to its termination will continue to be valid and be subject to the terms and conditions of the previous share plan.

The duration of the HTL International Holdings Limited Share Option Plan 2013 is 10 years commencing on 29 April 2013. As at the end of the financial year, there were no options granted under the HTL International Limited Share Option Plan 2013.

Pursuant to the HTL International Holdings Limited Share Option Plan 2013, share options are granted to all eligible HTL Group Employees except for controlling shareholders of the Company or associates of such controlling shareholders (as defined in SGX-ST Listing Manual). The exercise price of the granted share options may either be:

(i) at a price equal to or more than the average of the last dealt prices for the share ("Market Price") on the SGX-ST over the five consecutive trading days immediately preceding the date of grant (vesting period of one year after the date of the grant); or

(ii) at a price which is set at a discount to the Market Price, so long as the maximum discount shall not exceed 20% of the Market Price in respect of that option (vesting period of two years after the date of grant).

The share options may be exercised in whole or in part on the payment of the exercise price.

The persons to whom the share options have been issued have no right to participate by virtue of the options in any share issue of any other company.

Movements in the number of unissued ordinary shares under share options which are exercisable at the end of the financial year and their exercise prices were as follows:

	Number of ordinary shares under option					
	At 1 January	Forfeited during the financial year	Exercised during the financial year	At 31 December	Exercise price	Exercise period
2015						
2009 Options	177,500	–	–	177,500	S$0.07	26.2.2010 – 26.2.2019
2014						
2004 Options	1,353,750	(1,353,750)	–	–	S$0.82	19.6.2005 – 18.6.2014
2009 Options	535,000	–	(357,500)	177,500	S$0.07	26.2.2010 – 26.2.2019
	1,888,750	(1,353,750)	(357,500)	177,500		

None of the employees exercised his share options during the financial year. In 2014, the weighted average share price at the date of exercise of the options was S$0.31.

The weighted average remaining contractual life for these options is 3 years (2014: 4 years).

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24. NON-DISTRIBUTABLE RESERVES

	Note	Group		Company	
		2015	2014	**2015**	2014
		US$'000	US$'000	**US$'000**	US$'000
Composition:					
Share option reserve	(a)	**911**	911	**911**	911
Foreign currency translation reserve	(b)	**10,890**	19,141	**–**	–
Capital reserve	(c)	**(2,036)**	(2,036)	**(2,036)**	(2,036)
Statutory reserve fund	(d)	**11,985**	11,770	**–**	–
		21,750	29,786	**(1,125)**	(1,125)

The movements of reserves are set out in the statement of changes in equity of the Company and the Group.

(a) Share option reserve

Share option reserve represents the equity-settled share options granted to employees [Note 23(b)]. The reserve is made up of the cumulative value of services received from employees recorded over the vesting period commencing from the grant date of equity-settled share options, and is reduced by the expiry or exercise of the share options.

(b) Foreign currency translation reserve

The foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of the foreign subsidiaries whose functional currencies are different from that of the Company and the Group's presentation currency which is United States Dollar.

(c) Capital reserve

This mainly represents the gain or loss arising from purchase, sale, issue or cancellation of treasury shares.

(d) Statutory reserve fund

The statutory reserve fund mainly relates to appropriation of funds from the net profit of the subsidiaries established in the PRC. In accordance with the PRC laws, all foreign-owned subsidiaries are required to appropriate an amount from the net profit reported in the statutory accounts to two statutory reserve funds ("SRF") namely the reserve fund and the enterprise expansion fund which are designated for specific purposes.

The reserve fund can only be utilised, with the approval from the relevant authorities to offset accumulated deficits or to increase registered capital. All foreign-owned enterprises are generally required to appropriate not less than 10% of their profit after taxation to the reserve fund, until the cumulative total of the SRF reaches 50% of the subsidiary's registered capital. The reserve fund cannot be distributed in the form of cash.

The enterprise expansion fund can be utilised to offset any accumulated losses or increase registered capital, with the approval from the relevant PRC authorities. The amount of appropriation is to be determined by the Board of Directors of the enterprise.

The SRF is not available for dividend distribution to shareholders.

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25. DIVIDENDS

	Group and Company	
	2015	2014
	US$'000	US$'000
Declared and paid during the financial year		
Interim tax exempt (one-tier) dividend for 2015: nil (2014: 1 Singapore cent per share)	–	3,267

The directors have not recommended any final tax exempt dividend for the financial year ended 31 December 2015 and 31 December 2014.

26. COMMITMENTS FOR EXPENDITURE AND CONTINGENCIES

(a) Capital commitments

Capital expenditure approved by directors as at the end of the reporting period but not recognised in the financial statements are as follows:

	Group	
	2015	2014
	US$'000	US$'000
Property, plant and equipment	**4,318**	6,119

(b) Operating lease commitments

At the balance sheet date, a subsidiary of the Group, HTL Manufacturing Pte Ltd, has an annual lease rental commitment of US$400,000 (2014: US$428,000) in respect of a lease of land from JTC Corporation. The lease is non-cancellable and covers a period of 4 years that commenced on 1 November 2014.

In addition, the Group has operating lease commitments for the leases of factories, warehouses and showrooms that were contracted for at the balance sheet date but not recognised as liabilities.

Minimum lease payments recognised as an expense in income statement for the financial year ended 31 December 2015 amounted to US$11,882,000 (2014: US$11,967,000).

Future minimum rental payable under these non-cancellable operating leases at the end of the reporting period are as follows:

	Group	
	2015	2014
	US$'000	US$'000
Not later than one year	**9,071**	12,802
Later than one year but not later than five years	**12,543**	25,344
Later than five years	**2**	8,016
	21,616	46,162

(c) Contingent liabilities

The Company has provided corporate guarantees to banks for the issue of bank loans and bills payable amounting to US$42,159,000 (2014: US$27,615,000) to subsidiaries and these bank loans and bills payable are included in the balance sheet of the Group as at 31 December 2015 and 31 December 2014 respectively.

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27. FAIR VALUE OF ASSETS AND LIABILITIES

(a) Fair value hierarchy

The Group categories fair value measurement using a fair value hierarchy that is dependent on the valuation input used as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – Unobservable inputs for the asset or liability.

Fair value measurements that use inputs of different hierarchy levels are categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. There have been no transfers between Level 1, Level 2 and Level 3 fair value measurements during the financial year ended 2015 and 2014.

(b) Assets and liabilities measured at fair value

The following table shows an analysis of assets/(liabilities) measured at fair value by level of fair value hierarchy:

	Quoted prices in active markets for identical instruments (Level 1) US$'000	Significant other observable inputs (Level 2) US$'000	Total US$'000
Group			
2015			
Financial liabilities			
- Forward currency contracts	(345)	–	(345)
- Currency options	–	(3,138)	(3,138)
At 31 December 2015	(345)	(3,138)	(3,483)
2014			
Financial assets/(liabilities)			
- Forward currency contracts	4,317	–	4,317
- Currency options	–	(4,035)	(4,035)
At 31 December 2014	4,317	(4,035)	282

(c) Level 2 fair value measurements

The following is a description of the valuation techniques and inputs used in the fair value measurement for assets and liabilities that are categorised within level 2 of the fair value hierarchy:

Derivatives (Note 29): Currency options are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and forward rate curves.

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27. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)

(d) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value

Advances from a subsidiary

These advances are unsecured and non-interest bearing. They have no fixed repayment terms and are repayable only when their cash flow permits. Accordingly, fair value is not determinable as the timing of the future cash flows arising from the advances cannot be estimated reliably.

(e) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

Current trade and other receivables and payables (Notes 12 and 19), loans and borrowings (Note 20), deposits (Note 14) and loan to franchisees (Note 12)

The carrying amounts of trade and other receivables, payables and deposits are reasonable approximation of fair values due to their short-term nature. The borrowing rates for the bank term loans, short-term bank loans and bank overdrafts are variable and are based on a fixed margin over the lending bank's cost of funds. The Group expects these rates to be similar to the borrowing rates that would be available to the Group at the end of the reporting period. Accordingly, the carrying amounts of these loans and bank overdrafts approximate their fair values.

The carrying amount of loan to franchisees is a reasonable approximation of fair values as the interest rate of the loan is similar to the market incremental lending rate at the end of the reporting period.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

General risk management principles

The Group's overall risk management principle is based on the visibility of the key risks that will prevent the Group from reaching its business objectives. Given that the Group operates globally, it is exposed to market (predominantly foreign currency and interest rate risks), credit and liquidity risks.

The Board of Directors ("Board") reviews and agrees policies, and procedures for the management of these risks ("Treasury Control"), which are executed by the Chief Financial Officer ("CFO") and Group Treasury. The Audit and Risk Committee provides an independent oversight to the effectiveness and relevance of the risk management process. It is, and has been throughout the current and previous financial year, the Group's policy that no trading in derivatives for speculative purposes shall be undertaken.

The objective of the overall risk management is twofold: to obtain a cost-efficient funding for the Group at all times, and to identify, evaluate and hedge financial risks in close cooperation with the various business units.

The Treasury Control supports this aim by minimising the adverse effects caused by the fluctuations in the financial markets on the Group's performance and by managing the balance sheet structure of the Group. In order to achieve this aim, where appropriate and feasible, the Group will use financial instruments such as currency forwards and options, interest rate swaps, and foreign currency borrowings to hedge the financial risk exposures.

The Treasury Control is managed centrally in Singapore which is the Group's Head Office. The reporting team of the Treasury Control measures actual exposures against the limits set by the Board of Directors and prepares weekly reports for review by the senior management of the Group and monthly reports are also submitted to the Board of Directors. The Group and the Company do not apply hedge accounting.

Notes to the Financial Statements

For the financial year ended 31 December 2015

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

General risk management principles (cont'd)

The following sections provide details regarding the Group's and Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risks.

(a) Foreign currency risk

The Group operates globally and is thus exposed to foreign exchange risk arising from various currency combinations. Foreign currency denominated assets and liabilities together with the expected cash flows from purchases and sales give rise to foreign exchange exposures.

Changes in the business environment may also cause currency combinations variation within each financial year. Notwithstanding this, the Group views US Dollar as its primary functional currency. The most significant non-US Dollar sales currencies during the year are Euro, Sterling Pound, Japanese Yen and Australian Dollar whilst significant purchases that are non-US Dollar are Chinese Renminbi ("RMB") and Euro. The Group's operating costs are denominated mainly in the respective local currencies in the countries where it has operations.

To the extent that the Group's sales, purchases and operating costs are not naturally matched in the same currency and that there are timing differences between collections and payments, the Group will be exposed to any adverse fluctuations of the various currencies against the US Dollar. Restrictions over the conversion or remittance of foreign currencies such as RMB may also expose the Group to adverse fluctuations in the exchange rates.

According to the Group Treasury's risk management policies, material foreign exchange exposures are hedged. In general, the policy is to hedge up to the extent of the highly probable foreign currency sales and purchases on a twelve months rolling basis. The Group monitors its foreign exchange exposure and utilises appropriate derivative financial instruments to hedge its foreign currencies. Exposures are mainly hedged with derivative financial instruments such as forward currency contracts and currency options. In addition, the Group will borrow in the same currency to provide a natural hedging for balance sheet items where possible.

The Company has a number of investments in foreign subsidiaries. The financial statements of these foreign subsidiaries are prepared in their respective functional currencies. This represents a translation risk in that any material fluctuation in the relevant currencies against the Group's presentation currency which is United States Dollar will have an effect on the Group's consolidated financial statements. Translation exposure is not normally hedged as these investments are intended to be held on a long-term basis and the translation risk arising from the investments cannot be appropriately hedged by short-term hedging instruments available. Furthermore, the cost of entering into such hedging activities outweighs the benefits.

The Group's currency exposure in the various currency combinations are disclosed in Notes 11, 12, 19, 20 and 29 to the financial statements.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in two major currencies, Euro and RMB which the Group deems as having significant exposure to.

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For the financial year ended 31 December 2015

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

General risk management principles (cont'd)

(a) Foreign currency risk (cont'd)

If the Euro and RMB change against the USD by 2% (2014: 2%) with all other variables including tax rate being held constant, the effects arising from the net financial asset/liability position will be as follows:

	Profit before tax Gain/(loss)	
	2015	2014
	US$'000	US$'000
Group		
Euro against USD		
- Strengthened	**117**	139
- Weakened	**(117)**	(139)
RMB against USD		
- Strengthened	**(342)**	(137)
- Weakened	**342**	137

(b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instrument will fluctuate due to changes in market interest rates. The Group has no significant interest-bearing assets and as such, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's exposure to interest rate risk arises primarily from their loans and borrowings.

The Group's borrowings are predominantly denominated in floating rates and are expected to be re-priced at intervals of less than one year from the financial year end. At present, the Group's policy is to manage interest cost using floating rate debts. The Group has also available interest rate swap facilities and will continue to monitor the movement of interest rates closely. Where necessary, the Group will utilise these swap facilities to minimise its interest rate risk exposure.

Sensitivity analysis considers the sensitivity of the Group's net borrowings to hypothetical changes in market rates and assumes all other variables remain constant. Based on the composition of the Group's net borrowings as at 31 December 2015, a one percentage point (100 basis points) increase/(decrease) in interest rate would result in a (decrease)/increase in the Group's profit before tax of approximately US$483,000 (2014: US$361,000).

(c) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including cash and short-term deposits), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth whilst minimising losses incurred due to increased credit risk exposure. It is the Group's policy that all customers who wish to trade on credit terms including transactions which occur in the Group's subsidiaries are subject to credit verification procedures and credit limits that are approved by the Group's Credit Committee. The Group's Credit Committee consists of the Group Managing Director and the CFO.

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For the financial year ended 31 December 2015

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

General risk management principles (cont'd)

(c) Credit risk (cont'd)

Credit risks related to trade receivables are analysed on a weekly basis, monitored and managed by the Group's Credit Control department which reports to the CFO. In addition, the Group has entered into the factoring of trade receivables without recourse with respectable financial institutions to mitigate the heightened credit risks as well as to improve cash collection cycle.

The Group has adopted a proactive policy on ongoing credit monitoring and as a result, default risks on trade receivables have remained relatively within the management's expectations.

Exposure to credit risk

The Group does not hold any collateral. At the end of the reporting period, the Group's and the Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the balance sheets which are mainly cash and short-term deposits, trade and other receivables and deposits.

The Company is exposed to credit risk arising from corporate guarantees provided to banks on subsidiaries' bank facilities which amounted to US$42,159,000 (2014: US$27,615,000) which are presented on the balance sheet.

Credit risk concentration profile

The Group determines the concentration of credit risk by monitoring the country and business unit of its trade receivables on an on-going basis. The credit risk concentration profile of the Group's trade receivables at the end of the reporting period is as follows:

Trade receivables

	2015		2014	
	US$'000	**%**	US$'000	%
By country:				
Europe	**25,674**	**60.8**	27,735	66.1
North America	**7,634**	**18.1**	2,929	7.0
Asia (excluding China)	**6,091**	**14.4**	6,569	15.7
Australia and New Zealand	**2,422**	**5.7**	4,242	10.1
China (including Hong Kong)	**248**	**0.6**	338	0.8
Others	**168**	**0.4**	152	0.3
	42,237	**100.0**	41,965	100.0
By business units[1]:				
Sofa	**40,813**	**96.6**	40,619	96.8
Leather	**172**	**0.4**	19	–
Home Furnishing Retail	**1,252**	**3.0**	1,327	3.2
	42,237	**100.0**	41,965	100.0

Note:
(1) Comparative figures have been restated due to the Group's internal reorganisation.

Notes to the Financial Statements

For the financial year ended 31 December 2015

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

General risk management principles (cont'd)

(c) Credit risk (cont'd)

As at 31 December 2015, there is no significant concentration of credit risk.

Financial assets that are neither past due nor impaired

Cash and short-term deposits that are neither past due nor impaired are mainly deposits with reputable banks with high credit-ratings and no history of default.

Trade receivables that are neither past due nor impaired are substantially companies with a good collection track record with the Group.

Financial assets that are past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 12 (Trade and other receivables).

(d) Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to the shortage of funds. As the Group operates globally, it is imperative that the Group manages its working capital requirements with the view to optimise interest cost. In addition, the Group's and the Company's exposure to liquidity risk arises primarily from the mismatches of the maturities of financial assets and liabilities. The Group and the Company operate at a healthy net debt level relative to its shareholders' equity.

In the management of the liquidity risk, the Group and the Company maintain sufficient liquidity by monitoring closely its operating cash flows. Operating cash flows are used to fund routine outflows of capital expenditure, dividends and repayment of debts. The Group and the Company also aim at maintaining flexibility with stand-by credit facilities with a number of banks and this amounted to approximately US$238 million (2014: US$360 million) of which approximately US$151 million (2014: US$281 million) remains unutilised.

The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's and the Company's financial assets and liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

Notes to the Financial Statements

For the financial year ended 31 December 2015

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

General risk management principles (cont'd)

(d) Liquidity risk (cont'd)

Analysis of financial instruments by remaining contractual maturities (cont'd)

		2015			2014		
	Note	One year or less US$'000	One to five years US$'000	Total US$'000	One year or less US$'000	One to five years US$'000	Total US$'000
Group							
Financial assets:							
Cash and short-term deposits	11	42,487	–	42,487	35,815	–	35,815
Trade and other receivables		49,978	366	50,344	52,857	793	53,650
Deposits		5,134	–	5,134	4,826	–	4,826
Derivative financial instruments	29	–	–	–	282	–	282
Total undiscounted financial assets		97,599	366	97,965	93,780	793	94,573
Financial liabilities:							
Trade payables	19	67,283	–	67,283	79,935	–	79,935
Loans and borrowings		48,354	–	48,354	36,070	113	36,183
Derivative financial instruments	29	3,483	–	3,483	–	–	–
Total undiscounted financial liabilities		119,120	–	119,120	116,005	113	116,118
Total net undiscounted financial (liabilities)/assets		(21,521)	366	(21,155)	(22,225)	680	(21,545)
Company							
Financial assets:							
Cash and short-term deposits	11	8	–	8	1	–	1
Amounts due from subsidiaries	12	33	–	33	6,893	–	6,893
Other receivables	12	639	–	639	640	–	640
Deposits	14	2,534	–	2,534	2,534	–	2,534
Total undiscounted financial assets		3,214	–	3,214	10,068	–	10,068
Financial liabilities:							
Trade payables	19	1,545	–	1,545	1,437	–	1,437
Amounts due to subsidiaries	19	2,949	–	2,949	2,491	–	2,491
Advances from a subsidiary	16	–	31,940	31,940	–	37,152	37,152
Total undiscounted financial liabilities		4,494	31,940	36,434	3,928	37,152	41,080
Total net undiscounted financial (liabilities)/assets		(1,280)	(31,940)	(33,220)	6,140	(37,152)	(31,012)

Notes to the Financial Statements

For the financial year ended 31 December 2015

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

General risk management principles (cont'd)

(d) Liquidity risk (cont'd)

Analysis of financial instruments by remaining contractual maturities (cont'd)

The table below shows the contractual expiry by maturity of the Company's contingent liabilities. The maximum amount of the financial guarantee contracts are allocated to the earliest period in which the guarantee could be called.

		2015			2014		
		One year or less	One to five years	Total	One year or less	One to five years	Total
	Note	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Company							
Financial guarantees	26(c)	42,159	–	42,159	27,615	–	27,615

(e) Capital management

Capital includes debt and equity items as disclosed in the table below.

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern via maintaining a healthy credit rating and capital ratios as well as to maintain an optimal capital structure so as to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares, buy back issued shares or obtain new borrowings. No changes were made in the objectives, policies or processes during the years ended 31 December 2015 and 2014.

As disclosed in Note 24(d), the subsidiaries of the Group are required by the Foreign Enterprise Law of the PRC to contribute to and maintain a non-distributable statutory reserve fund whose utilisation is subject to approval by the relevant PRC authorities. This externally imposed capital requirement has been complied with by the above-mentioned subsidiaries for the financial years ended 31 December 2015 and 2014.

The Group monitors capital using a gearing ratio which is net debt divided by equity attributable to the owners of the Company. Net debt is defined as the gross borrowings as stated in Note 20 less cash and short-term deposits in Note 11. The Group's net gearing ratio as at 31 December 2015 is 3.6% (2014: 0.1%).

		Group	
		2015	2014
	Note	US$'000	US$'000
Loans and borrowings	20	48,271	36,064
Less: Cash and short-term deposits	11	(42,487)	(35,815)
Net debt		5,784	249
Equity attributable to the owners of the Company		162,126	173,124
Gearing ratio		3.6%	0.1%

Notes to the Financial Statements

For the financial year ended 31 December 2015

29. DERIVATIVE FINANCIAL INSTRUMENTS

Forward currency contracts or options are entered into to manage the exposure to fluctuations in foreign currency exchange rates relating to expected future sales, costs and expenses, and purchases denominated in foreign currencies. In general, the Group's policy is to enter into forward currency contracts/options for up to 80% of the net foreign currency receipts anticipated in each month over a twelve-month period. The Group does not apply hedge accounting and, therefore, it recognises any gains and losses arising from changes in fair value for all derivatives in income statement.

The table below sets out the notional principal amounts of the outstanding non-hedging derivatives of the Group at the end of the reporting period:

	Contract notional amount US$'000	Fair value (loss)/gain US$'000	(Liabilities)/ assets US$'000
2015			
Foreign exchange derivatives			
Forward currency contracts	18,866	(345)	(345)
Structured currency options [1]	80,000	(3,138)	(3,138)
Total derivatives representing total financial liabilities at fair value through profit or loss			(3,483)
2014			
Foreign exchange derivatives			
Forward currency contracts	95,956	4,317	4,317
Structured currency options [1]	1,397,660	(4,035)	(4,035)
Total derivatives representing total financial assets at fair value through profit or loss			282

Note:

1 Included in the notional amount of the foreign exchange options are maximum contract sum committed.

For all the derivatives entered into, the forecasted transactions (settlement dates) are expected to settle within 12 months from the end of the reporting period (2014: 12 months).

The net fair values of the derivatives at the end of the reporting period are denominated in the following currencies:

	Group	
	2015 US$'000	2014 US$'000
Euro	48	2,324
Sterling Pound	(89)	441
Japanese Yen	(50)	18
Chinese Renminbi	(3,401)	(210)
Singapore Dollar	–	(1,694)
Australian Dollar	9	(597)
	(3,483)	282

Please see Note 7 for the changes in the net fair value of the derivatives that are charged to income statement.

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For the financial year ended 31 December 2015

30. RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group and related parties took place at terms agreed between the parties during the financial year:

(a) Professional fees

	Group	
	2015	2014
	US$'000	US$'000
Professional fees paid to Rodyk and Davidson LLP	**183**	206

Mrs Lee Ai Ming, an independent director of the Company, was a Senior Partner of Rodyk and Davidson LLP. The fees charged to the Group by Rodyk and Davidson LLP are charged on an arm-length basis and under terms comparable to the terms under which fees are charged to other customers.

(b) Compensation of key management personnel

The key management's remuneration includes fees, salary, bonus, commission and other emoluments (including benefits-in-kind) computed based on the cost incurred by the Group, and where the Group did not incur any costs, the value of the benefit.

The key management's remuneration is as follows:

	Group	
	2015	2014
	US$'000	US$'000
Salaries and other short-term employee benefits	**3,522**	3,828
Post-employment benefits- contribution to defined contribution plans	**158**	140
	3,680	3,968
Key management of the Group:		
- directors of the Company	**1,526**	1,639
- directors of subsidiaries	**1,683**	2,199
- others	**471**	130
	3,680	3,968

Directors' interests in employee share option plan

None of the Company's directors exercised his share options in 2015 and 2014.

At the end of the reporting period, the total amount of outstanding share options granted by the Company to the directors under the employee share option plan amount to 100,000 (2014: 100,000).

Notes to the Financial Statements

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31. SEGMENTAL INFORMATION

Management has determined the operating segments based on the reports provided and reviewed by the Board of Directors and department heads of each business unit within each geographic segment.

With effect from 1 January 2015, the Group's retail business is consolidated with the existing Home Furnishing business unit and renamed "Home Furnishing Retail business unit". The retail business, which was previously insignificant to the Group, formed part of the Sofa business unit in prior years. The reorganisation enabled the Group to sharpen its focus in each business unit and better grow the retail business.

Management considers the Group has the following major operating business units:

- The Sofa business unit is mainly involved in the original design manufacturing and sales and distribution of upholstered sofa.
- The Leather business unit is involved in the tanning of leather hides and distribution of finished leather for in-house consumption. The supply to external requirements has ceased operations since September 2009.
- The Home Furnishing Retail business unit provides a total home furnishing and design solutions via direct retailing or franchising.
- The Corporate unit is a passive entity and mainly involved in investment holding activities.

The Group's 4 business segments operate in the following geographical areas:

- The Group is headquartered in Singapore and undertakes corporate office functions which include sales and marketing, research and development, treasury, finance and information technology activities.
- In the PRC, the Group operates six manufacturing facilities for the Sofa Business segment and two leather tannery facilities for the Leather Business segment.
- The Group has sales and marketing offices to distribute upholstery products in PRC, Australia, Japan, United Kingdom, Italy, France, Singapore, South Korea and the United States of America.
- The Home Furnishing Retail segment has offices in Singapore, China, Taiwan and Germany. The operations are involved in the provision of total home furnishing and design solution which is conducted via a network of 24 retail stores and 112 franchised outlets.

Except as indicated above, no operating segments have been aggregated to form the above reportable operating segments.

Management assesses the performance of the operating segments based on a measure of operating results before finance income, finance expense, net foreign exchange gain/(loss) and income tax expense. Finance income, finance expense and foreign exchange differences are not allocated to segments as this type of activity is driven by the Group Treasury which manages the Group's overall funding, cash position and foreign exchange exposure. Similarly, the income tax expense is not allocated to segments as the Group embarks on a Group wide transfer pricing strategy to ensure compliance with all tax regulations and to optimise tax efficiencies at the Group level.

Transfer prices between the operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Notes to the Financial Statements

For the financial year ended 31 December 2015

31. SEGMENTAL INFORMATION (CONT'D)

The segment information provided to the management for the reportable segments for the financial year ended 31 December 2015 is as follows:

	Sofa	Leather	Home Furnishing Retail	Corporate	Elimination	Note	Group
	US$'000	US$'000	US$'000	US$'000	US$'000		US$'000
Financial year ended 31 December 2015							
Revenue							
External sales	436,171	–	18,681	–	–		454,852
Inter-segment sales	5,333	138,071	17	–	(143,421)	A	–
Total revenue	441,504	138,071	18,698	–	(143,421)		454,852
Segment results	9,489	2,858	(14,347)	(1,091)	–		(3,091)
Finance income							99
Finance expense							(1,437)
Net foreign exchange gain							6,950
Income tax expense							(4,127)
Net loss for the year							(1,606)
Segment assets	165,261	93,661	25,230	3,201	–		287,353
Tax assets							2,631
Consolidated total assets							289,984
Segment liabilities	(58,147)	(9,813)	(7,331)	(1,545)	–		(76,836)
Loans and borrowings							(48,271)
Tax liabilities							(1,918)
Consolidated total liabilities							(127,025)
Other segment items							
Addition to non-current assets							
- property, plant and equipment	6,557	123	3,965	–	–		10,645
- intangible assets	155	–	91	–	–		246
Depreciation	2,991	1,123	1,150	–	–		5,264
Amortisation	1,055	172	18	–	–		1,245
Other non-cash expenses							
Inventories written-down	1,000	106	761	–	–		1,867
Provision for warranty	9,688	–	3	–	–		9,691

Note — Nature of adjustments and eliminations to arrive at amounts reported in the consolidated financial statements

A — Inter-segment revenues are eliminated on consolidation.

Notes to the Financial Statements

For the financial year ended 31 December 2015

31. SEGMENTAL INFORMATION (CONT'D)

The segment information provided to the management for the reportable segments for the financial year ended 31 December 2014 is as follows:

	Sofa [B]	Leather	Home Furnishing Retail[B]	Corporate	Elimination[B]	Note	Group
	US$'000	US$'000	US$'000	US$'000	US$'000		US$'000
Financial year ended 31 December 2014							
Revenue							
External sales	481,870	–	18,707	–	–		500,577
Inter-segment sales	3,247	135,144	139	–	(138,530)	A	–
Total revenue	485,117	135,144	18,846	–	(138,530)		500,577
Segment results	13,221	(203)	(12,502)	(1,177)	–		(661)
Finance income							243
Finance expense							(2,029)
Net foreign exchange gain							13,247
Income tax expense							(5,494)
Net profit for the year							5,306
Segment assets	165,827	105,254	25,124	3,322	–		299,527
Tax assets							5,103
Consolidated total assets							304,630
Segment liabilities	(60,335)	(17,396)	(9,416)	(1,437)	–		(88,584)
Loans and borrowings							(36,064)
Tax liabilities							(6,006)
Consolidated total liabilities							(130,654)
Other segment items							
Addition to non-current assets							
- property, plant and equipment	1,457	148	3,742	–	–		5,347
- intangible assets	39	–	3	–	–		42
Depreciation	3,841	1,625	719	–	–		6,185
Amortisation	1,148	225	6	–	–		1,379
Other non-cash expenses							
Inventories written-down	1,264	4	218	–	–		1,486
Provision for warranty	11,557	–	–	–	–		11,557

Note — Nature of adjustments and eliminations to arrive at amounts reported in the consolidated financial statements

A — Inter-segment revenues are eliminated on consolidation.

B — Comparative figures have been restated due to the Group's internal reorganisation.

Notes to the Financial Statements

For the financial year ended 31 December 2015

31. SEGMENTAL INFORMATION (CONT'D)

The following table shows the distribution of the Group's revenue based on the geographical location of its customers:

	Turnover	
	2015	2014
	US$'000	US$'000
Asia (excluding China)	**65,450**	77,235
Europe	**202,268**	233,152
China (including Hong Kong)	**11,719**	8,087
North America	**101,782**	101,930
Australia and New Zealand	**72,525**	78,472
Others	**1,108**	1,701
Total	**454,852**	500,577

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)	
	2015	2014
	US$'000	US$'000
Asia (excluding China)	**17,571**	17,056
Europe	**1,668**	2,141
China (including Hong Kong)	**27,321**	31,705
Australia	**1,474**	328
United States	**4,201**	67
Total	**52,235**	51,297

Non-current assets information presented above consist of property, plant and equipment, intangible assets and non-current other receivables as presented in the balance sheet of the Group.

Notes to the Financial Statements

For the financial year ended 31 December 2015

32. EVENT OCCURRING AFTER REPORTING PERIOD

On 7 January 2016, SAC Capital Private Limited announced, for and on behalf of Ideal Homes International Limited (the "Offeror"), a wholly owned subsidiary of Guangdong Yihua Timber Industry Co., Ltd. ("Yihua Timber", and together with its subsidiaries, the "Yihua Group"), that, subject to the completion of a due diligence exercise and fulfilment or waiver of certain pre-conditions, the Offeror intends to enter into the Scheme Implementation Agreement to acquire all the issued and paid-up ordinary shares (excluding treasury shares but including shares issued and paid-up upon valid exercise of share options in the capital of the Company (the "Shares"), by way of a scheme of arrangement (the "Proposed Scheme") pursuant to Section 210 of the Companies Act ("Proposed Acquisition").

It has been announced that Yihua Timber had entered into the following agreements:

(a) an agreement with HTL's controlling shareholder, BEM Holdings Pte Ltd ("BEM"), Phua Yong Tat, Phua Yong Pin and Phua Yong Sin (collectively with BEM, the "Parties") in respect of the Proposed Acquisition and a supplemental agreement thereto; and
(b) an undertaking agreement with BEM, pursuant to which Yihua Timber and BEM have agreed certain steps to be taken to implement the Proposed Scheme.

The Offeror has not announced a firm intention to acquire all of the Shares and has stated that such announcement will not be made unless and until the pre-conditions are satisfied or waived, no later than 31 July 2016 or such later date as the Offeror may determine in consultation with the Securities Industry Council, and the signing of the Scheme Implementation Agreement subsequent to the receipt or waiver of the pre-conditions, which acquisition shall take place via the Proposed Scheme.

33. AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Board of Directors on 24 March 2016.

Shareholders' Information

As at 11 March 2016

Number of Issued Shares (including Treasury Shares) : 416,563,330
Number of Issued Shares (excluding Treasury Shares) : 399,605,718
Number/Percentages of Treasury Shares : 16,957,612 (4.24%*)
Class of Shares : Ordinary Shares
Voting Rights (excluding Treasury Shares) : One Vote Per Share

DISTRIBUTION OF SHAREHOLDERS BY SIZE OF SHAREHOLDINGS

Size of Shareholdings	Number of Shareholders	%	Number of Shares (Excluding Treasury Shares)	%
1 – 99	60	1.78	2,400	0.00
100 – 1,000	250	7.41	146,799	0.04
1,001 – 10,000	1,855	55.01	8,834,304	2.21
10,001 – 1,000,000	1,179	34.97	75,664,706	18.93
1,000,001 and above	28	0.83	314,957,509	78.82
Total	3,372	100.00	399,605,718	100.00

TWENTY LARGEST SHAREHOLDERS

No.	Shareholder's Name	Number of Shares Held	%*
1	BEM HOLDINGS PTE LTD	147,810,260	36.99
2	RAFFLES NOMINEES (PTE) LTD	56,967,237	14.26
3	MAYBANK KIM ENG SECURITIES PTE LTD	20,060,800	5.02
4	CITIBANK NOMINEES SINGAPORE PTE LTD	12,242,418	3.06
5	BEM INVESTMENT PTE LTD	9,556,520	2.39
6	DB NOMINEES (SINGAPORE) PTE LTD	6,869,260	1.72
7	UOB NOMINEES (2006) PTE LTD	6,718,750	1.68
8	DBS NOMINEES PTE LTD	6,609,060	1.65
9	UOB KAY HIAN PTE LTD	6,569,500	1.64
10	GOH BEE LAN	4,554,000	1.14
11	PHILLIP SECURITIES PTE LTD	4,426,112	1.11
12	ANG KONG MENG	4,002,000	1.00
13	HSBC (SINGAPORE) NOMINEES PTE LTD	3,856,500	0.97
14	LIM & TAN SECURITIES PTE LTD	2,977,800	0.75
15	TAN PENG CHYE	2,685,660	0.67
16	OCBC SECURITIES PRIVATE LIMITED	2,605,568	0.65
17	UNITED OVERSEAS BANK NOMINEES PTE LTD	2,495,005	0.62
18	LEE TECK SUI	1,831,303	0.46
19	CHUA XIU CHIN	1,628,000	0.41
20	KGI FRASER SECURITIES PTE LTD	1,391,800	0.35
	TOTAL	305,857,553	76.54

* Percentage is calculated based on 399,605,718 shares, excluding treasury shares of the Company.

Shareholders' Information

As at 11 March 2016

SUBSTANTIAL SHAREHOLDERS

	Direct Interest		Deemed Interest	
Name of Substantial Shareholder	**Number of Shares**	**%[5]**	**Number of Shares**	**%[5]**
BEM Holdings Pte Ltd [1]	177,029,010	44.30	17,569,520	4.40
Phua Yong Pin [2]	204,300	0.05	196,226,530	49.11
Phua Yong Sin [3]	588,000	0.15	194,598,530	47.90
Phua Yong Tat [4]	4,142,000	1.04	194,894,530	47.97
FMR LLC	–	–	24,152,000	6.04

Notes:
(1) Deemed interest of BEM Holdings Pte Ltd includes the total interest of BEM Investment Pte Ltd.
(2) Deemed interest of Phua Yong Pin comprises the total interests of BEM Holdings Pte Ltd and those of his wife, Chua Xiu Chin.
(3) Deemed interest of Phua Yong Sin comprises the total interests of BEM Holdings Pte Ltd.
(4) Deemed interest of Phua Yong Tat comprises the total interests of BEM Holdings Pte Ltd and those of his wife, Lim Yan Siu.
(5) Percentage is calculated based on the total number of issued shares, excluding treasury shares of the Company.

Based on the Register of Substantial Shareholders as at 11 March 2016, 43.1% of the issued share capital of the Company (excluding treasury shares) is in the hands of the public, and the Company is therefore compliant with Rule 723 of the SGX-ST Listing Manual.

Notice of Annual General Meeting

HTL International Holdings Limited

Registration no. 198904162H

NOTICE IS HEREBY GIVEN that the Annual General Meeting of HTL International Holdings Limited ("the Company") will be held on Wednesday, 27 April 2016 at 9.30 a.m. at 11 Gul Circle Singapore 629567, to transact the following business:

ORDINARY BUSINESS

1. To receive and adopt the Directors' Statement and Audited Financial Statements for the financial year ended 31 December 2015 together with the Auditor's Report thereon. **(Resolution 1)**

2. To re-elect Mr Lee Kiam Hwee, Kelvin, a Director who is retiring by rotation pursuant to Article 87 of the Company's Articles of Association. **(Resolution 2)**

3. To approve the payment of Directors' fees for non-executive Directors in the amount of up to S$316,000 for the financial year ending 31 December 2016 (2015: S$316,000). **(Resolution 3)**

4. To re-appoint Messrs Ernst & Young LLP as Auditors and to authorise the Directors to fix their remuneration. **(Resolution 4)**

OTHER BUSINESS

5. Any other business that may properly be transacted.

BY ORDER OF THE BOARD

Jacqueline Joelle Loke Mun-Tze
Company Secretary

Singapore
12 April 2016

Notes:
A member entitled to vote at the meeting may appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company. The instrument appointing a proxy must be deposited at the Company's registered office at 11 Gul Circle, Singapore 629567 not less than 48 hours before the time appointed for the holding of the meeting.

A corporation which is a member of the Company may, by resolution of its Directors, authorise any person to act as its representative at any meeting of the Company, and such representative shall be entitled to exercise the same powers on behalf of the corporation which he represents as the corporation could exercise if it was an individual member of the Company.

EXPLANATORY NOTE:

Resolution 2:
Mr Lee Kiam Hwee, Kevin is the Chairman of the Board and an Independent Director of the Company. He will continue in this capacity if re-elected as a Director of the Company. Please refer to the Corporate Governance Report for additional information on this director.

Proxy Form

HTL International Holdings Limited

(Incorporated in the Republic of Singapore)
(Registration No. 198904162H)

THE SECRETARY

HTL International Holdings Limited
11 Gul Circle
Singapore 629567

Important:

1. Pursuant to Section 181(1C) of the Companies Act, Chapter 50 (the "Act"), Relevant Intermediaries may appoint more than two proxies to attend, speak and vote at the Annual General Meeting.
2. For investors who have used their CPF monies to buy shares in the Company, this proxy form is not valid for use and shall be ineffective for all intents and purposes if used or purported to be used by them to appoint a proxy.
3. CPF investors are requested to contact their respective Agent Banks for any queries they may have with regard to their appointment as proxies or the appointment of their Agent Banks as proxies for the Annual General Meeting.

I/We _____ NRIC/Passport/Co. Reg No. _____

being (a) member(s) of HTL INTERNATIONAL HOLDINGS LIMITED (the "Company") hereby appoint _____

_____ NRIC/Passport No. _____ of _____

_____

or failing him/her, the Chairman of the Meeting, as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on **Wednesday, 27 April 2016** at **9.30 a.m.** at 11 Gul Circle, Singapore 629567, and at any adjournment thereof, in the manner indicated below:

RESOLUTION		**FOR**	**AGAINST**
Ordinary Business			
1.	Adoption of Directors' Statement and Audited Financial Statements for the financial year ended 31 December 2015		
2.	Re-election of Mr Lee Kiam Hwee, Kelvin as Director		
3.	Approval of the payment of Directors' fees for non-executive Directors for the financial year ending 31 December 2016		
4.	Re-appointment of Messrs Ernst & Young LLP as Auditors and authorisation of the Directors to fix their remuneration		

(Please indicate in the space provided the number of votes (each share carries one vote) you wish to be cast for or against the resolution set out in the Notice of Annual General Meeting. In the absence of specific directions, your proxy may vote or abstain from voting as he/she thinks fit.)

Dated this _____ day of _____ 2016.

Register	**Number of Shares held**
Depository Register	
Register of Members	

_____

Signature(s) of Member(s)

Proxy Form

HTL International Holdings Limited

(Incorporated in the Republic of Singapore)
(Registration No. 198904162H)

Notes:

1. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289), you should insert that number of shares. If you have shares registered in your name in the Register of Members, you should insert that number of shares. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number of shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the shares held by you.

2. Except for a member who is a Relevant Intermediary as defined under Section 181(6) of the Companies Act, Chapter 50 of Singapore (the "Companies Act"), a member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint up to two proxies to attend and vote instead of him. **The member must complete a second proxy form to appoint the second proxy.** A photocopy of this form may be used. A proxy need not be a member of the Company.

3. Pursuant to Section 181(1C) of the Companies Act, a member who is a Relevant Intermediary, such as a bank or a capital markets services licence holder which provides custodial services and is a member of the Company, may appoint more than two proxies provided that each proxy is appointed to exercise the rights attached to different shares held by the member. In such event, the Relevant Intermediary shall submit a list of its proxies specifying the information required in this proxy form in respect of each such proxy and the number of shares in relation to which each such proxy is being appointed, together with this proxy form, to the Company.

4. Where a member appoints more than one proxy, the appointments shall be invalid unless he specifies the proportion of his shareholding to be represented by each proxy. The appointments shall also be invalid if the aggregate of shareholdings specified in the proxy instrument(s) exceeds the total number of shares held by the member.

5. The instrument(s) appointing a proxy or proxies must be deposited at the registered office of the Company at 11 Gul Circle, Singapore 629567 not less than 48 hours before the time appointed for the Annual General Meeting.

6. The instrument(s) appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised.

7. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Annual General Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

8. Where the Chairman has been appointed as the proxy for a member without specific voting directions for any item of business, **it is the intention of the Chairman to vote in favour of the relevant item of business.**

General:

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible, or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing the proxy or proxies. In addition, in the case of shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 72 hours before the time appointed for holding the Annual General Meeting, as certified by The Central Depository (Pte) Limited to the Company.



www.htlinternational.com

40 YEARS
TOGETHER, INSPIRING LIFE

HTL

HTL INTERNATIONAL HOLDINGS LIMITED
11 Gul Circle Singapore 629567 | Tel (65) 6747 5050 | Fax (65) 6747 8497 | Company Registration No. 198904162H