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# International Housewares Retail Company Limited

# 國際家居零售有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1373)**

## ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 OCTOBER 2016

The board of directors (the "**Board**" or "**Directors**") of International Housewares Retail Company Limited (the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 31 October 2016 (the "**Period**") prepared in accordance with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**" and the "**Stock Exchange**" respectively), together with comparative figures for the six months ended 31 October 2015 ("**2015/16**").

**FINANCIAL HIGHLIGHTS**

- The Group's revenue rose by 4.4% to an historical high of HK$1,002,534,000 (2015/16[1]: HK$960,463,000) for the Period.
- The comparable store sales growth[2] of the Group in Hong Kong was 5% (2015/16: 7%).
- The Group's gross profit rose by 5.5% to HK$470,995,000 (2015/16: HK$446,584,000) while gross profit margin was up to 47.0% (2015/16: 46.5%).
- Profit for the Period attributable to equity holders of the Company was HK$34,236,000 (2015/16: HK$21,103,000), representing an increase of 62.2%.
- The Group maintained a strong financial position with cash and cash equivalents of HK$408,864,000.
- As at 31 October 2016, the Group had a total of 365 stores worldwide.
- The Board has resolved to declare an interim dividend of 5.0 HK cents per ordinary share (2015/16: an interim dividend of 5.0 HK cents per ordinary share).

Notes:

1. Comparative figures for the six months ended 31 October 2015 are shown as ("**2015/16**") in brackets.
2. Comparable store sales growth represents a comparison of sales of the same store having full six-month operations in the comparable periods.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overview

International Housewares Retail Company Limited and its subsidiaries achieved satisfactory financial results with record-breaking revenue and a solid financial position for the six months ended 31 October 2016. The Group continued to solidify its position as a leading houseware retail chain with a total of 365 stores worldwide.

### Financial Performance

The Group continued to increase the variety of product offerings to help it capture additional market opportunities and expand customer base. In addition, further driven by the opening of new stores and growth in overall comparable store sales as well as increase in the average spending per transaction for the Period, the Group's revenue rose by 4.4% to an historical high of HK$1,002,534,000 (2015/16: HK$960,463,000).

The Group's gross profit rose by 5.5% to HK$470,995,000 (2015/16: HK$446,584,000) and gross profit margin was up to 47.0% (2015/16: 46.5%). During the Period, the discount driven marketplace had made more promotions and markdowns necessary and that placed considerable pressure on our gross profit margin. Fortunately, at the Group's continued effort to streamline logistics arrangement with suppliers and bargaining for more favourable prices to reduce procurement cost, much of that pressure was offset. As a result, the Group managed to improve its gross profit margin.

Boating strong brand recognition among consumers and popular product offerings, the Group was able to make record-high sales with costs and expenses maintained at a manageable level as a percentage of revenue during the Period. The Group's operating expenses as a percentage of revenue reduced during the Period, standing at 44.0% (2015/16: 44.9%). The solid performance of the Group was attributed to prudence in managing expenses.

Profit for the Period attributable to equity holders of the Company was HK$34,236,000 (2015/16: HK$21,103,000), representing an increase of 62.2%, owed mainly to the Group continuing to broaden its product portfolio, while constantly monitoring purchase prices and logistics costs of its sourcing activities, as well as prudently managing operating expenses. Furthermore, the Group closed down the business operations in West Malaysia and Mainland China to minimize the negative effects on its retail business as a whole.

### Liquidity and Financial Resources

As at 31 October 2016, the Group had cash and cash equivalents amounting to HK$408,864,000 (30 April 2016: HK$406,080,000). Most of the Group's cash and bank deposits were denominated in Hong Kong dollars, and were deposited with major banks in Hong Kong with maturity dates falling within three months.

It is the Group's treasury management policy not to engage in any highly leveraged or speculative derivative products and it will continue to place the majority of our surplus cash in Hong Kong dollars bank deposits with appropriate maturity periods to meet the funding requirements in the future. The current ratio for the Group was 2.8 (30 April 2016: 2.8). Bank borrowings amounted to HK$45,176,000 as at 31 October 2016 (30 April 2016: HK$44,373,000). The Group was in net cash position as at 31 October 2016. Its gearing ratio as determined by bank borrowings divided by total equity was 6.6% (30 April 2016: 6.4%).

**Others**

Notwithstanding the foregoing, financial policies, contingent liabilities, capital commitments and charges on the Group's assets did not differ materially during the Period from the information presented in the last published annual report.

**Operating Efficiencies**

Although the operating environment was ridden with challenges, the Group achieved satisfactory comparable store sales growth[(1)] in Hong Kong of 5% (2015/16: 7%).

In the past few years, the overall rental expenses on shops in shopping malls continued to increase. Despite the adverse factor, enabled by the strong brand recognition it enjoys, its popular product offerings, and opening new stores with less prime retail space allowing the Group to control of rental expenses as it expands. We are also able to rent retail spaces of varying sizes, which gives us more flexibility in choosing retail spaces and controlling overall rental expenses. In addition, with salaries on general rise in recent years, we expect our employee expenses to increase alongside inflation. To mitigate the effects of increasing employee expenses, we have employee training programmes in place to maximise productivity and employees are redeployed to different stores from time to time to further maximise productivity. As a result, the Group has been able to maintain staff costs at a manageable level as a percentage of revenue.

In spite of these adversities, enjoying strong brand recognition and boasting popular product offerings, the Group made record-high sales with costs and expenses maintained at a manageable level as a percentage of revenue during the Period. The Group's operating expenses as a percentage of revenue reduced during the Period, standing at 44.0% (2015/16: 44.9%). The solid performance was attributed to prudence in managing expenses, including closely monitoring store man-hour expenses and the use of energy efficient lighting installations at retail stores. Those measures helped reduce related operating expenses as a percentage of revenue against the same period last year. In the light of the festive shopping spree in the second half of the financial year, the Group is confident that operating expenses as a percentage of revenue will improve.

The following table provides details of the Group's operating expenses:

| **For the six months ended 31 October** | **2016** | | **2015** | | **Increase/** |
|---|---|---|---|---|---|
| | | **(%) of** | | **(%) of** | **(decrease)** |
| | **HK$** | **revenue** | **HK$** | **revenue** | **(%)** |
| Distribution and advertising expenses | **25,856,000** | **2.6%** | 27,634,000 | 2.9% | (6.4%) |
| Administrative and other operating expenses | **415,272,000** | **41.4%** | 403,384,000 | 42.0% | 2.9% |
| Total operating expenses | **441,128,000** | **44.0%** | 431,018,000 | 44.9% | 2.3% |

Note:

1. Comparable store sales growth represents a comparison of sales of the same store having full six-month operations in the comparable periods.

## Distribution Network

Established in 1991, the Group is the largest houseware retail chain in Hong Kong, Singapore and Macau[1]. The Group offers quality houseware products through an extensive retail network comprising 365 stores in Hong Kong, Singapore, Macau, Cambodia, Indonesia, Malaysia, Saudi Arabia and Australia under the renowned brands including JHC, JHC Concept Store, City Life, Epo Gifts & Stationery, Happy Kitchen, 123 by ELLA, Japan Home and JHCeshop. Armed with extensive sourcing channels and high-margin private label products, the Group provides a full range of houseware items at competitive prices, giving customers "one-stop" shopping experience.

The Group believes that the cumulative brand awareness it enjoys over the years, its extensive retail network growing steadily and consistently and large global supplier network have contributed and will continue to contribute to the Group's continuous business development. The Group remains positive about its business prospects in the medium- to- long-term and plans to continue to expand its operations in Hong Kong, Singapore and Macau. At the same time, it will continue to restructure with caution its store portfolio in Singapore, closing down underperforming stores to minimize the negative effects on its retail business as a whole, focusing on profitable stores and opening new stores in high potential areas. The following table sets forth the number of our stores worldwide:

| | **As at 31 October 2016** | **As at 30 April 2016** | **Net increase/ (decrease)** |
|---|---|---|---|
| **The Group's directly managed stores** | | | |
| Hong Kong | 284 | 277 | 7 |
| Singapore | 61 | 62 | (1) |
| Macau | 8 | 8 | - |
| Sub-total | 353 | 347 | 6 |
| **The Group's licenced stores** | | | |
| East Malaysia | 1 | 1 | - |
| Saudi Arabia | 5 | 5 | - |
| New Zealand | - | 1 | (1) |
| Indonesia | 1 | 1 | - |
| Cambodia | 3 | 3 | - |
| Australia | 2 | - | 2 |
| Sub-total | 12 | 11 | 1 |
| **Total** | **365** | 358 | 7 |

Note:
1. In terms of revenue and the number of stores the Group operated in the calendar year 2012 according to the Frost & Sullivan Report

## Human Resources

To ensure that the Group is able to attract and retain staff capable of attaining the best performance levels, remuneration packages are reviewed on a regular basis. Performance bonus, share awards and share options are then offered to qualified employees. A performance-based element is included in the annual discretionary bonus for all staff as well as in share awards and share options for supervisory and managerial staff.

As at 31 October 2016, the Group employed approximately 2,118 employees (30 April 2016: 2,236). Total staff costs for the Period were HK$149,007,000 (2015/16: HK$142,730,000).

**Operational Review by Business Segments**
The Group's business segments by nature include retail, wholesale and licencing and others.

Driven by the opening of new stores and growth in overall comparable store sales as well as increase in customer average spending per transaction, retail revenue of the Group for the Period reached record-high, at a 4% growth, and continued to be the primary revenue driver of the Group. In addition, we continued to increase the variety of product offerings to help us capture additional market opportunities and expand customer base. These endeavours contributed to the HK$988,341,000 (2015/16: HK$950,287,000) retail revenue, which also included consignment sales commission income, accounting for 98.6% (2015/16: 98.9%) of total revenue of the Group.

The income of wholesale business, from licensing and others together increased by 39.5% to HK$14,193,000 (2015/16: HK$10,176,000) against the same period last year.

**Operational Review by Geographical Locations**
**Operation Review – Hong Kong**
Hong Kong remained the key market of the Group, accounting for 87.3% (2015/16: 84.9%) of its total revenue. Revenue from Hong Kong for the Period reached record-high totalling at HK$875,406,000 (2015/16: HK$815,003,000), a 7.4% increase, whereas comparable store sales had a relatively healthy growth[(1)] of 5% (2015/16: 7%).

The net profit in Hong Kong for the Period was HK$39,243,000 (2015/16: HK$33,633,000), representing an increase of 16.7% with the net profit margin of 4.5% (2015/16: 4.1%).

**Operation Review – Singapore**
In Singapore, revenue decreased by 8.9% to HK$108,677,000 (2015/16: HK$119,311,000) during the Period, given the market's conservative consumer spending patterns. Anticipating continuous challenge in the market in the second half of this financial year, the Group will strive to solidify its position by maintaining the strategy of studying and restructuring its product mix tailoring it to fit the characteristics of the market and customer demographics there, as well as exercising prudent cost control. The Group intends to focus on improving efficiencies of its operations in the market via including dedicated training programmes for employees to help maximise their productivity. The Group will strive to enhance its competitive edges and strengthen its position in Singapore to facilitate continuous business expansion there. Staff costs and other operating expenses in Singapore registered a decline in local currency during the Period, in line with the reduction in the number of employees at our efforts to streamline organisational structure and closing unprofitable retail stores in Singapore. We are thankful that at the concerted efforts of our employees in Singapore, we were able to address every expense item of the businesses in the market. Singapore will remain an important market to the Group. It is expected to achieve moderate growth and boasts an encouraging outlook in the medium- to long-term.

**Operation Review – Macau**
During the Period, the Group's Macau revenue recorded a 1.3% decrease to HK$18,451,000 (2015/16: HK$18,693,000), while operating expenses declined during the Period.

Note:
1. Comparable store sales growth represents a comparison of sales of the same store having full six-month operations in the comparable periods.

**MANAGEMENT DISCUSSION AND ANALYSIS** (CONTINUED)

**Prospects**

With the global economy remaining uncertain, the overall operating environment of the Group continues to be challenging. However, given the large global supplier network it has built on an operational experience of 25 years, the Group has the ability to secure a stable and continuous supply of a wide variety of products at competitive prices. In addition, the strong Hong Kong dollar and other depreciating foreign currencies recently have helped the Group to reduce procurement cost. The Group will continue to broaden its product portfolio, while constantly monitoring purchase prices and logistics costs of its sourcing activities, and prudently managing expenses.

The Group will improve operational efficiencies of its supply chain so that it may more quickly respond to customers' changing demands, shorten the cycle of product forecasting, the procurement process, shipping logistics, as well as closely align purchases with sales levels thereby tightening inventory control. These initiatives have enabled the Group to reduce inventory turnover days. Furthermore, they helped shorten the lead time "123 by Ella" needs to answer market demand for selected trendy and personal merchandise befitting the "simple and fast consuming" concept that the brand operates on. The Group is empowered to tap the potential in the market of young adults and consumption trend. The Group will continue to look for suitable locations to open more stores to enlarge its share in the Hong Kong retail market. Encouraged by the satisfactory stores sales growth under the new banner of "123 by Ella", the Group's strategy is to open more "123 by Ella" stores in the near future.

To solidify its position in Singapore, the Group will maintain the strategy of studying and restructuring its product mix to tailor in Singapore location to capitalise on it's characteristics and local customer demographics, and prudent cost control. The Group intends to focus on improving operational efficiencies of its operations in the market, including tailoring training programmes for employees to help maximise their productivity. The Group will strive to enhance our competitive edge and strengthen our position in Singapore to facilitate continuous expansion of our business there. Staff costs and other operating expenses in Singapore registered a decline in local currency during the Period, in line with the reduction in the number of employees through our efforts to streamline the organisational structure and closing unprofitable retail stores in Singapore. We are thankful that with the concerted efforts of our employees in Singapore, we were able to address every expense item of the businesses in the market. Singapore will remain an important market to the Group. It is expected to achieve moderate growth and boast an encouraging outlook in the medium- to long-term.

The Group will continue to focus on the strategy to sell our products through a comprehensive and integrated omni-channel interactive platform comprising through an extensive retail network in Hong Kong and online sales networks, including e-commerce business platform, as well as our social network platform on J Fun APPs and Facebook, and the Group will continue its efforts to build an operating platform on the basis of the omni-channel cored business model. At the same time, through the change of new company logo "JHC" provides the Group with a better identification with the business upgrade and strengthen the Group's corporate image, which will benefit the future business development.

The Group continues to diversify and expand the product mix and promote "Concept stores" to enlarge its customer base. In particular, it intends to offer more stylish, good value products to the consumers, and, above all, expand product coverage in Hong Kong. This is a strategic move to broaden product categories of the Group to cover selected special products in smart living, digital accessories, health & beauty, trendy stationery, green food, gardening, fragrance and Japanese & Korean products. The Group believes this concept can facilitate flexible expansion of its business and enhance market penetration. We will also continue to strengthen our product mix to attract a wider range of customers and to increase our proportion of private label products in order to achieve higher profit margin.

Recognizing that the second half of this financial year will be challenging, the Group intends to continue to focus on the Hong Kong market. Going forward, despite the weak retail environment, the Group sees opportunities and potential for growth and expansion. Many of the products the Group offers are affordable household necessities in steady demand, hence are not heavily affected by changes in economic cycles and overall market conditions. The Group will continue to carefully manage expenses so as to maximise return on capital. The Group believes with it enjoying cumulative brand awareness and the support of an extensive and steadily growing shop network, a sizeable membership base and a large global supplier network, it will see continuous development of its business. It remains positive about its medium- to long-term business prospects. Meanwhile, with sufficient cash flow, the Group is poised to explore potential investment opportunities for achieving higher gains and increasing operational efficiency, thus generating greater returns for shareholders.

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE SIX MONTHS ENDED 31 OCTOBER 2016**

| | Note | Unaudited six months ended 31 October 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **Revenue** | 4 | 1,002,534 | 960,463 |
| Cost of sales | | (531,539) | (513,879) |
| **Gross profit** | | 470,995 | 446,584 |
| Other income | | 6,740 | 7,242 |
| Other losses, net | | (338) | (1,925) |
| Distribution and advertising expenses | | (25,856) | (27,634) |
| Administrative and other operating expenses | | (415,272) | (403,384) |
| **Operating profit** | 5 | 36,269 | 20,883 |
| Finance income | | 744 | 2,146 |
| Finance costs | | (604) | (869) |
| **Profit before income tax** | | 36,409 | 22,160 |
| Income tax expense | 6 | (7,639) | (7,513) |
| **Profit for the period** | | 28,770 | 14,647 |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Currency translation differences | | (272) | (2,850) |
| **Total comprehensive income for the period** | | 28,498 | 11,797 |
| **Profit/(loss) for the period attributable to:** | | | |
| Equity holders of the Company | | 34,236 | 21,103 |
| Non-controlling interests | | (5,466) | (6,456) |
| | | 28,770 | 14,647 |
| **Total comprehensive income for the period attributable to:** | | | |
| Equity holders of the Company | | 33,934 | 19,210 |
| Non-controlling interests | | (5,436) | (7,413) |
| | | 28,498 | 11,797 |
| **Earnings per share attributable to equity holders of the Company** (expressed in HK cents per share) | 7 | | |
| Basic earnings per share | | 4.78 | 2.92 |
| Diluted earnings per share | | 4.78 | 2.92 |

**CONDENSED CONSOLIDATED INTERIM BALANCE SHEET**
**AS AT 31 OCTOBER 2016**

| | Note | Unaudited 31 October 2016 HK$'000 | Audited 30 April 2016 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | 110,653 | 103,345 |
| Investment property | | 13,167 | 13,782 |
| Intangible assets | | 27,461 | 28,480 |
| Deferred income tax assets | | 6,207 | 6,187 |
| Non-current deposits and other receivables | 8 | 63,039 | 64,738 |
| | | 220,527 | 216,532 |
| **Current assets** | | | |
| Inventories | | 246,507 | 280,240 |
| Trade and other receivables | 8 | 69,332 | 59,846 |
| Amounts due from shareholders | | 465 | 465 |
| Income tax recoverable | | 570 | - |
| Pledged bank deposits | | 6,565 | 6,555 |
| Bank deposits with initial terms of over three months | | 387 | 372 |
| Cash and cash equivalents | | 408,864 | 406,080 |
| | | 732,690 | 753,558 |
| **Total assets** | | 953,217 | 970,090 |
| **EQUITY** | | | |
| **Equity attributable to equity holders of the Company** | | | |
| Share capital and share premium | | 581,051 | 581,051 |
| Reserves | | 107,547 | 114,684 |
| | | 688,598 | 695,735 |
| **Non-controlling interests** | | (1,122) | (966) |
| **Total equity** | | 687,476 | 694,769 |

**CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (CONTINUED)**
**AS AT 31 OCTOBER 2016**

| | Note | Unaudited 31 October 2016 HK$'000 | Audited 30 April 2016 HK$'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | | 2,678 | 2,773 |
| Loans due to a non-controlling shareholder of a subsidiary | | 281 | - |
| Provision for reinstatement costs | | 2,543 | 2,637 |
| Obligation under finance lease | | 366 | - |
| | | 5,868 | 5,410 |
| **Current liabilities** | | | |
| Trade and other payables | 9 | 185,974 | 203,156 |
| Amount due to a non-controlling shareholder of a subsidiary | | 259 | - |
| Loans due to non-controlling shareholders of subsidiaries | | 497 | 3,064 |
| Borrowings | | 45,176 | 44,373 |
| Current income tax liabilities | | 27,890 | 19,318 |
| Obligation under finance lease | | 77 | - |
| | | 259,873 | 269,911 |
| **Total liabilities** | | 265,741 | 275,321 |
| **Total equity and liabilities** | | 953,217 | 970,090 |

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**

## 1 General information

International Housewares Retail Company Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in retail sales and trading of houseware products, licensing of franchise rights and provision of management services.

The Company is a limited liability company incorporated in Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Group is controlled by Hiluleka Limited (incorporated in the British Virgin Islands). The ultimate controlling parties of the Group are Mr Lau Pak Fai, Peter and Ms Ngai Lai Ha.

This interim financial information is presented in HK dollars, unless otherwise stated. This interim financial information was approved for issue on 16 December 2016.

This condensed consolidated interim financial information has been reviewed, but not audited.

## 2 Basis of presentation

The condensed consolidated interim financial information for the six months ended 31 October 2016 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting".

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 30 April 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

## 3 Principal accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 30 April 2016, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

## 3 Principal accounting policies (Continued)

The following new standards, amendments to standards and interpretations are mandatory for the financial year beginning on 1 May 2016 that either have no significant impact or are not currently relevant to the Group:

| | | Effective for accounting period beginning on or after |
|---|---|---|
| HKAS 1 (Amendment) | Disclosure Initiative | 1 January 2016 |
| HKAS 16 and HKAS 38 (Amendments) | Clarification of Acceptable Methods of Depreciation and Amortisation | 1 January 2016 |
| HKAS 16 and HKAS 41 (Amendments) | Agriculture: Bearer Plants | 1 January 2016 |
| HKAS 27 (Amendment) | Equity Method in Separate Financial Statements | 1 January 2016 |
| HKFRS 10, HKFRS 12 and HKAS 28 (Amendments) | Investment Entities: Applying the Consolidation Exception | 1 January 2016 |
| HKFRS 11 (Amendment) | Accounting for Acquisition of Interest in Joint Operations | 1 January 2016 |
| HKFRS 14 | Regulatory Deferral Accounts | 1 January 2016 |
| Annual Improvements Project | Annual Improvements 2012-2014 Cycle | 1 January 2016 |

The following new standards, amendments to standards and interpretations have been issued but are not yet effective for the financial year beginning 1 May 2016 and have not been early adopted by the Group:

| | | Effective for accounting period beginning on or after |
|---|---|---|
| HKFRS 10 and HKAS 28 (Amendments) | Sales or Contribution of Assets between an Investor and its Associate or Joint Venture | To be determined |
| HKFRS 15 | Revenue of Contracts from Customers | 1 January 2018 |
| HKFRS 16 | Leases | 1 January 2019 |
| HKFRS 9 | Financial Instruments | 1 January 2018 |

## 4 Segment information

The chief operating decision-maker has been identified as the executive directors of the Group. The executive directors review the Group’s internal reporting in order to assess performance and allocate resources and have determined the operating segments based on these reports.

The executive directors considered the nature of the Group’s business and determined that the Group has three reportable operating segments as follows:

(i) Retail*

(ii) Wholesales

(iii) Licencing and others

## 4 Segment information (Continued)

The executive directors assess the performance of the operating segments based on revenue and gross profit percentage of each segment. As the Group's resources are integrated and there are no discrete operating segment assets and liabilities for the retail and wholesales business segments, accordingly, no operating segment assets and liabilities are presented.

* Including consignment sales commission income.

The segment information provided to the executive directors for the reportable segments for the six months ended 31 October 2016 is as follows:

| | **Retail** | **Wholesales** | **Licencing and others** | **Total** |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Segment revenue (all from external customers) | 988,341 | 13,635 | 558 | 1,002,534 |
| Cost of sales | (520,414) | (11,125) | - | (531,539) |
| Segment results | 467,927 | 2,510 | 558 | 470,995 |
| Gross profit % ** | 47.34% | 18.41% | - | 46.98% |
| Other income | | | | 6,740 |
| Other losses, net | | | | (338) |
| Distribution and advertising expenses | | | | (25,856) |
| Administrative and other operating expenses | | | | (415,272) |
| **Operating profit** | | | | 36,269 |
| Finance income | | | | 744 |
| Finance costs | | | | (604) |
| **Profit before income tax** | | | | 36,409 |
| Income tax expense | | | | (7,639) |
| **Profit for the period** | | | | 28,770 |

** Gross profit % is calculated by gross profit (segment results) divided by revenue (segment revenue).

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the six months ended 31 October 2016. The accounting policies of the reportable segments are the same as the Group's accounting policies.

The revenue from the Group's largest customer accounted for less than 10% of the Group's total revenue for the six months ended 31 October 2016.

## 4 Segment information (Continued)

The segment information provided to the executive directors for the reportable segments for the six months ended 31 October 2015 is as follows:

| | Retail | Wholesales | Licencing and others | Total |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Segment revenue (all from external customers) | 950,287 | 9,844 | 332 | 960,463 |
| Cost of sales | (505,662) | (8,217) | - | (513,879) |
| Segment results | 444,625 | 1,627 | 332 | 446,584 |
| Gross profit % ** | 46.79% | 16.53% | - | 46.50% |
| Other income | | | | 7,242 |
| Other losses, net | | | | (1,925) |
| Distribution and advertising expenses | | | | (27,634) |
| Administrative and other operating expenses | | | | (403,384) |
| **Operating profit** | | | | 20,883 |
| Finance income | | | | 2,146 |
| Finance costs | | | | (869) |
| **Profit before income tax** | | | | 22,160 |
| Income tax expense | | | | (7,513) |
| **Profit for the period** | | | | 14,647 |

** Gross profit % is calculated by gross profit (segment results) divided by revenue (segment revenue).

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the six months ended 31 October 2015. The accounting policies of the reportable segments are the same as the Group's accounting policies.

The revenue from the Group's largest customer accounted for less than 10% of the Group's total revenue for the six months ended 31 October 2015.

## 4 Segment information (Continued)

Revenue from external customers in Mainland China, Singapore, Malaysia, Macau and Hong Kong are as follows:

| | **Six months ended 31 October** | |
|---|---|---|
| | **2016** | **2015** |
| | HK$'000 | HK$'000 |
| Hong Kong | 875,406 | 815,003 |
| Mainland China | - | 2,276 |
| Singapore | 108,677 | 119,311 |
| Malaysia | - | 5,180 |
| Macau | 18,451 | 18,693 |
| | 1,002,534 | 960,463 |

The total of non-current assets, other than deferred income tax assets of the Group are as follows:

| | **As at** | |
|---|---|---|
| | **31 October 2016** | **30 April 2016** |
| | HK$'000 | HK$'000 |
| Hong Kong | 144,547 | 139,533 |
| Mainland China | 13,167 | 13,782 |
| Singapore | 49,067 | 49,145 |
| Malaysia | - | - |
| Macau | 7,539 | 7,884 |
| | 214,320 | 210,344 |

## 5 Operating profit

An analysis of the amounts presented as operating items in the interim financial information is given below.

| | **For the six months ended 31 October** | |
|---|---|---|
| | **2016** | **2015** |
| | HK$'000 | HK$'000 |
| Employee benefit expenses (including directors' emoluments) | 149,007 | 142,730 |
| Operating lease payment | 180,313 | 172,627 |
| Depreciation of property, plant and equipment | 13,844 | 15,670 |
| Amortisation of intangible assets | 312 | 309 |
| Loss on disposal of property, plant and equipment | 338 | 1,198 |
| Net exchange loss | 1,378 | 6,460 |

## 6 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit. Overseas profits tax has been provided at the standard tax rate of the respective entities according to local tax laws.

| | For the six months ended 31 October | |
|---|---|---|
| | **2016** | **2015** |
| | HK$'000 | HK$'000 |
| Hong Kong profits tax | | |
| - current year | 8,519 | 7,241 |
| - over-provision in prior years | (1,087) | (20) |
| Overseas taxation | 227 | 186 |
| | 7,659 | 7,407 |
| Deferred income tax | (20) | 106 |
| Income tax expense | 7,639 | 7,513 |

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year ending 30 April 2017 is 16.9% (the estimated tax rate used for the year ended 30 April 2016 and applied to the six months ended 31 October 2015 was 14.8%).

The Hong Kong Inland Revenue Department is conducting a field audit on three subsidiaries of the Group and had issued additional assessments for the years of assessment 2003/04 to 2009/10 to the three subsidiaries, demanding tax totalling HK$19,160,000. These assessments were protective assessments issued before the expiry of the statutory time-barred period pending the result of the field audit.

Management has recorded income tax provision of HK$2,113,000 (as at 30 April 2016: HK$2,113,000) in the Group's consolidated balance sheet as at 31 October 2016 to cover the total potential additional tax, penalty surcharge and interest. Based on the advice sought from the Group's tax representative and self-assessment, management considers that this amount appropriately reflects the Group's additional liability based on the current status of the case.

Mr Lau Pak Fai, Peter and Ms Ngai Lai Ha, directors of the Company, and Red Home Holding Limited, a shareholder of the Company have agreed to indemnify the Group in respect of such amount and any cost or liabilities arising out of the additional assessment for which the Group may be liable in relation to the tax audit.

## 7 Earnings per share

### (a) Basic

The calculation of basic earnings per share is based on the consolidated profit attributable to equity holders of the Company and on the weighted average number of shares in issue during the period.

| | Six months ended 31 October 2016 | 2015 |
|---|---|---|
| Profit attributable to equity holders of the Company (HK$'000) | 34,236 | 21,103 |
| Weighted average number of shares in issue ('000) | 715,653 | 722,545 |
| Basic earnings per share (HK cents) | 4.78 | 2.92 |

### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary share: share options and share awards. The number of shares that would have been issued assuming the vesting of share awards and exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the year) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

| | Six months ended 31 October 2016 | 2015 |
|---|---|---|
| Profit attributable to equity holders of the Company (HK$'000) | 34,236 | 21,103 |
| Weighted average number of shares for diluted earnings per share ('000) | 716,603 | 723,080 |
| Diluted earnings per share (HK cents) | 4.78 | 2.92 |

## 8 Trade and other receivables

| | As at 31 October 2016 HK$'000 | As at 30 April 2016 HK$'000 |
|---|---|---|
| Trade receivables | 9,259 | 8,680 |
| Prepayments | 5,781 | 3,351 |
| Deposits and other receivables | 117,331 | 112,553 |
| | 132,371 | 124,584 |
| Less non-current portion: | | |
| Deposits and other receivables | (63,039) | (64,738) |
| Current portion | 69,332 | 59,846 |

The Group normally makes sales to customers on a cash-on-delivery basis for retail sales. At 31 October 2016 and 30 April 2016, the ageing analysis of trade receivables based on invoice date was as follows:

| | As at 31 October 2016 HK$'000 | As at 30 April 2016 HK$'000 |
|---|---|---|
| 1 – 3 months | 7,491 | 8,680 |
| 4 – 6 months | 1,768 | - |
| | 9,259 | 8,680 |

## 9 Trade and other payables

| | As at 31 October 2016 HK$'000 | As at 30 April 2016 HK$'000 |
|---|---|---|
| Trade payables | 141,129 | 159,591 |
| Other payables and accruals | 29,554 | 32,646 |
| Deposits received | 192 | 148 |
| Receipts in advance and cash coupons | 5,124 | 2,225 |
| Provision for customer loyalty programs | 3,352 | 2,179 |
| Provision for employee benefits | 6,623 | 6,367 |
| | 185,974 | 203,156 |

(a) The carrying values of trade and other payables approximate their fair values as at 31 October 2016 and 30 April 2016.

(b) The ageing analysis of trade payables based on invoice date are as follows:

| | As at 31 October 2016 HK$'000 | As at 30 April 2016 HK$'000 |
|---|---|---|
| 0 - 30 days | 58,850 | 72,887 |
| 31 - 60 days | 58,504 | 38,850 |
| 61 - 90 days | 18,192 | 31,442 |
| 91 - 120 days | 3,306 | 14,443 |
| Over 120 days | 2,277 | 1,969 |
| | 141,129 | 159,591 |

## 10 Dividends

In the current period, a final dividend of HK$40,073,000 in relation to the year ended 30 April 2016 was declared and paid.

On 16 December 2016, the Board resolved to declare an interim dividend of 5.0 HK cents (2015: 5.0 HK cents) per share, totaling HK$35,802,000 (2015: HK$35,963,000). The proposed dividend has not been recognised as a liability in this interim financial information but will be reflected as an appropriation of retained profits for the year ending 30 April 2017.

## OTHER INFORMATION

### Compliance with Corporate Governance Code

The Company has adopted the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Listing Rules. The Directors recognise the importance of good corporate governance in the management of the Group. The Board will review and monitor the corporate governance practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company. The Board is of the view that the Company has met the code provisions set out in the CG Code during the Period.

### Review of Financial Statements

The audit committee of the Company (the "**Audit Committee**") comprises three independent non-executive Directors with written terms of reference in accordance with the requirements of the Listing Rules, and reports to the Board. The Audit Committee has reviewed and discussed with the management the unaudited consolidated interim results of the Group for the Period. PricewaterhouseCoopers as the Company's auditor has reviewed the unaudited interim results of the Group for the Period in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

### Compliance with the Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by the Directors. Having made specific enquiry with all of the Directors, Directors confirmed that they had been in compliance with the required standard set out in the Model Code throughout the Period.

### Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the Period.

### Interim Dividends

The Board has resolved to declare an interim dividend of 5.0 HK cents per ordinary share (2015/16: interim dividend of 5.0 HK cents per share), representing a total payout of approximately HK$35,802,000 (2015/16: approximately HK$35,963,000). Shareholders whose names appear on the register of members of the Company on Friday, 20 January 2017 will be entitled to the interim dividend which will be paid on or around Friday, 27 January 2017.

### Closure of Register of Members

The register of members of the Company will be closed from Wednesday, 18 January 2017 to Friday, 20 January 2017, (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar and Transfer Office, Computershare Hong Kong Investor Services Limited, at rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Tuesday, 17 January 2017.

### Publication

The interim results announcement of the Company for the six months ended 31 October 2016 is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.japanhome.com.hk) respectively. The 2016/17 interim report will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

**Appreciation**

On behalf of the Board, I would like to thank all our management team members and staff for their commitment and contributions. I also greatly appreciate the constant support of our customers, business partners and shareholders. We shall be grateful for your continuing trust and support in the years to come.

By order of the Board of
**International Housewares Retail Company Limited**
**LAU Pak Fai Peter**
*Chairman and Executive Director*

Hong Kong, 16 December 2016

*As at the date of this announcement, the executive Directors are Mr. LAU Pak Fai Peter, Ms. NGAI Lai Ha and Mr. CHENG Sing Yuk, and the independent non-executive Directors are Mr. MANG Wing Ming Rene, Mr. NEO Sei Lin Christopher and Mr. YEE Boon Yip.*