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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 2018

The board of directors (the “**Board**” or “**Director(s)**”) 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 2018 (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 2017 (“**2017/18**”).

FINANCIAL HIGHLIGHTS

- The Group’s revenue rose by 2.2% to an historical high of HK\$1,083,650,000 (2017/18⁽¹⁾: HK\$1,060,007,000) for the Period.
- Profit for the Period attributable to equity holders of the Company was HK\$48,831,000 (2017/18: HK\$39,378,000), representing an increase of 24%.
- The Group maintained a strong financial position with cash and cash equivalents of HK\$415,101,000.
- As at 31 October 2018, the Group had a total of 355 stores worldwide.
- The Board has resolved to declare an interim dividend of 5.3 HK cents per ordinary share (2017/18: an interim dividend of 5.2 HK cents per ordinary share).

Note:

1. Comparative figures for the six months ended 31 October 2017 are shown as (“2017/18”) in brackets.

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 2018. The Group continued to solidify its position as a leading houseware retail chain with a total of 355 stores worldwide.

Financial Performance

The Group continued to increase the variety of product offerings to help it capture additional market opportunities and expand its customer base. In addition, further driven by the opening of new stores and growth in overall comparable store sales as well as the increase in the average spending per transaction for the Period, the Group's revenue rose by 2.2% to an historical high of HK\$1,083,650,000 (2017/18: HK\$1,060,007,000).

The Group's gross profit rose by 3.2% to HK\$506,078,000 (2017/18: HK\$490,306,000) and gross profit margin rose to 46.7% (2017/18: 46.3%) at a healthy level.

Boasting strong brand recognition among consumers and popular product offerings, the Group achieved 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 42.2% (2017/18: 42.6%). The solid performance of the Group was due to its prudence in managing expenses. Profit for the Period attributable to equity holders of the Company was HK\$48,831,000 (2017/18: HK\$39,378,000), representing an increase of 24%, owing 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.

Liquidity and Financial Resources

As at 31 October 2018, the Group had cash and cash equivalents amounting to HK\$415,101,000 (30 April 2018: HK\$386,013,000). 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 dollar bank deposits with appropriate maturity periods to meet the funding requirements in the future. The current ratio for the Group was 2.7 (30 April 2018: 2.6). Borrowings amounted to HK\$28,185,000 as at 31 October 2018 (30 April 2018: HK\$33,009,000). The Group was in net cash position as at 31 October 2018. Its gearing ratio as determined by borrowings divided by total equity was 3.9% (30 April 2018: 4.5%).

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Operating Efficiencies

Although the operating environment was ridden with challenges, the Group's revenue rose by 2.2% to an historical high of HK\$1,083,650,000 (2017/18: HK\$1,060,007,000) for the Period.

With overall rental expenses in shopping malls and warehouses consistently rising, the Group has therefore launched the in-store online shopping iPanel "Easy Buy", not only enabling the sharing of inventory on- and off-line, but also giving the Group greater flexibility in choosing retail spaces and controlling overall rental expenses. In addition, with strong brand recognition and product popularity among customers, the Group does not have to open new stores at prime locations and hence it is able to minimise the impact of rental hikes on its operation.

In addition, with salaries generally rising in recent years, the Group expects employee expenses to increase alongside inflation. To mitigate the effects of increasing employee expenses, the Group offers training programmes to employees to maximise their productivity and employees are redeployed to different stores from time to time. As a result, the Group has been able to maintain employee expenses at a stable level as a percentage of revenue during the Period.

Despite such adversity, with a well-recognised brand and well-appreciated products, the Group has achieved a record high revenue for the Period. Moreover, through the above mentioned efforts and prudence control in managing expenses, including closely monitoring store man-hour expenses and installing energy efficient lighting in retail spaces, the Group was able to reduce operating expenses as a percentage of revenue during the Period to 42.2% (2017/18: 42.6%).

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

For the Six Months Ended 31 October	2018	(%) of	2017	(%) of	Increase/ (decrease)
	HK\$	revenue	HK\$	revenue	(%)
Distribution and advertising expenses	22,423,000	2.1%	24,653,000	2.3%	(9.0%)
Administrative and other operating expenses	434,898,000	40.1%	427,116,000	40.3%	1.8%
Total operating expenses	457,321,000	42.2%	451,769,000	42.6%	1.2%

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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, trendy and lifestyle personal products through an extensive retail network comprising 355 stores in Hong Kong, Singapore, Macau, East Malaysia, Cambodia, Australia and Vietnam under renowned brands including Japan Home Centre (日本城), Japan Home (日本の家), 123 by ELLA, and City Life (生活提案). Supported by extensive sourcing channels and high quality private label products, the Group is able to provide customers with a full range of houseware, trendy and lifestyle personal items at competitive prices, giving them a “one-stop” shopping convenience.

The cumulative brand awareness that the Group has enjoyed over the years, its steadily-growing extensive retail network and large global supplier network have contributed and will continue to contribute to continuous business development. The Group remains positive attitude 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 prudently restructure its store portfolio in Singapore, closing down underperforming stores to minimise the negative effects on its retail business as a whole, focusing on profitable stores and opening new stores in areas with high potential. The following table sets forth the number of its stores worldwide:

	As at 31 October 2018	As at 30 April 2018	Net increase/ (decrease)
The Group's Directly Managed Stores			
Hong Kong	295	290	5
Singapore	46	48	(2)
Macau	7	8	(1)
Sub-total	348	346	2
The Group's Licenced Stores			
East Malaysia	1	1	-
Cambodia	3	3	-
Australia	2	2	-
Vietnam	1	1	-
Sub-total	7	7	-
Total	355	353	2

Human Resources

To ensure it is able to attract and retain staff capable of delivering outstanding performance, the Group will review its remuneration packages regularly and qualified employees will receive performance bonuses, and/or be granted share options and share awards. In awarding annual discretionary bonus to employees and share options and share awards to supervisory and managerial staff, the performance of the individual concerned will be taken into consideration.

As at 31 October 2018, the Group employed approximately 2,130 employees (31 October 2017: 2,160 and 30 April 2018: 2,145). Total staff costs for the Period were HK\$156,069,000 (2017/18: HK\$156,150,000).

Note:

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Operational Review by Business Nature

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 the increase in customer average spending per transaction, retail revenue of the Group for the Period reached a record high with 2.7% growth, and continued to be the primary revenue driver. In addition, the Group continued to increase the variety of product offerings to help capture additional market opportunities and expand its customer base. These endeavours contributed to the retail revenue reaching HK\$1,076,210,000 (2017/18: HK\$1,047,801,000), which also included consignment sales commission income, accounting for 99.3% (2017/18: 98.8%) of the Group's total revenue.

The income of the wholesale business, from licensing and others together decreased by 39% to HK\$7,440,000 (2017/18: HK\$12,206,000) 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 87.9% (2017/18: 87.1%) of its total revenue. Despite the challenges ahead and the significant disruption caused by Super Typhoon Mangkhut in Hong Kong in September including the loss of a whole Sunday business, revenue from Hong Kong for the Period reached a record high totaling HK\$952,019,000 (2017/18: HK\$923,151,000), a 3.1% increase, whereas comparable store sales had a relatively healthy growth⁽¹⁾. The net profit in Hong Kong for the Period was HK\$51,142,000 (2017/18: HK\$44,088,000), representing an increase of 16.0% with the net profit margin of 5.4% (2017/18: 4.8%).

Operation Review – Singapore

As a result of a drop in the number of retail stores to 46 (2017/18: 51) at the end of the Period, the revenue decreased by 4.8% to HK\$113,758,000 (2017/18: HK\$119,470,000). In the first half of the financial year, the Group brought in new products and increased the number of SKU as planned, in which it saw encouraging improvement in gross profit margin, while comparable store sales grew⁽¹⁾ by 6.0% during the Period. At the same time, staff costs and other operating expenses declined during the Period, in line with a leaner workforce resulting from the Group streamlining its organisational structure and closing unprofitable retail stores. The Group is pleased that, through the concerted effort of employees in Singapore, its business expenses in the market was well under control. Singapore remains our strategic market and the Group is optimistic about its business prospects for the mid – to long-term.

Operation Review – Macau

Despite a drop in retail store number to 7 (2017/18: 9) at the end of the Period, the Group's Macau revenue recorded a 2.8% increase to HK\$17,873,000 (2017/18: HK\$17,386,000) while comparable store sales grew⁽¹⁾ by 5.7% during the Period. Its operations in Macau are still achieving profitability and continued to deliver satisfactory results for the Period.

Note:

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Prospects

“Talent”, “Products” and “Retail Channels” are the priorities of International Housewares Retail Company Limited, echoing the key elements vital to achieving success in the retail industry. Looking ahead, the Group will continue to step up efforts in these three areas, believing such efforts will enhance the Group’s competitiveness in a soft market and strengthen its performance in the second half of the financial year.

Target of the Group is to push ahead with market-driven innovation and the pursuit of operational excellence, and focus on delivering a value-added experience to customers on top of meeting their needs. On this solid foundation and with the advantage of the Group’s scale, it stays on track in achieving its long-term goals amid the ever-changing and challenging market situation. In combating economic uncertainties, the Group has continued to create a diversified product mix. In general, customer traffic is essential to the Group’s retail business, and hence it has been continuously endeavor to attract customer via stacking of a balanced portfolio of FMCG of global brands, subsequently increasing the customer traffic and thus the same-store sales. Meanwhile, the Group has been putting efforts into promoting its own private label brands, such as “MATSUSHO” electrical appliances, “EZ COOK Professional” cookware and “POLE BEAR” thermoses, aiming to carve modern and positive brand images. It has also worked hard on increasing the proportion, types and packaging of its own brand products in the product portfolio to draw more attention from customers.

In response to the ever-changing market environment, the Group continues to enhance the customers’ shopping experience. Through the adoption of mobile payment such as Alipay and WeChat Pay, convenient services are provided in the Group’s POS that simplifies the transaction processes and customers could benefit from their big promotions hence boosting our sales. Via this integrated and all-encompassing “J Fun” membership scheme, the Group integrated from its physical stores with its e-commerce operations, providing innovative and convenient services that enable customers to shop (and earn J Fun points) at anywhere and anytime. The Group will continue to step up interaction with members and, towards that end, will build an omni-channel orientated business model comprising and supported by an extensive physical store network in Hong Kong, the e-commerce platform “JHC eshop” and the in-store purchase i-Panel “Easy Buy”. The Group will also continue to build an operating platform with omni-channels at the core, a business model which will benefit future business development.

For “123 by ELLA“, which has been established as trendy, simple and heart-pleasing products, and well-received by customers. The Group will further strengthen its OEM product development which would bring new excitements to customers and improve the efficiency of the supply chain. With the well-recognised “123 by ELLA“ brand and the professional brand management expertise, the Group is exploring the opportunity to diversify into franchise business with “123 by ELLA” so as to create a new stream of stable income and to reduce manpower expense during the expansion process. Taking particular care, the Group will be studying the franchise opportunity and also keeping an eye on high potential locations for self-operated stores in the future retail network expansion. Through these efforts, the Group hopes to expand its franchise business network and thereby boost its market share and achieve a more steady operational income.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Prospects (Continued)

The Group continues to develop, improve and expand the operation capacity of its supply chain and human capital according to business needs to underpin its mission of sustainable development and seize new market opportunities in the future. The logistics and distribution centre, situated in Yiwu and Guangzhou warehouse sites, are targeted to become a central processing base of the merchandised products in China to further enhance the accuracy and efficiency of product distribution. This enables just-in-time inventory replenishment of its retail network. In addition, to meet the future business growth, the Group has embarked on the development of its office centre situated next to the Guangzhou South High Speed Train Station so as to provide more cost-efficiency back-room supports to the Group.

For Singapore, apart from launching the customer loyalty programme “J Fun” and the online sales platform with an electronic commerce company, the Group is in study to launch the in-store shopping iPanel “Easy Buy” that will strengthen the overall sale channel with the physical stores by offering a more convenient, highly flexible and easy-to-use retail channel to customers. At the same time, the Group has pushed forward to nurture local talent and strengthen the management team in Singapore. The Group will continue to focus on optimising the store number by retaining profitable stores and opening new stores in high potential areas in a cost effective basis to support the Singapore head office; and increasing our value products of higher margin by making use of the Group’s sourcing arms in Hong Kong, Taiwan, Guangzhou and Yiwu. Singapore remains our strategic market and the Group is optimistic about its business prospects for the mid – to long-term.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 31 OCTOBER 2018

		Unaudited six months ended 31 October	
	Note	2018 HK\$'000	2017 HK\$'000
Revenue	4	1,083,650	1,060,007
Cost of sales		(577,572)	(569,701)
Gross profit		506,078	490,306
Other income		9,413	6,113
Other losses, net		(163)	(492)
Distribution and advertising expenses		(22,423)	(24,653)
Administrative and other operating expenses		(434,898)	(427,116)
Operating profit	5	58,007	44,158
Finance income		2,928	1,301
Finance costs		(300)	(403)
Profit before income tax		60,635	45,056
Income tax expense	6	(13,999)	(9,396)
Profit for the period		46,636	35,660
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Currency translation differences		(3,788)	862
Total comprehensive income for the period		42,848	36,522
Profit for the period attributable to:			
Owners of the Company		48,831	39,378
Non-controlling interests		(2,195)	(3,718)
		46,636	35,660
Total comprehensive income for the period attributable to:			
Owners of the Company		44,949	40,295
Non-controlling interests		(2,101)	(3,773)
		42,848	36,522
Earnings per share attributable to owners of the Company (expressed in HK cents per share)	7		
Basic earnings per share		6.80	5.50
Diluted earnings per share		6.79	5.49

The above condensed consolidated interim statement of comprehensive income should be read in conjunction with the accompanying notes.

**CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
AS AT 31 OCTOBER 2018**

	Note	Unaudited 31 October 2018 HK\$'000	Audited 30 April 2018 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		130,337	134,097
Investment properties		9,554	10,534
Intangible assets		26,539	27,724
Deferred income tax assets		7,030	7,186
Non-current prepayments and deposits	8	98,183	98,668
		<u>271,643</u>	<u>278,209</u>
		-----	-----
Current assets			
Inventories		230,829	275,747
Trade and other receivables	8	70,311	73,423
Amounts due from shareholders		5,394	726
Income tax recoverable		1,571	1,397
Bank deposits with initial terms of over three months		-	392
Cash and cash equivalents		415,101	386,013
		<u>723,206</u>	<u>737,698</u>
		-----	-----
Total assets		<u>994,849</u>	<u>1,015,907</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital and share premium		582,415	581,758
Reserves		140,790	146,067
		<u>723,205</u>	<u>727,825</u>
Non-controlling interests		(1,801)	300
Total equity		<u>721,404</u>	<u>728,125</u>
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CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (CONTINUED)
AS AT 31 OCTOBER 2018

	Note	Unaudited 31 October 2018 HK\$'000	Audited 30 April 2018 HK\$'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		2,888	3,016
Loan due to a non-controlling shareholder of a subsidiary		-	285
Provision for reinstatement costs		3,496	2,905
Borrowings		501	618
		<u>6,885</u>	<u>6,824</u>
		-----	-----
Current liabilities			
Trade and other payables	9	188,277	221,983
Contract liabilities		9,596	-
Amount due to a non-controlling shareholder of a subsidiary		264	276
Loans due to non-controlling shareholders of subsidiaries		2,096	1,813
Borrowings		27,684	32,391
Current income tax liabilities		38,643	24,495
		<u>266,560</u>	<u>280,958</u>
		=====	=====
Total liabilities		<u>273,445</u>	<u>287,782</u>
		=====	=====
Total equity and liabilities		<u>994,849</u>	<u>1,015,907</u>
		=====	=====

The above condensed consolidated interim balance sheet should be read in conjunction with the accompanying notes.

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 20 December 2018.

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 2018 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 2018, 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 2018, 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

3 Principal accounting policies (Continued)

3.1 Adoption of new or revised HKFRSs and HKASs

(a) Adoption of new or revised HKFRSs and HKASs effective on 1 May 2018

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period and relevant to the Group:

		Effective for accounting period beginning on or after
Amendment to HKFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendment to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS4 Insurance Contracts	1 January 2018
HKFRS 9	Financial instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
Amendment to HKFRS 15	Clarifications to HKFRS 15	1 January 2018
Amendment to HKAS 40	Transfers of Investment Property	1 January 2018
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendment to Annual Improvements Project HKFRS 1 and HKAS 28	Annual Improvements 2014-2016 Cycle	1 January 2017 or 1 January 2018, as appropriate

The Group has not been impacted by the adoption of the above new or amendment to standards except for the changes due to the adoption of HKFRS 9 and HKFRS 15 as disclosed in note 3.2.

(b) New or revised HKFRSs that have been issued but are not yet effective

The following new or revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

		Effective for accounting period beginning on or after
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 16	Leases	1 January 2019
HKFRS 17	Insurance Contracts	1 January 2021
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

3 Principal accounting policies (Continued)

3.1 Adoption of new or revised HKFRSs and HKASs (Continued)

(b) New or revised HKFRSs that have been issued but are not yet effective (Continued)

		Effective for accounting period beginning on or after
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendment to Annual Improvements Project	Annual Improvements 2015-2017 Cycle	1 January 2019
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020

The Group is currently assessing the impact of the adoption of the above new standards, amendments to standards and interpretation that have been issued but are not effective for annual periods beginning on 1 May 2018.

HKFRS 16, 'Leases'

HKFRS 16 will result in almost all leases being recognised on the condensed consolidated interim balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

3.2 Impact and changes in accounting policies upon adoption of new HKFRS

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 May 2018, where they are different to those applied in prior periods.

(a) HKFRS 9 Financial Instruments—Impact of adoption and accounting policies applied from 1 May 2018

Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of HKFRS 9 did not have any material impact on the Group's interim condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

3 Principal accounting policies (Continued)

3.2 Impact and changes in accounting policies upon adoption of new HKFRS (Continued)

- (a) HKFRS 9 Financial Instruments—Impact of adoption and accounting policies applied from 1 May 2018 (Continued)

Accounting policies

Investments and other financial assets

- (i) Classification and Measurement

From 1 May 2018, the Group classifies its financial assets and liabilities to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and liabilities and the contractual terms of the cash flows.

- (ii) Impairment

The Group has two types of financial assets that are subject to the new expected credit loss model of the new HKFRSs:

- trade receivables, and
- other financial assets at amortised costs.

The Group is required to revise its impairment methodologies under the new HKFRSs for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is insignificant.

While cash and cash equivalents are also subject to the impairment requirements of the new HKFRSs, no impairment loss was identified.

Trade receivables

The Group applies the new HKFRSs simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables and receivables from customers.

Trade receivables and receivables from customers are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

The Group has adopted the expected credit loss model in assessing the impairment for trade receivables and receivables from customers as at 1 May 2018 and the change in impairment methodologies has no significant impact of the Group's condensed consolidated interim financial information and the opening loss allowance is not restated in this respect.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

3 Principal accounting policies (Continued)

3.2 Impact and changes in accounting policies upon adoption of new HKFRS (Continued)

- (a) HKFRS 9 Financial Instruments—Impact of adoption and accounting policies applied from 1 May 2018 (Continued)

Accounting policies (Continued)

Investments and other financial assets (Continued)

- (ii) Impairment (Continued)

Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables. The Group has applied the expected credit loss model to the other receivables as at 1 May 2018 and the change in impairment methodologies has no impact of the Group's condensed consolidated interim financial information and the opening loss allowance is not restated in this respect.

- (b) HKFRS 15 Revenue from Contracts with Customers – Impact of adoption and accounting policies

Impact of adoption

The group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 May 2018 which resulted in changes in accounting policies and presentation of contract liabilities. As a result, the receipts in advance and cash coupons and provision for customer loyalty programs of HK\$8,360,000 as at 1 May 2018 was reclassified to contract liabilities.

The Group has applied modified retrospective approach as allowed under HKFRS 15. No retrospective adjustments were required and no impact on retained earnings at 1 May 2018 in respect of this change in accounting policy.

Accounting policies

- (i) Sale of goods – wholesales
Wholesales sales of goods are recognised when control of the products has transferred, being when the Group has delivered products to the wholesaler, collectability of the related receivables is reasonably assured, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been shipped.
- (ii) Sale of goods – retail
Retail sales of goods are recognised when the Group sells a product to the customer. Retail sales are usually in cash, by octopus card or by credit card.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

3 Principal accounting policies (Continued)

3.2 Impact and changes in accounting policies upon adoption of new HKFRS (Continued)

- (b) HKFRS 15 Revenue from Contracts with Customers – Impact of adoption and accounting policies (Continued)

Accounting policies (Continued)

- (iii) Sale of goods – customer loyalty programme
The Group operates a loyalty programme where retail customers accumulate points for purchases made which entitle them to discount on future purchases. Revenue from the award points is recognised when the points are redeemed or when they expire.

Contract liabilities are recognised until the points are redeemed or expire.

- (iv) Licencing fees
Licencing fees are recognised when the performance obligations under the relevant agreements have been accomplished.
- (v) Consignment sales commission
Consignment sales commission is recognised in the accounting period in which the relevant services are rendered.

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 the following reportable operating segments:

- (i) Retail – Hong Kong and Macau*
Retail – Singapore*
- (ii) Wholesales
- (iii) Licencing and others

The executive directors assess the performance of the operating segments based on revenue and gross profit percentage of each segment. In the current period, a further breakdown by geographic location under the retail segment is disclosed to enhance the presentation of segment information.

* Including consignment sales commission income.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

4 Segment information (Continued)

The segment information provided to the executive directors for the reportable segments for the six months ended 31 October 2018 is as follows:

	Retail		Wholesales	Licencing and others	Total
	Hong Kong and Macau HK\$'000	Singapore HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue (all from external customers)	962,452	113,758	7,340	100	1,083,650
Cost of sales	(507,415)	(64,262)	(5,895)	-	(577,572)
Segment results	455,037	49,496	1,445	100	506,078
Gross profit % **	47.28%	43.51%	19.69%	-	46.70%
Other income					9,413
Other losses, net					(163)
Distribution and advertising expenses					(22,423)
Administrative and other operating expenses					(434,898)
Operating profit					58,007
Finance income					2,928
Finance costs					(300)
Profit before income tax					60,635
Income tax expense					(13,999)
Profit for the period					46,636

** 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 2018. The accounting policies of the reportable segments are the same as the Group's accounting policies.

The retail sales include sales of goods of HK\$1,073,618,000 (2017: HK\$1,041,289,000), revenue arising from customer loyalty programme of HK\$1,670,000 (2017: HK\$1,596,000) and consignment sales commission of HK\$922,000 (2017: HK\$4,916,000).

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 2018.

All of the Group's revenues are recognised at a point in time for the six months ended 31 October 2018 and 2017.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

4 Segment information (Continued)

The segment information provided to the executive directors for the reportable segments for the six months ended 31 October 2017 is as follows:

	Retail Hong Kong and Macau HK\$'000	Singapore HK\$'000	Wholesales HK\$'000	Licencing and others HK\$'000	Total HK\$'000
Segment revenue (all from external customers)	928,331	119,470	12,081	125	1,060,007
Cost of sales	(490,940)	(69,189)	(9,572)	-	(569,701)
Segment results	437,391	50,281	2,509	125	490,306
Gross profit % **	47.12%	42.09%	20.77%	-	46.25%
Other income					6,113
Other losses, net					(492)
Distribution and advertising expenses					(24,653)
Administrative and other operating expenses					(427,116)
Operating profit					44,158
Finance income					1,301
Finance costs					(403)
Profit before income tax					45,056
Income tax expense					(9,396)
Profit for the period					35,660

** 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 2017. 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 2017.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

4 Segment information (Continued)

The following tables present segment assets and liabilities as at 31 October 2018 and 30 April 2018 respectively.

	As at 31 October 2018				Total HK\$'000
	Retail	Singapore HK\$'000	Wholesales	Licencing and others	
	Hong Kong and Macau HK\$'000		HK\$'000	HK\$'000	
Segment assets	447,194	71,646	3,320	4	522,164
Segment liabilities	197,107	27,054	4,908	485	229,554

	As at 30 April 2018				Total HK\$'000
	Retail	Singapore HK\$'000	Wholesales	Licencing and others	
	Hong Kong and Macau HK\$'000		HK\$'000	HK\$'000	
Segment assets	482,503	84,440	5,186	4	572,133
Segment liabilities	226,528	26,223	4,800	346	257,897

Segment assets include intangible assets, property, plant and equipment, trade and other receivables and inventories. Segment liabilities include provision for reinstatement costs, borrowings, trade and other payables and contract liabilities.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

4 Segment information (Continued)

A reconciliation of segment assets to total assets is provided as follows:

	As at	
	31 October 2018 HK\$'000	30 April 2018 HK\$'000
Segment assets	522,164	572,133
Investment properties	9,554	10,534
Prepayment for purchase of property, plant and equipment	34,035	37,526
Deferred income tax assets	7,030	7,186
Amounts due from shareholders	5,394	726
Income tax recoverable	1,571	1,397
Bank deposits with initial terms of over three months	-	392
Cash and cash equivalents	415,101	386,013
Total assets	<u>994,849</u>	<u>1,015,907</u>

A reconciliation of segment liabilities to total liabilities is provided as follows:

	As at	
	31 October 2018 HK\$'000	30 April 2018 HK\$'000
Segment liabilities	229,554	257,897
Deferred income tax liabilities	2,888	3,016
Loan due to a non-controlling shareholder of a subsidiary	-	285
Amount due to a non-controlling shareholder of a subsidiary	264	276
Loans due to non-controlling shareholders of subsidiaries	2,096	1,813
Current income tax liabilities	38,643	24,495
Total liabilities	<u>273,445</u>	<u>287,782</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

4 Segment information (Continued)

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

	Six months ended 31 October	
	2018	2017
	HK\$'000	HK\$'000
Hong Kong	952,019	923,151
Singapore	113,758	119,470
Macau	17,873	17,386
	<u>1,083,650</u>	<u>1,060,007</u>

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

	As at	
	31 October 2018	30 April 2018
	HK\$'000	HK\$'000
Hong Kong	175,271	174,723
Mainland China	43,589	48,060
Singapore	16,843	18,932
Macau	1,473	1,584
	<u>237,176</u>	<u>243,299</u>

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	
	2018	2017
	HK\$'000	HK\$'000
Employee benefit expenses (including directors' emoluments)	156,069	156,150
Operating lease payment	190,865	186,281
Depreciation of property, plant and equipment	13,240	14,203
Amortisation of intangible assets	315	312
Loss on disposal of property, plant and equipment	163	492
Net exchange loss/(gain)	998	(1,924)
	<u> </u>	<u> </u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

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	
	2018	2017
	HK\$'000	HK\$'000
Hong Kong profits tax		
- Current year	10,324	9,066
- Under-provision in prior years	3,938	261
Overseas taxation		
- Current year	23	18
- Over-provision in prior years	(442)	-
	13,843	9,345
Deferred income tax	156	51
Income tax expense	<u>13,999</u>	<u>9,396</u>

The estimated average annual tax rate used for the year ending 30 April 2019 and applied to the six months ended 31 October 2018 is 16.3% (the estimated tax rate used for the year ended 30 April 2018 and applied to the six months ended 31 October 2017 was 16.3%).

The Hong Kong Inland Revenue Department ("IRD") has been conducting a field audit on three subsidiaries of the Group and has issued additional assessments for the years of assessment 2003/04 to 2011/12 to the three subsidiaries, demanding tax totalling HK\$23,945,000. These assessments were protective assessments issued before the expiry of the statutory time-barred period pending the result of the field audit. A provision of HK\$2,374,000 has been made as at 30 April 2018. Recently, the Group is concluding the final amount of additional tax, penalty surcharge and interest with the IRD and a further provision of HK\$3,968,000 for additional tax and penalty surcharge and interest of HK\$815,000 is made during the period.

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 for the years of assessment before September 2013. The tax indemnity income of HK\$4,668,000 has been recognised as other income during the period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

7 Earnings per share

(a) Basic

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

	Six months ended 31 October	
	2018	2017
	HK\$'000	HK\$'000
Profit attributable to owners of the Company (HK\$'000)	48,831	39,378
Weighted average number of shares in issue ('000)	717,593	716,229
Basic earnings per share (HK cents)	6.80	5.50

(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	
	2018	2017
	HK\$'000	HK\$'000
Profit attributable to owners of the Company (HK\$'000)	48,831	39,378
Weighted average number of shares for diluted earnings per share ('000)	719,332	717,796
Diluted earnings per share (HK cents)	6.79	5.49

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

8 Trade and other receivables

	As at	
	31 October 2018 HK\$'000	30 April 2018 HK\$'000
Trade receivables	7,567	9,096
Less: provision for impairment of trade receivables	(2,463)	(2,463)
	<u>5,104</u>	<u>6,633</u>
Prepayments	38,244	43,144
Deposits and other receivables	125,146	122,314
	<u>168,494</u>	<u>172,091</u>
Less non-current portion:		
Deposits	(64,148)	(61,142)
Prepayment for purchase of property, plant and equipment	(34,035)	(37,526)
	<u>70,311</u>	<u>73,423</u>
Current portion	<u>70,311</u>	<u>73,423</u>

The Group conducts sales to customers on a cash-on-delivery basis for retail sales. The balance at period end represents credit card receivables and receivables from wholesales customers. At 31 October 2018 and 30 April 2018, the ageing analysis of trade receivables based on invoice date is as follows:

	As at	
	31 October 2018 HK\$'000	30 April 2018 HK\$'000
1 – 3 months	5,104	6,633
4- 6 months	-	-
6-12 months	-	2,463
Over 12 months	2,463	-
	<u>7,567</u>	<u>9,096</u>
Less: provision for impairment of receivables	(2,463)	(2,463)
	<u>5,104</u>	<u>6,633</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

9 Trade and other payables and contract liabilities

	As at	
	31 October 2018 HK\$'000	30 April 2018 HK\$'000
Trade and other payables		
Trade payables	143,612	166,434
Other payables and accruals	37,468	40,036
Deposits received	113	149
Receipts in advance and cash coupons	-	3,894
Provision for customer loyalty programs	-	4,466
Provision for employee benefits	7,084	7,004
	<u>188,277</u>	<u>221,983</u>
Contract liabilities		
Receipts in advance and cash coupons	5,168	-
Deferred revenue arising from customer loyalty programs	4,428	-
	<u>9,596</u>	<u>-</u>

(a) The carrying values of trade and other payables approximate their fair values as at 31 October 2018 and 30 April 2018.

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

	As at	
	31 October 2018 HK\$'000	30 April 2018 HK\$'000
0 - 30 days	89,079	90,837
31 - 60 days	37,821	48,398
61 - 90 days	13,256	14,364
91 - 120 days	3,456	10,053
Over 120 days	-	2,782
	<u>143,612</u>	<u>166,434</u>

10 Dividends

In the current period, a final dividend of HK\$50,252,000 in relation to the year ended 30 April 2018 was declared and paid.

On 20 December 2018, the Board resolved to declare an interim dividend of HK5.3cents (2017: HK5.2 cents) per share, totaling HK\$38,045,000 (2017: HK\$37,297,000). 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 2019.

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, except that there is no separation of the roles of Chairman and Chief Executive Officer as stipulated in the code provision A.2.1 of the CG Code. Currently, Ms. Ngai Lai Ha is both the Chairman and the Chief Executive Officer of the Company. As Ms. Ngai is one of the founders of the Group, the Board believes that it is in the best interest of the Group to have Ms. Ngai taking up both roles for continuous effective management of the Board and business development of the Group.

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 interim results of the Group for the Period. In addition, 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 5.3 HK cents per share (2017/18: interim dividend of 5.2 HK cents per share), representing a total payout of approximately HK\$38,045,000 (2017/18: approximately HK\$37,297,000). Shareholders whose names appear on the register of members of the Company on Friday, 18 January 2019 will be entitled to the interim dividend which will be paid on or around Friday, 25 January 2019.

OTHER INFORMATION (Continued)

Closure of Register of Members

The register of members of the Company will be closed from Tuesday, 15 January 2019 to Friday, 18 January 2019, (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 Monday, 14 January 2019.

Publication

The interim results announcement of the Company for the six months ended 31 October 2018 is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.japanhome.com.hk) respectively. The 2018/19 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
NGAI Lai Ha
Chairman and Executive Director

Hong Kong, 20 December 2018

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