

LARRY JEWELRY

INTERNATIONAL COMPANY LIMITED

Incorporated in Bermuda with limited liability Stock Code: 8351

2017

FIRST QUARTERLY REPORT

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the “Directors”) of Larry Jewelry International Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

The board of Directors (the "Board") presents the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended 31 March 2017 together with the unaudited comparative figures for the corresponding period in 2016 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2017

		Three months ended 31 March	
	Notes	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Revenue	3	111,965	30,343
Cost of sales		(72,664)	(22,236)
Gross profit		39,301	8,107
Other income		473	1,066
Selling and distribution expenses		(35,080)	(9,467)
Administrative and other operating expenses		(21,616)	(6,007)
Finance costs		(366)	–
Loss before tax	4	(17,288)	(6,301)
Income tax (expense)/credit	5	(361)	21
Loss for the period attributable to owners of the Company		(17,649)	(6,280)
Other comprehensive income (expense)			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations		4,153	4,427
Total comprehensive expense for the period attributable to owners of the Company		(13,496)	(1,853)
		HK cents	HK cents
Loss per share attributable to owners of the Company during the period			
— Basic	7	(0.52)	(0.19)
— Diluted	7	N/A	N/A

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2017

	Share capital	Share premium	Capital contribution reserve	Merger reserve	Contributed surplus	Exchange reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2017 (audited)	<u>33,704</u>	<u>350,520</u>	<u>3,988</u>	<u>(830)</u>	<u>629,505</u>	<u>(20,077)</u>	<u>(407,980)</u>	<u>588,830</u>
Loss for the period	-	-	-	-	-	-	(17,649)	(17,649)
Exchange differences arising on translation of foreign operations	-	-	-	-	-	4,153	-	4,153
Total comprehensive expense for the period	-	-	-	-	-	4,153	(17,649)	(13,496)
At 31 March 2017 (unaudited)	<u><u>33,704</u></u>	<u><u>350,520</u></u>	<u><u>3,988</u></u>	<u><u>(830)</u></u>	<u><u>629,505</u></u>	<u><u>(15,924)</u></u>	<u><u>(425,629)</u></u>	<u><u>(575,334)</u></u>
At 1 January 2016 (audited)	<u>33,704</u>	<u>599,171</u>	<u>3,988</u>	<u>(830)</u>	-	<u>(14,562)</u>	<u>(324,173)</u>	<u>297,298</u>
Loss for the period	-	-	-	-	-	-	(6,280)	(6,280)
Exchange differences arising on translation of foreign operations	-	-	-	-	-	4,427	-	4,427
Total comprehensive expense for the period	-	-	-	-	-	4,427	(6,280)	(1,853)
At 31 March 2016 (unaudited)	<u><u>33,704</u></u>	<u><u>599,171</u></u>	<u><u>3,988</u></u>	<u><u>(830)</u></u>	<u><u>-</u></u>	<u><u>(10,135)</u></u>	<u><u>(330,453)</u></u>	<u><u>295,445</u></u>

NOTES TO THE FINANCIAL RESULTS

1. GENERAL INFORMATION

The Company is a public limited company incorporated in Bermuda and its shares are listed on GEM. The addresses of the registered office and principal place of business of the Company are Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and 13/F., Pacific House, 20 Queen's Road Central, Hong Kong, respectively.

The Company is an investment holding company. Its principal subsidiaries are engaged in design and retailing of jewelry products and sale of Chinese pharmaceutical products, dried seafood, health products and foodstuffs in Hong Kong, Macau and the People's Republic of China (the "PRC").

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated results have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

The unaudited condensed consolidated results have been prepared under historical cost convention.

The principal accounting policies used in the unaudited condensed consolidated results for the three months ended 31 March 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016, except for the new and revised HKFRSs issued by the HKICPA that are adopted for the first time for the current accounting period of the Group. The adoption of these new and revised HKFRSs has had no material effect on the amounts reported in these condensed consolidated results and/or disclosures set out in these condensed consolidated results. The Group has not early adopted any new HKFRSs that have been issued but are not yet effective.

3. REVENUE

Revenue represents revenue arising on retailing of jewelry products for the period. An analysis of the Group's revenue for the period is as follows:

	Three months ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Revenue		
Retailing of jewelry products	29,912	30,343
Sales of pharmaceutical and health foods products	82,053	–
	111,965	30,343

4. LOSS BEFORE TAX

	Three months ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss before tax is arrived at after charging (crediting):		
Auditors' remuneration	121	349
Cost of inventories recognised as expense	72,664	22,236
Depreciation for property, plant and equipment	5,086	736
Employee benefit expense	22,363	5,685
Net exchange loss (gain)	659	(802)
Operating lease payments in respect of rented premises	18,395	6,038

5. INCOME TAX EXPENSE/(CREDIT)

	Three months ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Hong Kong Profits Tax — current year	363	—
Deferred taxation — current year	(2)	(21)
	<u>361</u>	<u>(21)</u>

6. DIVIDENDS

The Board has not declared the payment of a dividend for the three months ended 31 March 2017 (three months ended 31 March 2016: Nil).

7. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to owners of the Company for the three months ended 31 March 2017 of approximately HK\$17,649,000 (2016: HK\$6,280,000) and the weighted average number of ordinary shares for the three months ended 31 March 2017 of 3,370,393,075 (2016: 3,370,393,075) in issue.

There were no outstanding dilutive instruments for the three months ended 31 March 2017 and 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

The Group's business can be broadly categorised into two main sectors: (i) jewelry and (ii) pharmaceutical.

Jewelry

The jewelry segment focuses on design and sale of jewelry products under the "Larry Jewelry" brand. The Group focuses on the development of products that are unique in design and of superb craftsmanship to meet the needs of individuals who have a discerning taste in jewelries.

The luxury goods market in Hong Kong remained soft in the first quarter of 2017, and the Group recorded a drop in revenue of about 1.4% for the three months ended 31 March 2017 as compared to the corresponding period in 2016. According to the statistics released by the Census and Statistics Department of Hong Kong, a persistent decline in the value and volume of retail sales of jewelry, watches, clocks and valuable gifts in Hong Kong was noted during the three months ended 31 March 2017. Despite the weak sales performance in Hong Kong, the Group managed to achieve a better profit margin in both Hong Kong and Singapore market.

The Group remains cautiously optimistic in the luxury jewelry market in the long-run. The Group will explore opportunities to broaden the geographic base of customers to markets outside Hong Kong and Singapore and increase its visibility across South East Asian countries. The Group also seeks to achieve a diversified customer base through the introduction of new distinctive and unique product designs to more youthful, cosmopolitan audience.

Pharmaceutical

The acquisition of the entire issued share capital in and the shareholder's loan to Tung Fong Hung Investments Limited ("TFH") was completed on 22 August 2016. Since then, TFH became the wholly-owned subsidiary of the Group.

TFH and its subsidiaries are principally engaged in the business of sourcing, processing, re-packaging and retailing of Chinese pharmaceutical products, dry seafood, health products and foodstuff in the brand name of "Tung Fong Hung" ("東方紅") in Hong Kong, Macau and the mainland China. In Hong Kong, Tung Fong Hung Medicine Company Limited, the retailing arm of TFH, is a licensed manufacturer of nine type of traditional Chinese medicine ("TCM") under the Chinese Medicine Ordinance. TFH has 16 retail shops in Hong Kong, 4 retail shops in Macau and 42 retail outlets in the mainland China. The head office of TFH is located at Tai Po Industrial Estate in Hong Kong.

TFH's sales during the first quarter ended 31 March 2017 were approximately HK\$82,053,000.

Looking ahead, TFH shall review the sales network and customer focus of TFH and to introduce more locally made products to suit the needs of domestic market through its newly refurbished food and TCM production facilities.

In light of the recent business environment and financial resources on hand, the Group will continue to seek for suitable business opportunities to diversify the Group's existing business stream to enhance the long-term benefits of the Company and the shareholders of the Company as a whole.

FINANCIAL REVIEW

Revenue

The Group's revenue for the three months ended 31 March 2017 was approximately HK\$111,965,000, as compared to approximately HK\$30,343,000 recorded in the corresponding period last year. This represents an increase of about 269.0%, which was mainly attributed to the recognition of TFH revenue of approximately HK\$82,053,000.

Gross Profit

Gross profit for the three months ended 31 March 2017 was approximately HK\$39,301,000, surged by approximately 384.8% from approximately HK\$8,107,000 in the corresponding period last year. The Group's gross profit margin as reported in the condensed consolidated statement of profit or loss was approximately 35.1% compared to approximately 26.7% for the corresponding period last year.

The improvement in the Group's gross profit margin was primarily attributable to the change in products mix during the three months ended 31 March 2017.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the three months ended 31 March 2017 increased by about 270.6% to approximately HK\$35,080,000 as compared to approximately HK\$9,467,000 for the corresponding period last year, which was mainly due to the recognition of selling and distribution expenses of TFH.

Administrative and Other Operating Expenses

The Group's administrative and other operating expenses for the three months ended 31 March 2017 increased by about 259.8% to approximately HK\$21,616,000 compared to approximately HK\$6,007,000 for the corresponding period last year. The increase in administrative and other operating expenses was mainly due to the recognition of administrative and other operating expense of TFH.

Finance Costs

The Group record finance costs of approximately HK\$366,000 for the three months ended 31 March 2017 as compared to nil finance cost for the corresponding period last year, which was mainly due to imputed interests on convertible bonds and other borrowing.

Loss Attributable to Owners of the Company

Accordingly, loss attributable to owners of the Company was approximately HK\$17,649,000 for the three months ended 31 March 2017, as compared to the loss of approximately HK\$6,280,000 for the corresponding period last year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 March 2017, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO")) which would have: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long Positions in shares of the Company

Name of Director	Capacity of interests	Number of issued ordinary shares held	Approximate percentage to total issued shares
Mr. Luk Kee Yan Kelvin ("Mr. Luk") (Note)	Beneficial owner	528,902,840	15.69%

Note: Mr. Luk has resigned as an executive Director with effect from 20 April 2017. According to individual substantial shareholder notice filed by Mr. Luk on 25 April 2017, Mr. Luk had disposed of an aggregate of 528,902,840 shares of the Company. Immediately after completion of the disposal of shares, Mr. Luk ceased to be a substantial shareholder of the Company.

Save as disclosed above, as at 31 March 2017, none of the Directors or the chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules or to be entered in the register referred to in the SFO.

Save as disclosed above, at no time during the three months ended 31 March 2017 was the Company, its subsidiaries or its other associated corporations a party to any arrangements to enable the Directors or the chief executive of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares or underlying shares in, or debentures of, the Company or its associated corporation.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 March 2017, the following persons/corporations (other than the Directors or the chief executive of the Company) had interests or short positions in shares or underlying shares of the Company, which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and entered in the register maintained by the Company pursuant to Section 336 of the SFO:

Long Positions in shares and underlying shares of the Company

Name of shareholders	Capacity of interests	Number of issued ordinary shares held	Number of underlying shares	Approximate percentage to total issued shares
Ms. Ku Yun-Sen ("Ms. Ku") (Note 1)	Interest of controlled corporation	–	1,000,000,000	29.67%
Violet Profit Holdings Limited ("Violet Profit") (Note 1)	Interest of controlled corporation	–	1,000,000,000	29.67%
Master Journal Limited ("Master Journal") (Note 1)	Beneficial owner	–	1,000,000,000	29.67%
Mr. Wang Yung-Tyng ("Mr. Wang") (Note 2)	Interest of spouse	–	1,000,000,000	29.67%
Fullink Management Limited (Note 3)	Beneficial owner	265,300,000	–	7.87%
Mr. Tsang, Michael Manheem (Note 3)	Interest of controlled corporation	265,300,000	–	7.87%
Diamond Well International Limited (Note 4)	Beneficial owner	172,970,900	–	5.13%
Ms. Zhang Ya Juan (Note 4)	Interest of controlled corporation	172,970,900	–	5.13%

Notes:

1. These interests represented the interests in underlying shares in respect of the convertible bonds issued by the Company to Master Journal pursuant to the S&P Agreement entered into by Fame Treasure Global Limited, a wholly-owned subsidiary of the Company, and Master Journal dated 11 March 2015.

Master Journal is wholly-owned by Violet Profit which is wholly-owned by Ms. Ku. Therefore, under the SFO, Violet Profit are deemed to be interested in all the underlying Shares held by Master Journal and Ms. Ku is deemed to be interested in all the underlying Shares in which Violet Profit had interest or deemed interest.

2. Mr. Wang, being the spouse of Ms. Ku, is deemed to be interested in all the underlying shares that Ms. Ku is interested in. Accordingly, Mr. Wang is deemed to be interested in the 1,000,000,000 Shares held by Master Journal under the SFO.
3. These shares are held by Fullink Management Limited, which is beneficially owned as to 40% by Mr. Tsang, Michael Man-heem.
4. Diamond Well International Limited is wholly and beneficially owned by Ms. Zhang Ya Juan.

Save as disclosed above, as at 31 March 2017, the Company had not been notified by any parties (other than the Directors or the chief executive of the Company) who had interests or short positions in shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register maintained by the Company pursuant to Section 336 of the SFO.

CHANGES IN INFORMATION OF DIRECTORS

Mr. Luk Kee Yan Kelvin has resigned as an executive Director with effect from 20 April 2017.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or the Director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the three months ended 31 March 2017 or at any time during the three months ended 31 March 2017.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company did not redeem any of its Shares listed on GEM nor did the Company or any of its subsidiaries purchase or sell any of the Company's listed securities during the three months ended 31 March 2017.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or the controlling shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates (as defined in the GEM Listing Rules) had any interest in a business which causes or may cause a significant competition with the business of the Group and any other conflicts of interest which any such person has or may have with the Group during the three months ended 31 March 2017.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct for securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had made specific enquiry of all Directors and all the Directors confirmed that they had complied with the required standard of dealings and its code of conduct regarding securities transactions by directors during the three months ended 31 March 2017.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions as set out in the Corporate Governance Code as contained in Appendix 15 to the GEM Listing Rules during the three months ended 31 March 2017.

INTEREST OF THE COMPLIANCE ADVISER

As at 31 March 2017, as confirmed by the Company's compliance adviser, Lego Corporate Finance Limited (the "Compliance Adviser"), save as the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 15 January 2016, none of the Compliance Adviser or its directors, employees or close associates (as defined under the GEM Listing Rules) had material interests in the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

AUDIT COMMITTEE

As at the date of this report, the audit committee of the Company (the "Audit Committee") comprises three independent non-executive Directors and one non-executive Director, namely Mr. Shum Lok To (chairman of the Audit Committee), Mr. Ong Chi King, Mr. Tso Ping Cheong Brian, and Ms. Szeto Wai Ling Virginia. The unaudited condensed consolidated results of the Group for the three months ended 31 March 2017 and this report have been reviewed by the Audit Committee.

By order of the Board
Larry Jewelry International Company Limited
Szeto Wai Ling Virginia
Chairman

Hong Kong, 15 May 2017

As at the date of this report, the Board comprises Mr. Chan Wing Chung, Mr. Hon Kin Wai and Mr. Wong Kui Shing Danny as executive Directors, Ms. Szeto Wai Ling Virginia and Ms. Ngai Ki Yee May as non-executive Directors, and Mr. Ong Chi King, Mr. Shum Lok To and Mr. Tso Ping Cheong Brian as independent non-executive Directors.