

# LARRY JEWELRY

## INTERNATIONAL COMPANY LIMITED

Incorporated in Bermuda with limited liability Stock Code: 8351

# 2017

## INTERIM 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.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months and six months ended 30 June 2017 together with the unaudited comparative figures for the corresponding period in 2016 as follows:

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months and six months ended 30 June 2017

	Notes	Three months ended 30 June		Six months ended 30 June	
		2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Revenue	3	95,695	42,552	207,660	72,895
Cost of sales		(59,528)	(31,553)	(132,192)	(53,789)
Gross profit		36,167	10,999	75,468	19,106
Other income		353	108	826	1,174
Selling and distribution expenses		(33,475)	(10,214)	(68,555)	(19,681)
Administrative and other operating expenses		(20,149)	(5,762)	(41,765)	(11,769)
Finance costs		(716)	–	(1,082)	–
Loss before tax	5	(17,820)	(4,869)	(35,108)	(11,170)
Income tax (expense) credit	6	(31)	122	(392)	143
Loss for the period attributable to owners of the Company		(17,851)	(4,747)	(35,500)	(11,027)

	Notes	Three months ended 30 June		Six months ended 30 June	
		2017 <b>HK\$'000</b> (unaudited)	2016 HK\$'000 (unaudited)	2017 <b>HK\$'000</b> (unaudited)	2016 HK\$'000 (unaudited)
Other comprehensive income (expense)					
<i>Item that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translation of foreign operations		<b>3,018</b>	73	<b>7,171</b>	4,500
Total comprehensive expense for the period attributable to owners of the Company		<b>(14,833)</b>	(4,674)	<b>(28,329)</b>	(6,527)
		<b>HK cents</b>	HK cents	<b>HK cents</b>	HK cents
Loss per share for loss attributable to owners of the Company during the period					
— Basic	8	<b>(0.53)</b>	(0.14)	<b>(1.05)</b>	(0.33)
— Diluted	8	<b>N/A</b>	N/A	<b>N/A</b>	N/A

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	As at 30 June 2017 <b>HK\$'000</b> (unaudited)	As at 31 December 2016 <b>HK\$'000</b> (audited)
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	<b>79,956</b>	88,957
Goodwill		<b>105,258</b>	105,258
Intangible assets		<b>189,328</b>	189,328
Deferred tax assets		<b>1,400</b>	1,317
Deposits		<b>19,683</b>	14,931
		<b>395,625</b>	399,791
<b>Current assets</b>			
Inventories	10	<b>326,392</b>	339,039
Trade receivables	11	<b>5,878</b>	10,515
Prepayments, deposits and other receivables		<b>12,391</b>	21,259
Derivative financial instruments		–	5
Pledged bank deposits		<b>16,198</b>	15,748
Cash held by securities broker		<b>848</b>	848
Bank balances and cash		<b>56,884</b>	65,982
		<b>418,591</b>	453,396

		<b>As at 30 June 2017</b>	31 December 2016
	<i>Notes</i>	<b>HK\$'000</b> <b>(unaudited)</b>	<i>HK\$'000</i> <i>(audited)</i>
<b>Current Liabilities</b>			
Trade payables	12	<b>47,728</b>	60,293
Bills payable		–	1,499
Other payables and accruals		<b>29,121</b>	25,613
Tax payable		<b>1,522</b>	781
Derivative financial instruments		–	29
Bank borrowing		<b>7,155</b>	8,117
Convertible bonds		<b>133,412</b>	133,412
		<b>218,938</b>	229,744
<b>Net current assets</b>		<b>199,653</b>	223,652
<b>Total assets less current liabilities</b>		<b>595,278</b>	623,443
<b>Non-current liabilities</b>			
Deferred tax liabilities		<b>34,777</b>	34,613
<b>Net assets</b>		<b>560,501</b>	588,830
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital	13	<b>33,704</b>	33,704
Share premium and reserves		<b>526,797</b>	555,126
		<b>560,501</b>	588,830

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Share capital HK\$'000	Share premium HK\$'000	Capital contribution reserve HK\$'000	Merger reserve HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2017 (audited)	33,704	350,520	3,988	(830)	629,505	(20,077)	(407,980)	588,830
Loss for the period	-	-	-	-	-	-	(35,500)	(35,500)
- Exchange differences arising on translation of foreign operation	-	-	-	-	-	7,171	-	7,171
Total comprehensive expense for the period	-	-	-	-	-	7,171	(35,500)	(28,329)
At 30 June 2017 (unaudited)	33,704	350,520	3,988	(830)	629,505	(12,906)	(443,480)	560,501
At 1 January 2016 (audited)	33,704	599,171	3,988	(830)	-	(14,562)	(324,173)	297,298
Loss for the period	-	-	-	-	-	-	(11,027)	(11,027)
- Exchange differences arising on translation of foreign operation	-	-	-	-	-	4,500	-	4,500
Total comprehensive expense for the period	-	-	-	-	-	4,500	(11,027)	(6,527)
At 30 June 2016 (unaudited)	33,704	599,171	3,988	(830)	-	(10,062)	(335,200)	290,771

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Net cash used in operating activities	<b>(7,614)</b>	(4,953)
Investing activities:		
Other investing cash flows	<b>(1,200)</b>	(758)
Net cash used in investing activities	<b>(1,200)</b>	(758)
Financing activities:		
Repayment of derivative financial instruments	<b>(29)</b>	–
Repayment of bank borrowings	<b>(962)</b>	–
Net cash used in financing activities	<b>(991)</b>	–
Net decrease in cash and cash equivalents	<b>(9,805)</b>	(5,711)
Cash and cash equivalents at beginning of the period	<b>66,830</b>	47,581
Effect of foreign exchange rate changes	<b>707</b>	886
Cash and cash equivalents at end of the period	<b>57,732</b>	42,756
Represented by:		
Bank balances and cash	<b>56,884</b>	40,896
Cash held by securities broker	<b>848</b>	1,860
	<b>57,732</b>	42,756



# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 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 sales 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 financial statements have been prepared in accordance with Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting" 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 financial statements have been prepared under historical cost convention.

The principal accounting policies used in preparing the unaudited condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's audited consolidated financial statements for the year ended 31 December 2016, except for the new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) issued by 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 unaudited condensed consolidated financial statements and/or disclosures set out in these unaudited condensed consolidated financial statements. 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 and sales of Chinese pharmaceutical products, dried seafood, health products and foodstuffs ("sales of pharmaceutical and health food products") for the period. An analysis of the Group's revenue for the period is as follows:

	Three months ended		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Retailing of jewelry products	34,630	42,552	64,542	72,895
Sale of pharmaceutical and health foods products	61,065	–	143,118	–
	<b>95,695</b>	42,552	<b>207,660</b>	72,895

### 4. SEGMENT INFORMATION

Information reported to the directors of the Group, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance, focuses on the locations of the operations and types of goods. This is also the basis upon which the Group is arranged and organised. The Group's operating segments under HKFRS 8 are operations located in Hong Kong, the PRC, Macau and Singapore. The revenue generated by each of the operating segments is derived from retailing of jewelry products and sales of Chinese pharmaceutical products, dried seafood, health products and foodstuffs. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Following the acquisition of the entire equity interest in Tung Fong Hung Investment Limited ("Tung Fong Hung") in August 2016, the Group is engaged in retailing of jewelry products under the brand name of Larry Jewelry and sales of pharmaceutical and health food products under the brand name of Tung Fong Hung ("東方紅"). The Group's operations are currently organised into five operating and reportable segments (2016: two, namely retail Jewelry in Hong Kong and retail Jewelry in Singapore). The changes in the segment information do not have any impact on the Group's consolidated financial statements.

Specifically, the Group's operating and reportable segments under HKFRS 8 are as follows:

1. Retail Jewelry in Hong Kong — Retailing of Jewelry products in Hong Kong
2. Retail Jewelry in Singapore — Retailing of Jewelry products in Singapore
3. Sales of pharmaceutical and health food products in Hong Kong — Sales of Chinese pharmaceutical products, dried seafood, health products and foodstuffs in Hong Kong
4. Sales of pharmaceutical and health food products in Macau — Sales of Chinese pharmaceutical products, dried seafood, health products and foodstuffs in Macau
5. Sales of pharmaceutical and health food products in PRC — Sales of Chinese pharmaceutical products, dried seafood, health products and foodstuffs in the PRC

### Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segments.

#### Six months ended 30 June 2017

	Retail Jewelry in Hong Kong HK\$'000	Retail Jewelry in Singapore HK\$'000	Sales of pharmaceutical and health food products in Hong Kong HK\$'000	Sales of pharmaceutical and health food products in Macau HK\$'000	Sales of pharmaceutical and health food products in PRC HK\$'000	Elimination HK\$'000	Total HK\$'000
REVENUE							
External sales and segment revenue	16,906	47,636	89,810	21,793	31,515	-	207,660
Inter-segment sales	338	-	9,251	-	56	(9,645)	-
Total	17,244	47,636	99,061	21,793	31,571	(9,645)	207,660
RESULTS							
Segment (loss) profit	(11,765)	1,377	(19,683)	3,614	(3,002)	-	(29,459)
Unallocated expenses							(4,567)
Finance costs							(1,082)
Loss before tax							(35,108)

	Hong Kong HK\$'000 (unaudited)	Singapore HK\$'000 (unaudited)	Elimination HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
--	--------------------------------------	--------------------------------------	--	----------------------------------

#### Six months ended 30 June 2016

Segment revenue				
External sales	21,721	51,174	–	72,895
Inter-segment sales	185	–	(185)	–
<b>Total</b>	<b>21,906</b>	<b>51,174</b>	<b>(185)</b>	<b>72,895</b>
Results				
Segment (loss) profit	(9,370)	555	–	(8,815)
Unallocated expense				(2,355)
Loss before tax				(11,170)

Segment (losses) profit represents the (losses) profit from each segment without allocation of unallocated expenses (which mainly include central administration costs and directors' salaries). This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

## 5. LOSS BEFORE TAX

	Three months ended 30 June		Six months ended 30 June	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Loss before tax is arrived at after charging (crediting):				
Auditors' remuneration	229	346	350	695
Cost of inventories recognised as expense	59,528	31,553	132,192	53,789
Depreciation for property, plant and equipment	5,115	957	10,201	1,693
Employee benefit expense	18,641	5,814	41,004	11,499
Net exchange (gain) loss	1,403	(17)	2,062	(819)
Operating lease payments in respect of rented premises	18,449	6,336	36,844	12,374

## 6. INCOME TAX EXPENSE (CREDIT)

	Three months ended		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Hong Kong Profits Tax				
– Current year	285	–	648	–
Singapore Corporate Income Tax				
– Over provision in prior period	(290)	(221)	(290)	(221)
Deferred taxation – current period	36	99	34	78
	<b>31</b>	<b>(122)</b>	<b>392</b>	<b>(143)</b>

## 7. DIVIDENDS

The Board has not declared the payment of a dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

## 8. 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 and six months ended 30 June 2017 of approximately HK\$17,851,000 (2016: HK\$4,747,000) and HK\$35,500,000 (2016: HK\$11,027,000) and the weighted average number of ordinary shares for the three months and six months ended 30 June 2017 of 3,370,393,070 (three months and six months ended 30 June 2016: 3,370,393,075) in issue.

There were no outstanding dilutive instruments for the three months and six months ended 30 June 2017 and 2016.

## 9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group spent approximately HK\$1,200,000 (six months ended 30 June 2016: HK\$757,000) on acquisition of property, plant and equipment.

## 10. INVENTORIES

	As at	As at
	30 June	31 December
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Raw materials	57,600	71,538
Work in progress	11,900	3,551
Finished goods	256,892	263,950
	<b>326,392</b>	<b>339,039</b>

## 11. TRADE RECEIVABLES

The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period.

	<b>As at 30 June 2017 HK\$'000 (unaudited)</b>	As at 31 December 2016 HK\$'000 (audited)
0 – 30 days	<b>4,480</b>	9,885
31 – 60 days	<b>56</b>	260
61 – 90 days	<b>576</b>	245
91 – 180 days	<b>766</b>	35
181 – 365 days	<b>–</b>	90
	<b>5,878</b>	10,515

## 12. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of reporting period:

	<b>As at 30 June 2017 HK\$'000 (unaudited)</b>	As at 31 December 2016 HK\$'000 (audited)
0 – 30 days	<b>18,955</b>	16,474
31 – 60 days	<b>12,102</b>	13,415
61 – 90 days	<b>1,006</b>	6,591
91 – 180 days	<b>6,947</b>	7,557
181 – 365 days	<b>5,844</b>	16,256
Over 365 days	<b>2,874</b>	–
	<b>47,728</b>	60,293

### 13. SHARE CAPITAL

	Number of shares	Share capital <i>HK\$'000</i>
<b>Ordinary shares of HK\$0.01 each</b>		
Authorised:		
At 1 January 2016, 31 December 2016 and 30 June 2017	10,000,000,000	100,000
Issued and fully paid:		
At 1 January 2016 and 30 June 2016	3,370,393,075	33,704
Capital reorganisation (Note (a))	(3,033,353,768)	(30,334)
	337,039,307	3,370
Issue of shares upon rights issue (Note (b))	3,033,353,763	30,334
At 31 December 2016 (audited) and 30 June 2017 (unaudited)	3,370,393,070	33,704

Notes:

- (a) Pursuant to a special resolution passed in a special general meeting of the Company, the Company effected a capital reorganisation (the "Capital Reorganisation 2016") on 25 July 2016: (i) every ten issued and unissued shares of HK\$0.01 each in the share capital of the Company be consolidated into one Consolidated Share of HK\$0.10 each; (ii) the total number of Consolidated Shares in the issued share capital of the Company immediately following the Share Consolidation will be rounded down to a whole number and any fraction in the issued share capital of the Company arising from the Share Consolidation will be cancelled; (iii) the issued share capital of the Company be reduced by cancellation of HK\$0.09 of the paid-up capital on each issued consolidated shares such that the par value of each issued consolidated shares be reduced from HK\$0.10 to HK\$0.01; (iv) each of the authorised but unissued consolidated shares of HK\$0.10 each will be subdivided into ten new shares of HK\$0.01 each; (v) the entire amount standing to the credit of the share premium account of the Company be cancelled; (vi) the credit arising from the cancellation of any fraction in the issued share capital of the Company arising from the Share Consolidation, the Capital Reduction and the Share Premium Cancellation will be transferred to the Contributed Surplus Account; and (vii) the amount standing to the credit of the Contributed Surplus Account will be applied to set off the accumulated losses of the Company or be applied in any other manner as may be permitted under the bye-laws of the Company and all applicable laws and rules (including the GEM Listing Rules).

Details of the Capital Reorganisation 2016 were set out in the circular of the Company dated 30 June 2016.

- (b) An ordinary resolution was passed in a special general meeting of the Company on 25 July 2016, which approved a rights issue on the basis of nine rights shares for every one share held at a subscription price of HK\$0.13 per rights share. The rights issue became unconditional on 22 August 2016 and 3,033,353,763 shares were issued and allotted on 24 August 2016. The gross proceeds from rights issue before share issue expenses, was HK\$394,336,000 and the net proceeds of the rights issue will be HK\$380,854,000. The Group use the net proceeds from the rights issue for the acquisition of Tung Fong Hung.

## 14. COMMITMENTS

### **Operating Lease Commitments**

*The Group as lessee*

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases for office, warehouse and retail shop premises which fall due as follows:

	<b>As at 30 June 2017 HK\$'000 (unaudited)</b>	As at 31 December 2016 HK\$'000 (audited)
Within one year	<b>72,574</b>	62,019
In the second to fifth years inclusive	<b>29,094</b>	33,360
	<b>101,668</b>	95,379

Operating lease payments represent rentals paid or payable by the Group for certain of its office, warehouse and retail shop premises. Leases are negotiated for a lease term of one to four years (31 December 2016: one to four years) and rentals are fixed throughout the lease period.

There are certain lease arrangements for rented retail shop premises, according to which the Group is committed to pay minimum guaranteed amounts and additional monthly payments determined based on monthly sales levels.

There are concessionaire arrangements for concessionaire stores/counters within the shopping malls according to which the Group is committed to pay either minimum guaranteed amounts or concessionaire fees that are based on prescribed rates of corresponding sales level.

Most concessionaire arrangement are negotiated for terms ranging from one year to three years.



## Capital and other Commitments

	<b>As at 30 June 2017 HK\$'000 (unaudited)</b>	As at 31 December 2016 HK\$'000 (audited)
Capital expenditure contracted but not provided for in the consolidated financial statements in respect of		
— Acquisition of plant and machinery	—	793
	—	793

### 15. EVENTS AFTER THE REPORTING PERIOD

On 31 July 2017, the Company issued bonds with principal amount of HK\$100,000,000 together with unlisted warrants with subscription rights to subscribe for 670,000,000 shares with subscription price of HK\$0.15 per share (subject to adjustment) on the first anniversary of issue of warrants. Details are set out in the circular of the Company dated 10 July 2017.

On 31 July 2017, the Company issued convertible bonds with principal amount of HK\$100,000,000 convertible into 400,000,000 shares at HK\$0.25 per conversion share (subject to adjustment) with maturity date of the date falling on the date being the second anniversary of the issue date of the issue date of the convertible bonds. Details are set out in the circular of the Company dated 10 July 2017.

# 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 half of 2017, and the Group recorded a drop in revenue of about 11.5% for the six months ended 30 June 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 six months ended 30 June 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 15 retail shops in Hong Kong, 4 retail shops in Macau and 39 retail outlets in the mainland China as at 30 June 2017. The head office of TFH is located at Tai Po Industrial Estate in Hong Kong.

TFH's sales during the six months ended 30 June 2017 were approximately HK\$143,118,000.

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 six months ended 30 June 2017 was approximately HK\$207,660,000, as compared to approximately HK\$72,895,000 recorded in the corresponding period last year. This represents an increase of about 185%, which was mainly attributed to the recognition of TFH revenue of approximately HK\$143,118,000.

### **Gross Profit**

Gross profit for the six months ended 30 June 2017 was approximately HK\$75,468,000, surged by approximately 295% from approximately HK\$19,106,000 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 36.3% compared to approximately 26.2% 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 six months ended 30 June 2017.

### **Selling and Distribution Expenses**

The Group's selling and distribution expenses for the six months ended 30 June 2017 increased by about 248% to approximately HK\$68,555,000 as compared to approximately HK\$19,681,000 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 six months ended 30 June 2017 increased by about 255% to approximately HK\$41,765,000 compared to approximately HK\$11,769,000 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\$1,082,000 for the six months ended 30 June 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\$35,500,000 for the six months ended 30 June 2017, as compared to the loss of approximately HK\$11,027,000 for the corresponding period last year.

## **SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS**

There were no other significant investment held, material acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30 June 2017 and there is no plan for material investments or capital assets as at the date of this report.

## **CAPITAL STRUCTURE**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of borrowings and equity attributable to owners of the Company comprising issued share capital, share premium, reserves and retained profits.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debts or the redemption of existing debts.

## ISSUE OF BONDS WITH WARRANTS AND CONVERTIBLE BONDS

On 31 July 2017, the Company issued bonds with principal amount of HK\$100,000,000 together with unlisted warrants with subscription rights to subscribe for 670,000,000 shares with subscription price of HK\$0.15 per share (subject to adjustment) on the first anniversary of issue of warrants. Details are set out in the circular of the Company dated 10 July 2017.

On 31 July 2017, the Company issued convertible bonds with principal amount of HK\$100,000,000 convertible into 400,000,000 shares at HK\$0.25 per conversion share (subject to adjustment) with maturity date of the date falling on the date being the second anniversary of the issue date of the issue date of the convertible bonds. Details are set out in the circular of the Company dated 10 July 2017.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2017, the Group had cash and cash equivalents of approximately HK\$57,732,000 (31 December 2016: HK\$66,830,000) and pledged bank deposits of approximately HK\$16,198,000 (31 December 2016: HK\$15,748,000). As at 30 June 2017, the Group had borrowings and convertible bonds amounted to approximately HK\$7,155,000 (31 December 2016: HK\$8,117,000) and HK\$133,412,000 (31 December 2016: HK\$133,412,000), respectively. The gearing ratio was approximately 25.1% (31 December 2016: 24.0%).

As at 30 June 2017, the Group had net current assets of approximately HK\$199,653,000 (31 December 2016: HK\$223,652,000). The current ratio of the Group as at 30 June 2017 was approximately 1.9 (31 December 2016: 2.0).

## PLEDGE OF ASSETS

As at 30 June 2017, the Group's pledged bank deposits of approximately HK\$16,198,000 (31 December 2016: HK\$15,748,000) were pledged as securities for bank guarantees provided by a bank to a supplier and credit facilities provided by banks.

## CONTINGENT LIABILITIES

The Group has no material contingent liabilities as at 30 June 2017 and 31 December 2016.

## FOREIGN EXCHANGE EXPOSURE

During the six months ended 30 June 2017, the Group's exposure to currency risk was limited to its pledged bank deposits and trade payables denominated in United States Dollars ("USD") as majority of the Group's transactions, monetary assets and liabilities are denominated in Hong Kong Dollars ("HK\$"), Renminbi ("RMB") and Singapore Dollars ("SGD"). The Group is of the opinion that its exposure to foreign exchange rate risk is limited. The Group will continue to monitor its foreign currency exposure closely.

## TREASURY POLICIES

The Group adopts a conservative approach towards its treasury policies with stringent credit control and monitoring policies. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that it can meet the funding requirements.

## EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2017, the Group had 480 (31 December 2016: 494) employees, including the Directors. Total staff costs (including Directors' emoluments) for the six months ended 30 June 2017 were approximately HK\$41,004,000 (six months ended 30 June 2016: HK\$11,499,000). Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employees. Year-end bonuses based on individual performance are paid to employees as recognition of, and reward for, their contributions. Other benefits include contributions to statutory mandatory provident schemes to its employees as well as share option scheme.

## 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 30 June 2017, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of 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 or short positions which they are 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:

As at 30 June 2017, none of the Directors or the chief executive of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (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 six months ended 30 June 2017 was the Company, its subsidiaries or its other associated corporations a party to any arrangement 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 30 June 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 Manheem.
4. Diamond Well International Limited is wholly and beneficially owned by Ms. Zhang Ya Juan.

Save as disclosed above, as at 30 June 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.

## SHARE OPTION SCHEME

The Company has adopted the share option scheme on 21 September 2009 (the “Scheme”) under which certain selected classes of participants (including, among others, full time employees) may be granted options to subscribe for the shares. The principal terms of the share option scheme are summarised in the paragraph headed “Share Option Scheme” in appendix V to the prospectus of the Company dated 29 September 2009.

During the six months ended 30 June 2017, there was no share option granted, exercised, cancelled or lapsed under the Scheme and no share option remained outstanding at the beginning and at the end of the reporting period under the Scheme.

## CHANGES IN INFORMATION OF DIRECTORS

Mr. Wong Kui Shing Danny was appointed as an executive director of Share Economy Group Limited (stock code: 1178) with effect from 8 May 2017, the shares of which were listed on the main board of the Hong Kong Stock Exchange.

Mr. Ong Chi King resigned as an independent non-executive director of Capital VC Limited (stock code: 2324) and WLS Holdings Limited (stock code: 8021) on 31 March 2017 and 29 March 2017, the shares of which were listed on the main board and GEM board of the Hong Kong Stock Exchange, respectively.

## 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 six months ended 30 June 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 close 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 six months ended 30 June 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 six months ended 30 June 2017.

## MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the six months ended 30 June 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 six months ended 30 June 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 six months ended 30 June 2017 or at any time during the six months ended 30 June 2017.

## INTEREST OF THE COMPLIANCE ADVISER

As at 30 June 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 any material interests in the Group.

## 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 financial statements of the Group for the six months ended 30 June 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, 7 August 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.*