

LARRY JEWELRY

INTERNATIONAL COMPANY LIMITED

Incorporated in Bermuda with limited liability Stock Code: 8351

2019

THIRD QUARTERLY REPORT

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

GEM has been positioned as a market designed to accommodate small and mid-sized 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.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board 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 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 enquiries, 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.

This report, in both English and Chinese versions, is available on the Company’s website at www.larryjewelryinternational.com.

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 and nine months ended 30 September 2019 together with the unaudited comparative figures for the corresponding period in 2018 as follows:

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

For the three months and nine months ended 30 September 2019

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Revenue	3	59,868	96,172	207,006	287,408
Cost of sales		(38,308)	(60,946)	(133,260)	(176,354)
Gross profit		21,560	35,226	73,746	111,054
Other gain and losses		(3,524)	103	2,420	1,688
Selling and distribution expenses		(23,687)	(30,091)	(79,800)	(91,497)
Administrative and other operating expenses		(10,672)	(16,635)	(52,802)	(58,928)
Finance costs		(5,317)	(4,693)	(15,055)	(18,248)
Loss before tax	4	(21,640)	(16,090)	(71,491)	(55,931)
Income tax expense	5	(509)	(146)	(143)	(1,371)
Loss for the period attributable to owners of the Company		(22,149)	(16,236)	(71,634)	(57,302)
Other comprehensive (expense) income for the period <i>Item that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translation of foreign operations		4,695	(1,844)	3,335	(3,853)
Total comprehensive expense for the period attributable to owners of the Company		(17,454)	(18,080)	(68,299)	(61,155)
		HK cents	HK cents	HK cents	HK cents
Loss per share attributable to owners of the Company during the period					
— Basic	7	0.6	0.4	2.0	1.6
— Diluted	7	N/A	N/A	N/A	N/A

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2019

	Share capital	Share premium	Capital contribution reserve	Merger reserve	Contributed surplus	Capital reserve	Share option reserve	Exchange reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2019 (audited)	<u>36,184</u>	<u>459,638</u>	<u>3,988</u>	<u>(830)</u>	<u>629,505</u>	<u>(2,582)</u>	<u>58,697</u>	<u>(10,163)</u>	<u>(970,056)</u>	<u>204,381</u>
Loss for the period	-	-	-	-	-	-	-	-	(71,634)	(71,634)
Other comprehensive income for the period										
— Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	3,335	-	3,335
Total comprehensive income/(expense) for the period	-	-	-	-	-	-	-	3,335	(71,634)	(68,299)
At 30 September 2019 (unaudited)	<u>36,184</u>	<u>459,638</u>	<u>3,988</u>	<u>(830)</u>	<u>629,505</u>	<u>(2,582)</u>	<u>58,697</u>	<u>(6,828)</u>	<u>(1,041,690)</u>	<u>136,082</u>
At 1 January 2018 (audited)	<u>33,784</u>	<u>354,608</u>	<u>3,988</u>	<u>(830)</u>	<u>629,505</u>	-	<u>58,697</u>	<u>(6,629)</u>	<u>(1,224,187)</u>	<u>(151,064)</u>
Loss for the period	-	-	-	-	-	-	-	-	(57,302)	(57,302)
Other comprehensive expense for the period										
— Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(3,853)	-	(3,853)
Total comprehensive expense for the period	-	-	-	-	-	-	-	(3,853)	(57,302)	(61,155)
Issue of new shares upon conversion of convertible bonds	<u>2,400</u>	<u>69,600</u>	-	-	-	-	-	-	-	<u>72,000</u>
At 30 September 2018 (unaudited)	<u>36,184</u>	<u>424,208</u>	<u>3,988</u>	<u>(830)</u>	<u>629,505</u>	-	<u>58,697</u>	<u>(10,482)</u>	<u>(1,281,489)</u>	<u>(140,219)</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 19/F., Prosperity Tower, 39 Queen's Road Central, 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 quarterly financial information has been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules of the Stock Exchange. The quarterly financial information does not include all the information required for a complete set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by Hong Kong Institute of Certified Public Accountants and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018.

The accounting policies used in the quarterly financial information for the nine months ended 30 September 2019 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

The quarterly financial information has been prepared under the historical cost basis, except for certain financial instruments, which are measured at fair values, as appropriate. The new and amendments to HKFRSs which are mandatory effective in the current period have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described in the Group's annual financial statements for the year ended 31 December 2018.

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 30 September		Nine months ended 30 September	
	2019 HK\$’000 (unaudited)	2018 HK\$’000 (unaudited)	2019 HK\$’000 (unaudited)	2018 HK\$’000 (unaudited)
Retailing of jewelry products	18,784	34,618	57,826	81,998
Sales of pharmaceutical and health food products	41,084	61,554	149,180	205,410
	59,868	96,172	207,006	287,408

4. LOSS BEFORE TAX

	Three months ended 30 September		Nine months ended 30 September	
	2019 HK\$’000 (unaudited)	2018 HK\$’000 (unaudited)	2019 HK\$’000 (unaudited)	2018 HK\$’000 (unaudited)
Loss before tax has been arrived at after charging:				
Auditors’ remuneration	268	15	664	161
Cost of inventories recognised as expense	38,308	60,946	133,260	176,354
Depreciation	15,007	4,448	46,432	14,719
(Gain)/loss on disposals of property, plant and equipment	(3,717)	266	(3,717)	266
Employee benefit expense	14,945	14,897	44,335	49,477
Exchange (gain)/loss, net	(1,265)	160	(1,049)	279
Operating lease rentals in respect of rented premises	4,352	16,231	13,287	50,445

5. INCOME TAX EXPENSE

	Three months ended 30 September		Nine months ended 30 September	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Current income tax				
— Hong Kong				
— current period	—	146	(366)	1,664
— Singapore				
— over provision in prior period	(4)	—	(4)	—
— Macau				
— current period	513	—	513	—
Deferred tax	—	—	—	(293)
	<u>509</u>	<u>146</u>	<u>143</u>	<u>1,371</u>

6. DIVIDENDS

The Board does not recommend the payment of dividend for the nine months ended 30 September 2019 (2018: Nil).

7. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the loss attributable to owners of the Company for the three months and nine months ended 30 September 2019 of approximately HK\$22,149,000 (2018: HK\$16,236,000) and HK\$71,634,000 (2018: HK\$57,302,000) and the weighted average number of ordinary shares for the three months and nine months ended 30 September 2019 of 3,618,393,070 and 3,618,393,070, respectively (three months and nine months ended 30 September 2018: of 3,618,393,070 and 3,592,312,484, respectively) in issue.

The computation of diluted loss per share for the three months and nine months ended 30 September 2019 and 2018 does not assume the conversion of the Company's outstanding convertible bonds, warrants or share options since their exercise would result in a decrease in loss per share.

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 third quarter of 2019, and the Group recorded a drop in revenue of about 28.0% for the nine months ended 30 September 2019 as compared to the corresponding period in 2018. 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 types of traditional Chinese medicine ("**TCM**") under the Chinese Medicine Ordinance. TFH has 15 retail shops in Hong Kong, 2 retail shops in Macau and 36 retail outlets in the mainland China. The head office of TFH is located at Tai Po Industrial Estate in Hong Kong.

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 (the "**Shareholders**") as a whole.

FINANCIAL REVIEW

Revenue

The Group's revenue for the nine months ended 30 September 2019 was approximately HK\$207,006,000, as compared to approximately HK\$287,408,000 recorded in the corresponding period last year. This represents a decrease of about 28.0%.

Gross Profit

Gross profit for the nine months ended 30 September 2019 was approximately HK\$73,746,000, decreased approximately 33.6% from approximately HK\$111,054,000 in the corresponding period last year. The Group's gross profit margin as reported in the unaudited condensed consolidated statement of profit or loss and other comprehensive income was approximately 35.6% compared to approximately 38.6% for the corresponding period last year.

The decrease in the Group's gross profit margin was primarily attributable to the change in products mix during the nine months ended 30 September 2019.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the nine months ended 30 September 2019 decreased by about 12.8% to approximately HK\$79,800,000 as compared to approximately HK\$91,497,000 for the corresponding period last year.

Administrative and Other Operating Expenses

The Group's administrative and other operating expenses for the nine months ended 30 September 2019 decreased by about 10.4% to approximately HK\$52,802,000 as compared to approximately HK\$58,928,000 for the corresponding period last year.

Finance Costs

The Group recorded finance costs of approximately HK\$15,055,000 for the nine months ended 30 September 2019 decreased by approximately HK\$3,193,000 as compared to approximately HK\$18,248,000 for the corresponding period last year, which was mainly due to decrease in 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\$71,634,000 for the nine months ended 30 September 2019, as compared to the loss of approximately HK\$57,302,000 for the corresponding period last year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 30 September 2019, the interests and short positions of the Directors and chief executives 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 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:

Name of directors	Nature of interests	Number or attributable number of shares		Approximate percentage or attributable percentage of shareholding (%)
		Long position	Short position	
Shares				
Mr. Shum Lok To	Personal	2,700,000	–	0.07
Share Options				
Mr. Wong Kui Shing Danny	Personal	33,000,000 (Note)	–	0.98

Note:

The interest relates to share options granted on 22 August 2017 by the Company to the Directors. The share options are exercisable at an exercise price of HK\$0.34 for each Share during the period from 1 September 2017 to 21 August 2027.

Save as disclosed above, as at 30 September 2019, none of the Directors or chief executives 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 period was the Company, its subsidiaries or its other associated corporations a party to any arrangement to enable the Directors or chief executives 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 corporations.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 September 2019, the following persons/corporations (other than the Directors or chief executives of the Company) had interests or short positions in the shares and the 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:

Shareholder's Name	Capacity of interests	Number of issued ordinary shares held	Number of underlying shares	Approximate percentage to total issued shares at 30 September 2019
Mr. Allan Yap	Beneficial owner	721,290,000	–	19.93%
Topper Group Limited	Security Interest	721,290,000	–	19.93%
Best Fine International Limited ("Best Fine") (Note 1)	Beneficial owner	–	400,000,000	11.05%
China Huarong Asset Management Co., Limited ("CHAMCL") (Note 1)	Interest of controlled corporation	–	400,000,000	11.05%
China Huarong International Holdings Limited ("CHIH") (Note 1)	Interest of controlled corporation	–	400,000,000	11.05%
Right Select International Limited ("Right Select") (Note 1)	Interest of controlled corporation	–	400,000,000	11.05%
Fullink Management Limited ("Fullink") (Note 2)	Beneficial owner	265,300,000	–	7.33%
Mr. Tsang, Michael Manheem ("Mr. Tsang") (Note 2)	Interest of controlled corporation	265,300,000	–	7.33%

Notes:

- (1) These interests represented the interests in underlying shares in respect of the convertible bonds issued by the Company to Best Fine pursuant to the conditional placing agreement dated 16 May 2017 (as supplemented on 19 May 2017). For details, please refer to the Company's announcements dated 16 May 2017 and 19 May 2017.

Best Fine is wholly-owned by Right Select which is wholly-owned by CHIHL which is ultimately owned by CHAMCL. Therefore, under the SFO, Right Select is deemed to be interested in all the underlying shares held by Best Fine and CHIHL and CHAMCL is deemed to be interested in all the underlying shares in which Right Select had interests or deemed interests.

- (2) These Shares are held by Fullink, which is beneficially owned as to 40% by Mr. Tsang.

Save as disclosed above, as at 30 September 2019, the Company had not been notified by any parties (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares 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 Scheme are summarised in the paragraph headed “Share Option Scheme” in appendix V to the prospectus of the Company dated 29 September 2009.

Details of the movement in the share options granted under the Scheme during the nine months ended 30 September 2019 are as follows:

Category of participants	Date of grant of share option	Exercise period	Exercise price (HK\$)	Outstanding	Granted/ exercised/ cancelled	Lapsed	Outstanding
				as at 1 January 2019	during the period under review	during the period under review	as at 30 September 2019
Director							
Mr. Wong Kui Shing Danny	22 August 2017	1 September 2017– 31 August 2027	0.34	33,000,000	–	–	33,000,000
Sub-total				33,000,000	–	–	33,000,000
Other Participants							
In aggregate	22 August 2017	1 September 2017– 31 August 2027	0.34	294,000,000 (Note 1)	–	(34,000,000) (Note 2)	260,000,000
Total				<u>327,000,000</u>	<u>–</u>	<u>(34,000,000)</u>	<u>293,000,000</u>

Notes:

- These include (i) 32,000,000 share options granted by the Company to Mr. Chan Wing Chung (“**Mr. Chan**”), the former executive director of the Company who resigned on 29 June 2019; and (ii) 2,000,000 share options granted by the Company to Mr. Tso Ping Cheong Brian (“**Mr. Tso**”), the former independent non-executive director of the Company who resigned on 1 September 2019, which have been reallocated from the category of Director to Other Participants. Pursuant to the terms of the Scheme, each of Mr. Chan and Mr. Tso shall have the right to exercise his remaining share options granted within 30 days following the date of his resignation and his remaining share options will lapse automatically thereafter.
- These include (i) 32,000,000 share options granted by the Company to Mr. Chan which lapsed automatically in July 2019; and (ii) 2,000,000 share options granted by the Company to Mr. Tso which lapsed automatically in September 2019.

For the nine months ended 30 September 2019, there were no share options granted, exercised or cancelled under the Scheme. 34,000,000 share options have been lapsed under the Scheme during the reporting period and 293,000,000 share options remained exercisable 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 Rosedale Hotel Holdings Limited (a company listed on the Main Board of the Stock Exchange; stock code: 1189) on 20 September 2019.

Mr. Ong Chi King resigned as an executive director of Deson Construction International Holdings Limited (a company listed on GEM of the Stock Exchange; stock code: 8268) on 29 July 2019.

Save as disclosed above, there are no other changes in directors' information subsequent to the date of the interim report for the six months ended 30 June 2019 as required to disclose under Rule 17.50A of the GEM Listing Rules.

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 nine months ended 30 September 2019 or at any time during the nine months ended 30 September 2019.

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 nine months ended 30 September 2019.

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 nine months ended 30 September 2019.

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 nine months ended 30 September 2019.

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 nine months ended 30 September 2019.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions as set out in the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules during the nine months ended 30 September 2019.

AUDIT COMMITTEE

As at the date of this report, the audit committee of the Company (the “**Audit Committee**”) comprises three independent non-executive Directors, namely Mr. Lin Qiu Fa (chairman of the Audit Committee), Mr. Ke Jun and Mr. Chung Kwok Pong. The unaudited condensed consolidated financial statements of the Group for the nine months ended 30 September 2019 and this report have been reviewed by the Audit Committee.

By order of the Board
Larry Jewelry International Company Limited
Lan Yang
Executive Director

Hong Kong, 11 November 2019

As at the date of this report, the Board comprises Mr. Lan Yang as executive Director and Mr. Lin Qiu Fa, Mr. Ke Jun and Mr. Chung Kwok Pong as independent non-executive Directors.