

LARRY JEWELRY

INTERNATIONAL COMPANY LIMITED

Incorporated in Bermuda with limited liability Stock Code: 8351



INTERIM REPORT 2012

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This report, for which the directors (the “Directors”) of Larry Jewelry International Company Limited (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange 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 in this report misleading.

The board of directors (the “Board”) of Larry Jewelry International Company Limited (the “Company”) is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months and six months ended 30 June 2012 together with the unaudited comparative figures for the corresponding period in 2011 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the three months and six months ended 30 June 2012

	Notes	Three months ended 30 June		Six months ended 30 June	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Revenue	3	77,712	5,820	170,360	11,451
Cost of sales		(56,845)	(3,070)	(127,607)	(7,872)
Gross profit		20,867	2,750	42,753	3,579
Other income	3	234	216	3,416	233
Selling and distribution costs		(18,312)	(632)	(36,548)	(1,840)
Administrative expenses		(25,930)	(8,170)	(39,454)	(25,253)
Operating loss		(23,141)	(5,836)	(29,833)	(23,281)
Finance costs	5	(7,124)	–	(15,475)	(5)
Loss before income tax	6	(30,265)	(5,836)	(45,308)	(23,286)
Income tax (expense)/credit	7	(83)	(39)	103	108
Loss for the period attributable to the owners of the Company		(30,348)	(5,875)	(45,205)	(23,178)
Loss per share for loss attributable to the owners of the Company during the period					
– Basic and diluted	9	(3.37)	(0.92)	(5.03)	(3.65)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE
INCOME (UNAUDITED)

For the three months and six months ended 30 June 2012

	Three months ended 30 June		Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Loss for the period attributable to the owners of the Company	(30,348)	(5,875)	(45,205)	(23,178)
Other comprehensive income				
Exchange (loss)/gain on translation of financial statements of foreign operations	(1,088)	–	2,094	–
Total comprehensive income for the period attributable to the owners of the Company	(31,436)	(5,875)	(43,111)	(23,178)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2012

	Notes	As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	10	8,187	7,284
Goodwill		43,736	43,736
Intangible assets		79,000	79,000
Deposits		–	7,900
Financial assets at fair value through profit or loss		4,475	3,130
		135,398	141,050
Current assets			
Inventories	11	351,075	332,346
Trade receivables	12	3,498	11,443
Prepayments, deposits and other receivables		14,717	4,936
Tax recoverable		811	1,245
Pledged time deposits		21,950	–
Bank and cash balances		39,420	123,324
		431,471	473,294
Current Liabilities			
Trade payables	13	31,669	54,891
Other payables and accruals		18,035	22,310
Borrowings	14	151,613	276,940
Provision for tax		3,650	5,151
		204,967	359,292
Net current assets		226,504	114,002
Total assets less current liabilities		361,902	255,052
Non-current liabilities			
Deferred tax liabilities		15,545	16,777
Convertible notes	15	59,327	45,046
		74,872	61,823
Net assets		287,030	193,229
EQUITY			
Share Capital	16	10,181	8,649
Reserves		276,849	184,580
Total equity		287,030	193,229

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2012

	Share capital HK\$'000	Share premium HK\$'000	Capital contribution reserves HK\$'000	Convertible notes equity reserve HK\$'000	Share option reserves HK\$'000	Merger reserves HK\$'000	Translation Reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
The Group									
Balance as at 31 December 2011 and 1 January 2012	8,649	236,005	3,988	17,206	8,683	(830)	(6,360)	(74,112)	193,229
Issue of convertible notes	-	-	-	20,394	-	-	-	-	20,394
Issuance cost of convertible notes	-	-	-	(783)	-	-	-	-	(783)
Transfer on redemption of convertible notes	-	-	-	(12,125)	-	-	-	12,125	-
Issue of shares	1,532	116,440	-	-	-	-	-	-	117,972
Share issue expenses	-	(3,978)	-	-	-	-	-	-	(3,978)
Recognition of equity-settled share-based payments	-	-	-	-	3,307	-	-	-	3,307
Transactions with owners	1,532	112,462	-	7,486	3,307	-	-	12,125	136,912
Loss for the period	-	-	-	-	-	-	-	(45,205)	(45,205)
Other comprehensive income									
- Exchange gain on translation of financial statements of foreign operations	-	-	-	-	-	-	2,094	-	2,094
Total comprehensive income for the period	-	-	-	-	-	-	2,094	(45,205)	(43,111)
At 30 June 2012	10,181	348,467	3,988	24,692	11,990	(830)	(4,266)	(107,192)	287,030
Balance as at 31 December 2010 and 1 January 2011	5,815	57,458	3,988	-	199	(830)	-	12,410	79,040
Issue of shares	905	49,142	-	-	-	-	-	-	50,047
Share issue expenses	-	(1,261)	-	-	-	-	-	-	(1,261)
Recognition of equity-settled share-based payments	-	-	-	-	13,450	-	-	-	13,450
Issue of shares upon exercise of share options	240	6,680	-	-	(199)	-	-	-	6,721
Transactions with owners	1,145	54,561	-	-	13,251	-	-	-	68,957
Loss for the period	-	-	-	-	-	-	-	(23,178)	(23,178)
Other comprehensive income	-	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	-	-	(23,178)	(23,178)
At 30 June 2011	6,960	112,019	3,988	-	13,450	(830)	-	(10,768)	124,819

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
(UNAUDITED)

For the six months ended 30 June 2012

	Six months ended 30 June 2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Net cash used in from operating activities	(59,500)	(27,253)
Net cash (used in)/generated from investing activities	(24,848)	1,549
Net cash (used in)/generated from financing activities	(1,457)	54,307
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(85,805)	28,603
Cash and cash equivalents at beginning of period	123,324	33,740
Effect of foreign exchange rate changes	1,901	–
CASH AND CASH EQUIVALENTS AT END OF PERIOD	39,420	62,343
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	39,420	62,343

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS

1. GENERAL INFORMATION

Larry Jewelry International Company Limited (the “Company”) was incorporated in Bermuda with limited liability on 11 June 2009. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of business of the Company is located at Units 01–02, 5th Floor, Soundwill Plaza, 38 Russell Street, Causeway Bay, Hong Kong. The Company’s shares have been listed on the GEM of the Stock Exchange since 7 October 2009.

The Company’s principal activity has not changed during the period and consisted of investment holding. The principal activity of its subsidiaries (together with the Company referred to as the “Group”) are principally engaged in designing, sale and retailing of a broad range of fine jewelry products.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRS”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as the “HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

The unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value as appropriate.

The principal accounting policies used in the preparation of these unaudited condensed consolidated interim financial statements for the six months ended 30 June 2012 are consistent with those used in the annual audited financial statements for the nine months ended 31 December 2011, except for the new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by HKICPA that are adopted for the first time for the current financial statements. The adoption of these new and revised HKFRSs has had no material impact on the Group’s financial statements. The Group has not early adopted any new HKFRSs that have been issued but are not yet effective.

3. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents total invoiced value of goods sold in the course of the Group's principal activities, net of returns and trade discounts. Revenue and other income recognised during the periods are as follows:

	Three months ended 30 June 2012 (Unaudited) HK\$'000		Six months ended 30 June 2012 (Unaudited) HK\$'000	
		2011 (Unaudited) HK\$'000		2011 (Unaudited) HK\$'000
Revenue				
Sales	77,712	5,820	170,360	11,451
Other income				
Exchange gain, net	–	192	653	201
Interest income	1	9	3	11
Management fee income	193	–	387	–
Reversal of provision of impairment on trade receivables	–	–	138	–
Sundry income	40	15	2,235	21
	234	216	3,416	233

4. SEGMENT INFORMATION

The total presented for the Group's operating segment reconcile to the Group's key financial figures as presented in the Interim Accounts as follows:

	2012			
	Design and Trading of Jewelry Products segment HK\$'000	Retailing of Jewelry Products segment HK\$'000	Unallocated HK\$'000	Total HK\$'000
Segment revenue	4,577	165,783	–	170,360
Segment profit/(loss) before income tax	1,072	(5,720)	(40,660)	(45,308)
Segment assets	26,403	399,517	140,949	566,869
Segment liabilities	895	101,498	177,446	279,839

	2011			
	Design and Trading of Jewelry Products segment HK\$'000	Retailing of Jewelry Products segment HK\$'000	Unallocated HK\$'000	Total HK\$'000
Segment revenue	10,236	1,215	–	11,451
Segment loss before income tax	(1,554)	(1,365)	(20,367)	(23,286)
Segment assets	55,802	2,668	74,506	132,976
Segment liabilities	5,917	62	2,178	8,157

All of the segment revenue reported above is from external customers.

The Group's revenue from external customers is divided into the following geographical areas:

	Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Southeast Asia	86,009	213
Greater China (include Hong Kong and Macau)	84,107	5,690
Europe	218	4,116
The United States of America and Canada	26	1,432
	170,360	11,451

The geographical location of customers is based on the location at which the goods were delivered.

During the period under review, there was no revenue from external customers attributed to Bermuda (the Company's country of domicile) (2011: Nil). The country of domicile is the country where the Company was incorporated.

5. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Interest charges on bank and other borrowings wholly repayable within five years	2,174	–	6,780	5
Effective interest expenses on				
– convertible notes	3,896	–	6,133	–
– promissory notes	1,054	–	2,562	–
	7,124	–	15,475	5

6. LOSS BEFORE INCOME TAX

The Group's loss before income tax is arrived at after charging the following:

	Three months ended 30 June		Six months ended 30 June	
	2012	2011	2012	2011
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Loss before income tax is arrived at after charging:				
Auditors' remuneration	681	100	681	65
Cost of inventories recognised as expense, including	56,845	3,070	127,607	7,872
– Reversal of write-down of inventories to net realisable value	–	–	–	(4,365)
Provision of impairment on trade receivables	–	–	–	1,000
Depreciation	1,035	147	1,939	295
Loss on disposals of property, plant and equipment	59	–	59	–
Loss of inventories	128	–	128	–
Loss on redemption of convertible notes	5,162	–	7,108	–
Change in fair value of financial assets at fair value through profit or loss	8,805	–	7,215	–
Equity settled share-based payment expenses	–	–	3,307	13,450
Employee benefit expense, including	8,243	1,668	21,158	16,745
– Share-based payment expenses	–	–	3,307	13,150
Operating lease rentals in respect of rented premises	11,645	1,596	23,735	2,258

7. INCOME TAX (EXPENSE)/CREDIT

	Three months ended 30 June		Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Current income tax				
– Hong Kong	99	(39)	(201)	108
– Singapore	(519)	–	(735)	–
Deferred tax	337	–	1,039	–
	(83)	(39)	103	108

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits for the three months and six months ended 30 June 2012 and 2011.

Singapore income tax has been provided at the rate of 17% on the estimated assessable profits for the three months and six months ended 30 June 2012 (three months and six months ended 30 June 2011: Nil).

No income tax has been provided for Macau and the PRC as there is no estimated assessable profit derived from Macau and the PRC during the three months and six months ended 30 June 2012 and 2011.

Pursuant to the rules and regulations of Bermuda and the British Virgin Islands (the "BVI"), the Company and its subsidiaries are not subject to any income tax in Bermuda and the BVI during the three months and six months ended 30 June 2012 and 2011.

8. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2012 and 2011.

9. LOSS PER SHARE

The adjusted loss attributable to the owners of the Company is calculated based on the loss attributable to the owners of the Company for the three months and six months ended 30 June 2012 of HK\$30,348,000 (2011: HK\$5,875,000) and HK\$45,205,000 (2011: HK\$23,178,000) as used in the calculation of basic loss per share.

The weighted average number of shares used in the calculation of basic loss per share is calculated based on the weighted average of 899,341,000 (2011: 635,881,000) ordinary shares in issue during the period.

For the three months and six months ended 30 June 2012 and 2011, basic loss per share are same as diluted loss per share as there was no dilutive ordinary share.

10. PROPERTY, PLANT AND EQUIPMENT

During the period under review, the Group spent approximately HK\$2,901,000 (six months ended 30 June 2011: approximately HK\$150,000) on acquisition of property, plant and equipment.

11. INVENTORIES

	As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
Raw materials	38,503	70,041
Work in progress	7,418	13,263
Finished goods	305,154	249,042
	351,075	332,346

12. TRADE RECEIVABLES

Ageing analysis of the Group's trade receivables as at the reporting dates based on the invoice dates is as follows:

	As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
Within 30 days	2,442	9,057
31 – 60 days	74	56
61 – 90 days	–	111
91 – 180 days	194	753
181 – 365 days	128	648
Over 1 year	660	818
	3,498	11,443

13. TRADE PAYABLES

Ageing analysis of the Group's trade payables as at the reporting dates based on the invoice dates is as follows:

	As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
Within 30 days	10,364	54,423
31 – 60 days	17,599	467
61 – 90 days	2,629	–
91 – 180 days	598	–
181 – 365 days	479	1
	31,669	54,891

14. BORROWINGS

	As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
Borrowings wholly repayable within one year and classified as current liabilities		
Bank loans, secured (i)	48,333	–
Other loans, unsecured (ii)	–	125,000
Promissory notes, secured (iii)	103,280	151,940
	151,613	276,940

- (i) The bank loans are secured by the pledged time deposits of the Group.
- (ii) On 4 July 2011, the Company entered into a loan agreement with a financial institution to borrow a fund of HK\$125,000,000, which bears interest at the rate of 15% per annum and is repayable by 13 July 2012. The amount was repaid in full during the six months ended 30 June 2012.
- (iii) On 19 July 2011, the Company issued promissory notes with a principal amount of HK\$150,000,000, which are secured by a share charge dated 19 July 2011 over the entire issued share capital of Sharp Wonder Holdings Limited, a wholly-owned subsidiary of the Group and bear interest at 3.5% per annum. HK\$50,000,000 was repaid during the six months ended 30 June 2012 and the remaining balance of HK\$100,000,000 will be due on 19 July 2012.

15. CONVERTIBLE NOTES

- (a) On 11 July 2011, an aggregate principal amount of HK\$54,000,000 of the convertible notes ("CN1") were issued to the placees with the conversion price of HK\$1.50 per conversion share, which bear interest at the rate of 2% per annum and will be redeemed by the Company on 11 July 2014 at 120% of its principal amount.

During the six months ended 30 June 2012, the Company redeemed total principal amount of HK\$40,000,000 of CN1 for a total consideration of HK\$41,429,000, resulting in a loss of approximately HK\$7,108,000 from the redemption, which was recognized in profit or loss. As at 30 June 2012, the principal amount of HK\$14,000,000 (31 December 2011: HK\$54,000,000) of CN1 remained outstanding.

- (b) On 8 September 2011, a zero coupon convertible notes in the principal amount of HK\$2,000,000 ("CN2") were issued, as a part of the consideration for the acquisition of Parkwell Asia Limited. CN2 bear no interest and were issued with the conversion price of HK\$1.00 per conversion share and will be redeemed by the Company on 8 September 2014 at 100% of its principal amount.

- (c) On 22 March 2012, an aggregate principal amount of HK\$56,000,000 of the convertible notes ("CN3") were issued to the placees with the conversion price of HK\$0.80 per conversion share, which bear interest at the rate of 3% per annum and will be redeemed by the Company on 22 March 2014 at 110% of its principal amount.

On initial recognition, CN3 in the consolidated statement of financial position are calculated as follows:

	HK\$'000
Fair value of convertible notes issued	56,000
Issuance expenses	(1,697)
Derivative asset component	8,560
Equity component	(20,394)
Liability component on initial recognition	42,469

Movement of liability component for the period from 1 January 2012 to 30 June 2012 is as follows:

	CN1 HK\$'000	CN2 HK\$'000	CN3 HK\$'000	Total HK\$'000
At 1 January 2012	43,347	1,699	–	45,046
Liability component upon initial recognition	–	–	42,469	42,469
Imputed interest expenses	3,275	52	2,806	6,133
Redemption of convertible notes	(34,321)	–	–	(34,321)
At 30 June 2012	12,301	1,751	45,275	59,327

16. SHARE CAPITAL

	Number of shares	HK\$'000
Authorised:		
At 1 January 2012 and 30 June 2012, ordinary shares of HK\$0.01 each	10,000,000,000	100,000
Issued and fully paid:		
At 1 January 2012, ordinary shares of HK\$0.01 each	864,854,500	8,649
Issue of shares (notes)	153,210,000	1,532
At 30 June 2012, ordinary share of HK\$0.01 each	1,018,064,500	10,181

Notes:

- (i) On 23 March 2012, the Company entered into a subscription agreement with a subscriber for the subscription of an aggregate 150,650,000 new ordinary shares of the Company at a subscription price of HK\$0.77 per subscription share. As a result, the Company issued 150,650,000 new ordinary shares at HK\$0.77 per share on 21 May 2012.
- (ii) On 23 March 2012, the Company entered into a placing agreement with the placing agent, pursuant to which an aggregate of 2,560,000 new ordinary shares were placed by the placing agent on behalf of the Company, at the placing price of HK\$0.77 per placing share with the independent investors. As a result, the Company issued 2,560,000 new ordinary shares at HK\$0.77 per share on 23 May 2012.

17. COMMITMENTS

(a) Operating Lease Commitments

The Group leases office premises and retail outlets under operating lease arrangement. Leases for office premises and retail outlets are negotiated for the term in 3 years.

At the financial position date, the Group had total future minimum lease payments under non-cancelable operating leases falling due as follows:

	As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
Within one year	42,021	38,937
In the second to fifth years inclusive	53,370	53,327
	95,391	92,264

(b) Capital Commitments

	As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
Contracted but not provided for:		
Acquisition of subsidiary	500	–
Acquisition of property, plant and equipment	–	500
	500	500

18. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions and balances disclosed elsewhere in the Interim Accounts, the Group had the following transactions with related parties:

	As at 30 June 2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Management income	387	–
Rental expenses paid	7,200	92

These transactions were conducted in the ordinary course of business and negotiated at terms agreed between the parties.

19. EVENTS AFTER THE REPORTING DATE

- (a) On 4 July 2012, the Group has entered into a facility agreement with GE Capital Services Pte Ltd and GE Commercial Finance (Hong Kong) Limited (collectively, "GE Capital"), in relation to the provision of a 3-year facilities in an aggregate amount up to HK\$234 million (the "Facilities") to the Group.
- (b) On 27 July 2012, the Group used the proceeds under the Facilities provided by GE Capital to repay the outstanding principal amount of the promissory notes in the sum of HK\$100 million and interest thereon in full.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The first half of 2012 demonstrated the increasing recognition of the “Larry Jewelry” brand thanks to the Group’s strategic moves. During the period under review, the Group has uplifted the design of its Central store to present a new, younger image of “Larry Jewelry”, showing its eagerness to keep abreast of latest jewelry trend. In addition, after the first specialty counter set up at Oriental Watch Holding Limited (“Oriental Watch”) in June, more stores/counters and new collections are set to launch later this year.

Sustainable Growth in Retail Business

Driven by its new business strategies and operating efficiency, the Group successfully improved its revenue by approximately 14 times as compared with the same period of last year, especially through its new wing of retail business. During the period under review, the Group has invested in the renovation of its store in Central, aiming to bring its customers a refreshing, luxurious journey. In addition, the Group has engaged in different marketing campaigns in both Hong Kong and Singapore, furthering enhancing the brand awareness of its potential customers.

Establishment of First Specialty Counter at Oriental Watch Flagship Store

After entering the operation agreement with Oriental Watch in March, Larry Jewelry’s first specialty counter has been set up at Oriental Watch’s flagship store in Central in June. The Board believes, this cooperation creates synergy between the Group and Oriental Watch, broadening the client base for both companies and accelerating the Group’s plan to enter the market in Greater China.

Strong Financial Position for Future Development

In addition to the fund raising in March through subscription and placing agreements, Larry Jewelry has successfully secured a HK\$234 million facility agreement in July, expected to expand the Group’s funding sources and lower its financing costs substantially. The agreement also enables the revamping of the Group’s existing debt structure and to ramp up existing inventory, providing the Group with greater flexibility in further promoting the “Larry Jewelry” brand.

With the repayment of all promissory notes in July, the Group has completed the refinancing of short term debts incurred in connection with the acquisition of Sharp Wonder Holdings Limited. Furthermore, the financial position of the Group has improved by reducing the debt/equity ratio.

FINANCIAL REVIEW

Revenue

With the completion of the acquisition of Sharp Wonder Holdings Limited (“Sharp Wonder”), which operates retail shops under the “Larry Jewelry” brand at premium locations in Hong Kong and Singapore, the Group’s revenue for the six months ended 30 June 2012 increased to approximately HK\$170,360,000 compared to approximately HK\$11,451,000 for the corresponding period last year, an increase of approximately 14 times.

Gross Profit

The gross margin of the Group as reported in the consolidated income statement was 25.1% whereas if all the Group's inventories were recorded based on historical cost levels, the adjusted gross margin would be 26.3%. The inventories included an upward fair value adjustment of approximately HK\$15,059,000 as at 30 June 2012, it is expected that the impact of upward fair value adjustment on the gross margin will be further reduced in future.

Other income

The Group's other income for the six months ended 30 June 2012 increased by approximately 14 times to HK\$3,416,000 compared to approximately HK\$233,000 for the corresponding period last year. The increase was mainly attributed to insurance compensation received, exchange gain due to favourable movement of the exchange rate of Singapore Dollars to HKD and management fee income.

Selling and Distribution Expenses

Selling and distribution costs of the Group for the six months ended 30 June 2012 increased to approximately HK\$36,548,000 compared to approximately HK\$1,840,000 compared to the corresponding period last year, representing an increase of approximately 19 times. The increase was mainly attributed to the operating costs of the retail operations acquired on 19 July 2011 and the marketing expense for promoting the brands.

Administrative Expenses

The Group's administrative expenses for the six months ended 30 June 2012 increased by 56.2% to approximately HK\$39,454,000 compared to approximately HK\$25,253,000 for the corresponding period last year. Excluding the decrease in equity settled share-based staff benefit expense from HK\$13,150,000 for the six months ended 30 June 2011 to HK\$3,307,000 for the six months ended 30 June 2012, the other administrative expenses increased from HK\$12,103,000 to HK\$36,147,000 mainly because of the expansion into the retail segment, the loss incurred for the redemption of convertible notes (approximately HK\$7,108,000) and the decrease in fair value of financial assets (approximately HK\$7,215,000).

Finance Costs

The finance costs of the Group for six months ended 30 June 2012 have increased to HK\$15,475,000 compared to approximately HK\$5,000 for the corresponding last year. The increase was mainly due to the Company has raised debt financing (including convertible notes) and issued promissory notes for the Sharp Wonder Acquisition. With the completion of the refinancing of the short term debts in July 2012, it is foreseen that the finance costs will be reduced.

Loss Attributable to the Owners of the Company

Loss attributable to the owners of the Company was HK\$45,205,000 for the six months ended 30 June 2012 compared to loss of HK\$23,178,000 for the corresponding period last year. The loss was mainly driven by (i) non-cash items including equity settled share-based staff benefit expense, decrease in fair value of financial assets and amortisation of fair value of financial assets at fair value through profit or loss, (ii) one-off items including loss incurred for the redemption of convertible notes and (iii) high finance costs.

Liquidity and Financial Resources

The current ratio of the Group as at 30 June 2012 was 2.1 times compared with 1.3 times as at 31 December 2011 mainly resulting from the Group has completed the refinancing of short term debts.

As at 30 June 2012, the Group had aggregate cash and bank balances and bank time deposits of approximately HK\$61.4 million (31 December 2011: HK\$123.3 million) and total borrowings amounted to approximately HK\$210.9 million (31 December 2011: HK\$322.0 million). Total net borrowings were HK\$149.5 million (31 December 2011: HK\$198.7 million). Net gearing ratio decreased from 102.8% as at 31 December 2011 to 52.1% as at 30 June 2012.

The maturity of the borrowings of the Group as at 30 June 2012 is set out as follows:

	HK\$'000
Borrowings from financial institutions	
Within 1 year	48,333
Promissory notes at principal amount	
Within 1 year	100,000
Convertible notes at principal amount	
Between 1 and 2 years	56,000
Between 2 and 5 years	16,000

The Group has completed a series of capital raising exercises during the past six months to strengthen its financial position. For details, please refer to the "Capital Raising" section below. Management is in ongoing discussions with financial institutions and strategic investors to further enhance its financial resources.

Capital Raising

1. On 22 March 2012, the Company issued convertible notes with principal amount of HK\$56,000,000.
2. On 21 May 2012, the Company issued 150,650,000 shares to a subscriber at a price of HK\$0.77 per subscription share under a specific mandate granted by the shareholders on 14 May 2012.
3. On 21 May 2012, the Company issued 2,560,000 shares at a price of HK\$0.77 per placing share by way of placing under a specific mandate granted by the shareholders on 14 May 2012.

OUTLOOK

As global economic growth continue to be overshadowed by uncertainties, the Group has strong plans in place, including new store/counter openings and promotional activities, gearing up to capture the sales potential during the latter half of the year.

To unleash its growth potential, the Group will look for potential locations to set up marketing centres in Greater China to further establish its presence in the region. While exploring new markets will contribute to the Group's long-term development, Larry Jewelry will also launch new series of products, namely "L'Cosmo" and "L' Joy", which will continue to be inherited from Larry Jewelry with superior design and craftsmanship. L' Cosmo is a collection specially designed to meet the needs of cosmopolitan women and marks a move away from the traditional concept of diamond jewelry. Inspired by the romance and elegance of the Victorian era, the L' Joy is a bridal jewelry series which reflects a romantic and sentimental outlook. Both series, along with the newly launched Lazare® collection at its Hong Kong stores, aim to expand the Group's market share through reaching potential customers from different age groups while strengthening the awareness and perception of the "Larry Jewelry" brand.

Looking forward, the business environment will continue to be challenging and Larry Jewelry's management team will not waver from its focus on same-store sales and inventory turnovers through new products and various marketing campaigns. The Group will strive to be proactive in positioning Larry Jewelry as a prestige luxury brand and to generate long-term returns through strategic partnership, together with increasing in promotional activities.

CONTINUING CONNECTED TRANSACTIONS

On 8 April 2011, the Company entered into a tenancy letter with Goldfull Property Limited for the leasing of the Causeway Bay premises for a term of two years from 13 May 2011 up to and including 12 May 2013.

On 19 July 2011, Larry Jewelry Limited, a wholly owned subsidiary of the Group, entered into a lease agreement with Goldfull Property Limited for the leasing of the Tsimshatsui premises for a term of three years from 19 July 2011 up to and including 18 July 2014.

Goldfull Property Limited is 96% beneficially owned by the brother of Mr. Chan Hoo Chow ("Mr. Charles Chan") and Mr. Chan Ho Kong ("Mr. Stanley Chan"). Mr. Charles Chan and Mr. Stanley Chan are the former directors of Sharp Wonder Holdings Limited. Upon the completion of the acquisition of the entire equity interest in Sharp Wonder Holdings Limited on 19 July 2011, Mr. Charles Chan and Mr. Stanley Chan and Goldfull Property are connected persons of the Company under the GEM Listing Rules. The lease and the leasing annual caps of the Tsimshatsui premises were approved by the independent shareholders of the Company at the special general meeting held on 12 July 2011.

Rental expenses of HK\$7,200,000 was classified as continuing connected transactions for the six months ended 30 June 2012.

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

Save for those disclosed in this report, there were no significant investment held, material acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30 June 2012 and there is no plan for material investments or capital assets as at the date of this report.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2012.

EVENTS AFTER THE REPORTING DATE

- (a) On 4 July 2012, the Group has entered into a facility agreement with GE Capital Services Pte Ltd and GE Commercial Finance (Hong Kong) Limited (collectively, "GE Capital"), in relation to the provision of a 3-year facilities in an aggregate amount up to HK\$234 million (the "Facilities") to the Group.
- (b) On 27 July 2012, the Group used the proceeds under the Facilities provided by GE Capital to repay the outstanding principal amount of the promissory notes in the sum of HK\$100 million and interest thereon in full.

CHARGES ON GROUP ASSETS

- (a) As at 30 June 2012, a security for the due and punctual payment and performance of the obligations of the Company under an outstanding principal amount of HK\$100,000,000 of the promissory notes dated 19 July 2011, which was issued by Company, was secured by a share charge dated 19 July 2011 over the entire issued share capital of Sharp Wonder Holdings Limited (a wholly-owned subsidiary of the Group) executed by Peakwood Limited (a wholly-owned subsidiary of the Group) as the charger in favour of Solid Bonus Limited.
- (b) As at 30 June 2012, the banking facilities provided by the Group's banks were secured by the pledged time deposits of the Group.

FOREIGN EXCHANGE EXPOSURE

The Group carries out its business in Hong Kong and Singapore and most of the transactions are denominated in HK\$, United States Dollars ("US\$") and Singapore Dollars ("SGD"). Exposures to currency exchange rates arise from the Group's overseas sales and purchases. Accordingly, the Board is of the view that, to certain extent, the Group is exposed to foreign currency exchange risk.

For the US\$ foreign exchange exposure, the Board believes the exposure is small as the exchange rate of US\$ to HK\$ is comparatively stable. However, the Group is exposed to SGD exchange exposure and fluctuation of exchange rates of SGD against HK\$ could affect the Group's results of operations.

To mitigate the impact of exchange rate fluctuations, the Group continually assesses and monitors the exposure to foreign currency risk. During the period under review, management of the Group used certain foreign currency forward contracts to hedge the exposure to foreign exchange risk as most of the assets and liabilities denominated in currencies other than the functional currency of the entities to which they related are short term foreign currency cash flows. Management will also adjust the currency mix of its borrowings to better align with the currency mix of cash generated from operation.

TREASURY POLICIES

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluations of the financial conditions of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2012, the Group had 108 (31 December 2011: 122) employees, including the Directors. Total staff costs (including Directors' emoluments) were approximately HK\$21,158,000 for the six months ended 30 June 2012 as compared to approximately HK\$16,745,000 for the six months ended 30 June 2011. Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include contributions to statutory mandatory provident fund scheme to its employees in Hong Kong and share option scheme.

COMPARISON BETWEEN THE BUSINESS OBJECTIVES AND THE ACTUAL OPERATION PROGRESS

The following is a summary of the actual progress of the Group compared with the business objectives set out in the Prospectus for the period from 1 January 2012 to 31 March 2012 (the "Review Period").

	Business objectives for the Review Period	Actual operation progress up to 31 March 2012
Product development	<ul style="list-style-type: none">– Introduce more designs to the new product series manufactured by the micro-setting and/or invisible setting techniques– Introduce more designs to new gemstone product series based on feedback from customers– Promote and launch the high-end new product series with unique designs– Produce designs for potential customers in South America– Explore the market appetites in South East Asia	<p>Whilst the designs were attractive, the sales generated were much lower than expected amid poor market sentiment</p> <p>The launch was delayed due to unfavourable market conditions. The Group is planning to introduce new designs under the Larry Jewelry brand</p> <p>The Group will leverage on the design team of Larry Jewelry to develop such products</p> <p>Due to refocus on the Greater China market, the sales trip to South America was cancelled</p> <p>Due to focus on direct retail business, this initiative was suspended</p>

Expansion of sales network	Business objectives for the Review Period	Actual operation progress up to 31 March 2012
	– Strengthen the communication channels with existing customers and existing markets	The trips in the past three months were cancelled due to poor market environment
	– Expand the customers' base by further exploring business opportunities with potential customers in existing markets	Meetings with potential customers were arranged during the sales trips. New sales generated were limited due to slow recovery in Europe and US
	– Enhance the Group's corporate profile, improve product display in tradeshows and participate in more new tradeshows, if necessary	The Group participated in one tradeshows in the past three months with limited success
	– Evaluate the performance in the Pan-pacific region, in particular, Australia, based on the sales revenue and feedback from relevant customers and modify the business plan, if necessary	Based on the information gathered, management considered that investment in this sector may not generate attractive return to the shareholders
	– Develop business opportunities in South America based on information gathered from overseas customers' visit(s) and contacts with the potential customers, produce new product designs which suit the market demand in South America and arrange business trips to promote these products	The trip to South America was cancelled as management considered that opportunities in the Greater China region offered a better growth potential for the Group
	– Explore business opportunities in South East Asia based on the information gathered from HKTDC and the Internet, study the market trends in the region and establish preliminary contacts with potential customers by arranging visit(s) to South East Asia, by joining HKTDC trade tours to South East Asia, and by participating in tradeshows in South East Asia and invite potential customers to attend the Hong Kong March Jewelry Show	The expansion plan for wholesale business in South East Asia was cancelled as the Group placed more focus in the retail segment. Moreover, it has established a significant presence in Singapore through acquisition of Larry Jewelry

	Business objectives for the Review Period	Actual operation progress up to 31 March 2012
	– Set up branches in the Group’s major markets	The setting up of branch in Europe and US was delayed due to poor market conditions in these markets
	– Evaluate and update the Group’s website	The Group’s website has been updated to reflect the recent corporate developments
	– Evaluate the performance of the existing retail outlets and modify the business plan, if necessary	The Group has successfully entered into the retail segment through acquisitions
	– Depending on sufficiency of the then internal resources of the Group, establish the Group’s third retail outlet in the PRC, possibly in Guangdong province, Xi’an or Shanghai, including setting up of office, renting and fitting-out of premise and recruitment of staff	Management continues to identify suitable sites in these areas to open more retail outlets
Human resources deployment and staff training	– Evaluate and improve the design ability of the Group’s in-house design team	The Group has secured both experienced designers and new talents through acquisition of Larry Jewelry, Parkwell as well as recruitment
	– Participate in jewelry design competitions so as to enhance the experience of the in-house design team	This is delayed as the Group focus on other merger and acquisition activities
	– Strengthen the Group’s procurement and quality control team through provision of training on the latest raw material knowledge and market trends	Training was provided to the staff involved. They were also encouraged to take professional examination
	– Recruit additional staff with experience in raw material sorting	The Group has increased its capacity in raw materials sorting through acquisition of Larry Jewelry
	– Provide and organise trainings to the sales team on product knowledge, quality control processes, customer services and communication skills	Trainings to the sales team were provided

Business objectives for the Review Period	Actual operation progress up to 31 March 2012
<ul style="list-style-type: none"> – Evaluate the performance of the sales team 	<p>Several wholesale salespersons left the Group during the past three months. The Group continued to identify suitable candidates as replacement</p>
<ul style="list-style-type: none"> – Enhance after-sales customer services 	<p>More regular follow up with customers were conducted to boost new orders from existing customers. Sales from existing customers represented a significant part of the Group's wholesale business during the period under review</p>
Procurement and contract manufacturing	
<ul style="list-style-type: none"> – Further enhance the networking and communication with the Group's suppliers and jewelry subcontractors 	<p>The Group has leveraged on the supplier and contractor network of Larry Jewelry and Parkwell to broaden its network</p>
<ul style="list-style-type: none"> – Evaluate potential suppliers and jewelry subcontractors in other markets 	<p>Several new suppliers and subcontractors had been identified. The Group has begun working with these parties on a pilot basis</p>

USE OF PROCEEDS GENERATED FROM LISTING ON GEM

During the Review Period, the Group has applied the net proceeds as follows:

	Amount extracted from the Prospectus HK\$'000	Actual usage HK\$'000
Product development	3,200	3,200
Expansion of sales net work	3,700	3,700
Human resources deployment and staff training	3,000	3,000
Procurement and contract manufacturing	2,000	2,000
Enhancement of inventory level	2,500	2,500
General working capital	1,600	1,600
	16,000	16,000

The net proceeds has been used in full in accordance with plan for use of proceeds as disclosed in the Prospectus.

SHARE OPTIONS

The Company has conditionally adopted the Share Option Scheme on 21 September 2009 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.

As at 30 June 2012, details of the options granted under the Share Option Scheme and the General Mandate were as follows:

Grantee	Outstanding as at 1 January 2012	Number of share options				Outstanding as at 30 June 2012	Date of grant	Exercise period	Exercise price
		Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period				
(i) Under Share Option Scheme									
Directors									
Ms. Tsang Po Yee Pauline	5,810,000	-	-	-	-	5,810,000	10 March 2011	10 March 2011 to 9 March 2021	HK\$0.750
Mr. Chan Man Fai Joe	5,810,000	-	-	-	-	5,810,000	10 March 2011	10 March 2011 to 9 March 2021	HK\$0.750
		2,000,000	-	-	-	2,000,000	28 March 2012	28 March 2012 to 28 March 2015	HK\$0.770
Mr. Tam B Ray Billy	5,810,000	-	-	-	-	5,810,000	10 March 2011	10 March 2011 to 9 March 2021	HK\$0.750
Mr. Lam Kin Kok	-	250,000	-	-	-	250,000	28 March 2012	28 March 2012 to 28 March 2015	HK\$0.770
Mr. Seto Man Fai	-	250,000	-	-	-	250,000	28 March 2012	28 March 2012 to 28 March 2015	HK\$0.770
Mr. Ho Hin Hung Henry	-	250,000	-	-	-	250,000	28 March 2012	28 March 2012 to 28 March 2015	HK\$0.770
Employees	-	7,300,000	-	-	-	7,300,000	28 March 2012	28 March 2012 to 28 March 2015	HK\$0.770
Consultant	4,600,000	-	-	-	-	4,600,000	30 September 2011	30 September 2011 to 29 September 2014	HK\$0.550
	22,030,000	10,050,000	-	-	-	32,080,000			
(ii) Under General Mandate									
Consultant	17,000,000	-	-	-	-	17,000,000	8 March 2011	8 March 2011 to 7 March 2013	HK\$0.553
Consultant	30,000,000	-	-	-	-	30,000,000	4 October 2011	4 October 2011 to 3 October 2013	HK\$0.750
	47,000,000	-	-	-	-	47,000,000			
Total	69,030,000	10,050,000	-	-	-	79,080,000			

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

As at 30 June 2012, 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 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 were required 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 were taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

LONG POSITIONS IN SHARES OF THE COMPANY

Name of Director	Nature of interest	Number of ordinary shares held	Approximate percentage of shareholding of the Company
Mr. Chan Man Fai Joe ("Mr. Chan")	Directly beneficial owned	6,270,000	0.62%
	Held by controlled corporation	310,000	0.03%
Total		6,580,000	0.65%

Note: Mr. Chan, the Chairman and a non-executive director of the Company, was interested in 310,000 shares through Galaxy Investment (BVI) Limited. 100% of the issued share capital of Galaxy Investment (BVI) Limited was held by Galaxy Holdings (BVI) Limited, and 100% of the issued share capital of Galaxy Holdings (BVI) Limited was held by Crystal Harbour Holdings Limited, a company wholly owned by Mr. Chan.

LONG POSITIONS IN SHARE OPTIONS OF THE COMPANY

Name of Director	Date of grant of share options	Exercise period	Exercise price	Number of options directly beneficially owned	Approximate percentage of total issued shares
Ms. Tsang Po Yee Pauline	10 March 2011	10 March 2011 to 9 March 2021	HK\$0.750	5,810,000	0.57%
Mr. Chan Man Fai Joe	10 March 2011	10 March 2011 to 9 March 2021	HK\$0.750	5,810,000	0.57%
	28 March 2012	28 March 2012 to 28 March 2015	HK\$0.770	2,000,000	0.20%
Mr. Tam B Ray Billy	10 March 2011	10 March 2011 to 9 March 2021	HK\$0.750	5,810,000	0.57%
Mr. Lam Kin Kok	28 March 2012	28 March 2012 to 28 March 2015	HK\$0.770	250,000	0.02%
Mr. Seto Man Fai	28 March 2012	28 March 2012 to 28 March 2015	HK\$0.770	250,000	0.02%
Mr. Ho Hin Hung Henry	28 March 2012	28 March 2012 to 28 March 2015	HK\$0.770	250,000	0.02%
Total				20,180,000	

Save as disclosed above, as at 30 June 2012, none of the directors and chief executives 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 were required 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 were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register kept by the Company under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2012, other than the interests of certain directors and chief executive of the Company as disclosed under the section headed "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the company or any associated corporation" above, the interests or short positions of person in the shares, underlying shares and debentures 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, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

LONG POSITIONS IN SHARES OF THE COMPANY

Name of shareholder	Capacity of interests	Number of issued ordinary shares held	Approximate percentage of shareholding in the Company
Citigroup Inc.	Person having a security interest in shares	206,116,000	20.25%
Fullink Management Limited (Note 1)	Beneficial owner	181,000,000	17.78%
Tsang, Michael Man-heem (Note 1)	Interest of controlled corporation	181,000,000	17.78%
Galaxy Asset Management (H.K.) Ltd. (Note 2)	Investment advisor	180,850,000	17.76%
Lico Consultancy Limited (Note 3)	Beneficial owner	150,650,000	14.80%
Chan Un Chan (Note 3)	Interest of controlled corporation	150,650,000	14.80%
Deutsche Bank Aktiengesellschaft	Person having a security interest in shares	118,180,000	11.61%
Asia Private Credit Fund Limited	Beneficial owner	51,870,000	5.09%

Notes:

1. These Shares are held by Fullink Management Limited, which is beneficially owned as to 40% by Mr. Tsang, Michael Man-heem, 15% by Ms. Tsang Po Yee Pauline (an executive Director), 15% by Ms. Tsang, Becky Po Kei, 15% by Ms. Tsang, Po De Wendy and 15% by Ms. Tsang, Marina Po Hing. Ms. Tsang Po Yee Pauline (an executive Director) is a director of Fullink Management Limited.
2. These Shares refer to 102,810,000 Shares held by Galaxy China Deep Value Fund, 58,790,000 Shares held by Galaxy Master Fund SPC, for and on behalf of its segregated portfolio, Galaxy China Event Driven Fund Segregated Portfolio, 11,000,000 Shares held by Galaxy Master Fund SPC, for and on behalf of Galaxy Mining and Natural Resources Fund Segregated Portfolio and 8,250,000 Shares held by Galaxy China Opportunities Fund. Galaxy Asset Management (H.K.) Ltd. is the investment advisor to these funds. Mr. Chan Man Fai Joe, a non-executive Director and the chairman of the Company, is a director of Galaxy Asset Management (H.K.) Ltd..
3. Lico Consultancy Limited is wholly and beneficially owned by Ms. Chan Un Chan.

LONG POSITIONS IN UNDERLYING SHARES OF THE COMPANY

Name of shareholder	Capacity of interests	Number of underlying shares held	Approximate percentage of shareholding in the Company
UNIR (HK) Management Limited	Beneficial owner	42,500,000	4.17%
Chan Un Chan	Interest of controlled corporation	42,500,000	4.17%

Note: UNIR (HK) Management Limited holds convertible notes issued by the Company in the aggregate principal amount of HK\$34,000,000 which can be converted into 42,500,000 shares. UNIR (HK) Management Limited is therefore deemed to be interested in 42,500,000 underlying shares. UNIR (HK) Management Limited is wholly and beneficially owned by Ms. Chan Un Chan.

Save as disclosed above, as at 30 June 2012, the directors of the Company were not aware of any other person (other than the directors and chief executive of the Company) who had an interest or short position in the 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, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTOR'S RIGHTS TO ACQUIRE SHARE OR DEBENTURES

Apart from as disclosed under the heading "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" above, at no time during the reporting period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or of any other body corporate granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the directors, their respective spouse or children under 18 years of age to acquire such rights in the Company or any other body corporate.

PURCHASE, REDEMPTION OR SALE OF THE SHARES

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed shares during the six months ended 30 June 2012.

DIRECTOR'S INTERESTS IN COMPETING INTERESTS

As at the date of this report, none of the directors, the management shareholders of the Company and 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.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding 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. Having made specific enquiry of all directors, the Company was not aware of any non-compliance with such required standard of dealings and its code of conduct regarding securities transactions by directors during the six months ended 30 June 2012.

CORPORATE GOVERNANCE CODE

The Stock Exchange has issued the amendments on Corporate Governance Code in Appendix 15 to the GEM Listing Rules effective on 1 April 2012.

The Company has complied with the Corporate Governance Code during the period under review.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors of the Company, namely Mr. Seto Man Fai, Mr. Ho Hin Hung Henry, and Mr. Wong Tat Tung. The unaudited consolidated results of the Group for the six months ended 30 June 2012 have not been audited by the Company's auditors, but have been reviewed by the Committee, who is of the opinion that such statements comply with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

By Order of the Board
Larry Jewelry International Company Limited
Tsang Po Yee Pauline
Executive Director

Hong Kong, 7 August 2012

As at the date of this report, the Board comprises Ms. Tsang Po Yee Pauline as executive director, Mr. Chan Man Fai Joe as chairman and non-executive director, Mr. Tam B Ray Billy, Mr. Lam Kin Kok and Mr. Cheng Ping Yat as non-executive directors, and Mr. Seto Man Fai, Mr. Ho Hin Hung Henry and Mr. Wong Tat Tung as independent non-executive directors.