LARRY JEWELRY
INTERNATIONAL COMPANY LIMITED

Incorporated in Bermuda with limited liability Stock Code: 8351

ANNUAL REPORT 2012

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This report, for which the directors of Larry Jewelry International Company Limited (the "Directors") 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 Eternite International Company Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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LARRY

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Director

Ms. Tsang Po Yee Pauline

Non-Executive Directors

Mr. Tam B Ray Billy
Mr. Cheng Ping Yat

Independent Non-Executive Directors

Mrs. Chow Liang Shuk Yee Selina *(Chairman)*
Mr. Chan Tze Ching Ignatius
Mr. Fung Shing Kwong
Mr. Lau Wan Pui Joseph
Mr. Wong Tat Tung

COMPANY SECRETARY

Ms. Tsang Po Yee Pauline

AUTHORIZED REPRESENTATIVES

Ms. Tsang Po Yee Pauline
Mr. Cheng Ping Yat

AUDIT COMMITTEE

Mr. Chan Tze Ching Ignatius
Mr. Fung Shing Kwong
Mr. Lau Wan Pui Joseph
Mr. Wong Tat Tung

REMUNERATION COMMITTEE

Mr. Fung Shing Kwong
Mr. Chan Tze Ching Ignatius
Mr. Lau Wan Pui Joseph

NOMINATION COMMITTEE

Mr. Lau Wan Pui Joseph
Mr. Chan Tze Ching Ignatius
Mr. Fung Shing Kwong

AUDITOR

BDO Limited

SOLICITORS

Vincent T.K. Cheung, Yap & Co.

PRINCIPAL BANKERS

Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
The Bank of East Asia, Limited

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM11 Bermuda

PLACE OF BUSINESS

13/F, Pacific House,
20 Queen's Road Central,
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICES

Principal share registrar and transfer office

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM 08
Bermuda

Hong Kong branch share registrar and transfer office

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

STOCK CODE

8351

WEBSITE

www.larryjewelryinternational.com

FIVE YEAR FINANCIAL SUMMARY

The financial year end date of Larry Jewelry International Company Limited has been changed from 31 March to 31 December commencing from the financial period ended 31 December 2011. Accordingly, the current financial year covers the twelve months ended 31 December 2012, while the comparative figures for the last financial period are for the nine months ended 31 December 2011. The difference in duration of the financial periods should be considered when making year-on-year comparisons.

	Year ended 31 December 2012 *HK$'000*	Nine months ended 31 December 2011 *HK$'000*	Year ended 31 March 2011 *HK$'000*	Year ended 31 March 2010 *HK$'000*	Year ended 31 March 2009 *HK$'000*
Turnover	**351,183**	203,983	48,650	47,237	44,575
Gross profit	**95,635**	35,238	13,323	19,119	16,373
(Loss)/Profit before income tax	**(67,107)**	(75,565)	(18,426)	10,028	11,548
(Loss)/Profit attributable to the owners of the Company	**(67,910)**	(74,479)	(19,362)	7,942	9,678
Basic (loss)/earnings per share (HK cents)	**(7.08)**	(9.60)	(3.01)	1.76	3.02

	At 31 December		At 31 March		
	2012 *HK$'000*	2011 *HK$'000*	2011 *HK$'000*	2010 *HK$'000*	2009 *HK$'000*
Non-current assets	**140,033**	141,050	1,981	1,171	51
Current assets	**358,986**	473,294	118,831	55,104	29,479
Current liabilities	**154,231**	359,292	4,496	6,328	22,993
Net assets	**264,285**	193,229	116,316	49,947	6,537

Notes:

1. The results for the year ended 31 March 2009 were extracted from the Prospectus of the Company dated 29 September 2009. The earnings per share for the year were computed based on 320,000,000 ordinary shares that would have been in issue throughout the year on the assumption that the Reorganisation has been completed as at 1 April 2007.

2. Non-current assets, current assets, current liabilities and net assets of the Group as at 31 March 2009 were extracted from the Prospectus of the Company dated 29 September 2009.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of Larry Jewelry, I am pleased to present to you the Group's annual results for the year ended December 31, 2012.

In November last year, I accepted the invitation by the shareholders to take on the chairmanship of Larry Jewelry because I respect the Company's heritage and I believe in the Group's vision for the brand. With the vast pool of talent shared by the newly appointed Board members, I am confident we can lead Larry Jewelry into a prosperous future.

At the start of the year, it appeared that the jewelry market would maintain the strong growth seen in previous years. However, against a backdrop of global economic uncertainty, the 16% increase in visitor arrivals in 2012 was accompanied by a marked slowdown in spending, especially on luxury products such as jewelry and watches. Over the same period, property rentals have continued to increase and put pressure on Hong Kong businesses.

REJUVENATING OUR BRAND

Following the closing of the Pacific Place store, the Group has started to focus on expanding other distribution channels. Our efforts have so far resulted in a new shop-in-shop venture with Oriental Watch Holdings Limited. We believe such initiatives will provide flexibility for the company's future expansion. Meanwhile, our Singapore stores continued to record positive results.

In order to widen our customer base, in 2012 Larry Jewelry launched new designs and collections, such as the *Lazare Diamonds®* series targeting the higher end of the market, and Cosmo for young professionals and executives. To support these collections and enhance our brand awareness, we also rolled out successful marketing campaigns in Hong Kong and Singapore, including media events, exhibitions, sponsorship for celebrities in TV shows as well as charity events. These campaigns all served to further rejuvenate our image among existing and potential customers.

At the same time, we strategically reallocated our resources for product planning while enforcing cost control to increase back office efficiency, aiming to turn around our profit in the near future. And we managed to improve our debt-to-equity ratio, putting the brand on a firmer financial footing.

The Group's revenue for the reporting period increased to HK$351 million as the Larry Jewelry business making a 12-month contribution. However, as a result of the challenging macro environment and continuous investment in the brand in such a difficult period, the Group recorded a loss of HK$67 million during the reporting period. Although this represents a slight improvement overall in the Group's results taking reference to the 9-month period ended 31 December 2011, we believe there is room for improvement, and will do our utmost to achieve this objective.

Sales for the Larry Jewelry business were down by approximately 21% compared with the year ended 31 December 2011. The decrease in gross profit was approximately 17% but was compensated by an improvement in the gross margin of approximately 10%. Coupled with the increase in rental costs and marketing expenditure, the operating profit of the Larry Jewelry business for 2012 fell short of the anticipated target.

STRENGTHENING OUR CORPORATE GOVERNANCE

In November 2012, we took the step of reorganizing the Board with a view to developing a dynamic strategy for future growth and implementing a new management format. In addition to my own appointment as chairman of Larry Jewelry, the composition of the Board was enhanced by the arrival of Mr. T.C. Chan, Mr. Fung Shing Kwong and Mr. Joseph Lau, who are all respected and experienced professionals in the fields of finance, marketing, corporate governance and jewelry retailing.

An in-depth review of the business, conducted with support from all directors, confirmed that the Company's positioning as an Asian Fine Jewelry brand remains sound, as we are acknowledged as one of the few pioneers in the high jewelry market in Asia and our proven DNA includes a long history of distinguished design and meticulous craftsmanship.

On the other hand, our results show room for improvement owing to the fact that our Hong Kong segment is still at the investment stage. Going forward, the aim of the management team is to build on our solid foundation while rejuvenating the Larry Jewelry brand with the injection of exciting, creative and well-designed collections to attract new customers and propel the brand into a new era.

BROADENING OUR CUSTOMER BASE

As part of the exciting program to give the brand a younger and more stylish image, the Group will be looking at initiatives with famous local and international designers, as well as opportunities for crossover collections with fashion and designer brands that share Larry Jewelry's values and inherit a similar heritage. We will also be seeking to strengthen our offering for the male segment of the market and thus broadening our customer base.

The climax of Larry Jewelry this year will be the launch of a rebranding campaign in the third quarter of 2013. The campaign will begin with a major glittering publicity event where existing and potential customers will be invited to preview the innovative new designs. In our drive to effect a turnaround for Larry Jewelry, we will also actively explore new ways to market and new places to sell our jewelry. On the marketing front, we will continue to organize and participate in high-profile media events to promote our jewelry, raise brand awareness and extend our reach beyond the current customer base.

To expand our distribution channels, we will launch our first VIP lounge in Beijing in the first half of 2013, look for new store locations, and identify strategic partners with whom to enhance our retail exposure in Hong Kong, Macau, Mainland China and Southeast Asia.

The Group will strive to adopt a number of measures to consolidate our financial position. Given that jewelry retail is a capital-intensive industry, improving inventory turnover is the key for better deployment of resources and enhancing balance sheet performance. Simultaneously, we will continue to implement stringent cost control and a more efficient process for new product development.

CREATING SYNERGIES GOING FORWARD

Looking ahead, the members of the Board will exploit their extensive network of contacts to identify potential new investors, and will pursue possibilities for cooperative ventures that could provide useful synergies for both parties.

We understand that we still have a lot of work ahead, in an economic climate that promises to become increasingly challenging. However, with the proven skills of our young professional team, guided by the strong new Board members, I believe we possess the diverse capabilities, experience, networks and passion to meet future challenges. Furthermore, I am confident that the shareholders will continue to support the Board in implementing the above strategies.

On behalf of the Board, I wish to express my sincere gratitude to our shareholders, customers, suppliers, bankers and other business associates for their long-term support. I would also like to thank our directors, management team and all our staff, whose talents and efforts are the most valuable resources of the Group. All this will help Larry Jewelry to remain one of the most renowned luxury brands in the region.

Chow Liang Shuk Yee Selina
Chairman and Independent Non-executive Director

Hong Kong, 19 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in design and sale of jewelry products under the Larry Jewelry brand. Our products are unique in design and of superb craftsmanship to meet the needs of individuals who have a discerning taste in jewelries.

BUSINESS REVIEW

In a year of transition after the acquisition of "Larry Jewelry", retail revenue has become the major revenue driver for the Group. In view of the uncertain economic conditions, the management team continued to adopt a proactive but prudent approach in market expansion. To reinforce our brand image, we launched new designs and collections, including the Lazare Diamonds® series targeting the higher end of the market, and Cosmo for young professionals and executives, as well as organizing a number of marketing campaigns in Hong Kong and Singapore.

During the reporting period, we continued to seek potential locations in which to open a new store, after the Pacific Place store was closed in July 2012. Furthermore, we began a co-operation with Oriental Watch Holdings Limited in order to expand our distribution channels. The Group will also set up a VIP lounge in Beijing in 2013 as an initiative to market the brand and enhance our understanding of the China market before any further expansion in the region.

As the Group focused its resources on the Larry Jewelry business, with its better growth potential, we ceased operation of the retail shop in Beijing under the Parkwell Group during the reporting period. Moreover, due to global economic uncertainty, the wholesale business remained stagnant during the reporting period.

FINANCIAL REVIEW

As the financial year end date of the Group was changed on 30 September 2011 and the results of Larry Jewelry business were consolidated into the Group's results from 19 July 2011 onwards, a comparison of the Group's consolidated results for the year ended 31 December 2012 and the consolidated results for the nine months ended 31 December 2011 would not fully reflect the changes

in the performance of the Group. Therefore, we have not made any direct comparison between the figures of the two reporting periods under this section.

Revenue

With the "Larry Jewelry" operation making its first full 12 months' contribution, the Group's revenue for the year ended 31 December 2012 increased to approximately HK$351,183,000 whereas the revenue for the nine months ended 31 December 2011 was approximately HK$203,983,000.

Gross profit

The Group's gross profit for the year ended 31 December 2012 was approximately HK$95,635,000 with reported gross margin of 27.2%. If all the Group's inventories were recorded based on historical cost levels, the adjusted gross margin would be 30.3%. During the nine months ended 31 December 2011, the Group's gross profit was approximately HK$35,238,000 and the corresponding gross margin figures were 17.3% and 28.5% respectively. As at 31 December 2012, the inventories of the Group included an upward fair value adjustment of approximately HK$10,720,000, representing 3.5% of the inventories of the Group.

Other income

The Group's other income for the year ended 31 December 2012 was approximately HK$5,478,000 which included insurance compensation received, reversal of provision of impairment on trade receivables, exchange gain due to favourable movement of the exchange rate of Singapore Dollars to HKD and management fee income. The Group's other income for the nine months ended 31 December 2011 was approximately HK$467,000.

Selling and distribution costs

Selling and distribution expenses of the Group for the year ended 31 December 2012 was approximately HK$78,320,000 whereas the corresponding figure for the nine months ended 31 December 2011 was approximately HK$34,927,000. Apart from the difference in the duration of the reporting period, the increase was also attributable to the increase in marketing expense for promoting the brands and higher rental expenses for two of the shops in Hong Kong.

Administrative expenses

The Group's administrative expenses for the year ended 31 December 2012 was approximately HK$63,516,000. These included non-operating expenses such as legal and professional fees incurred in the capital raising exercises, effect of the decrease in fair value of financial assets, the loss incurred for the early redemption of convertible notes and equity-settled share-based payment expenses incurred due to the grant of share option to the consultants, directors and employees during the year. If the above factors are excluded, the administrative expenses of the Group for the year ended 31 December 2012 were approximately HK$44,790,000. The corresponding figures for the nine months ended 31 December 2011 were approximately HK$58,969,000 and HK$45,670,000 respectively.

Finance costs

The finance costs of the Group for year ended 31 December 2012 was approximately HK$26,384,000 whereas the finance costs for the nine months ended 31 December 2011 was approximately HK$17,374,000. The increase was due to the fact that the Company had to bear interest for debts raised in connection with the acquisition of Sharp Wonder Holdings Limited throughout the whole 12-month period ended 31 December 2012 while such debts were raised in the second half of 2011. Moreover, the net borrowing of the Group has reduced from HK$198,662,000 as at 31 December 2011 to HK$129,970,000 as at 31 December 2012.

Loss attributable to owners of the Company

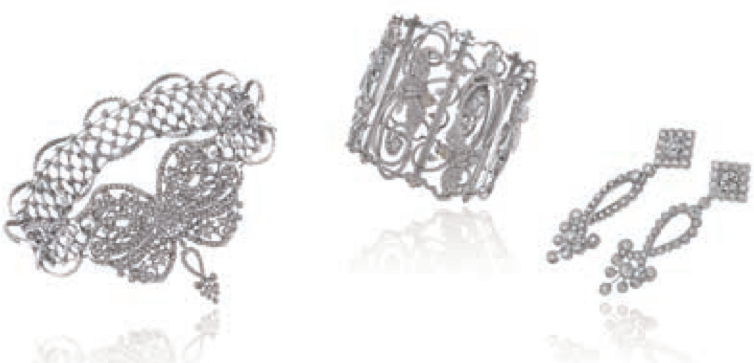
Loss attributable to the owners of the Company was approximately HK$67,910,000 for the year ended 31 December 2012. The loss was driven by (i) an increase in investment in promoting the brand, (ii) non-cash items including change in fair value of financial assets at fair value through profit or loss and equity settled shared-based staff benefit expense, (iii) one-off items including loss incurred for the redemption of convertible notes and (iv) high finance costs before refinancing of the short term debt in July 2012. The Group's reported loss attributable to the owners of the Company for the nine months ended 31 December 2011 was approximately HK$74,479,000.

OPERATING RESULTS OF THE LARRY JEWELRY BUSINESS

As the results of Sharp Wonders Holding Limited were consolidated into the Group's results from 19 July 2011 onwards, the above financial review did not fully reflect the changes in the performance of the Larry Jewelry business. To maintain and enhance transparency to shareholders and investors, the following is a discussion on the pro-forma operating results of the Larry Jewelry business, (the "Business") for the 12 months period ended 31 December 2012 and that for the previous year.

Revenue

The revenue for the 12 months period ended 31 December 2012 was approximately HK$344.8 million, representing a decrease of approximately 20.8% compared to the revenue for the year ended 31 December 2011, of HK$435.2 million. This was mainly due to the closure of the Pacific Place store in July 2012 and lower sales concluded during the annual marketing event in Singapore in July 2012. Apart from the above, the average same-store sales for the remaining shops also experienced a reduction of approximately 7.6% during the reporting period due to uncertain economic outlook.



Gross profit

The Business's gross profit, calculated based on the historical costs level of goods sold, decreased by approximately 16.8% from HK$126.4 million for the year ended 31 December 2011 to approximately HK$109.8 million for the year ended 31 December 2012. The reduction was lower than the decrease in sales revenue as the gross margin improved from 29.0% for the 12-month period ended 31 December 2011 to 31.9% in 2012.

Rental costs

Rental costs for the year ended 31 December 2012 was approximately HK$45.2 million, an increase of approximately 17.1% over the rental costs of HK$38.6 million for the year ended 31 December 2011. This was mainly due to the fact that the rental costs for two of the shops in Hong Kong increased significantly in 2012. Furthermore, the new shop in Causeway Bay opened in August 2011 and operated for all 12 months during 2012. This also contributed to the increase in rental costs of the Business.

Marketing expenses

As part of the strategy to increase the brand awareness, marketing expenses increased by about 90.4% from approximately HK$5.9 million for the year ended 31 December 2011 to HK$11.3 million for the year ended 31 December 2012.

Salaries

The Business's salary expenses for the year ended 31 December 2012 was HK$34.5 million in comparison to HK$34.3 million for the year ended 31 December 2011. During the period, the Group recruited experienced marketing staff to lead its marketing programs. The increase in salaries expenses for marketing staff was offset by a reduction in year-end bonuses due to poor operating results in 2012.

Other operating expense

Other operating expenses increased from HK$11.5 million for the year ended 31 December 2011 to HK$13.9 million for the corresponding period in 2012. This is mainly due to greater depreciation for leasehold improvements of the new shop in Causeway Bay and renovation of existing shops to improve the shop image.

Operating profit

The operating profit of the Business for the year ended 31 December 2012 was approximately HK$6.9 million compared to HK$36.5 million for the corresponding period in 2011. This was mainly driven by lower gross profit, higher rental expenses and increase in marketing expenditure. The Group will continue to invest in the brand during this challenging period to develop a sustainable growth platform for the Business.

LIQUIDITY AND FINANCIAL RESOURCES

The current ratio of the Group as at 31 December 2012 was 2.3 times compared with 1.3 times as at 31 December 2011, mainly resulting from the Group's completion of the refinancing of short term debts.

As at 31 December 2012, the Group had aggregate cash and bank balances and pledged bank deposits of approximately HK$43.2 million (31 December 2011: HK$123.3 million) and total borrowings amounted to approximately HK$173.2 million (31 December 2011: HK$322.0 million). Total net borrowings were HK$130.0 million (31 December 2011: HK$198.7 million). Net gearing ratio decreased from 102.8% as at 31 December 2011 to 49.2% as at 31 December 2012.

The maturity of the borrowings of the Group as at 31 December 2012 is set out as follows:

Principal Amount of the Borrowings	*HK'000*
Borrowings wholly repayable more than 2 years but not exceeding 5 years and classified as current liabilities	112,615
Convertible notes repayable between 1 and 2 years	72,000

The Group completed a series of capital raising exercises during the reporting period to strengthen its financial position. For details, please refer to the "Capital Structure" section below. Management is involved in ongoing discussions with investors and financial institutions to further enhance its financial resources.

CAPITAL STRUCTURE

Details of the movements in share capital of the Company are set out in note 28 to the financial statements.

SIGNIFICANT INVESTMENT

As at 31 December 2012 and 2011, there was no significant investment held by the Group.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

There were no material acquisitions or disposals of subsidiaries and affiliated companies during the year under review and up to date of this report.

FACILITY AGREEMENT WITH GE CAPITAL

On 4 July 2012, Larry Jewelry (1967) Pte. Limited and Larry Jewelry Limited, both being wholly owned subsidiaries of the Company (the "Borrowers"), and the Company as one of the guarantors with other subsidiaries of the Company have entered into a facility agreement (the "Facility Agreement") with GE Capital Services Pte Ltd and GE Commercial Finance (Hong Kong) Limited (collectively, "GE Capital" or the "Lenders"), in relation to the provision of facilities in an aggregate amount up to HK$234 million (the "Facilities") to the Group.

The Facilities have a maturity period of three years from the date of the first drawdown under the Facility Agreement.

Pursuant to terms of the supplemental agreement to the Facility Agreement, which has been agreed and signed by the Lenders and the Company on 14 March 2013, each of the following will constitute an event of default upon which the facility will, among others, become immediately due and payable:

(1) Ms. Tsang Po Yee Pauline, who is a director of the Company, and any other individuals who, at the date of the Facility Agreement, own (directly or indirectly) any of the issued share capital of Fullink Management Limited ("Fullink"), cease to collectively hold (directly or indirectly) 51% of the issued share capital of Fullink; and

(2) the persons who, at the date of the Facility Agreement, have control of an obligor under the Facility Agreement (the "Obligor") cease to have control of the Obligor, or one or more other persons acquire control of an Obligor after the date of the Facility Agreement, in either case without the prior written consent of the Lenders.

On 17 July 2012, the Borrowers have made the first drawdown under the Facilities provided by GE Capital.

PLEDGE OF ASSETS

Details of the pledge of assets of the Group are set out in notes 23, 25 and 35 to the financial statements.

CONTINGENT LIABILITIES

As at 31 December 2012 and 2011, the Group has no significant contingent liabilities.

LEASE AND CONTRACTED COMMITMENTS

Details of the significant commitments of the Group and the Company are set out in notes 32 and 33 to the financial statements.

EVENTS AFTER THE REPORTING DATE

On 14 March 2013, the Company announced that following the discussion between the Company and GE Capital, GE Capital has agreed, among others, to waive the compliance by the Company with and amend the existing covenants under the Facility Agreement in relation to the percentage of shareholding held by Fullink and various funds managed by Galaxy Asset Management (H.K.) Limited ("Galaxy Asset") in the Company by entering into the supplemental agreement to the Facility Agreement with the Company on 14 March 2013. Such amendment to the Facility Agreement was necessitated following the reduction of the percentage of shareholding interest held by various funds managed by Galaxy Asset in the Company to below 10% back in December 2012.

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"). Exposure to currency exchange rates arises from the Group's overseas sales and purchases. Accordingly, the Board is of the view that the Group is exposed to foreign currency exchange risk. In particular, fluctuation of exchange rates of SGD against HK$ could affect the Group's operational results.

To mitigate the impact of exchange rate fluctuations on the Group's results, the facility with GE Capital is divided into two tranches (one facility is denominated in HK$ while the other is denominated in SGD), so that it matches closely with the funding requirements and foreign exchange exposure of the Group. Furthermore, the Group's management used certain foreign currency forward contracts to hedge the exposure to foreign exchange risk for settling payments to overseas suppliers.

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 31 December 2012, the Group had 102 (31 December 2011: 122) employees, including directors of the Company (the "Directors"). Total staff costs (including Directors' emoluments) were approximately HK$44,358,000 including share-based payments of HK$3,307,000. The total staff costs for the nine months ended 31 December 2011 were approximately HK$26,749,000. 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 a share option scheme.

OUTLOOK

An in-depth review of the business, conducted with support from the Directors, confirmed that the Company's positioning as an Asian Fine Jewelry brand remains sound. Looking ahead, the key drivers of the Group's strategy will continue to be innovation and expansion of our presence in Asia. To fulfill its long-term vision of being an Asian fine jewelry brand, the Group is focusing efforts on a few strategic initiatives:

1) Re-launch of the Larry Jewelry Brand

– Given the strengths of the Larry Jewelry brand are evident in its recognition in Hong Kong and Singapore as the premium fine jewelry brand well-respected for its quality of stones and craftsmanship and well-known for its value for money, the new board has in place a plan to bring the Larry Jewelry name and products to the forefront with a new branding initiative after the summer.

2) Upgrade Design and Production of New Products

– The Group is pursuing a new approach to expand the engagement and partnership with experienced designers to ensure there will be an infusion of new and market-sensitive products in order to widen our client base and profile.

3) Brand Building Campaigns

– With an eye on the increasing purchasing power of customers in China, the Group will allocate more resources in marketing campaigns that strengthen its image as a prestigious Asian brand with exquisite design, superior craftsmanship and high quality, and thereby aim to attract new customers. We will also launch a series of thematic events to draw selected clientele for specially assembled products.

4) Expansion of Distribution Channels

– Further to its crossover with Oriental Watch Holdings Limited, we will seek prime locations matching the Group's products while exploring opportunities with potential business partners to establish its foothold in Asia, especially in China. Its first VIP lounge in Beijing is expected to open in the first half of 2013, offering a new concept that will give customers a more intimate shopping experience. We will also explore outreach events in targeted cities in China and Asia for expand our reach in Asia. We are also actively looking for suitable shop space with the view to open two new shops in the next two years.

Whilst there are a lot of work to be carried out in an increasingly challenging economic climate, the Directors believe the Group possesses the necessary capabilities, experience, networks and passion to meet future challenge.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Director

Ms. Tsang Po Yee Pauline (曾寶儀), aged 34, is an executive Director, the interim CEO, company secretary, compliance officer, and authorized representative of the Group. Ms. Tsang was appointed as an executive Director on 16 December 2010 and the interim CEO on 28 November 2012. She is responsible for overall strategic planning, operations, financial management of the Group. Ms Tsang has over 8 years of experience in the accounting and finance area. Ms. Tsang is a qualified member of CPA Australia. Ms. Tsang joined Deloitte Touche Tohmatsu in 2002. Ms. Tsang has extensive experience in internal control management by serving different financial institutions including Morgan Stanley, Societe Generale Securities (Hong Kong) Limited and Royal Bank of Scotland. She then joined the Research and Strategy Group at Citi Private Bank in 2007 as a research analyst. Upon completion of her tenure with Citi Private Bank, Ms. Tsang joined her family-owned business in January 2010 as a director and is responsible for property redevelopment and asset management. Ms. Tsang received both her Bachelor of Commerce degree with double majors in Accounting and Finance and Master of Commerce degree with major in Professional Accounting from Macquarie University in Sydney, Australia in 2000 and 2002 respectively.

Ms. Tsang is also currently a director of her family-owned charity trust which has been actively participating in charitable functions and donations for more than 20 years.

Non-Executive Directors

Mr. Tam B Ray Billy (譚比利), aged 44, was appointed as a non-executive Director on 16 December 2010. He has been a practising solicitor in Hong Kong for over fifteen years. He is currently a partner of Messrs. Ho & Tam. Mr. Tam holds a Bachelor Degree of Laws from the University of London, Bachelor Degree of PRC Laws from Tsinghua University; and a Master Degree of Laws from The University of Hong Kong. He is an independent non-executive director of China Fortune Financial Group Limited, a company listed on the Main Board of the Stock Exchange and independent non-executive directors of M Dream Inworld Limited, China Natural Investment Company Limited and China AU Group Holdings Limited, all of which are listed on the GEM. Mr. Tam is also a non-executive director of Milan Station Holdings Limited, a company listed on Main Board of the Stock Exchange.

Mr. Cheng Ping Yat (鄭炳溢), aged 62, was appointed as a non-executive Director on 24 May 2012. Mr. Cheng is the director of Sun Max Establishment Limited, which renders consultancy services to UNIR (HK) Management Limited and AID Partners Ltd., a private equity house based in Hong Kong. Prior to that, Mr. Cheng served the HKSAR Government from 1975 to 2008. He was the Principal Immigration Officer from 2002 to 2007, responsible for the management of the Immigration Division of the Office of the HKSAR Government in Beijing, PRC. The Division is responsible for processing entry visa application to Hong Kong, providing assistance to Hong Kong residents in distress in the PRC and maintaining close liaison with relevant PRC Government departments as well as foreign diplomatic corporations in Beijing.

Mr. Cheng obtained a diploma in Management Studies in 1980's and a Post Graduate Certificate in Public Policy from the University of California, Berkeley in 1995. He is also the member of the Chartered Management Institute. He was awarded the Hong Kong Immigration Services Medal for Meritorious Service in 2004.

Independent non-executive Directors

Mrs. Chow Liang Shuk Yee Selina (周梁淑怡), aged 68, was appointed as an independent non-executive Director and chairman of the Board on 28 November 2012. Mrs. Chow graduated from the University of Hong Kong with a bachelors of arts degree, and went on to post-graduate studies of Speech and Drama at the Rose Bruford College of Speech and Drama in the United Kingdom. She obtained the Licentiateship for Teacher and Performer of Drama at the Royal College of Music (LRAM), and also qualified as an Associate of the Drama Board there, specializing in Theatrical Production. On her return from the United Kingdom in 1967, Mrs. Chow joined Television Broadcasts Limited in its infancy as a Production Assistant, and elevated through the ranks of Producer, Programme Manager, Assistant General Manager in charge of all programming until 1977. In the next decade she occupied top management positions in Commercial Television Limited and Asia Television Limited.

Mrs. Chow has always been active in public service. She was appointed as a Member of the Urban Council in 1980, where she served for four years. In 1981 she was appointed as a Member of the Legislative Council until 1995, when she became an elected Legislator for the first time, representing the Wholesale and Retail Sector. In 1997 she was one of the members of the Legislature who was elected to straddle the handover of Hong Kong's sovereignty from the United Kingdom to the People's Republic of China (the "PRC"). She continued serving as a Functional Constituency Member of the Legislative Council until 2004, when she was elected a representative of the geographical constituency of the New Territories West of Hong Kong, a position in which she served until 2008.

Mrs. Chow has been a Member of the Central People Political Consultative Conference appointed by the Central Government of the PRC since 2003. She is the Chairman of the Hong Kong Intellectual Property Society, a Director of the Hong Kong Design Centre, and a Director of the Friends of Hong Kong Association. She is also an Honorary Advisor to the Quality Tourism Services Association. Mrs. Chow is the Chairman of the Liberal Party, which is widely recognized as the only pro-business political party in Hong Kong that has successfully returned candidates to the Legislative Council through direct elections. She was also elected by the Wholesale and Retail Sector as their representative in the Election Committee responsible for the election of the Chief Executive of Hong Kong in March 2012.

Mrs. Chow's key public appointments in recent years include: Chairman of the Hong Kong Tourism Board, Member of the Strategic Commission, Member of the Trade Development Council, Member of the Consultative Committee on the Core Arts and Cultural Facilities of the West Kowloon Cultural District and Convenor of its Performing Arts and Tourism Advisory Group, Member of the Aviation Advisory Committee, Member of the Airport Authority, and Member of the Business Council of the Great Pearl River Delta. She has served as Patron of the Children's Heart Foundation, Advisor to Against Child Abuse and Patron of the Lok Chi Association.

Mr. Chan Tze Ching Ignatius (陳子政), aged 56, was appointed as an independent non-executive Director on 28 November 2012. Mr. Chan is an independent non-executive director of the Hong Kong Exchanges and Clearing Limited and the Mongolian Mining Corporation (as well as the chairman of the audit committee of the Mongolian Mining Corporation). From 1980 to 2007, Mr. Chan held various positions with Citigroup, including country treasurer and head of sales and trading, head of corporate banking business for Hong Kong, country officer for Hong Kong, country officer for Taiwan, and head of corporate and investment banking business for Greater China. In 2008, he was the deputy chief executive of the Bank of China (Hong Kong) Limited. Mr. Chan was appointed as senior advisor of The Bank of East Asia Limited in March 2009 and of CVC Capital Partners Limited in November 2010. He was appointed as Honorary Advisory Vice President of The Hong Kong Institute of Bankers in February 2011. He was appointed as non-executive director of Rizal Commercial Banking Corporation, the shares of which are listed on the Philippines Stock Exchange, in November 2011. Mr. Chan is a member of the board of directors of the Community Chest of Hong Kong (as well as the chairman of the investment sub-committee). He is also a member of the Greater Pearl River Delta Business Council (Convener of Services Industry Development & Human Resources Sub-group), Hong Kong Polytechnic University Council (as well as chairman of the audit committee), Hong Kong Open University Sponsorship and Development Fund Committee, the Hong Kong Red Cross Council (as well as the chairman of the audit committee), and the Executive Committee of Investor Education Centre of the Securities and Futures Commission. Mr. Chan was awarded master's degrees in business administration from the University of Hawaii, United States, and is a Certified Public Accountant with the American Institute of Certified Public Accountants.

Mr. Fung Shing Kwong (馮承光), aged 66, was appointed as an independent non-executive Director on 10 November 2012. Mr. Fung was the director of Management Consulting of Business International, a company headquartered in New York providing information and consulting services to multinational companies from 1978 to 1980. From 1980 to 1987, he was the vice president, Far East, of the Consumer Products division of Wyeth, a major multinational company in pharmaceuticals and over-the-counter (OTC) drugs, which was later acquired by Pfizer. He then spent 8 years, from 1987 to 1995, as the general manager of International Operations of Television Broadcasts Limited (TVB), the leading television broadcaster in Hong Kong. From 1995-1999, he was the president of NBC Asia, a subsidiary of General Electric, which operated the CNBC and National Geographic channels in Asia. In 2000, he joined Media Genesis, an e-commerce company providing internet marketing services, as its chief executive officer for a year. Afterwards, from 2002 to 2004, he was the managing director of North Asia of AC Nielsen, a world leader in market research and market information. Mr. Fung was the chairman of the Cable and Satellite Broadcasting Association of Asia (CASBAA), which is an industry organization of Asian broadcasters, from 1997 to 2002. From 1999-2005, he was a member of the supervisory board of New Skies Satellites, a global satellite company listed on the New York Stock Exchange. He was a member of the Listing Committee of the Stock Exchange of Hong Kong for the period from May 2006 to May 2012. Mr. Fung was awarded his Bachelor of Science degree from University of Manitoba in 1969, Master of Business Administration degree from Columbia University in 1971 and Doctor of Philosophy degree from the Massachusetts Institute of Technology in 1979.

Mr. Lau Wan Pui Joseph (劉允培), aged 61, was appointed as an independent non-executive Director on 10 November 2012. Mr. Lau has extensive experience in finance and planning, marketing and international business. He is currently a principal director and co-founder of Rockhound Limited, a mineral professional firm. He had successfully developed and implemented new business expansion strategies for a number of listed public companies in Hong Kong under the position as a senior executive. He was an executive director and chief executive officer of WLS Holdings Ltd. for the period from 2002 to 2004 and was executive director of Tse Sui Luen Jewellery (International) Ltd. for the period from 1997 to 1999 and Build King Holdings Limited (previously known as Seapower International Holdings Limited) for the period from 1995 to 1996, all companies listed on the Stock Exchange. He has been a director of Dynasty Gaming Inc., a company listed on the Toronto Venture Exchange, since November 2006. Mr. Lau obtained his bachelor of science degree in chemistry from Concordia University and his master of business administration degree from the University of Ottawa

(Canada). Mr. Lau is currently a Dean's Advisory Board Member of Telfer School of Management of the University of Ottawa and he was an Advisory Board Member of the EMBA program under the Telfer School of Management of the University of Ottawa for the period from 1997 to 2003. He is also a member of the Chemical Institute of Canada and a member of the Canadian Institute of Mining, Metallurgy and Petroleum.

Mr. Wong Tat Tung (黃達東), aged 43, was appointed as an independent non-executive Director on 19 March 2012. Mr. Wong has over 15 years' business experience in the field of wealth management and investment. He has served as a Vice President of Credit Suisse Privilege Limited in Hong Kong. Currently, he is the Managing Director of Channel 8 Wealth Management Ltd and the Chairman of World Time International Limited. Further, Mr. Wong is the Vice Chairman of Sham Shui Po District Council for the Hong Kong Special Administrative Region and a committee member of the city of Tianjin Chinese People's Political Consultative Conference in Guangdong province. In addition, Mr. Wong is the Chairman of Yan Oi Tong and at the same time offered by many educational institutions as distinguished school board members of their schools.

SENIOR MANAGEMENT

Mr. Chan Hoo Chow, Charles (陳浩洲), is the advisor of the Group and the general manager of Larry Jewelry's Singapore operations with 40 years of working experience with Larry Jewelry. He established the first overseas branch of Larry Jewelry in Singapore 1975. Through out the years, Mr. Chan has built the company into a house-hold name in jewelry trade. He has taken serious practice in Fair Trading and insistence only on top quality jewelry and servicing in Larry Jewelry. This excels the company into much higher level and wins the company great respect and reputation from consumers, suppliers and in the trade world wide. He was the initiator of the Singapore Jewellery Design Award. This program attracts keen interests from international students of design courses and also enhances the local jewellery trade in terms of designing.

Ms. Chung Sin Yee, Iris (鍾倩儀), is the head of business development of the Group. She has immense experiences in luxury brand marketing and business management. She once was the merchandising manager of Marathon Sports of Swire Resources Limited. In 2008, she was the consumer marketing director for Hong Kong and Macau of Coca-Cola China Ltd., being in charge of a 14-brand portfolio and accountable for their unique brand positioning and sales targets. Prior to starting her own business, Ms Chung was the group chief executive officer of the Just Gold group. She headed three regional offices in the PRC, Taiwan and Hong Kong, with 400 staff and close to 70 branded outlets. She was also the spokesperson of that company and icons for the brands. Ms. Chung was awarded "The 100 Most Outstanding Woman Entrepreneurs in China-2006" by The China Woman Entrepreneur Association. Ms Chung holds a master in business administration degree and a bachelor of arts degree from the Chinese University of Hong Kong.

Mr. Tay Yam Seng, Eric (鄭炎成), is the retail director of Larry Jewelry's operations in Singapore. With 30 years of working experience in Larry Jewelry, Eric has gone through from sales assistance to retail director. He keeps upgrading himself in management and has processes a professional diploma in Retail Management. Eric successfully built up his confidence and skill of managing staff and customers. He was promoted to retail director in year 2011. His responsibilities include taking care of the front line P & L, staff salesmanship training, cooperate with marketing program, enforcing company rules and regulation, etc. Under Eric's positive influence, staffs are able to keep up good sale record and relationship with customers.

Ms. Ng Swee Chu, Catherine (黄瑞珠), is the administration director of the Larry Jewelry operations in Singapore and has worked for 36 years with Larry Jewelry, Catherine is now the Administration Director. She has a good urge of upgrading herself. Holding a degree in Management, Catherine's main responsibilities include managing the entire administration work and assisting on HR issues. She also takes care of stock management (purchase, inventory control, manufacturing and distribution, etc). Catherine's long year experiences help her to gain strong supports from suppliers local and overseas with good relationship.

Mr. Lee Chi Kin (李志健), is the general manager of Eternity Jewelry overseeing the development of the wholesale business. He has over 10 years of experience in the jewelry industry with in depth knowledge in the sales, procurement, production operations and quality control. Mr. Lee gained experience with the Group from June 2003 to January 2006 when he first joined the Group as a sale executive. In March 2009, he rejoined the Group as procurement supervisor and was appointed general manager of Eternity Jewelry in August 2011.

Mr. Li Lam Ming, Francis (李林明), is the IT director of the Group and he is responsible for the IT function as well as E-Commerce business of the organization. He was educated in UK with a degree in Computer Science at the University of Liverpool, United Kingdom. He is a member of the British Computer Society and was awarded Chartered Engineer by The Engineering Council, UK in 1994. Starting as a Systems Engineer with IBM China/Hong Kong Corporation in 1988, Francis has established a solid and successful career in the IT industry. During his twenty three years' tenure with global companies such as British American Tobacco (HK) Ltd, Level (3) Communications Ltd, Arrow Electronics and GAP, Francis had gained solid experience in IT operations as well as E-Commerce business. Before joining the Company as IT director, Francis was the senior IT director in GAP International Sourcing (Holdings) Ltd.

Mr. Luk Wai Keung (陸偉強), is the chief financial officer of the Group. He has over 15 years of working experience in the accounting and finance area. Mr. Luk worked for 10 years at Arthur Andersen and PricewaterhousCoopers providing advisory services on investment, merger and acquisition. He also gained extensive experience in financial planning and control, post deal integration and process improvement during his services in the commercial sector. He graduated from University of Hong Kong with a Bachelor of Engineering Degree in Civil Engineering and has obtained a Master Degree in Business Administration (MBA) from the Australian Graduate School of Management. He is a member of the American Institute of Certified Public Accountants and a Chartered Financial Analyst ("CFA") charterholder.

CORPORATE GOVERNANCE REPORT

Pursuant to Rule 18.44 of the GEM Listing Rules, the Board is pleased to present this corporate governance report for the year ended 31 December 2012. This report highlights the key corporate governance practices of the Company.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to promoting high standards of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for the growth of the Group and for safeguarding the shareholders' interests and the Group's assets.

Throughout the year ended 31 December 2012, the Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 15 of the GEM Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the 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 5.68 of the GEM Listing Rules ('the Code"). During the year ended 31 December 2012, the Company had made specific enquiry to all Directors and the Company was not aware of any non-compliance with the required standard set out in the Code.

BOARD OF DIRECTORS

At present, the Board of the Company comprises eight members as follows:

Executive Director

Ms. Tsang Po Yee Pauline

Non-Executive Directors

Mr. Tam B Ray Billy
Mr. Cheng Ping Yat

Independent Non-Executive Directors

Mrs. Chow Liang Shuk Yee Selina *(Chairman)*
Mr. Chan Tze Ching Ignatius
Mr. Fung Shing Kwong
Mr. Lau Wan Pui Joseph
Mr. Wong Tat Tung

Biographical details of the Directors are set out in the section of "Biographical Details of Directors and Senior Management" on pages 17 to 21.

The Board has the responsibility for leadership and control of the Company. They are collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board is accountable to shareholders for the strategic development of the Group with the goal of maximizing long-term shareholder value, while balancing broader stakeholder interests.

The Board meets regularly on a quarterly basis. Apart from the regular board meetings, the Board also meets on other occasions when a Board-level decision on a particular matter is required. All Directors are provided with details of agenda items for decisions making with reasonable notice. Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that the Board procedures are complied with and advising the Board on compliance matters. Directors are also provided with access to independent professional advice, where necessary, in carrying out their obligations as Directors of the Company, at the expense of the Company. Directors who are considered to have conflict of interests or material interests in the proposed transactions or issues to be discussed would not be counted in the quorum of meeting and would abstain from voting on the relevant resolution.

Generally, the responsibilities of the Board include:

- Formulation of operational strategies and review of its financial performance and results and the internal control systems;
- Policies relating to key business and financial objectives of the Company;
- Material acquisitions, investments, disposal of assets or any significant capital expenditure;
- Appointment, removal or reappointment of Board members and auditor;
- Remuneration of Directors;
- Communication with key stakeholders, including shareholders and regulatory bodies;
- Recommendation to shareholders on final dividend and the declaration of any interim dividends.

Decisions regarding the daily operation and administration of the Company are delegated to the management, led by the executive Director and the interim CEO, Ms. Tsang Po Yee Pauline.

During the year ended 31 December 2012, the Board held 25 meetings. The Directors can attend meetings in persons or through other means of electronic communication in accordance with the Company's bye-laws. The attendance rates of Directors at the Board meetings in the year ended 31 December 2012 are detailed in the following table.

	The Board	
Directors	No. of Meetings Held	No. of Meetings Attended
Executive Director		
Ms. Tsang Po Yee Pauline	25	25
Non-executive Directors		
Mr. Tam B Ray Billy	25	24
Mr. Cheng Ping Yat (appointed on 24 May 2012)	11	10
Mr. Chan Man Fai Joe (resigned on 9 November 2012)	23	16
Mr. Lam Kin Kok (resigned on 9 November 2012)	23	14
Independent non-executive Directors		
Mrs. Chow Liang Shuk Yee Selina (appointed on 28 November 2012)	0	0
Mr. Chan Tze Ching Ignatius (appointed on 28 November 2012)	0	0
Mr. Fung Shing Kwong (appointed on 10 November 2012)	2	2
Mr. Lau Wan Pui Joseph (appointed on 10 November 2012)	2	2
Mr. Wong Tat Tung (appointed on 19 March 2012)	19	18
Mr. Seto Man Fai (resigned on 9 November 2012)	23	15
Mr. Ho Hin Hung Henry (resigned on 9 November 2012)	23	15

All Directors assume the responsibilities to the shareholders of the Company for the well-being and success of the Company. They are aware of their duties to act in good faith and in the best interests of the Company.

The Board is responsible for maintaining proper accounting records so as to enable the Directors to monitor the Company's overall financial position. The Board updates shareholders on the operations and financial position of the Group through quarterly, half yearly and annual results announcements as well as the publication of timely announcements of other matters as prescribed by the relevant rules and regulations.

The Company has three independent non-executive Directors, at least one of whom has appropriate financial management expertise, in compliance with the GEM Listing Rules. Each of the independent non-executive Director has made an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company is of the view that all independent non-executive Directors meet the independence guidelines set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines.

According to the Company's bye-laws, newly appointed Directors shall hold office until the next following general meeting and shall be eligible for re-election at that meeting. Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the code provision A.2.1, the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive should be clearly established and set out in writing.

Mrs. Chow Liang Shuk Yee Selina plays a leading role and is responsible for effective running of the Board while Ms. Tsang Po Yee, Pauline is delegated with the authority and responsibility of overall management, business development and implementation of the Group's strategy determined by the Board in achieving its overall commercial objectives.

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the period under review.

APPOINTMENT, RE-ELECTION AND REMOVAL

According to the Bye-laws of the Company, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not greater than one-third) shall retire from office by rotation. All Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

REMUNERATION COMMITTEE

The Board has established a remuneration committee ("RC") in September 2009 with written terms of reference in compliance with the CG Code (which were further revised in March 2012). The RC comprises three independent non-executive Directors, namely Mr. Chan Tze Ching Ignatius, Mr. Fung Shing Kwong and Mr. Lau Wan Pui Joseph, and is chaired by Mr. Fung Shing Kwong.

The RC is responsible for, inter alia, making recommendations to the Board on the remuneration package of the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy. The RC is provided with sufficient resources enabling it to discharge its duties.

The revised written terms of reference of the RC are available on the Company's website.

During the year ended 31 December 2012, the RC held 6 meetings, at which the members of the RC have reviewed the remuneration packages of all Directors and senior management of the Company. The attendance rates of RC members at the RC meeting for the year ended 31 December 2012 are detailed in the following table.

Directors	Remuneration Committee No. of Meetings Held	No. of Meetings Attended
Mr. Chan Tze Ching Ignatius (appointed on 28 November 2012)	0	0
Mr. Fung Shing Kwong (appointed on 10 November 2012)	1	1
Mr. Lau Wan Pui Joseph (appointed on 10 November 2012)	1	1
Mr. Lam Kin Kok (resigned on 9 November 2012)	5	3
Mr. Seto Man Fai (resigned on 9 November 2012)	5	5
Mr. Ho Hin Hung Henry (resigned on 9 November 2012)	5	4

NOMINATION COMMITTEE

The Board is empowered under the Company's Bye-laws to appoint any person as a director to fill a casual vacancy on or as an additional member of the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are based on the assessment of their professional qualifications and experience, character and integrity.

The Board has established a nomination committee ("NC") in September 2009 with written terms of reference in compliance with the CG Code (which were further revised in March 2012). The NC comprises three independent non-executive Directors, namely Mr. Chan Tze Ching Ignatius, Mr. Fung Shing Kwong and Mr. Lau Wan Pui Joseph, and is chaired by Mr. Lau Wan Pui Joseph.

The NC is responsible for formulating nomination policy and making recommendations to the Board on nomination and appointment of directors and board succession. The NC develops selection procedures of candidates for nomination, reviews the size, structure and composition of the Board, as well as assesses the independence of independent nonexecutive Directors. The NC is provided with sufficient resources enabling it to discharge its duties.

The revised written terms of reference of the NC are available on the Company's website.

During the year ended 31 December 2012, the NC held 4 meetings, at which the members of the NC have reviewed the structure, size and composition including the skills knowledge and experience of the Board. The attendance rates of NC members at the NC meeting for the year ended 31 December 2012 are detailed in the following table.

Directors	Nomination Committee No. of Meetings Held	No. of Meetings Attended
Mr. Chan Tze Ching Ignatius (appointed on 28 November 2012)	0	0
Mr. Fung Shing Kwong (appointed on 10 November 2012)	1	1
Mr. Lau Wan Pui Joseph (appointed on 10 November 2012)	1	1
Mr. Lam Kin Kok (resigned on 9 November 2012)	3	2
Mr. Seto Man Fai (resigned on 9 November 2012)	3	3
Mr. Ho Hin Hung Henry (resigned on 9 November 2012)	3	2

AUDITOR'S REMUNERATION

For the year ended 31 December 2012, the remuneration in respect of audit services provided by the external auditors of the Group are approximately HK$649,000.

There is no non-audit service provided by the external auditors to the Company and the Group in the financial year ended 31 December 2012 and no non-audit fee has been paid to the auditors during the financial year.

AUDIT COMMITTEE

The Board has established an audit committee ("AC") in September 2009 with written terms of reference in compliance with the CG Code (which were further revised in March 2012). The AC comprises the four independent non-executive Directors, namely Mr. Chan Tze Ching Ignatius, Mr. Fung Shing Kwong, Mr. Lau Wan Pui Joseph and Mr. Wong Tat Tung, and is chaired by Mr. Chan Tze Ching Ignatius who has appropriate professional qualifications and experience in financial matters. The terms of reference of the AC are aligned with the provisions set out in the CG Code. The AC performs, amongst others, the following functions:

- ensure that co-operation is given by the Company's management to the external auditors where applicable;
- review the Group's quarterly, half yearly and annual results announcements and the financial statements prior to their recommendations to the Board for approval;
- review the Group's financial reporting process and internal control system; and
- review of transactions with interested persons.

The revised written terms of reference of the AC are available on the Company's website.

During the year ended 31 December 2012, the AC held 5 meetings. The attendance rates of AC members at the AC meetings in the year ended 31 December 2012 are detailed in the following table.

Directors	Audit Committee No. of Meetings Held	Audit Committee No. of Meetings Attended
Mr. Chan Tze Ching Ignatius (appointed on 28 November 2012)	1	1
Mr. Fung Shing Kwong (appointed on 10 November 2012)	1	1
Mr. Lau Wan Pui Joseph (appointed on 10 November 2012)	1	1
Mr. Wong Tat Tung (appointed on 27 July 2012)	3	2
Mr. Lam Kin Kok (resigned on 27 July 2012)	2	2
Mr. Seto Man Fai (resigned on 9 November 2012)	4	4
Mr. Ho Hin Hung Henry (resigned on 9 November 2012)	4	4

INTERNAL CONTROLS

The AC reviews the adequacy of the Company's internal financial controls, operational and compliance controls, and risk management policies and systems established by the management of the Company (collectively "internal controls").

The Board is responsible for the overall internal control framework and is fully aware of the need to put in place a system of internal controls within the Group to safeguard the interests of the Company's shareholders and the Group's assets, and to manage risks. The Board also acknowledges that no cost effective internal control system will preclude all errors and irregularities. A system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

INTERNAL AUDIT

The Company does not have in place an independent internal audit function as the Board is of the view that the appointment is not imminent under current circumstances, taking into account the current operate structure and scope of the Group's operations.

INVESTOR RELATIONS AND SHAREHOLDERS RIGHTS

The Company proactively promotes investor relations. Communication with shareholders is always given high priority. Extensive information about the Group's activities is provided in the annual report, interim report and quarterly report. The Company's website provides regularly updated information to shareholders. Enquiries on matters relating to the business of the Group are welcomed, and are dealt with in an informative and timely manner.

The Company encourages all shareholders to attend the annual general meetings to stay informed of the Group's strategy and goals. It provides an opportunity for direct communications between the Board and its shareholders. Shareholders have statutory rights to call for special general meetings by serving appropriate written requests to the Company. The chairman of the meeting explains the detailed procedures for conducting a poll and then answers any questions from shareholders. The poll results are published on the websites of the Company and the Stock Exchange.

DIRECTORS RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are ultimately responsible for the preparation of the financial statements for each financial year which gives a true and fair view. In preparing the financial statements, appropriate accounting policies and standards are selected and applied consistently.

The statement of the auditor of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 38 and 39 of this annual report.

CONCLUSION

The Company believes that good corporate governance is significant in maintaining investor confidence and attracting investment. The management will devote considerate effort to strengthen and improve the standards of the corporate governance of the Group.

REPORT OF THE DIRECTORS

The Board of Directors (the "Board") is pleased to present the annual report and the audited consolidated financial statements of Larry Jewelry International Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 19 to the financial statements. There were no significant changes in nature of Group's principal activities during the year.

RESULTS AND APPROPRIATIONS

The Group's loss for the year ended 31 December 2012 and the state of affairs of the Group at that date are set out in the financial statements on pages 40 to 124 of this annual report.

The Board does not recommend the payment of any dividend for the year ended 31 December 2012.

FIVE YEAR FINANCIAL SUMMARY

A summary of the operating results and of the assets and liabilities of the Group for the last four financial years and for the year ended 31 December 2012 is set out on page 5. This summary does not form part of the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2012, sales to the Group's five largest customers were less than 30% of the total sales for the period. Purchases from the Group's five largest suppliers accounted for 41% (Period ended 31 December 2011: 35%) of the total purchases for the year while the largest supplier accounted for 19% (Period ended 31 December 2011: 13%) of the total purchases for the year.

None of the Directors or any of their associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 28 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements and in the statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2012, the Company had no distributable reserves, as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account with a balance of approximately HK$348,344,000 as at 31 December 2012 may be distributed in the form of fully paid bonus shares.

DIRECTORS

The Directors during the period and up to the date of this report were:

Executive Director

Ms. Tsang Po Yee Pauline

Non-executive Directors

Mr. Tam B Ray Billy
Mr. Cheng Ping Yat – appointed on 24 May 2012
Mr. Chan Man Fai Joe – resigned on 9 November 2012
Mr. Lam Kin Kok (Note) – resigned on 9 November 2012

Independent non-executive Directors

Mrs. Chow Liang Shuk Yee Selina *(Chairman)* – appointed on 28 November 2012
Mr. Chan Tze Ching Ignatius – appointed on 28 November 2012
Mr. Fung Shing Kwong – appointed on 10 November 2012
Mr. Lau Wan Pui Joseph – appointed on 10 November 2012
Mr. Wong Tat Tung – appointed on 19 March 2012
Mr. Seto Man Fai – resigned on 9 November 2012
Mr. Ho Hin Hung Henry – resigned on 9 November 2012

Note: Redesignated from the post of Independent Non-executive Director to Non-executive Director on 19 March 2012

In accordance with bye-law 84 of the Company's bye-laws, Ms. Tsang Po Yee Pauline shall retire by rotation and, being eligible, shall offer herself for re-election at the forthcoming annual general meeting.

In accordance with bye-law 83(2) of the Company's bye-laws, Mr. Cheng Ping Yat, Mrs. Chow Liang Shuk Yee Selina, Mr. Chan Tze Ching Ignatius, Mr. Fung Shing Kwong and Mr. Lau Wan Pui Joseph shall retire at the forthcoming annual general meeting, but, being eligible, will offer themselves for re-election.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical information of the Directors and senior management of the Group are set out on pages 17 to 21 of this annual report.

DIRECTORS' SERVICE AGREEMENT

Each of the Directors has entered into a service agreement with the Company. The appointment of all the Director is for a period of two years and shall continue thereafter until being terminated by either party giving not less than three months' prior written notice.

None of the Directors who are proposed for election or re-election at the forthcoming AGM has a service contract with the Company and/or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

EMOLUMENT POLICY

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices.

The Company has adopted a share option scheme as incentive to directors and eligible employees, details of the scheme are set out in the section headed "Share Option Scheme" below.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and five individuals with highest emoluments are set out in note 14 to the financial statements.

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

As at 31 December 2012, the interests and short positions of the directors and chief executives of the Company in the share options, 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 standards 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 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. Tam B Ray Billy	10 March 2011	10 March 2011 to 9 March 2021	HK$0.750	5,810,000	0.57%
Total				11,620,000	

Save as disclosed above, as at 31 December 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

As at 31 December 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	193,336,000	18.99%
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%
Lico Consultancy Limited (Note 2)	Beneficial owner	150,650,000	14.80%
Chan Un Chan (Note 2)	Interest of controlled corporation	150,650,000	14.80%
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. Lico Consultancy Limited is wholly and beneficially owned by Dr. 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 Dr. Chan Un Chan.

Save as disclosed above, as at 31 December 2012, the Directors 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 SHARES 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 corporations" 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.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 34 to the financial statements, no Director had a material interest in, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the period.

CONNECTED TRANSACTIONS

During the year ended 31 December 2012, the Group entered into the following connected transactions with its connected persons:

	HK$'000
Total rental expenses	15,484

The independent non-executive directors of the Company have reviewed the continuing connected transactions conducted by the Group, and are of the view that they were entered into:

(1) in the ordinary and usual course of business of the Group;

(2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor has reviewed the continuing connected transactions and in the letter sent to the Company confirmed that the continuing connected transactions:

(1) have received the approval of the Board;

(2) have been entered into in accordance with the relevant agreement governing the transactions; and

(3) have not exceeded the annual cap approved by the Stock Exchange.

PURCHASE, SALE AND REDEMPTION OF THE SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

As at the date of this annual 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.

BORROWINGS

Particulars of borrowings of Group as at 31 December 2012 are set out in note 25 to the financial statements.

RETIREMENT SCHEMES

Particulars of the retirement schemes of the Group are set out in note 2.17 to the financial statements.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules and considers all the independent non-executive Directors to be independent parties. The Company considers all of the independent non-executive Directors are independent.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

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 year ended 31 December 2012.

SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme on 21 September 2009 under which certain selected classes of participants (including, among others, fulltime 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.

Details of the movements in the share options granted and exercised during the year ended 31 December 2012 under the Share Option Scheme and the General Mandate are as follows:

	Number of share options								
Grantee	Outstanding as at 1 January 2012	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Outstanding as at 31 December 2012	Date of grant	Exercise period	Exercise price
(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. Tam B Ray Billy	5,810,000	–	–	–	–	5,810,000	10 March 2011	10 March 2011 to 9 March 2021	HK$0.750
Mr. Chan Man Fai Joe (Note 1)	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. Lam Kin Kok (Note 1)	–	250,000	–	(250,000)	–	–	28 March 2012	28 March 2012 to 28 March 2015	HK$0.770
Mr. Seto Man Fai (Note 1)	–	250,000	–	(250,000)	–	–	28 March 2012	28 March 2012 to 28 March 2015	HK$0.770
Mr. Ho Hin Hung Henry (Note 1)	–	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 (Note 2)	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	–	(13,160,000)	–	18,920,000			
(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	–	(13,160,000)	–	65,920,000			

Note 1: Mr. Chan Man Fai Joe, Mr. Lam Kin Kok, Mr. Seto Man Fai and Mr. Ho Hin Hung Henry resigned as Directors on 9 November 2012.

Note 2: The consultant ceased to provide professional service on 9 November 2012.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the period under review. The Group's compliance with the code provisions is set out in the Corporate Governance Report from pages 22 to 28 of this annual report.

AUDITOR

BDO Limited has acted as auditor of the Company for the year ended 31 December 2012.

BDO Limited shall retire in the forthcoming annual general meeting and, being eligible, will offer themselves for reappointment. A resolution for the re-appointment of BDO Limited as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Chow Liang Shuk Yee Selina
Chairman and
Independent Non-executive Director

Hong Kong, 19 March 2013

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF LARRY JEWELRY INTERNATIONAL COMPANY LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Larry Jewelry International Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 40 to 124, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2012, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants

Cheung Or Ping
Practising Certificate Number P05412

Hong Kong, 19 March 2013

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Notes	**Year ended 31 December 2012** *HK$'000*	Period from 1 April 2011 to 31 December 2011 *HK$'000*
Revenue	5	**351,183**	203,983
Cost of sales		**(255,548)**	(168,745)
Gross profit		**95,635**	35,238
Other income	5	**5,478**	467
Distribution costs		**(78,320)**	(34,927)
Administrative expenses		**(63,516)**	(58,969)
Finance costs	7	**(26,384)**	(17,374)
Loss before income tax	8	**(67,107)**	(75,565)
Income tax (expense)/credit	9	**(803)**	1,086
Loss for the year/period attributable to the owners of the Company	11	**(67,910)**	(74,479)
		HK cents	HK cents
Loss per share attributable to the owners of the Company during the year/period	12		
– Basic and diluted		**(7.08)**	(9.60)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

As at 31 December 2012

	Year ended 31 December 2012	Period from 1 April 2011 to 31 December 2011
	HK$'000	*HK$'000*
Loss for the year/period attributable to the owners of the Company	**(67,910)**	(74,479)
Other comprehensive income		
Exchange gain/(loss) on translation of financial statements of foreign operations	**5,327**	(6,360)
Total other comprehensive income for the year/period	**5,327**	(6,360)
Total comprehensive income for the year/period attributable to the owners of the Company	**(62,583)**	(80,839)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	**31 December 2012 *HK$'000***	31 December 2011 *HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15(a)	**7,180**	7,284
Goodwill	16	**43,736**	43,736
Intangible assets	17	**79,000**	79,000
Deposits	18	**9,888**	7,900
Financial assets at fair value through profit or loss	20	**229**	3,130
		140,033	141,050
Current assets			
Inventories	21	**302,838**	332,346
Trade receivables	22	**4,681**	11,443
Prepayments, deposits and other receivables		**7,467**	4,936
Tax recoverable		**801**	1,245
Pledged bank deposits	23	**28,084**	–
Bank and cash balances	23	**15,115**	123,324
		358,986	473,294
Current liabilities			
Trade payables	24	**23,107**	54,891
Other payables and accruals		**20,845**	22,310
Borrowings	25	**107,688**	276,940
Provision for tax		**2,591**	5,151
		154,231	359,292
Net current assets		**204,755**	114,002
Total assets less current liabilities		**344,788**	255,052
Non-current liabilities			
Deferred tax liabilities	26	**15,022**	16,777
Convertible notes	27	**65,481**	45,046
		80,503	61,823
Net assets		**264,285**	193,229
EQUITY			
Equity attributable to the owners of the Company			
Share capital	28	**10,181**	8,649
Reserves	29	**254,104**	184,580
Total equity		**264,285**	193,229

Chow Liang Shuk Yee Selina
Director

Tsang Po Yee Pauline
Director

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	**31 December 2012** *HK$'000*	31 December 2011 *HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15(b)	**894**	1,415
Deposits	18	**657**	1,486
Interests in subsidiaries	19	**7**	7,497
Financial assets at fair value through profit or loss	20	**229**	3,130
		1,787	13,528
Current assets			
Deposits and other receivables		**1,152**	787
Amounts due from subsidiaries	19	**364,493**	488,570
Bank and cash balances	23	**202**	8,806
		365,847	498,163
Current liabilities			
Other payables and accruals		**746**	3,507
Borrowings	25	**–**	276,940
Amounts due to subsidiaries	19	**41,640**	8
		42,386	280,455
Net current assets		**323,461**	217,708
Total assets less current liabilities		**325,248**	231,236
Non-current liabilities			
Convertible notes	27	**65,481**	45,046
		65,481	45,046
Net assets		**259,767**	186,190
EQUITY			
Share capital	28	**10,181**	8,649
Reserves	29	**249,586**	177,541
Total equity		**259,767**	186,190

Chow Liang Shuk Yee Selina
Director

Tsang Po Yee Pauline
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	Year ended 31 December 2012 HK$'000	Period from 1 April 2011 to 31 December 2011 HK$'000
Cash flows from operating activities			
Loss before income tax		**(67,107)**	(75,565)
Adjustments for:			
Interest income	5	**(53)**	(22)
Interest expenses	7	**26,384**	17,374
Depreciation	8	**4,688**	2,008
Write-down of inventories to net realisable value	8	**4,000**	5,482
Loss of inventories	8	**–**	2,979
Provision of impairment on trade receivables	8	**69**	2,486
Reversal of impairment provision on trade receivables	8	**(1,257)**	–
Bad debts written off	8	**156**	–
Written off/loss on disposals of property, plant and equipment	8	**158**	1,623
Impairment on goodwill	8	**–**	5,082
Change in fair value of financial assets at fair value through profit or loss	8	**8,182**	499
Loss on early redemption of convertible notes	8	**6,787**	–
Equity-settled share-based payment expenses	8	**3,757**	450
Operating loss before working capital changes		**(14,236)**	(37,604)
Decrease/(Increase) in inventories		**25,367**	(36,201)
Decrease in trade receivables		**7,828**	14,753
Increase in prepayments, deposits and other receivables		**(4,428)**	(47,709)
(Decrease)/Increase in trade payables		**(31,230)**	29,726
Decrease in other payables and accruals		**(1,545)**	(38,476)
Cash used in operations		**(18,244)**	(115,511)
Interest paid		**(11,032)**	(10,620)
Income tax paid		**(4,674)**	(1,257)
Net cash used in operating activities		**(33,950)**	(127,388)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	Year ended 31 December 2012 HK$'000	Period from 1 April 2011 to 31 December 2011 HK$'000
Cash flows from investing activities			
Purchases of property, plant and equipment	15(a)	**(4,615)**	(4,991)
Decrease in bank time deposits		**–**	1,693
Acquisitions of subsidiaries	31(a) and (b)	**–**	(127,907)
Interest received		**53**	22
Net cash used in investing activities		**(4,562)**	(131,183)
Cash flows from financing activities			
Repayment of borrowings		**(456,333)**	(45,000)
New borrowings raised		**284,296**	170,000
Redemption of convertible notes	27	**(41,429)**	–
Interest paid for convertible notes	27	**(280)**	–
Increased in pledged bank deposits		**(28,084)**	–
Proceeds from issue of convertible notes	27	**56,000**	54,000
Convertible notes issue expenses		**(2,480)**	(1,754)
Proceeds from issue of shares	28	**117,972**	140,623
Share issue expenses		**(4,101)**	(527)
Net cash (used in)/generated from financing activities		**(74,439)**	317,342
Net (decrease)/increase in cash and cash equivalents		**(112,951)**	58,771
Cash and cash equivalents as at the beginning of the year/period		**123,324**	64,705
Effect of foreign exchange rate changes		**4,742**	(152)
Cash and cash equivalents as at the end of the year/period		**15,115**	123,324
Analysis of balances of cash and cash equivalents			
Bank and cash balances	23	**15,115**	123,324

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Share capital HK$'000	Share premium HK$'000	Capital contribution reserve HK$'000 (note 29(iii))	Convertible notes equity reserve HK$'000	Share option reserve HK$'000	Merger reserve HK$'000 (note 29(i))	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance as at 1 April 2011	6,700	97,901	3,988	–	13,450	(830)	–	(4,893)	116,316
Issue of convertible notes (note 27)	–	–	–	17,634	–	–	–	–	17,634
Issuance cost of convertible notes	–	–	–	(428)	–	–	–	–	(428)
Issue of shares upon placing (notes 28(i), (ii), (iii) and (iv))	1,912	136,673	–	–	–	–	–	–	138,585
Share issue expenses	–	(527)	–	–	–	–	–	–	(527)
Recognition of equity-settled share-based payments (note 30)	–	(400)	–	–	850	–	–	–	450
Issue of shares upon exercise of share options (note 28(vi))	37	2,358	–	–	(357)	–	–	–	2,038
Share options forfeited (note 30)	–	–	–	–	(5,260)	–	–	5,260	–
Transactions with owners	1,949	138,104	–	17,206	(4,767)	–	–	5,260	157,752
Loss for the period	–	–	–	–	–	–	–	(74,479)	(74,479)
Other comprehensive income									
Exchange loss on translation of financial statements of foreign operations	–	–	–	–	–	–	(6,360)	–	(6,360)
Total comprehensive income for the period	–	–	–	–	–	–	(6,360)	(74,479)	(80,839)
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

	Share capital HK$'000	Share premium HK$'000	Capital contribution reserve HK$'000 (note 29(iii))	Convertible notes equity reserve HK$'000	Share option reserve HK$'000	Merger reserve HK$'000 (note 29(i))	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
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 (note 27)	-	-	-	20,394	-	-	-	-	20,394
Issuance cost of convertible notes	-	-	-	(783)	-	-	-	-	(783)
Transfer on redemption of convertible notes	-	-	-	(8,525)	-	-	-	8,525	-
Redemption of convertible notes	-	-	-	(3,600)	-	-	-	-	(3,600)
Issue of shares upon placing (notes 28(v))	1,532	116,440	-	-	-	-	-	-	117,972
Share issue expenses	-	(4,101)	-	-	-	-	-	-	(4,101)
Recognition of equity-settled share-based payments (note 30)	-	-	-	-	3,757	-	-	-	3,757
Share options forfeited (note 30)	-	-	-	-	(4,032)	-	-	4,032	-
Transactions with owners	1,532	112,339	-	7,486	(275)	-	-	12,557	133,639
Loss for the year	-	-	-	-	-	-	-	(67,910)	(67,910)
Other comprehensive income – Exchange gain on translation of financial statements of foreign operations	-	-	-	-	-	-	5,327	-	5,327
Total comprehensive income for the year	-	-	-	-	-	-	5,327	(67,910)	(62,583)
Balance as at 31 December 2012	10,181	348,344	3,988	24,692	8,408	(830)	(1,033)	(129,465)	264,285

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

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 and its subsidiaries (collectively referred to as the "Group") is located at 13/F., Pacific House, 20 Queen's Road Central, Hong Kong. The Company's shares have been listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM of the Stock Exchange") since 7 October 2009.

Pursuant to a resolution passed by the board of directors on 30 September 2011, the Company's financial year end was changed from 31 March to 31 December each year. Accordingly, the financial statements for the current period cover the twelve months from 1 January 2012 to 31 December 2012 whilst the comparative amounts shown on the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes cover the nine months from 1 April 2011 to 31 December 2011. The comparative information may not be comparable with amounts shown for the current year.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 19 to the financial statements. On 19 July 2011, the Group completed the acquisition of the entire equity interests in Sharp Wonder Holdings Limited and its subsidiaries (the "Sharp Wonder Group") (note 31(a)) which is principally engaged in the design and sale of jewelry products in Hong Kong and Singapore, details of which have been set out in the Company's circular dated 24 June 2011. On 8 September 2011, the Group completed the acquisition of the entire equity interests in Parkwell Asia Limited and its subsidiaries (the "Parkwell Group") (note 31(b)) which is principally engaged in the sale of jewelry products in the People's Republic of China (the "PRC"), details of which have been set out in the Company's announcement dated 8 August 2011.

Other than the acquisitions as described above, there were no significant changes in the Group's operations during the current year and previous period.

The financial statements are presented in Hong Kong Dollars ("HK$"), which is also the functional currency of the Company and all values are rounded to the nearest thousand ("HK$'000") except when otherwise indicated.

The financial statements for the year ended 31 December 2012 were approved for issue by the board of directors on 19 March 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements on pages 40 to 124 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the periods presented unless otherwise stated. The adoption of new or amended HKFRSs and the impact on the Group's financial statements, if any, are disclosed in note 3.

The financial statements have been prepared under historical cost convention, except for financial assets at fair value through profit or loss. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

2.2 Basis of consolidation and business combination

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of consolidation and business combination (Continued)

Acquisition of subsidiaries or businesses is accounted for using acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Subsidiaries

Subsidiaries are entities over which the Company has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

2.4 Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating unit ("CGU") that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use.

Depreciation is provided to write off the cost less their residual values, if any, over their estimated useful lives, using the straight-line method, at the following rates per annum:

Furniture and fixtures	25%
Office equipment	25%
Leasehold improvements	20% or the lease term, whichever is shorter
Moulds	30%

The assets' estimated useful lives, depreciation methods and estimated residual values, if any, are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

2.6 Intangible assets

The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses.

2.7 Impairment of non-financial assets

Goodwill, intangible assets, property, plant and equipment and interests in subsidiaries are subject to impairment testing. All assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

Goodwill and other intangible assets with indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Impairment of non-financial assets (Continued)

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a CGU). As a result, some assets are tested individually for impairment and some are tested at CGU level. Goodwill in particular is allocated to those CGU that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for CGU, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.8 Financial assets

The Group's financial assets mainly include trade and other receivables, deposits, financial assets at fair value through profit or loss, bank time deposits and bank and cash balances. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs.

Financial assets at fair value through profit or loss

Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

Financial assets at fair value through profit or loss (Continued)

When a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial assets at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in profit or loss. Fair value is determined by reference to active market transactions or using a valuation technique where no active market exists.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Impairment of financial assets

At each reporting date, loans and receivables are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

Impairment of financial assets (Continued)

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the year in which the impairment occurs.

If, in subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the year in which the reversal occurs.

Impairment losses are written off against the corresponding assets directly. Where the recovery of receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of receivables is remote, the amount considered irrecoverable is written off against receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2.9 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using first-in, first-out method, and in the case of work in progress and finished goods, comprises the cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

When the inventories are sold, the carrying amount of those inventories is recognised as an expense in the year in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the year in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the year in which the reversal occurs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of the consolidated statement of cash flows presentation, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

2.11 Financial liabilities

The Group's financial liabilities include trade and other payables and accruals, borrowings and convertible notes.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policies for borrowing costs.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Trade and other payables and accruals

These are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

Borrowings

Borrowings, which include bank loans, other loans and promissory notes, are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial liabilities

Convertible notes

(i) *Convertible notes contain liability and equity components*

Convertible notes issued by the Group that contain both the liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in convertible notes equity reserve.

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes equity reserve until the embedded option is exercised, in which case the balance stated in convertible notes equity reserve will be transferred to share premium. Where the option remains unexercised at the expiry dates, the balance stated in convertible notes equity reserve will be released to the retained earnings. No gain or loss is recognised upon conversion or expiration of the option.

(ii) *Convertible notes contain liability and equity components, and early redemption option derivative*

Convertible notes issued by the Company that contain liability, conversion option and early redemption option (which is not closely related to the host liability component) are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument. At the date of issue, both liability and early redemption option components are measured at fair value. The difference between the gross proceeds of the issue of the convertible notes and the fair values assigned to the liability and early redemption option components respectively, representing the conversion option for the holder to convert the notes into equity, is included in convertible notes equity reserve.

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest rate method. The early redemption option is measured at fair value with changes in fair value recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial liabilities (Continued)

Convertible notes (Continued)

(ii) Convertible notes contain liability and equity components, and early redemption option derivative (Continued)

The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in the convertible notes equity reserve until the embedded conversion option is exercised (in which case the balance stated in the convertible notes equity reserve will be transferred to share premium). Where the conversion option remains unexercised at the expiry date, the balance stated in convertible notes equity reserve will be released to the retained profit. No gain or loss is recognised in the profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability, equity and early redemption option components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the early redemption option are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

Where the convertible notes are redeemed, the consideration paid and any transactions cost thereof is allocated between the liability, conversion option and early redemption option components of the convertible notes at the date of the redemption. The difference between the consideration paid for the redemption of the liability component, which is determined using the prevailing market interest rate of similar non-convertible debts, and its carrying amount at the date of the redemption is recognised in profit or loss. Similarly, the different between the consideration paid for redemption of early redemption component, which is measured at fair value, and its carrying amount at the date of the redemption is recognised in profit or loss while the difference between the consideration paid for the redemption of the conversion option component and its carrying amount at the date of the transaction is included in equity (accumulated losses).

2.12 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Revenue recognition

Revenue comprises the fair value of the consideration received and receivables for the sale of goods and the use by others of the Group's assets yielding interest, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

(i) Sales of goods

Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

(ii) Management income

Management income is recognised when the services are rendered.

(iii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

2.14 Foreign currency translation

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rates at the reporting date. Income and expenses have been converted into HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the translation reserve in equity.

When a foreign operation is sold, such exchange differences are reclassified from equity to profit or loss as part of the gain or loss on sale.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Operating leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Where the Group has the right to use the assets held under operating leases, payments made under the leases are charged to profit or loss using the straight-line method over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payment made.

2.16 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year/period. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Accounting for income taxes (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on interests in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly to equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

  (i) the same taxable entity; or

  (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Retirement benefit costs and short-term employee benefits

Retirement benefit schemes

The Group participates in several staff retirement benefit schemes for employees in Hong Kong, the PRC and Singapore, comprising defined contribution retirement schemes and a Mandatory Provident Fund scheme (the “MPF Scheme”). The assets of these schemes are held separately from those of the Group in independently administered funds. The retirement benefit schemes are generally funded by payments from employees and by the relevant group companies. The retirement benefit scheme costs charged to profit or loss represents contributions payable by the Group to the schemes.

The subsidiary operating in the PRC are required to participate in the defined contribution retirement schemes for their employees, organised by the relevant local government authorities. They are required to make contributions to the retirement benefit schemes at a specified percentage of employees’ relevant income and there are no other further obligations to the Group.

The subsidiary operating in Singapore are required to participate in post-employment benefits plans under which the subsidiary pays fixed contributions into separate entities such as Central Provident Fund on a mandatory, contractual or voluntary basis. The subsidiary has no further payment obligations once the contributions have been paid.

The Group contributes to the MPF Scheme under the Mandatory Provident Fund Schemes Ordinance, for all employees in Hong Kong. Contributions are made based on 5% of the employees’ basic salaries, with a cap of monthly salaries of HK$25,000 commenced on or after 1 June 2012 and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Provision and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2.19 Share-based compensation

The Group operates equity-settled share-based compensation plans for remuneration of its directors, professionals, customers, suppliers, agents and consultants of the Company and its subsidiaries.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the equity instruments awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

All share-based compensation is recognised as an expense in profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when the equity instruments granted vest immediately unless the compensation qualifies for recognition as asset, with a corresponding increase in the share option reserve in equity. If vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of equity instruments expected to vest. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest. Estimates are subsequently revised, if there is any indication that the number of equity instruments expected to vest differs from previous estimates.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in equity is recognised.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. After vesting date, when the vested share options are later forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product lines.

The Group has identified the following reportable segments:

(i) Design and trading of jewelry products; and

(ii) Retailing of jewelry products.

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches. All inter-segment transfers are priced with reference to prices charged to external parties for similar orders.

The management policies the Group used for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except expenses related to share-based payments, finance costs, income tax, corporate income and expenses which are not directly attributable to the business activities of any operating segment are not included in arriving at the operating results of the operating segment.

Segment assets include all assets but corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarter.

Segment liabilities exclude corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment.

No asymmetrical allocations have been applied to reportable segments.

2.22 Borrowings costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

3. ADOPTION OF NEW AND AMENDED HKFRSs

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "New HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2012:

Amendments to HKFRS 1	Severe Hyper Inflation and Removal of Fixed Dates for First-time Adopters
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets

The adoption of the New HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

At the date of authorisation of these financial statements, certain new and amended HKFRSs have been published but are not effective, and have not been adopted by the Group.

The directors of the Company anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new and amended HKFRSs have been issued but are not expected to have a material impact of the Group's financial statements.

HKFRS 9 Financial Instruments

The standard is effective for accounting periods beginning on or after 1 January 2013. Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

3. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

HKFRS 10 Consolidated Financial Statements

The standard is effective for accounting periods beginning on or after 1 January 2013. HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor.

An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

HKFRS 13 Fair Value Measurement

The standard is effective for accounting periods beginning on or after 1 January 2013. HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes judgement, estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Inventory valuation

Inventory is valued at the lower of cost and net realisable value. Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market conditions and the historical experience of selling products of a similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. The Group reviews its inventory levels in order to identify slow-moving merchandise and use markdowns to clear merchandise. Inventory value is reduced when the decision to markdown below cost is made.

(ii) Impairment of receivables

The Group's management reviews receivables on a regular basis to determine if any provision for impairment is necessary. The policy for the impairment of receivables of the Group is based on, where appropriate, the evaluation of collectibility and ageing analysis of the receivables and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these outstandings, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, provision for impairment may be required.

(iii) Income taxes

The Group is subject to income taxes in Hong Kong, Macau, Singapore and the PRC. Significant judgement is required in determining the provision for income taxes and the timing of payment of the related tax. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provision in the period in which such determination is made.

(iv) Valuation of share options

For the services rendered by the employees, directors and consultants, the Group measured the services received at the fair value of the services received, unless that fair value cannot be estimated reliably. When the Group cannot estimate reliably the fair value of the services received, the Group measured their value indirectly by reference to the fair value of the equity instruments granted.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(iv) Valuation of share options (Continued)

For the share options granted to the consultants, the Group assessed the fair value of the services received. For the share options granted to the employees, the fair value of the share options granted was determined with reference to the market price of the options with similar terms and conditions. For the share options granted to the directors, the fair value of the options granted was determined by applying an option pricing model. The directors exercise their judgement in selecting an appropriate valuation technique for the share options granted by the Group.

Valuation technique, namely Black-Scholes valuation model, which is commonly used by market practitioners, has been applied for estimating the fair values of share options granted to the directors. The estimation of fair values of the share options are derived after taking into account the input parameters. Significant estimates and assumptions made by management included the estimated life of share options granted to be ten years based on exercise restrictions and behavioural considerations; the volatility of share price which was determined by reference to historical data and weighted average share prices and exercise prices of the share options granted. Details of the inputs and parameters are set out in note 30 to the financial statements.

(v) Estimated impairment of goodwill and other intangible assets

The Group tests on annual basis whether goodwill and other intangible assets are impaired in accordance with the accounting policy stated in note 2.7. Determining whether goodwill and other intangible assets are impaired requires an estimation of the value in use of the CGUs to which goodwill and other intangible intangible assets have been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate the present value. Details in impairment assessment are set out in note 16 and 17.

(vi) Valuation of convertible notes

The directors of the Company use their judgement in selecting an appropriate valuation technique for the Group's convertible notes which are not quoted in the active market. Valuation techniques commonly used by market practitioners are applied. The fair value of the conversion option derivative, if any and the liability and equity components inside the convertible notes are estimated by an independent professional valuer. The fair value of these components varies with different variables of certain subjective assumptions. Any change in these variables so adopted may materially affect the estimation of the fair value of these components.

5. 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 year/period are as follows:

	Year ended 31 December 2012	Period from 1 April 2011 to 31 December 2011
	HK$'000	*HK$'000*
Revenue		
Sales	**351,183**	203,983
Other income		
Interest income	**53**	22
Management income	**435**	350
Exchange gain, net	**551**	–
Sundry income	**3,182**	95
Reversal of impairment provision on trade receivables	**1,257**	–
	5,478	467

6. SEGMENT INFORMATION

The executive directors have identified the Group's two product lines as operating segments as further described in note 2.21.

(a) Design and Trading of Jewelry Products segment

(b) Retailing of Jewelry Products segment

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

6. SEGMENT INFORMATION (Continued)

	Design and Trading of Jewelry Products segment	Retailing of Jewelry Products segment	Total
	Year ended 31 December 2012		
	HK$'000	*HK$'000*	*HK$'000*
Revenue:			
From external customers	4,880	346,303	351,183
Inter-segment revenue	2,536	21,380	23,916
Reportable segment revenue	**7,416**	**367,683**	**375,099**
Reportable segment loss	**(3,263)**	**(10,631)**	**(13,894)**
Bank interest income	–	53	53
Depreciation	280	3,306	3,586
Written off/loss on disposal of property, plant and equipment	–	2	2
Write-down of inventories to net realisable value	4,000	–	4,000
Reversal of impairment provision on trade receivables	(1,257)	–	(1,257)
Bad debts written off	156	–	156

	31 December 2012		
	HK$'000	*HK$'000*	*HK$'000*
Reportable segment assets	**20,947**	**468,870**	**489,817**
Additions to non-current segment assets	385	5,021	5,406
Reportable segment liabilities	**722**	**152,556**	**153,278**

6. SEGMENT INFORMATION (Continued)

	Design and Trading of Jewelry Products segment	Retailing of Jewelry Products segment	Total
	Period from 1 April 2011 to 31 December 2011		
	HK$'000	*HK$'000*	*HK$'000*
Revenue:			
From external customers	11,252	192,731	203,983
Inter-segment revenue	1,805	–	1,805
Reportable segment revenue	13,057	192,731	205,788
Reportable segment loss	(11,686)	(22,155)	(33,841)
Bank interest income	7	15	22
Depreciation	223	1,539	1,762
Written off/loss on disposal of property, plant and equipment	517	1,106	1,623
Write-down of inventories to net realisable value	5,482	–	5,482
Loss of inventories	2,979	–	2,979
Provision of impairment on trade receivables	2,486	–	2,486
Impairment on goodwill	–	5,082	5,082

	31 December 2011		
	HK$'000	*HK$'000*	*HK$'000*
Reportable segment assets	36,687	560,788	597,475
Additions to non-current segment assets	2,080	128,082	130,162
Reportable segment liabilities	31,229	59,242	90,471

6. SEGMENT INFORMATION (Continued)

The total presented for the Group's operating segments reconcile to the Group's key financial figures as presented in the financial statements as follows:

	Year ended 31 December 2012 HK$'000	Period from 1 April 2011 to 31 December 2011 HK$'000
Reportable segment revenue	**375,099**	205,788
Elimination of inter segment revenue	**(23,916)**	(1,805)
Group revenue	**351,183**	203,983
Reportable segment loss	**(13,894)**	(33,841)
Equity-settled share-based payment expenses	**(3,757)**	(450)
Finance costs	**(21,618)**	(17,374)
Change in fair value of financial assets at fair value through profit or loss	**(8,182)**	(499)
Unallocated corporate income	**4,728**	350
Unallocated corporate expenses	**(17,597)**	(23,751)
Loss on early redemption of convertible notes	**(6,787)**	–
Loss before income tax	**(67,107)**	(75,565)

	31 December 2012 HK$'000	31 December 2011 HK$'000
Reportable segment assets	**489,817**	597,475
Property, plant and equipment	**923**	1,415
Deposits	**1,502**	1,486
Financial assets at fair value through profit or loss	**229**	3,130
Bank and cash balances	**527**	8,806
Unallocated assets	**6,021**	2,032
Group assets	**499,019**	614,344
Reportable segment liabilities	**153,278**	90,471
Borrowings	**–**	276,940
Convertible notes	**65,481**	45,046
Unallocated	**15,975**	8,658
Group liabilities	**234,734**	421,115

6. SEGMENT INFORMATION (Continued)

The Group's revenue from external customers and its non-current assets other than financial instruments are divided into the following geographical areas:

	Revenue from external customers		Non-current assets other than financial instruments	
	Year ended 31 December 2012	Period from 1 April 2011 to 31 December 2011	**31 December 2012**	31 December 2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Greater China (including Hong Hong, Macau and Taiwan)	**151,430**	105,897	**128,215**	127,608
Southeast Asia	**199,505**	93,743	**1,701**	2,412
Europe	**248**	3,847	**–**	–
The United States of America and Canada	**–**	496	**–**	–
	351,183	203,983	**129,916**	130,020

The geographical location of customers is based on the location at which the goods were delivered. The geographical location of the non-current assets is based on the physical location of the assets.

During the year ended 31 December 2012, there was no revenue from external customers attributed to Bermuda (the Company's country of domicile) (Period ended 31 December 2011: Nil) and no non-current assets were located in Bermuda (2011: Nil). The country of domicile is determined as the country where the Company was incorporated.

During the year ended 31 December 2012, none of the Group's revenue depended on a single customer in the Design and Trading of Jewelry Products segment (Period ended 31 December 2011: Nil).

7. FINANCE COSTS

	Year ended 31 December 2012 *HK$'000*	Period from 1 April 2011 to 31 December 2011 *HK$'000*
Interest charges on bank and other borrowings wholly repayable within five years	**11,032**	10,620
Imputed interest expenses wholly repayable within five years		
– convertible notes (note 27)	**12,567**	3,874
– promissory notes (note 25(ii))	**2,785**	2,880
	26,384	17,374

8. LOSS BEFORE INCOME TAX

	Year ended 31 December 2012 *HK$'000*	Period from 1 April 2011 to 31 December 2011 *HK$'000*
Loss before income tax is arrived at after charging/(crediting):		
Auditors' remuneration – Current year	**649**	1,029
Auditors' remuneration – Under-provision in respect of prior year	**131**	–
Cost of inventories recognised as expense, including	**255,548**	168,745
– Write-down of inventories to net realisable value	**4,000**	5,482
Provision of impairment on trade receivables (note 22)	**69**	2,486
Reversal of impairment provision on trade receivables (note 22)	**(1,257)**	–
Bad debts written off (note 22)	**156**	–
Depreciation	**4,688**	2,008
Written off/loss on disposals of property, plant and equipment	**158**	1,623
Impairment on goodwill (note 16)	**–**	5,082
Loss of inventories	**–**	2,979
Change in fair value of financial assets at fair value through profit or loss (note 20)	**8,182**	499
Loss on early redemption of convertible notes	**6,787**	–
Equity-settled share-based payment expenses ^	**3,757**	450
Employee benefit expense (including equity-settled share-based payment expenses) (note 13)	**44,358**	26,749
Exchange (gain)/loss, net	**(551)**	2,102
Operating lease rentals in respect of rented premises	**46,999**	23,475

^ Equity-settled share-based payment expenses relating to staff benefit expense was HK$3,307,000 (Period ended 31 December 2011: Nil).

9. INCOME TAX EXPENSE/(CREDIT)

	Year ended 31 December 2012 *HK$'000*	Period from 1 April 2011 to 31 December 2011 *HK$'000*
Current income tax – Hong Kong		
– Current year	**–**	1,247
– (Over)/Under-provision in respect of prior years	**(26)**	48
Current income tax – Singapore		
– Current year	**2,526**	1,227
Current income tax – The PRC		
– Current year	**67**	–
Deferred tax		
– Current year (note 26)	**(1,764)**	(3,608)
	803	(1,086)

Pursuant to the rules and regulations of Bermuda and the British Virgin Islands (the "BVI"), the Group is not subject to any income tax in Bermuda and the BVI during the year/period.

No income tax has been provided for Hong Kong as there is no estimated assessable profit derived from Hong Kong. During the year, Hong Kong profits tax rate is 16.5%. Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the period from 1 April 2011 to 31 December 2011.

Singapore income tax has been provided at the rate of 17% (Period ended 31 December 2011: 17%) on the estimated assessable profit for the year/period.

The PRC income tax has been provided at the rate of 25% on the estimated assessable profit for the year. No income tax has been provided for the PRC as there is no estimated assessable profit derived from the PRC during the period from 1 April 2011 to 31 December 2011. During the period, the PRC income tax rate is 25%.

No income tax has been provided for Macau as there is no estimated assessable profit derived from Macau during the year/period.

9. INCOME TAX EXPENSE/(CREDIT) (Continued)

Reconciliation between income tax credit and accounting loss at applicable tax rate is as follows:

	Year ended 31 December 2012	Period from 1 April 2011 to 31 December 2011
	HK$'000	*HK$'000*
Loss before income tax	**(67,107)**	(75,565)
Tax credit on loss before income tax, calculated at applicable rate in the tax jurisdiction concerned	**(11,036)**	(12,353)
Tax effect of non-deductible expenses	**9,610**	9,567
Tax effect of non-taxable revenue	**(768)**	(52)
Tax effect of deductible temporary difference not recognised	**545**	139
Tax effect of tax loss not recognised	**2,753**	1,656
Utilisation of previously unrecognised tax losses	**(114)**	(91)
(Over)/Under-provision in respect of prior years	**(26)**	48
Others	**(161)**	–
Income tax expense/(credit)	**803**	(1,086)

10. DIVIDENDS

The board of directors did not recommend any payment of dividend during the year ended 31 December 2012 (Period ended 31 December 2011: Nil).

11. LOSS ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

Of the consolidated loss attributable to the owners of the Company of HK$67,910,000 (Period ended 31 December 2011: HK$74,479,000), a loss of HK$11,379,000 (Period ended 31 December 2011: HK$78,415,000) has been dealt with in the financial statements of the Company.

12. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to the owners of the Company of HK$67,910,000 (Period ended 31 December 2011: HK$74,479,000) and the weighted average number of 958,865,240 (2011: 775,713,664) ordinary shares in issue during the year/period, after adjusting for the placing in May 2012 (note 28 (v)) (2011: for the placing in April 2011 (note 28 (i)), August 2011 (note 28 (ii)), September 2011 (note 28 (iii)) and December 2011 (note 28 (iv)), exercise of share options (note 28 (vi)) and the adjustments in respect of the bonus elements in the shares issued under the placing arrangements in April 2011 (note 28 (i)), August 2011 (note 28 (ii)) and December 2011 (note 28 (iv))).

For the year ended 31 December 2012 and period from 1 April 2011 to 31 December 2011, basic loss per share is same as diluted loss per share as there was no dilutive ordinary share.

13. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' REMUNERATION)

	Year ended 31 December 2012 *HK$'000*	Period from 1 April 2011 to 31 December 2011 *HK$'000*
Wages, salaries and allowances	**39,008**	25,808
Defined contribution retirement benefit scheme contributions	**2,043**	941
Equity-settled share-based payment expenses	**3,307**	–
	44,358	26,749

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of the emoluments paid and payable to the directors of the Company are as follows:

	Notes	Fees HK$'000	Salaries and allowances HK$'000	Share-based payment expenses HK$'000	Defined contribution retirement benefit scheme contributions HK$'000	Total HK$'000
Year ended 31 December 2012						
Executive director						
Ms. Tsang Po Yee Pauline		–	780	–	14	794
Non-executive directors						
Mr. Tam B Ray Billy		–	240	–	12	252
Mr. Cheng Ping Yat	(c)	–	385	–	7	392
Mr. Chan Man Fai Joe	(d)	–	206	698	10	914
Mr. Lam Kin Kok	(a)	26	77	87	5	195
Independent non-executive directors						
Mrs. Chow Liang Shuk Yee Selina	(f)	55	–	–	–	55
Mr. Chan Tze Ching Ignatius	(f)	17	–	–	–	17
Mr. Fung Shing Kwong	(e)	20	–	–	–	20
Mr. Lau Wan Pui Joseph	(e)	20	–	–	–	20
Mr. Wong Tat Tung	(b)	94	–	–	5	99
Mr. Seto Man Fai	(d)	103	–	87	5	195
Mr. Ho Hin Hung Henry	(d)	103	–	87	5	195
		438	1,688	959	63	3,148

Notes:

(a) Redesignated from an independent non-executive director to a non-executive director on 19 March 2012 and resigned on 9 November 2012.

(b) Appointed on 19 March 2012.

(c) Appointed on 24 May 2012

(d) Resigned on 9 November 2012

(e) Appointed on 10 November 2012

(f) Appointed on 28 November 2012

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

	Notes	Fees *HK$'000*	Salaries and allowances *HK$'000*	Share-based payment expenses *HK$'000*	Defined contribution retirement benefit scheme contributions *HK$'000*	Total *HK$'000*
Period from 1 April 2011 to 31 December 2011						
Executive directors						
Ms. Tsang Po Yee Pauline		–	500	–	9	509
Mr. So Chun Kai	(a)	–	610	–	5	615
Non-executive directors						
Mr. Chan Man Fai Joe		–	180	–	9	189
Mr. Tam B Ray Billy		–	180	–	9	189
Mr. Yim Kwok Man	(a)	–	100	–	5	105
Mr. Joseph Patrick Chu Yeong Kang	(b)	–	79	–	4	83
Independent non-executive directors						
Mr. Seto Man Fai		90	–	–	5	95
Mr. Lam Kin Kok		90	–	–	5	95
Mr. Ho Hin Hung Henry		90	–	–	5	95
		270	1,649	–	56	1,975

Notes:

(a) Resigned on 31 August 2011.

(b) Resigned on 29 July 2011.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31 December 2012 (Period ended 31 December 2011: Nil).

2,750,000 share options were granted to the directors of the Company during the year (Period ended 31 December 2011: Nil). The value of the share options granted to directors is measured according to the Group's accounting policy for share-based employee compensation as set out in note 2.19. Details of these benefits in kind including the principal terms and number of options granted are disclosed in note 30.

No emoluments were paid by the Group to any directors as an inducement to join, or upon joining the Group, or as compensation for loss of office during the year ended 31 December 2012 (Period ended 31 December 2011: Nil).

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Five highest paid individuals

The five highest paid individuals whose emoluments were the highest in the Group for the year included nil (Period ended 31 December 2011: 1) directors whose emoluments are reflected in the analysis as shown in note 14(a). The emoluments of the 5 (Period ended 31 December 2011: 4) highest paid individuals for the year are as follows:

	Year ended 31 December 2012 HK$'000	Period from 1 April 2011 to 31 December 2011 HK$'000
Basic salaries, bonuses and other allowances	**8,590**	2,710
Defined contribution retirement benefit scheme contributions	**89**	20
Equity-settled share-based payment expenses	**2,348**	–
	11,027	2,730

Their emoluments were within the following bands:

	Year ended 31 December 2012 No. of individual	Period from 1 April 2011 to 31 December 2011 No. of individual
Nil to HK$1,000,000	**–**	4
HK$1,000,001 to HK$1,500,000	**2**	–
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$2,500,000	**–**	–
HK$2,500,001 to HK$3,000,000	**1**	–
HK$3,000,001 to HK$3,500,000	**–**	–
HK$3,500,001 to HK$4,000,000	**1**	–
	5	4

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(c) Remuneration of senior management

Remuneration of senior management of the Group, including amounts paid to the highest paid employees other than directors as disclosed in note 14(b) are within the following bands:

	Year ended 31 December 2012 No. of individual	Period from 1 April 2011 to 31 December 2011 No. of individual
Nil to HK$1,000,000	**2**	7
HK$1,000,001 to HK$1,500,000	**2**	–
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$2,500,000	**–**	–
HK$2,500,001 or HK$3,000,000	**1**	–
HK$3,000,001 or HK$3,500,000	**–**	–
HK$3,500,001 or HK$4,000,000	**1**	–
	7	7

15. PROPERTY, PLANT AND EQUIPMENT

(a) Group

	Furniture and fixtures HK$'000	Office equipment HK$'000	Leasehold improvements HK$'000	Moulds HK$'000	Total HK$'000
As at 1 April 2011					
Cost	313	354	1,420	461	2,548
Accumulated depreciation	(104)	(92)	(222)	(149)	(567)
Net book amount	209	262	1,198	312	1,981
Period from 1 April 2011 to 31 December 2011					
Opening net book amount	209	262	1,198	312	1,981
Additions	496	618	3,877	–	4,991
Acquisition of subsidiaries (note 31(a))	2,941	632	523	–	4,096
Depreciation	(770)	(223)	(911)	(104)	(2,008)
Disposals	(309)	(188)	(1,126)	–	(1,623)
Exchange differences	(84)	(38)	(31)	–	(153)
Closing net book amount	2,483	1,063	3,530	208	7,284
As at 31 December 2011 and 1 January 2012					
Cost	3,148	1,269	4,299	461	9,177
Accumulated depreciation	(665)	(206)	(769)	(253)	(1,893)
Net book amount	2,483	1,063	3,530	208	7,284
Year ended 31 December 2012					
Opening net book amount	**2,483**	**1,063**	**3,530**	**208**	**7,284**
Additions	**199**	**656**	**3,760**	**–**	**4,615**
Depreciation	**(1,039)**	**(445)**	**(3,066)**	**(138)**	**(4,688)**
Disposals	**(61)**	**(57)**	**(36)**	**–**	**(154)**
Written off	**(4)**	**–**	**–**	**–**	**(4)**
Exchange differences	**67**	**32**	**28**	**–**	**127**
Closing net book amount	**1,645**	**1,249**	**4,216**	**70**	**7,180**
As at 31 December 2012					
Cost	**3,369**	**1,887**	**6,871**	**461**	**12,588**
Accumulated depreciation	**(1,724)**	**(638)**	**(2,655)**	**(391)**	**(5,408)**
Net book amount	**1,645**	**1,249**	**4,216**	**70**	**7,180**

15. PROPERTY, PLANT AND EQUIPMENT

(b) Company

	Office equipment HK$'000	Leasehold improvements HK$'000	Total HK$'000
As at 1 April 2011			
Cost	–	–	–
Accumulated depreciation	–	–	–
Net book amount	–	–	–
Period from 1 April 2011 to 31 December 2011			
Opening net book amount	–	–	–
Additions	51	1,610	1,661
Depreciation	(2)	(244)	(246)
Closing net book amount	49	1,366	1,415
As at 31 December 2011 and 1 January 2012			
Cost	51	1,610	1,661
Accumulated depreciation	(2)	(244)	(246)
Net book amount	49	1,366	1,415
Year ended 31 December 2012			
Opening net book amount	**49**	**1,366**	**1,415**
Additions	**574**	**–**	**574**
Depreciation	**(101)**	**(994)**	**(1,095)**
Closing net book amount	**522**	**372**	**894**
As at 31 December 2012			
Cost	**625**	**1,610**	**2,235**
Accumulated depreciation	**(103)**	**(1,238)**	**(1,341)**
Net book amount	**522**	**372**	**894**

16. GOODWILL – GROUP

The amount of goodwill recognised in the consolidated statement of financial position, arising from the acquisitions of subsidiaries, is as follows:

	31 December 2012 *HK$'000*	31 December 2011 *HK$'000*
At the beginning of the year/period		
Gross carrying amount	**48,818**	–
Accumulated impairment	**(5,082)**	–
Net carrying amount	**43,736**	–
For the year/period		
Opening net carrying amount	**43,736**	–
Acquisitions of subsidiaries (notes 31(a) and (b))	**–**	48,818
Impairment losses	**–**	(5,082)
Closing net carrying amount	**43,736**	43,736
At the end of the year/period		
Gross carrying amount	**48,818**	48,818
Accumulated impairment	**(5,082)**	(5,082)
Net carrying amount	**43,736**	43,736

For the purpose of impairment testing, goodwill is allocated to the following CGUs:

	Notes	**31 December 2012 *HK$'000***	31 December 2011 *HK$'000*
Retailing of jewelry products in the PRC	(a)	**–**	5,082
Retailing of jewelry products in Hong Kong and Singapore	(b)	**43,736**	43,736
		43,736	48,818

16. GOODWILL – GROUP (Continued)

(a) Retailing of jewelry products in the PRC

Goodwill as at 31 December 2011 arose from the acquisition of the Parkwell Group in 2011, details of which are set out in note 31(b). The recoverable amount for this CGU was determined based on value in use calculations, covering a detailed five-year budget plan followed by an extrapolation of expected cash flows at the growth rate stated below. The discount rate applied to the cash flow projections was 17%.

The key assumptions also include stable profit margins, which have been determined based on past performance, and management's expectations for market share, after taking into consideration published market forecast and research. The weighted average growth rate used is consistent with the forecasts included in industry reports. The discount rate used is pre-tax and reflect specific risks relating to this CGU.

As at 31 December 2011, provision for impairment loss of HK$5,082,000 was recognised in profit or loss to write down to its recoverable amounts.

(b) Retailing of jewelry products in Hong Kong and Singapore

Goodwill as at 31 December 2012 arose from the acquisition of the Sharp Wonder Group in 2011, details of which are set out in note 31(a). The recoverable amount for this CGU was determined based on value in use calculations, covering a detailed five-year budget plan followed by an extrapolation of expected cash flows at the growth rate stated below. The discount rate applied to the cash flow projection was 15.5% (2011: 17%).

The key assumptions also include stable profit margins, which have been determined based on past performance, and management's expectations for market share, after taking into consideration published market forecast and research. The weighted average growth rate used is consistent with the forecasts included in industry reports. The discount rate used is pre-tax and reflect specific risks relating to this CGU. The growth rate reflects the long-term average growth rate for the product line of the CGU.

Management of the Company is not aware of any other probable changes that would necessitate changes in its key estimates which will result in the carrying amount of goodwill exceeding its recoverable amount.

17. INTANGIBLE ASSETS – GROUP

The amount of intangible assets recognised in the consolidated statement of financial position, arising from the acquisition of the Sharp Wonder Group, is as follows:

	Brand name
	HK$'000
Net carrying amount	
At 1 April 2011	–
Acquisition of subsidiaries (note 31(a))	79,000
At 31 December 2011, 1 January 2012 and 31 December 2012	79,000

In the opinion of the directors, brand name is considered to have an indefinite life as it has been in the market for many years and the nature of the industry in which the Group operates is that the brand obsolescence is not common if supported by appropriate level of marketing.

For impairment testing, intangible assets with indefinite useful lives at 31 December 2012 were allocated to the CGU relating to the retailing of jewelry products in Hong Kong and Singapore. The recoverable amount of the CGU represents the value in use at 31 December 2012. Based on a valuation report for the brand name prepared by an independent professional qualified valuer, BMI Appraisals Limited. It is based on a relief-from-royalty method to estimate the Group does not have to pay a fair royalty to a third party for the use of the intangible assets for twenty years and certain key assumptions including royalty rates of 1.35% (2011: 1.35%) and 2.91% (2011: 2.91%) for Hong Kong and Singapore respectively, and a discount rate of 15.78% (2011: 17.53%) and 15.27% (2011: 16.39%) for Hong Kong and Singapore respectively to determine the value in use. The recoverable amount of CGU was determined to be in excess of its net carrying amount.

Management believes that possible changes in any of the above assumptions would not cause the carrying amounts to exceed their recoverable amounts.

18. DEPOSITS – GROUP AND COMPANY

Deposits represented the non-current rental deposits paid. All of the deposits were aged within five years and were denominated in HK$, Renminbi ("RMB") and Singapore dollars ("SGD"). These related to a number of independent counterparties for whom there is no recent history of default. The existing counterparties do not have significant defaults in the past.

19. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE FROM/(TO) SUBSIDIARIES – COMPANY

	31 December 2012	31 December 2011
	HK$'000	*HK$'000*
Unlisted shares, at cost	**7,497**	7,497
Less: Impairment loss	**(7,490)**	–
	7	7,497
Amounts due from subsidiaries	**405,686**	488,570
Less: Impairment loss	**(41,193)**	–
	364,493	488,570
Amounts due to subsidiaries	**(41,640)**	(8)

Amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand.

The directors consider that the carrying amounts of the amounts due from/(to) subsidiaries approximate their fair values at the reporting date because the amounts have a short maturity period on its inception, such that the time value of money impact is not significant.

19. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE FROM/(TO) SUBSIDIARIES – COMPANY (Continued)

Particulars of the subsidiaries as at 31 December 2012 are as follows:

Name of company	Place of incorporation/ registration and type of legal entity	Particulars of nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company Directly	Indirectly	Principal activities
Allwin State Limited	BVI, limited liability company	1,000 ordinary shares of United States Dollars ("US$") 1 each	100%	–	Investment holding
Alpha Wealth Investments Limited	BVI, limited liability company	1 ordinary share of US$1	100%	–	Investment holding
Better Act Group Limited	BVI, limited liability company	1 ordinary share of US$1	–	100%	Investment holding
Better Win International Limited	BVI, limited liability company	1 ordinary share of US$1	–	100%	Investment holding
Eternity Diamonds Trading Limited	Hong Kong, limited liability company	1,000 ordinary shares of HK$1 each	–	100%	Trading of diamonds
Eternity Jewelry Company Limited ("Eternity Jewelry")	Hong Kong, limited liability company	9,999 ordinary shares of HK$1 each	–	100%	Design and sale of jewelry products
Eternity Jewelry (Macau) Company Limited	Macau, limited liability company	25,000 ordinary shares of Macau Pataca ("MOP") 1 each	–	100%	Retailing of jewelry products
Full Join Limited ("Full Join")	BVI, limited liability company	3,000 ordinary shares of US$1 each	100%	–	Investment holding
Invest Trade Group Limited	BVI, limited liability company	1,000 ordinary shares of US$1 each	100%	–	Investment holding
Larry Jewelry Limited	Hong Kong, limited liability company	50,000,000 ordinary shares of HK$1 each	–	100%	Design and sale of jewelry products
Larry Jewelry (1967) Pte Limited	Singapore, limited liability company	13,800,000 ordinary shares of SGD1 each	–	100%	Design and sale of jewelry products
Merit Will Inc.	BVI, limited liability company	1,000 ordinary shares of US$1	100%	–	Investment holding

19. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE FROM/(TO) SUBSIDIARIES – COMPANY (Continued)

Name of company	Place of incorporation/ registration and type of legal entity	Particulars of nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			Directly	Indirectly	
New Larry Jewelry Limited	Hong Kong, limited liability company	1,000 ordinary shares of HK$1	–	100%	Retailing of jewelry products
Parkwell (Asia Pacific) Company Limited	Hong Kong, limited liability company	10 ordinary shares of HK$1	–	100%	Investment holding
Parkwell Asia Limited ("Parkwell Asia")	BVI, limited liability company	1,000 ordinary shares of US$1	–	100%	Investment holding
Peakwood Limited	BVI, limited liability company	1 ordinary share of US$1	100%	–	Investment holding
Sharp Wonder Holdings Limited	BVI, limited liability company	3 ordinary shares of US$1	–	100%	Investment holding
Vera Jewels Company Limited	Hong Kong, limited liability company	1,000 ordinary shares of HK$1	–	100%	Design and sale of jewelry products
重慶港匯商貿有限公司 Parkwell (Chongqing) Trading Co Limited*	the PRC, wholly foreign owned enterprise	Registered share capital of HK$2,000,000	–	100%	Sale of jewelry products
俊文時尚（北京）商貿有限公司 Larry Fashion (Beijing) Trading Limited*	the PRC, wholly foreign owned enterprise	Registered share capital of HK$1,000,000	–	100%	Sale of jewelry products

* The English name is for the identification purpose only.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – GROUP AND COMPANY

	31 December 2012 HK$'000	31 December 2011 HK$'000
Redemption option derivatives		
At 1 January/1 April	**3,130**	–
Initial recognition (note 27)	**8,560**	3,629
Derecognition due to redemption of convertible notes	**(3,279)**	–
Change in fair value	**(8,182)**	(499)
At 31 December	**229**	3,130

As at 31 December 2012, the derivatives are related to the fair value of early redemption option of convertible notes issued by the Company and were revalued by an independent professional qualified valuer, BMI Appraisals Limited, details of which are set out in note 27.

21. INVENTORIES – GROUP

	31 December 2012 HK$'000	31 December 2011 HK$'000
Raw materials	**48,990**	70,041
Work in progress	**4,511**	13,263
Finished goods	**249,337**	249,042
	302,838	332,346

22. TRADE RECEIVABLES – GROUP

	31 December 2012 HK$'000	31 December 2011 HK$'000
Trade receivables	**5,137**	15,136
Less: Provision of impairment on trade receivables	**(456)**	(3,693)
	4,681	11,443

22. TRADE RECEIVABLES – GROUP (Continued)

The Group allows a credit period from 0 to 90 days (2011: 30 to 270 days) to its non-retail customers for the year/period. Based on the invoice dates, ageing analysis of trade receivables is as follows:

	31 December 2012 *HK$'000*	31 December 2011 *HK$'000*
Within 30 days	**4,647**	9,057
31 – 60 days	**15**	56
61 – 90 days	**–**	111
91 – 180 days	**1**	753
181 – 365 days	**4**	648
Over 1 year	**14**	818
	4,681	11,443

Based on the due date, ageing analysis of trade receivables that are not impaired is as follows:

	31 December 2012 *HK$'000*	31 December 2011 *HK$'000*
Neither past due nor impaired	**4,612**	8,972
1 – 30 days past due	**35**	144
31 – 90 days past due	**15**	657
91 – 365 days past due	**5**	951
Over 1 year past due	**14**	719
	69	2,471
	4,681	11,443

All trade receivables are subject to credit risk exposure. However, the Group does not identify specific concentrations of credit risk with regards to trade receivables, as the amounts recognised resemble a large number of receivables from various customers.

Trade receivables that were neither past due nor impaired related to diversified customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired related to a number of independent customers that had a good track record of credit with the Group. Based on past credit history, management believes that no further provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group did not hold any collateral over these balances.

22. TRADE RECEIVABLES – GROUP (Continued)

Movement in the provision of impairment on trade receivables is as follows:

	31 December 2012 *HK$'000*	31 December 2011 *HK$'000*
Balance at the beginning of the year/period	**3,693**	1,207
Impairment loss recognised (note 8)	**69**	2,486
Reversal of impairment loss (note 8)	**(1,257)**	–
Amount written off as uncollectable	**(2,131)**	–
Exchange difference	**82**	–
Balance at the end of the year/period	**456**	3,693

At each reporting date, the Group reviews receivables for evidence of impairment on both an individual and collective basis. As at 31 December 2012, the Group has determined trade receivables of HK$456,000 (2011: HK$3,693,000) as individually impaired. Based on this assessment, reversal of impairment loss, net of HK$1,188,000 has been made in the year ended 31 December 2012 and impairment loss of HK$2,486,000 has been recognised in the period from 1 April 2011 to 31 December 2011. During the year, bad debts written off of HK$156,000 were made in the profit or loss against trade receivables (note 8). The impaired trade receivables are due from customers experiencing financial difficulties that were in default or delinquency of payments.

The Group did not hold any collateral or other credit enhancements over the impaired trade receivables, whether determined on an individual or collective basis.

The directors consider that the fair values of trade receivables are not materially different from their carrying amounts because these amounts have short maturity periods on their inception.

23. BANK AND CASH BALANCES AND PLEDGED BANK DEPOSITS

	Group		Company	
	31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Pledged bank deposits	**28,084**	–	**–**	–
Bank and cash balances	**15,115**	123,324	**202**	8,806

Pledge bank deposits represent deposits pledged to banks to secure bank facilities granted to the Group. At 31 December 2012, the pledged bank deposits of HK$8,057,000 and HK$20,027,000 carry interest at fixed rate of 0.6% per annum and 0.27% per annum respectively. In addition, the pledged bank deposit of HK$20,027,000 was pledged to secured bank loans of HK$43,333,000 (note 25(iv)).

Cash at banks earns interest at floating rates based on daily bank deposits rates.

The directors consider that the fair value of the short-term bank deposits was not materially different from their carrying amount because of the short maturity period on their inception.

24. TRADE PAYABLES – GROUP

The Group normally settles the outstandings due to trade payables within 0 to 150 days (2011: 0 to 150 days) credit term. Based on the invoice date, ageing analysis of trade payables is as follows:

	31 December 2012	31 December 2011
	HK$'000	*HK$'000*
Within 30 days	**11,851**	54,423
31 – 60 days	**10,471**	467
61 – 90 days	**743**	–
91 – 180 days	**39**	–
181 – 365 days	**3**	1
	23,107	54,891

All amounts are short term and hence the carrying values of trade payables are considered to be a reasonable approximation of fair value.

25. BORROWINGS – GROUP AND COMPANY

	Notes	Group and Company 31 December 2012 HK$'000	 31 December 2011 HK$'000
Borrowings wholly repayable within one year and classified as current liabilities			
Other loan, unsecured	(i)	–	125,000
Promissory notes, secured	(ii)	–	151,940
		–	276,940

	Notes	Group 31 December 2012 HK$'000	 31 December 2011 HK$'000
Borrowings wholly repayable more than two years but not exceeding five years and classified as current liabilities			
Other loan, net of issuance expenses and secured	(iii)	**64,355**	–
Bank loan, secured	(iv)	**43,333**	–
		107,688	–

Notes:

(i) 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. During the year, the loan amount was repaid in full.

(ii) As described in note 31(a), as a part of the consideration of the acquisition of the Sharp Wonder Group, the Company issued promissory notes with a principal amount of HK$150,000,000. The promissory notes were secured by a share charge dated 19 July 2011 over the entire issued share capital of Sharp Wonder, a wholly-owned subsidiary of the Group and bear interest at 3.5% per annum. HK$50,000,000 was due on 19 January 2012 and the remaining balance of HK$100,000,000 was due on 19 July 2012. The fair value at the date of issue amounting to HK$149,060,000 was calculated at the discounted borrowing rate of 4.29% per annum. During the year, the promissory notes with principal amount of HK$150,000,000 and interest were repaid in full.

25. BORROWINGS – GROUP AND COMPANY (Continued)

Notes: (Continued)

(ii) Movement of promissory notes is as follows:

	31 December 2012 *HK$'000*	31 December 2011 *HK$'000*
At the beginning of the year/period	**151,940**	–
Issue of promissory notes (note 31(a))	**–**	149,060
Imputed interest expenses (note 7)	**2,785**	2,880
Interest paid	**(4,725)**	–
Repayment of promissory notes	**(150,000)**	–
At the end of the year/period	**–**	151,940

(iii) On 4 July 2012, Larry Jewelry (1967) Pte Limited and Larry Jewelry Limited, both being wholly owned subsidiaries of the Company (the "Borrowers"), and the Company as one of the guarantors with other subsidiaries of the Company have entered into a facility agreement (the "Facility Agreement") with GE Capital Services Pte Ltd and GE Commercial Finance (Hong Kong) Limited (collectively, "GE Capital"), in relation to the provision of facilities in an aggregate amount up to HK$234 million (the "Facilities") to the Group.

The Facilities have a maturity period of three years from the date of the first drawdown under the Facility Agreement.

The Facilities carry interest rate at 3-month Hong Kong Dollar HIBOR rate plus 4.35% per annum and 3-month Singapore Dollar SIBOR rate plus 4.35% per annum in respect of drawing in Hong Kong Dollars and drawing in Singapore Dollars respectively.

On 17 July 2012, Borrowers have made the first drawdown under the Facilities provided by GE Capital.

As at 31 December 2012, the outstanding principal amount due to GE Capital under the Facility Agreement was HK$69,282,000.

Pursuant to the Facility Agreement, there is an event of default if, among other things, the various funds managed by Galaxy Asset Management (H.K.) Limited ("Galaxy Asset") cease to hold, on a collective basis, at least 10% the issued share capital of the Company. On 28 December 2012, the board of directors has been informed that the various funds managed by Galaxy Asset have ceased to hold, on a collective basis, at least 10% of the issued share capital of the Company and accordingly, an event of default under the Facility Agreement has occurred. Consequently, GE Capital is entitled among other things, to demand immediate repayment of the outstanding amounts under the Facilities.

25. BORROWINGS – GROUP AND COMPANY (Continued)

Notes: (Continued)

(iii) (Continued)

On 14 March 2013, the Company announced that following the discussion between the Company and GE Capital, GE Capital agreed, among others, to waive the compliance by the Company with and amend the existing covenants under the Facility Agreement in relation to the percentage of shareholding held by Fullink Management Limited ("Fullink") and various funds managed by Galaxy Asset in the Company by entering into a supplemental agreement to the Facility Agreement (the "Supplemental Agreement") with the Company on 14 March 2013. Such amendment to the Facility Agreement was necessitated following the reduction of the percentage of shareholding interest held by various funds managed by Galaxy Asset in the Company to below 10% back in December 2012 (note 38).

The Company executed a corporate guarantee to GE Capital in respect of the Facilities granted to subsidiaries of the Company. At the end of reporting period, no provision for the Company's obligation under the corporate guarantee contract had been made as the Group's management considered that it is not probable that the subsidiaries would default on the Facilities.

The Group has classified the liability as current because, at the end of the reporting period, it did not have an unconditional right to defer its settlement for at least twelve months after that date.

Details of the securities for the other loans are set out in note 35 (a) and (b).

(iv) On 26 April 2012, the Group drawn down a bank loan of HK$50,000,000, which bears interest at the rate of 3% per annum over HIBOR and is repayable by 36 monthly instalments starting from May 2012. The outstanding amount of the bank loan that is not scheduled to repay within one year is classified as current liabilities as the related loan agreement contains a clause that provides the lender with an unconditional right to demand repayment at any time at its own discretion. The bank loan is secured by a time deposit of HK$20,027,000 (note 23).

The Company executed a corporate guarantee to bank in respect of the bank loan granted to a subsidiary of the Company. At the end of reporting period, no provision for the Company's obligation under the corporate guarantee contract had been made as the Group's management considered that it is not probable that the subsidiary would default on the bank loan.

26. DEFERRED TAXATION – GROUP

Deferred taxation is calculated in full on temporary differences under liability method using applicable tax rates.

The movement of the deferred tax liabilities/(assets) is as follows:

	Fair value adjustment on business combination *HK$'000*	Accelerated tax depreciation *HK$'000*	Tax losses *HK$'000*	Total *HK$'000*
At 1 April 2011	–	–	–	–
Deferred tax liabilities arising from fair value adjustment on assets of acquisition of subsidiaries (note 31(a))	20,390	207	(199)	20,398
(Credited)/Charged to profit or loss (note 9)	(3,807)	–	199	(3,608)
Exchange differences	–	(13)	–	(13)
At 31 December 2011 and 1 January 2012	16,583	194	–	16,777
Credited to profit or loss (note 9)	(1,764)	–	–	(1,764)
Exchange differences	–	9	–	9
At 31 December 2012	**14,819**	**203**	**–**	**15,022**

No deferred tax assets of HK$4,409,000 (2011: HK$1,656,000) on tax losses of HK$26,721,000 (Period ended 31 December 2011: HK$10,036,000) have been recognised due to the unpredictability of future profit streams.

27. CONVERTIBLE NOTES – GROUP AND COMPANY

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. The Company may at any time after the second anniversary of the first issue date redeem the convertible notes at 120% of the principal amount by 14 days prior notice to a noteholder.

In February 2012, the Company and the CN1 holder agreed to change the redemption term of the CN1 from "the Company may at any time after the second anniversary of the first issue date redeem the convertible notes at 120% of the principal amount by 14 days prior notice to a noteholder" to the "Company may at any time from the first issue date purchase the whole or any part of the CN1 at the relevant purchase rate (i.e. such rate shall in any event not exceed 120% or, if no agreement could be reached, 120%) of the principal amount by serving a 14 days prior notice of redemption to the CN1 holder".

27. CONVERTIBLE NOTES – GROUP AND COMPANY (Continued)

During the year ended 31 December 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$6,787,000 from the redemption, which was recognised in profit or loss. As at 31 December 2012, the principal amount of HK$14,000,000 (2011: HK$54,000,000) of CN1 remained outstanding.

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 the Parkwell Group (note 31(b)). 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.

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$0.8 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.

For CN1 and CN3, the fair value of the liability component, include in non-current liabilities, was calculated using a market interest rate for an equivalent non-convertible notes net of issuance expenses. For the derivative asset component, it refers to the fair value of early redemption option by the Company. The residual amount, representing the value of the equity conversion component, was included in convertible notes equity reserve net of issuance expenses.

For CN2, the fair values of the liability component and the equity component were determined at the date of the issuance of the convertible notes. The fair value of the liability component, include in non-current liabilities, was calculated using a market interest rate for an equivalent non-convertible notes. The fair value of the equity component is included in convertible notes equity reserve.

On initial recognition, CN1, CN2 and CN3 in the consolidated statement of financial position are calculated as follows:

	Year ended 31 December 2012 CN3 *HK$'000*
Fair value of convertible notes issued	56,000
Issuance expenses	(1,697)
Derivative asset component (note 20)	8,560
Equity component	(20,394)
Liability component on initial recognition	42,469

27. CONVERTIBLE NOTES – GROUP AND COMPANY (Continued)

	For the period from 1 April 2011 to 31 December 2011		
	CN1	**CN2**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Fair value of convertible notes issued	54,000	2,503	56,503
Issuance expenses	(1,326)	–	(1,326)
Derivative asset component (note 20)	3,629	–	3,629
Equity component	(16,798)	(836)	(17,634)
Liability component on initial recognition	39,505	1,667	41,172

Movement of liability component for the year ended 31 December 2012 is as follows:

	CN1	**CN2**	**CN3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2011	–	–	–	–
Liability component upon initial recognition	39,505	1,667	–	41,172
Imputed interest expenses (note 7)	3,842	32	–	3,874
At 31 December 2011 and 1 January 2012	43,347	1,699	–	45,046
Liability component upon initial recognition	–	–	42,469	42,469
Imputed interest expenses (note 7)	4,487	107	7,973	12,567
Interest paid	(280)	–	–	(280)
Redemption of convertible notes	(34,321)	–	–	(34,321)
At 31 December 2012	13,233	1,806	50,442	65,481

Interest expenses of CN1, CN2 and CN3 were calculated using the effective interest rate method by applying the effective interest rate of 18.93%, 6.28% and 21.63% per annum respectively to the liability component.

28. SHARE CAPITAL

	Notes	31 December 2012 Number of shares	31 December 2012 HK$'000	31 December 2011 Number of shares	31 December 2011 HK$'000
Authorised:					
Ordinary shares of HK$0.01 each,					
As at 1 April 2011, 31 December 2011, 1 January 2012 and 31 December 2012		**10,000,000,000**	**100,000**	10,000,000,000	100,000
Issued and fully paid:					
Ordinary shares of HK$0.01 each,					
As at 1 January/1 April		**864,854,500**	**8,649**	669,950,000	6,700
Issue of shares upon placing in April 2011	(i)	**–**	**–**	26,000,000	260
Issue of shares upon placing in August 2011	(ii)	**–**	**–**	61,800,000	618
Issue of shares upon placing in September 2011	(iii)	**–**	**–**	72,700,000	727
Issue of shares upon placing in December 2011	(iv)	**–**	**–**	30,700,000	307
Issue of share upon placing and subscription in May 2012	(v)	**153,210,000**	**1,532**	–	–
Issue of shares upon exercise of share options	(vi)	**–**	**–**	3,704,500	37
As at 31 December		**1,018,064,500**	**10,181**	864,854,500	8,649

Notes:

(i) On 9 March 2011, the Company entered into a subscription agreement with a substantial shareholder and two associates of the substantial shareholders, pursuant to which an aggregate of 26,000,000 new ordinary shares were issued at the subscription price of HK$0.553 per share. As a result, the Company issued 26,000,000 new ordinary shares at HK$0.553 per share on 29 April 2011. As a result, there was an increase in share capital and share premium of HK$260,000 and HK$14,118,000 respectively. Details of the subscription are set out in the Company's announcements dated 9 March 2011, 30 March 2011 and 29 April 2011.

28. SHARE CAPITAL (Continued)

Notes: (Continued)

(ii) On 19 August 2011, the Company entered into a placing agreement with the placing agent, pursuant to which an aggregate of 61,800,000 new ordinary shares were placed by the placing agent on behalf of the Company, at the placing price of HK$0.75 per placing share with the independent investors. The Company issued 61,800,000 new ordinary shares at HK$0.75 per share on 24 August 2011. As a result, there was an increase in share capital and share premium of HK$618,000 and HK$45,732,000 respectively. Details of the placing are set out in the Company's announcements dated 22 August 2011 and 31 August 2011.

(iii) On 19 August 2011, the Company entered into a subscription agreement with a substantial shareholder, pursuant to which an aggregate of 72,700,000 new ordinary shares were issued at the subscription price of HK$0.75 per share. The Company issued 72,700,000 new ordinary shares at HK$0.75 per share on 30 September 2011. As a result, there was an increase in share capital and share premium of HK$727,000 and HK$53,798,000 respectively. Details of the subscription are set out in the Company's announcements dated 19 August 2011, 9 September 2011, 28 September 2011 and 30 September 2011.

(iv) On 13 December 2011, the Company entered into a subscription agreement with a substantial shareholder, pursuant to which an aggregate of 30,700,000 new ordinary shares were issued at the subscription price of HK$0.76 per share. The Company issued 30,700,000 new ordinary shares at HK$0.76 per share on 21 December 2011. As a result, there was an increase in share capital and share premium of HK$307,000 and HK$23,025,000 respectively. Details of the subscription are set out in the Company's announcements dated 13 December 2011 and 21 December 2011.

(v) 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. In addition, 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. The Company issued 2,560,000 new ordinary shares at HK$0.77 per share on 23 May 2012. As a result, there was an increase in share capital and share premium of HK$1,532,000 and HK$116,440,000 respectively. Details of the subscription are set out in the Company's announcement(s)/circular(s) dated 25 March 2012, 25 April 2012, 14 May 2012 and 21 May 2012.

(vi) During the period from 1 April 2011 to 31 December 2011, 3,704,500 share options at the exercise price of HK$0.55 were exercised. As a result, there was an increase in share capital and share premium of HK$37,000 and HK$2,358,000 respectively and a decrease in share option reserve of HK$357,000.

29. RESERVES

Group

The amounts of the Group's reserves and the movements therein during the year/period are presented in the consolidated statement of changes in equity.

Company

	Share premium HK$'000	Capital contribution reserve HK$'000	Convertible notes equity reserve HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance as at 1 April 2011	97,901	3,988	–	5,689	13,450	(20,875)	100,153
Issue of convertible notes (note 27)	–	–	17,634	–	–	–	17,634
Issuance cost of convertible notes	–	–	(428)	–	–	–	(428)
Issue of shares upon placing (notes 28(i), (ii), (iii) and (iv))	136,673	–	–	–	–	–	136,673
Share issue expenses	(527)	–	–	–	–	–	(527)
Recognition of equity-settled share-based payments (note 30)	(400)	–	–	–	850	–	450
Issue of shares upon exercise of share options (note 28(vi))	2,358	–	–	–	(357)	–	2,001
Share options forfeited (note 30)	–	–	–	–	(5,260)	5,260	–
Transactions with owners	138,104	–	17,206	–	(4,767)	5,260	155,803
Loss for the period	–	–	–	–	–	(78,415)	(78,415)
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income for the period	–	–	–	–	–	(78,415)	(78,415)
Balance as at 31 December 2011 and 1 January 2012	**236,005**	**3,988**	**17,206**	**5,689**	**8,683**	**(94,030)**	**177,541**
Issue of convertible notes (note 27)	**–**	**–**	**20,394**	**–**	**–**	**–**	**20,394**
Issuance cost of convertible notes	**–**	**–**	**(783)**	**–**	**–**	**–**	**(783)**
Transfer on redemption of convertible notes	**–**	**–**	**(8,525)**	**–**	**–**	**8,525**	**–**
Redemption of convertible notes	**–**	**–**	**(3,600)**	**–**	**–**	**–**	**(3,600)**
Issue of shares upon placing (notes 28(v))	**116,440**	**–**	**–**	**–**	**–**	**–**	**116,440**
Share issue expenses	**(4,101)**	**–**	**–**	**–**	**–**	**–**	**(4,101)**
Recognition of equity-settled share-based payments (note 30)	**–**	**–**	**–**	**–**	**3,757**	**–**	**3,757**
Share options forfeited (note 30)	**–**	**–**	**–**	**–**	**(4,032)**	**4,032**	**–**
Transactions with owners	**112,339**	**–**	**7,486**	**–**	**(275)**	**12,557**	**132,107**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(60,062)**	**(60,062)**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(60,062)**	**(60,062)**
Balance as at 31 December 2012	**348,344**	**3,988**	**24,692**	**5,689**	**8,408**	**(141,535)**	**249,586**

29. RESERVES (Continued)

Notes:

(i) Merger reserve

Merger reserve of the Group represented the sum of difference between the nominal value of the ordinary shares issued (a) by the Company and the share capital of Full Join; and (b) by Full Join and the share capital of Eternity Jewelry acquired through the shares swap pursuant to the reorganisation.

(ii) Contributed surplus

Contributed surplus of the Company represented the sum of difference between the net assets value of the subsidiary acquired and the nominal value of the share capital of the Company issued in exchange thereof pursuant to the reorganisation.

(iii) Capital contribution reserve

For the year ended 31 March 2011, certain number of the Company's share options was purchased by one of the shareholders and cancelled afterwards.

30. SHARE-BASED COMPENSATION

The Company adopted a share option scheme (the "SO Scheme") on 21 September 2009 (the "Adoption Date") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the SO Scheme include any persons being employees, directors, professionals, customers, suppliers, agents and consultants of the Company and its subsidiaries. The SO Scheme will remain in force for 10 years from the Adoption Date.

The maximum number of shares issuable under share options to each eligible participant in the SO Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options to any eligible participant in excess of this limit is subject to shareholders' approval in a general meeting. The total number of shares which may be issued upon exercise of all share options to be granted must not represent more than 10% of the nominal amount of all the issued shares of the Company (the "10% Limit") as at the date on which trading in the shares of the Company on the Stock Exchange first commenced. The Company may seek approval from its shareholders in a general meeting to refresh the 10% Limit at any time in accordance with the GEM Listing Rules.

The maximum number of unexercised share options currently permitted to be granted under the SO Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue from time to time.

30. SHARE-BASED COMPENSATION (Continued)

Share options granted to a director, chief executive or substantial shareholder of the Company, or any of their respective associates, are subject to the approval of the independent non-executive directors (excluding any independent non-executive director who is a proposed grantee of the share options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within a 12-month period, are subject to the shareholders' approval in a general meeting in accordance with the GEM Listing Rules.

The grant of share options is effective upon payment of a remittance of HK$1 in total by the grantee. The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the share options, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the date of grant of the share options; and (iii) the nominal value of the Company's shares.

During the year ended 31 December 2012, 10,050,000 (2011: 8,304,500) share options were granted to certain directors, employees and consultants of the Group under the SO Scheme.

All share-based compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options other than by issuing the Company's ordinary shares.

30. SHARE-BASED COMPENSATION (Continued)

Movement of the share options and the exercise price

Year ended 31 December 2012

Name/category of grantee	Notes	Date of grant	Exercisable period	Number of share options: Balance as at 1 January 2012	Granted during the year	Exercised during the year	Forfeited during the year	Balance as at 31 December 2012	Exercise price per share HK$
Executive directors									
Ms. Tsang Po Yee, Pauline	(i)	10 March 2011	10 March 2011 to 9 March 2021	5,810,000	–	–	–	5,810,000	0.75
Non-executive directors									
Mr. Chan Man Fai, Joe~	(i)	10 March 2011	10 March 2011 to 9 March 2021	5,810,000	–	–	(5,810,000)	–	0.75
	(i)	28 March 2012	28 March 2012 to 28 March 2015	–	2,000,000	–	(2,000,000)	–	0.77
Mr. Tam B Ray, Billy	(i)	10 March 2011	10 March 2011 to 9 March 2021	5,810,000	–	–	–	5,810,000	0.75
Mr. Lam Kin Kok#	(i)	28 March 2012	28 March 2012 to 28 March 2015	–	250,000	–	(250,000)	–	0.77
Independent non-executive directors									
Mr. Seto Man Fai~	(i)	28 March 2012	28 March 2012 to 28 March 2015	–	250,000	–	(250,000)	–	0.77
Mr. Ho Hin Hung, Henry~	(i)	28 March 2012	28 March 2012 to 28 March 2015	–	250,000	–	(250,000)	–	0.77
				17,430,000	2,750,000	–	(8,560,000)	11,620,000	
Employees									
In aggregate	(i)	28 March 2012	28 March 2012 to 28 March 2015	–	7,300,000	–	–	7,300,000	0.77
Third parties									
In aggregate	(ii)	8 March 2011	8 March 2011 to 7 March 2013	17,000,000	–	–	–	17,000,000	0.553
In aggregate	(ii)	30 September 2011	30 September 2011 to 29 September 2014	4,600,000	–	–	(4,600,000)	–	0.55
In aggregate	(ii)	4 October 2011	4 October 2011 to 3 October 2013	30,000,000	–	–	–	30,000,000	0.75
				51,600,000	–	–	(4,600,000)	47,000,000	
Total				69,030,000	10,050,000	–	(13,160,000)	65,920,000	

30. SHARE-BASED COMPENSATION (Continued)

Movement of the share options and the exercise price (Continued)

Period from 1 April 2011 to 31 December 2011

Name/category of grantee	Notes	Date of grant	Exercisable period	Number of share options: Balance as at 1 January 2011	Granted during the period	Exercised during the period	Forfeited during the year the period	Balance as at 31 December 2011	Exercise price per share HK$
Executive directors									
Ms. Tsang Po Yee, Pauline	(i)	10 March 2011	10 March 2011 to 9 March 2021	5,810,000	–	–	–	5,810,000	0.75
Non-executive directors									
Mr. Chan Man Fai, Joe	(i)	10 March 2011	10 March 2011 to 9 March 2021	5,810,000	–	–	–	5,810,000	0.75
Mr. Yim Kwok Man*	(i)	10 March 2011	10 March 2011 to 9 March 2021	5,810,000	–	–	(5,810,000)	–	0.75
Mr. Joseph Patrick Chu Yeong Kang^	(i)	10 March 2011	10 March 2011 to 9 March 2021	5,810,000	–	–	(5,810,000)	–	0.75
Mr. Tam B Ray, Billy	(i)	10 March 2011	10 March 2011 to 9 March 2021	5,810,000	–	–	–	5,810,000	0.75
				29,050,000	–	–	(11,620,000)	17,430,000	
Third parties									
In aggregate	(ii)	8 March 2011	8 March 2011 to 7 March 2013	17,000,000	–	–	–	17,000,000	0.553
In aggregate	(ii)	30 September 2011	30 September 2011 to 29 September 2014	–	8,304,500	(3,704,500)	–	4,600,000	0.55
In aggregate	(ii)	4 October 2011	4 October 2011 to 3 October 2013	–	30,000,000	–	–	30,000,000	0.75
				17,000,000	38,304,500	(3,704,500)	–	51,600,000	
Total				46,050,000	38,304,500	(3,704,500)	(11,620,000)	69,030,000	

\# Redesignated from an independent non-executive director to a non-executive director on 19 March 2012 and resigned on 9 November 2012.

~ Resigned on 9 November 2012

* Resigned on 31 August 2011

^ Resigned on 29 July 2011

30. SHARE-BASED COMPENSATION (Continued)

Notes:

(i) The fair values of share options granted were determined using Black-Scholes option pricing model that takes into account factors specific to the share incentive plans. The following principal assumptions were used in the valuation:

	2012	2011
Date of grant	**28 March 2012**	10 March 2011
Share price at date of grant	**HK$0.77**	HK$0.75
Expected volatility	**72.27%**	61.85%
Expected option life	**3 years**	10 years
Risk-free interest rate	**0.35%**	0.26%
Exercise price	**HK$0.77**	HK$0.75

The underlying expected volatility was determined by reference to historical data, calculated based on expected life of share options. Expectations of early exercise were incorporated into the Black-Scholes option pricing model. No special features pertinent to the options granted were incorporated into measurement of fair value.

(ii) The fair values of share options granted were determined by the fair value of the services received from these third parties.

Share options outstanding and weighted average exercise price for the reporting periods presented are as follows:

	31 December 2012		31 December 2011	
	Number of share options	**Weighted average exercise price** *HK$*	Number of share options	Weighted average exercise price *HK$*
Outstanding as at 1 January/1 April	**69,030,000**	**0.688**	46,050,000	0.677
Granted	**10,050,000**	**0.77**	38,304,500	0.707
Exercised	**–**	**–**	(3,704,500)	0.55
Forfeited	**(13,160,000)**	**0.684**	(11,620,000)	0.75
Outstanding as at 31 December	**65,920,000**	**0.701**	69,030,000	0.688
Exercisable as at 31 December	**65,920,000**	**0.701**	69,030,000	0.688

30. SHARE-BASED COMPENSATION (Continued)

Notes:

(ii) (Continued)

The weighted average share price for share options exercised during the period from 1 April 2011 to 31 December 2011 at the date of exercise was HK$0.74 per share.

The options outstanding at 31 December 2012 had exercise prices of HK$0.553 to HK$0.77 per share (2011: HK$0.55 to HK$0.75 per share) and weighted average remaining contractual life of 2.08 years (2011: 3.56 years).

In total, equity-settled share-based payments of HK$3,757,000 (Period ended 31 December 2011: HK$450,000) and HK$Nil (Period ended 31 December 2011: HK$400,000) has been recognised in profit or loss and share premium for the year ended 31 December 2012 respectively. The corresponding amount of which has been credited to share option reserve. No liabilities were recognised due to share-based payment transactions.

During the year ended 31 December 2012, as four (Period ended 31 December 2011: two) directors and a consultant (Period ended 31 December 2011: Nil) resigned, 13,160,000 (Period ended 31 December 2011: 11,620,000) share options granted to them were forfeited accordingly. As a result, there was a decrease in share option reserve of HK$4,032,000 (Period ended 31 December 2011: HK$5,260,000) and a transfer to accumulated losses of HK$4,032,000 (Period ended 31 December 2011: HK$5,260,000).

31. ACQUISITION OF SUBSIDIARIES

Period from 1 April 2011 to 31 December 2011

(a) The Sharp Wonder Group

On 19 July 2011, the Group completed the acquisition of the entire interests in Sharp Wonder and its subsidiaries from an independent third party, at a consideration of HK$238 million in cash and as to HK$150 million by the issue of the promissory notes. As at the date of acquisition, the Sharp Wonder Group was principally engaged in the design and retail of jewelry in Hong Kong and Singapore.

Details of the net assets acquired and goodwill are as follows:

	HK$'000
Total consideration	387,060
Fair value of net assets acquired	(343,324)
Goodwill	43,736

31. ACQUISITION OF SUBSIDIARIES (Continued)

(a) The Sharp Wonder Group (Continued)

The fair values of the identifiable assets and liabilities arising from the acquisition as at the date of acquisition and the corresponding carrying amounts immediately prior to the acquisition are as follows:

	Fair value *HK$'000*	Acquirees' carrying value *HK$'000*
Property, plant and equipment (note 15(a))	4,096	4,096
Deferred tax assets (note 26)	199	199
Intangible assets (note 17)	79,000	–
Deposits	6,692	6,692
Inventories	280,626	238,000
Trade receivables	17,781	17,781
Prepayments, deposits and other receivables	7,334	7,334
Bank and cash balances	103,463	103,463
Trade payables	(23,367)	(23,367)
Other payables and accruals	(58,640)	(59,440)
Amount due to intermediate holding company	(50,000)	–
Amount due to former shareholders	–	(49,200)
Tax payables	(3,263)	(3,263)
Deferred tax liabilities (note 26)	(20,597)	(207)
Net assets acquired	343,324	242,088

Total consideration satisfied by:	
Purchase consideration settled in cash during the year ended 31 March 2011	10,000
Purchase consideration settled in cash during the nine months ended 31 December 2011	228,000
Promissory notes (note 25(ii))	149,060
	387,060

Net cash outflow arising on acquisition:	
Cash consideration paid	(228,000)
Cash and cash equivalents acquired	103,463
	(124,537)

31. ACQUISITION OF SUBSIDIARIES (Continued)

(a) The Sharp Wonder Group (Continued)

The goodwill arose in the acquisition because the cost of the business combination included intangible assets that do not qualify for separate recognition. No goodwill is expected to be deductible for tax purpose.

The fair value and the gross amount of trade and other receivables amounted to HK$25,115,000. None of these receivables have been impaired and it is expected that the full contractual amounts can be collected.

Transaction costs of HK$10,591,000 have been expensed and are included in administrative expenses.

Since the acquisition, the Sharp Wonder Group contributed revenue and a loss of HK$184,174,000 and HK$16,133,000 respectively to the Group for the period from 1 April 2011 to 31 December 2011.

(b) The Parkwell Group

On 8 September 2011, the Group completed the acquisition of the entire interests in Parkwell Asia and its subsidiaries from the independent third parties ("Vendors"), at a consideration of HK$6.0 million, of which HK$3.5 million was paid by the Company in cash and HK$2.5 million (being fair value of the convertible notes) was satisfied by the issue of the convertible notes of the Company to the Vendors. As at the date of acquisition, the Parkwell Group was principally engaged in the retail of jewelry products in the PRC.

Details of the net assets acquired and goodwill are as follows:

	HK$'000
Total consideration	6,003
Fair value of net assets acquired	(921)
Goodwill	5,082

31. ACQUISITION OF SUBSIDIARIES (Continued)

(b) The Parkwell Group (Continued)

The fair values of the identifiable assets and liabilities arising from the acquisition as at the date of acquisition and the corresponding carrying amounts immediately prior to the acquisition are as follows:

	Fair value	Acquirees' carrying value
	HK$'000	*HK$'000*
Inventories	523	523
Trade receivables	776	776
Prepayments, deposits and other receivables	237	237
Bank and cash balances	130	130
Other payables and accruals	(745)	(745)
Net assets acquired	921	921
Total consideration satisfied by:		
Cash		3,500
Convertible notes (note 27)		2,503
		6,003
Net cash outflow arising on acquisition:		
Cash consideration paid		(3,500)
Cash and cash equivalents acquired		130
		(3,370)

The goodwill arose in the acquisition because the cost of the business combination included intangible assets that do not qualify for separate recognition. No goodwill is expected to be deductible for tax purpose.

The fair value and the gross amount of trade and other receivables amount to HK$1,013,000. None of these receivables have been impaired and it is expected that the full contractual amounts can be collected.

Transaction costs of HK$418,200 have been expensed and are included in administrative expenses.

Since the acquisition, the Parkwell Group contributed revenue and a loss of HK$954,000 and HK$5,532,000 respectively to the Group for the period from 1 April 2011 to 31 December 2011.

32. OPERATING LEASE COMMITMENTS

As at 31 December 2012, the total future minimum lease payments payable under non-cancellable operating leases are as follows:

Group

	31 December 2012 ***HK$'000***	31 December 2011 *HK$'000*
Within one year	**45,044**	38,937
In the second to fifth years inclusive	**45,052**	53,327
	90,096	92,264

Company

	31 December 2012 ***HK$'000***	31 December 2011 *HK$'000*
Within one year	**1,477**	6,277
In the second to fifth years inclusive	**537**	3,703
	2,014	9,980

Operating lease payments represent rentals payable by the Group for office premises and retail shops. The leases run for initial periods of 2 – 3 years, with an option to renew the lease terms at the expiry date or at dates as mutually agreed between the Group and respective landlords. None of the leases include contingent rentals.

33. CAPITAL COMMITMENTS

Group

	31 December 2012 ***HK$'000***	31 December 2011 *HK$'000*
Contracted but not provided for:		
Acquisition of property, plant and equipment	**–**	500

Company

At the reporting date, the Company has no capital commitments (2011: Nil).

34. RELATED PARTY TRANSACTIONS

(i) In addition to the transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with related parties:

	Year ended 31 December 2012 HK$'000	Period from 1 April 2011 to 31 December 2011 HK$'000
Management income from:		
– a related company	**435**	350
Professional fees paid to:		
– a related company	**202**	–
– a director of the Company	**240**	–
	442	–
Rental expenses paid to:		
– the directors of the Company and their spouse by the Company's subsidiaries	**–**	86
– a related company	**15,484**	6,729
	15,484	6,815

During the year/period, management income received from a related company with a common director.

During the year/period, part of the rental expenses was paid to related companies in which certain directors of the Company's subsidiary have indirect equity interests.

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

(ii) Key management personnel compensation

The key management personnel of the Group are the directors of the Company. Details of the remuneration paid to them during the period are set out in note 14 to the financial statement.

35. PLEDGE OF ASSETS

(a) At 31 December 2012, debentures were executed by the Group in favour of GE Capital charging, by way of fixed and floating charges, all of the undertakings, properties, assets and revenues of the Company and of its 10 subsidiaries as security for, inter alia, all obligations and liabilities, actual or contingent, from time to time owing by the Group to GE Capital.

(b) At 31 December 2012, the Group pledged all rights, titles and interests in 100% of the entire share capital of its 10 subsidiaries and all benefits accruing to the pledged equity interest to GE Capital as security for, inter alia, all obligations and liabilities, actual or contingent, from time to time owing by the Group to GE Capital.

36. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial instrument risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance by closely monitoring the individual exposure. As the Group's exposure to market risk is kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purpose during the year/period.

The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to a variety of risks which resulted from both its operating and investing activities. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below:

36. FINANCIAL RISK MANAGEMENT (Continued)

36.1 Categories of financial assets and liabilities

The carrying amounts of the financial assets and liabilities as recognised at the reporting date are categorised as follows. See notes 2.8 and 2.11 for explanations about how the categorisation of financial instruments affects their subsequent measurements.

	Group		Company	
	31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
Financial assets at fair value through profit or loss:				
Redemption option derivatives	**229**	3,130	**229**	3,130
Loans and receivables:				
Trade receivables	**4,681**	11,443	**–**	–
Deposits and other receivables	**2,587**	11,748	**840**	2,101
Amounts due from subsidiaries	**–**	–	**364,486**	488,570
Pledged bank deposits	**28,084**	–	**–**	–
Bank and cash balances	**15,115**	123,324	**202**	8,806
	50,696	149,645	**365,757**	502,607
Financial liabilities				
Financial liabilities measured at amortised cost:				
Trade payables	**23,107**	54,891	**–**	–
Other payables and accruals	**20,845**	18,995	**746**	3,507
Borrowings	**107,688**	276,940	**–**	276,940
Convertible notes	**65,481**	45,046	**65,481**	45,046
Amounts due to subsidiaries	**–**	–	**41,640**	8
	217,121	395,872	**107,867**	325,501

36. FINANCIAL RISK MANAGEMENT (Continued)

36.2 Market risk

(i) Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group carries out its business in Hong Kong and worldwide and most of the transactions are denominated in HK$, US$, Japanese Yen ("JPY"), Canadian Dollars ("CAD"), Australian Dollars ("AUD"), Euro ("EUR"), British Pounds ("GBP"), SGD, RMB and MOP. Exposures to currency exchange rates arise from the Group's overseas sales and purchases.

To mitigate the impact of exchange rate fluctuations, the Group continually assesses and monitors the exposure to foreign currency risk. During the year/period, management of the Group used certain foreign currency forward contracts to hedge the exposure to foreign exchange risk.

Foreign currency denominated financial assets and liabilities, translated into HK$ at the closing rates, are as follows:

	US$	**JPY**	**CAD**	**AUD**	**EUR**	**GBP**	**SGD**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
As at 31 December 2012							
Trade receivables	**4**	**–**	**6**	**–**	**–**	**10**	**2,807**
Bank and cash balances	**(372)**	**2**	**13**	**3**	**5**	**5**	**7,996**
Trade payables	**(20,327)**	**–**	**–**	**–**	**(89)**	**–**	**–**
Borrowings	**–**	**–**	**–**	**–**	**–**	**–**	**(1,528)**
Gross exposure arising from financial assets and liabilities	**(20,695)**	**2**	**19**	**3**	**(84)**	**15**	**9,275**

	US$	JPY	CAD	AUD	EUR	GBP	SGD
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2011							
Trade receivables	1,741	–	78	27	329	8	61
Bank and cash balances	533	3	5	31	443	28	50
Trade payables	(39,605)	(373)	–	–	(10)	–	–
Gross exposure arising from financial assets and liabilities	(37,331)	(370)	83	58	762	36	111

36. FINANCIAL RISK MANAGEMENT (Continued)

36.2 Market risk

(i) Foreign currency risk

The following table illustrates the sensitivity of the Group's loss after income tax for the year/period and accumulated losses in regards to 5% for US$, JPY, CAD, AUD, EUR, GBP and SGD for the year ended 31 December 2012 and the period from 1 April 2011 to 31 December 2011 appreciation in the Group entities' functional currencies against the respective foreign currencies. The above percentages are the rates used when reporting foreign currency risk internally to key management personnel and represents management's best assessment of the possible change in foreign exchange rates.

The sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the assumed percentage changes in foreign currency rates taking place at the beginning of the year/period and held constant throughout the year/period.

	US$	**JPY**	**CAD**	**AUD**	**EUR**	**GBP**	**SGD**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2012							
Loss for the year and accumulated losses	**(1,035)**	**–**	**–**	**–**	**(4)**	**1**	**464**
As at 31 December 2011							
Loss for the period and accumulated losses	(1,867)	(19)	4	3	38	2	6

A same percentage change in the Group entities' functional currencies against the respective foreign currencies would have the same magnitude on the Group's loss for the year/period and accumulated losses but of opposite effect.

These are the same method and assumption used in preparing the sensitivity analysis included in the financial statements for the period from 1 April 2011 to 31 December 2011.

The policies to manage foreign currency risk have been followed by the Group since prior years and are considered to be effective.

Exposures to foreign exchange rates vary during the year/period depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to foreign currency risk.

36. FINANCIAL RISK MANAGEMENT (Continued)

36.2 Market risk (Continued)

(ii) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest rate risk arises primarily from long-term borrowings and interest bearing bank balances.

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Cash at banks earn interest at floating rates of 0.01% per annum based on the daily bank deposits rates during the period. Any change in the interest rate promulgated by banks from time to time is not considered to have significant impact to the Group. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the HIBOR and SIBOR.

The Group continually assesses and monitors the exposure to interest rate risk. During the period, management did not consider it necessary to use interest rate swaps to hedge their exposure to interest rate risk as the interest rate risk exposure is not significant.

The policies to manage interest rate risk have been followed by the Group since prior years and are considered to be effective.

36.3 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations.

The Group's policy is to deal only with credit worthy counterparties. Credit terms are granted to new customers after a credit worthiness assessment by the directors. Payment record of customers is closely monitored. Monthly reports of customer payment history are produced and reviewed by the directors. When overdue balances and significant trade receivables are highlighted, the directors determine the appropriate recovery actions. It is not the Group's policy to request collateral from its customers. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which the customers operate also has an influence on credit risk but to a lesser extent.

36. FINANCIAL RISK MANAGEMENT (Continued)

36.3 Credit risk (Continued)

The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history and the Group assesses the credit worthiness and financial strength of its customers as well as considering prior dealing history with the customers. Generally non-retail customers are granted credit terms ranging from 0 to 90 days (2011: 30 to 270 days). Ageing analysis of trade receivables that are not impaired is set out in note 22. Management makes periodic collective assessment as well as individual assessment on the recoverability of trade receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any trade disputes with the debtors.

All the Group's bank and cash balances and bank time deposits are held in the banks in Hong Kong, Singapore, the PRC and Macau. The credit risk on liquid funds is limited because the counterparties are the banks with good credit-rating.

The credit policies have been followed by the Group since prior years and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 22.

36.4 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. The liquidity risk of the Group is managed by the cash and cash equivalents generated from operating cash flow and short term loans when necessary. The Group has net current assets of HK$204,755,000 (2011: HK$114,002,000) and has bank and cash balances of HK$15,115,000 (2011: HK$123,324,000) as at 31 December 2012. In the opinion of the directors, the Group's exposure to liquidity risk is limited.

36. FINANCIAL RISK MANAGEMENT (Continued)

36.4 Liquidity risk (Continued)

The following table details the remaining contractual maturities at each of the reporting dates of the financial liabilities, which are based on the earliest date the Group may be required to pay:

	Carrying amount *HK$'000*	Total contractual undiscounted cash flow *HK$'000*	Within one year or on demand *HK$'000*	More than 1 year *HK$'000*
Group				
As at 31 December 2012				
Trade payables	**23,107**	**23,107**	**23,107**	**–**
Other payables and accruals	**20,845**	**20,845**	**20,845**	**–**
Borrowings	**107,688**	**112,165**	**112,165**	**–**
Convertible notes	**65,481**	**74,480**	**1,960**	**72,520**
	217,121	**230,597**	**158,077**	**72,520**
Group				
As at 31 December 2011				
Trade payables	54,891	54,891	54,891	–
Other payables and accruals	18,995	18,995	18,995	–
Borrowings	276,940	286,970	286,970	–
Convertible notes	45,046	59,808	1,080	58,728
	395,872	420,664	361,936	58,728
Company				
As at 31 December 2012				
Other payables and accruals	**746**	**746**	**746**	**–**
Convertible notes	**65,481**	**74,480**	**1,960**	**72,520**
Amount due to a subsidiary	**41,640**	**41,640**	**41,640**	**–**
	107,867	**116,866**	**44,346**	**72,520**
Company				
As at 31 December 2011				
Other payables and accruals	3,507	3,507	3,507	–
Borrowings	276,940	286,970	286,970	–
Convertible notes	45,046	59,808	1,080	58,728
Amount due to a subsidiary	8	8	8	–
	325,501	350,293	291,565	58,728

36. FINANCIAL RISK MANAGEMENT (Continued)

36.4 Liquidity risk (Continued)

The liquidity policies have been followed by the Group since prior years and are considered to have been effective in managing liquidity risk.

The table that follows summarises the maturity analysis of bank loan with a repayment on demand clause based on agreed scheduled repayment set out in the loan agreement. The amount includes interest payments computed using contractual rate. As a result, this amount was greater than the amount disclosed in the "on demand" time band in the maturity analysis contained in page 121. Taking into account the Company's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such bank loan will be repaid in accordance with the scheduled repayment dates set out in the loan agreement.

	Carrying amount *HK$'000*	Total contractual undiscounted cash flow *HK$'000*	Within one year or on demand *HK$'000*	More than 1 year but less than 5 years *HK$'000*	More than 2 year but less than 5 years *HK$'000*
Group					
As at 31 December 2012					
Bank loan	**43,333**	**45,203**	**14,535**	**22,301**	**8,367**
Group					
As at 31 December 2011					
Bank loan	–	–	–	–	–

36.5 Fair value measurements recognised in the statement financial position – Group and Company

The fair value hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

The financial assets measured at fair value in the statement of financial position are grouped into fair value hierarchy as follows:

	Level 1 *HK$'000*	**Level 2** *HK$'000*	**Level 3** *HK$'000*	**Total** *HK$'000*
31 December 2012				
Financial assets at fair value through profit or loss				
– Redemption option derivatives	**–**	**229**	**–**	**229**
31 December 2011				
Financial assets at fair value through profit or loss				
– Redemption option derivatives	–	3,130	–	3,130

The derivatives entered into by the Group are not traded on active markets. The fair values of such contracts are estimated using a valuation technique that maximises the use of observable market inputs, e.g. market currency and interest rates.

37. CAPITAL MANAGEMENT

The Group's capital management objectives are:

(a) to safeguard the Group's ability to continue as a going concern, so that it continues to provide returns and benefits for equity holders;

(b) to support the Group's sustainable growth; and

(c) to provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and equity holder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. In order to maintain or adjust the capital structure, the Group may adjust the amount of the dividends paid to equity holders, return capital to equity holders or issue new shares. Management regards total equity as capital, for capital management purpose. The amount of capital as at 31 December 2012 amounted to HK$264,285,000 (2011: HK$193,229,000), which management considers as optimal having considered the projected capital expenditures and the forecast strategic investment opportunities. The Group's overall capital management strategy remains unchanged during the year/period.

38. EVENTS AFTER THE REPORTING DATE

On 14 March 2013, the Company announced that following the discussion between the Company and GE Capital, GE Capital agreed, among others, to waive the compliance by the Company with and amend the existing covenants under the Facility Agreement in relation to the percentage of shareholding held by Fullink and various funds managed by Galaxy Asset in the Company by entering into the Supplemental Agreement with the Company on 14 March 2013. Such amendment to the Facility Agreement was necessitated following the reduction of the percentage of shareholding interest held by various funds managed by Galaxy Asset in the Company to below 10% back in December 2012 (note 25).