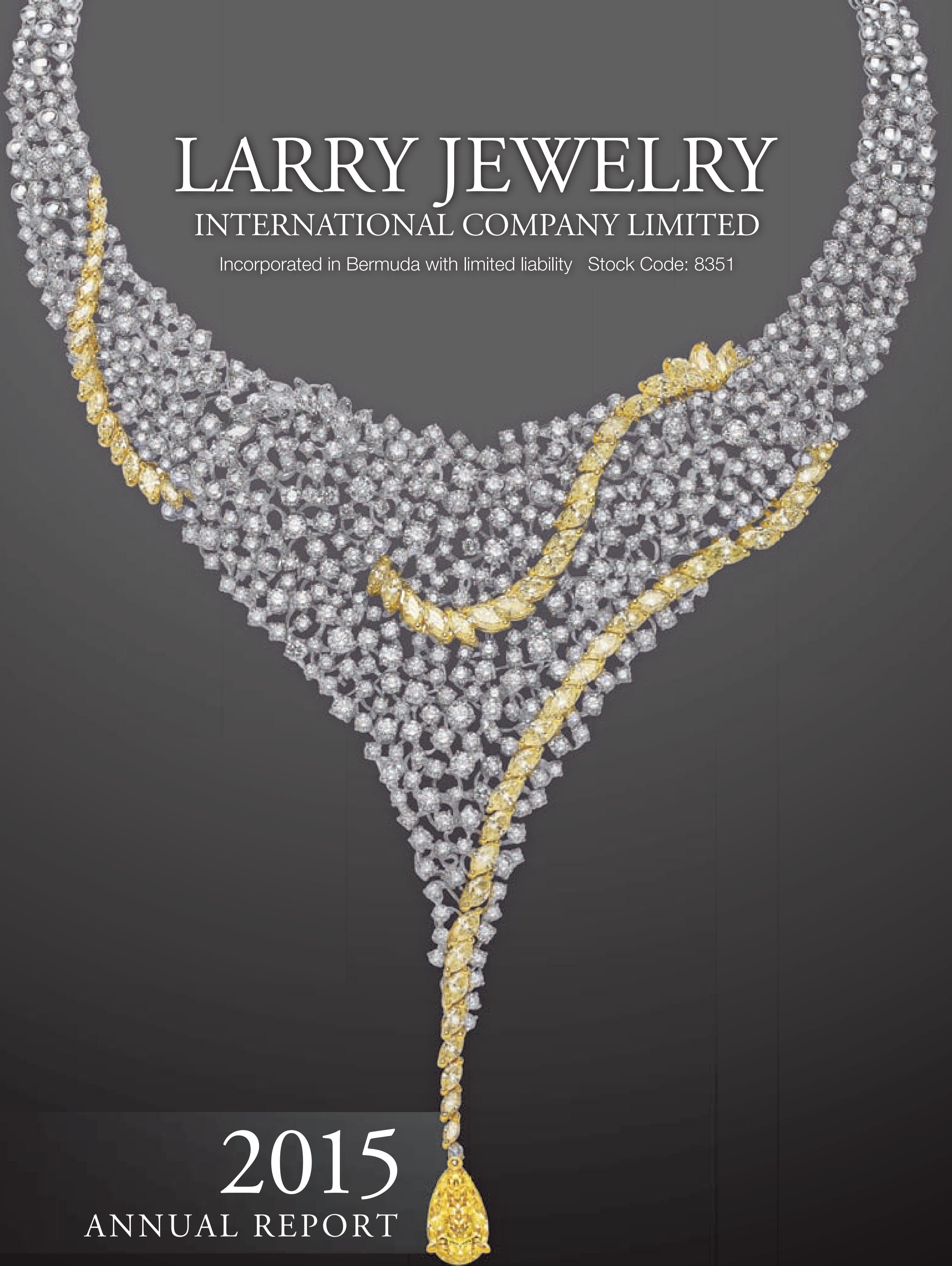
# LARRY JEWELRY
## INTERNATIONAL COMPANY LIMITED

Incorporated in Bermuda with limited liability Stock Code: 8351



# 2015
## ANNUAL REPORT

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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

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

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

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# THE TOUCH OF LUXURY

# NEW Flagship Stores






# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Luk Kee Yan Kelvin *(Chairman)*
Mr. Hon Kin Wai *(Chief Executive Officer)*

### Non-executive Directors

Mr. Lau Pak Hong
Ms. Ngai Ki Yee May

### Independent Non-executive Directors

Mr. Ong Chi King
Mr. Shum Lok To
Mr. Tso Ping Cheong Brian

## BOARD COMMITTEES

### Audit Committee

Mr. Shum Lok To *(Chairman)*
Mr. Lau Pak Hong
Mr. Ong Chi King
Mr. Tso Ping Cheong Brian

### Remuneration Committee

Mr. Ong Chi King *(Chairman)*
Mr. Luk Kee Yan Kelvin
Ms. Ngai Ki Yee May
Mr. Shum Lok To
Mr. Tso Ping Cheong Brian

### Nomination Committee

Mr. Tso Ping Cheong Brian *(Chairman)*
Mr. Lau Pak Hong
Mr. Luk Kee Yan Kelvin
Mr. Ong Chi King
Mr. Shum Lok To

## COMPLIANCE OFFICER

Mr. Hon Kin Wai

## COMPANY SECRETARY

Ms. Ko Wan Ting (appointed on 2 February 2015)
Mr. Cheng Man Wah (resigned on 2 February 2015)

## AUTHORISED REPRESENTATIVES

Mr. Luk Kee Yan Kelvin
Mr. Hon Kin Wai

## AUDITOR

Deloitte Touche Tohmatsu
(appointed on 18 November 2015)
BDO Limited (resigned on 25 September 2015)

## COMPLIANCE ADVISER

Lego Corporate Finance Limited
(appointed on 15 January 2016)
Quam Capital Limited
(terminated on 15 January 2016)

## PRINCIPAL BANKERS

Hang Seng Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited

## REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM11 Bermuda

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## SHARE REGISTRARS AND TRANSFER OFFICES

### Principal share registrar and transfer agent

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

### Hong Kong branch share registrar and transfer office

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

## STOCK CODE

Stock Exchange of Hong Kong: 8351

## COMPANY WEBSITE AND INVESTOR RELATIONS

www.larryjewelryinternational.com

# FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Company and its subsidiaries (the "Group") for the last five financial period/years is set out below:

| | Year ended 31 December | | | | Nine months ended 31 December |
|---|---|---|---|---|---|
| | **2015** | 2014 | 2013 | 2012 | 2011 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | **191,769** | 264,414 | 298,256 | 351,183 | 203,983 |
| Gross profit | **46,026** | 60,201 | 85,646 | 95,635 | 35,238 |
| Loss before income tax | **(53,908)** | (77,534) | (102,888) | (67,107) | (75,565) |
| Loss for the year attributable to owners of the Company | **(50,450)** | (74,091) | (103,267) | (67,910) | (74,479) |
| Basic loss per share *(HK cents)* | **(1.50)** | (2.64) | (6.78) | (5.79) (restated) | (9.60) |

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2015** | 2014 | 2013 | 2012 | 2011 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Non-current assets | **114,934** | 74,058 | 93,564 | 140,033 | 141,050 |
| Current assets | **205,364** | 310,945 | 338,534 | 358,986 | 473,294 |
| Current liabilities | **15,817** | 19,934 | 190,056 | 154,231 | 359,292 |
| Net assets | **297,298** | 354,113 | 227,658 | 264,285 | 193,229 |

The financial year end date of the Company has been changed from 31 March to 31 December commencing from the financial period ended 31 December 2011. The difference in duration of the financial periods should be considered when making year-on-year comparisons.

# CHAIRMAN'S STATEMENT

*Dear Shareholders,*

On behalf of the board of Directors (the "Board"), I am pleased to present the Group's annual results for the year ended 31 December 2015 (the "Year").

During the Year, the Group principally engaged in design and sale of a broad range of fine jewelry products. As a result of the stagnant luxury retail markets in Southeast Asia and Greater China in 2015 and the Group's strategy to streamline the retail networks in Hong Kong from two retail outlets as at year ended 31 December 2014 to focus on one Central retail outlet as at 31 December 2015, the Group's revenue and gross profit for the Year fell by approximately 27.5% and 23.5% respectively. In order to tackle the tough operating environment, the Group implemented stringent long-term cost control measures and the Group's net loss for the Year dropped by approximately 31.9% despite a decline in revenue.

Looking ahead, the Board and management expect the business environment to remain challenging but we are cautiously optimistic towards the overall outlook of the Group. We will endeavor to stabilise the existing operations and seek for new income source to enable the Group to grow and move forward. We try to achieve a diversified customer base through the introduction of new distinctive and unique product designs to more youthful, cosmopolitan audience.

In light of the tough luxury goods market, we will continue to explore suitable business opportunities to diversify the Group's existing business stream to enhance the long-term benefits of the Company and its shareholders as a whole. The proposed acquisition as disclosed in the Company's announcement dated 11 March 2015 (the "Acquisition") is still in the process. The Board considers that the Acquisition can, if materialises, provide a good opportunity to the Company to diversify the existing business stream of the Group.

On behalf of the Board, I would like to express my sincere gratitude to our shareholders, the customers, suppliers, banks and other business associates of the Group for the continued support. I would also like to thank our Directors, management team and staff, whose talent and efforts are the Group's most valuable resource for further development.

**Luk Kee Yan Kelvin**
*Chairman and Executive Director*
Hong Kong, 18 March 2016

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Market Overview and Risks and Uncertainties Relating to the Group's Business

In 2015, the luxury goods markets in Southeast Asia and Greater China continued to suffer from a decrease in luxury spending that began in 2014. Hong Kong and Singapore, being small open economies, are highly impacting by the slowing economies in the PRC and Europe. The financial market volatility in Hong Kong and the austerity measures implemented by the PRC government in order to reign in luxury spending and crackdown on corruption have led to continuous diminishing domestic and foreign customers' spending momentum. The growth in the retails market was also undermined by the weak performance of inbound tourism caused by the devaluation of the PRC currencies and the increasing social contradiction between Hong Kong and the PRC.

Amid the current economic sentiment, the luxury retail market in Hong Kong and Singapore remained soft in 2015. According to the statistics released by the Census and Statistics Department of Hong Kong, the value and volume of retail sales of jewelry, watches, clocks and valuable gifts in Hong Kong recorded a year-on-year decline of about 15.6% and 11.8% respectively. And based on the statistics released by the Singapore Department of Statistics, the retail sales index of watches and jewelry showed a year-on-year drop of about 2.1% after years of rapid growth.

The challenging economic conditions and the potential fluctuation in the future rental price may cause uncertainties to the Group's operation, revenue and profit margin. The Group continues to monitor the market trends and take prompt actions to adjust its store network plan, business and operation plan under different market conditions.

### Store Network and Operations

During the Year and as at the date of this Report, the Group owns one jewelry retail outlet in Hong Kong and two jewelry retail outlets in Singapore, all under the brand name of "Larry Jewelry".

#### Hong Kong

The Group's sales in Hong Kong of the Year was approximately HK$60,600,000, being 31.6% of the total sales for the Year, and representing a drop of about 41.7%. In view of the stagnant luxury goods market and the high rental costs for running retail stores in Hong Kong, the Group strategically planned to streamline the retail networks and reduced the sales points in Hong Kong from two retail outlets as at 31 December 2014 to one retail outlet as at 31 December 2015, and hence resulted a significant dropped in the revenue of Hong Kong segment for the Year.

The Group's retail store in Hong Kong located at Central, a high-end shopping area. During the Year, the Group relocated the store in Central from G/F, Parker House, 72 Queen's Road Central to G6–8, China Building, 29 Queen's Road Central. The old Central store was closed in early May 2015 while the new Central store opened in early August 2015. The new Central store is a flagship boutique and the Group officially announces the grand opening on 11 November 2015. Celebrity Ms. Kathy Chow, renowned media figure and business celebrity Ms. Janis Chan, renowned actress and TV host Ms. Sarah Song and famous actor and TV host Mr. Jason Chan were invited to join the opening ceremony. A series of jewelry collections were also demonstrated by the officiating guests, featuring the newly launched Classic & Elegant Collection, Cosmo Collection and Wedding & Gifts Collection.

The new flagship boutique was separated into three display zones, composed of the classic collections, cosmopolitan for working executives and bridal & gifts series for young segment, which enable the Group to distinguish customers with different needs and provide them with tailor made services. The Group believes the new flagship store can diversify its appeal to different target customers to enhance the business and establish a strong brand identity in the market.

# MANAGEMENT DISCUSSION AND ANALYSIS

**Singapore**

The Group's sales in Singapore of the Year was approximately HK$131,169,000, being 68.4% of the total sales for the Year, and representing a drop of about 18.3%, which was mainly as a result of the slowing economic growth in Singapore and the shrinking of tourist arrivals and receipts. The Group will seek for expansion in the sales points in Singapore when viable opportunities exist.

The Group's retail store in Singapore located at Paragon and ION Orchard, the prominent and sophisticated malls in the heart of Orchard Road, which includes a number of top luxury brands stores. During the Year, ION Orchard store underwent renovation works to revitalise the store image and enhance customers' shopping experience. The Group officially announces the grand opening on 24 June 2015. More than 50 VIP guests, socialites and jewelry aficionados graced the grand opening and a unique bridal corner was unveiled on the day alongside the exquisite Eternal Bride Collection. Models, adorned in Vera Wang gowns, put on a show for guests wearing dazzling pieces from the new collection.

In July 2015, the Group hosted its annual Larry Splendour event "Timeless Grandeur" in Singapore. In the event, the guests were invited to an intimate dinner at the Four Seasons Hotel and got an exclusive preview of the Group's Grandeur collection. The event promoted the Group's latest jewelry products in Singapore, at the same time rewarded loyal customers for their long-term supports to the Group's products.

### Group Performance

During the Year, the Group recorded revenue of approximately HK$191,769,000, representing a decrease of about 27.5%; and a net loss attributable to owners of the Company of approximately HK$50,450,000, representing a decrease of about 31.9%.

In order to tackle the tough operating environment, the Group launched different promotional campaigns, offering attractive prices on wide range of jewelry products, with the aim to drive its sales and accelerate its inventory turnover. Inventory optimisation was one of the strategies conducted by the Group in refining its inventory management. Under the management's effort, the Group's overall inventory level dropped by about 25.2%.

At the same time, the Group continued the implementation of stringent cost control measures, such as the re-location of retail stores, re-allocation of staff resources and the realignment of market strategy, so as to maintain a stable business operation and financial position. With the effort from the management of the Group, the net loss for the Year dropped by about 31.9% despite a decline in revenue of about 27.5%.

## FINANCIAL REVIEW

### Revenue

The Group's revenue for the Year was approximately HK$191,769,000 compared to approximately HK$264,414,000 for the last financial year, representing a decrease of about 27.5%, which was mainly attributed to the stagnant luxury retail markets in Southeast Asia and Greater China, the closure of Tsim Sha Tsui store in mid-2014 and the temporary closure of Central store for around three months for relocation from Parker House to China Building.

### Gross Profit

The Group's gross profit for the Year decreased by about 23.5% to approximately HK$46,026,000 compared to approximately HK$60,201,000 for the last financial year, largely in line with the drop in revenue. The Group's gross profit margin was approximately 24.0% compared to approximately 22.8% for the last financial year.

# MANAGEMENT DISCUSSION AND ANALYSIS

### Selling and Distribution Expenses

The Group's selling and distribution expenses for the Year decreased by about 31.1% to approximately HK$51,928,000 compared to approximately HK$75,407,000 for the last financial year. The decrease was mainly attributable to the decrease in overall rental and staff costs upon the closure of Tsim Sha Tsui store and the decrease in marketing expenses incurred on the annual Larry Splendour event.

### Administrative Expenses

The Group's administrative expenses for the Year decreased by about 21.5% to approximately HK$27,767,000 compared to approximately HK$35,388,000 for the last financial year. The decrease was mainly attributable to the decrease in the staff cost as a result of the reduction in the number of office staff and the decrease in the total directors' remuneration for the Year.

### Impairment Loss on Intangible Assets

During the Year, the Group recognised impairment loss on intangible assets of HK$20,600,000 as compared to that of HK$16,000,000 for the last financial year. The intangible assets represented fair values of brand name recognised at the date of acquisition of the Sharp Wonder Group. Due to the continued downturn of the luxury retail markets in Southeast Asia and Greater China, a less favourable future performance of jewelry business of the Group is expected and leading to a decrease in the recoverable amount of the intangible assets, and resulted impairment loss of HK$20,600,000 identified thereon in the Year.

### Finance Costs

The Group recorded no finance cost for the Year as compared to the finance cost of approximately HK$12,589,000 for the last financial year, which was due to the repayment of all the Group's borrowings in 2014.

### Loss Attributable to Owners of the Company

The loss attributable to owners of the Company was approximately HK$50,450,000 for the Year compared to a loss of approximately HK$74,091,000 for the last financial year. The decrease in the loss of approximately HK$23,641,000 was mainly attributable to the reduction in operating costs of the Group during the Year.

## ENVIRONMENTAL POLICY

The Group aims to protect the environment by minimising environmental adverse impacts in daily operations, such as energy saving and recycling of office resources. The Group will continue to seek for better environmental practices and promote the right environmental attitudes within the organization.

# MANAGEMENT DISCUSSION AND ANALYSIS

## COMPLIANCE WITH LAWS AND REGULATIONS

The Group mainly carries out its businesses in Hong Kong and Singapore. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Group has complied with all relevant laws and regulations in Hong Kong and Singapore during the Year.

## RELATIONSHIPS WITH STAKEHOLDERS

The Group recognises employees as valuable assets of the Group and the Group strictly complies with the labour laws and regulations of the regions it operates and review regularly the existing staff benefits for improvement. Apart from the reasonable remuneration packages, the Group also offers other employee benefits, such as the medical insurance, annual dinner, staff discounts on purchasing the Group's products, etc.

The Group provides good quality products and services to the customers and maintains a good relationship with the customers. The Group keeps a VIP customer database for direct communications with VIP customers and prompt notification of different types of promotions and sales campaigns.

The Group maintains effective communication and develops a long-term trust relationship with the suppliers. During the Year, there was no material dispute or arguments between the Group and the suppliers.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2015, the Group had cash and cash equivalents of approximately HK$47,581,000 (2014: HK$97,938,000) and pledged bank deposits of approximately HK$7,742,000 (2014: HK$11,745,000). As at 31 December 2015 and 2014, the Group had no borrowings and nil gearing ratio.

As at 31 December 2015, the Group had net current assets of approximately HK$189,547,000 (2014: HK$291,011,000). The current ratio of the Group as at 31 December 2015 was approximately 13.0 (2014: 15.6).

The Group financed its operations principally by revenue generated from business operations and available bank and cash balances. Management considers the financial position of the Group is healthy with adequate working capital for daily operations.

## NET PROCEEDS FROM OPEN OFFER

References is made to the circular of the Company dated 21 January 2014 in relation to the open offer of seven offer shares for ten existing shares held on the record date (the "Open Offer Circular"). As stated in the Open Offer Circular, the net proceeds from the open offer of approximately HK$121,300,000 (the "Proceeds") should be utilised in the following manner: (i) approximately HK$25,000,000 for the redemption of part of the convertible notes which matured in March 2014; (ii) approximately HK$73,000,000 for future business development of the Group; and (iii) the rest of the Proceeds of approximately HK$23,000,000 for the Group's general working capital, principally for the existing ongoing daily operations. Save for approximately HK$55,000,000 yet to be utilised for future business development of the Group as stated in the Open Offer Circular, the rest of the Proceeds were utilised as intended accordingly.

# MANAGEMENT DISCUSSION AND ANALYSIS

Having considered (i) the then economic and retail market condition; (ii) the jewelry business development of the Group; (iii) the future business development of the Group and (iv) the financial resources required by the Group to satisfy the HK$60,000,000 refundable deposit (the "Refundable Deposit") as part of the consideration for the Acquisition, and to better utilise the financial resources of the Group, the unutilised Proceeds of approximately HK$55,000,000 as abovementioned (the "Unutilised Proceeds") has been resolved and applied to settle substantial part of the Refundable Deposit, details of which were set out in the Company's announcement dated 20 July 2015. And the details of the Acquisition are set out under subheading of "Potential Acquisition" in the section headed "Outlook" in this Report.

## CAPITAL STRUCTURE

There was no change in the capital structure of the Group as at 31 December 2015 as compared with that as at 31 December 2014.

## CAPITAL COMMITMENTS

As at 31 December 2015, the capital commitments in respect of the Acquisition contracted for but not provided in the consolidated financial statements amounted to HK$540,000,000. As at 31 December 2014, the capital commitments in respect of the design fee and advertisement contracted for but not provided in the consolidated financial statements amounted to approximately HK$226,000.

## OPERATING LEASE COMMITMENTS

The Group's operating lease commitments are primarily related to the leases of its office premises and retail premises, amounted to approximately HK$55,502,000 and HK$40,496,000 as at 31 December 2015 and 2014, respectively.

## SIGNIFICANT INVESTMENT

As at 31 December 2015 and 2014, 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.

## PLEDGE OF ASSETS

As at 31 December 2015, the Group's pledged bank deposits of approximately HK$7,742,000 (2014: HK$11,745,000) were pledged as securities for bank guarantees provided by a bank to a supplier.

## CONTINGENT LIABILITIES

As at 31 December 2015 and 2014, the Group had no significant contingent liabilities.

## FOREIGN EXCHANGE EXPOSURE

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 2015, the Group had 55 (2014: 72) employees, including the Directors. Total staff costs (including Directors' emoluments) were approximately HK$22,968,000 (2014: HK$31,801,000). 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 the employees as well as a share option scheme.

## OUTLOOK

Looking ahead, the Group expects the retailing environment will remain challenging, while the Group remains cautiously optimistic in the luxury jewelry market in long run. To fulfill the Group's long-term strategic vision of becoming an Asian fine jewelry brand, the Board and management of the Group will carefully consider the nature of all future investments based on the market environment. In 2016, the Group will focus its efforts on the following strategic initiatives:

a. **Consumer Markets Broadening**

   The Group has established a significant presence for the "Larry Jewelry" brand in Singapore and will continue to expand Singapore segment by identifying suitable sites to open more retail outlets in Singapore with detailed plans.

   The Group will also look for viable business opportunities outside Hong Kong and Singapore for the development of the Group's overseas markets to reach a broader geographical spread of customer and increase its visibility across South East Asian countries.

b. **Consumer Diversification**

   The Group will seek to achieve a diversified customer base through the introduction of new distinctive and unique product designs to more youthful, cosmopolitan audience at a competitive price.

   The Group believes that the bridal market offers huge growth potential given its base of young consumers for which engagement and wedding rings are often their first serious jewelry purchase. Capturing young consumers as they make their first substantial jewelry purchase offers a significant opportunity to develop lifelong brand loyalty.

   The Group is also in the view that working executives are individuals with more disposable income and will pursue a better lifestyle and unique products. They are more eager to spend on luxury products to reward themselves as well as reflect their taste and personality.

   The Group will develop different digital marketing channels, such as reinvention of the Company's website, to capture the youth market.

# MANAGEMENT DISCUSSION AND ANALYSIS

c. **Cost Reduction Program**

The Group believes that improving and maintaining the efficiency of the business is key to its long-term success. As such, the management of the Group will continue to apply the existing cost control measures, periodically reviewing and adjusting the measures as appropriate to optimize the allocation of resources.

The Group will also review the current store network in Hong Kong and Singapore and cautiously assess the performance of existing retail stores. The Group will consider closing non-performing stores upon expiration of their lease periods so as to focus on locations that have high foot traffic in areas that attract a significant number of potential customers, including tourists, thus maximising the efficiency of its operations.

The management will also remain dedicated improving same-store sales and inventory turnover through the introduction of workshops, customer events and marketing campaigns. The Group believes these activities will allow the customers with more opportunities to understand the industry and the Group's products, as well as increase their confidence on "Larry Jewelry" brand and the services of Group.

d. **Potential Acquisition**

In light of the tough luxury goods market, the Group will continue to explore suitable business opportunities to diversify the Group's existing business stream to enhance the long-term benefits of the Company and its shareholders as a whole. As such, it is the Group's business strategies to seek for possible acquisition of a business other than the design and sale of jewelry products and to expand its retail market to other regions of the Greater China.

As disclosed in the announcement of the Company dated 11 March 2015, Fame Treasure Global Limited, a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement (the "SPA") on 11 March 2015 in relation to, among others, the Acquisition of 100% of the issued share capital of Tung Fong Hung Investment Limited (together with its subsidiaries, the "Target Group"), at a consideration of HK$600,000,000 (the "Consideration"). The Target Group is principally engaged in the business of sourcing, manufacturing, packaging, wholesales and retailing of Chinese pharmaceutical products, dry seafood, health products and foodstuff in Hong Kong, the PRC and Macau. As at 31 December 2015, HK$60,000,000 Refundable Deposit was paid and the remaining Consideration shall be satisfied by proposed issue of convertible bonds, net proceeds from proposed right issue of the Company's shares and the internal resources of the Company. As at the date of this Report, the Acquisition has not yet been completed. For further details, please refer to the Company's announcements dated 11 March 2015, 27 May 2015, 20 July 2015, 25 August 2015, 30 September 2015, 2 February 2016 and 7 March 2016.

The Group will try its best endeavor to implement these strategic initiatives and enable the Group to grow and move forward.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

### Executive Directors

**Mr. Luk Kee Yan Kelvin ("Mr. Luk")**, aged 33, was appointed as an executive Director on 7 August 2014 and as the chairman of the Company (the "Chairman") on 15 October 2014. He is also a member of the remuneration committee (the "Remuneration Committee") and nomination committee (the "Nomination Committee") of the Company and a director of a subsidiary of the Company. Mr. Luk holds a bachelor degree in mathematics (applied science) from the University of California, Los Angeles and a postgraduate diploma in professional accounting from The Hong Kong Polytechnic University. Mr. Luk is an executive director, the chief executive officer and chairman of Roma Group Limited (stock code: 8072), shares of which are listed on GEM. As at the date of the Report, Mr. Luk beneficially owns 528,902,842 shares of the Company (the "Shares"), being the single largest shareholder of the Company.

**Mr. Hon Kin Wai ("Mr. Hon")**, aged 54, was appointed as an executive Director and the chief executive officer of the Group (the "CEO") on 8 July 2014 and 29 April 2014 respectively. Mr. Hon is the compliance officer and authorised representative of the Company and a director of certain subsidiaries of the Company. Mr. Hon has a professional career which spans hotel management, merchandising and senior management positions across luxury and life style consumer goods industries. He brings with him over 14 years' proven expertise and knowledge of developing various international luxury watch and jewelry brands in Greater China. Prior to joining the Group, Mr. Hon was the General Manager at Dickson Concepts (International) Ltd, a role in which he was responsible for the management, operation and business development of the watch and jewelry division in the PRC and Hong Kong. Previously, he also held senior management positions in different multinational corporations such as Richemont Asia Pacific Ltd., DKSH Hong Kong Ltd. and Hagemeyer Cosa Liebermann Group (HK) Ltd. Mr. Hon holds a master in business administration degree from University of Surrey in England.

### Non-executive Directors

**Mr. Lau Pak Hong ("Mr. Lau")**, aged 47, was appointed as a non-executive Director on 1 April 2014. Mr. Lau is also a member of the Nomination Committee and audit committee of the Company (the "Audit Committee"). He is also director of certain subsidiaries of the Company. Mr. Lau has over 20 years of accounting and operations experience in Asia alternative investment and financial services. He has extensive hands-on experiences in management and working with senior directors and industry professionals. Mr. Lau is currently the partner, chief operating officer and chief financial officer of Adamas Asset Management (HK) Limited ("Adamas"). Mr. Lau is responsible for overall strategic planning of Adamas, managing all non-investment activities which include finance and operations, system development and implementation, and human resources. Mr. Lau is also appointed as director of BCM Energy Partners Inc, a company invested by Adamas. Prior to joining Adamas, Mr. Lau was the operations director for Samena Capital and Vision Investment Management's Hedge Fund Seeding Group. Mr. Lau was in charge of the operational due diligence on hedge fund managers before the group committed investments. Mr. Lau also played a very important role in assisting each invested manager to build its infrastructure and scale up the business. He was previously the chief operations officer for TPG-Axon Capital (HK) Limited, the Hong Kong office of the U.S.-based hedge fund manager and his primary responsibility was to set up the Hong Kong operation. Mr. Lau assumed responsibilities for setting up the operational and IT infrastructure and was the principal architect in formulating compliance policies and risk management systems. From 2002 to 2004, Mr. Lau was a tax consultant in Deloitte & Touche's Financial Services Tax Practice in New York and his clients included multi-billion dollar, U.S.-based hedge funds and private equity funds. Mr. Lau has a Master of Business Administration and Master of Science in Taxation from Fordham University in New York.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Ms. Ngai Ki Yee May ("Ms. Ngai")**, aged 31, was appointed as a non-executive Director on 1 April 2014. She is a member of the Remuneration Committee. Ms. Ngai has extensive experience in retail and merchandising. She obtained her bachelor degree in Policy and Social Administration from City University in Hong Kong. Upon graduation, Ms. Ngai has specialised her career in the merchandizing industry and has gained over 8 years of experience since then. Ms. Ngai was a member of the buying teams of Seibu Enterprise (Hong Kong) Limited, I.T Apparels Limited and Prada Pacific Asia Limited respectively.

## Independent Non-executive Directors

**Mr. Ong Chi King ("Mr. Ong")**, aged 42, was appointed as an independent non-executive Director on 15 October 2014. He is the chairman of the Remuneration Committee and a member of each of the Audit Committee and Nomination Committee. Mr. Ong holds a bachelor degree in business administration from The Hong Kong University of Science and Technology and a master degree in corporate finance from The Hong Kong Polytechnic University. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Ong has more than 20 years of experience in accounting, company secretarial field and finance. He has held senior positions in finance and company secretarial departments in various listed companies in Hong Kong. Mr. Ong was a director of Fitness Concept International Holdings Limited, which was incorporated in the Cayman Islands and was dissolved in June 2005 by striking off due to cessation of business. Mr. Ong is an independent non-executive director of Capital VC Limited (stock code: 2324), China Environmental Resources Group Limited (stock code: 1130), Hong Kong Education (Int'l) Investments Limited (stock code: 1082) and Wan Kei Group Holdings Limited (stock code: 1718), all of which are listed on the main board of the Stock Exchange. He is also an independent non-executive director of King Force Security Holdings Limited (stock code: 8315), WLS Holdings Limited (stock code: 8021) and KSL Holdings Limited (stock code: 8170) and an executive director of Deson Construction International Holdings Limited (stock code: 8268), all of which are listed on GEM.

**Mr. Shum Lok To ("Mr. Shum")**, aged 37, was appointed as an independent non-executive Director on 15 October 2014. He is the chairman of Audit Committee and a member of each of the Remuneration Committee and Nomination Committee. Mr. Shum holds a bachelor degree of business administration in accountancy from City University of Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. Mr. Shum has over 15 years of experience in accounting, external and internal auditing and finance in Hong Kong and the PRC. Mr. Shum worked in PricewaterhouseCoopers with the last position as a manager and Deloitte Touche Tohmatsu as a manager. Since 2008, Mr. Shum was the finance manager of a subsidiary of a multinational conglomerate company, shares of which are listed on the main board of the Stock Exchange, and was further promoted to hold senior positions of the said subsidiary in 2016. He was also the head of finance of a joint venture at Guangdong, the PRC of the said multinational conglomerate company since 2010. Mr. Shum was appointed as an executive director of Kong Shum Union Property Management (Holding) Limited ("Kong Shum") (stock code: 8181), shares of which are listed on GEM, on 28 July 2014, re-designated to a non-executive director of Kong Shum on 6 February 2015 and resigned on 8 March 2016.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Tso Ping Cheong Brian ("Mr. Tso")**, aged 35, was appointed as an independent non-executive Director on 15 October 2014. He is the chairman of the Nomination Committee and a member of each of the Audit Committee and Remuneration Committee. Mr. Tso holds a bachelor degree in accountancy and a master degree in corporate governance from The Hong Kong Polytechnic University. He is a practising and fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He was also a fellow member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Mr. Tso has over 10 years of experience in accounting and financial management. From 2003 to 2008, he worked in Ernst & Young with last position as a manager. Mr. Tso was then being the financial controller of Greenheart Group Limited (stock code: 0094) (formerly known as Omnicorp Limited), shares of which are listed on the main board of the Stock Exchange from 2008 to 2010. Mr. Tso was the senior vice president of Maxdo Project Management Company Limited from 2010 to 2012. Since January 2013, he has been the sole proprietor of Teton CPA Company, an accounting firm in Hong Kong. Mr. Tso was a non-executive director of Kong Shum from July 2014 to February 2015. He was appointed as an independent non-executive director of GreaterChina Professional Services Limited (stock code: 8193) on 2 July 2014, shares of which are listed on GEM. Mr. Tso was appointed as an independent non-executive director of Newtree Group Holdings Limited (stock code: 1323) on 27 February 2015 and the company secretary of China Infrastructure Investment Limited (stock code: 600) on 9 March 2015, both of which are listed on the main board of the Stock Exchange. He was appointed as an independent non-executive director of Guru Online (Holdings) Limited (stock code: 8121), shares of which are listed on GEM. He was appointed as a joint company secretary of China Yu Tian Holdings Limited with effect from 1 January 2014, the shares of which were initially listed on the GEM (stock code: 8230) on 29 December 2015.

## SENIOR MANAGEMENT

Mr. Hon is a member of senior management of the Company. For details of his biography, please refer to the paragraph headed "Executive Directors" in this section.

**Ms. Ng Swee Choo Catherine ("Ms Ng")**, aged 60, is the managing director of the company in Singapore and has worked for the company for more than 40 years. Ms. Ng is a strong leader who is responsible for all business and supporting functions of the company. With her passion for the industry and her loyalty to the company, Ms. Ng has gained strong supports from her internal staff members and external business partners to run and maintain a healthy operation for the company over the past years. Ms. Ng holds a degree in Management.

**Mr. Tay Yam Sheng Eric ("Mr. Tay")**, aged 54, is the retail director of the company in Singapore and has worked for the company for more than 34 years. Mr. Tay is an effective front line leader who is responsible for the retail operations in Singapore and the sales management for the South East Asian markets. With his extensive experience in the industry and his excellent customer service, Mr. Tay has made valuable contributions and has built a strong loyal customer base for the company over the past years. Mr. Tay holds a professional diploma in Retail Management.

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Company is committed to promoting high standards of corporate governance through its continuous effort in improving its corporate governance practices and process. The Board believes that sound and reasonable corporate governance practices are essential for sustainable development and growth of the Group and for safeguarding the shareholders' interests and the Group's assets.

Throughout the Year, the Company has complied with the code provisions as set out in the Corporate Governance Code (the "CG Code") as contained in Appendix 15 to 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 5.67 of the GEM Listing Rules ("the Code"). The Company had made specific enquiry of the Directors and all the Directors confirmed that they had complied with the required standard set out in the Code during the Year.

## THE BOARD

### Composition

The Board currently comprises two executive Directors, namely Mr. Luk Kee Yan Kelvin (Chairman) and Mr. Hon Kin Wai (CEO), two non-executive Directors, namely Mr. Lau Pak Hong and Ms. Ngai Ki Yee May, and three independent non-executive Directors, namely Mr. Ong Chi King, Mr. Shum Lok To and Mr. Tso Ping Cheong Brian.

Biographical details of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" of this Report. The latest list of the Directors and their respective roles and functions was published both on the websites of the Company and the Stock Exchange.

The Company has three independent non-executive Directors, at least one of whom is with appropriate professional qualifications or accounting or related financial management expertise throughout the Year, 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.

# CORPORATE GOVERNANCE REPORT

## Role and Delegation

The Board has the responsibility for leadership and control of the Group and is 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 maximising long-term shareholder value, while balancing broader stakeholder interests.

Directors have access to the advice and services of the company secretary of the Company (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 long and short term operational strategies including policies relating to key business and financial objectives of the Company, material acquisitions, investments, disposal of assets or any significant capital expenditure;
- overseeing and reviewing of its financial performance and results and the internal control systems;
- approving appointment, removal or re-appointment of the Directors for election/re-election in general meetings;
- communicating with key stakeholders, including shareholders and regulatory bodies;
- performing corporate governance functions in accordance with the CG Code, including the reviewing and monitoring the corporate governance practices of the Group; and
- 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 Directors and the CEO.

The Directors can attend meetings in persons or through other means of electronic communication in accordance with the bye-laws of the Company (the "Bye-laws"). During the Year, the Board held 9 meetings and passed 2 written resolutions.

All Directors assume the responsibilities to 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 arranged appropriate insurance cover for the Directors in connection with the discharge of their responsibilities.

# CORPORATE GOVERNANCE REPORT

## 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 31 and 32 of this annual report.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

The Chairman plays a leading role and is responsible for effective running of the Board while the CEO 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.

## APPOINTMENT AND RE-ELECTION

Pursuant to the Bye-laws, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Company after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM of the Company and shall then be eligible for re-election. In addition, at each AGM one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

## INDUCTION AND CONTINUOUS DEVELOPMENT

Each newly appointed Director receives a comprehensive induction package (the "Package") designed to enhance his/her knowledge and understanding of the Group's culture and operations. The Package usually includes a briefing or an introduction to the Group's structure, businesses strategies, recent developments and governance practices. The Packages have been sent to all Directors newly appointed during the Year.

The Group provided continuous professional training and Directors received regular updates and presentations on changes and developments to the Group's business and to the legislative and regulatory environments in which the Group operates from time to time. In addition, all Directors were requested to provide the Company with the records of the other training they received. During the Year, the Group provided several seminars and training courses to Directors.

## BOARD COMMITTEES

The Board is currently supported by the Audit Committee, Remuneration Committee and Nomination Committee to oversee specific areas of the Company's affairs. Each of these Committees has been established with written terms of reference, which were approved by the Board, setting out the Committee's major duties and responsibilities. These terms of reference were published both on the websites of the Company and the Stock Exchange.

# CORPORATE GOVERNANCE REPORT

### Remuneration Committee

The Board has established a Remuneration Committee in September 2009 with written terms of reference in compliance with the CG Code (which were further revised in March 2012). The Remuneration Committee currently comprises one executive Director, namely Mr. Luk Kee Yan Kelvin, one non-executive Director, namely Ms. Ngai Ki Yee May, and three independent non-executive Directors, namely Mr. Ong Chi King (chairman of the Remuneration Committee), Mr. Shum Lok To and Mr. Tso Ping Cheong Brian.

The Remuneration Committee is responsible for, inter alia, reviewing and 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 Remuneration Committee is provided with sufficient resources enabling it to discharge its duties.

During the Year, the Remuneration Committee held 2 meetings.

### Nomination Committee

The Board has established a Nomination Committee in September 2009 with written terms of reference in compliance with the CG Code (which were further revised in March 2012 and September 2013). The Nomination Committee currently comprises one executive Director, namely Mr. Luk Kee Yan Kelvin, one non-executive Director, namely Mr. Lau Pak Hong, and three independent non-executive Directors, namely Mr. Tso Ping Cheong Brian (chairman of the Nomination Committee), Mr. Ong Chi King and Mr. Shum Lok To.

The Nomination Committee is responsible for, inter alia, reviewing the structure, size and composition of the Board (including skills, knowledge, experience and diversity needed in the future), formulating nomination policy, making recommendations to the Board on nomination, appointment or re-appointment of Directors and succession planning for Directors and assessing the independence of independent non-executive Directors. The Nomination Committee is provided with sufficient resources enabling it to discharge its duties.

The Board has adopted a board diversity policy which sets out the approach to achieve diversity on the Board. All Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, in terms of skills, experience, knowledge, expertise, culture, independence, age and gender, having due regard for the benefits of diversity on the Board.

As at the date of this Report, the Board comprises male and female Directors with diverse backgrounds and/or extensive expertise in the Group's businesses. The Board also has a balanced composition of executive and non-executive directors so that there is a strong independent element on the board, which can effectively exercise independent judgement.

During the Year, the Nomination Committee held 1 meeting.

# CORPORATE GOVERNANCE REPORT

**Audit Committee**

The Board has established an Audit Committee in September 2009 with written terms of reference in compliance with the CG Code (which were further revised in March 2012 and 30 December 2015). The Audit Committee currently comprises one non-executive Director, namely Mr. Lau Pak Hong, and three independent non-executive Directors, namely Mr. Shum Lok To (chairman of the Audit Committee), Mr. Ong Chi King and Mr. Tso Ping Cheong Brian. The terms of reference of the Audit Committee are aligned with the provisions set out in the CG Code. The Audit Committee 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, risk management and internal control system; and
- review of transactions with interested persons.

During the Year, the Audit Committee held 6 meetings.

## BOARD AND BOARD COMMITTEES MEETINGS

The Board meets regularly at least four times each year and more frequently as the needs of the business demand. Apart from the Board meetings, the Board would from time to time devote separate sessions to consider and review the Group's strategy and business activities.

Notices of regular Board meetings were served to all Directors at least 14 days before the meetings. For all other Board and Board committees meetings, reasonable notices were given.

The agenda together with all relevant meeting materials are normally sent to all Directors or Committee members at least 3 days before (or other agreed period) each regular Board or Board committees meetings to enable them to make informed decisions with adequate data. The Board and each Director also have direct and independent access to the management whenever necessary.

According to the current Board practice, any material transactions involving a conflict of interest with a substantial shareholder of the Company or a Director will be considered and dealt with by the Board at a duly convened Board meeting. The Bye-laws also contain provisions requiring the Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

# CORPORATE GOVERNANCE REPORT

The individual attendance records of each Director at the Board, Board committees and general meetings during the Year are set out below:

| Name of Directors | Meetings attended held | | | | |
|---|---|---|---|---|---|
| | Board meetings | Audit Committee meetings | Remuneration Committee meetings | Nomination Committee meetings | AGM held on 26 June 2015 |
| **Executive Directors** | | | | | |
| Mr. Luk Kee Yan Kelvin | 9/9 | N/A | 2/2 | 1/1 | 1/1 |
| Mr. Hon Kin Wai | 9/9 | N/A | N/A | N/A | 1/1 |
| **Non-executive Directors** | | | | | |
| Mr. Lau Pak Hong | 8/9 | 5/6 | N/A | 1/1 | 0/1 |
| Ms. Ngai Ki Yee May | 5/9 | N/A | 1/2 | N/A | 1/1 |
| **Independent Non-executive Directors** | | | | | |
| Mr. Ong Chi King | 8/9 | 5/6 | 2/2 | 1/1 | 1/1 |
| Mr. Shum Lok To | 7/9 | 4/6 | 2/2 | 1/1 | 0/1 |
| Mr. Tso Ping Cheong Brian | 9/9 | 5/6 | 2/2 | 1/1 | 0/1 |

## 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 but not absolute assurance against material misstatement or loss. A whistleblowing policy was adopted by the Company to provide employees with reporting channels and guidance on whistleblowing.

The Audit Committee 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.

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 structure and scope of the Group's operations.

## AUDITORS' REMUNERATION

During the Year, the fees paid or payable to the external auditors of the Company are HK$1,250,000 for audit services and HK$1,177,000 for non-audit services mainly in connection with the special engagments, respectively.

## COMPANY SECRETARY

The appointment and removal of the Company Secretary is subject to approval by the Board in accordance with the Bye-laws. The Company Secretary is an employee of the Company and responsible for facilitating the Board's processes and communications among Board members, with the shareholders and management of the Company. Draft and final versions of minutes are disseminated to Directors for comment and filed for record purposes respectively within a reasonable time after each meeting. All Directors have access to the minutes of the Board and Board committees meetings of the Company.

# CORPORATE GOVERNANCE REPORT

## INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

### Access to Information

The Board recognises the importance of maintaining on-going communication with shareholders. The Company proactively promotes investor relations and communications with shareholders is always given high priority. The aims of the Company are to improve its transparency, gain more understanding and confidence in relation to the Group's business developments and acquire more market recognition and support from shareholders. To ensure all shareholders have equal and timely access to important information of the Company, the Company make extensive use of several communication channels, including publication of financial reports, notices, circulars and announcements, together with other filings as prescribed under the GEM Listing Rules and key news and developments of the Group on its corporate website at www.larryjewelryinternational.com. The "Investor Relations" section offers a level of information disclosure in easily and readily accessible form and provides timely updates to shareholders.

### Communication with Shareholders

A shareholders' communication policy was adopted by the Company to maintain an on-going dialogue with shareholders and encourage them to communicate actively with the Company.

In addition to accessing information on the corporate website, enquiries or request of information, to the extent it is publicly available, from shareholders and other report users are welcome by email, telephone or in writing to Mr. Hon at:

Address: 13/F, Pacific House, 20 Queen's Road Central, Hong Kong
Telephone: (852) 2840-1166
Facsimile: (852) 2868-1811
Email: caric.hon@larryjewelry.com

Any shareholding matters, such as transfer of shares, change of name or address, and loss of share certificates should be addressed in writing to the Hong Kong branch share registrar and transfer office of the Company:

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong
Telephone: (852) 2980-1333
Facsimile: (852) 2810-8185

Shareholders are encouraged to attend all general meetings of the Company to stay inform the strategies and goals of the Group. The notices of the AGM and special general meetings of the Company were circulated to all shareholders in accordance with the requirements of the GEM Listing Rules and the Bye-laws. The chairman of the meeting explains the detailed procedures for conducting a poll and then answers any questions from shareholders. The results of voting by poll are published on the websites of the Stock Exchange and the Company after the meetings.

# CORPORATE GOVERNANCE REPORT

### Shareholders' Rights

In accordance with the bye-law 58 of the Bye-laws, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in accordance with the provisions of section 74(3) of the Companies Act 1981 of Bermuda.

For including a resolution to propose a person for election as a Director at general meeting, shareholders are requested to follow the Bye-laws. A written notice signed by a shareholder (other than the person to be proposed) duly qualified to attend and vote at the general meeting of the Company for which such notice is given of his intention to propose such person for election and also a written notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office of the Company in Hong Kong provided that the minimum length of the period, during which such notices are given, shall be at least seven days and that (if the notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such notices shall commence on the day after the despatch of the notice of the general meeting of the Company appointed for such election and end no later than seven days prior to the date of such general meeting. The written notice must state that person's biographical details as required by Rule 17.50(2) of the GEM Listing Rules.

## CONSTITUTIONAL DOCUMENTS

The latest version of the Bye-laws and memorandum of association of the Company has been published both on the websites of the Company and Stock Exchange since 30 March 2012 and did not made any amendments to the Company's constitutional documents during the Year.

## TAX RELIEF

The Company is not aware of any relief from taxation available to the shareholders by reason of their holdings of Shares.

# REPORT OF THE DIRECTORS

The Board present herewith the annual report and the audited consolidated financial statements of the Group for the Year.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 35 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 33.

The Board does not recommend the payment of a final dividend for the Year (2014: Nil).

## BUSINESS REVIEW

The business review of the Group for the Year is set out in the section headed "Management Discussion & Analysis" on pages 7 to 13 of this Report.

## MAJOR CUSTOMERS AND SUPPLIERS

During the Year, sales to the Group's five largest customers were less than 30% of the total sales of the Group. Purchases from the five largest suppliers of the Group accounted for 62% (2014: 71%) of the total purchases of the Group for the Year while purchases from the largest supplier accounted for 31% (2014: 47%) of the total purchases of the Group 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) has a beneficial interest in the Group's five largest customers and suppliers.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the Year are set out in note 26 to the consolidated financial statements.

## RESERVES

Details of movements in the reserves of the Company and the Group during the Year are set out in note 34 to the consolidated financial statements and in the consolidated statement of changes in equity on page 36 respectively.

The Company had no distributable reserve as at 31 December 2015 (2014: HK$Nil).

## EMOLUMENT POLICY

The Remuneration Committee is responsible 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.

# REPORT OF THE DIRECTORS

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years/period is set out on page 5.

## DIRECTORS

The Directors during the Year and up to the date of this Report were:

| Executive Directors | Non-executive Directors | Independent non-executive Directors |
|---|---|---|
| Mr. Luk Kee Yan Kelvin *(Chairman)* | Mr. Lau Pak Hong | Mr. Ong Chi King |
| Mr. Hon Kin Wai *(Chief Executive Officer)* | Ms. Ngai Ki Yee May | Mr. Shum Lok To |
| | | Mr. Tso Ping Cheong Brian |

Pursuant to bye-law 84 of the Bye-laws, Ms. Ngai Ki Yee May, Mr. Ong Chi King and Mr. Tso Ping Cheong Brian shall retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

The Company has received written confirmations of independence from each of the independent non-executive Directors, namely Mr. Ong Chi King, Mr. Shum Lok To and Mr. Tso Ping Cheong Brian, pursuant to Rule 5.09 of the GEM Listing Rules. As at the date of this report, the Company still considers the independent non-executive Directors to be independent.

## CHANGES IN INFORMATION OF DIRECTORS

The changes in Directors' information subsequent to the date of the third quarterly report for the nine months ended 30 September 2015, as required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules, are set out below:

Mr. Ong Chi King was appointed as an executive director of Deson Construction International Holdings Limited (stock code: 8268) on 21 December 2015, the shares of which were listed on GEM.

Mr. Tso Ping Cheong Brian was appointed as a joint company secretary of China Yu Tian Holdings Limited with effect from 1 January 2014, the shares of which were initially listed on GEM (stock code: 8230) on 29 December 2015.

Mr. Shum Lok To resigned as non-executive director of Kong Shum with effect from 8 March 2016.

## DIRECTORS' SERVICE CONTRACT

Each non-executive Director (including independent non-executive Director) has entered into a service contract with the Company for an initial term of two years and will continue thereafter until terminated in accordance with the terms of the agreement and is subject to retirement by rotation and re-election pursuant to the Bye-Laws.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

# REPORT OF THE DIRECTORS

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

As at 31 December 2015, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO")) which would have: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein or (c) to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

### Long position in the Shares

| Name of Director | Capacity of interests | Number of Shares held | Approximate percentage to the issued share capital |
|---|---|---|---|
| Mr. Luk Kee Yan Kelvin | Beneficial owner | 528,902,842 | 15.69% |

Save as disclosed above, as at 31 December 2015, none of the Directors or chief executive of the Company had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules or to be entered in the register referred to in the SFO.

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

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2015, the following persons/corporations (other than the Directors or chief executive of the Company) had interests or short positions in the Shares and the underlying Shares of the Company, which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and entered in the register maintained by the Company pursuant to Section 336 of the SFO:

# REPORT OF THE DIRECTORS

### Long positions in Shares

| Name of shareholders | Capacity of interests | Number of Shares held | Approximate percentage to the issued share capital |
|---|---|---|---|
| Fullink Management Limited (Note 1) | Beneficial owner | 265,300,000 | 7.87% |
| Mr. Tsang Michael Man-heem (Note 1) | Interest of controlled corporation | 265,300,000 | 7.87% |
| Diamond Well International Limited (Note 2) | Beneficial owner | 172,970,900 | 5.13% |
| Ms. Zhang Ya Juan (Note 2) | Interest of controlled corporation | 172,970,900 | 5.13% |

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, 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 is a director of Fullink Management Limited.

2. Diamond Well International Limited is wholly and beneficially owned by Ms. Zhang Ya Juan.

Save as disclosed above, as at 31 December 2015, the Company had not been notified by any parties (other than the Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register maintained by the Company pursuant to Section 336 of the SFO.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

## PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the Year. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors and officers.

# REPORT OF THE DIRECTORS

## RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during the Year are set out in note 32 to the consolidated financial statements and none of them constituted a connected transaction as defined under the GEM Listing Rules.

## PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

The Company did not redeem any of its Shares listed on GEM nor did the Company or any of its subsidiaries purchase or sell any of the Company's listed securities during the Year.

## EQUITY-LINKED AGREEMENT

Pursuant to the SPA entered into in relation to the Acquisition, part of the Consideration of HK$150,000,000, will be satisfied in the form of 1,000,000,000 convertible bonds issued by the Company at an initial conversion price of HK$0.15 each (subject to adjustments) with an aggregate principal amount of HK$150,000,000 (the "Convertible Bonds"). Pursuant to the SPA, the Convertible Bonds will be issued upon the completion of the Acquisition, which subject to the conditions precedent as set out in the SPA. As at the date of this Report, the Acquisition has not yet been completed and the creation and issue of the Convertible Bonds have not yet been approved by shareholders of the Company. Details of the Acquisition are set out under subheading of "Potential Acquisition" on page 13 of this Report.

Save as disclosed above, the Company has not entered into any equity-linked agreements during the Year.

## MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

## SHARE OPTION SCHEME

The Company has adopted the share option scheme on 21 September 2009 (the "Scheme") under which certain selected classes of participants (including, among others, 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 of the Company dated 29 September 2009.

During the Year, there was no share option granted, exercised, cancelled or lapsed under the Scheme and no share option remained outstanding at the beginning and at the end of the Year under the Scheme.

Save as disclosed above, at no time during the Year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the best knowledge of the Directors, there is sufficient public float of the issued Shares as required under the GEM Listing Rules throughout the Year and as at the date of the Report.

## PRE-EMPTIVE RIGHTS

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

# REPORT OF THE DIRECTORS

## INTEREST OF THE COMPLIANCE ADVISER

As at 31 December 2015, as confirmed by the Group's compliance adviser of the Year, Quam Capital Limited (the "Compliance Adviser"), save as the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 16 October 2014 (the "2014 Compliance Adviser Agreement"), none of the Compliance Adviser or its directors, employees or associates (as defined under the GEM Listing Rules) had material interest in the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

On 15 January 2016, a mutual termination agreement was entered into between the Company and the Compliance Adviser to terminate the 2014 Compliance Adviser Agreement. On the same day, the Company and Lego Corporate Finance Limited ("Lego") entered into a compliance adviser agreement to appoint Lego as the compliance adviser of the Group with effect from 15 January 2016.

## AUDITOR

The consolidated financial statements for the Year were audited by the independent auditor of the Company, Deloitte Touche Tohmatsu ("Deloitte"), who shall retire and, being eligible, offer itself for re-appointment at the forthcoming AGM. A resolution for the re-appointment of Deloitte as the independent auditor of the Company will be proposed at the forthcoming AGM.

During the Year, Deloitte has been appointed as the independent auditor of the Company with effect from 18 November 2015 to fill the casual vacancy following the resignation of BDO Limited ("BDO"), which took effect from 25 September 2015. The consolidated financial statements of the Company for the years ended 31 December 2014 and 2013 were audited by BDO. BDO has confirmed in its letter of resignation dated 25 September 2015 that there are no matters connected with its resignation that need to be brought to the attention of the shareholders of the Company. Save for the above, there has been no other change in the independent auditor of the Company in any of the preceding three years.

On behalf of the Board
**Luk Kee Yan Kelvin**
*Chairman and Executive Director*

Hong Kong, 18 March 2016

# INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

**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 33 to 84, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, 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 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 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 and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, 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 consolidated 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.

# INDEPENDENT AUDITOR'S REPORT

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2014 were audited by other auditor, who expressed an unmodified opinion on these statements on 9 March 2015.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*

Hong Kong
18 March 2016

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

| | Notes | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| Revenue | 5 | **191,769** | 264,414 |
| Cost of sales | | **(145,743)** | (204,213) |
| Gross profit | | **46,026** | 60,201 |
| Other income | | **361** | 1,649 |
| Selling and distribution expenses | | **(51,928)** | (75,407) |
| Administrative expenses | | **(27,767)** | (35,388) |
| Impairment loss on intangible assets | 16 | **(20,600)** | (16,000) |
| Finance costs | 7 | **–** | (12,589) |
| Loss before tax | | **(53,908)** | (77,534) |
| Income tax credit | 8 | **3,458** | 3,443 |
| Loss for the year | 9 | **(50,450)** | (74,091) |
| **Other comprehensive expense for the year** | | | |
| *Item that may be reclassified subsequently to profit or loss* | | | |
| Exchange differences arising on translation of foreign operation | | **(6,365)** | (3,793) |
| Total comprehensive expense for the year | | **(56,815)** | (77,884) |
| Loss for the year attributable to owners of the Company | | **(50,450)** | (74,091) |
| Total comprehensive expense attributable to owners of the Company | | **(56,815)** | (77,884) |
| Loss per share (HK cents) | 13 | | |
| Basic | | **(1.50)** | (2.64) |
| Diluted | | **N/A** | (2.64) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

| | Notes | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 14 | **7,247** | 5,340 |
| Goodwill | 15 | **–** | – |
| Intangible assets | 16 | **42,400** | 63,000 |
| Deposit paid for acquisition of a subsidiary | 17 | **60,000** | – |
| Deposits | 20 | **5,287** | 5,718 |
| | | **114,934** | 74,058 |
| Current assets | | | |
| Inventories | 18 | **141,514** | 189,242 |
| Trade receivables | 19 | **2,583** | 5,907 |
| Prepayments, deposits and other receivables | 20 | **5,944** | 6,113 |
| Pledged bank deposits | 21 | **7,742** | 11,745 |
| Cash held by securities broker | 21 | **2,696** | 54,050 |
| Bank balances and cash | 21 | **44,885** | 43,888 |
| | | **205,364** | 310,945 |
| Current liabilities | | | |
| Trade payables | 22 | **5,498** | 8,898 |
| Other payables and accruals | 23 | **9,823** | 10,797 |
| Tax payable | | **496** | 239 |
| | | **15,817** | 19,934 |
| Net current assets | | **189,547** | 291,011 |
| Total assets less current liabilities | | **304,481** | 365,069 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

| | Notes | **2015** **HK$'000** | 2014 HK$'000 |
|---|---|---|---|
| Non-current liabilities | | | |
| Deferred tax liabilities | 24 | **7,183** | 10,956 |
| | | **297,298** | 354,113 |
| Capital and reserves | | | |
| Share capital | 26 | **33,704** | 33,704 |
| Share premium and reserves | | **263,594** | 320,409 |
| | | **297,298** | 354,113 |

The consolidated financial statements on pages 33 to 84 were approved and authorised for issue by the board of directors on 18 March 2016 and are signed on its behalf by:

**Luk Kee Yan Kelvin**
*Director*

**Hon Kin Wai**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

| | Share capital HK$'000 | Share premium HK$'000 | Capital contribution reserve HK$'000 (Note 1) | Convertible notes reserve HK$'000 | Share option reserve HK$'000 | Merger reserve HK$'000 (Note 2) | Exchange reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2014 | 14,965 | 413,571 | 3,988 | 24,086 | 5,903 | (830) | (4,404) | (229,621) | 227,658 |
| Loss for the year | – | – | – | – | – | – | – | (74,091) | (74,091) |
| Exchange differences arising on translation of foreign operations | – | – | – | – | – | – | (3,793) | – | (3,793) |
| Total comprehensive expense for the year | – | – | – | – | – | – | (3,793) | (74,091) | (77,884) |
| Transfer on redemption of convertible notes | – | – | – | (24,086) | – | – | – | 24,086 | – |
| Issue of shares (Note 26) | 18,739 | 192,252 | – | – | – | – | – | – | 210,991 |
| Transaction costs attributable to the issue of shares | – | (6,652) | – | – | – | – | – | – | (6,652) |
| Lapsed of share options (Note 27) | – | – | – | – | (5,903) | – | – | 5,903 | – |
| At 31 December 2014 | **33,704** | **599,171** | **3,988** | **–** | **–** | **(830)** | **(8,197)** | **(273,723)** | **354,113** |
| Loss for the year | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(50,450)** | **(50,450)** |
| Exchange differences arising on translation of foreign operation | **–** | **–** | **–** | **–** | **–** | **–** | **(6,365)** | **–** | **(6,365)** |
| Total comprehensive expense for the year | **–** | **–** | **–** | **–** | **–** | **–** | **(6,365)** | **(50,450)** | **(56,815)** |
| At 31 December 2015 | **33,704** | **599,171** | **3,988** | **–** | **–** | **(830)** | **(14,562)** | **(324,173)** | **297,298** |

Notes:

(1) The capital contribution reserve represented the amount arising from a bonus issue of shares of the Company by way of capitalising the Company's retained profits and deemed capital contribution from a substantial shareholder.

(2) The merger reserve mainly 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 Limited ("Full Join") and (b) Full Join and the share capital of Larry Jewelry Development Limited acquired through the shares swap pursuant to the reorganisation.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

| | **2015** **HK$'000** | 2014 HK$'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Loss before tax | **(53,908)** | (77,534) |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **3,343** | 4,963 |
| Write-down of inventories to net realisable value | **–** | 5,686 |
| Impairment of intangible assets | **20,600** | 16,000 |
| Interest income | **(22)** | (153) |
| Interest expense | **–** | 12,589 |
| Reversal of impairment provision on trade receivables | **–** | (119) |
| Bad debts written off | **–** | 4 |
| Loss on disposal of property, plant and equipment | **372** | 1,393 |
| Operating cash flows before movements in working capital | **(29,615)** | (37,171) |
| Decrease in inventories | **42,824** | 86,586 |
| Decrease (increase) in trade receivables | **3,167** | (1,088) |
| Decrease in prepayments, deposits and other receivables | **331** | 6,595 |
| Decrease in trade payables | **(2,924)** | (6,693) |
| Decrease in other payable and accruals | **(507)** | (4,661) |
| Cash generated from operating activities | **13,276** | 43,568 |
| Interest paid | **–** | (8,486) |
| Income tax paid | **(39)** | (816) |
| NET CASH FROM OPERATING ACTIVITIES | **13,237** | 34,266 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

| | Note | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| INVESTING ACTIVITIES | | | |
| Deposit paid for acquisition for a subsidiary | 17 | **(60,000)** | – |
| Purchase of property, plant and equipment | | **(5,839)** | (5,186) |
| Interest received | | **22** | 153 |
| Withdrawal of pledged bank deposits | | **4,000** | 16,046 |
| Placement of pledged bank deposits | | **(520)** | – |
| NET CASH (USED IN) FROM INVESTING ACTIVITIES | | **(62,337)** | 11,013 |
| FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares | | **–** | 210,991 |
| Repayment of borrowings | | **–** | (216,322) |
| New borrowings raised | | **–** | 135,339 |
| Redemption of convertible notes | | **–** | (78,000) |
| Interest paid for convertible notes | | **–** | (1,942) |
| Share issue expenses | | **–** | (6,652) |
| NET CASH FROM FINANCING ACTIVITIES | | **–** | 43,414 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | | **(49,100)** | 88,693 |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | | **97,938** | 13,560 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | | **(1,257)** | (4,315) |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER | | **47,581** | 97,938 |
| Represented by: | | | |
| Bank balances and cash | | **44,885** | 43,888 |
| Cash held by securities broker | | **2,696** | 54,050 |
| | | **47,581** | 97,938 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 1. GENERAL INFORMATION

Larry Jewelry International Company Limited (the "Company") is a public limited company incorporated in Bermuda and its shares are listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and 13/F., Pacific House, 20 Queen's Road, Central, Hong Kong respectively.

The Company is an investment holding company. Its principal subsidiaries are engaged in sales of jewelry products.

The consolidated financial statements are presented in Hong Kong Dollars (HK$), which is the same as the functional currency of the Company.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied for the first time in the current year the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

| | |
|---|---|
| Amendments to HKAS 19 | Defined benefit plans: Employee contributions |
| Amendments to HKFRSs | Annual improvements to HKFRSs 2010–2012 cycle |
| Amendments to HKFRSs | Annual improvements to HKFRSs 2011–2013 cycle |

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| HKFRS 9 | Financial instruments[1] |
| HKFRS 14 | Regulatory deferral accounts[2] |
| HKFRS 15 | Revenue from contracts with customers[1] |
| Amendments to HKFRS 11 | Accounting for acquisitions of interests in joint operations[3] |
| Amendments to HKAS 1 | Disclosure initiative[3] |
| Amendments to HKAS 16 and HKAS 38 | Clarification of acceptable methods of depreciation and amortisation[3] |
| HKAS 27 | Equity method in separate financial statements[3] |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer plants[3] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or contribution of assets between an investor and its associate or joint venture[4] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment entities: Applying the consolidation exception[3] |
| Amendments to HKFRSs | Annual improvements to HKFRSs 2012–2014 cycle[3] |

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.
3 Effective for annual periods beginning on or after 1 January 2016.
4 Effective for annual periods beginning on or after a date to be determined.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

### HKFRS 9 Financial instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

- all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The directors of the Company do not anticipate that the application of HKFRS 9 will have a material effect on amounts reported in respect of the Group's financial assets and financial liabilities, however, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

### HKFRS 15 Revenue from contracts with customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company are in the process of assessing the impact of HKFRS 15 on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

The directors of the Company anticipate that the application of the other new and revised standards and amendments will have no material impact on the consolidated financial statements of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance ("CO").

The disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the provisions of the new Hong Kong Companies Ordinance (Cap. 622) regarding preparation of accounts and directors' reports and audits and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is 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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

The principal accounting policies are set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Basis of consolidation** (Continued)

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income taxes" and HKAS 19 "Employee benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based payment" at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less any accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business and net of discounts.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Sales of goods**

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

**Interest income**

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

### Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset is recognised in profit or loss.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using specific identification basis for gem-set jewellery and weighted average for other inventories. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

**The Group as lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Borrowing costs

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Retirement benefit costs

Payments to the state-managed retirement benefit scheme and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

#### Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'loss before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

#### Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Current and deferred tax for the year**

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

### Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

**Financial assets**

Financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables, deposits and other receivables, pledged bank deposits, cash held by securities broker and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Financial instruments** (Continued)

**Financial assets** (Continued)

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets that are carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2015

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Financial instruments** (Continued)

**Financial assets** (Continued)

*Impairment of financial assets* (Continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the 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 through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**Financial liabilities and equity instruments**

Debts and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Financial liabilities*

Financial liabilities of the Group include trade payables and other payables, which are subsequently measured at amortised cost, using the effective interest method.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, (where appropriate), a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

**Convertible notes contain liability and equity components**

The component parts of the convertible loan notes issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A 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 an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity 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 liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

**Derecognition**

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liability when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Share-based payment arrangements

**Share-based payment transactions of the Company**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

### Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal 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 assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months from each of the relevant reporting date.

**Estimated impairment of intangible assets**

Determining whether intangible assets is impaired requires an estimation of the value in use of the cash-generating units to which intangible assets has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2015, the carrying amount of intangible assets is HK$42,400,000 (net of accumulated impairment losses of HK$36,600,000) (2014: HK$63,000,000 (net of accumulated impairment losses of HK$16,000,000)). Details of the recoverable amount calculation are disclosed in note 16.

**Estimated impairment of inventories**

Inventories are stated at the lower of cost and net realisable value. Net realisable value of inventories is based on estimated selling prices less any estimation costs to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. It could change significantly as a result of changes in market conditions. The Group will reassess the estimation at the end of each reporting period. As at 31 December 2015, the carrying amount of inventories is HK$141,514,000 (2014: HK$189,242,000).

**Estimated impairment of trade receivables**

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment 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). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2015, the carrying amount of trade receivables is approximately HK$2,583,000 (31 December 2014: carrying amount of HK$5,907,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 5. REVENUE

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

| | **2015** **HK$'000** | 2014 HK$'000 |
|---|---|---|
| Sale of jewelry products | **191,769** | 264,414 |

## 6. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by operating segment, based on information provided to the chief operating decision maker ("CODM") representing the board of directors of the Company, for the purpose of allocating resources to segments and assessing their performance. This is also the basis upon which the Group is arranged and organised.

In prior years, there were two reportable and operating segments, namely (i) design and trading of jewelry products and (ii) retailing of jewelry products.

During the current year, in view of the continued insignificant operations of the design and trading of jewelry products, the CODM revised the organisation of segments that are used to allocate resources and assess performance, and considered to change its analysis based on the geographical markets of the goods sold, being (i) Hong Kong and (ii) Singapore, which is currently the basis used for the purpose of allocating resources and assessing their performance, and also the basis of organisation of the Group for managing the business operations. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Consequently, the comparative segment information for the year ended 31 December 2014 have been re-presented in order to conform with the presentation adopted in current year. The changes in the segment information do not have any impact on the Group's consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 6. SEGMENT INFORMATION (CONTINUED)

### Segment revenues and results

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

| | Hong Kong HK$'000 | Singapore HK$'000 | Elimination HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Year ended 31 December 2015** | | | | |
| Segment revenue | | | | |
| External sales | **60,600** | **131,169** | **–** | **191,769** |
| Inter-segment sales | **2,636** | **–** | **(2,636)** | **–** |
| Total | **63,236** | **131,169** | **(2,636)** | **191,769** |
| Results | | | | |
| Segment results | **(39,311)** | **(5,729)** | **–** | **(45,040)** |
| Unallocated expense | | | | **(8,868)** |
| Loss before tax | | | | **(53,908)** |

| | Hong Kong HK$'000 | Singapore HK$'000 | Elimination HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Year ended 31 December 2014** | | | | |
| Segment revenue | | | | |
| External sales | 103,917 | 160,497 | – | 264,414 |
| Inter-segment sales | 8,185 | – | (8,185) | – |
| Total | 112,102 | 160,497 | (8,185) | 264,414 |
| Results | | | | |
| Segment results | (68,356) | 8,318 | – | (60,038) |
| Unallocated income | | | | 381 |
| Unallocated expense | | | | (12,608) |
| Unallocated finance cost | | | | (5,269) |
| Loss before tax | | | | (77,534) |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 6. SEGMENT INFORMATION (CONTINUED)

### Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segments:

| | Hong Kong *HK$'000* | Singapore *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|
| **Year ended 31 December 2015** | | | |
| Segment assets | **129,786** | **117,497** | **247,283** |
| Property, plant and equipment | | | **55** |
| Deposit paid for acquisition of a subsidiary | | | **60,000** |
| Bank and cash balances | | | **9,499** |
| Unallocated assets | | | **3,461** |
| Consolidated assets | | | **320,298** |
| Segment liabilities | **11,147** | **9,924** | **21,071** |
| Unallocated liabilities | | | **1,929** |
| Consolidated liabilities | | | **23,000** |

| | Hong Kong *HK$'000* | Singapore *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|
| **Year ended 31 December 2014** | | | |
| Segment assets | 209,307 | 119,165 | 328,472 |
| Property, plant and equipment | | | 210 |
| Bank and cash balances | | | 55,967 |
| Unallocated assets | | | 354 |
| Consolidated assets | | | 385,003 |
| Segment liabilities | 13,010 | 16,575 | 29,585 |
| Unallocated liabilities | | | 1,305 |
| Consolidated liabilities | | | 30,890 |

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating and reportable segments other than certain property, plant and equipment, certain deposits and prepayments and certain bank balances and cash.
- all liabilities are allocated to operating and reportable segments other than certain accruals and other payables.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 6. SEGMENT INFORMATION (CONTINUED)

### Other information

Amounts included in the measure of segment results and segment assets:

| | Hong Kong HK$'000 | Singapore HK$'000 | Reportable segment total HK$'000 | Corporate level HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| **For the year ended 31 December 2015** | | | | | |
| Addition of property, plant and equipment | **3,421** | **2,418** | **5,839** | **–** | **5,839** |
| Bank interest income | **2** | **20** | **22** | **–** | **22** |
| Depreciation for property, plant and equipment | **1,803** | **1,386** | **3,189** | **154** | **3,343** |
| Written off/loss on disposal of property, plant and equipment | **341** | **31** | **372** | **–** | **372** |
| Impairment on intangible assets | **9,700** | **10,900** | **20,600** | **–** | **20,600** |
| **For the year ended 31 December 2014** | | | | | |
| Addition of property, plant and equipment | 1,024 | 3,572 | 4,596 | – | 4,596 |
| Bank interest income | 8 | 144 | 152 | – | 152 |
| Depreciation for property, plant and equipment | 3,048 | 1,424 | 4,472 | 491 | 4,963 |
| Written off/loss on disposal of property, plant and equipment | 117 | 116 | 233 | 1,160 | 1,393 |
| Write-down of inventories to net realisable value | 5,686 | – | 5,686 | – | 5,686 |
| Reversal of impairment provision on trade receivables | 119 | – | 119 | – | 119 |
| Bad debts written off | 4 | – | 4 | – | 4 |
| Impairment on intangible assets | 6,870 | 9,130 | 16,000 | – | 16,000 |
| Finance cost | 5,420 | 1,900 | 7,320 | 5,269 | 12,589 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 6. SEGMENT INFORMATION (CONTINUED)

### Geographic information

The Group operates in two principal geographical areas — Singapore and Hong Kong.

Information about the Group's non-current assets by location of the assets are detailed below:

| | Non-current assets | |
|---|---|---|
| | **2015** | 2014 |
| | ***HK$'000*** | *HK$'000* |
| Singapore | **36,666** | 45,601 |
| Hong Kong | **18,268** | 28,457 |
| | **54,934** | 74,058 |

Note: Non-current assets excluded the deposit paid for acquisition of a subsidiary.

### Information about major customers

No revenue from customers contributed over 10% of the total sales of the Group for any of the two years ended 31 December 2015 and 2014.

## 7. FINANCE COSTS

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest on bank borrowings | – | 8,486 |
| Imputed interest expenses on convertible notes | – | 4,103 |
| | – | 12,589 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 8. INCOME TAX CREDIT

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| The tax (credit) charge comprises: | | |
| Singapore Corporate Income Tax — current year | **300** | 24 |
| Under (over) provision in prior year | **15** | (45) |
| | **315** | (21) |
| Deferred taxation — current year | **(3,773)** | (3,422) |
| | **(3,458)** | (3,443) |

Singapore Corporate Income Tax is calculated at 17% in accordance with the relevant laws and regulations in Singapore for both years.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries incurred tax losses for both years.

The income tax credit for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| Loss before tax | **(53,908)** | (77,534) |
| Tax at domestic income tax rate of 17% (2014: 17%) | **(9,164)** | (13,181) |
| Tax effect of expenses not deductible for tax purpose | **765** | 5,056 |
| Tax effect of income not taxable for tax purpose | **(99)** | (720) |
| Tax effect of tax losses not recognised | **5,317** | 5,350 |
| Utilisation of tax losses previously not recognised | **–** | (32) |
| Tax effect of deductible temporary differences not recognised | **251** | 457 |
| Under (over) provision in respect of prior year | **15** | (45) |
| Others | **(543)** | (328) |
| Tax credit for the year | **(3,458)** | (3,443) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 9. LOSS FOR THE YEAR

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Loss for the year has been arrived at after charging: | | |
| Depreciation for property, plant and equipment | **3,343** | 4,963 |
| Loss on disposal of property, plant and equipment | **372** | 1,393 |
| Auditors' remuneration | **1,250** | 580 |
| Cost of inventories recognised as expense, including write down of inventories to net realisable value of nil (2014: HK$5,686,000) | **145,743** | 204,213 |
| Reversal of impairment provision on trade receivables | **–** | (119) |
| Bad debts written off | **–** | 4 |
| Employee benefit expense, including directors' remuneration (note 10) | **22,968** | 31,801 |
| Operating lease payments in respect of rented premises | **33,380** | 46,505 |
| Net exchange loss | **731** | 1,379 |
| and after crediting: | | |
| Interest income | **22** | 153 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The directors' and chief executives' remuneration for the year disclosed pursuant to the applicable Listing Rules and Companies Ordinance and the emoluments paid or payable to each of the 7 (2014: 15) directors were as follows:

### 2015

| Name of directors | Fees *HK$'000* | Salaries *HK$'000* | Contribution to retirement benefits scheme *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| (A) Executive directors: | | | | |
| Hon Kin Wai, Caric | **240** | **1,692** | **18** | **1,950** |
| Luk Kee Yan, Kelvin | **720** | **–** | **18** | **738** |
| (B) Non-executive directors: | | | | |
| Lau Pak Hong, Alan | **240** | **–** | **12** | **252** |
| Ngai Ki Yee, May | **240** | **–** | **12** | **252** |
| (C) Independent non-executive directors: | | | | |
| Ong Chi King, Leo | **90** | **–** | **5** | **95** |
| Shum Luk To, Alex | **90** | **–** | **5** | **95** |
| Tso Ping Cheong, Brian | **90** | **–** | **5** | **95** |
| | **1,710** | **1,692** | **75** | **3,477** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

**2014**

| Name of director | Notes | Fees *HK$'000* | Salaries *HK$'000* | Contribution to retirement benefits scheme *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| (A) Executive directors: | | | | | |
| Hon Kin Wai, Caric | (i) | 116 | 1,008 | 12 | 1,136 |
| Luk Kee Yan, Kelvin | (ii) | 220 | – | 7 | 227 |
| Cheng Ping Yat | (iii) | 252 | – | 12 | 264 |
| (B) Non-executive directors: | | | | | |
| Lau Pak Hong, Alan | (iv) | 180 | – | 9 | 189 |
| Ngai Ki Yee, May | (iv) | 180 | – | 9 | 189 |
| Tam B Ray Billy | (v) | 173 | – | 9 | 182 |
| Tsang Po Yee Panline | (vi) | 510 | – | 10 | 520 |
| (C) Independent non-executive directors: | | | | | |
| Ong Chi King, Leo | (vii) | 19 | – | 1 | 20 |
| Shum Lok To, Alex | (vii) | 19 | – | 1 | 20 |
| Tso Ping Cheong, Brian | (vii) | 19 | – | 1 | 20 |
| Yip Tai Him | (viii) | 130 | – | 6 | 136 |
| Chow Liang Chuk Yee, Selina | (ix) | 474 | – | – | 474 |
| Chan Tse Ching, Ignatius | (x) | 142 | – | – | 142 |
| Fung Shing Kwong | (ix) | 213 | – | – | 213 |
| Wong Tat Tung | (x) | 113 | – | 6 | 119 |
| | | 2,760 | 1,008 | 83 | 3,851 |

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The emoluments of the non-executive directors and independent non-executive directors shown above were mainly for their services as directors of the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

Notes:

(i) Appointed on 8 July 2014.

(ii) Appointed on 7 August 2014.

(iii) Redesignated from a non-executive director to an executive director on 29 April 2014 and resigned on 22 October 2014.

(iv) Appointed on 1 April 2014.

(v) Resigned on 19 September 2014.

(vi) Redesignated from an executive director to a non-executive director on 29 April 2014 and resigned on 19 September 2014.

(vii) Appointed on 15 October 2014.

(viii) Appointed as a non-executive director on 1 April 2014, redesignated from a non-executive director to an independent non-executive director on 16 May 2014 and resigned on 15 October 2014.

(ix) Resigned on 15 October 2014.

(x) Retired on 20 June 2014.

No directors waived any emoluments for the years ended 31 December 2015 and 2014.

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

During the years ended 31 December 2015 and 2014, 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.

## 11. EMPLOYEES' AND CHIEF EXECUTIVE'S EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2014: one) was director of the Company whose emoluments are detailed in note 10 above. The emoluments of the four (2014: four) highest paid individuals were as follows:

| | **2015**<br>***HK$'000*** | 2014<br>*HK$'000* |
|---|---|---|
| Salaries and other benefits | **3,051** | 3,281 |
| Contribution to retirement benefits scheme | **155** | 67 |
| | **3,206** | 3,348 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 11. EMPLOYEES' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

The emoluments were within the following bands:

| | Number of employees | |
|---|---|---|
| | **2015** | 2014 |
| Nil–HK$1,000,000 | **4** | 3 |
| HK$1,000,001–HK$1,500,000 | **–** | 1 |

During the years ended 31 December 2015 and 2014, no emoluments were paid by the Group to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 12. DIVIDENDS

No dividend was paid, declared or proposed for the years ended 31 December 2015 and 2014, nor has any dividend been proposed since the end of the reporting periods.

## 13. LOSS PER SHARE

The calculation of the basic loss per share (2014: basic and and diluted loss per share) attributable to the owners of the Company is based on the following data:

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Loss** | | |
| Loss for the purposes of basic loss per share (2014: basic and diluted loss per share) represented by loss for the year attributable to owners of the Company | **(50,450)** | (74,091) |
| | **'000** | '000 |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic loss per share (2014: basic and diluted loss per share) (Note) | **3,370,393** | 2,802,881 |

Note: The weighted average number of ordinary shares for 2014 for the purpose of calculating basic and diluted loss per share for the year has been retrospectively adjusted for the effect of the open offer completed in March 2014.

The Company's outstanding share options all lapsed during the year ended 31 December 2014 and all outstanding convertible notes were redeemed during the year ended 31 December 2014, and therefore there was no outstanding dilutive instruments as at 31 December 2014 and during the year ended 31 December 2015.

During the year ended 31 December 2014, diluted loss per share did not assume the exercise of the Company's share options or the conversion of the convertible notes because the exercise price of the options was higher than the average market price of shares for the period before those share options lapsed and the assumed conversion of the convertible notes would have an anti-dilutive effect.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Furniture and fixtures *HK$'000* | Office equipment *HK$'000* | Leasehold improvements *HK$'000* | Mould *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| COST | | | | | |
| At 1 January 2014 | 3,525 | 2,061 | 11,577 | 461 | 17,624 |
| Additions | 1,255 | 1,571 | 1,770 | – | 4,596 |
| Disposals/written off | (1,183) | (842) | (3,089) | (461) | (5,575) |
| Exchange difference arising on translation | (78) | (35) | (42) | – | (155) |
| At 31 December 2014 | **3,519** | **2,755** | **10,216** | **–** | **16,490** |
| Additions | **1,096** | **500** | **4,243** | **–** | **5,839** |
| Disposals/written off | **(2,129)** | **(304)** | **(6,639)** | **–** | **(9,072)** |
| Exchange difference arising on translation | **(160)** | **(77)** | **(160)** | **–** | **(397)** |
| At 31 December 2015 | **2,326** | **2,874** | **7,660** | **–** | **12,860** |
| DEPRECIATION | | | | | |
| At 1 January 2014 | 2,772 | 1,165 | 6,666 | 461 | 11,064 |
| Provided for the year | 737 | 844 | 3,382 | – | 4,963 |
| Eliminated on disposals/written off | (968) | (796) | (2,547) | (461) | (4,772) |
| Exchange difference arising on translation | (55) | (23) | (27) | – | (105) |
| At 31 December 2014 | **2,486** | **1,190** | **7,474** | **–** | **11,150** |
| Provided for the year | **582** | **698** | **2,063** | **–** | **3,343** |
| Eliminated on disposals/written off | **(2,078)** | **(298)** | **(6,332)** | **–** | **(8,708)** |
| Exchange difference arising on translation | **(86)** | **(44)** | **(42)** | **–** | **(172)** |
| At 31 December 2015 | **904** | **1,546** | **3,163** | **–** | **5,613** |
| CARRYING VALUES | | | | | |
| At 31 December 2015 | **1,422** | **1,328** | **4,497** | **–** | **7,247** |
| At 31 December 2014 | 1,033 | 1,565 | 2,742 | – | 5,340 |

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Furniture and fixtures | 25% |
| Office equipment | 25% |
| Leasehold improvements | 20% or over the term of the lease, whichever is shorter |
| Mould | 30% |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 15. GOODWILL

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

| | HK$'000 |
|---|---|
| AT COST | |
| At 1 January 2014, 31 December 2014 and 31 December 2015 | 48,818 |
| IMPAIRMENT | |
| At 1 January 2014, 31 December 2014 and 31 December 2015 | 48,818 |
| CARRYING VALUES | |
| At 31 December 2015 | – |
| At 31 December 2014 | – |

Goodwill of retailing of jewelry products in Hong Kong and Singapore arose from the acquisition of Sharp Wonder Holdings Limited and its subsidiaries (the "Sharp Wonder Group") in 2011.

Subsequent to the acquisition of the Sharp Wonder Group in 2011, the revenue and net profit generated from retailing of jewelry products in Hong Kong and Singapore has dropped, which was resulted from unstable global economic environment, keen competition of the market and drop in demand for luxury jewelry products from the overseas customers. As a result, goodwill was fully impaired prior years.

## 16. INTANGIBLE ASSETS

The intangible assets were recognised as part of the acquisition of the Sharp Wonder Group and were recognised at their fair value at the date of acquisition.

The brand name has no legal life. The directors of the Company are of the opinion that the Group has the ability to use the brand name continuously. Various studies including product life cycle studies, market, competitive and environmental trends, and brand extension opportunities have been performed by management of the Group, which supports that the brand name has no foreseeable limit to the period over which the services provided are expected to generate net cash flows for the Group.

As a result, the brand name is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The brand name will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

For the impairment testing, the brand name is allocated to cash generating unit ("CGU") of jewelry business of the Sharp Wonder Group and its recoverable amount is based on its value in use and determined with the assistance of Access Partner Consultancy & Appraisals Limited, an independent professional qualified valuer not connected with the Group. The calculation uses cash flow forecast based on the most recent financial budget for the next five years in considering the economic condition of the market approved by the management, using discount rates of 15.5% (2014: 17.2%) for Hong Kong segment and 14.3% (2014: 15.5%) for Singapore segment. Cash flows after the five-year period were extrapolated using growth rates of 3.0% (2014: 3.0%) for both Hong Kong and Singapore.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 16. INTANGIBLE ASSETS (CONTINUED)

The estimated growth rates used are comparable to the growth rate for the industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows which include budgeted sales. Such estimation is based on the unit's past performance and management's expectations for the market development including the fluctuation in jewelry business in the current economic environment, which is adversely affected by the deteriorating market sentiment as a result of financial turmoil and downturn of the luxury goods market both in Hong Kong and Singapore in 2015. The management of the Company therefore was of the opinion that their previous expectation as at 31 December 2014 on the budgeted sales could not be met and the actual sales arising both in Hong Kong and Singapore have fallen below expectation, and therefore the management has revised downward the cash flow forecast.

On this basis, the management assessed that the carrying amount of the intangible asset was determined to be higher than its the recoverable amount of the related CGU and an impairment loss of HK$20,600,000 (2014: HK$16,000,000) was recognised in profit or loss for the year ended 31 December 2015.

| | **Brand name**<br>*HK$'000* |
|---|---|
| COST | |
| At 1 January 2014, 31 December 2014 and 31 December 2015 | 79,000 |
| IMPAIRMENT | |
| At 1 January 2014 | – |
| Impairment loss recognised in the year | 16,000 |
| At 31 December 2014 | 16,000 |
| Impairment loss recognised in the year | 20,600 |
| At 31 December 2015 | 36,600 |
| CARRYING VALUES | |
| At 31 December 2015 | 42,400 |
| At 31 December 2014 | 63,000 |

## 17. DEPOSIT PAID FOR ACQUISITION OF A SUBSIDIARY

The entire balance at 31 December 2015 represented a deposit paid by the Group for acquisition of entire equity interests of Tung Fung Hung Investment Limited, which, together with its subsidiaries, are principally engaged in the business of sourcing, manufacturing, packaging, wholesales and retailing of Chinese pharmaceutical products, dry seafood, health products and foodstuff in Hong Kong, the People's Republic of China and Macau. Details of the transaction are set out in the Company's announcement dated on 12 March 2015.

The transaction has not yet completed up to the date of authorisation of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 18. INVENTORIES

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| Raw materials | **21,047** | 24,675 |
| Work in progress | **2,162** | 942 |
| Finished goods | **118,305** | 163,625 |
| | **141,514** | 189,242 |

## 19. TRADE RECEIVABLES

Retails sales are normally settled in cash or by credit card with the settlement from the corresponding banks or other financial institutions within 7 to 14 days. Receivables from retail sales are relate to sales campaigns jointly organised with shopping malls, which are collected from the respective shopping malls within 30 to 60 days. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period.

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| 0–30 days | **2,567** | 5,560 |
| 31–60 days | **9** | 336 |
| 61–90 days | **1** | 11 |
| 91–180 days | **6** | – |
| | **2,583** | 5,907 |

The management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit risk and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

As at 31 December 2015, included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK$16,000 (31 December 2014: HK$347,000) which are past due as at the reporting date for which the Group has not provided for impairment loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 19. TRADE RECEIVABLES (CONTINUED)

**Aging of trade receivables which are past due but not impaired**

| | **2015** **HK$'000** | 2014 HK$'000 |
|---|---|---|
| 1–30 days | **9** | 336 |
| 31–90 days | **1** | 11 |
| 91–180 days | **6** | – |
| Total | **16** | 347 |

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

| | **2015** **HK$'000** | 2014 HK$'000 |
|---|---|---|
| Balance at the beginning of the year | **–** | 119 |
| Reversal of impairment loss (note 9) | **–** | (119) |
| Balance at the end of the year | **–** | – |

## 20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | **2015** **HK$'000** | 2014 HK$'000 |
|---|---|---|
| Rental and utility deposits | **6,553** | 9,424 |
| Prepayments | **4,210** | 2,396 |
| Other receivables | **468** | 11 |
| | **11,231** | 11,831 |
| Analysis for reporting purposes as: | | |
| Current assets | **5,287** | 5,718 |
| Non-current assets | **5,944** | 6,113 |
| | **11,231** | 11,831 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 21. PLEDGED BANK DEPOSITS/CASH HELD BY SECURITIES BROKER/BANK BALANCES AND CASH

Pledged bank deposits and bank balances carry interest at market rates at 0.25% (2014: ranged from 0.05% to 0.25%) per annum. The pledged bank deposits are required by the bank in order to provide guarantees in favour of certain suppliers of the Group and accordingly, they are classified as current assets.

Cash held by securities brokers are unrestricted deposits of approximately HK$2,696,000 (2014: HK$54,050,000) that can be withdrawn at any time placed with securities broker for trading securities in Hong Kong.

The Group's pledged bank deposits are denominated in currencies other than the functional currencies of the relevant group entities as set out below:

| | **2015**<br>***HK$'000*** | 2014<br>*HK$'000* |
|---|---|---|
| USD | **7,742** | 7,745 |

## 22. TRADE PAYABLES

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

| | **2015**<br>***HK$'000*** | 2014<br>*HK$'000* |
|---|---|---|
| 0–30 days | **5,396** | 6,730 |
| 31–60 days | **101** | 2,168 |
| 61–90 days | **1** | – |
| | **5,498** | 8,898 |

## 23. OTHER PAYABLES AND ACCRUALS

| | **2015**<br>***HK$'000*** | 2014<br>*HK$'000* |
|---|---|---|
| GST output tax in Singapore | **3,130** | 3,259 |
| Advance payment received from customers | **1,567** | 2,161 |
| Accrued expenses | **4,101** | 4,005 |
| Trade deposits paid to suppliers | **537** | 730 |
| Others | **488** | 642 |
| | **9,823** | 10,797 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 24. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognised and movements thereon during the current and prior years.

| | Fair value adjustments on business combinations<br>*HK$'000* | Accelerated tax depreciation<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|
| At 1 January 2014 | 14,261 | 123 | 14,384 |
| Credit to profit or loss | (3,422) | – | (3,422) |
| Exchange difference arising on translation | – | (6) | (6) |
| At 31 December 2014 | **10,839** | **117** | **10,956** |
| Credit to profit or loss | **(3,773)** | **–** | **(3,773)** |
| At 31 December 2015 | **7,066** | **117** | **7,183** |

At the end of the reporting period, the Group has unused tax losses of approximately HK$160,689,000 (2014: HK$128,478,000) available for offset against future profits that may be carried forward indefinitely. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profits stream.

## 25. CONVERTIBLE NOTE

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

On 23 May 2013, the conversion price of CN1 had been adjusted to HK$1.31 per conversion share upon the completion of the open offer of the Company.

During the year ended 31 December 2014, the Company redeemed the remaining outstanding total principal amount of HK$12,000,000 of CN1 at maturity date for HK$14,400,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 25. CONVERTIBLE NOTE (CONTINUED)

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

On 23 May 2013, the conversion price of CN2 had been adjusted to HK$0.87 per conversion share upon the completion of the open offer of the Company.

During the year ended 31 December 2014, the Company redeemed the total outstanding principal amount of HK$2,000,000 of CN2 at maturity date for HK$2,000,000.

(c) On 22 March 2012, an aggregate principal amount of HK$56,000,000 of the convertible notes ("CN3") were issued to the placees with the conversion price of HK$0.8 per conversion share, which bear interest at the rate of 3% per annum and will be redeemed by the Company at any time after the first issue date by 14 days prior notice to a noteholder at a redemption price agreed between the Company and the noteholder, or on 22 March 2014 (the "Maturity Date") at 110% of its principal amount.

On 23 May 2013, the conversion price of CN3 had been adjusted to HK$0.70 per conversion share upon the completion of the open offer of the Company.

During the year ended 31 December 2014, the Company redeemed total outstanding principal amount of HK$56,000,000 of CN3 for HK$61,600,000 on its Maturity Date.

Movement of liability component for the year ended 31 December 2014 is as follows:

| | CN1<br>*HK$'000* | CN2<br>*HK$'000* | CN3<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|---|
| At 1 January 2014 | 13,356 | 1,919 | 60,564 | 75,839 |
| Imputed interest expenses | 1,284 | 81 | 2,738 | 4,103 |
| Interest paid | (240) | – | (1,702) | (1,942) |
| Redemption of convertible notes | (14,400) | (2,000) | (61,600) | (78,000) |
| At 31 December 2014 | – | – | – | – |

Interest expenses of CN1, CN2 and CN3 were calculated using the effective interest rate method by applying the effective interest rate of 20.04%, 6.27% and 23.99% per annum respectively to the liability component.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 26. SHARE CAPITAL OF THE COMPANY

| | Notes | Number of shares | Share capital *HK$'000* |
|---|---|---|---|
| **Ordinary shares of HK$0.01 each** | | | |
| Authorised: | | | |
| At 1 January 2014, 31 December 2014 and 2015 | | 10,000,000,000 | 100,000 |
| Issued and fully paid: | | | |
| At 1 January 2014 | | 1,496,454,750 | 14,965 |
| Issue of shares upon open offer in March 2014 | (i) | 1,047,518,325 | 10,475 |
| Issue of shares upon placing in June 2014 | (ii) | 264,690,000 | 2,647 |
| Issue of shares upon placing in July 2014 | (iii) | 561,730,000 | 5,617 |
| At 31 December 2014 and 31 December 2015 | | 3,370,393,075 | 33,704 |

Notes:

(i) On 13 March 2014, a total of 1,047,518,325 new ordinary shares of the Company were issued at HK$0.12 each as a result of the open offer to the shareholders of the Company, on the basis of seven offer shares for every ten shares held by the shareholders. As a result, there was an increase in share capital and share premium of approximately HK$10,475,000 and HK$115,227,000 respectively. Details of the open offer were set out in the Company's announcements dated 3 January 2014, 10 February 2014 and 13 March 2014, circular dated 21 January 2014 and prospectus dated 19 February 2014.

(ii) On 16 May 2014, the Company entered into a placing agreement with a placing agent for the placing of an aggregate 264,690,000 new ordinary shares of the Company at a placing price of HK$0.11 per placing share. As a result, the Company issued 264,690,000 new ordinary shares at HK$0.11 per share on 10 June 2014. As a result, there was an increase in share capital and share premium of approximately HK$2,647,000 and HK$26,469,000 respectively. Details of the placing were set out in the Company's announcements dated 16 May 2014 and 10 June 2014.

(iii) On 9 July 2014, the Company entered into a placing agreement with a placing agent for the placing of an aggregate 561,730,000 new ordinary shares of the Company at a placing price of HK$0.10 per placing share. As a result, the Company issued 561,730,000 new ordinary shares at HK$0.10 per share on 30 July 2014. As a result, there was an increase in share capital and share premium of approximately HK$5,617,000 and HK$50,556,000 respectively. Details of the placing were set out in the Company's announcements dated 9 July 2014, 23 July 2014 and 30 July 2014.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 27. SHARE-BASED PAYMENT TRANSACTIONS

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.

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$5,000,000, 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 2015, no share options (2014: Nil) were granted to 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 27. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

### Movement of the share options and the exercise price

| Name/category of grantee | Date of grant | Exercisable period | Exercise price per share (note) HK$ | Number of share options: Balance as at 1 January 2014 | Adjusted during the year (note) | Granted during the year | Exercised during the year | Forfeited during the year | Balance as at 31 December 2014 and 2015 |
|---|---|---|---|---|---|---|---|---|---|
| **Non-executive directors** | | | | | | | | | |
| Mr. Tam B Ray Billy* | 10 March 2011 | 10 March 2011 to 9 March 2021 | 0.614 | 6,733,790 | 356,891 | – | – | (7,090,681) | – |
| Ms. Tsang Po Yee Pauline# | 10 March 2011 | 10 March 2011 to 9 March 2021 | 0.614 | 6,733,790 | 356,891 | – | – | (7,090,681) | – |
| | | | | 13,467,580 | 713,782 | – | – | (14,181,362) | – |
| **Employees** | | | | | | | | | |
| In aggregate | 28 March 2012 | 28 March 2012 to 28 March 2015 | 0.631 | 2,318,000 | 122,854 | – | – | (2,440,854) | – |
| **Total** | | | | 15,785,580 | 836,636 | – | – | (16,622,216) | – |

* Resigned on 19 September 2014

# Redesignated from an executive director to a non-executive director on 29 April 2014 and resigned on 19 September 2014.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 27. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

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

Note: The exercise prices for the share options granted and the number of share options granted were adjusted to reflect the impact of the open offers in March 2014. Details of the above are set out in the Company's announcement dated 13 March 2014.

As the share options were fully vested upon grant, there were no equity-settled share-based payments recognised in profit or loss for the years ended 31 December 2014 and 2015.

During the year ended 31 December 2014, as two non-executive directors and an employee resigned, 16,622,216 share options granted to them were forfeited accordingly. As a result, there was a decrease in share option reserve of HK$5,903,000 and a transfer to accumulated losses of HK$5,903,000.

## 28. OPERATING LEASES

### The Group as lessee

| | **2015** **HK$'000** | 2014 HK$'000 |
|---|---|---|
| Minimum lease payments recognised under operating leases for premises during the year | **33,380** | 46,505 |

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

| | **2015** **HK$'000** | 2014 HK$'000 |
|---|---|---|
| Within one year | **21,705** | 22,526 |
| In the second to fifth years inclusive | **33,797** | 17,970 |
| | **55,502** | 40,496 |

Operating lease payments represent rentals paid or payable by the Group for certain of its office premises and retail premises. Leases are negotiated for lease terms of 1 to 4 years (31 December 2014: 1 to 3 years).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 29. CAPITAL COMMITMENTS AND OTHER COMMITMENTS

The Group's capital expenditure in respect of the following items contracted but not provided in the consolidated financial statements as follow:

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Contracted but not provided for: | | |
| Acquisition of a subsidiary (Note) | 540,000 | – |
| Design fee and advertisements | – | 226 |

Note: As at 31 December 2015, amount represented consideration (comprising (i) HK$390,000,000 in cash and (ii) HK$150,000,000 by the issue of 1,000,000,000 convertible bonds by the Company upon the completion at a price of HK$0.15 each) contracted for but not provided for in the consolidated financial statements for the acquisition of a subsidiary. The completion of the acquisition is subject to certain conditions precedent set out in the Company's announcement dated 12 March 2015. The deposit paid of HK$60,000,000 had been included in the consolidated statement of financial position as deposit paid for acquisition of a subsidiary (see note 17).

## 30. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and various reserves.

## 31. FINANCIAL INSTRUMENTS

### 31a. Categories of financial instruments

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalents) | 64,927 | 125,023 |
| **Financial liabilities** | | |
| Amortised cost | 11,220 | 15,690 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 31. FINANCIAL INSTRUMENTS (CONTINUED)

### 31b. Financial risk management objectives and policies

The Group's management monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

**Market risk**

*(i)* *Foreign currency risk management*

Certain subsidiaries of the Group have pledged bank deposits and trade payables denominated in foreign currencies, which expose the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| USD | **7,742** | 7,745 | **3,710** | 7,238 |

*Foreign currency sensitivity analysis*

The Group is mainly exposed to fluctuation in exchange rate in USD against Singapore dollars. The following table details the Group's sensitivity to a 5% (2014: 5%) increase and decrease in the functional currency of each group entity against the above foreign currency. 5% (2014: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. A positive number below indicates an increase in profit where the above foreign currency strengthen by 5% (2014: 5%) against the functional currency of the respective group entity. For a 5% (2014: 5%) weakening of the above foreign currency against the functional currency of the respective group entity, there would be an equal and opposite impact on the profit.

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit after tax | **167** | 21 |

*(ii)* *Interest rate risk management*

The Group's cash flow interest rate risk relates primarily to variable-rate pledged bank deposits (note 21) and bank balances (note 21). The Group's cash flow interest rate is mainly resulted from the fluctuation of market interest rate.

The Group currently does not have an interest rate hedging policy. However, the management conducts periodic review of interest rate exposures and will consider hedging significant interest rate risk should the need arise.

In the opinion of the directors of the Company, the cash flow interest rate risk is considered insignificant and therefore no sensitivity analysis is presented.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 31. FINANCIAL INSTRUMENTS (CONTINUED)

### 31b. Financial risk management objectives and policies (Continued)

**Credit risk management**

As at 31 December 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to manage the credit risk, in relation to trade receivables, credit limits and credit terms granted to customers are approved by delegated officers and follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk on its deposit paid for acquisition of a subsidiary of HK$60,000,000. The management of the Group considers that the credit risk on such deposit paid is limited as it is refundable and the counterparty has good credit quality by taking into account of its financial background.

The credit risk on liquid funds is limited because the counterparties are banks or securities broker with good reputation.

Other than concentration of credit risk on liquid funds which are deposited with several banks with good reputation, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers.

**Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework to meet the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows.

*Liquidity tables*

In addition, the following tables detail the Group's expected maturity for its financial liabilities. The tables have been drawn up based on the undiscounted contractual cash flows of the financial liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 31. FINANCIAL INSTRUMENTS (CONTINUED)

### 31b. Financial risk management objectives and policies (Continued)

**Liquidity risk management** (Continued)

*Liquidity tables* (Continued)

| | Weighted average interest rate<br>*%* | Less than one month or on demand and total undiscounted cash flows<br>*HK$'000* | Carrying amount<br>*HK$'000* |
|---|---|---|---|
| **2015** | | | |
| **Non-derivative financial liabilities** | | | |
| Trade payables | **–** | **5,498** | **5,498** |
| Other payables | **–** | **5,722** | **5,722** |
| | | **11,220** | **11,220** |
| **2014** | | | |
| **Non-derivative financial liabilities** | | | |
| Trade and other payables | – | 8,898 | 8,898 |
| Other payables | – | 6,792 | 6,792 |
| | | 15,690 | 15,690 |

### 31c. Fair value measurement of financial instruments

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 32. RELATED PARTY TRANSACTIONS

### Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

| | 2015<br>*HK$'000* | 2014<br>*HK$'000* |
|---|---|---|
| Short-term employee benefits | **3,402** | 3,768 |
| Post-employment benefits | **75** | 83 |
| | **3,477** | 3,851 |

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

## 33. RETIREMENT BENEFITS PLANS

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualified employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% or HK$1,500 of relevant salaries and allowances to the MPF Scheme, which contribution is matched by the employees.

The employees of the Group's subsidiary in Singapore are members of the Central Provident Fund Scheme ("CPF Scheme") a state-managed retirement benefit scheme operated by Singapore Government. The Group is required to contribute ranging from 12% to 16% of payroll costs to the Central Provident Fund Scheme to fund the benefit. The only obligation of the Group with respect of the Central Provident Fund Scheme is to make the specific contributions. Contributions to the national pension scheme are recognised as an expense in the period in which the related service is performed.

The total cost charged to consolidated statement of profit or loss and other comprehensive income approximately of HK$1,924,000 (2014: HK$1,749,000) represents contributions payable to the MPF Scheme and CPF Scheme by the Group in respect of the year ended 31 December 2015. As at 31 December 2015, contributions of HK$352,000 (2014: HK$293,000) due in respect of the respective year ended had not been paid over to the plans. The amounts were paid subsequent to the end of the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 34. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY

| | Note | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | | **55** | 210 |
| Interests in subsidiaries | | **8** | 7 |
| Deposit paid for acquisition of a subsidiary | | **60,000** | – |
| | | **60,063** | 217 |
| Current assets | | | |
| Deposits and other receivables | | **3,399** | 313 |
| Amounts due from subsidiaries | | **307,960** | 329,799 |
| Cash held by securities broker | | **2,696** | 54,050 |
| Bank balances and cash | | **6,803** | 1,917 |
| | | **320,858** | 386,079 |
| Current liabilities | | | |
| Other payables and accruals | | **1,894** | 1,306 |
| Amounts due to subsidiaries | | **42,025** | 39,190 |
| | | **43,919** | 40,496 |
| Net assets | | **337,002** | 345,800 |
| Capital and reserves | | | |
| Share capital | 26 | **33,704** | 33,704 |
| Share premium and reserves | | **303,298** | 312,096 |
| | | **337,002** | 345,800 |

This statement of financial position was approved and authorised for issue by the board of directors on 18 March 2016 and are signed on its behalf by:

**Luk Kee Yan Kelvin**
*Director*

**Hon Kin Wai**
*Director*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 34. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY (CONTINUED)

### Movement in the Company's reserves

| | Share premium HK$'000 | Capital contribution reserve HK$'000 note (i) | Convertible notes reserve HK$'000 | Contributed surplus HK$'000 note (ii) | Share option reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2014 | 413,571 | 3,988 | 24,086 | 5,689 | 5,903 | (241,784) | 211,453 |
| Loss for the year | – | – | – | – | – | (84,957) | (84,957) |
| Redemption of convertible notes | – | – | (24,086) | – | – | 24,086 | – |
| Issue of shares upon open after (Note 26(i)) | 115,227 | – | – | – | – | – | 115,227 |
| Issue of shares upon placing (Note 26(ii)) | 26,469 | – | – | – | – | – | 26,469 |
| Issue of shares upon placing (Note 26(iii)) | 50,556 | – | – | – | – | – | 50,556 |
| Transaction costs attributable to the issue of shares | (6,652) | – | – | – | – | – | (6,652) |
| Lapsed of share options (Note 27) | – | – | – | – | (5,903) | 5,903 | – |
| At 31 December 2014 | 599,171 | 3,988 | – | 5,689 | – | (296,752) | 312,096 |
| Loss for the year | – | – | – | – | – | (8,798) | (8,798) |
| At 31 December 2015 | 599,171 | 3,988 | – | 5,689 | – | (305,550) | 303,298 |

Notes:

(i) The capital contribution reserve represented the amount arising from a bonus issue of shares of the Company by way of capitalising the Company's retained profits and deemed capital contribution from a substantial shareholders.

(ii) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 35. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries at 31 December 2015 and 31 December 2014 are as follows:

| Name of company | Place of incorporation/ registration and type of legal entity | Particulars of issued share capital/paid-up registered capital | Percentage of equity interest attributable to the Company Indirectly 2015 | 2014 | Principal activity and place of operation |
|---|---|---|---|---|---|
| Larry Jewelry Development Limited | Hong Kong, limited liability company | 9,999 ordinary shares of HK$1 each | **100%** | 100% | Design and sale of jewelry products in Hong Kong |
| Larry Jewelry Development (Macau) Limited | Macau, limited liability company | 25,000 ordinary shares of Macau Pataca ("MOP") 1 each | **100%** | 100% | Inactive in Macau |
| Larry Jewelry Limited | Hong Kong, limited liability company | 50,000,000 ordinary shares of HK$1 each | **100%** | 100% | Design and sale of jewelry products in Hong Kong |
| Larry Jewelry (1967) Pte. Ltd. | Singapore, limited liability company | 13,800,000 ordinary shares of SGD1 each | **100%** | 100% | Design and sale of jewelry products in Singapore |
| New Larry Jewelry Limited | Hong Kong, limited liability company | 1,000 ordinary shares of HK$1 each | **100%** | 100% | Provision of administrative and management services |
| Vera Jewels Company Limited | Hong Kong, limited liability company | 1,000 ordinary shares of HK$1 each | **100%** | 100% | Design and sale of jewelry products in Hong Kong |

None of the subsidiaries had issued any debt securities at the end of the reporting period or at any time during both years.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries operate in the British Virgin Islands ("BVI"). The principal activities of these subsidiaries are summarised as follows:

| Principal activities of business | Principal place | Number of subsidiaries 2015 | 2014 |
|---|---|---|---|
| Investment holding | BVI | **10** | 10 |
| Inactive | BVI | **1** | 1 |
| | PRC | **1** | 1 |
| | | **12** | 12 |