You should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in the Offer Shares. You should pay particular attention to the fact that our principal operations are conducted in the PRC and are governed by a legal and regulatory environment which may differ in some respects from that which prevails in other countries. Our business, financial condition and results of operations could be materially and adversely affected by various risks. The trading price of the Offer Shares could decline due to any of these risks, and you may lose all or part of your investment. For more information concerning the PRC and certain related matters discussed below, please refer to the section headed "Regulation" in this prospectus.

RISKS RELATING TO OUR BUSINESS

Our business is highly dependent on the strength of our Tian Wang and Balco brands, and any damage to our brands could materially and adversely impact our business and results of operations

We generate a majority of our revenue from the sale of watches under our Tian Wang and Balco brands. For the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, sales of our Tian Wang and Balco watches accounted for approximately 59.7%, 67.4%, 71.4% and 70.7% of our revenue, respectively. We believe that as brand image is a critical factor affecting consumers' decision to purchase watches, our business depends, and will continue to depend, heavily on the brand image of our Tian Wang and Balco brands. If we are unsuccessful in continuing to maintain the image of our Tian Wang and Balco brands, market perception and consumer acceptance of them may be eroded, in which case our business, financial condition and results of operations may be materially and adversely affected.

A multi-location business such as ours may be adversely affected by negative publicity or news reports, whether or not accurate, regarding any product or service quality issues, or government or industry findings concerning our brands, products or POS. Any negative publicity or dispute relating to our Tian Wang and Balco brands, including product defects, counterfeit products or ineffective promotional activities are potential threats to the images of our brands. These types of negative publicity could materially harm our business and results of operations.

Further, as we expand our Sales Network to other geographical regions in the PRC, we face risks associated with the lack of brand awareness or acceptance of our Tian Wang and Balco brands in those new markets. To the extent that we are unable to foster brand awareness for our brands in such new markets, our new POS in such new markets may not perform as well as expected and our growth may be significantly impeded.

We are subject to the risks of obsolete and slow-moving inventory which may adversely impact on our cash flow and liquidity

The demand for our Group's watches is highly dependent on the customers' preferences for our watches, which are beyond our control. If the products of our Group fail to meet the changing consumer preferences and market trends, slow-moving inventory will increase. Our inventory (before stock provision) as at 30 June 2010, 2011 and 2012 and 30 September 2012 amounted to approximately HK$254.6 million, HK$324.1 million, HK$503.2 million and HK$510.8 million, respectively, of which approximately 8.4%, 9.0%, 7.6% and 7.2%, respectively, are finished products aged over two years. Our inventories balance increased by 55.2% from HK$300.5 million as at 30 June 2011 to HK$466.4 million as at 30 June 2012 and increased to HK$474.3 million as at 30 September 2012, while sales increased by 28.2% from HK$1,189.3 million for the year ended 30 June 2011 to HK$1,524.8 million for the year ended 30 June 2012 and increased by 50.1% from HK$338.5 million for the three months ended 30 September 2011 to HK$508.2 million for the three months ended 30 September 2012. Inventory per POS relating to watch sales increased from approximately HK$167,000 as at 30 June 2010 to approximately HK$185,000 as at 30 June 2011, increased to HK$246,000 as at 30 June 2012, representing an increase of 10.8% and 33.0%, respectively, and decreased to HK$236,000 as at 30 September 2012 by 4.1%. Our inventory turnover days increased to 197 days for the year ended 30 June 2011 from 160 days for the year ended 30 June 2010, further increased to 231 days for the year ended 30 June 2012 and decreased to 219 days for the three months ended 30 September 2012. The increase in inventory adversely affects our working capital. Net cash generated from operating activities decreased from HK$75.2 million for the year ended 30 June 2011 to HK$4.7 million for the year ended 30 June 2012, and our net increase in cash and cash equivalents of HK$42.1 million for the year ended 30 June 2012 was mainly supported by net cash generated from financing activities of HK$104.4 million for the year ended 30 June 2012. If we cannot manage our inventory level effectively in the future, our liquidity and cash flow may be adversely affected. Further, if we cannot manage to source or manufacture appropriate products to suit the consumer preference and market trends in the future, the volume of obsolete and slow-moving inventory may increase and we may need to either sell off such inventory at a lower price or write off such inventory, in the event of which our financial position and results of operations may be materially and adversely affected. Please refer to the paragraph headed "Our Business – Inventory Management" for the strategies we adopt for inventory management.

Our growth prospects may be adversely affected if we are not able to successfully operate and expand our Sales Network

Sites of our existing POS may become unattractive and we may not be able to find suitable locations for new POS on commercially acceptable terms, if at all

The availability of locations for new POS in the PRC is limited and the competition to secure these locations is intense. Store operators of department stores and shopping malls generally evaluate the suitability of their potential concessionaire co-operators based on a number of factors, such as expected concessionaire fee based on sales and brand image of the potential concessionaire co-operators. Our ability to secure desirable POS location depends on our financial resources and our brand image and reputation. We expect the cost of securing new locations for our POS to increase in the future. We cannot assure you that we will be able to identify suitable locations on terms commercially viable to us. In the event that we encounter any difficulty in securing suitable locations in regions we plan to expand into, our growth prospects may be adversely affected.

Further, there can be no assurance that the sites of our existing POS will continue to be attractive as the neighborhood of our POS or the operation and market positioning of the relevant Department Stores may deteriorate or otherwise change in the future, resulting in reduced sales at these sites. Construction or renovation works at the local areas where our Street Stores are located may adversely affect the accessibility of our Street Stores, which in turn may result in a decrease in pedestrian or vehicle flow and ultimately sales at our relevant POS.

Most of the POS in our Sales Network, as at the Latest Practicable Date, are Sales Counters located in Department Stores in accordance with the relevant Sales Counters cooperation agreements. By establishing joint ventures with our JV Partners, we intend to utilise our JV Partners' local experience and business connections with department stores to facilitate our entry into regions in the PRC where we have no presence or have difficulty in securing prime locations for our POS. There is no assurance that our JV Partners can secure prime locations for our POS at terms and conditions which are favourable to our JV Companies. There is also no assurance that our JV Companies could secure similar locations if the Store Operators refused to renew the Sales Counter cooperation agreements to our JV Companies' satisfaction. Should our JV Companies fail to secure prime locations for our JV POS, the turnover of our JV Companies will be adversely affected.

We may encounter difficulties in expanding our Sales Network

During the Track Record Period, we have pursued a rapid growth strategy, expanding our Sales Network from 847 POS as at 30 June 2009 to 1,706 POS as at 30 September 2012. We expect to continue this expansion by opening approximately 38 concept stores in the three years ending 30 June 2015 in major cities in the PRC and approximately 200 POS in each of the three years ending 30 June 2015, as well as establishing about six joint ventures in the three years ending 30 June 2015. Please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus for details.

Our ability to successfully expand our Tian Wang and Balco Sales Network and open concept stores depends on, among other factors:

- our ability to identify suitable sites for new POS, in particular for concept stores in major cities, and successfully negotiate leases with landlords and Sales Counters cooperation agreements with the Store Operators for our Sales Counters on terms acceptable to us;

- our ability to attract, train and retain sufficient management talents and qualified personnel for management and operation of our expanded Sales Network and to manage concept stores which we plan to open;

- our ability to obtain governmental approvals, licenses and permits for opening and operation of our POS, in particular for opening of concept stores, in a timely manner;

- our ability to adapt and expand coverage of our operational, financial and management systems, including our ERP system to support an expanded Sales Network, and to achieve the related synergies;

- the effectiveness of our marketing campaigns, in particular the concept stores in relation to which we have limited experience;

- the timely completion and setting up of our new POS, in particular our concept stores; and

- our ability to supply sufficient stock to all the new POS.

Our ability to successfully expand our Sales Network through joint ventures depends on, among other factors:

- our ability to identify potential joint venture partners with appropriate experience and track record, and their willingness to cooperate with us on mutually acceptable terms;

- governmental approvals and authorisations being granted for such joint ventures in a timely fashion;

- the ability of the joint venture partners to successfully execute the transition from their own businesses to the joint venture operations and effectively managing the operations of the joint ventures in accordance with principles and business plans adopted by the joint ventures;

- the ability of the joint ventures to secure appropriate retail locations for its operations and negotiate sales counter cooperation agreement or leases with department store store operators or landlords on terms acceptable to the joint ventures;

- the ability of the joint ventures to attract, train and retain sufficient management and qualified personnel for management and operation of the POS of the joint ventures; and

- the ability of the joint ventures to secure all necessary licences and approvals as well as adequate inventory of branded watches to carry out their businesses in the targeted market segments.

There is no assurance that our expansion plan will be successful as it may be affected by many factors including the above, and other factors which are not under our control, such as national and local economic conditions and changes in PRC laws and regulations.

Further, as we expand, the rental commitments, concessionaire fees, renovation expenses, inventory carrying costs and financing costs may increase and affect the profitability of the Group. There is no assurance that our Group will be able to expand on a timely basis or operate the expanded Sales Network on a profitable basis.

If we fail to successfully deal with any of the above difficulties, we may not be able to achieve our planned expansion. Our ability to manage our future growth will depend on our ability to successfully implement and improve our operation, financial and management systems in the evolving competitive markets. Our business growth could strain our operational, financial and managerial resources. Failure to effectively execute our expansion strategy may result in limited growth and reduced profitability.

Our new POS may not achieve our expected level of profitability within our target time frame, if at all

Opening new POS requires significant capital outlay up front, including deposits for leased premises or Sales Counters, cost of setting up and decorating the POS, and the cost of hiring and training employees. Our new POS may not achieve our expected level of sales and profitability for a prolonged period of time, or at all. The success of our new POS will depend on a number of factors, including, but not limited to, the following:

- the existence of sufficient demand for our watches in the regions where our new POS are located;
- our ability to generate increased sales through the new POS without cannibalising sales from existing POS in nearby locations;
- the timely completion and setting up of the POS as planned;
- the POS being positioned in an appropriate location with our expected flows of targeted customers, and stocked with inventory which attract such targeted customers;
- the competition we face from incumbent and new players in the new regions;
- any government development plans around our target POS sites, such as construction, which could have an impact on the pedestrian flow to our POS and the timely implementation of such works.

Some of these factors are not entirely within our control. Our new POS may not achieve our expected level of sales and profitability within our expected timeframe.

We face the risk of over-expansion when we carry out our expansion plan of opening concept stores and POS in each of the years ending 30 June 2013, 2014 and 2015, details of which are set out in the section headed "Our Business – Our Business Strategies – Promoting brand awareness and sales of Tian Wang and Balco watches through expansion of our Sales Network" in this prospectus, in light of the estimation by Euromonitor that the watch retail sales value and volume in the PRC will only maintain CAGR of 12.8% and 2.1%, respectively, during 2011 to 2015, and the possible slow down of economic growth in the PRC in the future. If our Group experiences over-expansion without sufficient demand, our inventory level may increase, and our expansion plans and our results of operations, financial condition and profitability may be materially and adversely affected and we may be forced to close down some of our POS. For the risk of slow-moving inventory, please refer to the paragraph below in this section headed "We are subject to the risks of obsolete and slow-moving inventory which may adversely impact on our cash flow and liquidity."

Our expansion into new geographical markets presents increased risks

We plan to expand our Sales Network into new geographical regions where we have little or no operating experience, with competitive conditions, consumer preferences and discretionary spending patterns that may be different from our existing markets. As a result, any new POS that we open in those markets may be less successful than POS in our existing markets. Consumers in the new markets may not be familiar with our brands and we may need to build up brand awareness in the relevant markets with greater effort than we originally plan. We may find it more difficult in new markets to hire, train and retain qualified employees. POS opened in new markets may also have lower average sales or higher construction, occupancy or operating costs than POS in existing markets. Sales at POS opened in new markets may take longer than expected to ramp up and reach, or may never reach, expected sales and profit levels, thereby affecting our overall profitability.

Further, some of the new regions that we expand into may have well-established competitors with greater financial, marketing, customer service resources, and greater brand recognition than we do. There is no assurance that we will be able to operate successfully in some of our target markets, or that our watches will be accepted as well as we expect in these target markets. Such competition pressures could adversely affect our business, financial condition and results of operation.

We expect the majority of our POS will be Sales Counters located at Department Stores. Such Department Stores may be operated and managed by Independent Third-Party Store Operators with whom we do not have well established relationships. We have no control on the Store Operators on the operation and maintenance of the Department Stores where our Sales Counters are located. We rely on these Store Operators to collect sales proceeds on our behalf at centralised cashier systems in the Department Stores which they operate. Such proceeds are then remitted to us, generally on a monthly basis. In the event that any of such operators fails to remit the sales proceeds in a timely manner, our cash flows and results of operations may be materially and adversely affected. Further, we have no control over the internal controls and procedures of any of the Independent Third-Party Store Operators. In the event that operation of any of the Store Operators is disrupted, our results of operations and financial condition could in turn be materially and adversely affected.

We are exposed to the risks involving leased properties

Certain defects related to certain properties occupied by us in the PRC may materially and adversely affect our ability to use such properties

As of the Latest Practicable Date, we leased 85 properties in the PRC. As advised by Jingtian & Gongcheng, our PRC Legal Advisers, as at the Latest Practicable Date, among these 85 leased properties which were used by us either as our POS, regional offices, staff quarters and/or warehouses, (i) the lease agreements with respect to 72 properties have not been registered or filed with relevant authorities in accordance with the applicable PRC laws and regulations; (ii) in respect of 34 of our leased properties, the relevant lessors have not provided us with the relevant title ownership certificates or other written consents from the relevant owners evidencing their rights to lease these properties to us; and (iii) in respect of 27 of our leased properties, our usages of the leased properties for offices and warehouse purposes were inconsistent with the designated residential usage as stated under the relevant building ownership certificates.

As advised by our PRC Legal Advisers, under PRC laws, an executed lease agreement shall be registered and filed with the relevant governmental authorities by the parties to the lease agreements. In respect of the non-registered lease agreements, our Group may be ordered by the relevant government authority to register the lease agreements within a prescribed period, failing which we may be subject to a fine ranging from RMB1,000 to RMB10,000 for each unregistered lease agreement.

As advised by our PRC Legal Advisers, in respect of the usages of our 27 leased properties inconsistent with the designated usage as stated in the building ownership certificates, if the owners fail to obtain the necessary consents and/or to comply with the applicable legal requirements for the change of usage of these premises, and the relevant authority or the court orders us to use these leased properties for the designated usage only, we may not be able to continue to use these properties for offices and warehouse purposes and we may need relocate our operation there to other suitable premises. These 27 leased properties are used by our Group as our regional offices or warehouse, and our Directors estimate that the aggregate removal costs (including write-off of leasehold improvements and other costs thereof) will not be more than approximately HK$0.7 million, and it may take not more than one month to relocate our operation to the replacement leased properties.

As advised by our PRC Legal Advisers, the lessors of 34 of our leased properties have not provided us with the relevant title ownership certificates or other written consents from the relevant owners evidencing authorisation from the property owners to lease the properties to us. If the lessors do not have the requisite rights to lease out the relevant leased properties, the relevant lease agreements may be deemed invalid, and we may be forced to move out from the relevant leased properties. In particular, some of these 34 leased properties were used by us as POS as of the Latest Practicable Date, which contributed less than 1% of our total revenue for each of the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, respectively. We may be required to move out from the relevant leased properties and relocate our operations thereat. We cannot assure you that we will be able to relocate such operations to suitable alternative premises, and any such relocation may result in disruption to our business operations and thereby result in loss of earnings. We may also need to incur additional costs for the relocation of our operation. In respect of such properties that we may be required to vacate and relocate our operation thereat as aforesaid, our Directors estimate a potential loss of revenue and gross profit of not more than approximately HK$2.4 million and HK$1.9 million, respectively, and the aggregate removal costs (including write-off of leasehold improvements and other costs thereof) will be not more than approximately HK$3.5 million. Our Directors estimate that it may take not more than two months and one month for our POS and other leased properties to relocate our operation to the replacement leased properties, respectively. There is also no assurance that we will be able to effectively mitigate the possible adverse effects that may be caused by such disruption, loss or costs. Please refer to the section headed "Our Business – Litigation and Compliance" in this prospectus for further details.

We currently do not own the premises on which our offices, production facilities and our POS are located

As at the Latest Practicable Date, a significant portion of our office premises and production facilities, including our registered offices in Hong Kong and our production facilities in Shenzhen and Dabu, Guangdong Provinces, the PRC, as well as our existing Shop-in-Shops and Street Stores, were on leased properties or Sales Counters on concessionaire basis in Department Stores owned and operated by the Store Owners pursuant to Sales Counters cooperation agreements.

Upon expiration of the lease agreements of each of our leased properties or the Sales Counter cooperation agreements of each of our Sales Counters, we will need to negotiate the terms and conditions on which the lease agreements or Sales Counter cooperation agreements may be renewed. We cannot assure you that we will be able to renew our lease agreements or Sales Counter cooperation agreements on terms and conditions, in particular those regarding the rents or concessionaire fees, that are favorable or otherwise acceptable to us, or at all. In that case, we may need to relocate our existing facilities or POS in question or shut down the operations of the relevant premises. We cannot assure you that such alternative site will be at a comparable location or can be renewed on comparable terms.

Termination of our leases or Sales Counter cooperation agreements may occur for reasons beyond our control, such as breaches of agreements by the lessors of our premises or the Store Operators or invalidation of lease agreements due to the lessors' lack of title to lease the properties. If we, our current or future landlords or our Store Operators breach the relevant agreements, we may have to relocate to alternative premises or shut down our operations at the relevant sites. Relocations of any part of our operations may cause disruptions to our business and requires significant expenditure, and we cannot assure you that in such a case, we will be able to find suitable premises on commercially reasonable terms in a timely manner, if at all, or we may have to pay significantly higher rents or concessionaire fees which may materially and adversely affect our business, financial condition and results of operations.

We may not be able to ensure adequate supplies of watches or watch components for our Tian Wang watches to sustain our sales at a commercially acceptable cost

We depend heavily on several major suppliers of watch movements and watches of the Other Brands

Watch movements are a key and quality-determining watch component in making watches. During the Track Record Period, we source the Japan-made, Swiss-made and other watch movements we used in the production of Tian Wang watches from a limited number of suppliers through our in-house watch movement procurement arm. As we expect that our business and revenue will continue to grow after the Listing, our need for watch movements and our reliance on these major suppliers will continue. Therefore, any problem with the production facilities or processes of our watch movements suppliers may affect our ability to produce the planned quantity of Tian Wang watches meeting the required quality standards. Disruptions to the operations of our watch movement suppliers may also increase our costs of sale. If any of such events occurs, we may not be able to supply sufficient quantity of Tian Wang watches to our Sales Networks and our business and results of operations may be materially and adversely affected.

Further, the global supply of watch movements is limited and dominated by a small number of suppliers in Japan and Switzerland who tend to give priority to supplying watch movements to their respective in-house watch manufacturing arms or domestic watch manufacturers in their respective countries. As a result, we may experience difficulties in securing alternative reliable suppliers of watch movements. We do not enter into any long-term supply agreement for supply of our watch movements and we depend on our amicable relationship with our major suppliers to secure stable supply of watch movements. Therefore, the success of our business and growth depends heavily on our amicable relationship with our existing watch movement suppliers. If we fail to maintain such relationship, we may not be able to source sufficient quantity of watch movements at competitive terms or at all. Our costs of sale may increase if we cannot source watch movements at competitive pricing or terms, and we may have to incur substantial costs to secure supply of watch movements, which could materially and adversely affect our profitability.

The JV Companies sourced watches of the Other Brands from the relevant brand owners or authorised suppliers and sell them at our JV POS mainly covering the Provinces of Jiangsu, Anhui, Shanghai and Sichuan in the PRC through our JV Companies. See the section headed "Our Business – Sales and Marketing – JV Sales Network" in this prospectus for details.

There is no assurance that the JV Companies will be able to continue to source watches of the Other Brands from the owners/authorised suppliers of the Other Brands. If the JV Companies are unable to source and sell watches of the Other Brands in future, our performances and financial results may be adversely affected.

We currently engage only one OEM manufacturer for the production of Balco watches

We outsource part of the product design process and production of our Balco watches to FM Swiss which is a connected person, over whose management and operations we have no control. For the relationship between FM Swiss and our Company, please refer to the section headed "Continuing Connected Transactions – Relationship between our Group and connected persons" in this prospectus. The sales of our Balco watches are dependent on the ability of FM Swiss to supply us with finished Balco watches. The design and production of watches by FM Swiss may be affected by a number of factors, such as equipment failures or property damages, changes in laws and regulations in Switzerland, financial difficulties and labour disputes. There is no assurance that FM Swiss will continue to supply us with sufficient quantity of products, or at all. Given that the production of Balco watches is outsourced to FM Swiss only, any material disruption to the operations of FM Swiss due to any of the above factors could interrupt the supply of our Balco watches before the operation of FM Swiss returns to normal or we engage another Swiss OEM manufacturer for production of our Balco watches.

Further, the Balco Agreement is subject to a term of three years. Upon its expiry on 31 August 2014, there is no assurance that FM Swiss will continue to accept our future purchase orders at a price commercially viable to us or at all in the future, nor can we assure you that FM Swiss's resources will not be occupied by our competitors, or that they will have sufficient resources to meet our future demand. In the event that FM Swiss cannot fulfill its obligations to supply sufficient Balco watches to us, or in the event that we have disputes with or lose the services of FM Swiss, we will have to engage another Swiss designer and OEM manufacturer to design and produce our Balco watches. Although our Directors believe that we will be able to engage alternative supplier within reasonable period of time in the event our Group's cooperation with FM Swiss is terminated or not renewed given that there are many experienced Swiss watch designers and manufacturers in the market, such change of supplier could cause interruption to the supply and sales of our Balco watches and adversely affect our business, financial condition and results of operations.

Disruption of our assembly and warehouse facilities could have a material and adverse effect on our business

We operate an integrated business model, in which we control key stages of our operation chain such as product design and development, sourcing of components, assembly, brand promotion and management, marketing and sales of our watches. All of our Tian Wang watches are assembled at our assembling and warehouse facilities located in Shenzhen and Dabu, Guangdong Province, the PRC. For the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, our Tian Wang watches accounted for 75.0%, 77.2%, 77.1% and 78.1%, respectively, of the watches we sell through our Sales Network in terms of sales value.

We maintain our assembling and warehouse facilities in Guangdong Province, the PRC. These facilities are subject to operational risks, including mechanical and information technology system failure, power shortage, work stoppage, increase in transportation costs, natural disasters, fire and disruption to supplies of raw materials and parts. Any interruption of our activities in our assembling or warehouse facilities or our Sales Network in the PRC due to these or other events could disrupt the operation of and the stable supply of Tian Wang watches to our Sales Network, which could have a material adverse effect on our business, financial condition and results of operations.

Any future problems of our assembling facility as a result of, among other, capacity constraints, upgrading or expanding existing facilitates or changes in production technologies may cause delays in our production and delivery schedules, which could temporarily reduce our manufacturing capacity and affect our ability to provide products to our Sales Network and our customers.

We may fail to introduce commercially viable products or may fail to do so in a timely manner, which could adversely affect our profitability

The watch industry in the PRC is highly susceptible to changes in prevailing market trends and consumer preferences. In order to achieve a continued success in this industry, we must be able to anticipate, identify and respond promptly to such changes. As a result, research and development efforts to stay ahead of the market trends are crucial to our success and competitive advantage. In addition, as watch design that appeals to some consumers may not appeal to others, it is critical that we are able to introduce design with sufficient market appeal. As consumer tastes and preferences for watches are highly subjective in nature, we may fail to anticipate or respond to their changes. As a result, we cannot assure you that our watches for each season will be commercially viable or successful.

If we are unable to introduce commercially viable products, our inventory of slow-moving and obsolete watches will increase and our profitability may be adversely affected. In the long run, this could lead to loss or diminution in the goodwill and commercial value of our brands.

Moreover, as our experience in marketing and selling watches of the Other Brands is limited, we can provide no assurance that we would continue to be able to realise benefits from sales of watches of the Other Brands, which could have an adverse effect on our business, financial condition and results of operations.

We may encounter intellectual property rights issues

Sale of counterfeit or imitated products of our watches may affect our reputation and profitability

The occurrence of counterfeiting of our products, such as unauthorised imitation, replication of our design, infringement of trademarks or labeling by third parties may affect our reputation and profitability. As our Tian Wang brand is well established in the PRC, we have in the past experienced isolated and immaterial incidences of unauthorised use of our design and trademarks and counterfeiting and imitation of our Tian Wang watches, and our Directors, having considered the seriousness, extent and possible effect of the incidents on our brand and the cost of taking action, have on 10 occasions during the Track Record Period issued letters against the counterfeiters to notify them of our legal rights and warn them of our possible legal actions, and the counterfeiters had subsequently ceased the infringement. Our Directors are not aware of any material counterfeiting and imitation of our Group's products during the Track Record Period. Our Group will closely monitor to see whether there will be any unauthorised use of our design and trademarks, counterfeiting or imitation of our watches in the future. Should any material counterfeiting of our products occurs, our Group will consider taking actions and legal proceedings against the counterfeiting activities to protect its intellectual property rights over the design of the products. As advised by our PRC legal advisers, we may negotiate with infringers to settle disputes, and may seek administrative or judicial orders requiring infringing parties to cease their unauthorised use and compensate our losses incurred by instituting litigation, arbitration or other proceedings to protect our intellectual property rights. Also, we may apply to the court for an injunction to prohibit the infringing actions and have the relevant assets or evidence preserved under certain circumstances prior to filing a litigation. However, such actions may have different degrees of success or not at all. We cannot guarantee that counterfeiting and imitation would not occur, or if it does occur, that we would be able to detect and address the problem effectively. A significant presence of counterfeit products in the market could have a negative impact on the value and image of our brands, lead to loss of consumer confidence in our brands and, as a consequence, adversely affect our results of operation.

We may not be able to protect adequately or enforce our intellectual property rights

We consider our intellectual property rights an integral part of our competitive advantage. Our current and future operations are dependent upon the adequate protection of our intellectual property rights, including brand names, trademarks, patents, technological know-how and trade secrets. The intellectual property rights of our Group can be protected by means of confidentially arrangements and/or proper registration with government authorities. However, the laws of PRC do not protect our proprietary rights as fully as do the laws of Hong Kong and other common law jurisdictions. In particular, registered patents in the PRC are not subject to renewal once the valid period has expired.

We have arranged for the registration of the trademarks and copyrights in relation to the majority of our products in the PRC. We cannot assure you that the steps we have taken to protect our intellectual property rights are sufficient and will be sufficient in the future, or that our intellectual property rights will not be subject to infringement in the future. Any unauthorised use of our intellectual property rights can harm our image and business reputation, which could have a material adverse effect on our financial condition and results of operations.

Litigation may be necessary in the future to enforce our intellectual property rights or to determine the validity and scope of our proprietary rights or those of our competitors. The costs required to protect our trademarks, brand names and patents, including legal fees and expenses, may be substantial. An adverse outcome in litigation or similar proceedings could adversely affect our business, financial condition and results of operations. In addition, the diversion of our management's attention and resources while addressing intellectual property claims, regardless of their validity, could be significant and could significantly affect our business, financial condition and results of operations.

Please refer to the section headed "Our Business – Intellectual property rights" in this prospectus for further information relating to our intellectual property rights.

If our products infringe on the intellectual property rights of any third party, we may incur substantial liabilities and we may be unable to sell such products

Our commercial success also depends significantly on our ability to operate without infringing on the patents or other intellectual property rights of third parties. Patent applications in the PRC are maintained in secrecy until their publication 18 months after filing. The PRC, similar to many other countries, adopts the first-to-file system under which the first party to file the same patent application (instead of the first to create the subject invention utility models or designs) may be awarded a patent generally. Even after reasonable investigation, we may not know with certainty whether we have infringed a third-party's legal rights because such third-party may have filed a patent application in secrecy without our knowledge and the validity period of a patent right would start from the time of the application in PRC once the patent is granted. In addition, we source watches and watch components from various suppliers and we rely on their representations regarding the authenticity of the products and their authority to distribute but there is a risk that such representations may not be true and correct. If a third-party claims that infringement upon its intellectual property rights has taken place, any of the following consequence may occur:

- we may become involved in time-consuming and expensive litigation, even if the claim is without merit;

- we may become liable to substantial damages for past infringement if a court decides that our technology infringes upon a competitor's patent; and

- a court may prohibit us from selling our products without a license from the patent holder.

If any of these consequences occurs, our business will suffer and the market price of our Shares could decline.

We may experience failures in our ERP system which could materially and adversely affect our business, financial condition and results of operations

We depend heavily on our U8 Data Management System with ERP functions to record and process our operational and financial data and to provide reliable services. In particular, since we collect our sale proceeds from the Store Operators of Department Stores at which our Sales Counters are located, generally on a monthly basis, we rely on our U8 Data Management System to maintain accurate and timely record of our sales volume across our Sales Network for accounting purpose.

We may experience severe failures of our U8 Data Management System arising from natural disasters or failure of electricity supply, our information technology infrastructure or our applications software systems that are wholly or partially beyond our control. Any material disruption to the operation of our U8 Data Management System or our general information technology system could have a material adverse effect on our operation. Our failure to address these problems could affect our ability to monitor our inventory level and sales and result in our inability to perform, or prolonged delays in performing, critical business operational functions, the loss of key business data, or our failure to comply with regulatory requirements, which could materially and adversely affect our business operations and customer services, among others. This could in turn materially and adversely affect our business, financial condition and results of operations.

Please refer to the section headed "Our Business – Inventory Management – Information management system" in this prospectus for details of our enterprise resource planning system.

Our financial results are subject to a number of factors which may have adverse effects

Our revenue flow is subject to seasonality and a variety of factors

Revenue fluctuations throughout the year are common for the watch industry which is subject to the seasonal and festival purchase patterns of consumers. Our sales varies from month to month and we generally record higher sales revenue during major holidays or festivals, such as Chinese New Year, Valentine's Day, PRC Labour Festival, National Day and Christmas, which fall in the months of January, February, May, October and December, respectively.

Further, our revenue flow and periodical financial performance are also subject to a variety of factors, including changes in our products, the effectiveness of our inventory management, effects of new POS opening on the sales of existing POS, level of pre-opening expenses associated with new POS, timing and effectiveness of our marketing activities, actions by our existing and new competitors, and employee motivation and effectiveness, among others.

Accordingly, any comparison of sales and results of operations between different periods within a single financial year is not necessarily meaningful and cannot be relied on as indicators of our Group's performance. Any seasonal fluctuations in the future may not match the expectations of investors and could cause fluctuations in the trading price of our Shares.

We may experience an adverse change in our financial results for the three months ended 31 December 2012 and the year ending 30 June 2013 which is attributable to the listing expenses incurred in relation to the Global Offering

We had incurred listing expenses of HK$17.9 million and HK$2.3 million for the year ended 30 June 2012 and the three months ended 30 September 2012, respectively. Our Directors currently estimate that our Group will incur additional listing expenses in relation to the Global Offering recognised in the consolidated income statements for the three months ended 31 December 2012 in the amount of approximately HK$20.3 million. Such amount of listing expenses is a current estimate for reference only, and the final amount is subject to adjustment based on audit and changes in variables and assumptions. However, our Directors take the view that the amount of listing expenses recognised in the consolidated income statements for the three months ended 31 December 2012 and the year ending 30 June 2013 should be at similar level. As such, our Directors expect that we may experience an adverse change in our financial results for the three months ended 31 December 2012 and the year ending 30 June 2013 which is attributable to this significant non-recurring item of listing expenses incurred in relation to the Global Offering.

Our profit is subject to increase in the concessionaire fees payable under the cooperation agreements with the Store Operators and rentals payable to lessors of premises on which our POS are located

We generated revenue of approximately HK$581.7 million, HK$855.0 million, HK$1,177.7 million and HK$402.1 million, representing approximately 63.3%, 71.9%, 77.2% and 79.1% of our total revenue, from sales through POS in our Sales Network for the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, respectively. For the operation of our POS, our Group pays concessionaire fees to Store Operators for our Sales Counters and rentals to our landlords for our Shop-in-Shops and Street Stores. The total concessionaire fees and rentals for our POS were approximately HK$151.8 million (of which 95.9% were concessionaire fees and 4.1% were rentals), HK$222.0 million (of which 96.1% were concessionaire fees and 3.9% were rentals), HK$297.1 million (of which 95.1% were concessionaire fees and 4.9% were rentals) and HK$106.2 million (of which 94.9% were concessionaire fees and 5.1% were rentals) for the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, respectively, which were approximately 26.1%, 26.0%, 25.2% and 26.4% of the revenue generated from our Sales Network for the corresponding periods. Concessionaire fees are charged as a percentage of the revenue generated from the relevant POS. The concessionaire fee percentage depends on the size and location of our POS and our relationship with, and bargaining power against, the relevant Store Operator. In the event that the Store Operators increase the concessionaire fee percentage or our lessors increase the rentals when our Sales Counter cooperation agreements or leases are renewed, our revenue attributable to sales through our Sales Network may decrease and our results of operations may be adversely affected.

We are exposed to the risk of delays in collecting trade receivables and impairment of trade receivables

Our profitability is dependent on our customers and Stores Operators making prompt payment on sale of our products. Our trade receivables are mainly attributable to sales made at our Sales Counters and Shop-in-Shops located in Department Stores, where the sales proceeds are collected at centralised cashiers on behalf of us by the Store Operators and are generally remitted to us on a monthly basis. In addition, we also offer credit terms to our corporate customers, Watch Distributors, Online Distributors and customers of our watch movements trading business.

As at 30 June 2010, 2011 and 2012 and 30 September 2012, our aggregate trade receivables after allowance for bad and doubtful debts were approximately HK$111.6 million, HK$173.1 million, HK$233.2 million and HK$314.2 million, respectively, of which approximately HK$14.8 million, HK$27.3 million, HK$34.1 million and HK$47.8 million, or approximately 13.3%, 15.8%, 14.6% and 15.2%, respectively, were past due. As at 30 June 2010, 2011 and 2012 and 30 September 2012, our provision for impairment of trade receivables amounted to approximately HK$1.9 million, HK$0.4 million, HK$0.4 million and HK$0.4 million, respectively.

We cannot assure you that our past provisioning practice will not change in the future or that our provision levels will be sufficient to cover defaults in our trade receivables. Our liquidity and cash flow may be materially and adversely affected if our receivables cycles or collection periods lengthen further or if we encounter a material increase in defaults of payment or provisions for impairment of our trade receivables. Should these events occur, we may be required to obtain working capital from other sources, such as from third-party financing, in order to maintain our daily operations, and such financing from outside sources may not be available at acceptable terms or at all.

We are exposed to interest rate risks

The cost of our financial debts depends on interest rate fluctuations. For the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, we have recorded finance costs in aggregate approximately HK$3.6 million, HK$4.3 million, HK$6.0 million and HK$2.6 million, respectively, of our interest bearing borrowings and finance leases that are on demand within one to five years. Our financial condition and results of operation could be materially and adversely affected by adverse fluctuations of the interest rate. According to the sensitivity analysis as stated in Appendix I, our post-tax profit for the year ended 30 June 2012 and the three months ended 30 September 2012 would decrease by HK$1.2 million and HK$0.3 million, respectively if interest rates had been 50 basis point higher and all variables held constant.

We are exposed to risks from exchange rate fluctuations

The vast majority of our sales are denominated in RMB and a portion of our purchases are made in other currencies such as Japanese Yen and Swiss Francs. As such, we are subject to foreign exchange risks and our profits may be adversely affected should other foreign currencies such as Japanese Yen and Swiss Francs appreciate against HKD and RMB. For the year ended 30 June 2012 and the three months ended 30 September 2012, approximately 17.8% and 18.0% of our total net sales were made in HKD and approximately 82.2% and 82.0% were made in RMB, respectively. On the other hand, approximately 66.6% and 51.7% of our total costs were denominated in RMB, and approximately 10.2% and 14.5% were made in Swiss Francs for the year ended 30 June 2012 and the three months ended 30 September 2012, respectively. Our total net exchange loss for the year ended 30 June 2010 was HK$0.3 million and our total net exchange gain was HK$5.1 million for the year ended 30 June 2011, our total net exchange loss for the year ended 30 June 2012 was HK$1.1 million and our total net exchange gain for the three months ended 30 September 2012 was HK$1.2 million.

Our reporting currency is HKD. When we prepare our consolidated financial statements, the sales and purchases made in foreign currencies are translated into HKD at average exchange rates of the relevant financial years whereas foreign currency balance sheets are translated into HKD at the rates as at the balance sheet date. Accordingly, the profits we derived in foreign currencies would be lower should there be any appreciation in the exchange rates of HKD against the respective currencies.

Fluctuations in foreign exchange rates may also affect our customers' purchasing power and their willingness to purchase our watches. During the Track Record Period, we sought to manage our foreign currency risks in order to minimise any negative effects caused by exchange rate fluctuations. However, there is no assurance that we will be able to do so successfully, and our business, financial condition and results of operations could be negatively affected by fluctuations in exchange rates especially when such fluctuations persist.

Our success and ability to operate efficiently are dependent on our ability to retain key executives and other personnel

Our success and ability to operate efficiently are dependent on our management team

The composition and continued commitment of our management team has been a key element of our success and ability to operate efficiently. Our future success is also significantly dependent upon the continued service of our key executives, in particular Mr. Michael Tung, and other personnel who make up our management team, and our ability to retain and attract personnel who have the necessary experience and expertise. If we experience any significant, material changes to the composition of our management team, we may not be able to recruit suitable or qualified replacements, and may have to incur additional expenses to recruit and train new personnel, which may disrupt our business and limit our ability to grow. Further, if we lose our key management personnel and other personnel of our management team to our competitors, our competitiveness, operations and our ability to grow may be adversely affected.

Please refer to the section headed "Directors, Senior Management and Staff" in this prospectus for further details on Mr. Michael Tung and other personnel of our management team.

We rely on our Regional Managers for the operation of our Sales Network

We rely heavily on our Regional Managers for the operation of our extensive Sales Network. The experience and leadership of our Regional Managers are critical to the operation and success of our Sales Network. If any of our Regional Managers do not discharge their responsibility to manage and operate their respective Sales Regions efficiently, our business, financial condition, results of operations and development would be materially and adversely affected.

Our insurance coverage may not be sufficient to cover the risks associated with our business operations

Manufacturers and sellers of sub-standard or defective products in the PRC may be liable for loss and injury caused by such products. Under the Code of the Civil Law of the PRC (中華人民共和國民法通則) (the "**PRC Civil Code**") which took effect on 1 January 1987, where a sub-standard product causes proprietary damage or physical injury to any person, the manufacturer or seller of such sub-standard product may be subject to civil liability. Under the PRC Law on Product Quality (中華人民共和國產品質量法) (the "**PRC Product Quality Law**"), which took effect on 1 September 1993, manufacturers are responsible for the quality of the products they produce such that the products do not potentially endanger the safety of any individual or property. The products must meet certain national or industrial standards (if applicable). Further, the Law of the PRC on the Protection of the Rights and Interests of Consumers (中華人民共和國民法消費者權益保護法) (the "**PRC Consumers Protection Law**"), which took effect on 1 January 1994, gives protection to the legal rights and interests of consumers in connection with the safety of individuals and properties in the purchase or use of goods or services. The PRC Consumers Protection Law applies to business operators in the PRC in the provision of goods manufactured or sold by them and in the business of providing services, and to consumers that purchase or use merchandise or receive services for consumption requirement in the course of everyday life. Our Group and our products are subject to the PRC Civil Code, the PRC Product Quality Law, the PRC Consumers Protection Law and other related laws and regulations in this respect.

Any systemic defects in the products developed or distributed by us could result in material and adverse customer reaction towards our Group, resulting in negative publicity and additional time, effort and expenditures to correct the problems and claims against our Group. As at the Latest Practicable Date, we have not experienced any material claim against us. However, any such claim in the future will have a material and adverse effect on our financial position and profitability.

We also do not currently maintain any insurance for business interruption or any third-party liability. We have not experienced any third-party liability claims in respect of our watches in the PRC. Our Directors believe that it is standard business practice in the PRC not to maintain any insurance policy for third-party product liability and there is no statutory obligations imposed on us to maintain third-party product liability insurance or product quality insurance in the PRC.

RISKS RELATING TO OUR INDUSTRY

We operate in a highly competitive environment

The PRC watch industry is a highly competitive market and the pricing of and demand for our watches are significantly affected by the intensity of competition we face. Our principal competitors include the major watch brands in the mid-end and low-end watch markets in the PRC. According to Euromonitor, the comparable watch brands with similar brand recognition and sales volumes with Tian Wang are Rossini, Ebohr and Fiyta. These competitors may have substantially greater financial and technological resources, design and manufacturing capacities, stronger customer relationship, more extensive retail and distribution networks and better brand image than we do. As a result, there is no assurance that we may be able to compete effectively with these competitors and the competitive pressures could adversely affect our business and financial condition and results of operations. Please refer to the section headed "Industry Overview" and the section headed "Our Business – Competition" in this prospectus for details on the competitive landscape of the watch industry in the PRC in which we operate.

We currently enjoy the competitive advantage of the high entry barriers in the watch industry due to high operating and entry costs. However, there is no assurance that there will not be new market entrants with substantial financial resources which could pose significant competition pressures on us and reduce our market share. Further, some of the markets we have recently expanded into may have existing well-established competitors which would adversely affect our business and future prospects. Please refer to the risk factor headed "Our expansion into new geographical markets presents increased risks" in this section.

Increase in costs of production, costs of watch components, labour costs, concessionaire fees and rentals and inflation in the PRC in general may adversely affect our business and profitability

Our success depends heavily on the growth of the PRC retail market. Economic growth in the PRC has, in the past, been accompanied by periods of high inflation, and the PRC Government has implemented various policies from time to time to control inflation. Nevertheless, the effects of the stimulus measures implemented by the PRC Government since the global economic crisis in 2008 have resulted in periods of high inflation.

Inflation has material and adverse effects on our cost of sale. In particular, the purchase price of our watch components and the concessionaire fees or rental expenses for our POS had increased significantly during the Track Record Period. In addition, labour costs in the PRC have increased significantly in recent years and have affected our cost structure. Aside from inflation and other factors, the implementation of the PRC Employment Contract Law (中華人民共和國勞動合同法), which became effective on 1 January 2008, also contributed to the increase in labour costs in the PRC. The Directors expect that our costs of sale will continue to increase in the future. If we are unable to identify and adopt appropriate means to reduce costs or pass on such increase in cost to our customers, our business, financial condition and results of operations may be adversely and materially affected.

Further, prolonged inflation in the PRC will result in the decline of real disposable income and willingness of our customers to purchase our watches. As our future growth is highly associated with the consumer spending pattern in the PRC, continued or repeated occasions of inflation, which may cause disruptions to consumer confidence, may materially and adversely affect our business, future prospects and results of operations.

We are subject to the risks of fluctuations in the global and PRC financial markets and economic environments and the resulting government actions

Watches are not necessities, and demand for watches is largely dependent on financial and economic condition and political stability. Beginning in 2008 and continuing into the first half of 2009, our business was significantly affected by the global financial crisis which caused a general slowing down of economic growth in the world, substantial volatility in equity securities markets and volatility and tightening of liquidity in credit markets. Coupled with the effects of the European sovereign debt crisis that has deepened in 2011, it is uncertain whether the recovery from the global financial crisis of 2008 is sustainable. In particular, consumer spending patterns in the PRC are influenced by the state of the PRC economy. A slowdown in the PRC economy or the global economy may lead to a reduction of our sales, which could materially and adversely affect our financial condition and results of operations. We cannot assure you that the growth of the PRC's economy will not slow down or will continue in the future in light of the recent slow-down of growth in GDP and consumer spending in the PRC. Moreover, the occurrence of any sovereign debt crisis, banking crisis or other financial disruptions that could impact the availability of credit may have a material and adverse impact on financing available to us. Renewed financial turmoil affecting the financial markets, banking systems or currency exchange rates may significantly restrict our ability to obtain financing in the capital markets or from financial institutions on commercially reasonable terms, or at all, which could materially and adversely affect our business, financial condition and results of operations.

We face risks attributable to changes in economic environments, changes in interest rates, and instability in security markets, among other factors. Major market disruptions could cause changes in regulatory environment, which could in turn materially and adversely affect our business and industry and impair our ability to borrow under any future financial environments. In particular, as we conduct a substantial portion of our business in the PRC, we are susceptible to the PRC Government's response to the global financial crisis. The PRC Government had adopted flexible macroeconomic policies after the financial crisis in 2008 but has subsequently tightened its monetary policy, and there is no assurance the overall growth of the PRC economy will be sustained in the future.

Upon the Listing, the price and trading volume of our Shares may likely be subject to fluctuations in the securities market which may be unrelated to our operating performance or prospects. Further, these recent and developing economic and government factors may have a material adverse effect on our results of operation, financial condition or cash flow and may cause the price of our Shares to decline significantly, and you may lose a significant portion of your investment.

Changes in existing laws and regulations and the imposition of new laws, regulations, restrictions and other entry barriers may increase our costs

We are subject to compliance with various laws and regulations relating to the development and sales of watches in the jurisdictions in which we operate. Failure to comply with these laws and regulations may result in imposition of conditions on or the suspension of sale or seizure of our products, or significant penalties or claims. In the event that the countries in which we operate increase the stringency of such laws and regulations, our operating costs may increase and we may not be able to pass these additional costs onto our customers. Further, in the event that any jurisdiction in which we operate or plan to operate imposes any new laws, regulations, restrictions on opening new POS or other barriers to entry, our ability to expand may be limited and our growth and development may be adversely affected.

RISKS RELATING TO OUR OPERATIONS IN THE PRC

A substantial part of our operations is located in the PRC. Accordingly, the results of operations, financial condition and prospects of our Group are subject, to a significant degree, to the economic, political and legal developments in the PRC.

Changes in the PRC's economic, political and social conditions could adversely affect our business, financial condition and results of operations

A substantial portion of our business and operations are conducted in the PRC. Accordingly, our business, financial condition, results of operations and prospects are, to a significant degree, subject to the economic, political and social development in the PRC. The PRC economy differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate, and control of foreign exchange and allocation of resources. Although the PRC Government has implemented measures since the late 1970s emphasising the utilisation of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in the PRC is still owned by the PRC Government. In addition, the PRC Government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC Government also exercises significant control over the economic growth in the PRC through allocation of resources, controlling payment of foreign currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

While the PRC economy has experienced significant growth over the past decade, growth has been uneven, both geographically and among various sectors of the economy. The PRC Government has implemented various measures to guide the allocation of resources. Some of these measures may benefit the overall economy of the PRC, but may also have a negative impact on the watch industry or on us. For example, our financial results may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. The PRC Government has also implemented certain measures, including interest rate increases in previous years, in an attempt to control the rate of economic growth. These measures may decrease economic activities in the PRC, which in turn could materially and adversely affect our business, financial condition, results of operations and future prospects.

The legal system in the PRC is not fully developed and has inherent uncertainties that could limit the legal protections available to our shareholders

Our business and operations are primarily conducted in the PRC and are governed by PRC laws, rules and regulations. Our PRC subsidiaries are generally subject to laws, rules, and regulations applicable to foreign investments in the PRC. The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court of the PRC. Prior court decisions may be cited for reference but have limited weight as precedents. Since the late 1970s, the PRC Government has significantly enhanced PRC legislation and regulations to provide protection to various forms of foreign investment in the PRC. However, the PRC has not developed a fully-integrated legal system, and recently-enacted laws and regulations may not sufficiently cover all aspects of economic activity in the PRC. As many of these laws, rules and regulations are relatively new, and because of the limited volume of published decisions, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and may not be as consistent and predictable as in other jurisdictions. In addition, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of our violations of these policies and rules until some time after the violation. Furthermore, the legal protection available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and may result in substantial costs and the diversion of resources and management attention.

PRC laws and regulations of direct investment and loans by offshore holding companies to PRC entities may delay or limit us from using the proceeds of the Global Offering to make additional capital contributions or loans to our PRC subsidiaries

Any capital contributions or loans that we, as an offshore entity, make to our PRC subsidiaries, including funds from the proceeds of the Global Offering, are subject to relevant PRC laws and regulations. For example, any of our loans to any of our PRC subsidiaries cannot exceed the difference between the total amount of investment in each of our PRC subsidiaries and the registered capital of such PRC subsidiary, and such foreign shareholders' loans must be registered with the local branch of SAFE in accordance with relevant PRC laws and regulations. In addition, our additional capital contributions to each of our PRC subsidiaries must be approved by MOFCOM or its local counterpart. We cannot give any assurance that we will be able to obtain these approvals on a timely basis, or at all. Moreover, we may fail to pay up all registered capital of our PRC subsidiaries in a timely manner or at all. If we fail to obtain such approvals or make such payments, our ability to make capital contributions or provide loans to our PRC subsidiaries or to fund their operations may be negatively affected, which may materially and adversely affect our PRC subsidiaries' liquidity and ability to fund their working capital and expansion of projects and to meet their obligations and commitments.

Expiration of, changes to, or our failure to qualify for current Chinese tax incentives that we currently enjoy could have a material adverse effect on our results of operations

In December 2007, the PRC State Council (中華人民共和國國務院) promulgated the Enterprise Income Tax Implementation Regulations ("**EITIR**"), which also became effective on 1 January 2008. The EIT Law imposes a unified income tax rate of 25% on all domestic enterprises and foreign invested enterprises unless they qualify under certain limited exceptions.

Under the EIT Law and the EITIR, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa (2007) No.39), Ye Guang Li and Tian Wang Shenzhen have enjoyed some tax concessions (set out below) under the EIT Law during the track record periods.

Pursuant to the relevant laws and regulations in the PRC, Ye Guang Li is entitled to an exemption from PRC Enterprise Income Tax for the two years starting from their first profit-making year, followed by a 50% tax relief for the three years thereafter. The tax charge provided has taken into account these tax incentives. Ye Guang Li commenced its first profit making year for the calendar year ended 31 December 2007 and accordingly, Ye Guang Li was exempted from PRC Enterprise Income Tax for the calendar years ended 31 December 2007 and 2008, the applicable tax rate for the calendar years ended 31 December 2009, 2010 and 2011 was 12.5% and the applicable tax rate for the year ended 31 December 2012 was 25%.

Applicable tax rates for Tian Wang Shenzhen for the calendar years ended 31 December 2009 and 2010 are 20% and 22% respectively, being the applicable tax rate for foreign invested enterprise in the area of Shenzhen Economic Zone. Tian Wang Shenzhen has obtained the qualification as a high and new technology enterprise on 23 February 2011, which is valid for three years and it completed the relevant filing requirements with the competent tax authorities on 18 April 2012. Hence, Tian Wang Shenzhen is subject to the preferential tax treatment and the applicable tax rate for the calendar years ended 31 December 2011 and 2012 was 15%.

If our current tax benefits expire or otherwise become unavailable to us for any reason, our profitability may be materially and adversely affected.

The dividends we receive from our Chinese subsidiaries and our income may be subject to Chinese tax under the EIT Law, which would have a material adverse effect on our results of operations; our non-PRC Shareholders will be subject to a Chinese withholding tax on the dividends payable by us and gains on the sale of Shares, if we are classified as a Chinese "resident enterprise"

Under the EIT Law, dividends, interests, rent, royalties and gains on transfers of property payable by a foreign-invested enterprise in China to its foreign investor who is a non-resident enterprise will be subject to a 10% withholding tax, unless such non-resident enterprise's jurisdiction of incorporation has a tax treaty with China that provides for a reduced rate of withholding tax. Under the arrangement for avoidance of double taxation between mainland China and Hong Kong, the effective withholding tax applicable to a Hong Kong non-resident company is currently 5% if it directly owns no less than 25% stake in the Chinese foreign-invested enterprise.

Under the EIT Law, an enterprise established outside China with its "de facto management body" within China is considered a "resident enterprise" in China and is subject to the Chinese enterprise income tax at the rate of 25% on its worldwide income. We cannot assure you that our Company will not be deemed to be a PRC resident enterprise under the EIT Law and be subject to the PRC enterprise income tax at the rate of 25% on our worldwide income. It is also unclear whether the dividends our Company receives from our subsidiaries incorporated in the PRC will constitute dividends between "qualified resident enterprises" and therefore qualify for exemption from withholding tax, even if our Company is deemed to be a "resident enterprise" for PRC enterprise income tax purposes. If the Chinese tax authorities subsequently determine that our Company should be classified as a resident enterprise, non-PRC Shareholders will be subject to a 10% withholding tax upon dividends payable by us and gains on the sale of Shares under the EIT Law. Any such tax may reduce the returns on your investment in our Shares.

The dividends we receive from our Balco Switzerland may be subject to withholding tax

According to the Federal Act on Withholding Taxes (the "**Act**") of 13 October 1965 in Switzerland, withholding tax on distribution of dividends and certain interest (including license fees) is chargeable in Switzerland at the rate of 35%. Under the Act, withholding tax can be reclaimed by Swiss recipients who declare the distribution of dividends in their taxable income. On 6 December 2010, Switzerland and Hong Kong have entered into a double taxation treaty which came into force on 15 October 2012, pursuant to which the withholding tax on distributions from subsidiaries and interests will be reduced to 0% and is applicable to Swiss taxes from 1 January 2013. Any withholding tax on the dividends receivable from Balco Switzerland before 1 January 2013 may reduce the returns on your investment in our Shares.

We rely on dividends paid by our subsidiaries for our cash needs, and any limitation on the ability of our subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business

We rely on dividends paid by our subsidiaries for our cash needs, including the funds necessary to pay any dividends and other cash distributions to our Shareholders, to service any debt we may incur and to pay our operating expenses. The payment of dividends by subsidiaries established in the PRC is subject to limitations. Regulations in the PRC currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in the PRC. Each of our PRC subsidiaries is also required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves until the cumulative amount of such reserves reaches 50% of its respective registered capital unless the laws regarding foreign investment otherwise provide. A PRC subsidiary shall not distribute any profits until any losses from prior fiscal years have been offset. The statutory reserves of our PRC subsidiaries are not distributable as loans, advances or cash dividends. PRC withholding tax will also be imposed on dividends paid to non-PRC resident investors. In addition, if any of our PRC subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Any limitations on the ability of our PRC subsidiaries to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

The PRC Government's control over currency conversion may affect the value of our Shares and limit our ability to utilise our cash effectively

A significant portion of our turnover is denominated in RMB. The PRC Government imposes controls on the convertibility between RMB and foreign currencies and, in certain cases, the remittance of foreign currency into and out of the PRC. Under existing PRC foreign exchange regulations, payments of current account items, including, among others, dividend distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, approval from the SAFE or its local branch is required where RMB is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of loans denominated in foreign currencies.

Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to their holding companies or our Company, or otherwise satisfy their foreign currency-denominated obligations. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders. In addition, since a significant amount of our future cash flow from operations will be denominated in RMB, any existing and future restrictions on currency exchange may limit our ability to purchase goods and services outside of the PRC or otherwise impairs our business activities that are conducted in foreign currencies.

RISKS RELATING TO THE GLOBAL OFFERING AND OUR SHARES

The price and trading volume of our Shares may be volatile, which could result in substantial losses for investors purchasing our Shares in the Global Offering

Factors such as fluctuations in our revenue, earnings, cash flows, new investments, acquisitions or alliances, regulatory development, additions or departures of key personnel, or actions taken by competitors could cause the market price of our Shares or trading volume of our Shares to change substantially and unexpectedly. In addition, stock prices have been subject to significant volatility in recent years. Such volatility has not always been directly related to the performance of the specific companies whose shares are traded. Such volatility, as well as general economic conditions, may materially and adversely affect the prices of shares, and as a result investors in our Shares may incur substantial losses.

Subscribers and purchasers of our Shares under the Global Offering will experience immediate dilution and may experience further dilution if we issue additional Shares in the future

The Offer Price of our Shares is higher than our net tangible assets value per Share immediately prior to the Global Offering. Therefore, subscribers and purchasers of our Shares under the Global Offering will experience an immediate dilution in pro forma net tangible assets value per Share. In order to expand our business, we may consider offering and issuing additional Shares in the future. Subscribers and purchasers of our Shares may experience dilution in the net tangible assets value per Share if we issue additional Shares in the future at a price which is lower than our net tangible assets value per Share.

Future sale or major divestment of Shares by any of our substantial Shareholders could adversely affect the prevailing market price of our Shares

The Shares held by certain substantial Shareholders are subject to certain lock-up periods, the details of which are set out in the section headed "Underwriting" in this prospectus. However, we cannot give any assurance that after the restrictions of the lock-up periods expire, these Shareholders will not dispose of any Shares. Sale of substantial amounts of our Shares in the public market, or the perception that these sale may occur, may materially and adversely affect the prevailing market price of our Shares.

We may not be able to pay any dividends on our Shares

During the year ended 30 June 2010, WMP, which carried out our watch movement trading business and was the holding company of certain companies comprising our Group before the Reorganisation, declared and paid a dividend of approximately HK$16.7 million to its then holding company. No dividend was paid or declared by our Company since its incorporation or the group entities to external parties during the three years ended 30 June 2012. In July 2012 and October 2012, we distributed special dividends to its then shareholder of approximately HK$33.3 million and HK$37.2 million, respectively. We cannot guarantee when, if and in what form dividends will be paid on our Shares following the Global Offering, and the amount of dividends that were paid in the past should not be used as a reference or basis upon which future dividends will be determined. A declaration of dividends must be proposed by the Board and is based on, and limited by, various factors, including, without limitation, our business and financial performance, capital and regulatory requirements and general business conditions. We may not have sufficient or any profits to enable us to make dividend distributions to our Shareholders in the future, even if our financial statements indicate that our operations have been profitable.

The market price of the Shares when trading begins could be lower than the Offer Price

The Offer Price will be determined on the Price Determination Date. However, the Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be the fifth Business Day after the expected Price Determination Date. Investors may not be able to sell or otherwise deal in the Shares during that period. As a result, holders of the Shares are subject to the risk that the price of the Shares when trading begins could be lower than the Offer Price as a result of adverse market conditions or other adverse developments that may occur during that period.

Shareholders' interests in our Company may be diluted in the future

Our Company may issue additional Shares pursuant to the Share Option Scheme. In addition, we may need to raise additional funds in the future to finance our business expansion, for existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company, other than on a pro rata basis to existing Shareholders, then (i) the percentage ownership of the existing Shareholders may be reduced, and they may experience subsequent dilution and reduction in their earnings per share, and/or (ii) such newly issued securities may have rights, preferences or privileges superior to those of the Shares of the existing Shareholders.

Investors should not place undue reliance on facts, forecasts, estimates and other statistics in this prospectus relating to the economy and our industry obtained from official resources

Facts, forecasts, estimates and other statistics in this prospectus relating to the economy and the industry in which we operate our business on have been collected from materials from official government sources. While we have exercised reasonable care in compiling and reproducing such information and statistics derived from government publications, we cannot assure you nor make any representation as to the accuracy or completeness of such information. Neither we or any of our respective affiliates or advisers, nor the Underwriters or any of its affiliates or advisers, have independently verified the accuracy or completeness of such information directly or indirectly derived from official government sources. In particular, due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, such information and statistics may be inaccurate or may not be comparable to information and statistics produced with respect to other countries. Statistics, industry data and other information relating to the economy and the industry derived from the official government sources used in this prospectus may not be consistent with other information available from other sources and therefore, investors should not unduly rely upon such facts, forecasts, estimates and statistics while making investment decisions.

We strongly caution you not to place any reliance on any information contained in press articles or other media regarding the Global Offering

There may have been, prior to the publication of this prospectus, and there may be, subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and media coverage regarding us and the Global Offering, such as the profit estimate information. You should rely solely upon the information contained in this prospectus, the Application Forms and any formal announcements made by us in Hong Kong in making your investment decision regarding the Global Offering. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any estimates, views or opinions expressed by the press or other media regarding the Global Offering or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions whether to invest in the Global Offering.

Prospective investors in the Global Offering are reminded that, in making their decisions as to whether to purchase our Shares, they should rely only on the financial, operational and other information included in this prospectus and the Application Forms. By applying to purchase our Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus and the Application Forms.

Forward-looking statements contained in this prospectus are subject to risks and uncertainties

This prospectus contains certain statements that are "forward-looking" and uses forward looking terminology such as "anticipate," "estimate," "believe," "expect," "may," "plan," "consider," "ought to," "should," "would," and "will." Those statements include, among other things, the discussion of our growth strategy and the expectations of our future operations, liquidity and capital resources.

Purchasers of our Offer Shares are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include those identified in the risk factors discussed above. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations or warranties by us that our Company's plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. We do not intend to update these forward-looking statements in addition to our on-going disclosure obligations pursuant to the Listing Rules or other requirements of the Stock Exchange. Investors should not place undue reliance on such forward-looking information.