

INDUSTRY OVERVIEW

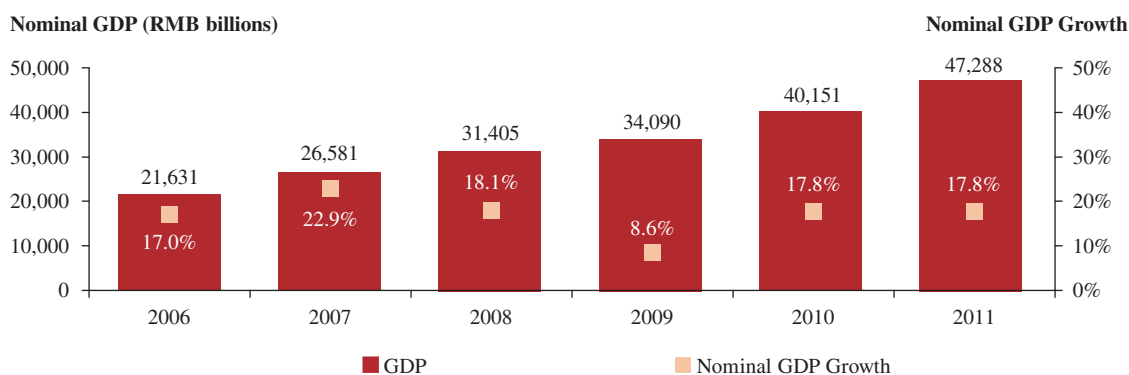
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ECONOMIC GROWTH IN CHINA

Positive double digit growth for the economy in China

Since 1982, China's growth has been unprecedented. From 2006 to 2011, the nominal GDP grew at a CAGR of approximately 16.9% from RMB21,631 billion in 2006 and reached RMB47,288 billion in 2011. In the second quarter of 2012, China surpassed Japan as the world's second biggest economy in terms of nominal US dollars. This shift in the global economic order will lead to a rise in China's economic and political influence in the world. The chart below sets out the nominal GDP and the nominal GDP growth in China between 2006 and 2011:

Nominal GDP and GDP growth in China (2006-2011)



Source: China Statistical Yearbook, 2012

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Population grows despite decades old one-child policy

With a total population of 1.3 billion as of 2011, China is the largest consumer market in the world. Even though the CAGR of the population remained at 0.5% from 2006 to 2011, owing to the huge population base, the annual absolute growth in population size is still substantial. The one-child policy, introduced by the Chinese government in 1978, was crafted as a means to control the size of the population and was designed to keep the population growth rate at 0%. The fertility rate is presently 1.6 births per female, which below replacement level, with baby boomers aged between 40 and 60 accounting for the most populous segment of the population in 2011. This population segment consists of 28.4% of the total population as of 2011. It is expected that falling birth rates and the one-child policy will continue to constrict China's population growth with a moderate CAGR of 0.4% for the period between 2011 and 2015 to reach 1,368.8 million in 2015.

Urban population has outgrown rural population since 2011

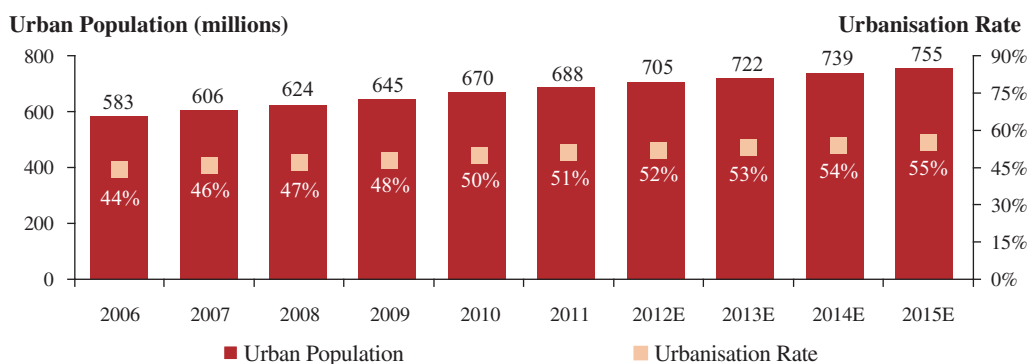
According to the National Bureau of Statistic, the urban population in China exceeded that of the rural population for the first time at the end of 2011. The number of urban dwellers in China rose from 582.9 million in 2006 to 687.5 million in 2011, representing 44.3% and 51.0% of the population, respectively. The rural population has been shrinking at a CAGR of 2.0% from 2006 to 2011. China's fast urbanisation process has been primarily driven by the influx of migrant workers – rural residents seeking economic empowerment in cities and towns. According to national statistics, the income of urban households is more than three times higher than that of rural households in 2011.

Growing urbanisation has resulted in a large demand for infrastructure and services, creating opportunities for businesses and investors in a wide range of sectors, such as: housing, food, transportation, energy, healthcare, and education. This helps spur domestic consumption and stimulates economic growth.

The growth of urban population in China is forecasted to continue to outpace the rural population, with the CAGR of the urban population standing at 2.4% and the rural population at -1.8%.

The chart below illustrates the historical and forecasted population and urbanisation rate of the total urban population in China between 2006 and 2015.

Urban population growth trend in China (2006-2015E)



Source: National Statistics Bureau and Euromonitor

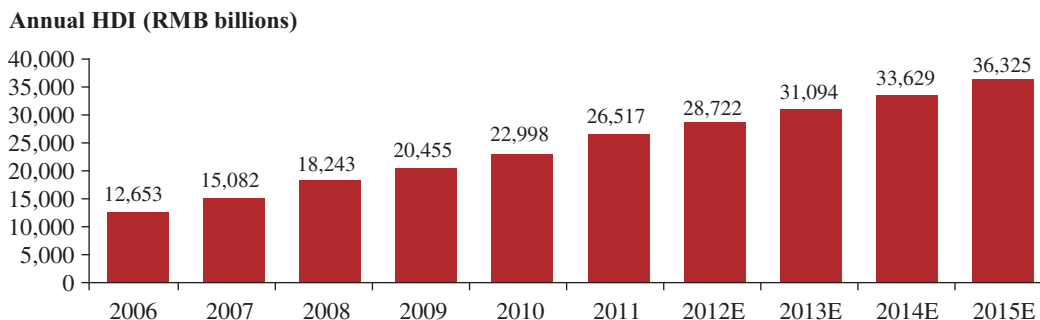
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Spectacular disposable income growth increases discretionary spending

As China's economy performed impressively from 2006 to 2011, disposable income grew with it. Annual household disposable income ("HDI") in 2011 stood at RMB26,517 billion, representing a CAGR of 15.9% for the period spanning 2006 and 2011. The outstanding disposable income growth was attributed to China's economic developments, although the growing Consumer Price Index has also had a positive impact on the value growth.

The rapidly increasing annual HDI in China allows for more discretionary spending on consumer goods, especially mid-range consumer goods and services, but also high-end goods and designer brands. In order to enhance domestic consumption and boost the economy during the global economic slowdown, the Chinese government introduced measures, including a loosening of consumer credit regulations, to stimulate consumer spendings in 2008. In its 12th Five-Year Plan from 2011 to 2015, the Chinese government aims to shift the focus of the Chinese economy away from export oriented growth towards domestic consumption and services. The government also aims to increase social spending, such as on health care, in order to discourage high savings and boost private consumption. The growth trend of annual HDI is expected to continue and reach RMB36,325 billion in 2015. The chart below sets forth the annual HDI in China between 2006 and 2015.

Annual HDI in China (2006-2015E)

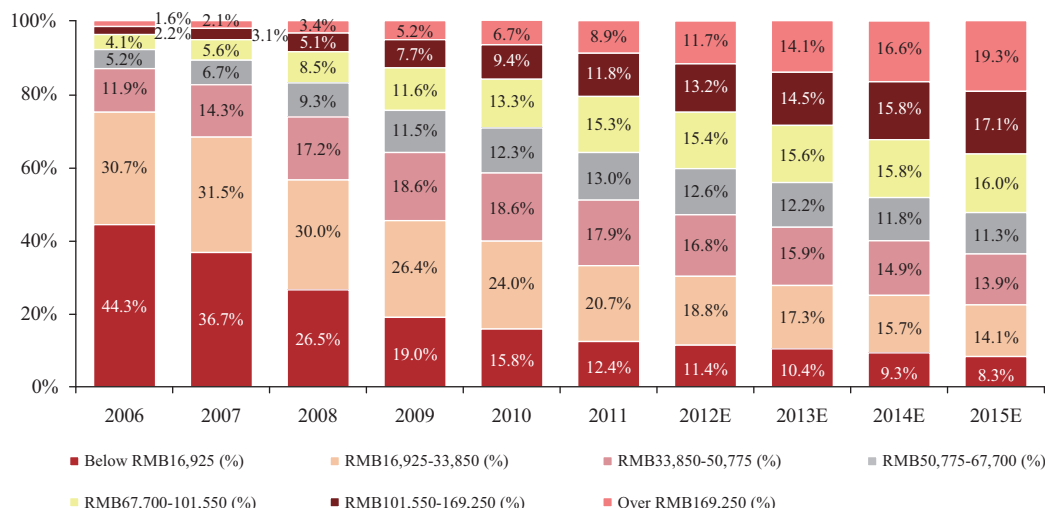


Source: National Statistics Bureau and Euromonitor

Moreover, a larger proportion of households with higher annual HDI have emerged. In 2011, most households with an annual HDI fall within the range of RMB16,926-RMB33,850. The percentage of households with an annual HDI below RMB16,925 was 44.3% in 2006 and decreased rapidly to 12.4% in 2011. The trend is expected to continue with a further decrease to 8.3% in 2015. The number of households with an annual disposable income between RMB33,851 and RMB50,775 experienced an increase, from 11.9% in 2006 to 17.9% in 2011, but is expected to slow down to 14.3% in 2015. The number of households with an annual disposal income between RMB50,776-RMB101,550 experienced a rapid increase from 9.3% in 2006 to 27.3% in 2011. Decreasing proportion of lower annual HDI households and increasing proportion of higher annual HDI households indicate the growing purchase power of Chinese consumers. The chart below sets forth the distribution of annual household disposal income in China between 2006 and 2015.

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Distribution of annual HDI in China (2006-2015E)



Source: Euromonitor

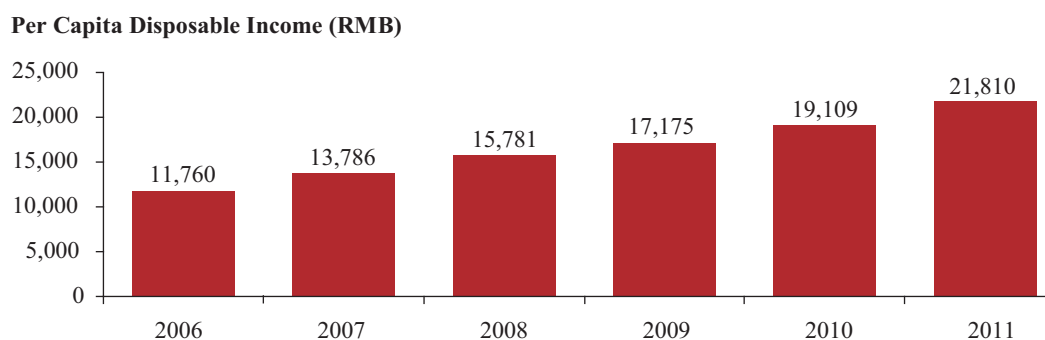
Per capita annual disposable income will grow, driving world demand for goods

Annual disposable income of urban households per capita grew at a CAGR of 13.1% from RMB11,760 in 2006 to RMB21,810 in 2011. As consumer income levels rise, consumers have more disposable income to spend on their personal needs. Chinese consumers are currently major consumers of a variety of global goods, especially luxury products.

With the continued rise in annual disposable income, the purchasing power of Chinese consumers will surge, making the Chinese market a significant battlefield for consumer goods marketers worldwide. Japan, for example, is now heavily reliant on Chinese consumers for exports of its electronic durable goods.

The chart below illustrates the per capita annual disposable income of urban households in China between 2006 and 2011.

Per capita annual disposable income of urban households in China (2006-2011)



Source: National Statistics Bureau and Euromonitor

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OVERVIEW OF THE RETAIL MARKET IN CHINA

Retail market in China

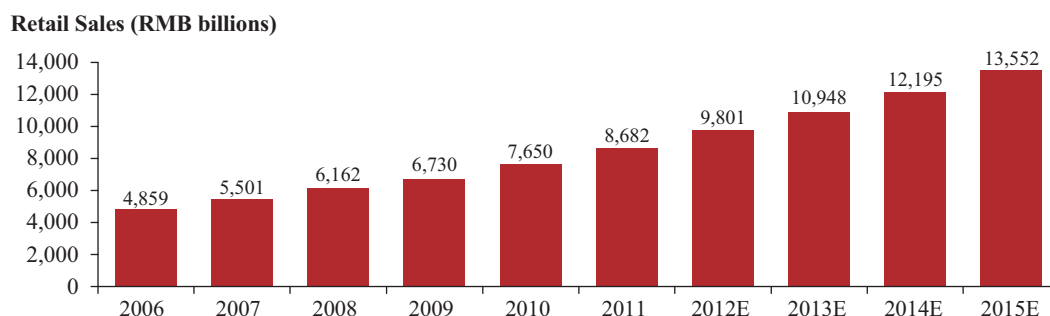
In 2011, total retail sales value in China reached RMB8.7 trillion, and had grown at a year-on-year rate of 13.5% from 2010. Compared to RMB4.9 trillion in 2006, retail sales in China have achieved a CAGR of 12.3% for the period between 2006 and 2011.

Four main commodity categories driving the rapid growth of retail sales in China:

- (1) Residential house and household care products;
- (2) Private automobiles;
- (3) Personal recreational and educational related products;
- (4) IT related communication and consumer electronic products.

Looking forward, the retail sales value in China is expected to grow at a CAGR of 11.8% from 2011 to 2015, reaching RMB13.6 trillion in 2015.

Retail sales value in China (2006-2015E)



Source: National Statistics Bureau and Euromonitor

Consumers are spending a large portion of income on discretionary goods

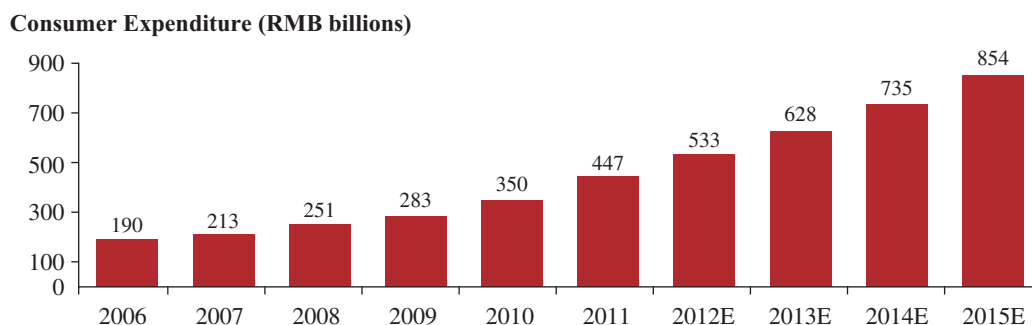
Consumer market in China provides immense business opportunities for investors and exporters. Despite ongoing inflation, the spending power of Chinese consumers remained high due to a commendable average disposable income per household. The economy in China has, to date, relied heavily on investments and exports while the share of consumer expenditures in total GDP remained relatively small, at 39.7% in 2011. This was significantly lower than that of India and Brazil of 56.5% and 58.8%, respectively, in the same year.

With the rapid expansion of the Chinese middle class, Chinese consumers are becoming more affluent and the consumption of upper-market products continues to increase. Expenditures on jewellery, watches and writing instruments have increased by 27.9% in 2011, to a total value of RMB447 billion. From 2006 to 2011, this sector experienced fast growth at a CAGR of 18.7%.

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Consumer spending power is expected to remain high from 2012 to 2015 as the government continues to stimulate consumer spending. It is expected that the CAGR will remain at 17.6% for the period spanning 2011 and 2015, and by the end of 2015, consumer expenditures on jewellery, watches and writing instruments are expected to exceed RMB850 billion. The chart below sets forth the consumer expenditure on jewellery, watches and writing instruments in China between 2006 and 2015.

Consumer expenditures on jewellery, watches and writing instruments in China (2006-2015E)



Source: Euromonitor

OVERVIEW OF THE WATCH RETAIL MARKET IN CHINA

Watch retail value and volume performed at CAGR of 17.6% and 1.1%, respectively

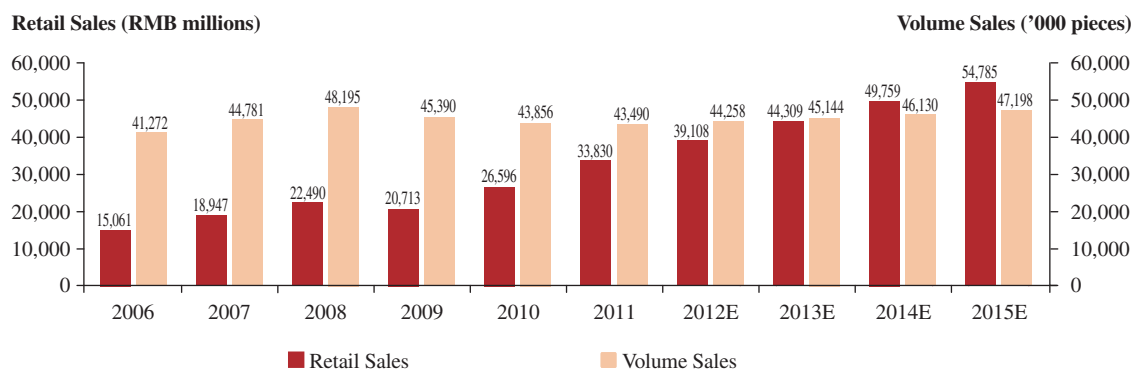
According to industry sources, watch retail market of China reached RMB34 billion in sales value and 43 million in sales volume in 2011, representing a year-on-year growth of 27.2% and -0.8%, respectively. From 2006 to 2011, watch retail sales value performed at a CAGR of 17.6%, while volume growth maintained a CAGR of 1.1%. The dramatic difference in growth rates in value and volume was caused by the closing down of poorly performing domestic manufacturers in an industrial consolidation that took place over the last five years. Retail prices were forced to rise due to increases in production costs and the upgrading of imported watches over the past three years.

During the past five years, the local watch market has experienced a period of industrial integration and reformation, and was affected by the global economic crisis. These events have led to a generally lower retail sales index, and a prudent consumption attitude towards high-end consumer goods, causing a drop in watch retail sales in 2009 of 7.9% to RMB21 billion. Fortunately, owing to the domestic consumption stimulation plans made by the central government, consumer confidence improved and a strong recovery was observed in 2010. The watch retail market resumed fast growth and has maintained an approximate 28% year-on-year growth for two consecutive years. Due to the improved living standards in China, imported watch dealers adjusted their product selection towards the higher end segments. Inflation also forced domestic manufacturers to increase prices to cover rising costs. As a result, total retail sales volume of watches dropped whilst total sales value increased in China.

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Despite global economic uncertainties, and sluggish demand in western markets, it is estimated that watch retail sales value and volume of China will maintain CAGRs of 12.8% and 2.1%, respectively, during 2011 to 2015. Price increases and product upgrading are the major direct sources of retail value growth. The chart below sets forth the retail value and volume sales of the overall watch market in China between 2006 and 2015.

Retail value and volume sales of the overall watch market in China (2006-2015E)



Source: Euromonitor

Government policy and consumer consumption patterns drive the watch market

The rapid growth in retail sales of consumer goods in 2011 indicates stronger national consumption demands compared to export destinations. Furthermore, the 12th Five-Year-Plan has a clear goal of pursuing an increase in people's income instead of rapid economic growth. The central government proposed the concept of "two Synchronisations," with the objective of matching growth in people's income with economic development; and growth in remuneration is being synchronised utilising labor productivity improvements.

Chinese consumer consumption patterns are driving the fast growth of the watch market. Seeking public recognition is a common purchase motivation for most consumers. There is also a tendency to illustrate social status through personal goods. Finally, gifting is a major reason for watch purchases to build social networks or business relationships.

In 2011, the top 10 national brands together held a 12.1% share of the overall watch market retail value in China. Tian Wang brand accounted for 2.2% of the total watch market retail value in China in 2011.

Sub-categories of the retail watch market in China

According to Euromonitor, the overall retail watch market in China can be subcategorized into national and foreign brands in accordance with common market practice, which is determined by the place of brand origin, based on factors such as the place where the relevant trademark for the watch brand was first registered, or if no such mark was registered, the place where the watch brand was first used, where watches of the relevant watch brand are produced,

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and where the watch brand is marketed and is generally recognised. A national watch brand is a brand originating in the PRC, meaning that the brand fulfils all of the following conditions: (i) it was first registered in the PRC, or first used in the PRC if the mark is unregistered, (ii) watches of the brand are assembled in the PRC, (iii) watches of the brand are generally marketed and sold within the PRC, (iv) the target customers of the brand are in the PRC, and (v) the watch brand is recognised primarily in the PRC; and a watch brand that does not qualify as a national watch brand as described above is considered as a foreign watch brand, regardless of whether its watches (or parts of the watches) are manufactured in or outside of mainland China.

Our Directors believe that the categorisation of the watch market in the PRC into national brand watch market and foreign brand watch market is significant as the target customers of the two have different preference in terms of brand images, price ranges, styles and qualities of the watches they opt for; watches of the national watch brands and the foreign watch brands are generally sold in separate areas within the watch department of the Department Stores; and imported watches of the foreign brands are subject to tariffs, whereas watches of the national brands manufactured domestically are not.

For the purpose of this prospectus, we have segmented the retail watch market by price in accordance with Euromonitor's segmentation. The retail watch market can be segmented into three categories, namely high-end watch products, mid-end watch products and low-end watch products. Under Euromonitor's system of classification, retail average price of the high-end watch product is typically equals to or above RMB5,000, retail average price of the mid-end watch product is typically between RMB1,500 and RMB5,000 and retail average price of the low-end watch product is typically below RMB1,500.

OVERVIEW OF DISTRIBUTION CHANNELS FOR THE WATCH RETAIL MARKET IN CHINA

Department stores and shopping malls generated 74.5% of retail sales

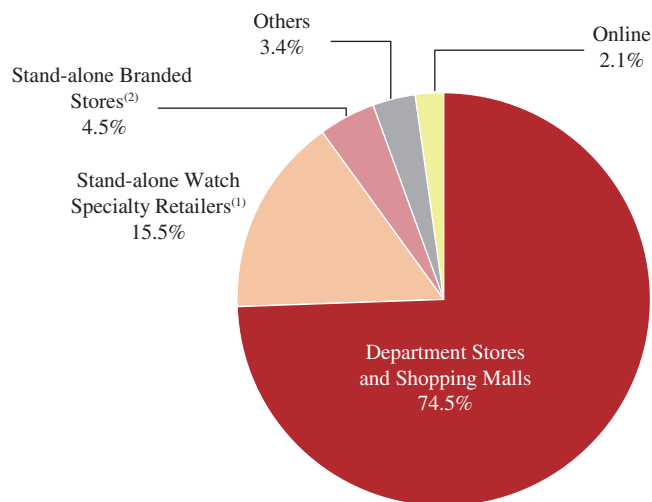
Similar to other traditional consumer goods, watch retail channels of China include department stores and shopping malls, stand-alone watch specialty retailers, stand-alone branded stores, online stores, and others. For most watch brands, department stores and shopping malls are the major retail channels, generating approximately 74.5% of the total watch retail market in terms of value in 2011, which is far ahead of all the other channels. In the near future, as faster economic growth is expected in lower tier cities, it is foreseeable that Central Business District ("CBD") areas in second and third tier cities will become the major battle fields for many watch dealers trying to tap the local market.

The growth of stand-alone watch specialty stores has been stable over the past few years which accounts for about 15.5% of the retail sales value share. Squired urban planning in most cities promotes walking commercial streets and districts in CBD areas. Such walking commercial streets are ideal locations for watch retailers such as Hengdeli, Harmony and Asia Commercial Watch City to set up their concept stores.

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The following chart illustrates the distribution channels for the overall watch market by retail sales value in China in 2011.

Distribution channels for the overall watch market by retail sales value in China (2011)



Source: Euromonitor

Notes:

- (1) Stand-alone watch retailers sell watches of multiple brand owners in a single store with independent location on street.
- (2) Stand-alone branded stores sell watches of a single brand (or a brand owner) with independent location on street.

Department stores and shopping malls generate 46.8% of retail volume

In accordance with their high share of retail sales value, department stores and shopping malls also generated the highest retail volume share at 46.8% among all the channels in 2011. Stand-alone watch specialty stores, which mainly offer mid-to-high end foreign watches, only contribute 8.0% to the total sales volume. Other retail channels account for 33.8% in volume with an average unit price of only RMB78. This is because approximately 40% of national brands' retail sales are generated by smaller brands other than the top 10 national watch brands from lower tier cities.

Over the past 10 years, fierce competition from Japanese and Swiss watches has pushed many national watch manufacturers either out of the business or into a restructuring phase. With the exception of a number of manufacturers who have been successful in brand building, most small manufacturers are still struggling to survive and competing through price which has resulted in high volume but low value of watches sold in the "other channels."

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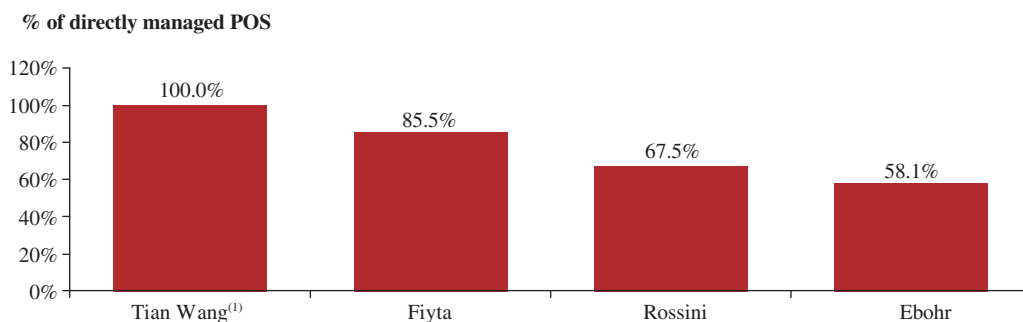
Online channel grows at high speed

Online retailing is becoming an increasingly competitive channel for many traditional store retailers. Compared to conventional retail, online retail is still far behind in terms of value, but it is growing at fast pace each year. In recent years, online retail has become an important channel for business expansion for many national brands. An increasing number of traditional department stores, such as Wangfujing (王府井), Xidan Shopping Mall (西單商場), Intime Department Store (銀泰百貨), New World (新世界), Zhongyou (中友), Saite (賽特) and Paris Spring (巴黎春天) are setting up their own websites for online shopping. Moreover, the top 10 national watch brands have cooperated with Taobao (淘寶) to open their official online retail stores on Tmall.com (天貓). Online retail sales outshines other sales channels in terms of growth rate, attracting a rising number of conventional retailers to test the waters of online retail in an attempt to meet consumer needs with e-commerce.

Tian Wang ranked no. 1 in percentage and number of directly managed POS among national brands in China

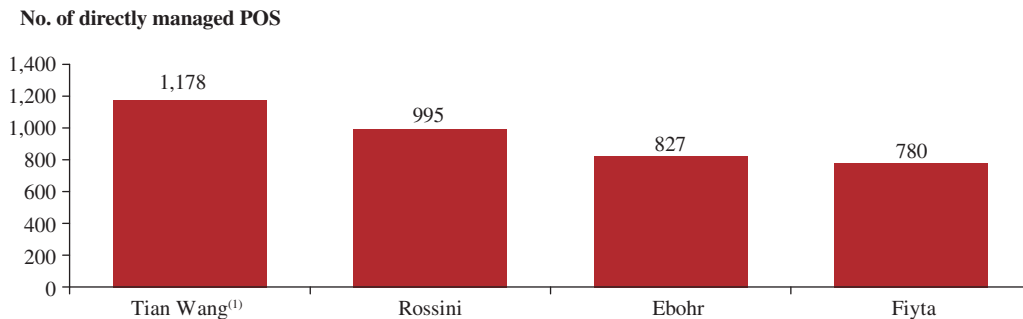
Each of the top 4 brands has a large percentage of directly managed POS out of their total outlets according to Euromonitor. Tian Wang brand directly managed 100% of its POS in the national watch market in China, and is ranked top in terms of percentage of directly managed POS over the total POS within the national watch market in China in 2011. The following charts illustrate the percentage and number of directly managed POS of the top 4 national watch brands in China in 2011.

Percentage of directly managed POS of the top 4 national brands in China (2011)



Source: Euromonitor and Company

Number of directly managed POS of the top 4 national brands in China (2011)

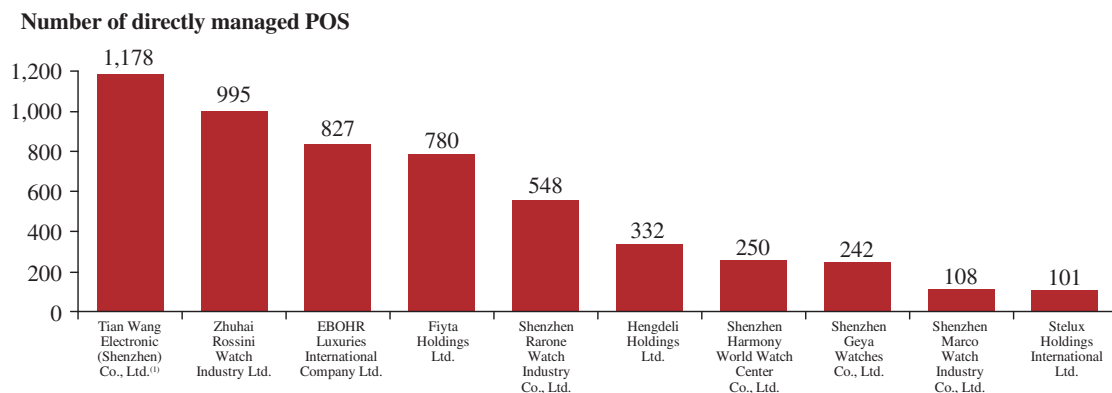


Source: Euromonitor and Company

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In 2011, our Company ranked as the top watch retailers in China in terms of number of directly managed POS. The following chart illustrates the number of directly managed POS of the top 10 watch retailers in China in 2011.

Number of directly managed POS of the top 10 watch retailers in China (2011)



Source: Euromonitor and Company

Note:

(1) The number of Tian Wang POS is updated to financial year ended 30 June 2012.

KEY TRENDS IN THE RETAIL WATCH MARKET IN CHINA

China watch and clock manufacturing industry leads in production volume

Over the past two decades, the domestic watch and clock industry has developed rapidly, and has formed six key production regions, including: Pearl Triangle Area, where Guangzhou and Shenzhen are leaders, Fujian, Zhejiang, Jiangsu, Shandong province and Tianjin municipality. The total domestic production volume ranks among the top countries in the world.

China was reportedly the fourth largest importer of Swiss watches in 2010. Switzerland is the world's leading watch and clock producer primarily concentrates on luxury and high-end watch manufacturing. China, on the other hand, owing to its abundant labor and production resources, is the world's largest watch and clock production base.

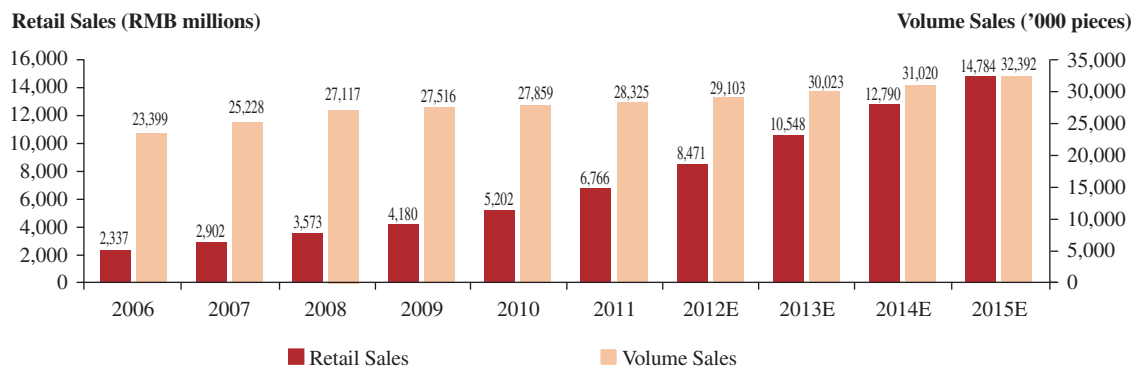
National brands grew 30.1% year-on-year in retail value to RMB6.8 billion

Industry sources believe that watch and clock industry in China is in a fast growing stage and is experiencing a valuable adjustment period to recapture more of the market share currently owned by foreign brands. In the past five years from 2006 to 2011, national watch brands have been growing faster than foreign brands, achieving a CAGR of 23.7% in terms of retail sales value compared to a CAGR of 16.3% for foreign brands. Retail sales of national brands reached RMB6.8 billion and 28.3 million pieces in 2011, representing year-on-year

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growths of 30.1% and 1.7%, respectively, which are both higher than that of foreign brands of 26.5% and -5.2%, respectively. It is estimated that the national watch brand market will continue to grow quickly with a CAGR of 21.6% from 2011 to 2015 in terms of sales value. The middle-class is expected to be the major consumer group of national watches. The chart below sets forth the retail value and volume sales of the national watch market in China between 2006 and 2015.

Retail value and volume sales of the national watch market in China (2006-2015E)



Source: Euromonitor

Factors for success of national watch brands

The direct factors for success of national watch brands in recent years include new product development and the effective business strategies of the top 4 national brands. Tian Wang brand holds the mission of making “China Watches”, and developed new products with a variety of special features and Chinese elements, such as the “Round Times Series” (輪時代) mechanical watches. It features handmade craftsmanship, representing strong manufacturing skills. Tian Wang brand has also been making significant efforts in expanding its sales channels by opening branded stores to enhance its brand image as a national brand leader. It has also contributed to the promotion of the concept of Chinese watches.

Domestic producers improved production techniques and technology

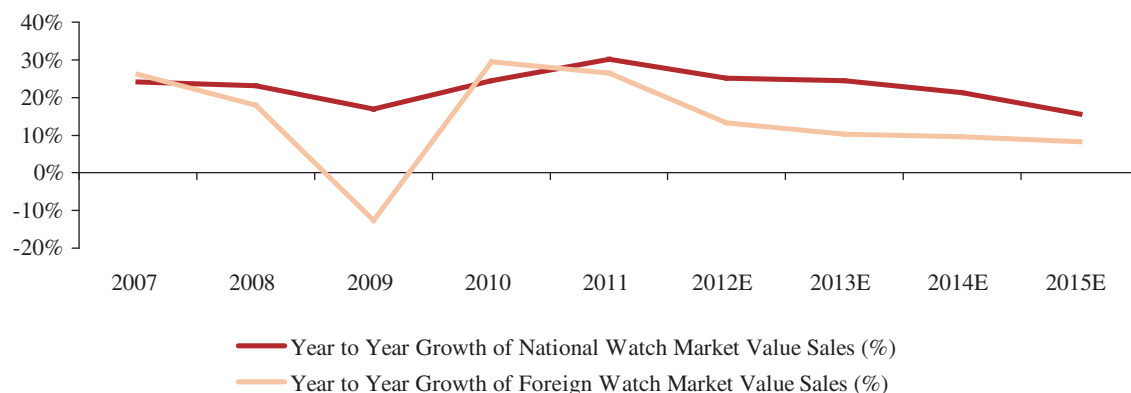
Over the past two years, domestic watch producers have been facing rising raw material and labor costs. Many national brand producers realised that future growth relies on product design and technology innovations. High product added-value is becoming increasingly important. Tian Wang brand has introduced high-technology equipment and leading modern production techniques in order to design and produce high quality and more premium products. It is also combining traditional cultural elements from China’s 5,000-year-long history, preparing products that will represent the dragon and phoenix culture of China, as well as all twelve constellations as a new image for their brand.

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National brands outgrowing foreign brands

Comparing the year-on-year growth of the retail sales value of the national and foreign watch markets, 2007 was an important year for the overall watch market. Under booming economic conditions in 2007, retail sales value of both national and foreign brands grew at a rate of higher than 20%. Affected by the global financial crisis, foreign brands, as a whole, suffered a downturn in 2009. In contrast, national brands were much less sensitive to the financial crisis since their unit price was lower. Trade interviews revealed that during the global financial crisis, national brands were able to maintain stable growth while foreign brands suffered a sales value drop of approximately 12.6% in 2009. In this period, many consumers shifted their attention to national brands which offered better price performance. This helped national brands to win market share from foreign brands. However, the dominant position of foreign brands in watch market of China remains unchanged. In 2011, strong market demand drew back the whole market with a higher growth rate comparable to that of 2007. The growth rate of national watch brands was higher than foreign watch brands in 2011. The trend is expected to continue from 2012 to 2015. The following chart illustrates the year-on-year growth of the national and foreign watch market retail sales value in China between 2007 and 2015.

Year on year growth of the national and foreign watch market retail sales value in China (2007-2015E)



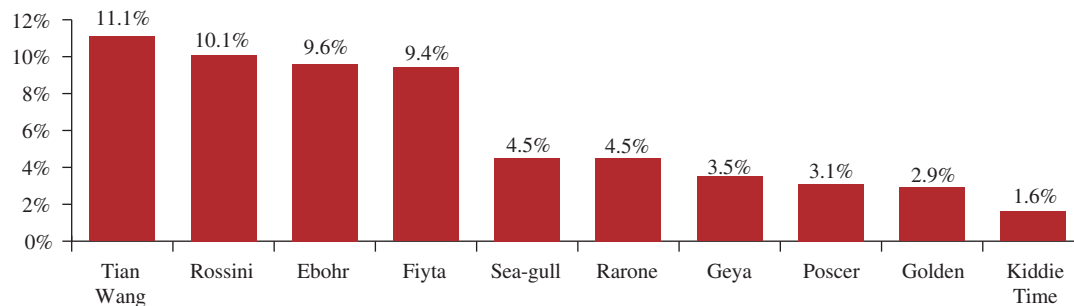
Source: Euromonitor

Tian Wang ranked no. 1 in retail sales value among national brands

In 2011, the top 10 national brands together accounted for approximately 60.3% of the national brand watch market in China in terms of retail sales value. According to Euromonitor, our Group's Tian Wang brand was the top brand in the national brand watch market in China with its Tian Wang brand commanding a number one market share by retail sales value of 11.1% in 2011. The following chart illustrates the market share of the top 10 national watch brands in China in 2011.

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Top 10 national watch brands' market share by retail sales value in China (2011)



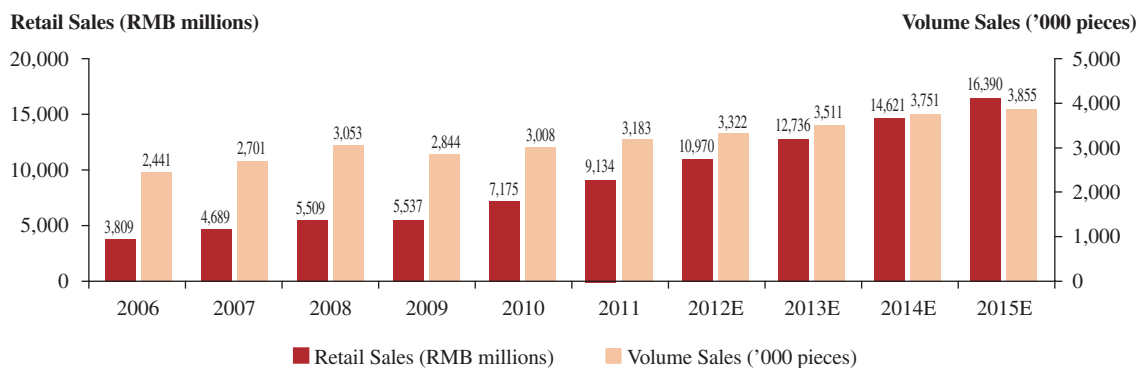
Source: Euromonitor

OVERVIEW OF THE MID-END WATCH MARKET IN CHINA

Total mid-end segment reached RMB9.1 billion in 2011

According to Euromonitor, the mid-end retail watch market in China has grown in each year since 2006. In 2011, the mid-end segment of watches recorded RMB9.1 billion in retail sales value, higher than that of the low-end segment, and accounted for 27.0% of the total value of the watch retail market. It is projected that from 2011 to 2015, this segment will perform at a CAGR of 15.7% in terms of sales value, faster than that of the overall watch market's CAGR of 12.8%. The chart below sets forth the retail sales value of the mid-end watch market in China between 2006 and 2015.

Retail value and volume sales of the mid-end watch market in China (2006-2015E)



Source: Euromonitor

Rapid growth in the mid-tier segment will be primarily driven by inflation pushing the prices of some low-end products up to the mid-tier level. In addition, young people who were born during the third population birth peak since the founding of the PRC are going to join the work force during the 12th Five-Year Plan period. This group of young consumers is strongly inclined to spend money on non-essential and is expected to become the new driver of the mid-tier segment for the forecasted period.

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Trade sources revealed that Chinese consumer purchasing power and taste have been improving along with the macroeconomic development. Consumers are demanding higher grade watches. Demand for mid-to-high-end watches is increasing dramatically and growing faster than many brand dealers' expectations.

Experts said that mid-tier watches selling at RMB1,500-5,000 are expected to account for nearly 30% of the retail value for the market for the next five years. The top four national brands, including: Tian Wang (天王), Rossini (羅西尼), Fiyta (飛亞達) and Ebohr (依波) as well as brands from Switzerland, Japan, South Korea, and Hong Kong, have most of their products priced in the mid-tier segment. Second-tier national brands such as Rarone (雷諾), Poscer (寶时捷) and Geya (格雅) have also kept an average retail sales growth rate of approximately 25% for the last two years.

OVERVIEW OF THE NATIONAL MID-END WATCH MARKET IN CHINA

National mid-end watches represent strong growth potential

In China, major consumer markets for the mid-to-high end watch brands are currently concentrated in the coast-line regions, including cities such as: Beijing, Shanghai, Guangzhou and Shenzhen. Second-tier cities are the major consumer markets for the top 4 national brands. Major industrial players all agree that future growth lies in lower-tier cities as increasing levels of disposable income in the interior regions and continuing urbanisation will bolster consumer purchasing power of lower-tier city.

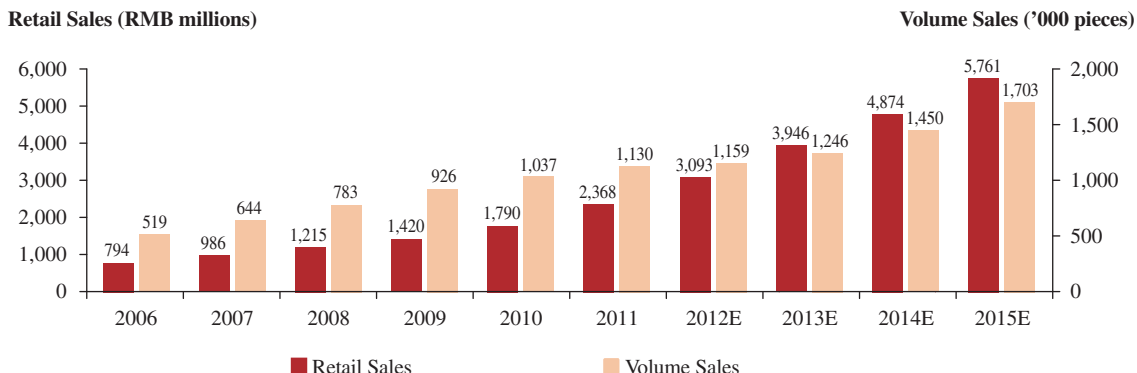
Middle-class is the major consumer group for mid-end watches

The most important consumer group for national brands' mid-end products in China is middle-class people with stable income. A report from McKinsey & Company shows that middle-class families with annual household income of RMB100,000-200,000 represented the best growth potential in terms of consumer expenditures. In 2010, middle-class consumers contributed approximately 12% to the luxury retail market in China, and is expected to reach 22% by 2015. The middle-class is becoming an important consumer group for mid-end watches, thus the market in China is very attractive to foreign brands. Some foreign brands, such as Doxa (時度) and Marvin (摩紋), that once left the market in China, are likely to re-enter the market one day.

Retail sales value of the national mid-end watch market increased from RMB794 million in 2006 to RMB2,368 million in 2011, which has tripled during the period, with a CAGR of 24.4% between 2006 and 2011. In 2011, national brands' mid-end watch sales reached RMB2,368 million and 1.1 million pieces, representing growths of 32.3% and 9.0% over 2010, respectively. The bestselling retail price for this segment was around RMB2,000, representing an increase of approximately 15% over 2010. This reflected the improvement of purchasing power of the middle-class and younger consumers. It is expected that national brands' mid-end segment is going to grow faster than any other segments at a CAGR of 24.9% and 10.8% in terms of retail value and volume, respectively, for the forecasted period from 2011 to 2015. In 2015, national brands' mid-end watch sales is expected to reach RMB5,761 million and 1.7 million pieces. The chart below sets forth the retail sales value of the national mid-end watch market in China between 2006 and 2015.

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Retail value and volume sales of the national mid-end watch market in China (2006-2015E)



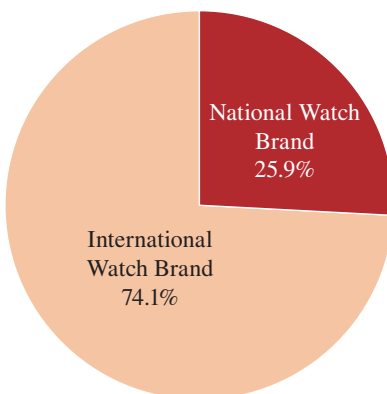
Source: Euromonitor

National mid-end watch market continuing to gain share

Over the past two years, national brands targeting the mid-end segment with watches priced at RMB1,500-5,000 became increasingly popular, especially among middle-class consumers. Rising disposable incomes, as well as wedding and gifting occasions are the main drivers for this segment.

The following chart illustrates the market share of the national and foreign brands by retail sales value in China mid-end watch market in 2011. The market share of national brands in the mid-end watch market by retail sales value has increased from 20.9% in 2006 to 25.9% in 2011.

National and foreign watch brands' market share in China mid-end watch market by retail sales value (2011)



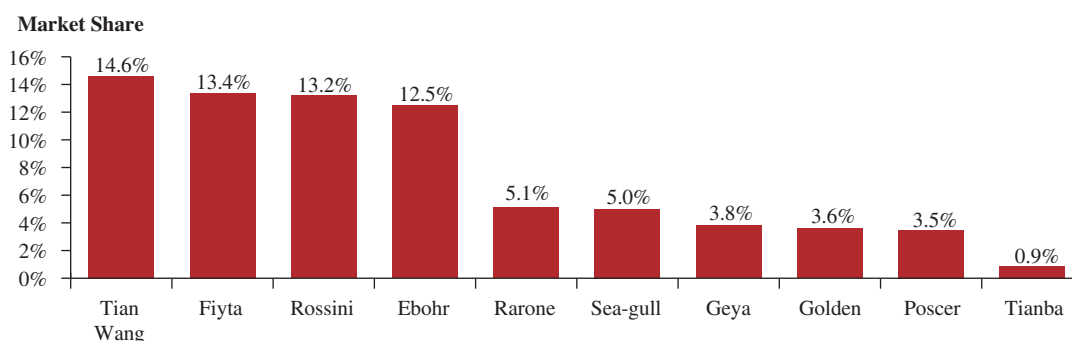
Source: Euromonitor

INDUSTRY OVERVIEW

Top 10 national brands took up more than 75% of the mid-end national market

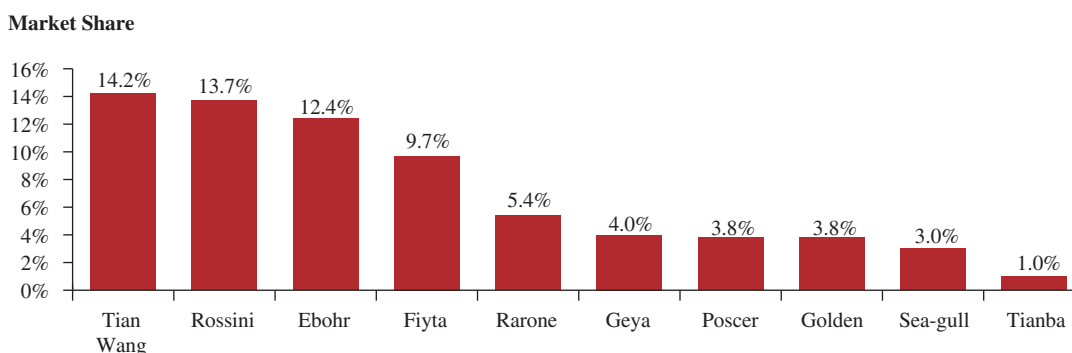
According to Euromonitor, the top 10 national brands accounted for a combined market share of 75.7% and 71.0% in terms of retail sales value and volume, respectively, of the national mid-end watch market, among which, the top 4 brands: Tian Wang, Fiyta (飛亞達), Rossini (羅西尼) and Ebohr (依波), contributed 53.8% and 50.0% in terms of retail sales value and volume, respectively. Among this combined market share in 2011, the leading Tian Wang brand ranked no. 1 among national brands with a 14.6% and 14.2% share of the retail value and volume sales in the national mid-end market in 2011; followed by Fiyta (飛亞達), Rossini (羅西尼) and Ebohr (依波). The following charts set forth the market share of the top 10 national mid-end watch brands by retail sales value and volume, respectively, in China in 2011.

Top 10 national mid-end watch brands' market share by retail sales value in China (2011)



Source: Euromonitor

Top 10 national mid-end watch brands' market share by retail sales volume in China (2011)



Source: Euromonitor

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Tian Wang (天王), Fiyta (飛亞達), Rossini (羅西尼) and Ebohr (依波) all performed fairly well in recent years. The 4 brands positioned themselves as mid-end brands and have made efforts to build up their brands' images. After a rapid volume growth and market expansion period with a trade-off of limited margins, the top national brands are starting to generate higher gross profit margins on self-made watches and particularly their new products featuring traditional Chinese cultural elements. The variety of different grades of product collections is promoted in national as well as overseas markets. National brands are expected to achieve strong growth in both value and volume sales in the near future.

Watch movement mechanism and brand name becoming increasingly important

In terms of purchasing criteria, middle-class consumers aged 35 and above consider the watch movement mechanism the most, preferring mechanical movements above all other factors. Brand name is the second consideration. Design style and price are also considered, but of less importance.

Business occasions are also an important use for mid-end national watches. In state-owned or related companies, business people would prefer wearing a classically designed watch from a famous national brand when meeting with clients. For consumers looking at business related watches, mechanical movement is the most common choice, while brand name, design style and craftsmanship are important factors affecting purchase.

Young people around the age of 30 are becoming an important consumer group. They are looking for more fashionable and advanced design features in their watches. They are typically white-collar class workers with stable incomes. Many national brands are launching fashionable series of watches with advanced features to attract this emerging group. The most important factors they consider for purchasing are: design style, features, and the brand image. Fashionable design is the most important consideration for them.

OVERVIEW OF THE FOREIGN MID-END WATCH MARKET IN CHINA

In 2011, foreign brands sold RMB6,766 million and 2.1 million pieces in China's mid-end watch market. Mid-end foreign brands were sold at a unit price of approximately RMB3,296 on average, which was higher than the mid-end national unit price of around RMB2,095 for the same period. This is due to many foreign brands, like Tissot, Citizen and Vufflens, pricing their products at around RMB5,000.

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Leading brands in the foreign mid-end market are Tissot, Citizen, Enicar, Ernest Borel, Seiko and Casio. Although these brands originate outside mainland China, they know Chinese consumers well and occupy a stable market share. Their knowledge can be attributed to early entry into China's market and deep penetration into various channels and lower-tier cities.

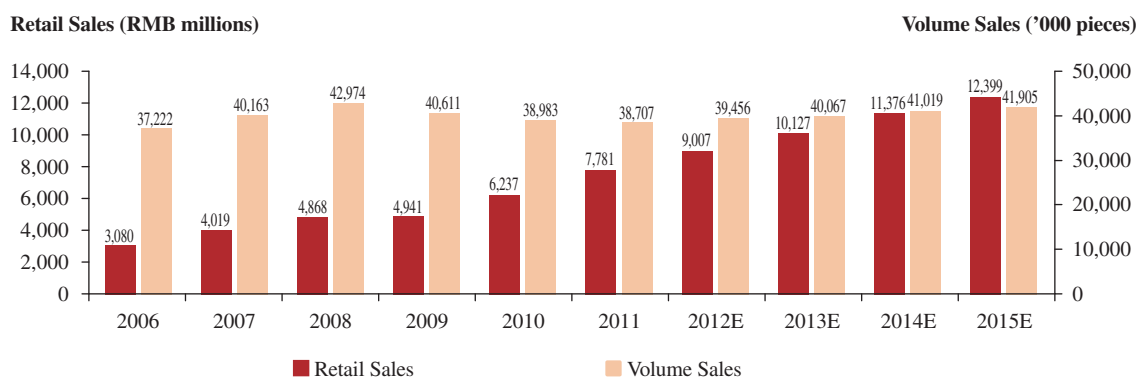
The core target group of most mid-end foreign watch brands is well-established people, aged 30-40, who love sports and like to be fashionable. Typically, they are white-collar workers, hold middle or senior level positions, and they might own a variety of watches of different styles in order to match occasions or apparel. In their opinion, foreign watches have higher craftsmanship and more stylish designs, and are enhanced by their international image. In pursuit of a unique look, they pay strict attention to the design style. Classic styles are less popular but earn attention as well. These watches are more likely to be used on business occasions, such as meeting with clients.

OVERVIEW OF THE LOW-END WATCH MARKET IN CHINA

Low-end watch market sold RMB7.8 billion and 38.7 million pieces

The low-end watch market accounts for 23.0% and 89.0% of the total watch retail market in terms of value and volume, respectively. In 2011, the retail value and volume of the entire low-end watch market reached RMB7,781 million and 38.7 million pieces, representing year-on-year growth rates of 24.8% and -0.7% respectively. The chart below sets forth the retail sales value of the low-end watch market in China between 2006 and 2015.

Retail sales value and volume of the low-end watch market in China (2006-2015E)



Source: Euromonitor

OVERVIEW OF THE NATIONAL LOW-END WATCH MARKET IN CHINA

National brands will remain dominant in the low-end watch market

National low-end watches contributed more than 70% by volume and more than 50% by value of the low-end market. Foreign brands competing in this price segment include some Japanese brands such as Casio, Citizen and Seiko. Prices for these brands range from a few

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hundred to thousands of yuan, with the majority targeted towards the mid-to-low-end segments. According to China Custom's data, the value of imported watches from Japan and Korea has increased every year for the past few years. The high-end segment's growth is expected to slow down as a result of the economic downturn, to combat this, the Swatch Group has offered more affordable products such as Swatch wrist watches that cost only a few hundred yuan. Despite the heated competition from foreign brands, national brands will remain dominant in this low-end price segment, and continue winning market share in the near future.

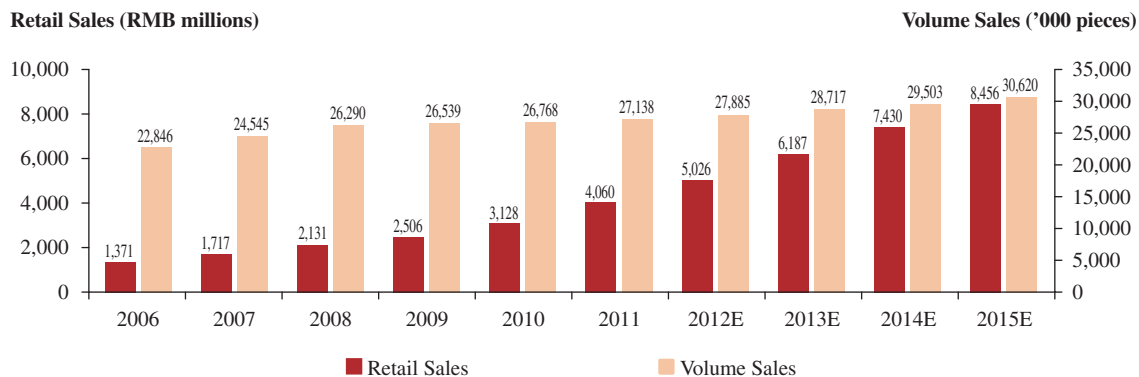
Low-end national brand watches account for 62.4% of total watch volume sales

According to industry sources, watches sold in the price range of RMB600-1,000 accounts for about 55% of national brands' value sales, and those sold below RMB1,500 accounts for 60.0%, with RMB4,060 million in sales for 2011. However, this low-end watch segment accounted for 95.8% of the retail volume sales in the national brand market, making it the majority segment in terms of volume of watch consumption in China. Selling at an average unit price of about RMB150 in 2011, the low-end national brand watches have achieved a CAGR of 24.3% from 2006 to 2011. It is expected that this segment is going to grow steadily and maintain a 20.1% CAGR from 2011 to 2015.

The low-end products of the top 4 national brands generate approximately 40-50% of their total retail sales, which directly speaks to the demands of the working class in China. In recent years, second-tier national brands such as Rarone (雷諾), Geya (格雅), and Poscer (寶時捷), which have positioned themselves in the mid-to-low-end segment, have gained stable annual growth rates of 25-30%, owing to their retail network expansion, especially in third-tier and lower-tier cities. Other national brands that have expanded into second and third-tier cities have contributed significantly in retail volume. Examples of these brands are: AoHuaShi (奧華仕), MeiNuo (美諾), DaDiHao (大帝豪), Eista (亞時達), Kingtis (精鐵時), Snoopy (史努比), and Kiddie Time (童年時).

The chart below sets forth the retail sales value of the national low-end watch market in China between 2006 and 2015.

Retail sales value of the national low-end watch market in China (2006-2015E)



Source: Euromonitor

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COMPETITIVE LANDSCAPE OF THE WATCH INDUSTRY IN CHINA

Strong competition within watch retail market in China

In China's watch market, there are over 200 watch brands. Although more foreign watch brands are expanding their business into China, the leading foreign brands, as a whole, are experiencing a growth in market share. For national watch brands, the trend of consolidation is even stronger. Some small brands are fading out as the leading players are strengthening their brands' power in their targeted consumer segments.

Famous foreign watch brands in China include: Rolex, Omega, Longines, IWC, Titoni, Enicar, Tissot, Seiko, Casio, Citizen, etc, while major national ones include Tian Wang (天王), Rossini (羅西尼), Ebohr (依波), Fiyta (飛亞達), Rarone (雷諾), Sea-gull (海鷗), etc. In terms of retail sales value, the high-end market is dominated by Swiss brands, while the low-end market is occupied primarily by national brands. Competition in the mid-end market is fierce between both national and foreign brands; however, the national brands take the majority of volume sales.

Government policies support national brand development

After the global economic crisis, there was sluggish demand from the overseas market, causing domestic manufacturers to aggressively enter the domestic retail market. Many manufacturers, especially mid-to-small scaled ones, who used to focus on OEM business, have started to build their own brands and look for opportunities to add value to their products. These factors have contributed to the fast growth of the domestic watchmaking industry.

The 12th Five Year Plan period is strategically significant for the domestic watch industry. It is expected that domestic players are going to change from volume oriented production to focusing on producing better quality and higher grade products at a higher efficiency. Through industrial upgrading, the domestic watch industry aims to achieve better structure and an advanced level of production in order to meet consumer demand and compete with foreign brands.

SOURCES OF INFORMATION

We have engaged Euromonitor, an Independent Third-Party, to conduct a study of the watch market in China. Euromonitor is an independent market research firm and an independent market research firm with more than 40 years' of industry experience in conducting trade research and detailed local market analysis. We have included certain information from the Euromonitor Report in this prospectus because we believe such information facilitates an understanding of the mid-end watch market in China for potential investors. A total amount of US\$56,100 in fees was paid to Euromonitor for the Euromonitor Report.

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The Euromonitor Report commissioned by our Group covers various topics including (1) macro-economic overview of China that are relevant to the watch market; (2) the overall environment of the watch industry in China, including retail market, watch retail market and qualitative analysis of mid-end national and foreign watch market; and (3) qualitative and quantitative analysis of the competitive landscape of the watch industry in China, including competition of overall watch market and ranking of key players in both the overall watch market and mid-end watch market. The methodology used by Euromonitor for its study consisted of both primary research and secondary research on the watch markets in China, supplemented with market/strategy overview analysis reconciling data and qualitative and anecdotal information gained from sources inside the industry. Primary research involves trade interviews with identified contacts of major watch manufacturers, watch traders, watch retailers and trade associations. Secondary research involves information-gathering and assessment of relevant information from sources such as Euromonitor's in-house data, corporate websites of leading watch retailing companies (brand owners) in China, trade reports on the watch retail segment.