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## INDUSTRY OVERVIEW

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*This and other sections of this prospectus contain information relating to the PRC, Hong Kong and Macau economies and the industry in which we operate. The information and statistics contained in this section have been derived partly from publicly available government and official sources. Certain information and statistics set forth in this section have been extracted from a market research report by Frost & Sullivan, an independent market research agency, which we commissioned. We believe that the sources of such information and statistics are appropriate and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information or statistics is false or misleading in any material respect or that any fact has been omitted that would render such information or statistics false or misleading in any material respect. Such information and statistics have not been independently verified by us, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, any of the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering and no representation is given as to their correctness or accuracy. Accordingly, you should not place undue reliance on such information or statistics.*

### OVERVIEW OF THE PRC ECONOMY

#### Rapid economic and consumption growth in the PRC

The PRC has experienced strong growth since the introduction of economic liberalisation policies by the PRC government in the late 1970s, which led to increased international trades and foreign direct investments. According to the Frost & Sullivan Report, the PRC is one of the world's largest consumer markets and its population increased from approximately 1,330.0 million as at 31 December 2006 to approximately 1,360.0 million as at 31 December 2010. At the same time, the urbanisation rate in the PRC increased from 43.9% as at 31 December 2006 to 49.7% as at 31 December 2010. The urban population of middle-income class people in the PRC is expected to increase from approximately 235.3 million in 2010 to approximately 330.0 million by 2025. The PRC's GDP is the second highest in the world, exceeded only by that of the United States as of December 2010.

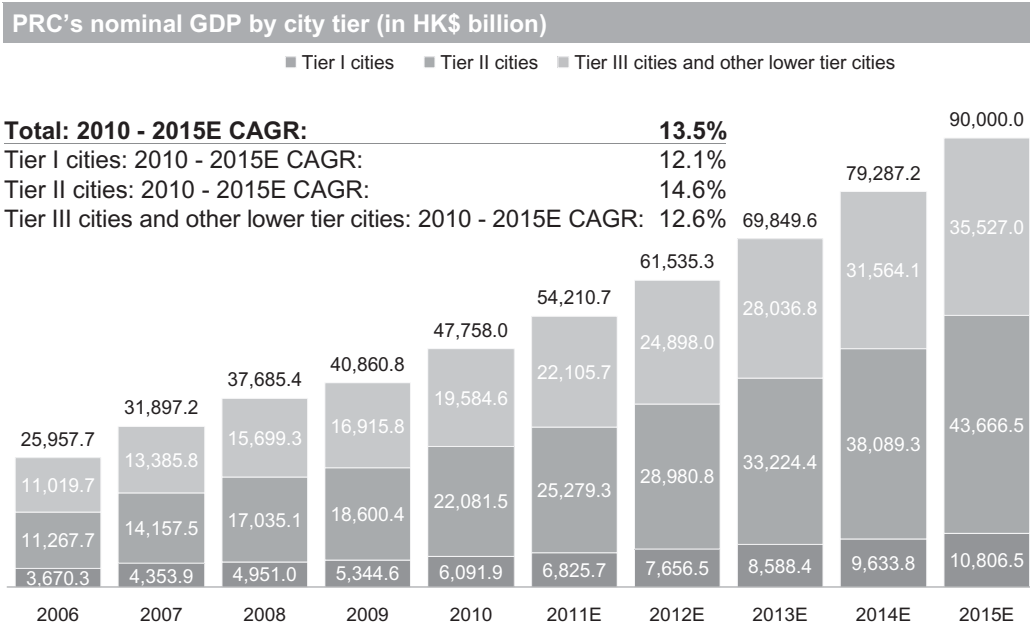
According to the Frost & Sullivan Report, the PRC's nominal GDP totalled HK\$47,758.0 billion in 2010. By 2015, PRC's nominal GDP is forecasted to grow to HK\$90,000.0 billion, representing a CAGR of 13.5% between 2010 and 2015, making it one of the fastest-growing developing economies in the world.

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### Strong demographics and proliferation of wealth in Tier II cities and Tier III cities in the PRC

From a GDP distribution perspective, Tier I cities accounted for approximately 12.8% of PRC's total GDP in 2010 and is forecasted to demonstrate a CAGR of 12.1% from 2010 to 2015 according to the Frost & Sullivan Report.

According to the PRC's 12th Five Year Plan, the PRC government aims to reform the country's income distribution, enhance social security, and in turn stimulate domestic consumption. These programmes could also drive the developmental focus and consumption growth in Tier II cities, Tier III cities and other lower tier cities.



Source: Frost & Sullivan Report

Data was originally presented in RMB; RMB/HK\$ exchange rate of 1.2 was applied to all figures.

According to the Frost & Sullivan Report, nominal GDP in Tier II cities, Tier III cities and other lower tier cities is estimated to grow at an average CAGR of 13.7% (compared to a CAGR of 12.1% from Tier I cities) from 2010 to 2015, further reinforcing the belief that these lower tier cities may represent relatively new and under-penetrated markets with strong growth potential for nationwide jewellery retailers.

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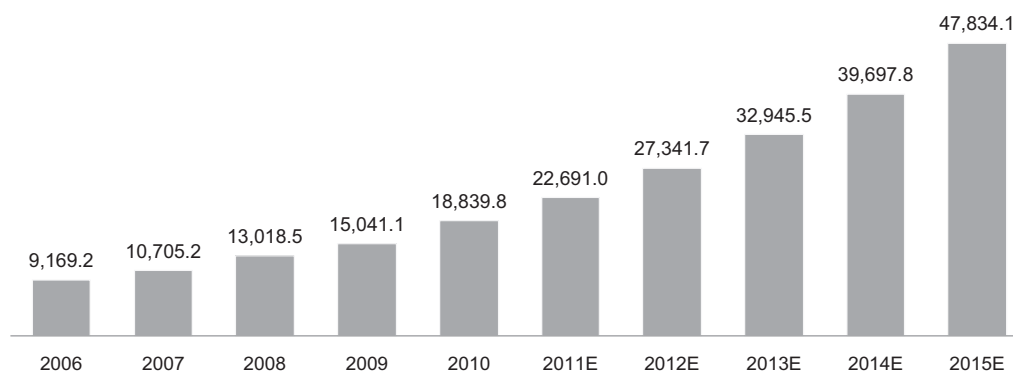
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### Continuing increase in spending on consumer goods in the PRC

In line with the growing affluence, rising disposable income, and Chinese consumers' increasing demand for quality products, spending on consumer goods in the PRC has increased. In 2010, retail sales of consumer goods reached HK\$18,839.8 billion, up from HK\$9,169.2 billion in 2006, representing a CAGR of 19.7%. Going forward, the value of retail sales is expected to further increase, reaching HK\$47,834.1 billion by 2015 at a CAGR of 20.5%.

#### Retail sales of consumer goods in the PRC (in HK\$ billion)

2010 - 2015E CAGR: 20.5%



Source: Frost & Sullivan Report

Data was originally presented in RMB; RMB/HK\$ exchange rate of 1.2 was applied to all figures.

### RAW MATERIAL SUPPLY OF JEWELLERY

Transactions of jewellery raw materials generally occur on government-organised platforms such as the Shanghai Gold Exchange and Shanghai Diamond Exchange in the PRC. The DTC is the rough diamond distribution arm of the De Beers Family of Companies and is the world's largest supplier of rough diamonds by value. DTC sightholders are entitled to procure rough diamonds directly from DTC, while other diamond traders and buyers can purchase diamonds from the sightholders or on secondary markets.

Despite the rising demand for precious stones and metals, notably within the jewellery markets of the PRC, Hong Kong and Macau, the respective global supply remained at a relatively stable level historically. For example, from 2006 to 2010, global gold mine tonnage production grew at a CAGR of only 2.0%, while the tonnage demand for gold jewellery manufacturing in the PRC increased at a CAGR of 15.3%. In 2010, the demand for gold in the PRC was estimated at approximately 700 tonnes, of which roughly 65% or 452 tonnes came from the jewellery industry. Comparatively, the domestic gold production in the PRC was only approximately half the level of demand. Similar instances of supply and demand mismatch are also observed in other raw materials markets, such as that for diamond, which in turn could drive the scarcity value of precious stones and metals.

### OVERVIEW OF RAW MATERIALS PRICES

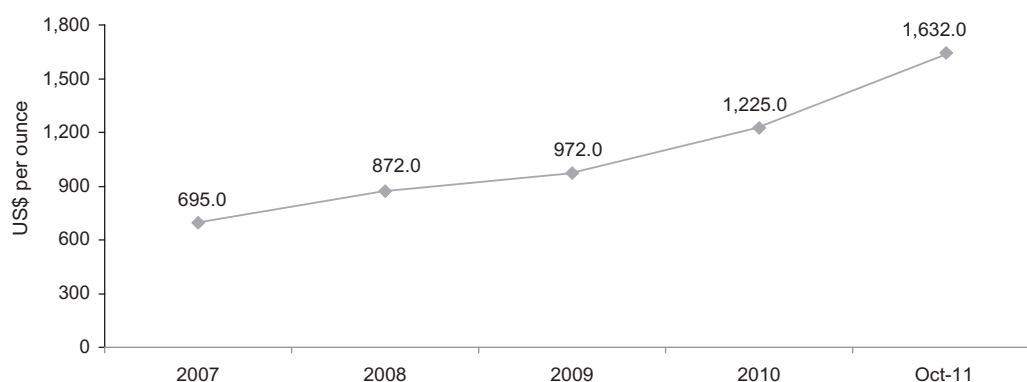
The below subsections analyse the historical prices of gold commodity, platinum commodity and polished diamond which we consider are the primary and relevant precious metals and stones whose prices are publicly monitored. These three sectors are not indicative of their relative importance to our business and are by no means fully comprehensive or exhaustive of the raw materials used within the jewellery industry.

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### Gold commodity prices

Over the period from 2007 to October 2011, the price of gold commodity has risen from an annual/period average of US\$695.0 per ounce to approximately US\$1,632.0 per ounce. While there exists various theories and systems aimed to explain the movement in gold prices, the increase over the aforementioned period was believed to be driven, among others, by the volatility in the global political and economic environment as well as the strong demand for gold, particularly within the jewellery industry. The following graph depicts the evolution of gold prices over 2007 and October 2011.

Historical annual/period average price evolution of gold commodity (in US\$ per ounce)

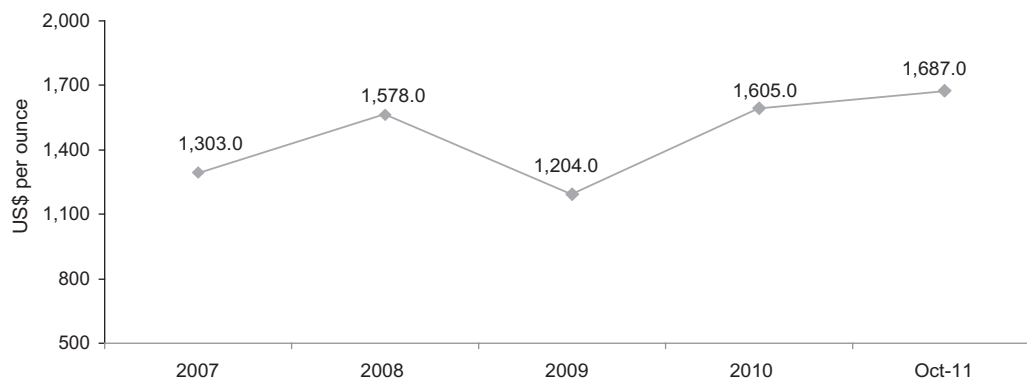


Source: Frost & Sullivan Report

### Platinum commodity prices

Relative to gold, the price of platinum commodity has historically followed a more volatile path. Over the period from 2007 to October 2011, the price of platinum commodity soared approximately 29% from an annual/period average of US\$1,303.0 per ounce to US\$1,687.0 per ounce. Toward the end of 2008, the price of platinum was negatively affected due to the global financial crisis, as demand from industrial use decreased. The recovery in the demand for platinum from automobile manufacturing and jewellery consumption led to the subsequent increase in platinum prices.

Historical annual/period average price evolution of platinum commodity (in US\$ per ounce)



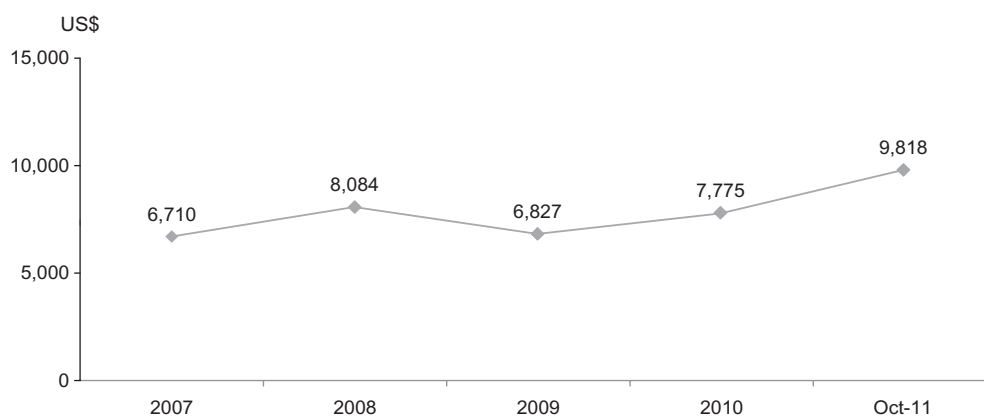
Source: Frost & Sullivan Report

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### Polished diamond prices

The price of polished diamond has historically been price elastic to economic conditions as a result of polished diamond being a predominately consumer-oriented commodity. Over 2009, the average price of polished diamond decreased by 15.5% from an annual average of US\$8,084 to US\$6,827 as a result of compressed consumer demands due to the global financial crisis. Stimulated by a subsequent strong demand recovery, rising mining cost and limited supply, both 2010 and the first ten months of 2011 witnessed a high growth rate in the average price of polished diamond. The following chart shows the change in annual/period average price of polished diamond with specification of D-H, IF-VS2, VG+, and 1 carat in weight from 2007 to October 2011.

Historical change in annual/period average price evolution of polished diamond<sup>(1)</sup>



Source: Frost & Sullivan Report

Note:

(1) Polished diamond with specification of D-H, IF-VS2, VG+, and 1 carat in weight.

### KEY INDUSTRY TRENDS AND CHARACTERISTICS

- *Event-driven jewellery purchases of PRC consumers*

Event-driven purchases are an important driver of jewellery retail sales in the PRC, Hong Kong and Macau due to the Chinese tradition of jewellery gift-giving (including gold ornaments and diamond jewellery) at ceremonial and festive events such as weddings, Mid-Autumn Festival, Chinese New Year, birthday celebrations and newborn arrivals. The growth and sustainability of the PRC jewellery market is widely acknowledged to have been and will continue to be driven by event-driven demands.

In addition, Chinese people often plan discretionary celebrations such as weddings around dates delineated by various systems of aesthetics, almanac and auspicious beliefs. These related purchase decisions are generally inelastic to economic conditions and commodity prices. Frost & Sullivan has estimated that over 12 million marriages were registered in the PRC in 2010, and over 30% of the population was at the marriage age of 20 to 39. During the period from 2007 to 2009, despite the global financial crisis, the number of registered marriages continued to increase at a CAGR of 9.8%, further substantiating the non-cyclical nature of event-driven purchases in the PRC jewellery industry. Going forward, the number of registered marriage is forecasted to continue its growth at a CAGR of 9.2% from 2010 to 2015.

- *Cultural significance of gold, diamond and other gemstone products in the PRC*

As a result of its long history, the Chinese culture has been ingrained with a set of distinctive values, beliefs and conducts. For the Chinese, gold, diamond and other gemstone products carry a

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cultural connotation that represents eternity, dignity, prosperity, blessing and fortune, manifesting the importance and popularity of jewellery as gifts for festive events and celebrations.

In addition, the durability and tangibility of the aforementioned jewellery products carry a pragmatic and sentimental value as both preservation and transfer of wealth across generations. To the Chinese, the decision to purchase gold, diamond and gemstone products is not only triggered by their decorative and symbolic purposes, but also substantiated by their ability to provide comfort as a tangible preservation of wealth as well as to pass on fortune to the next generation. Building on the cultural foundation of pragmatism, wealth accumulation and conservatism, the Chinese demand for jewellery is expected to demonstrate strong growth going forward, according to the Frost & Sullivan Report.

- *Demand for authenticity and quality*

Due to the attractive margins and imitable semblance of certain jewellery, the PRC jewellery market has attracted fraudulent market players retailing imitation jewellery that is falsely advertised as real, authentic products made from precious metals and stones. With the rising education level, increasing sophistication and rising affluence of PRC consumers at large, the demand for authentic, high quality and genuine jewellery products with strong design elements is expected to experience further growth. As a result, jewellery retailers with trusted brands are expected to gain market share and experience strong repeat purchases.

- *Increasing demand for differentiated and well-designed products*

Due to enhanced media influence, rising per capita disposable income and stronger desire to differentiate, PRC consumers have generally shifted their perception of jewellery as a homogenous product to an article that can complement their self-expression. This perception shift has stimulated jewellery retailers to focus not only on quality, but also on the design and production of fashion-oriented jewellery ornaments. This industry trend has created opportunities for industry players that are able to develop strong brand identities across a broad price range because consumers tend to be more willing to associate themselves with these brands through the loyal adoption of a wider array of their jewellery products.

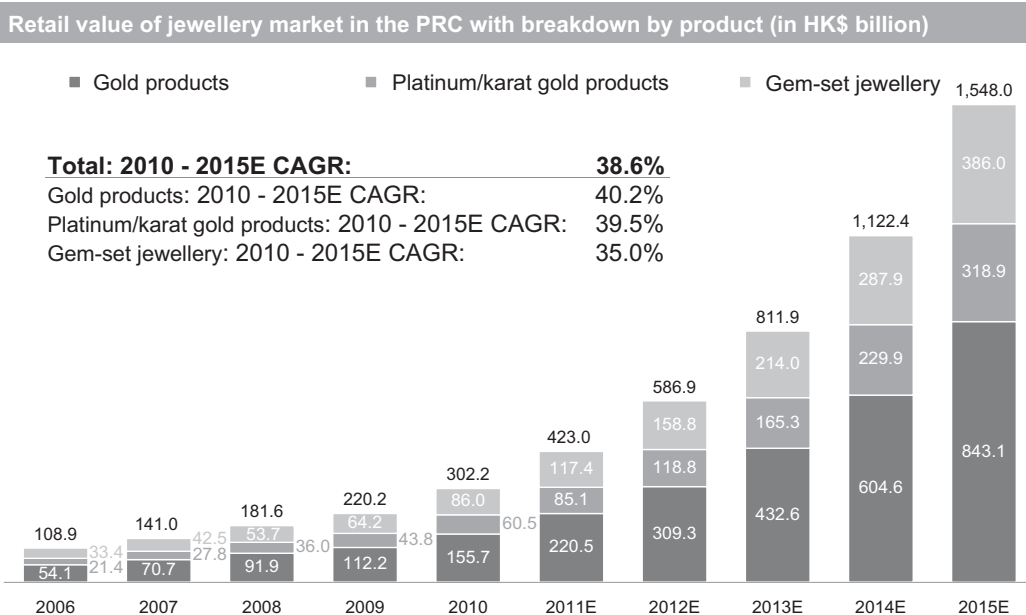
- *Aspiration to purchase higher value jewellery products*

Consumers traditionally seek to purchase higher value jewellery pieces as they progress through their consumer life cycle. For many Chinese consumers, their first jewellery purchase is typically gold products, which many Chinese consumers believe to be the entry points of their jewellery customer life cycle. However, as discretionary income increases in China, many consumers will seek to purchase higher priced jewellery items such as diamond and platinum products. This phenomenon is also expected to be influenced by event-driven purchases where aspirational consumers may purchase the higher value diamond rings in lieu of or in addition to gold products for weddings, for example.

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### THE JEWELLERY RETAILING INDUSTRY IN THE PRC

According to the Frost & Sullivan Report, as of 2010, the jewellery market in the PRC was the second largest in the world with total retail sales value of HK\$302.2 billion, exceeded only by the United States (in 2010, total retail sales value of jewellery in the United States was greater than HK\$600.0 billion). Driven primarily by the favourable demographics, increasing disposable income and the performance of the overall economy at large, going forward, the PRC jewellery market is forecasted to grow at a significantly faster rate than GDP with a CAGR of 38.6% from 2010 to 2015, according to the Frost & Sullivan Report. By 2015, the market is estimated to reach HK\$1,548.0 billion, making the PRC the largest jewellery market globally based on Frost & Sullivan's forecast.



Source: Frost & Sullivan Report

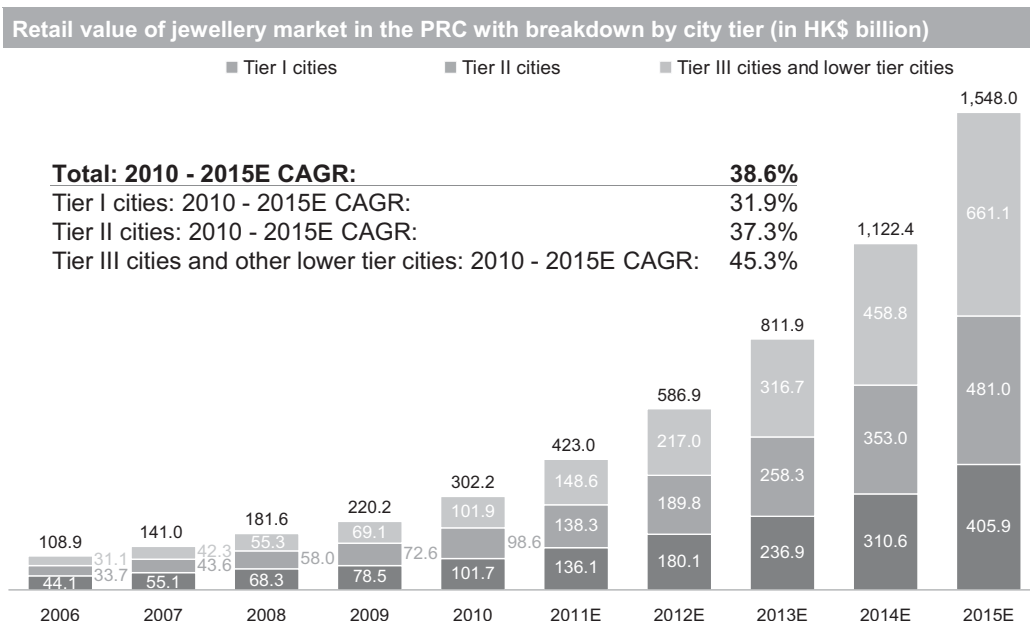
Data was originally presented in RMB; RMB/HK\$ exchange rate of 1.2 was applied to all figures.

### Product segmentation in the PRC

- *Gold products.* Customarily, PRC consumers regard gold products as one of the most popular congratulatory gifts due to gold's appeal as a symbol of prosperity as well as a display wealth and social status. Gold products are estimated to maintain their leading position by both growth rate and market share, with a CAGR of 40.2% from 2010 to 2015, accounting for nearly 54.5% of the total PRC jewellery market by 2015.
- *Platinum/karat gold products.* For platinum jewellery, due primarily to its higher average selling price, it remains relatively under-penetrated compared to other jewellery products. Karat gold jewellery has a strong consumer appeal in the PRC due to its relatively low average selling price compared to gold jewellery. Platinum/karat gold products are forecasted to record a stronger-than-average CAGR of 39.5% from 2010 to 2015, reaching HK\$318.9 billion by 2015.
- *Gem-set jewellery.* Gem-set jewellery represented the second largest product category by retail value in the PRC. This category is forecasted to grow at a CAGR of 35.0% from 2010 to 2015, reaching HK\$386.0 billion by 2015.

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### City-tier segmentation in the PRC



Source: Frost & Sullivan Report

Data was originally presented in RMB; RMB/HK\$ exchange rate of 1.2 was applied to all figures.

In 2010, sales from Tier I cities and Tier II cities accounted for approximately 66.3% of total retail sales in the PRC jewellery market. Retail sales from Tier I cities and Tier II cities are forecasted to grow at a CAGR of 34.7% from 2010 to 2015. However, as a result of rising affluence, increasing demand for quality products and lower operational costs in Tier III cities and other lower tier cities, many large-scale jewellery retailers are shifting focus to these cities for growth opportunities. As such, jewellery retail sales from Tier I cities and Tier II cities, which have already experienced significant growth historically, are expected to grow at a slower rate than Tier III cities and other lower tier cities from 2010 to 2015, and contribute to 57.3% of the total PRC jewellery market by 2015, according to the Frost & Sullivan Report.

Comparatively, in 2010, sales from Tier III cities and other lower tier cities accounted for approximately 33.7% of the total PRC jewellery market. Over the period from 2010 to 2015, however, their contribution is expected to increase significantly, representing over 42.7% of the total market by 2015 with a CAGR of 45.3% from 2010 to 2015.

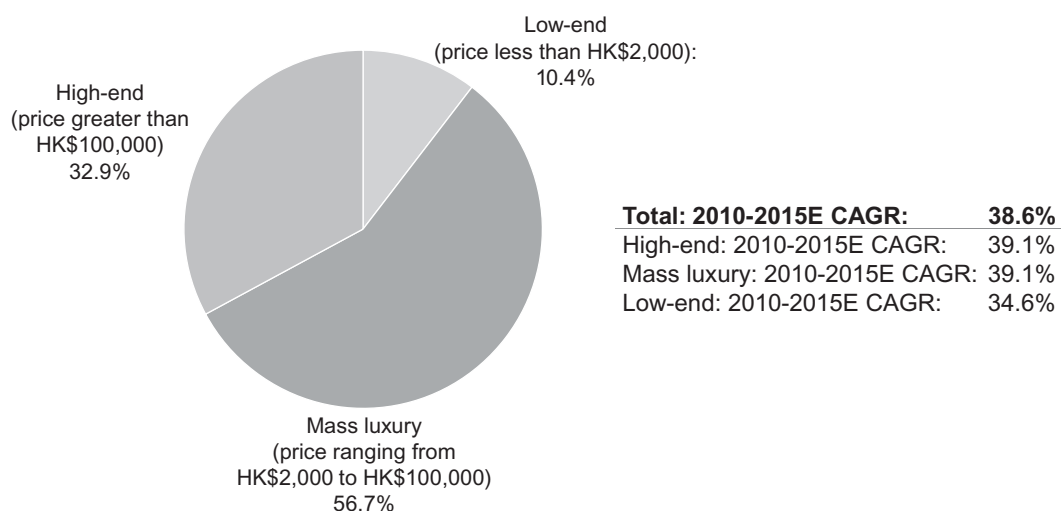


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### Price range segmentation in the PRC

Mass luxury, defined as jewellery products with retail price ranging from HK\$2,000 to HK\$100,000, is estimated to represent approximately 56.7% of the total jewellery market in the PRC in 2010, with retail sales value of HK\$171.4 billion, according to the Frost & Sullivan Report. As jewellery retailers continue to emphasise growth opportunities in Tier II cities, Tier III cities and other lower tier cities, the mass luxury segment is forecasted to experience the strongest growth relative to the industry. From 2010 to 2015, mass luxury jewellery retail sales in the PRC is forecasted to grow at a CAGR of 39.1%, reaching HK\$891.6 billion, or approximately 57.6% of the total market, by 2015, according to the Frost & Sullivan Report.

**Retail value of jewellery market in the PRC with breakdown by price range (2010)**



**Total 2010 retail value: HK\$302.2 billion**

Source: Frost & Sullivan Report

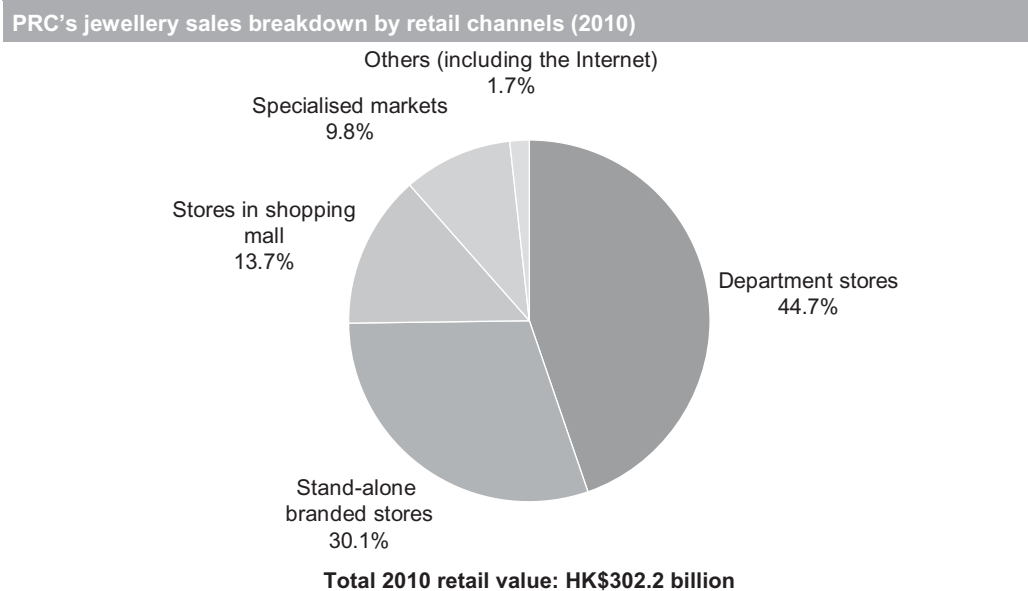
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### Jewellery sales channels in the PRC

In the PRC, jewellery products are primarily retailed through five types of distribution channels, consisting of stand-alone branded stores, stores in shopping malls, department stores, specialised markets, and others (including the Internet). The following chart shows the breakdown of jewellery retail sales in the PRC by retail channel, in which department stores sales accounted for the largest portion in 2010, with 44.7% of the total share.



Source: Frost & Sullivan Report

We believe that one of the reasons for department stores being the most significant retail channel for jewellery in the PRC is due to consumers' perception that brands offered within department stores have undergone a selection process that is generally based on merits of quality, authenticity and consumer appeal. As such, consumers generally place greater confidence and comfort when purchasing products from department stores.

It is expected that sales from department stores will gain an increasingly larger share of the market as a retail channel, as this type of retail channel is commonly adopted by retailers when penetrating into Tier III cities and other lower tier cities due to lower cost of expansion and more customer traffic. By 2015, jewellery sales from department stores is forecasted to grow at a CAGR of 40.1% from 2010 to 2015, accounting for approximately 47.1% of the total market by 2015, according to the Frost & Sullivan Report.

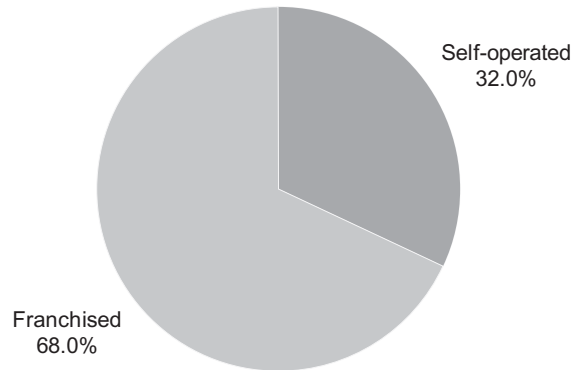
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### Jewellery POS by operation model in the PRC

PRC jewellery POS by operation model (2010)



**Total POS: 58,000**

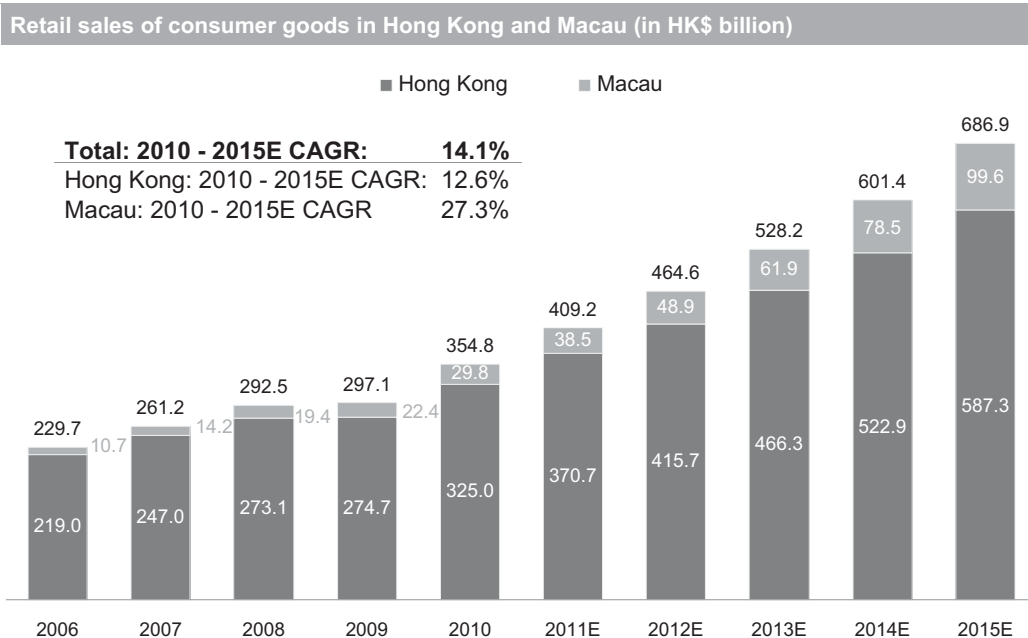
Source: Frost & Sullivan Report

In 2010, self-operated stores accounted for approximately 32% of jewellery POS in the PRC, whereas the franchising model accounted for the remaining 68%, according to the Frost & Sullivan Report. For jewellery retailers, self-operated stores remain as an important ownership format due to their appeal in allowing greater operational control and closeness to end customers as compared to implementing a franchising model. At the same time, compared to a franchising model, a self-operated POS model allows for an additional layer of margin and profit potential due to the elimination of the wholesale-retail spread, enabling retailers to capture the full retail margin. However, due to the vast geographic coverage of the PRC and the costs associated with extensive store roll-outs, the franchising model has gained prominence with jewellery retailers as a cost-effective and efficient form of expansion, especially in the lower tier cities.

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### OVERVIEW OF THE HONG KONG AND MACAU ECONOMY

According to the combined data from the Hong Kong Census and Statistics Department and Macau Statistics and Census Service, in 2010, the aggregate nominal GDP in Hong Kong and Macau grew at a CAGR of 5.4% from 2006 to 2010 and the aggregate retail sales of consumer goods in Hong Kong and Macau amounted to HK\$354.8 billion, up from HK\$229.7 billion in 2006, representing a CAGR of 11.5%. Going forward, the retail sales of consumer goods in Hong Kong and Macau is forecasted to grow at an even faster pace with a CAGR of 14.1% from 2010 to 2015.



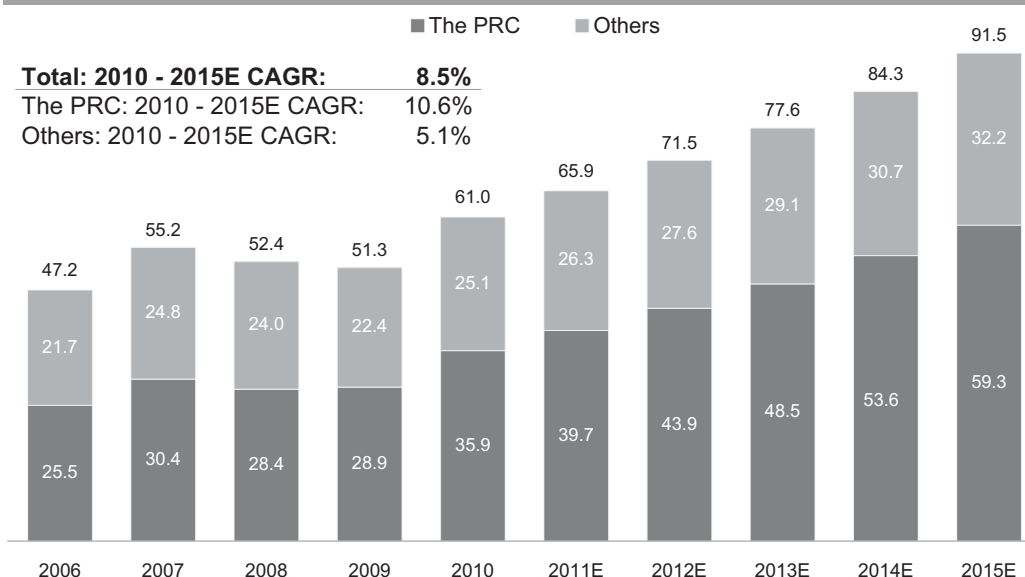
Source: Frost & Sullivan Report

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### Tourism in Hong Kong and Macau

In 2010, approximately 61.0 million tourists visited Hong Kong and Macau, 58.9% of which were tourists from the PRC, according to the Frost & Sullivan Report. Over the period from 2010 to 2015, the number of tourists visiting Hong Kong and Macau is forecasted to grow at an increasingly rapid rate, representing a CAGR of 8.5%. By 2015, Frost & Sullivan forecasts tourists count to be over 91.5 million, with share of PRC tourists increasing to over 64.8%, or approximately 60 million.

**Number of tourists to Hong Kong and Macau with breakdown by residence country (in million)**



Source: Frost & Sullivan Report

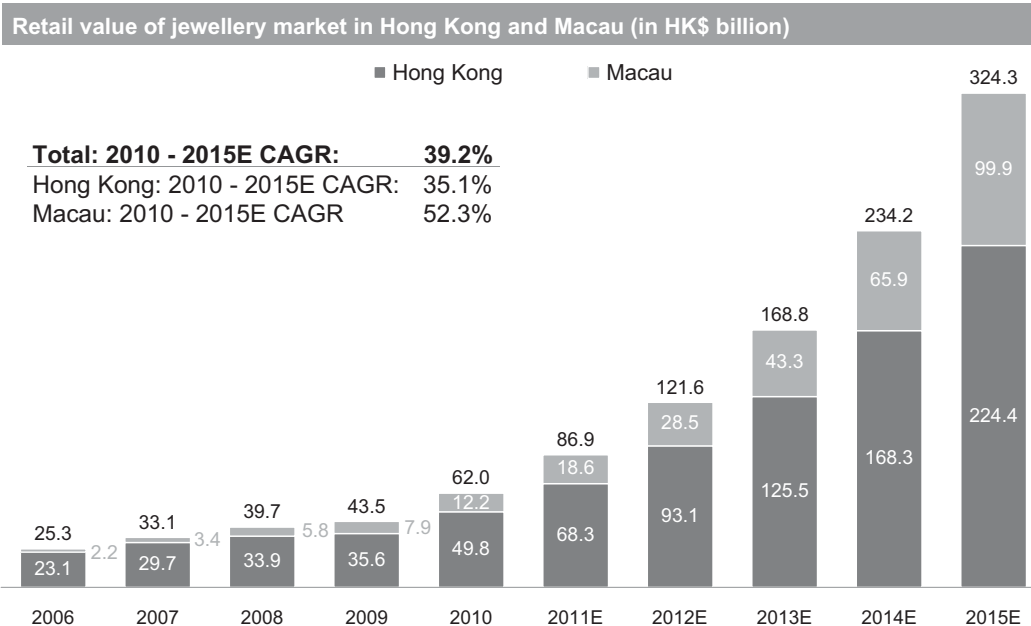
A major government policy supporting the PRC tourism in Hong Kong and Macau is the initiation of the “Individual Visit Scheme” in July 2003. Under this policy, permissions are granted to PRC citizens from selected cities to visit Hong Kong and Macau on an individual basis. The ensuing effect is a systemic stimulus that has led to a strong increase in the number of PRC tourists visiting Hong Kong and Macau.

In Hong Kong and Macau, tourists’ spending from the PRC is a significant contributor to jewellery retail sales. According to the Frost & Sullivan Report, PRC tourists contributed to over 40% of the total Hong Kong jewellery retail sales in 2010. At the same time, as PRC tourists become increasingly affluent with rising per capita disposable income, it is estimated that consumers’ willingness to pay for luxury products will continue to increase, thereby driving growth in average retail transaction size.

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### THE JEWELLERY RETAILING INDUSTRY IN HONG KONG AND MACAU

The growth of the jewellery industry in Hong Kong and Macau is largely driven by strong domestic consumer demand and rising number and affluence of PRC tourists, benefiting from a rising affinity for designs and quality from the consumer base.

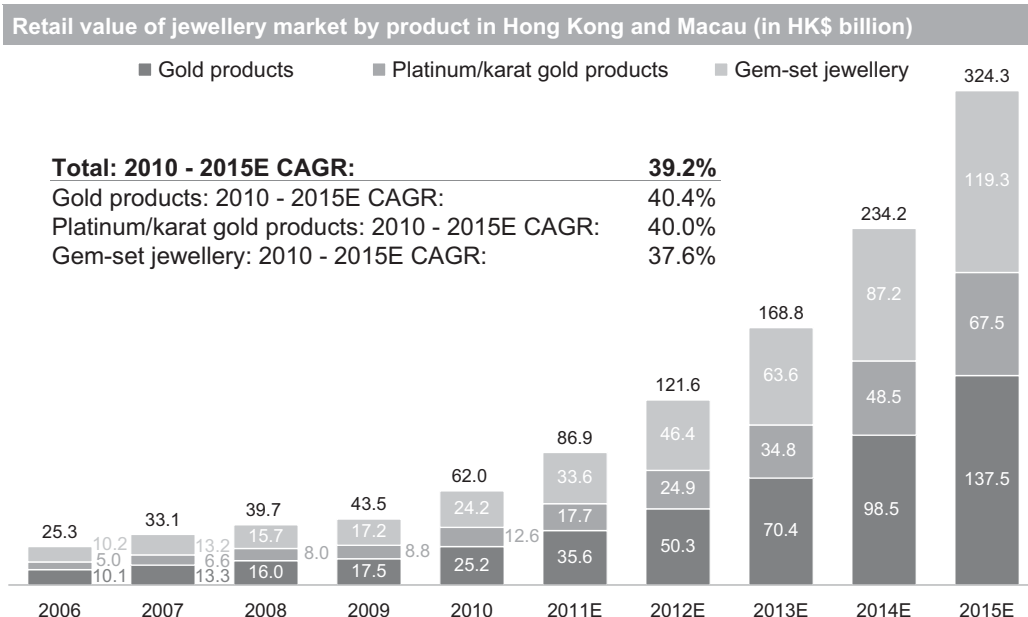


Source: Frost & Sullivan Report

According to the Frost & Sullivan Report, the Hong Kong and Macau jewellery industry had retail sales of HK\$62.0 billion in 2010, with Hong Kong contributing approximately 80.3% and Macau representing the balance. Over the forecast period from 2010 to 2015, the market is forecasted to grow at a CAGR of 39.2%, reaching HK\$324.3 billion by 2015 according to the Frost & Sullivan Report. With Macau's jewellery market growth forecast to outpace that of Hong Kong's, the relative contribution between the two economies is expected to shift. By 2015, Hong Kong and Macau is estimated to contribute 69.2% and 30.8% to the total market, respectively, according to the Frost & Sullivan Report.

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### Product segmentation in Hong Kong and Macau



Source: Frost & Sullivan Report

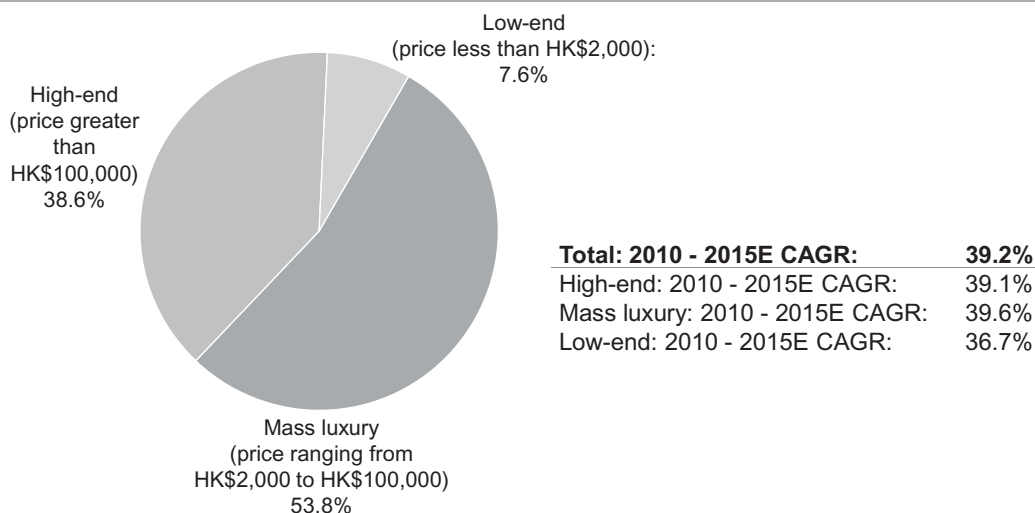
- *Gold products.* Historically, gold products have been the most popular product category in Hong Kong and Macau. Over the forecast period from 2010 to 2015, gold products are estimated to maintain their leadership position with a CAGR of 40.4%, reaching HK\$137.5 billion, or 42.4% of the market by 2015.
- *Platinum/karat gold products.* Platinum/karat gold products are forecasted to record a stronger-than-average CAGR of 40.0% from 2010 to 2015, reaching HK\$67.5 billion by 2015.
- *Gem-set jewellery.* Gem-set jewellery represented the second largest product category by retail value in the PRC. This category is forecasted to grow at a CAGR of 37.6% from 2010 to 2015, reaching HK\$119.3 billion by 2015.

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### Price range segmentation in Hong Kong and Macau

In Hong Kong and Macau, the significance of the mass luxury segment in the jewellery industry is due primarily to the relatively high domestic income levels, strong willingness to pay for jewellery products and rising disposable income of PRC tourists. In 2010, the mass luxury segment in Hong Kong and Macau represented 53.8% of the total jewellery market or HK\$33.4 billion. Similar to the PRC, the growth of the mass luxury segment is expected to outpace the rest of the industry, with an aggregate CAGR of 39.6% from 2010 to 2015, according to the Frost & Sullivan Report, further reinforcing the innate competitive advantage for industry players that are well-positioned to capture the potential of this segment.

Retail value of jewellery market in Hong Kong and Macau with breakdown by price range (2010)



**Total 2010 retail value: HK\$62.0 billion**

Source: Frost & Sullivan Report

### Jewellery sales channels in Hong Kong and Macau

Estimated by Frost & Sullivan, the number of POS in Hong Kong and Macau amounted to approximately 900, with stand-alone branded stores and stores in shopping malls representing the dominant sales channels by number of POS, at 56.8% and 40.2%, respectively. Going forward, the proportions are forecasted to remain relatively stable, according to Frost & Sullivan.

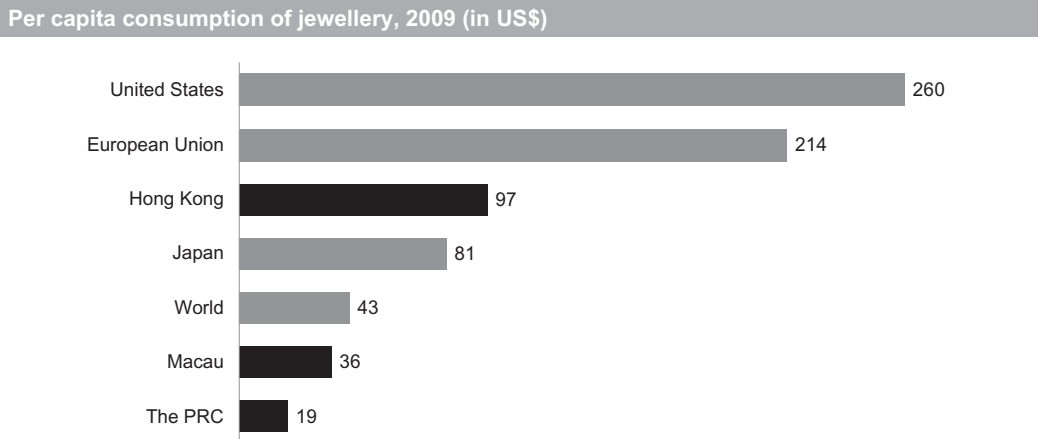
### Jewellery POS by operation model in Hong Kong and Macau

In Hong Kong and Macau, self-operated jewellery POS constitutes by-and-large the majority (approximately 99%), with franchised stores representing the remainder. Given Hong Kong and Macau are relatively small in size compared to the PRC, it is difficult for jewellery retailers to gain economies of scale and achieve satisfactory returns through franchising. As a result, it is estimated that self-operated POS will continue to dominate the jewellery market in Hong Kong and Macau, according to the Frost & Sullivan Report.



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### COMPARISON OF PER CAPITA JEWELLERY CONSUMPTION ACROSS REGIONS

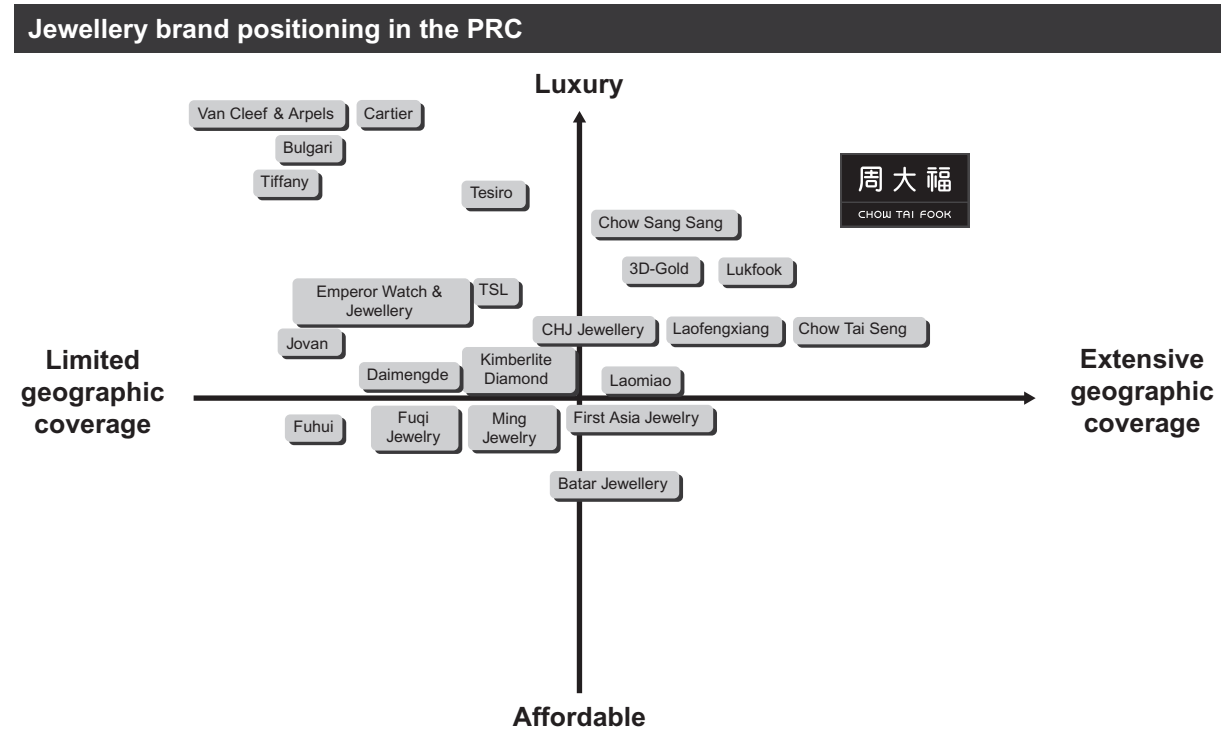


Source: Frost & Sullivan Report

On a per capita basis, jewellery consumption in the PRC, Hong Kong and Macau is still at nascent stages relative to mature markets such as the United States and the European Union, signifying the existence of strong growth potential. Specifically, per capita jewellery consumption in the PRC and Macau are both less than the world average, with that of the PRC being less than one-tenth the level estimated for United States.

### COMPETITIVE LANDSCAPE OF JEWELLERY INDUSTRY IN THE PRC, HONG KONG AND MACAU

The chart below provides an overview of the brand positioning of the key jewellery brands in the PRC:



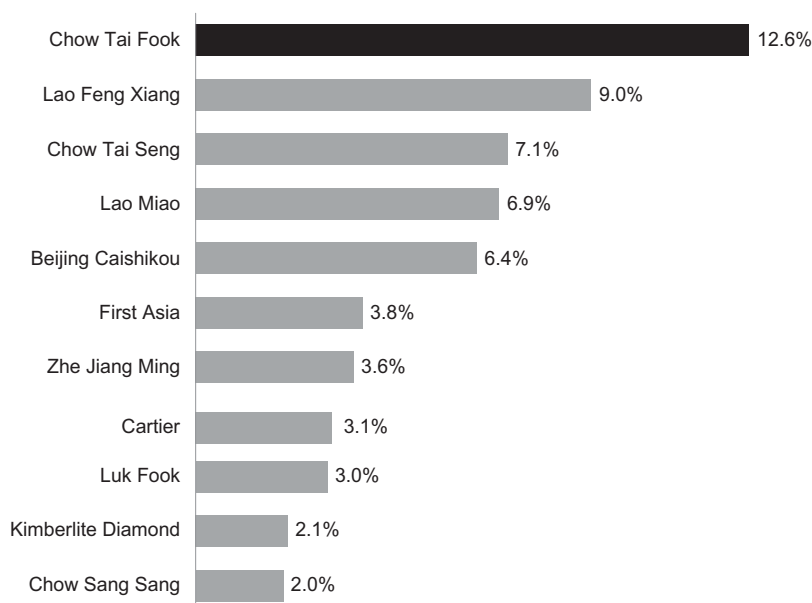
Source: Frost & Sullivan Report

Note: Size of textbox does not indicate revenue or market share

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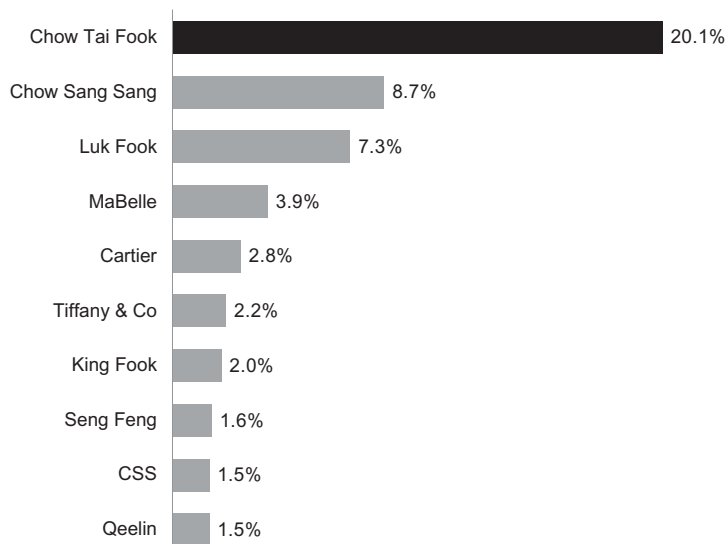
Taking into consideration only jewellery retailers whose revenues exceed RMB500 million, the top 10 players in the PRC have a combined market share of approximately 57.5% of the total jewellery market, according to the Frost & Sullivan Report. Within this segment, Chow Tai Fook enjoys a leading position with a market share of 12.6%, according to the Frost & Sullivan Report. The jewellery industry in Hong Kong and Macau is also highly concentrated, with the top 10 companies accounting for approximately 51.7% of the total market in 2010. In 2010, sales from Chow Tai Fook accounted for approximately 20.1% of the total market in Hong Kong and Macau, according to the Frost & Sullivan Report. Over the forecast period from 2010 to 2015, it is estimated that the jewellery market will undergo further consolidation as the top 10 players in the respective geographies continue to capture market share through product portfolio and distribution channel expansion.

**Jewellery market share by retail value in the PRC (2010)**



Source: Frost & Sullivan Report; only includes companies whose revenues exceed RMB500 million.

**Jewellery market share by retail value in Hong Kong and Macau (2010)**



Source: Frost & Sullivan Report

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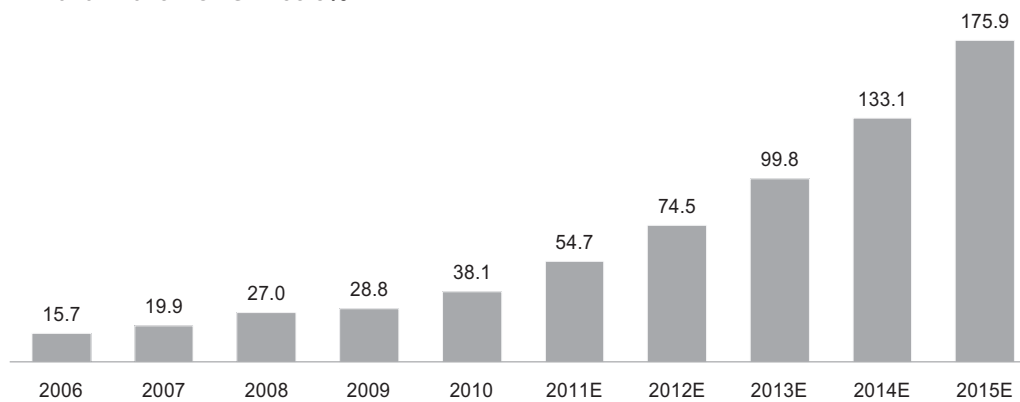
## INDUSTRY OVERVIEW

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### THE MASS TO HIGH-END LUXURY WATCH RETAILING INDUSTRY IN THE PRC, HONG KONG AND MACAU

Retail value of mass to high-end luxury watch market in the PRC (in HK\$ billion)

2010 - 2015E CAGR: 35.8%



Source: Frost & Sullivan Report

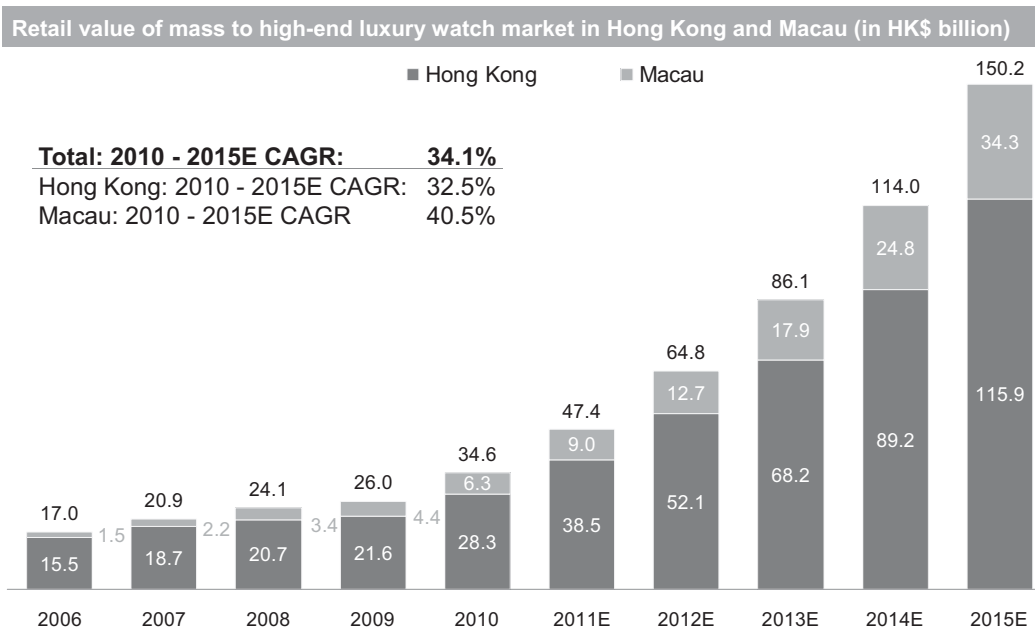
Data was originally presented in RMB; RMB/HK\$ exchange rate of 1.2 was applied to all figures.

Mass to high-end luxury watch in the PRC is defined as watches with a retail price of no less than RMB3,000.

According to the Frost & Sullivan Report, it is estimated that the mass to high-end luxury watch market in the PRC reached HK\$38.1 billion in 2010, up from HK\$15.7 billion in 2006, representing a CAGR of 24.8%. There are numerous brands of watchmakers in the PRC, mainly dominated by imported Swiss brands, local domestic manufacturers and other Asian and Japanese players in the mass to high-end luxury range. The market is gradually witnessing a change in consumer attitudes and lifestyle with rising demand for quality and status as well as an urbanising middle class. As such, the mass to high-end luxury watch players are expected to benefit from this trend. In particular, in the high-end segment of the market, watches are no longer used as mere time-telling devices, but are also fashion accessories and status symbols. For consumers in this market segment, brand image, brand reputation and style have become increasingly important purchase criteria.

## INDUSTRY OVERVIEW

The PRC's mass to high-end luxury watch market is estimated to grow at a CAGR of 35.8% from 2010 to 2015, reaching HK\$175.9 billion in 2015.



Source: Frost & Sullivan Report

Mass to high-end luxury watch in Hong Kong and Macau is defined as watches with a retail price of no less than HK\$10,000.

Since 2008, imports of Swiss watches in Hong Kong has surpassed that of the United States, accounting for approximately one-fifth of the world's Swiss watch imports in 2010 according to the Federation of the Swiss Watch Industry. The strong growth in branded mass to high-end luxury watches in Hong Kong and Macau can be attributed to the fast-growing number of tourists, the rising standard of living of PRC tourists, increasing domestic expenditure on luxury goods and a growing desire for authentic, aspirational brands.

From 2006 to 2010, the market for mass to high-end luxury watch in Hong Kong and Macau grew from HK\$17.0 billion to HK\$34.6 billion, representing a CAGR of 19.4%. From 2010 to 2015, the market is forecasted to grow at a faster rate than historical levels with a CAGR of 34.1%, reaching HK\$150.2 billion by 2015.

### Appendix: Consumer survey

Below is a summary of the consumer survey outcome with focus on brand awareness and purchase patterns conducted in August 2011 in the PRC, Hong Kong and Macau. For brand awareness survey, we looked into both "Unaided Brand Awareness" and "Aided Brand Awareness". "Unaided Brand Awareness" survey is defined as a survey of respondents recognising specific brands without any prompt. "Aided Brand Awareness" survey is defined as a survey of respondents recognising specific brands from a list of possible names offered as prompt.

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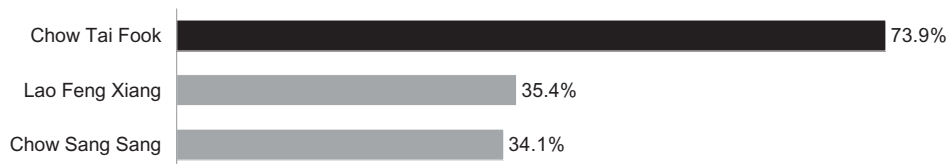
## INDUSTRY OVERVIEW

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### *The PRC*

Question: Can you name three jewellery brands which you are aware of?

**The PRC: Unaided Brand Awareness on Total Market, 2011**



Source: Frost & Sullivan  
Total sample = 3,000

In the Unaided Brand Awareness survey in the PRC, Chow Tai Fook was ranked first with 73.9%, followed by Lao Feng Xiang and Chow Sang Sang with 35.4% and 34.1%, respectively.

### *Hong Kong and Macau*

Question: Can you name three jewellery brands which you are aware of?

**Hong Kong and Macau: Unaided Brand Awareness on Total Market, 2011**



Source: Frost & Sullivan  
Total sample = 400

In the Unaided Brand Awareness survey in Hong Kong and Macau, Chow Tai Fook was ranked first with 74.4%, followed by Tse Sui Luen and Chow Sang Sang with 57.7% and 49.3%, respectively.

### **Sources of Information**

We commissioned Frost & Sullivan, an independent marketing and consulting agency, for the research and preparation of the Frost & Sullivan Report on the PRC, Hong Kong and Macau jewellery market, including general economic data and consumer surveys. Frost & Sullivan received a total fee of RMB2.60 million for the research and preparation of the Frost & Sullivan Report, which we believe reflects the market rate for such reports. Except for the Frost & Sullivan Report, we did not commission any other customised report.

In the PRC, Hong Kong and Macau, Frost & Sullivan adopted a methodology of both primary research and secondary research and obtained knowledge, statistics, information and insights on industry trends within the jewellery and watch industry. Primary research involved interviewing leading industry participants, consumers and third-party industry associations. Secondary research involved reviewing company annual reports, official bureaus' databases, independent research reports or journals and Frost & Sullivan's proprietary database built up over the past decades.

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## INDUSTRY OVERVIEW

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Forecast data was obtained from historical data analyses plotted against macroeconomic data as well as specific industry-related drivers, such as purchasing power and consumer expenditure on jewellery and watch. Frost & Sullivan developed its forecast on the following bases and assumptions:

- that the social, economic and political environments of the PRC, Hong Kong and Macau remain stable during the forecast period, which ensures the sustained and steady development of consumer goods retail market; and
- that the purchasing power is expected to continue to rise rapidly in emerging regions and to grow steadily in developed regions.