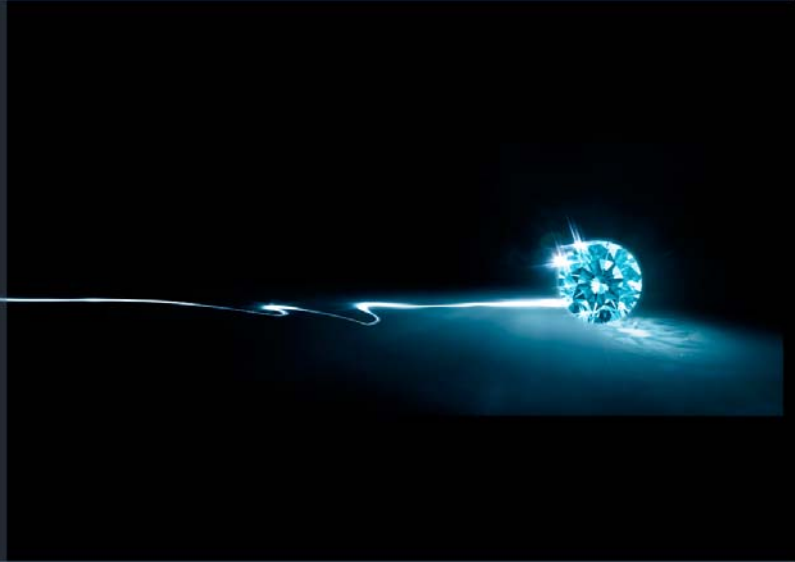




## Short Term Profit-taking vs. Sustainability: Value-Added Strategies for Leveraging Long Term Opportunities in the DJ Market in China

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China International Diamond Conference, Shanghai, November 2007

Ni hao! My name is Kaushik Mehta. It is an honour for me to be here to talk to you about the diamond market in China. Every time I visit China, it seems something new is being built and the country is just buzzing with energy and excitement. Indeed, China is one of the most fascinating success stories today and the growth potential of the diamond jewellery market in China has never been stronger.

## China's DJ Market Today



1. DJ market in China surpasses \$1.75 billion USD at retail level in 2006
2. # of US Dollar Billionaires in China has grown from just one person in 1999 to 106 people in 2007
3. Strong uptrend in diamond market
4. Market shifting into larger diamond sizes (20+ points and higher)
5. In the past two years, 40% of women who got married in China received a diamond (70% of all DJ sales are wedding related and 9% of women own diamond jewellery)

China's diamond jewellery market today is worth over \$1.75 billion USD at the retail level. We notice a solid uptrend in the market, with demand shifting into larger diamond sizes, the average being 20 points and higher.

Business is booming here, fuelled by solid economic growth and a strong financial sector. As a point of reference, a recent article in the Financial Times outlined that the number of US Dollar billionaires in China has grown from just one person in 1999 to 106 people in 2007. The economic growth potential that exists in China today is simply unprecedented.

I am still stunned that the dilemma for us in China today is in keeping pace with supplying the demand for high quality diamonds due to the exceptional diamond consumer trends that have been developing in China throughout the past decade or so. In fact, in the past two years, 40% of the women who got married in China received a diamond, which is simply a major achievement. All in all, about 70% of all diamond jewellery sales are wedding related and 9% of women in China now own diamond jewellery.

## Big Growth Opportunity



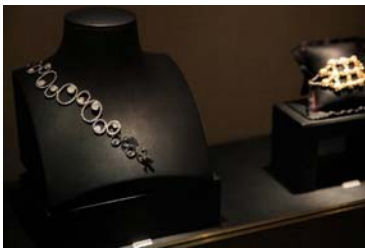
1. China is currently the third largest consumer of luxury goods, behind Japan and the USA
2. Goldman Sachs estimates that by 2015, China will become the # 1 luxury goods consumer globally
3. Research from Ernst & Young shows that China's luxury goods market will exceed \$11.5 billion by 2015 (approximately \$6 billion in 2004)
4. Continued double digit growth for diamond jewellery in China is achievable

When we look at the rest of the luxury business, indications are equally positive.

China is currently the third largest consumer of luxury goods, behind Japan and the USA. Goldman Sachs estimates that by 2015, China will become the # 1 luxury goods consumer globally. Complementing this, research from Ernst & Young shows that China's luxury goods market will exceed \$11.5 billion by 2015.

Within this context, the Chinese government has also created a very tax-friendly environment for the diamond business in China. Therefore, there is a very big growth opportunity for diamond wholesalers and retailers in China. Continued double digit growth for diamond jewellery in China on the whole is not only probable, but achievable. I only request the diamond wholesalers and retailers in China not to abuse this once in a lifetime opportunity as it could very well backfire.

## The Sparkling Growth Potential of Diamonds in China



1. GDP growth in China is expected to surpass 9% through to 2011 (growth in luxury goods set to strongly outpace GDP)
2. Leverage the emotional values associated with diamonds into long term opportunities
3. Price alone will not attract consumers for long

With GDP growth in China expected to surpass 9% through to at least 2011 and with luxury goods growth set to strongly outpace GDP during this period, any challenges we do see along the road should only be viewed as a small hiccup. And as I always like to think of it, a successful business person will leverage any challenges and turn them into valuable opportunities.

If we all work together today on safeguarding the emotional values associated with diamonds, we can build upon the long term value for diamonds. We can move beyond a purely short-term profit-taking approach into sustainable strategies with long term profit potential. This was exactly Eurostar's approach when we expanded into China 10 years ago.

We realised from first-hand experience that price alone will not attract consumers for long and this should not be viewed as the only value proposition we as jewellers should offer to our consumers. By carefully choosing strategic partners with a long term mindset, and supporting their consumer branding initiatives, we were able to grow alongside our strategic partners, who have become some of the most important players in the local market.

In view of this, I'd like to now take you through a few case studies to illustrate how the emotional value of diamonds, innovation, and value creation are slowly being incorporated into the diamond jewellery industry both globally and locally.



1. Distribution to over 650 retail doors globally
2. The company has maintained double-digit growth for the past six years
3. Captures above-average margins
4. Well-diversified diamond jewellery collections using broad quality ranges from Internally Flawless -SI quality

One of our strategic partners, HOF sells to over 650 retail doors globally. The company has maintained double-digit growth for the past 6 years.

Hearts On Fire's marketing savvy is the centre stone of the company's success. By fashioning a well-diversified range of diamonds into 'the world's most perfectly cut diamonds,' and supporting the collection with a strong marketing campaign, Hearts On Fire has been able to fill a growing consumer market niche for differentiated diamond jewellery and thus consistently capture above-average margins where others have been unable to unlock substantial value.

Hearts On Fire's unique customer proposition of providing the highest quality diamond cut has clearly paid off. Compared to six years ago, HOF has more than doubled their sales at the retail level, whilst maintaining lucrative profit margins in spite of fierce competition.



1. Originally best known for its jade collection, Tesiro is now synonymous with top quality diamond cuts in Jiangsu
2. Distribution in 60+ doors across 48 cities
3. Emphasises European-inspired jewellery designs and DJ buying experience
4. Tesiro will post over \$100 million in DJ sales in 2007

Tesiro Tongling, also one of our strategic partners, was originally best known for its jade collection. However, seeing an opportunity for expansion, they decided to make a foray into diamond jewellery by being the first in China to effectively own the high quality diamond cut product positioning. Today, Tesiro is synonymous with top quality diamond cuts in Jiangsu, and increasingly in other provinces.

Through a differentiated marketing strategy that emphasises European-inspired jewellery designs in all aspects of communications, Tesiro has been able to build a distribution network of over 60 doors across 48 cities. The company will bring in over \$100 million in diamond jewellery sales in 2007.

## Heart Anniversary Two-stone Diamond Collection



1. DTC BI programme featuring a new two-stone diamond jewellery concept to target gifting for the wedding anniversary occasion
2. In the first two weeks after product launch, we received over 10,000 Heart Diamond ring orders
3. Over 50% of the orders were outside of the VVS quality range, indicating that there is a market beyond this quality range
4. Complements the heavily promoted Diamond Wedding Ring product range

In September 2007, Eurostar and Xing Guang Da launched the Heart Diamond collection, which is a DTC BI programme featuring a new two-stone diamond jewellery concept targeting the wedding anniversary gifting occasion. This is a concept that strongly resonates with Chinese consumers today, with each diamond representing the two people in a relationship.

By creating real emotional value and breaking the barrier of price-based selling, we have been able to capture sales of 10,000 Heart Diamond rings at the wholesale level in the first two weeks after product launch. Over 50% of the orders were outside of the VVS quality range, indicating that there is a market beyond the VVS quality range.

## Keystones to Achieving Long Term Success with Diamond Jewellery



1. Create an enticing diamond jewellery buying experience
2. Build long term relationships with customers
3. Focus on building up emotion, innovation, and differentiation in diamond jewellery promotions

It is evident from the case studies of Hearts On Fire, Tesiro Tongling, and the Heart Diamond that by leveraging the emotional values associated with diamonds, we can create tremendous added value for our consumers and for us.

Rather than looking at the value of diamonds from a commodity standpoint, they have leveraged diamonds into major growth drivers for their brands regardless of the inherent qualities of the diamonds or their price.

Value can be captured using diamonds in almost any quality if emotion, innovation, and differentiation are carefully and artfully incorporated into the picture.

## Strategies for Consumer Relationship Building



1. Give consumers a reason to return and purchase items over and over again
2. Provide them with a frequently updated, well-diversified, and differentiated diamond jewellery product line for many different personal milestones (i.e. bridal, anniversary, a reward for oneself, etc.)
3. Invest in marketing and branding efforts to ensure that your customers know about and remember you

And the way to do this is by creating an enticing diamond jewellery buying experience and building long term relationships with customers. If we provide consumers with a frequently updated, well-diversified and differentiated diamond jewellery product line that appeals to different personal milestones such as wedding, anniversary, or self-recognition, we create more long term selling opportunities.

Taking all of these steps moves us away from attracting consumers with only margin-eroding prices, and forces us to constantly upgrade ourselves and provide better diamond jewellery to our customers.

“The more opportunities I seize, the more opportunities multiply before me.”

-Sun Tzu

“The best time to plant a tree was twenty years ago. The second best time is today.”

-Chinese Proverb

As I end this presentation today, I'd like to leave you with two quotes.

One: “The more opportunities I seize, the more opportunities multiply before me.”

And secondly, “ The best time to plant a tree was twenty years ago. The second best time is today.”

I hope you will take these thoughts and apply them into your business.

The diamond market in China is booming today, but we need to plant more trees today to ensure sustainable growth twenty or thirty years from now. The more opportunities we take advantage of today, the more sparkling the benefits will be when we make our harvest tomorrow, and in turn, more opportunities will multiply before us.

謝謝！

*Thank You!*

Shieh Shieh