

# Retail

The retail division consists of the A S Watson group of companies, one of the world's largest and most diversified retailers currently operating 11 retail chains in Europe and four major retail chains in Asia, with more than 7,100 stores in 36 markets worldwide that provide high quality personal care, health and beauty products; luxury perfumery and cosmetic products; food, wine and general merchandise; and consumer electronic and electrical appliances. A S Watson also manufactures and distributes various water and other beverages in Hong Kong and the Mainland.

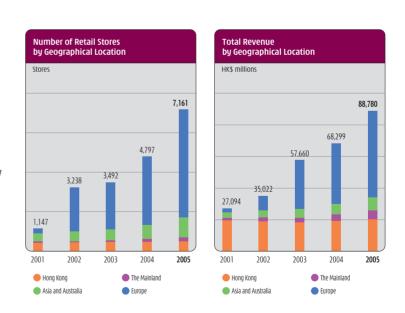


## Retail

These businesses are managed under four principal operating divisions: Health and Beauty; Luxury Perfumeries and Cosmetics; Food, Electronics and General Merchandise ("FEGM"); and Manufacturing.

Total revenue for the retail division totalled HK\$88,780 million, an increase of 30% compared to last year, mainly due to contributions from Marionnaud Parfumeries ("Marionnaud") and The Perfume Shop, which were acquired in April and August respectively; a full-year contribution from the Rossmann retail chain in Germany, in which a 40% interest was acquired in August 2004; and also continued sales growth in PARKnSHOP and Watsons in the Mainland, Watsons in Taiwan and the UK retail operations, EBIT of HK\$3,261 million was 2% above last year, mainly due to the profits from Marionnaud, The Perfume Shop and Rossmann; improved results from Watsons in the Mainland and the UK retail operations; offset by lower results from the retail operations, mainly in Hong Kong, due to margin compression. This division contributed 44% and 6% of the Group's total revenue and EBIT from its established businesses respectively.

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#### **Health and Beauty**

The health and beauty division consists mainly of Savers and Superdrug in the UK; Kruidvat and Trekpleister in Continental Europe; Rossmann in the Czech Republic, Hungary, Poland and Germany; Drogas in the Baltic States; Watsons in Asia and Nuance-Watson in Hong Kong and Singapore. Watsons stores were also recently opened in Turkey, Estonia and Slovenia.

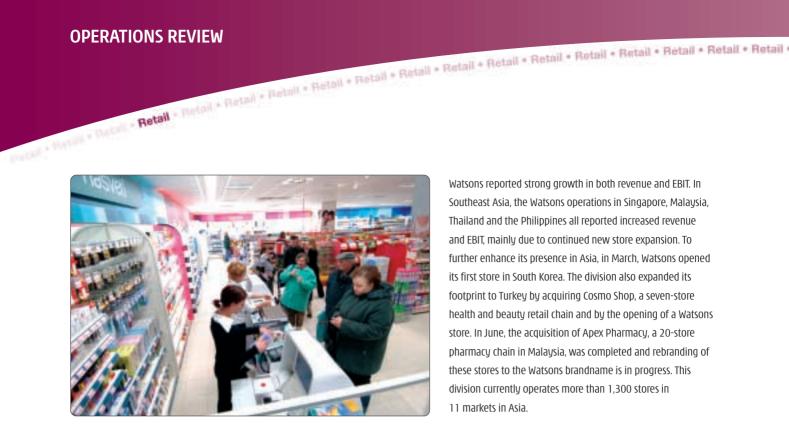


• Superdrug, the health and beauty retailer, is expanding its presence rapidly throughout the UK.

In Europe, the health and beauty businesses reported combined revenue 19% above and EBIT 18% above last year, mainly due to the improved results in the UK, the increased contribution from the various Rossmann operations, including the full-year contribution from Rossmann in Germany in which a 40% interest was acquired in August 2004. Although the consumer spending sentiment in the UK has been weak, the combined revenue and recurring EBIT of the two major retail chains in the UK increased by 2% and 10% respectively, mainly through a wider range of products and promotional activities and improvements in category and product mix to strengthen margin. The businesses in Continental Europe have successfully maintained their market positions in respective countries and have reported overall revenue growth of 3% although the EBIT contribution had reduced, mainly due to keen competition from both health and beauty specialty chains and also supermarkets, particularly in the Netherlands. The Drogas chain in Latvia and Lithuania, being

the division's first investment in Eastern Europe, provided its first full-year EBIT contribution. To further enhance its presence in Eastern Europe, where the business is enjoying robust growth in the consumer market, the first Watsons stores in Estonia and Slovenia were opened. In January this year, the division acquired the Spektr Group, an established 24-store health and beauty retail chain in St Petersburg, Russia. Including these recent additions, the division now has more than 4,000 retail outlets in 12 countries in Europe.

In Asia, the Watsons personal care, health and beauty business continues to be the leading retail chain with strong brand name recognition, particularly in Hong Kong, Taiwan and the Mainland. These operations reported combined revenue 22% above last year although EBIT was 9% below last year, mainly due to the reduced contribution from the operations in Hong Kong and also Taiwan, which were affected by margin compression due to intense price competition. In the Mainland,



European customers are pampered with more varieties of health and beauty products with Watsons Your Personal Store entering Europe in 2005.



Spektr Group, acquired by A S Watson, is an established health and beauty retail chain in St Petersburg, Russia, operating 24 stores.



The Perfume Shop, acquired by A S Watson in August 2005, operates over 120 stores in the UK, Ireland and Australia

Watsons reported strong growth in both revenue and EBIT. In Southeast Asia, the Watsons operations in Singapore, Malaysia, Thailand and the Philippines all reported increased revenue and EBIT, mainly due to continued new store expansion. To further enhance its presence in Asia, in March, Watsons opened its first store in South Korea. The division also expanded its footprint to Turkey by acquiring Cosmo Shop, a seven-store health and beauty retail chain and by the opening of a Watsons store. In June, the acquisition of Apex Pharmacy, a 20-store pharmacy chain in Malaysia, was completed and rebranding of these stores to the Watsons brandname is in progress. This division currently operates more than 1,300 stores in 11 markets in Asia.

Retail concessions at the Hong Kong International Airport and the Singapore Changi Airport, operated by Nuance-Watson, a 50% joint venture, continued to provide a positive contribution to the division and reported strong growth in revenue and EBIT.

### **Luxury Perfumeries and Cosmetics**

The luxury perfumeries and cosmetics division comprises ICI Paris XL and the two Europe-based luxury perfumery and cosmetics retail chains, Marionnaud and The Perfume Shop, acquired in April and August respectively. Marionnaud is the largest perfumery and cosmetics retailer headquartered in France with more than 1,200 stores in 14 countries and is well known for its wide, high quality product range. The Perfume Shop, which operates principally in the UK with more than 120 outlets, has established a market position as the leading specialist fragrance retailer in the UK. Both of these businesses have made EBIT contributions to the Group and are performing ahead of expectations. The Group is currently integrating these two new businesses with its existing retail operations to realise administrative efficiencies and to leverage the increased buying power from the leading combined market share.

#### Food, Electronics and General Merchandise

The FEGM division consists of PARKnSHOP in Hong Kong and the Mainland, Fortress in Hong Kong and Taiwan and wine retail and trading businesses.

The PARKnSHOP supermarket chain in Hong Kong continued to maintain a leading market share with 225 stores. Although PARKnSHOP reported solid revenue increase compared to last year, its results were adversely affected by severe price competition. PARKnSHOP's operations in the Mainland continued to expand by opening six new stores in the year. A total of 37 stores, mainly in the Southern region, is reporting satisfactory revenue growth and EBIT while this operation continues to expand to other cities in the Mainland.

Fortress, the consumer electronic and electrical appliances retail chain in Hong Kong and Taiwan, reported combined revenue growth of 11% compared to that of last year. However, margins were under pressure particularly on personal audio-visual products which have much shorter lifecycles than the traditional home appliances, leading to a reduced EBIT in Hong Kong and adverse results in Taiwan.

### Manufacturing

The manufacturing division manufactures and distributes well-known brands of water, soft drinks and fruit juices in Hong Kong and the Mainland. The division reported a 5% increase in revenue compared to last year, but a reduced EBIT contribution, mainly due to an increase in raw material costs.

"The retail division contributed 44% and 6% of the Group's total revenue and EBIT of the established businesses."



California Governor Arnold Schwarzenegger visits a PARKnSHOP store during his stay in Hong Kong.



 Mainland shoppers recognise PARKnSHOP's familiar "P" logo as a symbol of quality.