

THE PERFUME SHOP



Retail

The retail division consists of the A S Watson group of companies, the world's largest health and beauty retailer in terms of store number. A S Watson currently operates 12 retail chains in Europe and five retail chains in Asia, with more than 7,900 stores in 36 markets worldwide, providing high quality personal care, health and beauty products; luxury perfumery and cosmetic products; food, fine wine and general merchandise; as well as consumer electronics and electrical appliances. A S Watson also manufactures and distributes various bottled waters and other beverages in Hong Kong and the Mainland.

Diversity

+ Dynamism



The Group's retail businesses are managed under four principal operating divisions: Health and Beauty; Luxury Perfumeries and Cosmetics; Retail Hong Kong; and Manufacturing.

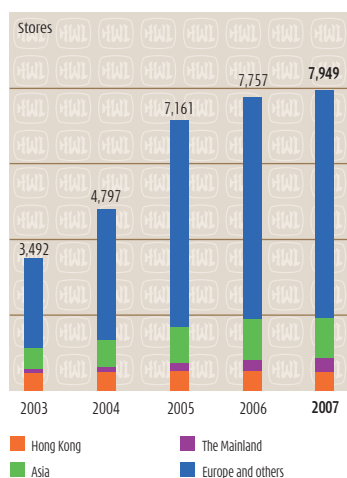
Total revenue for the retail division was HK\$110,007 million, an increase of 11% compared to last year, mainly due to the growth of health and beauty operations, including Rossmann in Germany and Poland, Kruidvat in the Benelux countries, the full year contribution from the business in the Ukraine which was acquired in November 2006, and the increased sales of the European luxury perfumeries and cosmetics division. EBIT of HK\$3,711 million was 36% above last year. Following a management restructuring last year, this division focused on the integration and streamlining of its operations to improve efficiency and profitability, and also on reducing inventory levels, which had a one-time adverse effect on the margins in the first half of the year. Despite the one-time adverse effect, improved results were achieved by the health and beauty operations in Asia and the Benelux countries, the retail operations in Hong Kong, and the luxury perfumeries and cosmetics operations in the UK and Europe. EBIT also benefited from a full year contribution from the health and beauty business in the Ukraine. These improved results were partially offset by lower results from the UK health and beauty businesses. The retail division contributed 44% and 7% to the Group's total revenue and EBIT from its established businesses respectively.

	2007 HK\$ millions	2006 HK\$ millions	Change
Total Revenue	110,007	99,149	+11%
EBIT	3,711	2,720	+36%

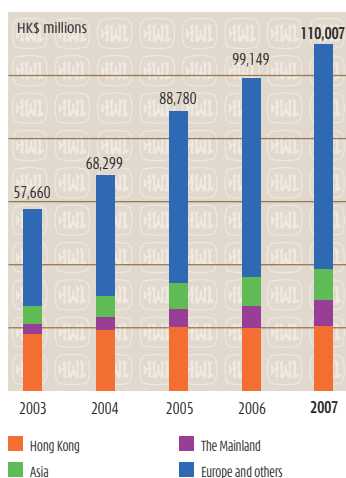


• Kruidvat celebrates the inauguration of its first Next Generation Store in the Netherlands.

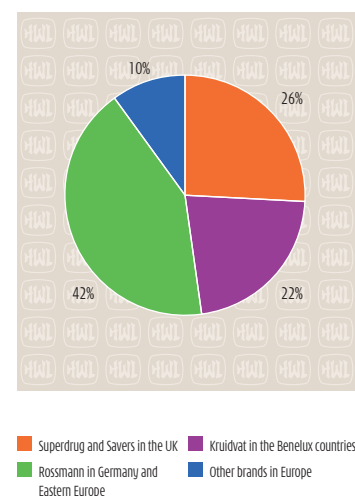
Total Number of Retail Stores by Geographical Location



Total Revenue by Geographical Location



Number of Retail Stores by Brands of Health and Beauty Europe Division at the end of December 2007



Health and Beauty

The health and beauty retail chain stores consist of Superdrug and Savers in the UK; Kruidvat and Trekpleister in the Benelux countries; Rossmann in Poland, Hungary, Czech Republic and Germany; Drogas in the Baltic States; Watsons in Asia and certain Eastern European countries; and Nuance-Watson in the Hong Kong and Singapore international airports. The health and beauty division's total revenue and EBIT increased 15% and 18% respectively.

The health and beauty businesses in the UK and Europe reported a combined revenue that is 14% above last year, mainly due to the continued revenue growth of Superdrug in the UK and Kruidvat in the Benelux countries; increased revenue from the joint ventures with Rossmann, in particular in Germany and Poland; and also the full year contribution from the health and beauty business in the Ukraine. EBIT was higher than last year, mainly due to improved results from the Benelux countries and Eastern Europe, partially offset by a profit reduction in the UK. In the UK, the Superdrug and Savers operations were restructured and merged during the year amid continuing weak consumer spending sentiment and intense price competition. Although Superdrug achieved a 16% increase in revenue, EBIT declined and Savers reported lower revenue and results. In the Benelux countries, Kruidvat maintained its market leading position in the health and beauty retail sector and the Benelux business reported overall revenue growth of 11% and strong EBIT growth. The division's joint ventures with Rossmann in Germany and Eastern Europe overall performed well and reported double-digit growth in revenue, and an increased EBIT. The health and beauty Europe division currently has more than 4,300 retail outlets in 14 markets.

"A S Watson currently operates more than 7,900 stores in 36 markets worldwide."

In Asia, the Watsons health and beauty business continues to be the leading retail chain with strong brand name recognition and extensive geographical coverage, particularly in the Mainland and Taiwan. All operations reported revenue growth from last year except Taiwan. Combined revenue grew 17% over last year and EBIT increased, mainly due to increased contributions from the Mainland and the Philippines partially offset by the decreased contributions from Taiwan and Malaysia. Retail concessions at the Hong Kong International Airport and the Singapore Changi Airport, operated by Nuance-Watson, a 50% owned joint venture, reported strong growth in revenue and combined EBIT and continued to provide a steady contribution to the division. There are currently more than 1,300 Watsons stores operating in eight markets in Asia, excluding Hong Kong and Macau.



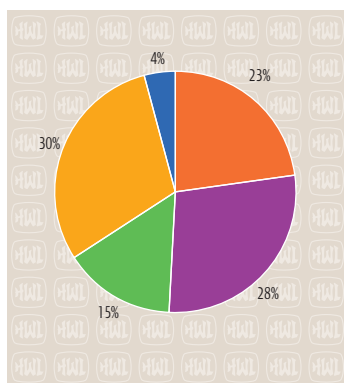
• Trekleister adopts a refreshing new brand identity and store designs that incorporate the elements of knowledge, pleasure, relaxation and enjoyment.

Luxury Perfumeries and Cosmetics

The luxury perfumeries and cosmetics division comprises the three Europe-based luxury perfumery and cosmetics retail chains, Marionnaud, The Perfume Shop and ICI Paris XL. Combined revenue and EBIT increased 13% and 59% respectively over last year.

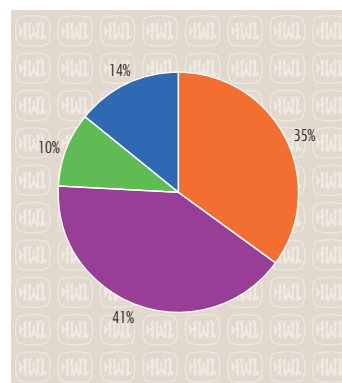
In Europe, Marionnaud reported a combined revenue growth of 10%. EBIT increased mainly due to improved results from Marionnaud Austria and central cost rationalisation. In the UK, The Perfume Shop, a specialty perfumery store concept, achieved revenue growth of 19% and healthy EBIT growth through its extensive retail network and comprehensive product range. In the Benelux countries, ICI Paris XL reported a combined revenue growth of 19%, and a strong EBIT growth. There are currently over 1,600 stores in 18 markets in this division.

Number of Retail Stores by Brands of Health and Beauty Asia Division at the end of December 2007



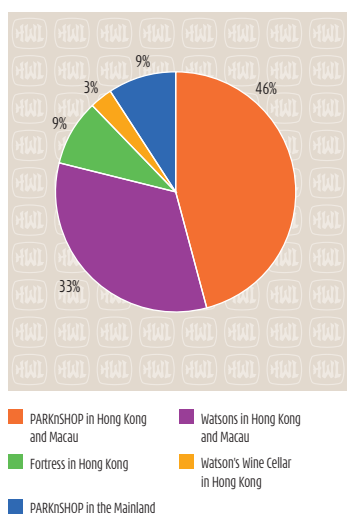
■ Watsons in the Mainland ■ Watsons in Taiwan
■ Watsons in Malaysia ■ Watsons in other Asian countries
■ Other brands in Asian countries

Number of Retail Stores by Brands of Luxury Perfumeries and Cosmetics Division at the end of December 2007



■ Marionnaud in France ■ Marionnaud in other European countries
■ The Perfume Shop in the UK ■ ICI Paris XL in the Benelux countries

Number of Retail Stores by Brands of Retail Hong Kong Division at the end of December 2007



Retail Hong Kong

The Retail Hong Kong division consists of the retail concepts in Hong Kong, being PARKnSHOP supermarkets, Watsons health and beauty personal care stores, Fortress consumer electronic and electrical appliances retail chain and Watson's Wine Cellar stores. PARKnSHOP in the Mainland and the European fine wine trading businesses are also reported in this division. This division, which currently operates 500 retail outlets, reported a total revenue growth of 3% and an improved EBIT.

While the economy of Hong Kong was healthy and growing in 2007, market competition remained intense and retailers faced rising pressure from increasing rental rates and operating costs. The PARKnSHOP supermarket chain in Hong Kong continued to maintain a leading market share in the supermarket sector and through the introduction of new store concepts and cost controls, PARKnSHOP reported growth in both revenue and EBIT during the year. Watsons reported slightly higher revenue and better EBIT than last year, through tighter cost control and operation rationalisation. Fortress, one of the leading consumer electronic and electrical appliance retail chains in Hong Kong, also reported increased revenue and an increased EBIT with its wide range of product offerings. Watson's Wine Cellar, the specialist wine store chain in Hong Kong, reported growth in both revenue and EBIT.

In the Mainland, PARKnSHOP operations reported revenue growth but margin pressure led to a reduction in EBIT. This was mainly due to keen competition from both local supermarkets as well as foreign hypermarket retailers.

Manufacturing

The manufacturing division manufactures and distributes well-known brands of bottled waters, fruit juices and soft drinks in Hong Kong and the Mainland. The division reported a 6% revenue growth and a 20% increase in EBIT compared to last year.



- Fortress unveils a new concept store, providing a comfortable and spacious shopping environment stocked with trendy electronic and electrical products for customers to select.

"Total revenue was HK\$110,007 million, an increase of 11% compared to last year."