

# Operations Review



# Retail

- Total revenue increased 6% to HK\$123,177 million.
- EBIT increased 38% to HK\$7,866 million.
- The retail division contributed 47% and 20% respectively to the total revenue and EBIT of the Group's established businesses.

The retail division consists of the A S Watson group of companies, one of the world's largest health and beauty retailers in terms of store numbers. A S Watson currently operates 12 retail brands in Europe and 10 retail brands in Asia, with over 9,300 stores in 33 markets worldwide, providing high quality personal care, health and beauty products; luxury perfumery and cosmetic products; food and fine wine; 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.



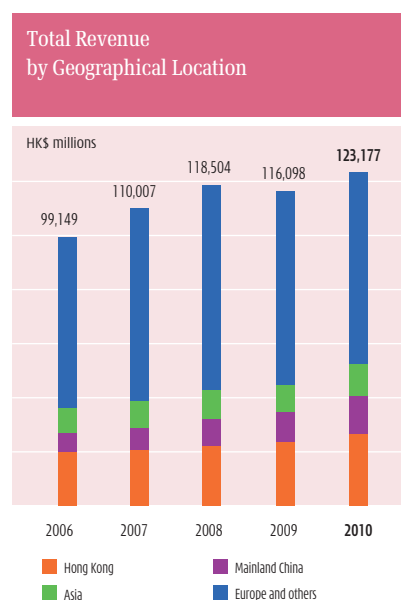
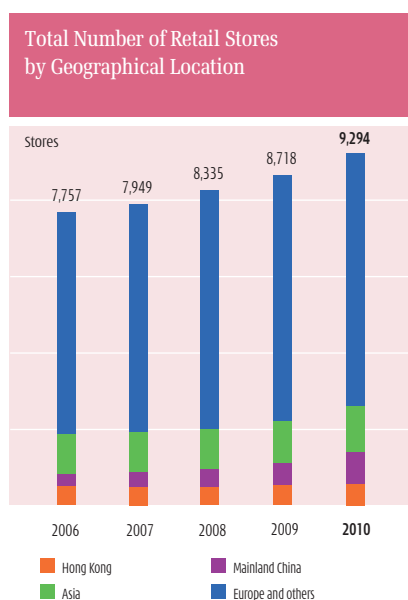
The Perfume Shop's "shop-in-shop" counter in Superdrug, the United Kingdom.

## Operations Review – Retail

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

The retail division achieved an 8% increase in total revenue in local currencies compared to last year. In Hong Kong dollars, total revenue increased by 6% to HK\$123,177 million. The retail division achieved EBIT of HK\$7,866 million, 38% above last year, driven by management's strong commitment to improving operating efficiencies, reducing inventory levels, increasing centralised purchasing, developing high-margin own-brand products, and continued expansion in high growth markets. EBIT growth in local currencies was 41% compared to last year. The major contributors to EBIT growth include the retail operations in Hong Kong, the health and beauty operations in the Asian and Benelux countries as well as the joint ventures with Rossmann in Poland and Germany. The retail division contributed 47% and 20% respectively to the total revenue and EBIT of the Group's established businesses.

	2010 HK\$ millions	2009 HK\$ millions	Change
Total Revenue	123,177	116,098	+6%
EBIT	7,866	5,692	+38%



## Health and Beauty

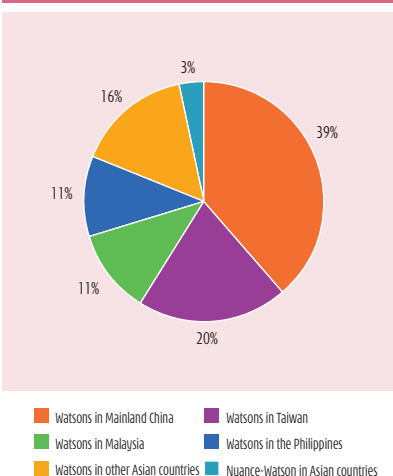
The health and beauty retail chain stores consist of Watsons in Asia and certain Eastern European countries; Kruidvat and Trekpleister in the Benelux countries; Rossmann joint venture stores in Germany and Central European countries; Superdrug and Savers in the UK; Drogas in the Baltic States; and Nuance-Watson in the Hong Kong and Singapore international airports. In local currencies, the health and beauty division's total revenue and EBIT increased 8% and 37% respectively.

In Asia, the Watsons business is the leading health, beauty and retail chain with strong brand name recognition and extensive geographical coverage, particularly in the Mainland. Combined total revenue grew 24% compared to last year, with an EBIT growth of 47%, mainly due to increased contributions from continued expansion in the Mainland which now has over 800 stores. The division currently has more than 2,000 stores operating in eight Asian markets outside of Hong Kong and Macau.

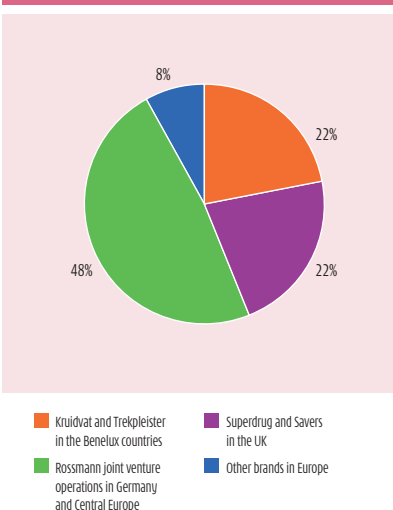
The health and beauty businesses in the UK and Europe reported, in local currencies, a combined total revenue improvement of 4% over last year, mainly due to the better sales performances of Kruidvat in the Benelux countries and continued expansion of the operations in Poland. EBIT improved 34% in local currencies compared to last year. This was mainly due to better results from the operations in the Benelux countries, Poland, and Germany, as well as the combined businesses in the UK. The health and beauty European division currently has more than 5,000 retail outlets in 13 markets.



Health and Beauty Asia Division:  
Number of Retail Stores by Brand  
as at the end of December 2010



Health and Beauty Europe Division:  
Number of Retail Stores by Brand  
as at the end of December 2010



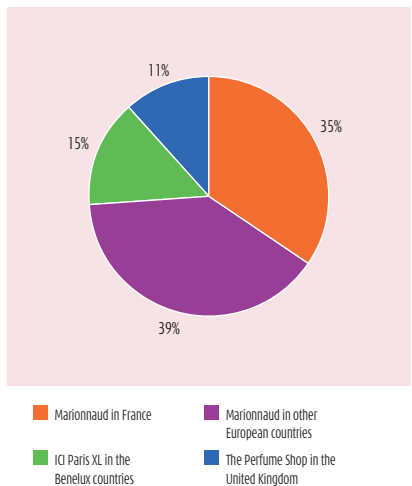
Watson's Wine has just opened its first outlet in Shanghai.

### Luxury Perfumeries and Cosmetics

The luxury perfumeries and cosmetics division comprises the three Europe-based luxury perfumeries and cosmetics retail chains: Marionnaud, The Perfume Shop and ICI Paris XL. In local currencies, the division increased its total revenue slightly by 1% compared to last year and reported an increase in EBIT of 16%.

Though the luxury sector showed signs of improvement in 2010 after the financial crisis, Marionnaud still faced a challenging economic environment in various European countries during the year. In local currencies, combined total revenue increased 1%. In the UK, The Perfume Shop reported a decrease in total revenue of 1% and in the Benelux countries, ICI Paris XL reported solid growth in total revenue of 4% in local currency. Despite the challenging economic conditions, EBIT overall improved mainly driven by tight cost controls. There are currently over 1,600 stores in 17 markets in this division.

Luxury Perfumeries and Cosmetics Division:  
Number of Retail Stores by Brand  
as at the end of December 2010



Watsons announces its card membership reaching 15 million in Asia.

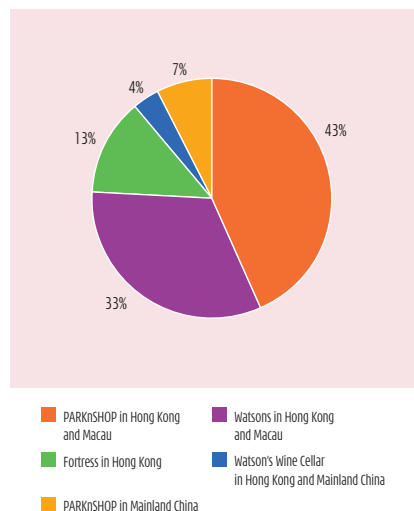
## Retail Hong Kong

The Retail Hong Kong division consists of leading retail concepts in Hong Kong, being PARKnSHOP supermarkets and other related concept stores; Watsons health and beauty personal care stores; Fortress consumer electronics and electrical appliances retail stores; Watson's Wine Cellar stores; as well as PARKnSHOP and Watson's wine Cellar stores in the Mainland. This division, which currently operates over 500 retail stores, reported total revenue growth of 12% and an EBIT improvement of 24%.

While the Hong Kong economy improved in 2010, PARKnSHOP's EBIT faced margin pressure due to intense competition as well as rising rental and other costs. Watsons reported better total revenue and EBIT compared to last year through a heightening of brand awareness, improved efficiency and strengthening of product mix and differentiation. Fortress also reported increased total revenue and EBIT for the year. Watson's Wine Cellar reported growth in both total revenue and EBIT as consumer spending on wine continued to grow.

In the Mainland, the PARKnSHOP operations reported increased total revenue in 2010 and a solid EBIT improvement mainly due to increased sales, cost saving measures and improved inventory management.

Retail Hong Kong Division:  
Number of Retail Stores by Brand  
as at the end of December 2010



## 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 maintained its total revenue at the same level as last year and reported a 17% increase in EBIT, primarily driven by the expanded operations in the Mainland, more than compensating for slightly weaker results from the Hong Kong operations.



Premier Wen Jiabao is warmly welcomed by staff and shoppers when he visits PARKnSHOP in Guangzhou.