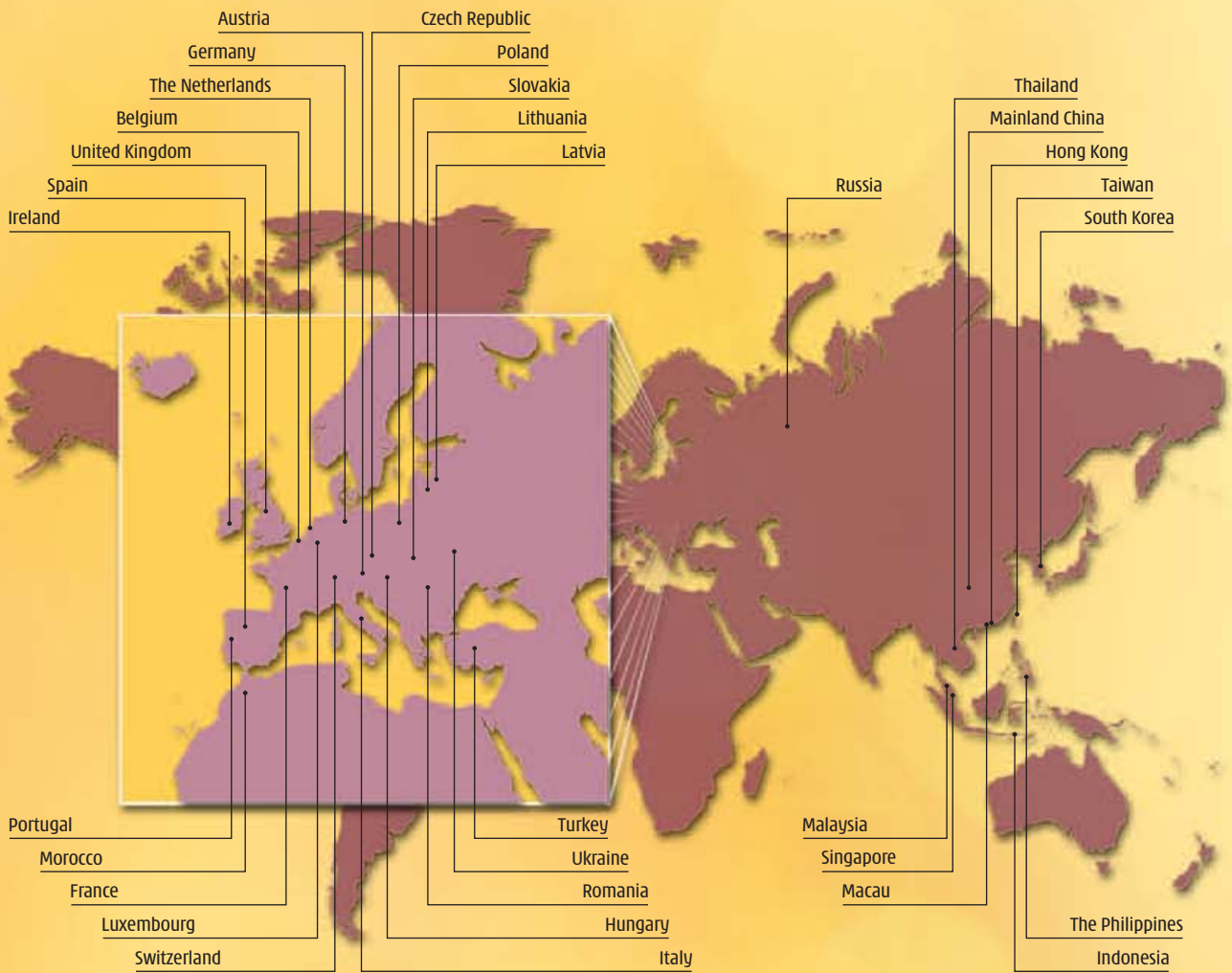


# Retail

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.



ASW has expanded its retail network to over 10,000 stores globally by the end of 2011.



- Total revenue increased 17% to HK\$143,564 million.
- EBITDA increased 16% to HK\$11,724 million.
- EBIT increased 19% to HK\$9,330 million.
- Over 10,000 retail stores worldwide.

## Operations Review – Retail

### Group Performance

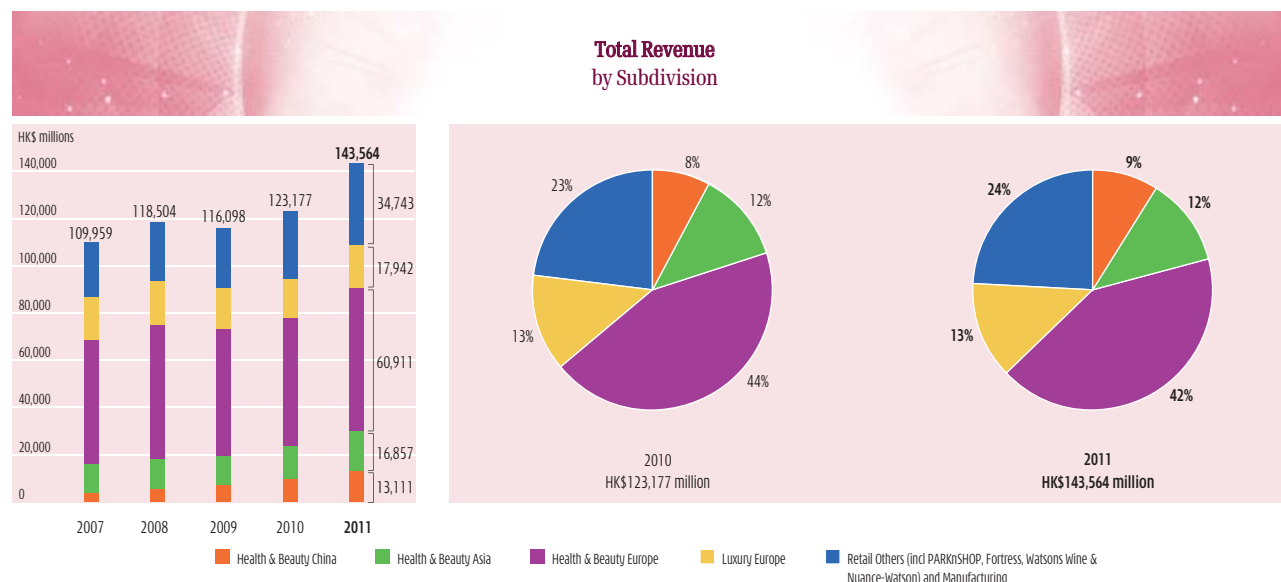
**A**S Watson currently operates 11 retail brands in Europe and nine retail brands in Asia, with over 10,000 stores in 33 markets worldwide, providing high quality personal care, health and beauty products; luxury perfumery and cosmetic products; food and fine wines; as well as consumer electronics and electrical appliances. A S Watson also manufactures and distributes various bottled waters and other beverages in Hong Kong and the Mainland.

	2011 HK\$ millions	2010 HK\$ millions	Change
Total revenue	<b>143,564</b>	123,177	<b>+17%</b>
EBITDA	<b>11,724</b>	10,081	<b>+16%</b>
EBIT	<b>9,330</b>	7,866	<b>+19%</b>

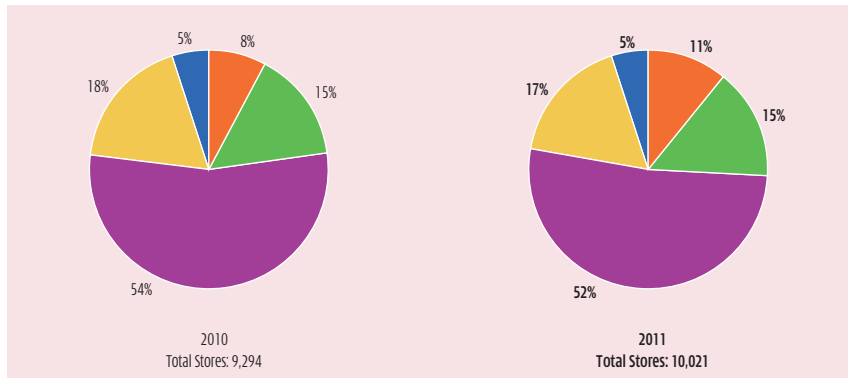
In local currencies, growth in total revenue, EBITDA and EBIT for the year were 12%, 12% and 15% respectively. The retail division contributed 37%, 15% and 18% respectively to the total revenue, EBITDA and EBIT of the Group's businesses.

The Group's retail businesses are managed under five principal operating subdivisions: Health and Beauty China; Health and Beauty Asia (excluding the Mainland); Health and Beauty Europe; Luxury Europe; and Retail Others and Manufacturing.

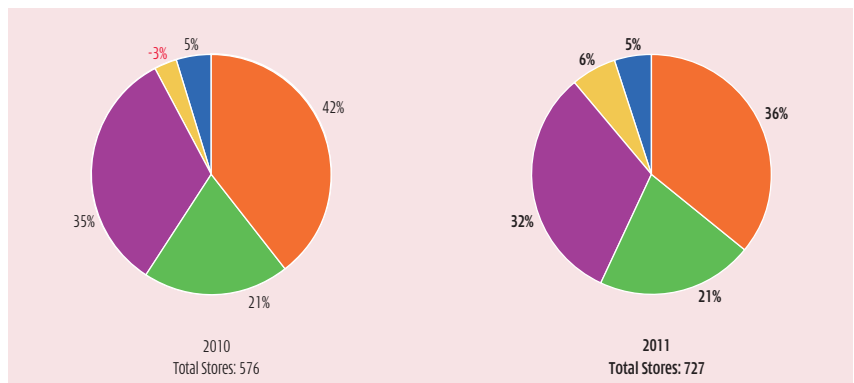
Sales growth was strong across all subdivisions, which was supported both by increased store numbers and, except in Luxury Europe, year-on-year comparable sales growth.



### Total Retail Store Numbers by Subdivision



### Total Retail Store Number Growth by Subdivision



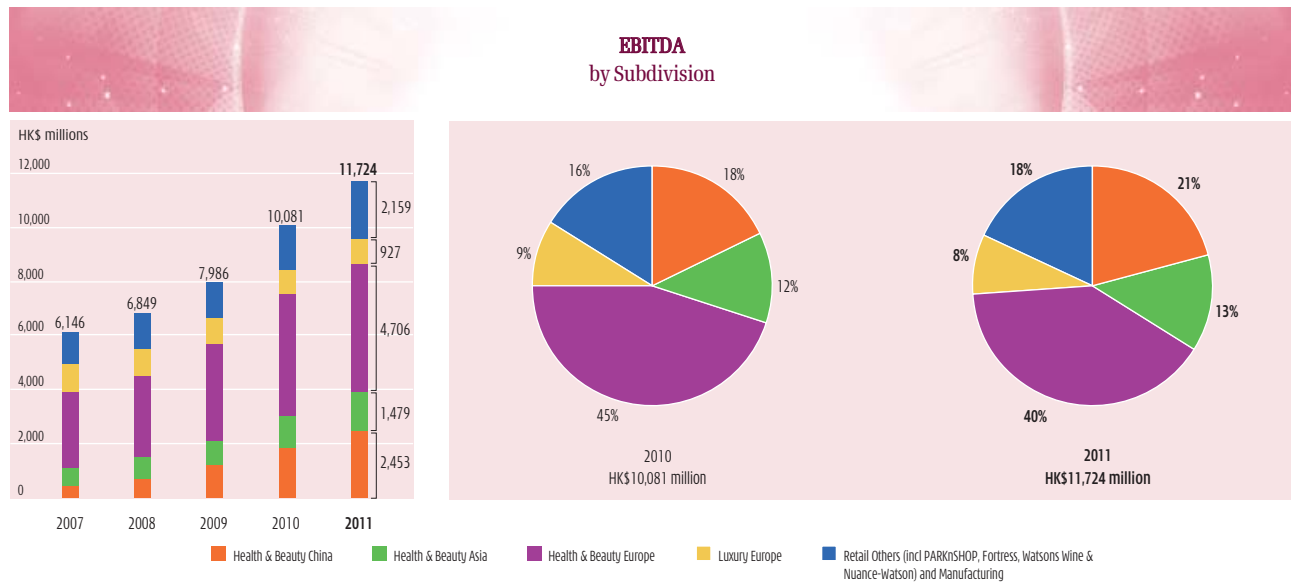
■ Health & Beauty China   
 ■ Health & Beauty Asia   
 ■ Health & Beauty Europe   
 ■ Luxury Europe   
 ■ Retail Others (incl PARKnSHOP, Fortress, Watsons Wine & Nuance-Watson) and Manufacturing

Comparable Store Sales Growth (%)	2011	2010
Health & Beauty China	7.8%	9.3%
Health & Beauty Asia	6.2%	5.6%
Health & Beauty Europe	2.9%	2.0%
Luxury Europe	-0.2%	-0.6%
Retail Others (includes PARKnShop, Fortress, Watsons Wine & Nuance-Watson) and Manufacturing	11.6%	8.8%
<b>Total Retail</b>	<b>5.1%</b>	<b>3.8%</b>
- Asia	9.5%	8.0%
- Europe	2.2%	1.4%

Note: Comparable store sales growth represents the % change in the net sales from comparable stores from the same period last year.

## Operations Review – Retail

EBITDA and EBIT growth were likewise solid across all subdivisions other than Luxury Europe. This reflects improving margin management, operating efficiencies and an increasing percentage of own-brand and exclusives sales.



Superdrug launches a new concept store to bring a refreshing shopping experience to customers.

## Segment Performance

### Health and Beauty China

	2011 HK\$ millions	2010 HK\$ millions	Change
Total revenue	13,111	9,589	+37%
EBITDA	2,453	1,825	+34%
EBIT	2,262	1,687	+34%



The Watsons store in Beijing, one of the thousand stores in Mainland China, where Watsons China is currently operating in over 100 cities.

Watsons is currently the market leader in health and beauty in the Mainland. During 2011, Watsons reached an important milestone in the country by surpassing 1,000 stores. The Watsons business continues to grow at a rapid pace and the subdivision currently plans to further expand in the Mainland. Total revenue grew by 37% compared to last year, while EBITDA and EBIT both grew by 34%. Comparable store sales growth was 7.8% (2010 - 9.3%). The subdivision increased its total number of stores by 262 during the year.

**Health & Beauty China:**  
Total number of retail stores

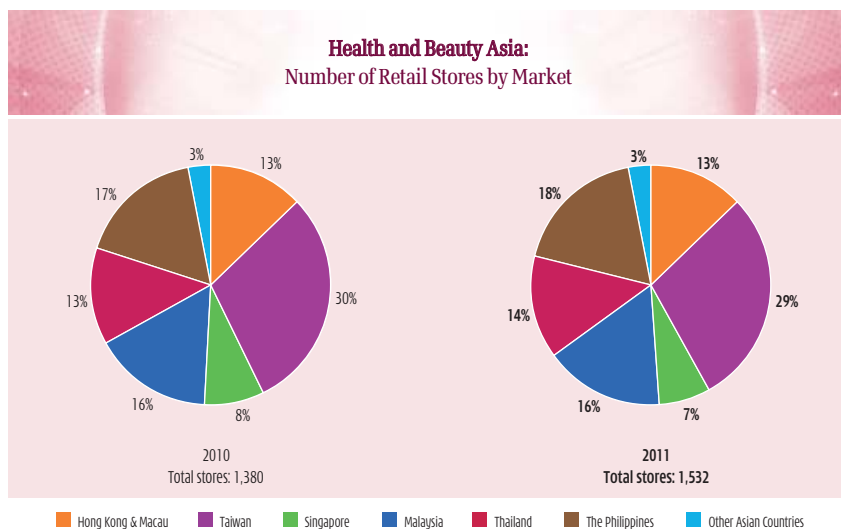


## Operations Review – Retail

### Health and Beauty Asia

	2011 HK\$ millions	2010 HK\$ millions	Change
Total revenue	16,857	14,316	+18%
EBITDA	1,479	1,207	+23%
EBIT	1,176	951	+24%

In Asia, the Watsons business is the leading health, beauty and retail chain with strong brand name recognition and extensive geographical coverage. Combined total revenue grew by 18% compared to last year and comparable store sales growth was 6.2% (2010 - 5.6%). EBITDA and EBIT growth were 23% and 24% respectively, mainly due to increased contributions from Watsons businesses in Malaysia, Hong Kong, Thailand, Singapore and the Philippines. The subdivision increased its total number of stores by 152 during the year and currently has more than 1,500 stores operating in nine Asian markets.



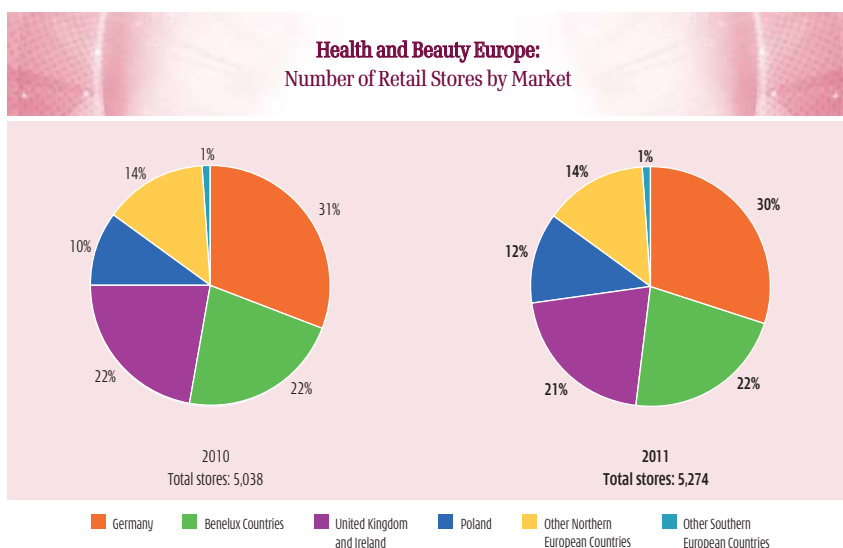
The pledge to be "Your Personal Store" drives Watsons Hong Kong to offer a great range of health and beauty products and professional advice on product selection, together with consultation services on medication and personal healthcare.

## Health and Beauty Europe

	2011 HK\$ millions	2010 HK\$ millions	Change
Total revenue	60,911	53,932	+13%
EBITDA	4,706	4,495	+5%
EBIT	3,578	3,436	+4%

Health and Beauty Europe consists of Watsons in Turkey and Ukraine; Kruidvat and Trekpleister in the Benelux countries; Rossmann joint-venture stores in Germany and Central European countries; Superdrug in the UK and Ireland; Savers in the UK; Drogas in the Baltic States and Spektr in Russia.

The health and beauty businesses in Europe reported, in local currencies, a combined total revenue improvement of 8% over last year, mainly due to the better sales performances of Kruidvat in the Benelux countries and of the Rossmann joint venture. Comparable store sales growth was 2.9% (2010 - 2.0%). Despite the tough economic environment in Europe, EBITDA in local currencies improved by 1% compared to last year and EBIT was in line with last year. Health and Beauty Europe added 236 stores during 2011, and currently operates more than 5,200 stores in 13 markets.



The Perfume Shop has launched its own loyalty card to offer customers exclusive discounts and more rewards for their purchases.



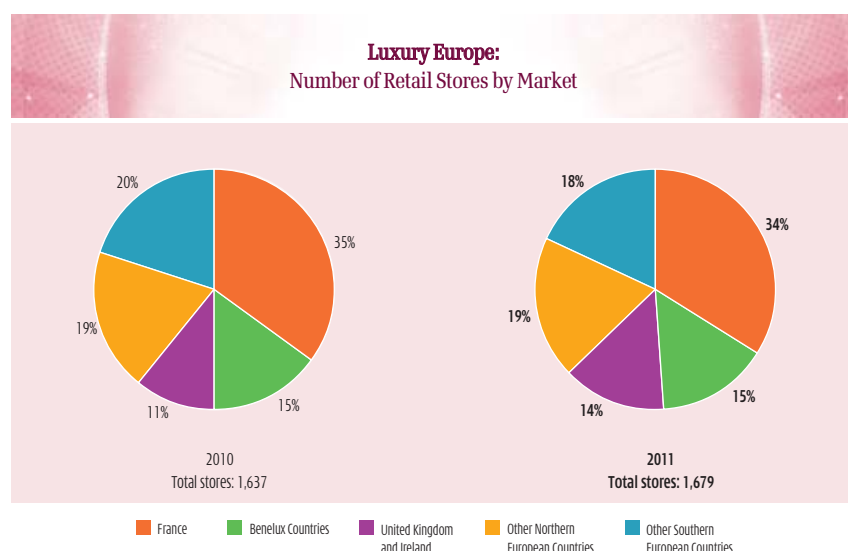
## Operations Review – Retail

### Luxury Europe

	2011 HK\$ millions	2010 HK\$ millions	Change
Total revenue	17,942	16,505	+9%
EBITDA	927	903	+3%
EBIT	550	532	+3%

The Luxury Europe subdivision comprises the three Europe-based luxury perfumeries and cosmetics retail chains: Marionnaud, The Perfume Shop and ICI Paris XL. In local currencies, the subdivision increased its total revenue by 3% compared to last year, while the negative comparable store sales growth has reduced to -0.2% (2010 – -0.6%) and reported EBITDA and EBIT increased 1% and 5% respectively.

The Marionnaud Group continued to face a challenging economic environment in various European countries as consumer spending on luxury items generally declined. Despite this, in local currencies, combined total revenue remained at a similar level to 2010. In the UK and Ireland, The Perfume Shop reported an increase in total revenue of 14%, also in the Benelux countries, ICI Paris XL reported solid growth in total revenue of 7% in local currencies. Overall, Luxury Europe added over 40 new stores in 2011 and currently operates over 1,600 stores in 17 markets.



### Retail Others and Manufacturing

	2011 HK\$ millions	2010 HK\$ millions	Change
Total revenue	34,743	28,835	+20%
EBITDA	2,159	1,651	+31%
EBIT	1,764	1,260	+40%

Retail Others and Manufacturing consists of leading retail concepts in Hong Kong, being PARKnSHOP supermarkets and other related concept stores; Fortress consumer electronics and electrical appliances stores; and Watson's Wine stores. The subdivision also includes PARKnSHOP and Watson's Wine stores in the Mainland, Nuance-Watson in Hong Kong and Singapore international airports, as well as the manufacturing and distribution of well-known brands of bottled water, fruit juices and soft drinks in Hong Kong and the Mainland. This subdivision, which currently operates over 470 retail stores, reported total revenue growth of 20%, comparable store sales growth of 11.6% (2010 – 8.8%), while EBITDA and EBIT improved by 31% and 40% respectively.



TASTE is a new generation of lifestyle food store that provides sophisticated and cosmopolitan Hong Kong customers with a "More than Food" shopping experience.

PARKnSHOP in Hong Kong delivered excellent EBITDA and EBIT growth, driven by strong incremental sales and income as well as continuous efforts in driving store productivity and cost efficiency. PARKnSHOP in Hong Kong currently has over 250 stores. Fortress also reported increased total revenue, EBITDA and EBIT for the year and currently has almost 80 stores. Watson's Wine reported growth in total revenue, EBITDA and EBIT as consumer spending on wine continued to grow. Watson's Wine currently has over 20 stores.

In the Mainland, the PARKnSHOP operations reported increased total revenue in 2011 and a solid EBITDA and EBIT improvement mainly due to increased sales, cost saving measures and improved inventory management.

The Nuance-Watson business reported excellent total revenue, EBITDA and EBIT growth, driven by increased passenger spending and traffic.

Manufacturing operations reported a 21% increase in total revenue and reported a 2% and 9% increase in EBITDA and EBIT respectively, primarily driven by strong results in the Mainland.

