

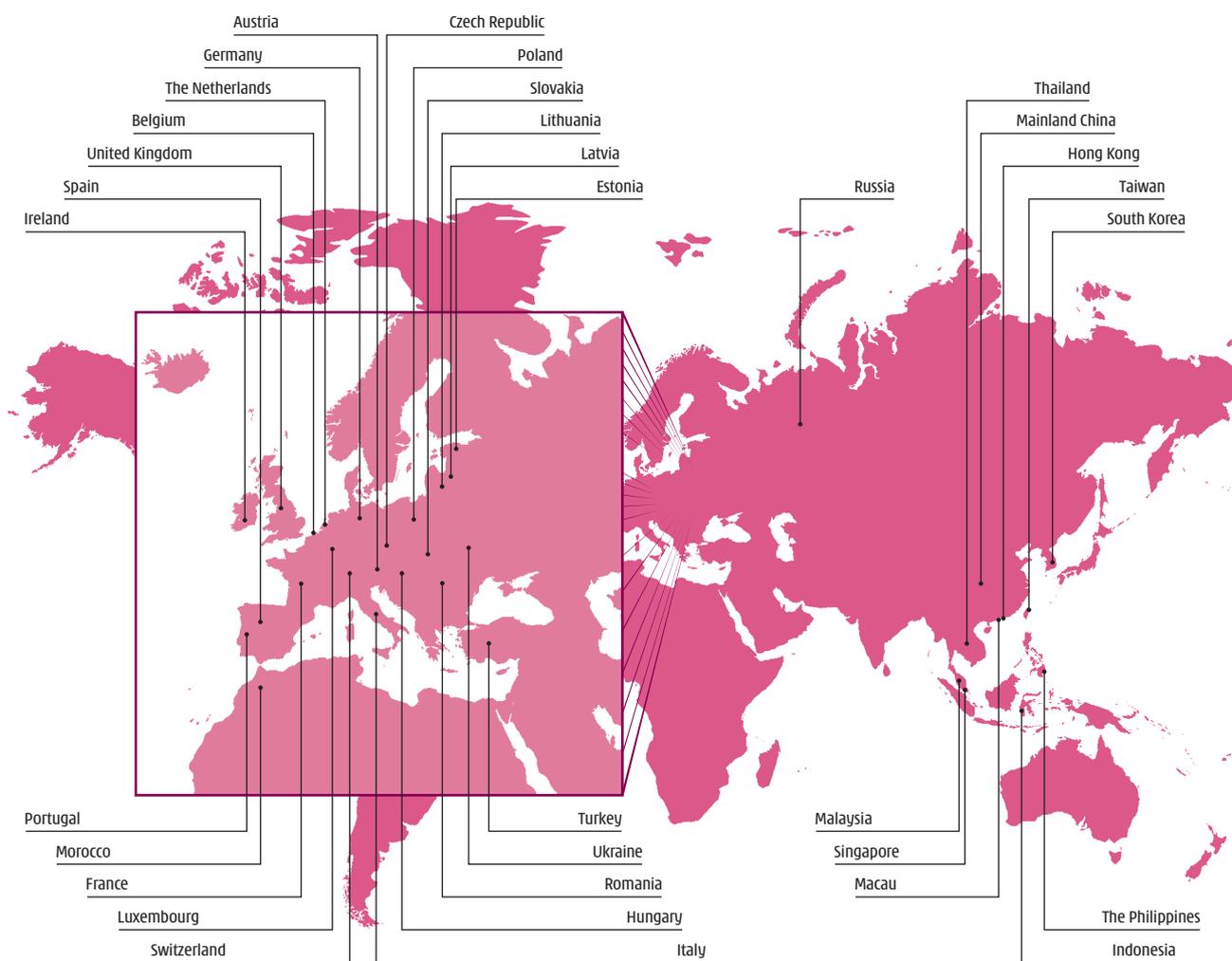


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The retail division consists of the A S Watson group of companies, the world's largest health and beauty retailer in terms of store number. A S Watson currently operates 12 retail brands in Europe and nine retail brands in Asia, with more than 8,300 stores in 34 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.

- Total revenue grew 8% to HK\$118,487 million.
- EBIT improved 18% to HK\$4,374 million.
- Most of the significant retail operations reported improved results.



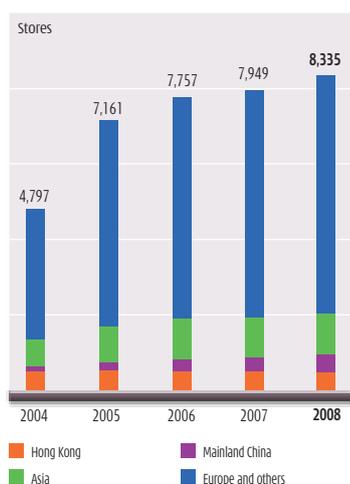
Operations Review – Retail

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

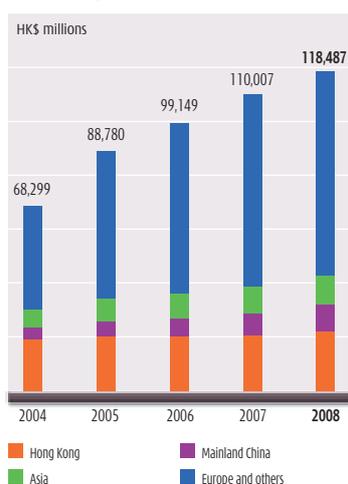
Although consumer spending was adversely affected in certain markets by the worsening economy in the fourth quarter of 2008, full year total revenue for the retail division was HK\$118,487 million, an increase of 8% compared to last year. EBIT of HK\$4,374 million was 18% above last year, primarily driven by sales growth together with the continuing focus to streamline operations to improve efficiency and profitability, to reduce inventory levels and increase centralised purchasing. The major contributors to sales and EBIT growth include the retail operations in Hong Kong, the health and beauty operations in the Asian and the Benelux countries, the joint ventures with Rossmann in Eastern Europe and Germany, partially offset by lower results from the UK. The retail division contributed 41% and 8% respectively to the total revenue and EBIT of the Group's established businesses.

	2008 HK\$ millions	2007 HK\$ millions	Change
Total Revenue	118,487	110,007	+8%
EBIT	4,374	3,711	+18%

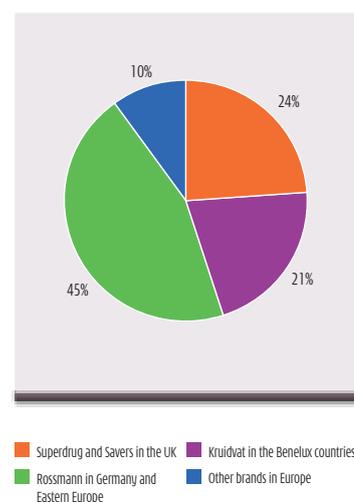
Total Number of Retail Stores by Geographical Location



Total Revenue by Geographical Location



Number of Retail Stores by Brands of Health and Beauty Europe Division at the end of December 2008





- This latest PARKnSHOP Superstore at Tsuen Wan Discovery Park offers a comprehensive range of fresh and ambient products for customers, giving them an enjoyable one-stop shopping environment for their daily needs.

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, Germany, Hungary and the Czech Republic; 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 10% and 21% respectively.

The health and beauty businesses in the UK and Europe reported a combined revenue that was 8% above last year, mainly due to the expansion of the joint ventures with Rossmann in Poland, Germany, Hungary and the Czech Republic, the revenue growth of Kruidvat in the Benelux countries, and the continued development of the operations in Eastern Europe, particularly in Ukraine and Russia. The improvement in EBIT compared to last year was mainly due to better results from the Rossmann joint ventures, as well as the operations in the Benelux countries and Eastern Europe, partially offset by weaker performances from the UK businesses. The Superdrug and Savers businesses in the UK are currently operating in a very challenging business environment which has seen the demise of several high profile retailers. The focus continues to be on improving operational efficiency. This approach, combined with strong price positioning,

has already enabled Savers to significantly improve its results and report good growth, although Superdrug reported lower revenue and results. Expansion of the division's joint ventures with Rossmann in Germany and Eastern Europe continued with 198 new stores opened during 2008. These operations have performed well and reported 30% and 45% growth in revenue and EBIT respectively. In the Benelux countries, Kruidvat maintained its market leading position in the health and beauty retail sector and the Benelux businesses reported overall revenue growth of 12%, with a 24% improvement in EBIT. The health and beauty European division currently has more than 4,600 retail outlets in 13 markets.

In Asia, the health and beauty business under the Watsons brand name continues to be the leading retail chain with strong brand name recognition and extensive geographical coverage, particularly in the Mainland. All operations reported strong revenue growth during 2008. Combined revenue grew by 16% compared to last year, with EBIT growth of 33%, mainly due to increased contributions from the Mainland, partially offset by weaker performances from the retail concessions at the Hong Kong International Airport and the Singapore Changi Airport, which are operated by Nuance-Watson, a 50% owned joint venture. There are currently more than 1,400 Watsons stores operating in eight markets in Asia, excluding Hong Kong and Macau.



• The Perfume Shop's new concept store at Trafford Shopping Centre in Manchester, the UK.

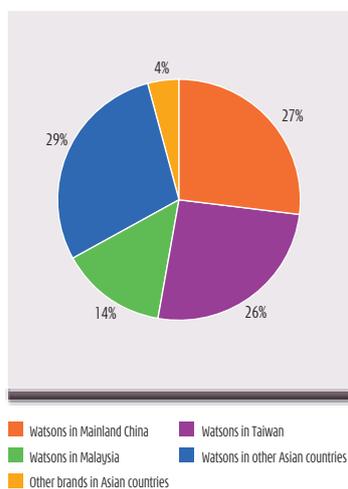
Luxury Perfumeries and Cosmetics

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. Combined revenue and EBIT increased 1% and 2% respectively over last year.

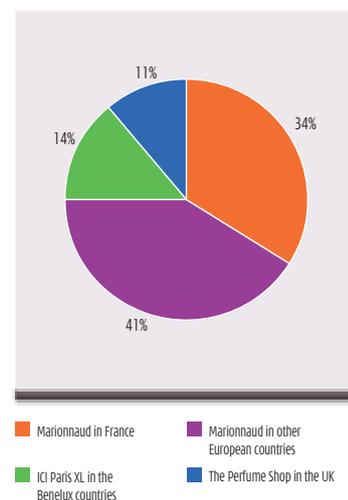
In Europe, Marionnaud reported a combined revenue and EBIT growth of 1% and 11% respectively. EBIT increased mainly due to

improvements in operational efficiency in Marionnaud France and the continued improvement in the results of Marionnaud Austria, partially offset by the weaker performance of Marionnaud Spain that has been adversely affected by the ailing local economy. The Perfume Shop, a specialty perfumery store concept in the UK, reported a decline in EBIT due to the economic downturn and unfavourable foreign currency translation. In local currency, sales increased 4% and EBIT declined 11%. In the Benelux countries, ICI Paris XL reported strong revenue and EBIT growth of 10% and 23% respectively. There are currently over 1,600 stores in 17 markets in this division.

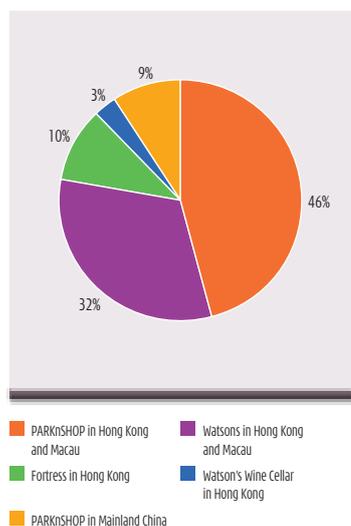
Number of Retail Stores by Brands of Health and Beauty Asia Division at the end of December 2008



Number of Retail Stores by Brands of Luxury Perfumeries and Cosmetics Division at the end of December 2008



Number of Retail Stores by Brands of Retail Hong Kong Division at the end of December 2008



Retail Hong Kong

The Retail Hong Kong division consists of leading retail concepts in Hong Kong, being PARKnSHOP supermarkets, Watsons health and beauty personal care stores, Fortress consumer electronics and electrical appliances retail chain and Watson's Wine Cellar stores, as well as PARKnSHOP in the Mainland and the fine wine trading business. This division, which currently operates 498 retail outlets, reported a total revenue growth of 8% and an EBIT improvement of 118%.

Although Hong Kong's economy started contracting in the second quarter of 2008 and slipped into recession in the third quarter, most business units in this division achieved overall healthy growth in revenue and EBIT. Despite competitive pressures and increasing rental rates and other operating costs, PARKnSHOP in Hong Kong continued to maintain a leading market share in the supermarket sector and reported growth in both revenue and EBIT during the year. Watsons reported better revenue and EBIT compared to last year through improved efficiency and strengthening of product mix and differentiation. Fortress reported increased revenue and EBIT through improvements in product offerings. Watson's Wine Cellar reported growth in both revenue and EBIT, benefitting from the abolition of wine duty earlier in the year.

In the Mainland, the PARKnSHOP operations reported revenue in line with 2007. Despite sales and margin pressure from fierce competition from both local supermarkets as well as foreign hypermarket retailers, the business reported EBIT growth in 2008 through continued focus on cost rationalisation plans and better inventory management.

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 5% revenue growth and a 33% increase in EBIT compared to last year, primarily driven by the operations in the Mainland.



● FORTRESS, the largest consumer electronic and electrical appliances chain store in Hong Kong, unveils its new store format at Festival Walk.