

Retail

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 more than 8,700 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.



Shanghai Watsons Your Personal Store, China

- Total revenue increased 5% in local currencies.
- EBIT improved 30% to HK\$5,692 million.
- The division contributed 48% and 15% respectively to the total revenue and EBIT of the Group's established businesses.

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.

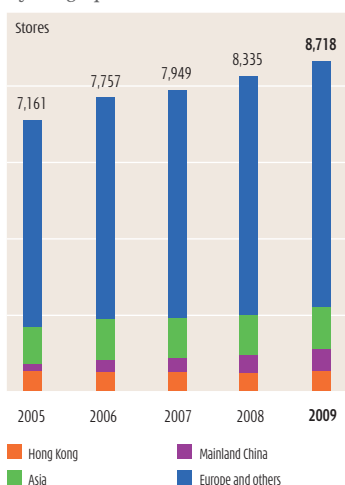
Despite volatile consumer sentiment in all markets in 2009, the retail division achieved a 5% increase in total revenue in local currencies compared to last year, although in Hong Kong dollars, total revenue decreased by 2% to HK\$116,098 million. In this difficult environment, the retail division achieved EBIT of HK\$5,692 million, 30% above last year, by continuing to focus on streamlining operations to improve efficiency and profitability, reducing inventory levels, increasing centralised purchasing, developing higher-margin own-brand products, expanding cautiously in high growth markets and launching successful sales strategies. The major contributors to sales and EBIT growth include the retail operations in Hong Kong, the health and beauty operations in Asia and the Benelux countries, the luxury perfumery business in the United Kingdom and the operations in Poland, partially offset by lower results from the Marionnaud operations in Europe. The retail division contributed 48% and 15% respectively to the total revenue and EBIT of the Group's established businesses.

	2009 HK\$ millions	2008 Restated HK\$ millions	Change
Total Revenue	116,098	118,504	-2%
EBIT	5,692	4,384	+30%

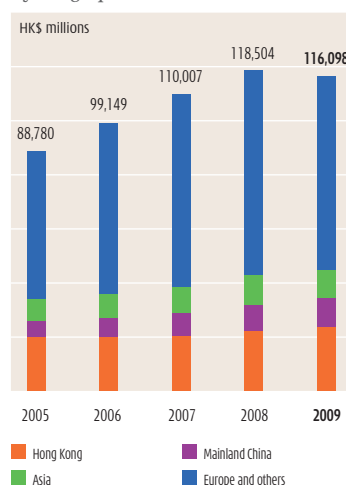


■ Kruidvat unveils a new brand identity and offers customers a better shopping environment.

Total Number of Retail Stores by Geographical Location



Total Revenue by Geographical Location



Health and Beauty

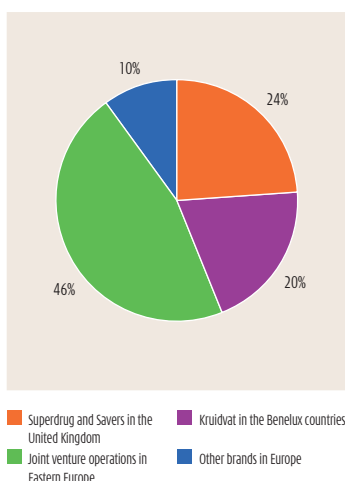
The health and beauty retail chain stores consist of Superdrug and Savers in the United Kingdom; Kruidvat and Trekleister in the Benelux countries; joint ventures in certain Eastern European countries; Drogas in the Baltic States; Watsons in Asia and certain Eastern European countries; and Nuance-Watson in the Hong Kong and Singapore international airports. In local currencies, the health and beauty division's total revenue and EBIT increased 8% and 56% respectively. After translating to Hong Kong dollars, total revenue decreased by 2%, while EBIT increased by 48%.

The health and beauty businesses in the United Kingdom and Europe reported, in local currencies, a combined total revenue improvement of 6% over last year, mainly due to the record sales performances of Kruidvat in the Benelux countries; continued expansion of the operations in Poland and the improved sales of Savers in the United Kingdom. After translation to Hong Kong dollars, total revenue decreased 5% compared to last year. EBIT improved 64% in local currencies compared to last year, and 52% after translation to Hong Kong dollars. This was mainly due to better results from the operations in Poland and the Benelux countries, as well as the turnaround

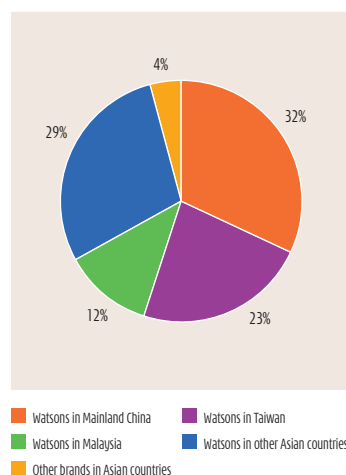
performance of the combined businesses in the United Kingdom from improved operational efficiencies and cost management strategies, partially offset by lower performances from certain Eastern European businesses which suffered from ailing local market economies. In the Benelux countries, Kruidvat maintained its market leading position in the health and beauty retail sector and the division reported total revenue growth, in local currencies, of 6%, and a 37% improvement in EBIT. The health and beauty European division currently has more than 4,800 retail outlets in 13 markets.

In Asia, the health and beauty business under the Watsons brand name is a leading beauty and personal care retail chain as well as a leading pharmacy chain with strong brand name recognition and extensive geographical coverage, particularly in the Mainland. Combined total revenue grew by 9% compared to last year, with an EBIT growth of 44%, mainly due to increased contributions from continued expansion in the Mainland which now has over 550 stores. This is partially offset by weaker performances from the retail concessions at the Hong Kong International Airport operated by Nuance-Watson, a 50% owned joint venture. The division currently has more than 1,700 stores operating in eight Asian markets outside of Hong Kong and Macau.

Number of Retail Stores by Brands of Health and Beauty Europe Division at the end of December 2009



Number of Retail Stores by Brands of Health and Beauty Asia Division at the end of December 2009





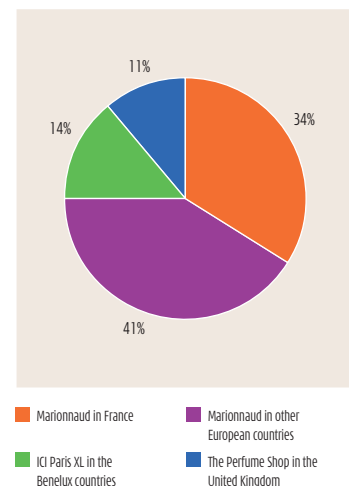
Customers in Turkey appreciate Watsons' wide range of products at attractive prices.

Luxury Perfumeries and Cosmetics

The luxury perfumeries and cosmetics division comprises the three European-based luxury perfumeries and cosmetics retail chains, Marionnaud, The Perfume Shop and ICI Paris XL. In local currencies, the division maintained its total revenue at the same level as last year and reported an increase in EBIT of 1% over 2008. After translation to Hong Kong dollars, combined total revenue decreased 5%, whilst EBIT increased 10%.

Marionnaud faced a challenging economic environment in various European countries during the year with reduced customer spending on luxury items amid the financial crisis and has reported lower results compared with last year. In local currencies, combined total revenue declined 2% and EBIT was marginally lower compared to last year due to a higher share of losses from the Eastern European operations as a result of the increased shareholding in 2009. In the United Kingdom, The Perfume Shop reported strong growth in both total revenue and EBIT of 9% and 37% respectively in local currency. In the Benelux countries, ICI Paris XL reported solid growth in total revenue and EBIT of 1% and 18% respectively in local currency. There are currently over 1,600 stores in 17 markets in this division.

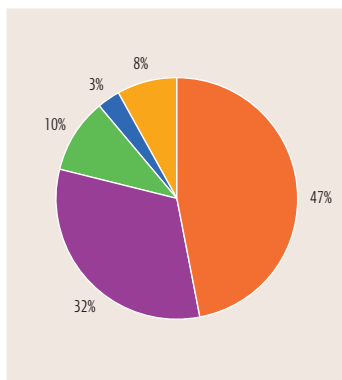
Number of Retail Stores by Brands of Luxury Perfumeries and Cosmetics Division at the end of December 2009





Fortress offers the leading brands, the latest models and the lowest prices guaranteed to a diverse customer base who shops for personal electronics, digital devices and home appliances.

Number of Retail Stores by Brands of Retail Hong Kong Division at the end of December 2009



■ PARKnSHOP in Hong Kong and Macau
■ Watsons in Hong Kong and Macau
■ Fortress in Hong Kong
■ Watson's Wine Cellar in Hong Kong
■ PARKnSHOP in Mainland China

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 chain; Watson's Wine Cellar stores; as well as PARKnSHOP in the Mainland. This division, which currently operates over 500 retail outlets, reported total revenue growth of 3% and an EBIT improvement of 23%.

The Hong Kong economy was less affected by the financial crisis than other regions and most business units in this division achieved overall healthy growth in total revenue and EBIT. Notwithstanding the intense competition and pressures on 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 total revenue and EBIT in 2009. 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. Despite severe competition in the market, Fortress was able to increase its market share and reported increased total revenue and EBIT for the year. Watson's Wine Cellar reported growth in both total revenue and EBIT as consumer sentiment improved since mid-2009.

In the Mainland, the PARKnSHOP operations reported reduced total revenue in 2009 mainly due to price deflation for food products at the beginning of the year and keen competition from foreign retailers. The impact of the lower sales was mitigated by cost saving measures and improved inventory management, resulting in a 25% growth in EBIT compared to last year.

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 an 18% increase in EBIT, primarily driven by the operations in the Mainland.