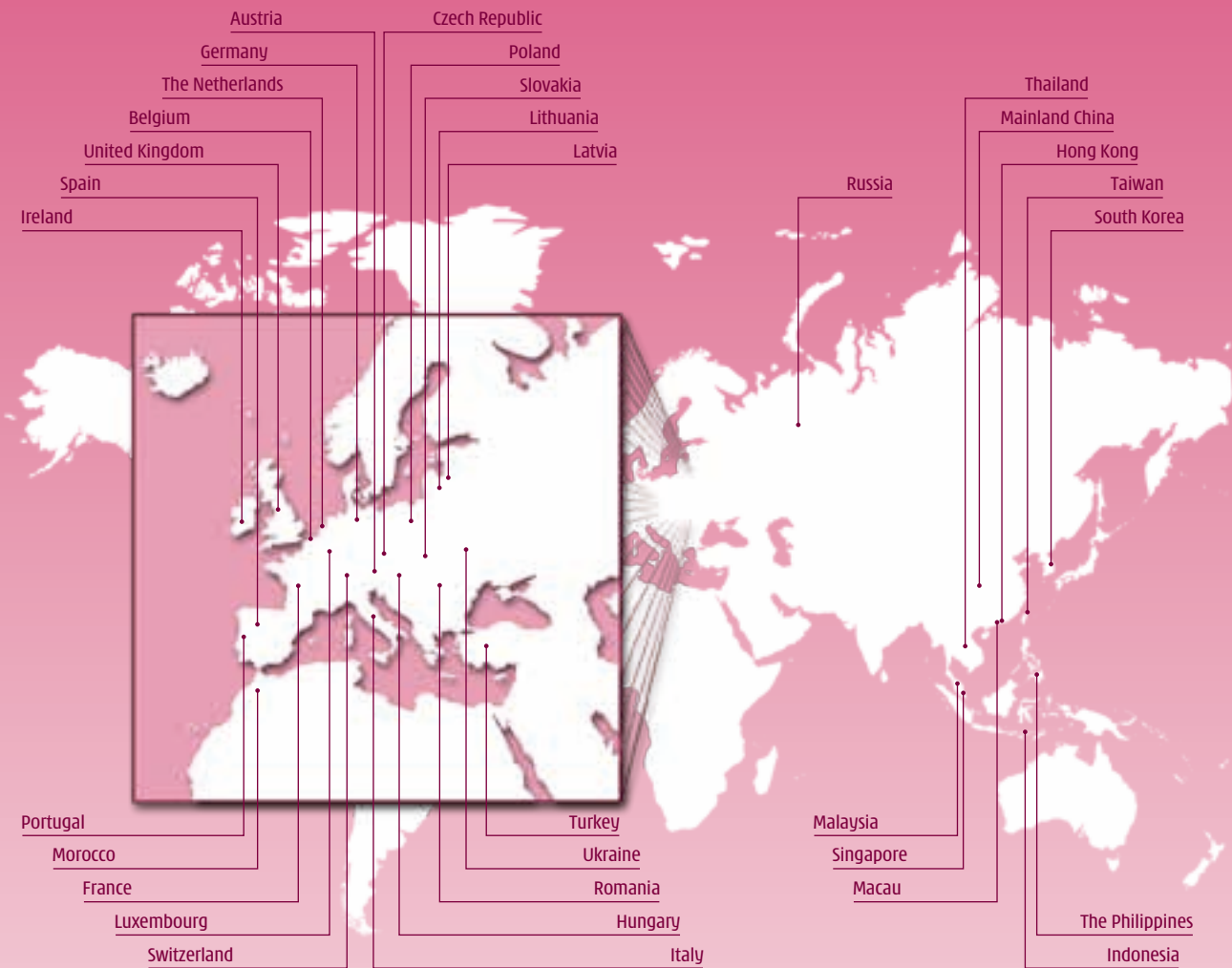


Operations Review



- Total revenue increased 4% to HK\$148,626 million.
- EBITDA increased 9% to HK\$12,725 million.
- EBIT increased 8% to HK\$10,048 million.
- The retail division contributed 37%, 15% and 17% respectively to the total revenue, EBITDA and EBIT of the Group's businesses.

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.

PARKnSHOP introduces a new lifestyle supermarket, TREAT, to Chengdu, China.



Operations Review – Retail

Group Performance

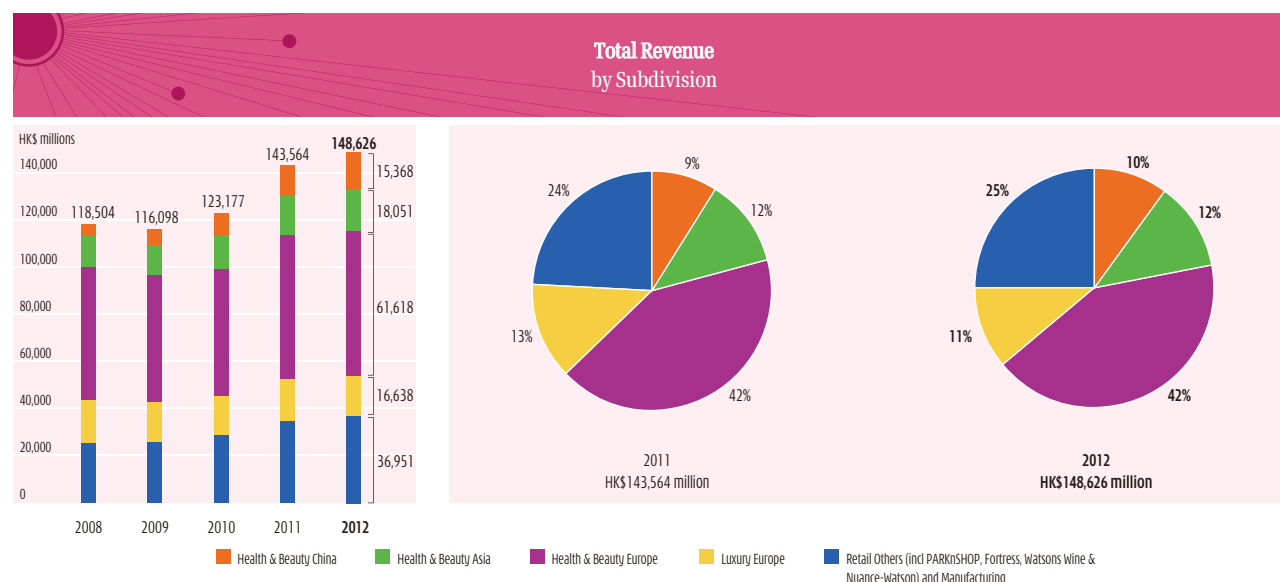
AS Watson currently operates 11 retail brands in Europe and nine retail brands in Asia, with over 10,800 stores in 33 markets worldwide, providing high quality personal care, health and beauty products; luxury perfumery and cosmetic products; food and fine wines; as well as consumer electronics and electrical appliances. A S Watson also manufactures and distributes various bottled waters and other beverages in Hong Kong and the Mainland.

	2012 HK\$ millions	2011 HK\$ millions	Change
Total Revenue	148,626	143,564	+4%
EBITDA	12,725	11,724	+9%
EBIT	10,048	9,330	+8%

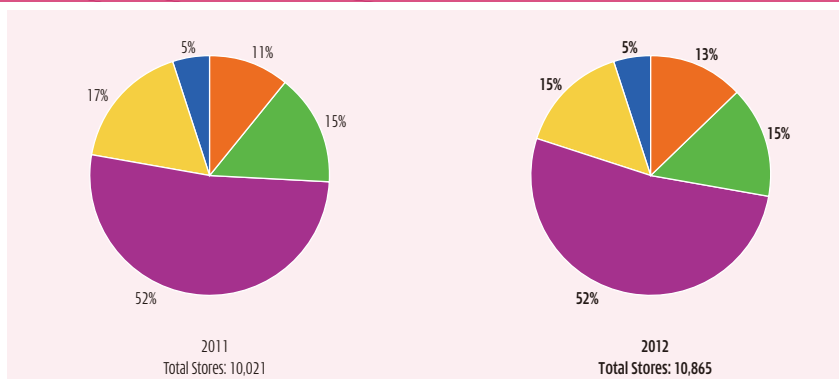
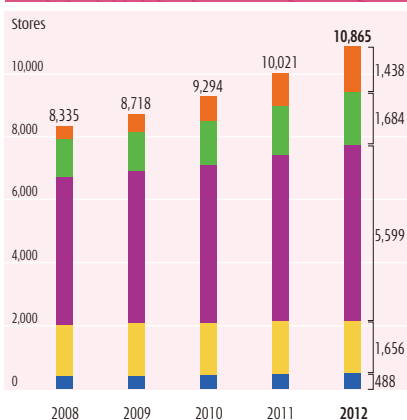
In local currencies, growth in total revenue, EBITDA and EBIT for the year were 7%, 10% and 9% respectively. The retail division contributed 37%, 15% and 17% respectively to the total revenue, EBITDA and EBIT of the Group's businesses.

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.

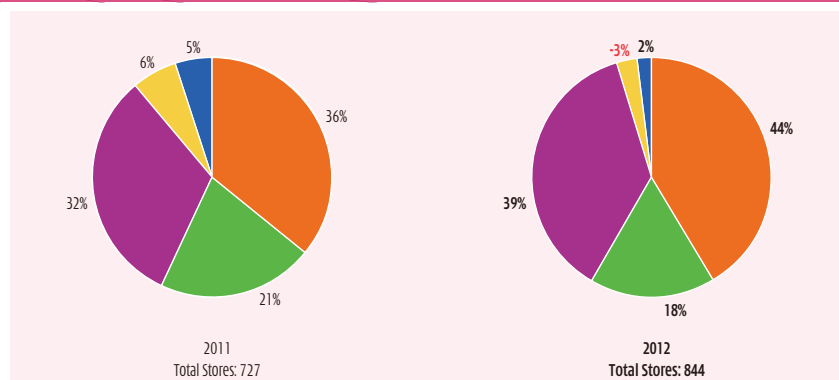
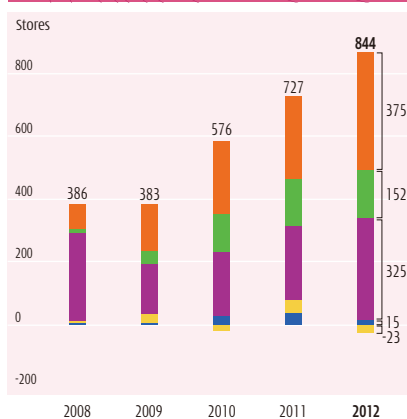
Revenue growth was strong across all subdivisions other than Luxury Europe, which was supported both by increased store numbers and year-on-year comparable store sales growth. The division reported a 9% growth in total revenue in Asia compared to last year. Reported revenue in Europe decreased by 1%, which was adversely affected by the weaker European currencies. In local currencies, revenue grew by 5% compared to last year.



Total Retail Store Numbers by Subdivision



Total Retail Store Number Growth by Subdivision



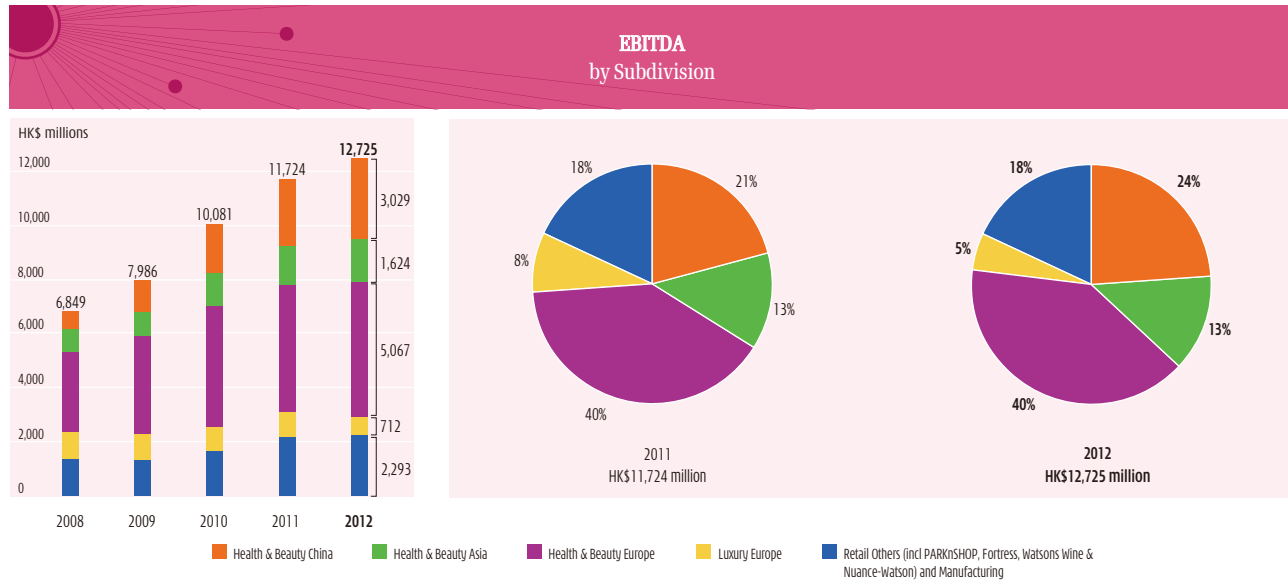
■ Health & Beauty China
 ■ Health & Beauty Asia
 ■ Health & Beauty Europe
 ■ Luxury Europe
 ■ Retail Others (incl PARKnSHOP, Fortress, Watsons Wine & Nuance-Watson)

Comparable Store Sales Growth (%)	2012	2011
Health & Beauty China	0.6%	7.8%
Health & Beauty Asia	5.8%	6.2%
Health & Beauty Europe	5.1%	2.9%
Luxury Europe	-0.7%	-0.2%
Retail Others (includes PARKnShop, Fortress, Watsons Wine & Nuance-Watson)	5.6%	11.6%
Total Retail	4.2%	5.1%
- Asia	4.8%	9.5%
- Europe	3.8%	2.2%

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 where consumer sentiment remains weak. The Group recorded a 14% increase both in EBITDA and EBIT respectively in Asia against a revenue growth of 9%. EBITDA in Europe increased by 3% and EBIT remained largely in-line compared to last year, against a negative revenue growth of 1%, as the reported numbers were adversely affected by the weaker European currencies. In local currencies, EBITDA and EBIT improved by 7% and 4% respectively in Europe, against a revenue growth of 5%. The division's overall growth in Asia and in Europe reflects a competitive product offering, improving margin management, operating efficiencies and the continuing focus on own-brand and exclusives sales.



Superdrug brings new energy to customers' shopping experience by refreshing its store design in the UK.

Segment Performance

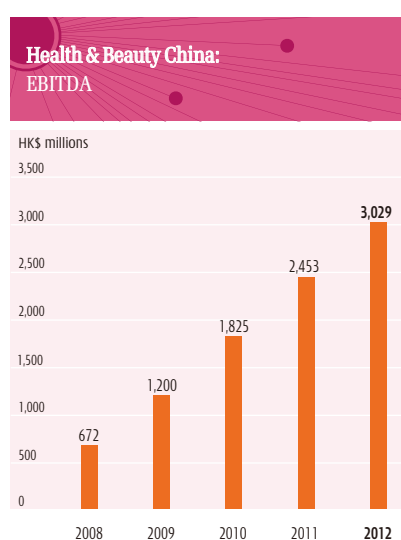
Health and Beauty China

	2012 HK\$ millions	2011 HK\$ millions	Change
Total Revenue	15,368	13,111	+17%
EBITDA	3,029	2,453	+23%
EBIT	2,767	2,262	+22%



Watsons expands its network in Mainland China with over 1,400 stores in more than 200 cities.

Watsons, currently a market leader in health and beauty in the Mainland, will continue to further expand its store portfolio. Total revenue grew by 17% compared to last year, while EBITDA and EBIT grew by 23% and 22% respectively. Comparable store sales growth for 2012 slowed to 0.6% due to both weaker consumer sentiment and an increased number of new store openings, including locations in proximity to existing stores. However, total revenue growth remained robust at 17% as all store openings continued to perform well with an investment payback period of less than one year. The subdivision increased its total number of stores by 375 during the year and currently has more than 1,400 stores operating in the Mainland.



Operations Review – Retail

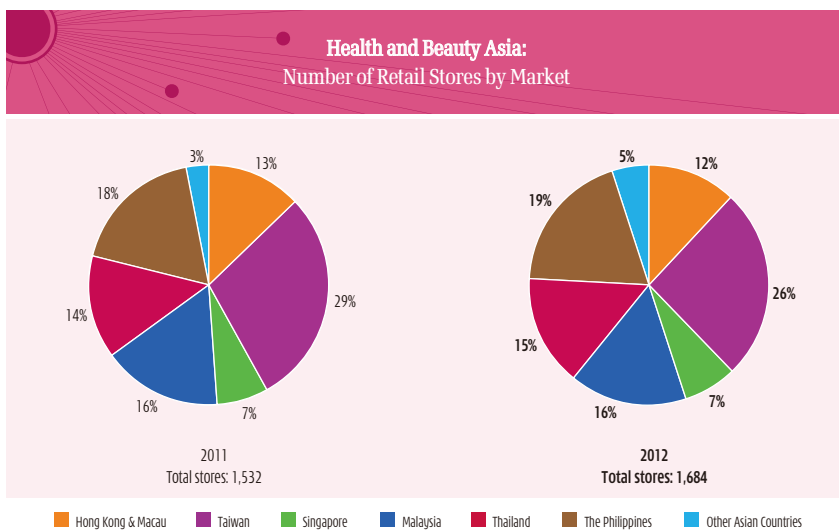


Watsons opens a flagship store in Singapore after the recent brand refresh.

Health and Beauty Asia

	2012 HK\$ millions	2011 HK\$ millions	Change
Total Revenue	18,051	16,857	+7%
EBITDA	1,624	1,479	+10%
EBIT	1,313	1,176	+12%

In Asia, the Watsons business is a leading health and beauty retail chain with strong brand name recognition and extensive geographical coverage. Combined total revenue grew by 7% compared to last year and comparable store sales growth was 5.8% (2011: 6.2%). EBITDA and EBIT growth were 10% and 12% respectively, mainly due to increased contributions from the Watsons businesses in Hong Kong, Thailand, Malaysia and the Philippines. The subdivision increased its total number of stores by 152 during the year and currently has more than 1,600 stores operating in nine Asian markets.

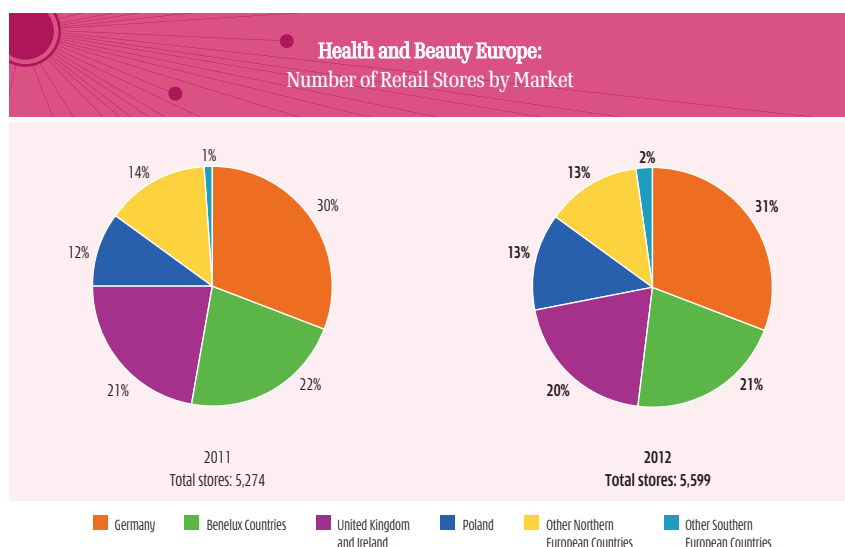


Health and Beauty Europe

	2012 HK\$ millions	2011 HK\$ millions	Change
Total Revenue	61,618	60,911	+1%
EBITDA	5,067	4,706	+8%
EBIT	3,770	3,578	+5%

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 the Rossmann joint-venture and of Kruidvat in the Benelux countries, as well as increased contributions from Savers in the UK and Watsons businesses in Turkey and Ukraine. Comparable store sales growth was 5.1% (2011: 2.9%). Despite the tough economic environment in Europe, EBITDA and EBIT in local currencies increased by 14% and 12% respectively compared to last year. Health and Beauty Europe added 325 stores during 2012, and currently operates more than 5,500 stores in 13 markets.



ICI PARIS XL is recognised as the Best Perfumery store in the Netherlands and Belgium in 2012, and has opened its first-ever store in Germany.

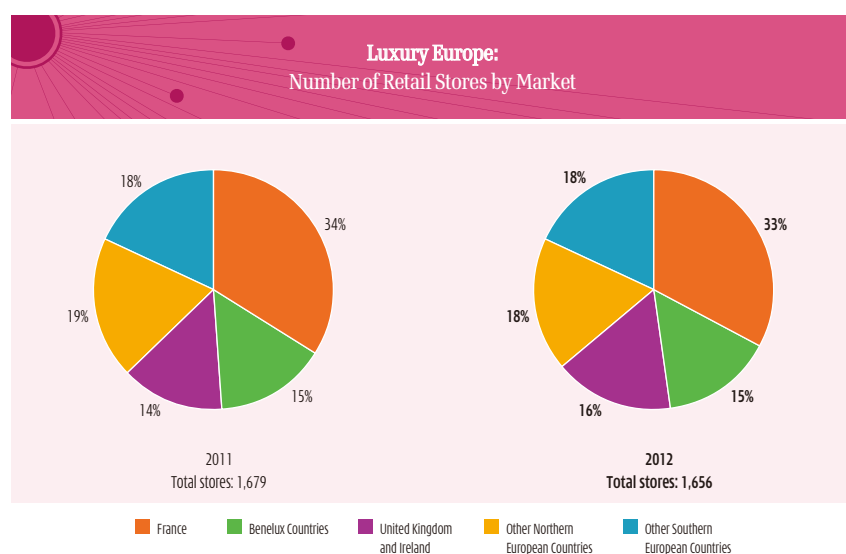
Operations Review – Retail

Luxury Europe

	2012 HK\$ millions	2011 HK\$ millions	Change
Total Revenue	16,638	17,942	-7%
EBITDA	712	927	-23%
EBIT	352	550	-36%

The Luxury Europe subdivision comprises the three Europe-based luxury perfumeries and cosmetics retail chains: Marionnaud, The Perfume Shop and ICI PARIS XL. The subdivision's luxury businesses continued to be affected by the difficult economic situation and weak consumer spending on non-essential luxury products in various European countries. In local currencies, total revenue decreased by 2% compared to last year, while EBITDA and EBIT decreased by 27% and 48% respectively, primarily from the weaker performance of the Marionnaud Group.

The Marionnaud Group continued to face a challenging economic environment in various European countries in terms of both intense competition and declining consumer sentiment. In local currencies, combined total revenue declined 5% compared to last year. In the UK and Ireland, The Perfume Shop reported an increase in total revenue of 6% in local currencies, and in the Benelux countries, ICI PARIS XL reported steady growth in total revenue of 2% in local currencies. Luxury Europe currently operates over 1,600 stores in 18 markets.



Retail Others and Manufacturing

	2012 HK\$ millions	2011 HK\$ millions	Change
Total Revenue	36,951	34,743	+6%
EBITDA	2,293	2,159	+6%
EBIT	1,846	1,764	+5%

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 Watsons Wine stores. The subdivision also includes PARKnSHOP and Watsons Wine stores in the Mainland, Nuance-Watson in the 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 480 retail stores, reported total revenue growth of 6% and comparable store sales growth of 5.6% (2011: 11.6%), while EBITDA and EBIT improved by 6% and 5% respectively.



The new lifestyle retail brand SU-PA-DE-PA is the family destination for food, fashion, homeware, gadgets and fun.

PARKnSHOP in Hong Kong delivered good EBITDA and EBIT growth, driven by the continuous efforts in driving store productivity and cost efficiency. PARKnSHOP in Hong Kong currently has over 270 stores. Fortress reported an 11% growth in total revenue, with a corresponding growth in EBITDA and EBIT for the year and currently has 90 stores. Watsons Wine reported growth in total revenue as consumer spending on wine continued to grow, but EBITDA and EBIT declined mainly due to margin pressure as well as rising rental and other costs. Watsons Wine currently has over 20 stores.

In the Mainland, the PARKnSHOP operations reported declines in total revenue, EBITDA and EBIT in 2012, reflecting lower consumer spending attributable to the slower economic growth in the Mainland.

The Nuance-Watson business reported total revenue, EBITDA and EBIT growth, driven by increased passenger spending and traffic. The expiration of Nuance-Watson's two core licences at the Hong Kong International Airport in late 2012 will reduce its contribution to the overall performance of this subdivision in 2013.

Manufacturing operations reported a 6% increase in total revenue primarily driven by strong results in the Mainland.

