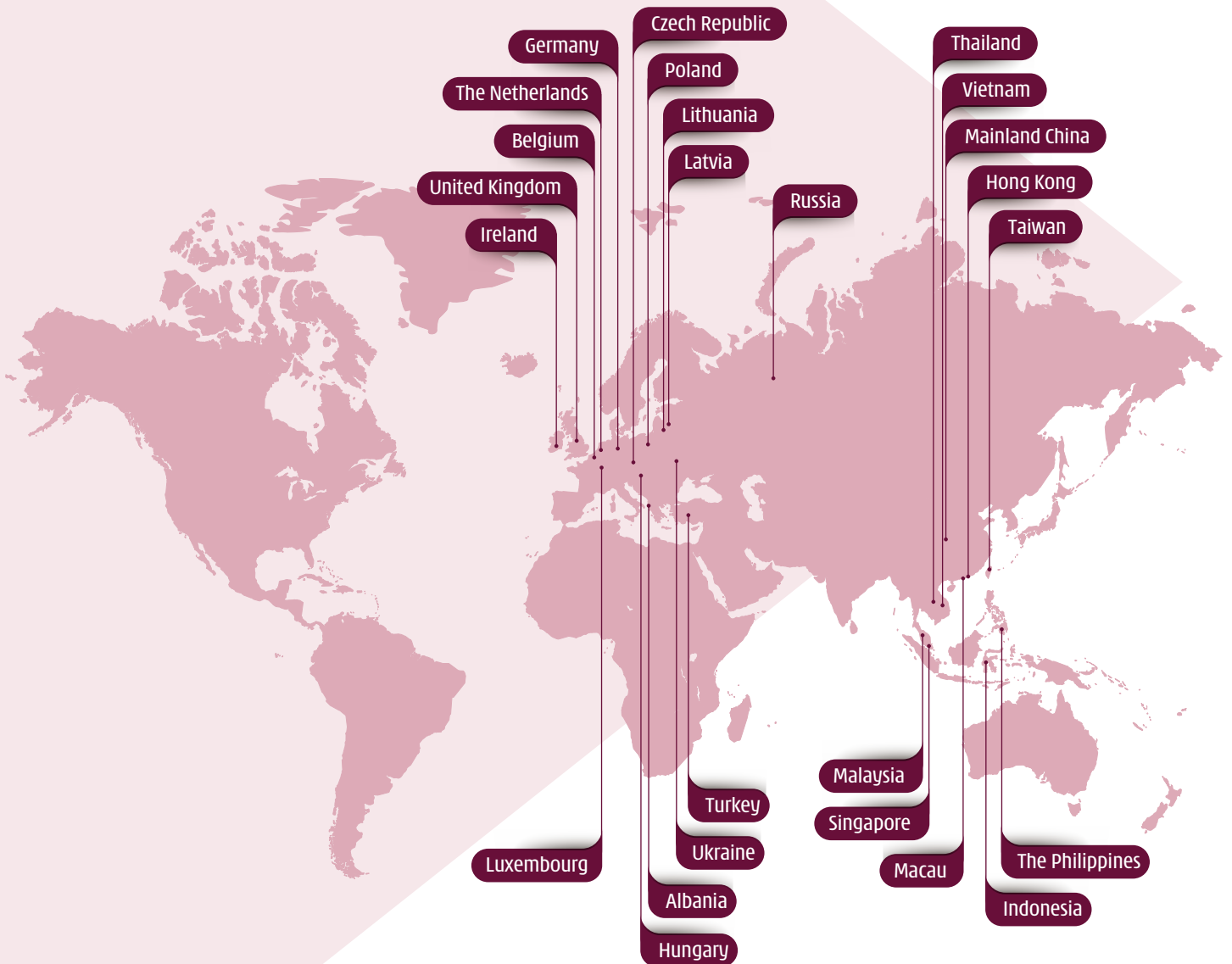


Operations Review



With over 1,200 stores in the Netherlands and Belgium, Kruidvat strives to offer a huge selection of value-for-money products to customers.

Retail







1. Superdrug, with over 800 stores in the UK, is well established as a fashion-led retailer with a focus on great value deals.
2. Watsons China launches Colorlab, a new concept makeup store that offers customers a fashionable and trendy experience-led make-up space.
3. Watsons introduces the Tech-Fun store in Taiwan with AR technology applications including StyleMe, Tap & Shop, as well as Digital Beauty Advisor.
4. Watsons Malaysia is currently operating around 500 stores, offering quality products and services through its online and offline channels.
5. Rossmann operates around 4,000 stores in Germany, Poland, Hungary, Czech Republic and Albania.

Operations Review – Retail

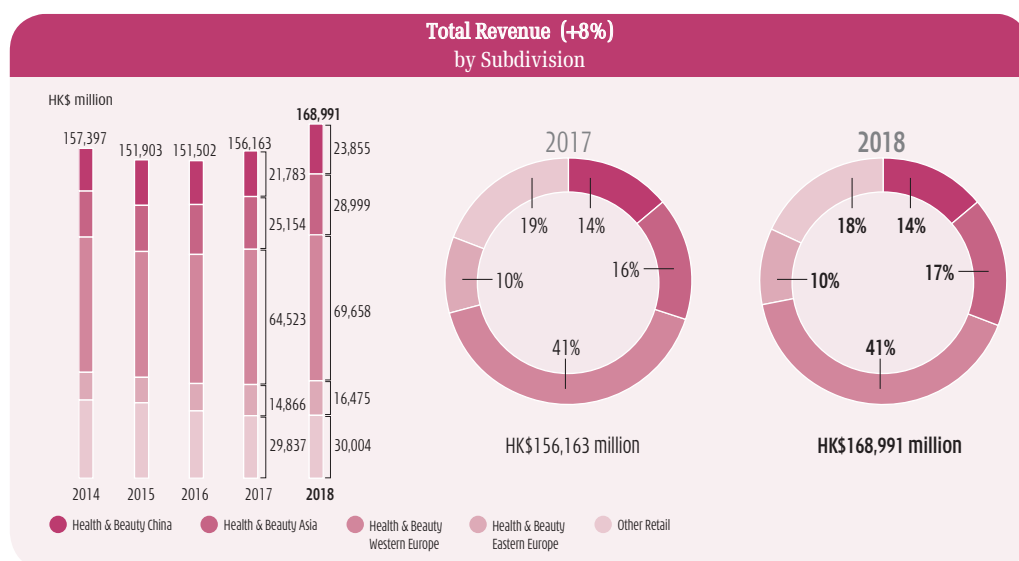
The retail division consists of the A S Watson (“ASW”) group of companies, the world’s largest international Health and Beauty retailer with a 135 million loyalty member base.

Group Performance

ASW operated 12 retail brands with 14,976 stores in 24 markets worldwide in 2018, providing high quality personal care, health and beauty products; food and fine wines; as well as consumer electronics and electrical appliances. ASW also manufactures and distributes bottled water and other beverages in Hong Kong and the Mainland.

| | 2018 HK\$ million | 2017 HK\$ million | Change | Change in Local Currencies |
|---------------|----------------------|----------------------|--------|-------------------------------|
| Total Revenue | 168,991 | 156,163 | +8% | +6% |
| EBITDA | 16,164 | 14,798 | +9% | +7% |
| EBIT | 13,078 | 12,089 | +8% | +6% |
| Store Numbers | 14,976 | 14,124 | +6% | |

Total reported revenue was 8% ahead of last year, driven by a 6% increase in store numbers, primarily in Health and Beauty China and Asia, as well as an overall 2.0% comparable stores sales growth. The Health and Beauty subdivision currently has 132 million loyalty members with 62% of total revenue being generated by these loyalty members during 2018. Higher margin exclusive sales contributed 34% of total sales (2017: 34%).



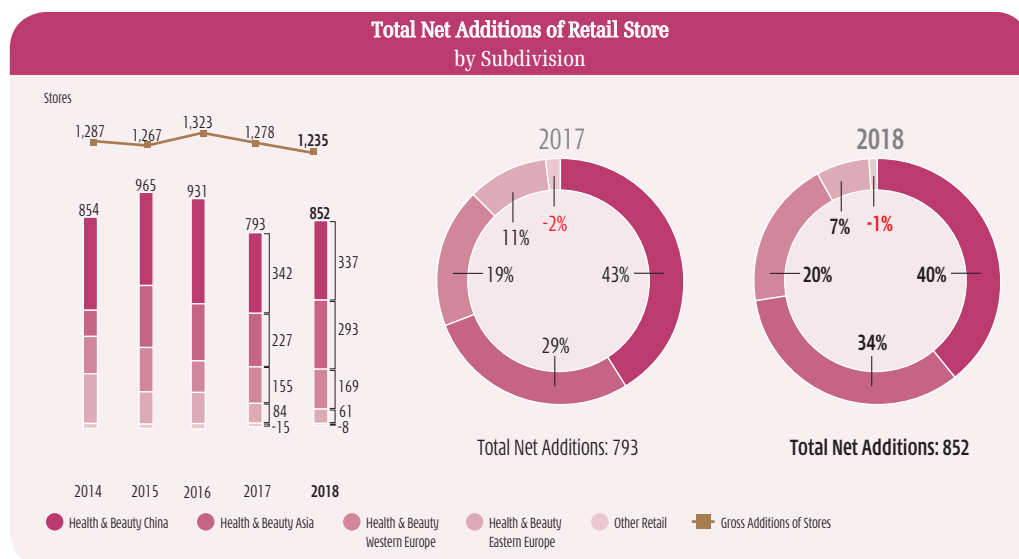
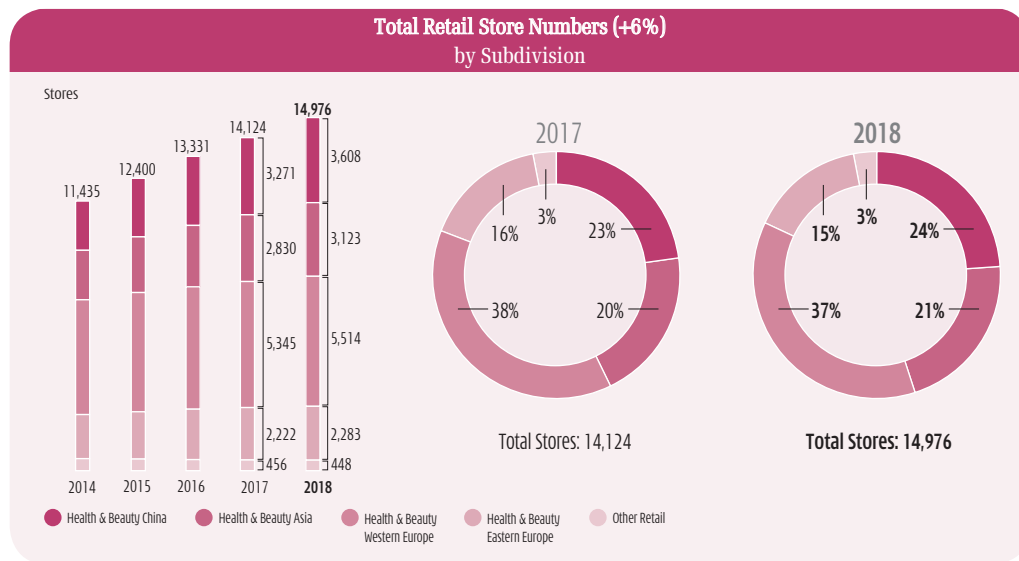
| Total Revenue | 2018 HK\$ million | 2017 HK\$ million | Change | Change in Local Currencies |
|--|------------------------------|------------------------------|---------------|---------------------------------------|
| Health & Beauty China | 23,855 | 21,783 | +10% | +7% |
| Health & Beauty Asia | 28,999 | 25,154 | +15% | +16% |
| Health & Beauty China & Asia Subtotal | 52,854 | 46,937 | +13% | +12% |
| Health & Beauty Western Europe | 69,658 | 64,523 | +8% | +4% |
| Health & Beauty Eastern Europe | 16,475 | 14,866 | +11% | +7% |
| Health & Beauty Europe Subtotal | 86,133 | 79,389 | +8% | +5% |
| Health & Beauty Subtotal | 138,987 | 126,326 | +10% | +7% |
| Other Retail ⁽¹⁾ | 30,004 | 29,837 | +1% | — |
| Total Retail | 168,991 | 156,163 | +8% | +6% |

| Comparable Stores Sales Growth (%) ⁽²⁾ | 2018 | 2017 |
|---|--------------|-------------|
| Health & Beauty China | -1.6% | -4.3% |
| Health & Beauty China (adjusted to include loyalty members' sales recovered in proximate new stores) | +2.1% | +0.3% |
| Health & Beauty Asia | +7.1% | +3.8% |
| Health & Beauty China & Asia Subtotal | +3.1% | — |
| Health & Beauty Western Europe | +1.3% | +2.1% |
| Health & Beauty Eastern Europe | +2.9% | +4.4% |
| Health & Beauty Europe Subtotal | +1.6% | +2.5% |
| Health & Beauty Subtotal | +2.1% | +1.6% |
| Other Retail ⁽¹⁾ | +1.4% | -2.3% |
| Total Retail | +2.0% | +0.9% |

Note 1: Other Retail includes PARKnSHOP, Fortress, Watson's wine and manufacturing operations for water and beverage businesses.

Note 2: Comparable stores sales growth represents the percentage change in revenue contributed by stores which, as at the first day of the relevant financial year (a) have been operating for over 12 months and (b) have not undergone major resizing within the previous 12 months.

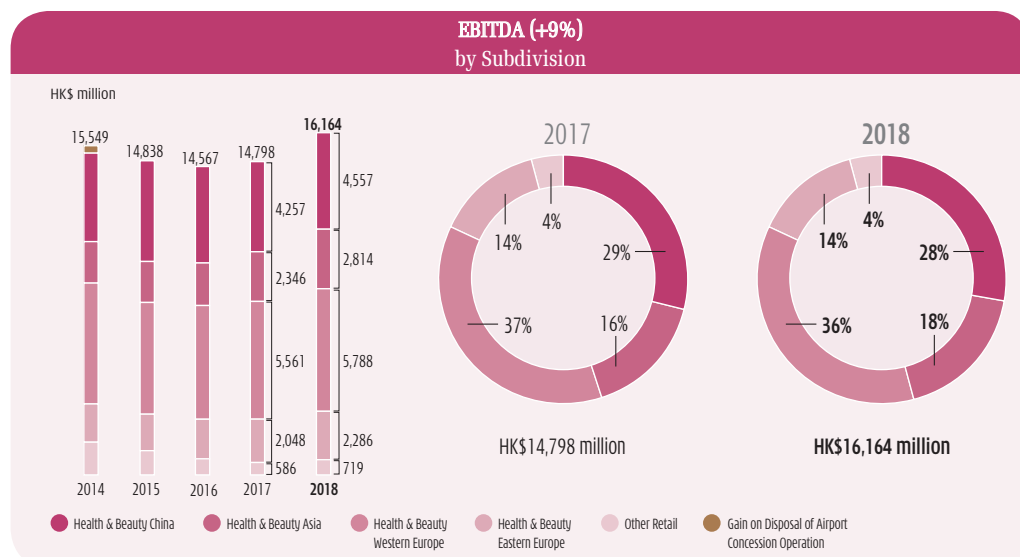
Group Performance (continued)



| Store Numbers | 2018 | 2017 | Change |
|--|---------------|---------------|-------------|
| Health & Beauty China | 3,608 | 3,271 | +10% |
| Health & Beauty Asia | 3,123 | 2,830 | +10% |
| Health & Beauty China & Asia Subtotal | 6,731 | 6,101 | +10% |
| Health & Beauty Western Europe | 5,514 | 5,345 | +3% |
| Health & Beauty Eastern Europe | 2,283 | 2,222 | +3% |
| Health & Beauty Europe Subtotal | 7,797 | 7,567 | +3% |
| Health & Beauty Subtotal | 14,528 | 13,668 | +6% |
| Other Retail ⁽³⁾ | 448 | 456 | -2% |
| Total Retail | 14,976 | 14,124 | +6% |

Note 3: Other Retail includes PARKnSHOP, Fortress, Watson's Wine and manufacturing operations for water and beverage businesses.

The retail division's EBITDA and EBIT increased by 9% and 8% respectively in reported currency against 2017. The principal contributors to growth were the Health and Beauty segment generally, improved performances in the other retail operations in Hong Kong, and favourable foreign currency translation impacts.



| EBITDA | 2018 HK\$ million | 2017 HK\$ million | Change | Change in Local Currencies |
|--|----------------------|----------------------|-------------|-------------------------------|
| Health & Beauty China | 4,557 | 4,257 | +7% | +4% |
| Health & Beauty Asia | 2,814 | 2,346 | +20% | +19% |
| Health & Beauty China & Asia Subtotal | 7,371 | 6,603 | +12% | +9% |
| Health & Beauty Western Europe | 5,788 | 5,561 | +4% | +2% |
| Health & Beauty Eastern Europe | 2,286 | 2,048 | +12% | +8% |
| Health & Beauty Europe Subtotal | 8,074 | 7,609 | +6% | +4% |
| Health & Beauty Subtotal | 15,445 | 14,212 | +9% | +6% |
| Other Retail ⁽⁴⁾ | 719 | 586 | +23% | +23% |
| Total Retail | 16,164 | 14,798 | +9% | +7% |

Note 4: Other Retail includes PARKNSHOP, Fortress, Watson's Wine and manufacturing operations for water and beverage businesses.

The overall health and beauty subdivision, which represented 96% of the division's EBITDA, grew revenue and EBITDA by 10% and 9% respectively. The health and beauty subdivision continued to expand its portfolio with 860 net addition of stores. The quality of new store openings remains high with an average new store cash payback period within one year. The average capex per new store for the health and beauty subdivision was HK\$0.9 million (2017: HK\$0.9 million).

Segment Performance

Health and Beauty China

| | 2018 HK\$ million | 2017 HK\$ million | Change | Change in Local Currency |
|--|----------------------------|----------------------|--------|-----------------------------|
| Total Revenue | 23,855 | 21,783 | +10% | +7% |
| EBITDA <i>EBITDA Margin %</i> | 4,557 <i>19%</i> | 4,257 <i>20%</i> | +7% | +4% |
| EBIT <i>EBIT Margin %</i> | 3,846 <i>16%</i> | 3,674 <i>17%</i> | +5% | +2% |
| Store Numbers | 3,608 | 3,271 | +10% | |
| Comparable Stores Sales Growth (%) | -1.6% | -4.3% | | |
| Comparable Stores Sales Growth (%) (adjusted to include loyalty members' sales recovered in proximate new stores) ⁽⁵⁾ | +2.1% | +0.3% | | |

Note 5: Recovery of sales is measured by tracking the operation's extensive CRM customer base sales performances.

The Watsons business continued to be the leading health and beauty retail chain in the Mainland. Total revenue increased by 10% with a 10% increase in store numbers, partly offset by a negative 1.6% comparable stores sales decline in mature stores. With various initiatives, including store refits and re-layout and integration of online and offline services to enhance customer experiences, comparable store sales decline has improved from a negative 4.3% for 2017 to negative 1.6% for 2018. Through continuous expansion of store portfolio which also follows closely with shifts of trade zones and customer demographics, sales declines in mature stores during 2018 were fully recovered in new stores opened in the proximity of such mature stores. Taking into account the CRM sales recovery, the comparable stores sales is a positive growth of 2.1% for 2018.

EBITDA and EBIT increased by 4% and 2% in local currency respectively in 2018. The growth was primarily driven by favourable revenue performances partly offset by higher overall store operating cost base from inflation. EBITDA margin remained strong at 19%.

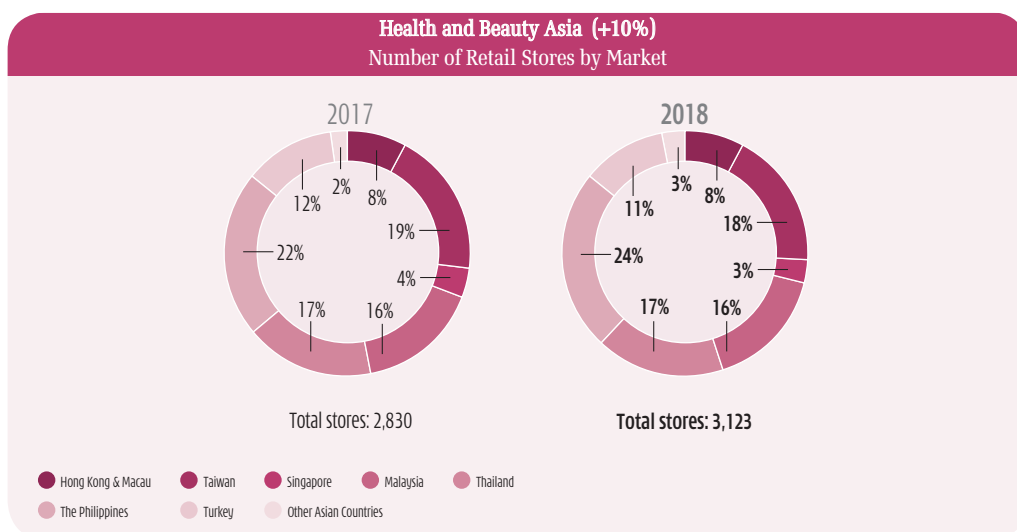
Health and Beauty China increased its total number of stores by 337 during the year and had more than 3,600 stores operating in 474 cities in the Mainland as at year end.

Health and Beauty Asia

| | 2018 HK\$ million | 2017 HK\$ million | Change | Change in Local Currencies |
|---|----------------------------|----------------------|--------|-------------------------------|
| Total Revenue | 28,999 | 25,154 | +15% | +16% |
| EBITDA <i>EBITDA Margin %</i> | 2,814 <i>10%</i> | 2,346 <i>9%</i> | +20% | +19% |
| EBIT <i>EBIT Margin %</i> | 2,364 <i>8%</i> | 1,955 <i>8%</i> | +21% | +19% |
| Store Numbers | 3,123 | 2,830 | +10% | |
| Comparable Stores Sales Growth (%) | +7.1% | +3.8% | | |

Watsons is the leading health and beauty retail chain in Asia with strong brand name recognition and extensive geographical coverage. The majority of its businesses in this region reported strong performances, particularly Watsons Thailand, Malaysia, Philippines and Hong Kong, with double digit increment in both EBITDA and EBIT.

Health and Beauty Asia increased its total number of stores by 293 during the year. The subdivision had more than 3,100 stores operating in 9 markets in 2018.

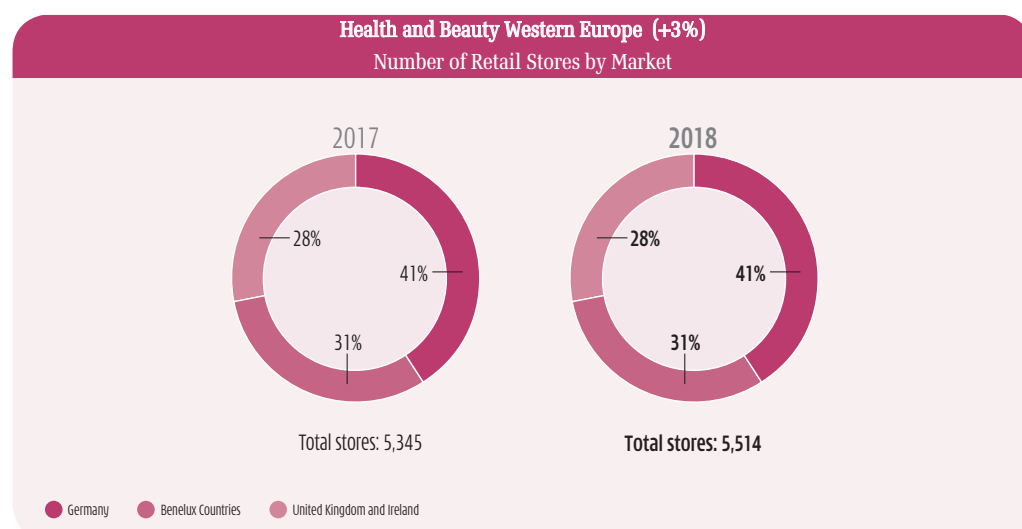


Health and Beauty Western Europe

| | 2018 HK\$ million | 2017 HK\$ million | Change | Change in Local Currencies |
|------------------------------------|----------------------|----------------------|--------|-------------------------------|
| Total Revenue | 69,658 | 64,523 | +8% | +4% |
| EBITDA | 5,788 | 5,561 | +4% | +2% |
| <i>EBITDA Margin %</i> | 8% | 9% | | |
| EBIT | 4,634 | 4,543 | +2% | — |
| <i>EBIT Margin %</i> | 7% | 7% | | |
| Store Numbers | 5,514 | 5,345 | +3% | |
| Comparable Stores Sales Growth (%) | +1.3% | +2.1% | | |

Health and Beauty Western Europe reported a steady revenue growth in both reported and local currencies during the year despite aggressive price competition within the Benelux countries and lower consumer sentiment on luxury cosmetic products in the region which reported a milder comparable stores sales growth rate.

Health and Beauty Western Europe added 169 stores and operated more than 5,500 stores in 2018.



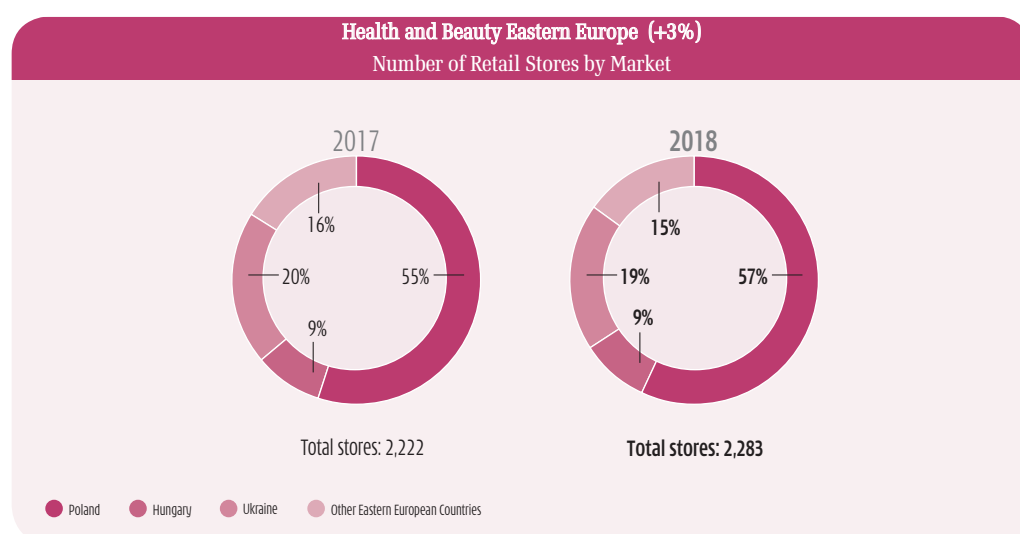
Segment Performance (continued)

Health and Beauty Eastern Europe

| | 2018 HK\$ million | 2017 HK\$ million | Change | Change in Local Currencies |
|------------------------------------|----------------------|----------------------|--------|-------------------------------|
| Total Revenue | 16,475 | 14,866 | +11% | +7% |
| EBITDA | 2,286 | 2,048 | +12% | +8% |
| <i>EBITDA Margin %</i> | 14% | 14% | | |
| EBIT | 1,968 | 1,785 | +10% | +7% |
| <i>EBIT Margin %</i> | 12% | 12% | | |
| Store Numbers | 2,283 | 2,222 | +3% | |
| Comparable Stores Sales Growth (%) | +2.9% | +4.4% | | |

Health and Beauty Eastern Europe continued to report healthy growth during the year. The growth in both EBITDA and EBIT was mainly attributable to strong sales of the Rossmann joint venture in Poland.

Health and Beauty Eastern Europe added 61 stores and operated more than 2,200 stores in 7 markets in 2018.



Other Retail

| | 2018 HK\$ million | 2017 HK\$ million | Change | Change in Local Currencies |
|------------------------------------|----------------------|----------------------|--------|-------------------------------|
| Total Revenue | 30,004 | 29,837 | +1% | — |
| EBITDA | 719 | 586 | +23% | +23% |
| <i>EBITDA Margin %</i> | 2% | 2% | | |
| EBIT | 266 | 131 | +103% | +104% |
| <i>EBIT Margin %</i> | 1% | 1% | | |
| Store Numbers | 448 | 456 | -2% | |
| Comparable Stores Sales Growth (%) | +1.4% | -2.3% | | |

Other Retail subdivision, which only represented 4% of the division's EBITDA, reported a positive growth in total revenue, EBITDA and EBIT of 1%, 23% and 103% respectively, mainly due to continued focus on better cost management in the supermarket business and improved performance in Fortress operation. Other Retail currently operates over 440 retail stores in 3 markets, as well as manufactures and distributes bottled water and other beverages in Hong Kong and the Mainland.

During the year, ASW announced to form a joint venture with Yonghui Superstores Co. Limited ("Yonghui") and Tencent Holdings Limited ("Tencent") to create the largest grocery retail business in Guangdong, China. The joint venture will combine the current PARKnSHOP China supermarket asset with Yonghui's portfolio in Guangdong and leverage Tencent's big data analytical capabilities, to give a store network of over 70 stores and deliver quality and personalised customer experiences to 2.2 million loyalty members. The joint venture is expected to be formed by first half of 2019.

