

# RETAIL



As a global retailer established nearly 180 years ago, the Retail division, A.S. Watson Group (“ASW”), has been an integral part of customers’ everyday lives, providing daily necessities from food to health and beauty products.

With strong workplace standards, environmental programmes, customer services and community outreach activities, ASW has implemented many initiatives that enhance staff and customer loyalty, create social goodwill and contribute to sustainable financial success.

## Key Sustainability Achievements in 2019

- CSR team of 300+ members for global & local CSR committees.
- 8% reduction in electricity consumption.
- Completed sales ban of rinse-off personal care/cosmetic products containing microplastics across international stores, which was first initiated as pioneer in 2014.
- First beverage company in Hong Kong to introduce reverse vending for collection of empty plastic bottles.
- In-store collection of empty containers of personal care/cosmetics products in four markets.

## Key Sustainability Initiatives in 2020

- 100% of H&B Benelux and H&B UK using 100% renewable energy.
- 100% of all dry paper Own-Brand ("OB") products sourced exclusively from traceable sustainable sources.
- By 2030, achieve a 30% reduction in electricity intensity kwh/m2 against 2015 baseline.
- By 2030, reduce GHG emissions (scopes 1 and 2) by 40% from 2015 baselines.
- Assess 50% of purchases from OB suppliers located in high-risk countries with respect to the environmental sustainability risks under the Business Environmental Protection Initiative ("BEPI") of amfori.



Read more on  
A.S. Watson Group's  
corporate website



**15,794**  
STORES



**136,075**  
EMPLOYEES  
(in subsidiaries)

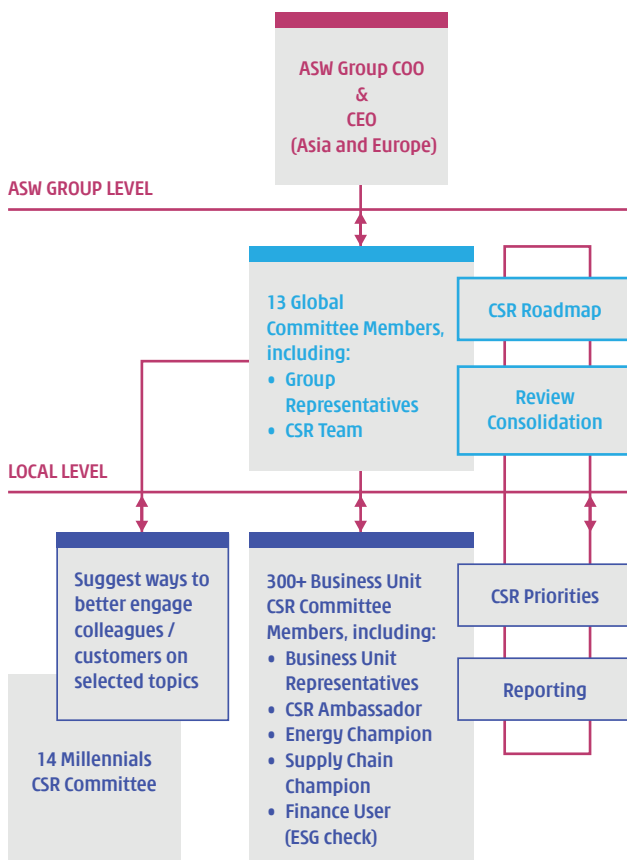
## 6.1. Sustainability Governance

The ASW Global CSR Committee drives the sustainability agenda of the Retail division in alignment with sustainability priorities, goals and policies established at the Head Office level.

The ASW Global CSR Committee is chaired by the Group Chief Operating Officer of A.S. Waston Group and the Chief Executive Officer (Asia and Europe), consists of 13 members which includes the CEOs and senior executives from subsidiaries representing different functions of the business ranging from human resources, legal, finance, IT and sustainability.

The CSR Committee sets the CSR roadmap at the ASW Group level, which is then translated to CSR priorities and initiatives to be implemented at the local level with the coordination of over 300 CSR Committee members across the business units. The progress and results are reported regularly to the ASW Global CSR Committee for their review.

To keep ahead of the curve and identify priorities relevant to millennial employees and customers, the Millennials CSR Committee was established during the year and currently has 14 millennial members. Its objective is to act as ASW's accelerator team to help formulate and strengthen communications with employees and customers and provide suggestions to the ASW Group on sustainability initiatives.



## 6.2. Product Quality and Safety

### 6.2.1. Commitment

At the Retail division, product quality and safety along with manufacturing sustainable products for customers is a key priority across all business units. ASW takes the interests of its customers to heart and has been working with leading experts and researchers globally to deliver excellent quality and value through a wide range of OB products.

### 6.2.2. The Challenges

The Retail division has seen how customer behaviour changing considerably over the past decade. More customers are becoming interested to the details of the product they are purchasing and want to obtain a thorough understanding of an array of information such as product origin, product materials, nutritional value and others.

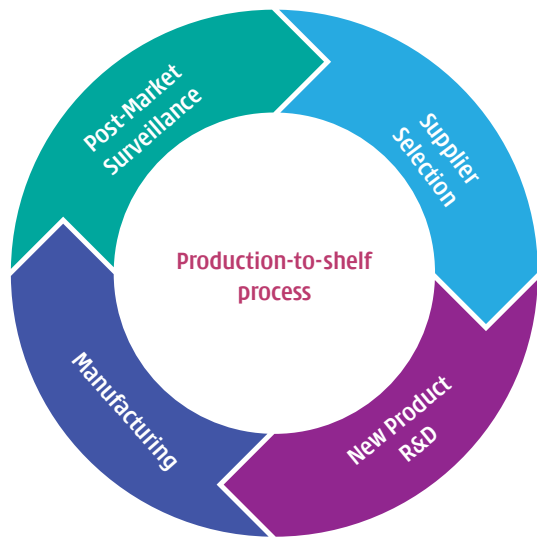
To maintain ASW's leading position in the industry, it is important to continuously enhance the safety and quality of OB products, which in turn helps to create financial value, generate social value and protect the environment.

### 6.2.3. Initiatives

#### 6.2.3.1. Ensuring the Safety and Quality of OB Products

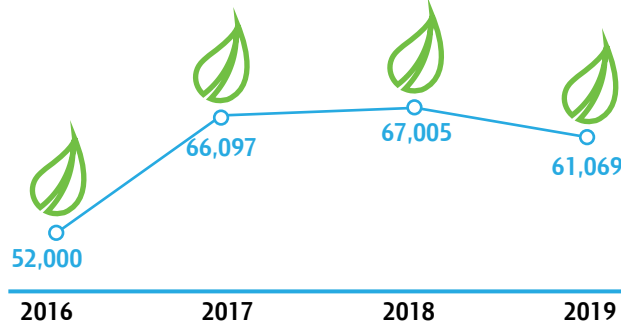
Aiming to develop a well-established mechanism on the production-to-shelf process to deliver excellent quality and valued OB products, ASW established four major measures for the production-to-shelf process to achieve such a goal. In the supplier selection process, manufacturers who have a strong track record in social and environmental aspects along with a good manufacturing practice are selected. Each potential supplier is assessed by an external auditing agency or ASW's own quality assurance team.

When developing a new product, there is a rigorous and intensive internal testing process and external assessment. All items, from raw materials to the final product, are assessed by a European toxicologist to ensure it complies with regulatory requirements in each market. Throughout the manufacturing process, additional tests are performed to ensure the safety and quality of the products.

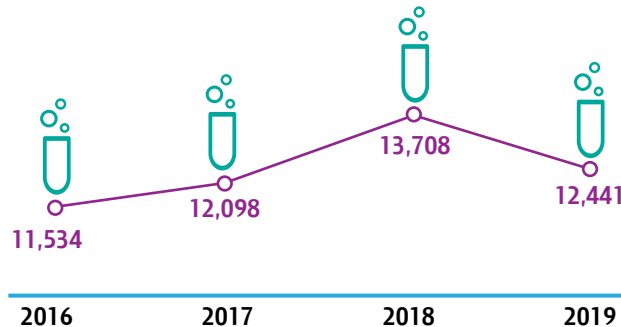


Upon a product's introduction in the retail shops, post-market surveillance programmes are conducted to constantly monitor customers' feedback. ASW conducts regular assessments of OB products led by external independent laboratories and internal ISO17025 accredited laboratories (food and non-food) to ensure the products sold to customers are up to standard.

Number of Food Tests (ASW Internal Laboratory)



Number of Non-food Tests (ASW Internal Laboratory)



## 6.3. Responsible Supply Chain Management

### 6.3.1. Commitment

As a leading global retailer, the Retail division recognises the impact and responsibilities it has with people working in the supply chain and the planet. Working closely with suppliers, ASW seeks to operate in a responsible and sustainable manner and is committed to:

- Improving working conditions in the supply chain.
- Fighting modern slavery.
- Assessing environmental impact risks of OB suppliers.

### 6.3.2. The Challenges

Apart from price and quality, consumers today want to know who, where and how the products were produced. It has become more important than ever for retailers to ensure supply chains are socially and environmentally responsible, from start to finish. In response to the shift in consumer attitudes and expectations, as well as the tightening legislation, ASW evaluates the environmental and social impact of supply chains as well as the risks and opportunities.

#### 6.3.2.1. amfori's Business Social Compliance Initiative

The Retail division strives to foster a healthier, safer and more ethical supply chain, for the benefit of people working in factories and their families.

ASW has been a member of amfori's BSCI since 2008. It aims at improving working conditions in the global supply chain and requires suppliers to agree to amfori's BSCI Code of Conduct as well as participate in regular compliance audits. Through e-Learning tools and workshops from amfori, ASW monitors suppliers' performance and engage with them. In 2019, ASW continued to require OB suppliers located in high risk countries to be audited against BSCI requirements, or equivalent audits that are recognised by ASW, such as



Sedex Members Ethical Trade Audits, Social Accountability 8000 and Initiative for Compliance and Sustainability. Suppliers are encouraged to obtain higher scores in the audit programme and support will be provided for their continuous improvement. In addition, all suppliers, including OB and non-OB ones, received the BSCI Code of Conduct in the contracts they signed with ASW or its subsidiaries.

#### 6.3.2.2. The Mekong club

The Retail division has been making efforts to develop and deepen the understanding of the risks in its business so as to prevent exploitation and human trafficking from taking place in business operations and the supply chain.

Since 2016, ASW has been a member of the Mekong Club ("TMC"), an organisation that helps its member companies develop and implement toolkits to avoid modern slavery within business operations. ASW was the first company to sign up to TMC's Business Pledge against Modern Slavery.

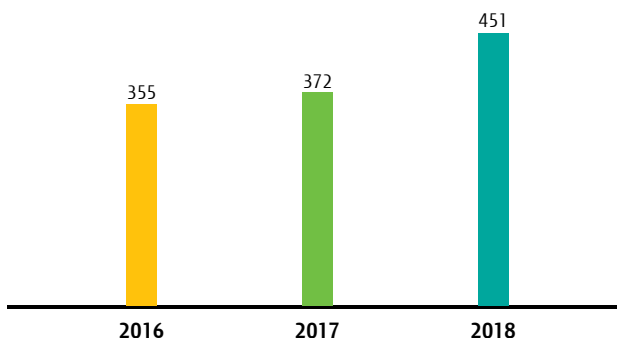
Key departments involved in supplier contract negotiation and quality assurance auditing have been trained with TMC online toolkit; staff workshops have also been carried out in Mainland China, Hong Kong, Singapore, the UK and France. In the UK, business units (The Perfume Shop, Savers, Superdrug) have also taken a commitment to fight against modern slavery, and published their statements on modern slavery and human trafficking as required by the UK Modern Slavery Act.

#### 6.3.2.3. Business environmental protection initiative

The Retail division endeavours to reduce its carbon footprint on the planet through partnering with suppliers to improve their environmental performance.

By the end of 2018, ASW rolled out the BEPI of amfori, which assessed environmental sustainability risks of suppliers, using an online assessment tool covering 11 environmental performance areas. Following the assessment, suppliers were advised on their risks and the appropriate training to attend either from amfori or from other appointed training companies, with their progress monitored over time. By the end of 2019, ASW has assessed 30% of its purchases from OB suppliers located in high-risk countries.

#### Number of supplier audits carried out



### 6.4. Labour Management

#### 6.4.1. Commitment

The Retail division's team of talents is crucial for the company to deliver excellent service and great products to customers. Therefore, ASW is committed to:

- Creating a safe, healthy, supportive and **discrimination-free** working environment.
- Providing ample opportunities to enhance one's skill, through **on-the-job training** and clearly defined **progression pathways**.
- Ensuring equal opportunities and competitiveness in **staff remuneration and recognition**.



#### 6.4.2. The Challenges

As a global retailer with a workforce of more than 136,000 (including full-time and part-time), ASW believes that its size and scale can create a significant impact on the people working for the company and the community across its value chain. By taking a proactive and holistic approach in protecting human rights, ASW can play a part to foster human and societal development.

#### 6.4.3. Initiatives

##### 6.4.3.1. Employee wellbeing

The Retail division embeds wellbeing in its culture to allow teams to do their best work through engagement and awareness programmes.

ASW launched its first global wellbeing programme in 2018 to help employees flourish and achieve their full potential. Regional business units got creative and embraced the opportunity to cover a broad range of wellbeing subjects including physical health, fitness and sport, healthy eating, mental health, financial wellbeing, work-life balance and effective sleeping.

#### 6.4.3.2. Continuous Professional Development and Education

The Retail division provides up-to-date, customer-focused training to assist staff in acquiring technical and soft skills and occupational competencies, thereby meeting the ever-changing needs of customers.

To remain at the forefront of retail excellence, ASW launched the first ever Retail Academy in Hong Kong in 2018 to manage all talent development programmes for staff in-house.

In 2019, over 440 store specialists and management staff were put forward for the Recognition of Prior Learning under Hong Kong's Qualification Framework (QF), a government initiative set up to encourage and facilitate lifelong learning to enhance the capability and competitiveness of the local workforce. It aims to enable them to obtain recognised qualifications based on their work experience and facilitate their ongoing professional development.

There were also about 3,500 professional and comprehensive courses recognised by QF offered to staff across PARKnSHOP, Watsons, Fortress and Watson's Wine. The courses are designed with the aim to well prepare staff to meet the ever-changing customer expectations.

ASW organised a set of face-to-face interactive sessions with Snackables in the UK and Milan, providing employees the opportunity to take short training courses organised by Learning and Development, as well as other teams such as eLab, and Data Lab. The programmes and schedules can be accessed and booked by anyone via an online calendar.



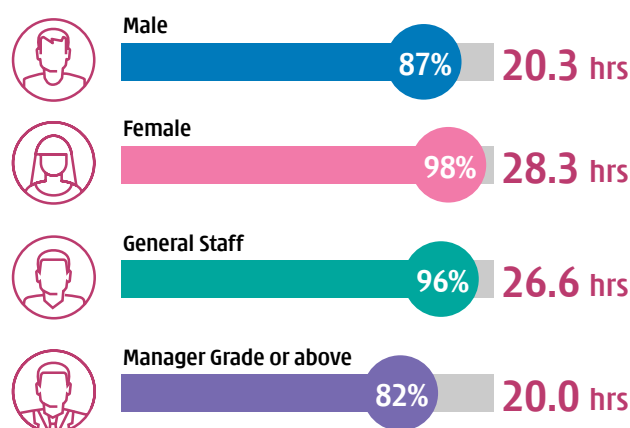
#### 6.4.3.3. Gender Equality

The Retail division offers fair and supportive workplace for people of all genders and give female employees as many career and progression opportunities as male employees.

At The Perfume Shop which employs around 2,200 employees, the median gender pay gap this year improved significantly against 2018 from 7.3% to 2.2%. This pay gap is 6.7 % smaller than that of the full-time employees in the UK, demonstrating ASW's commitment to gender pay at all levels in the business, as well as its dedication to equality in recruitment, development and promotions.

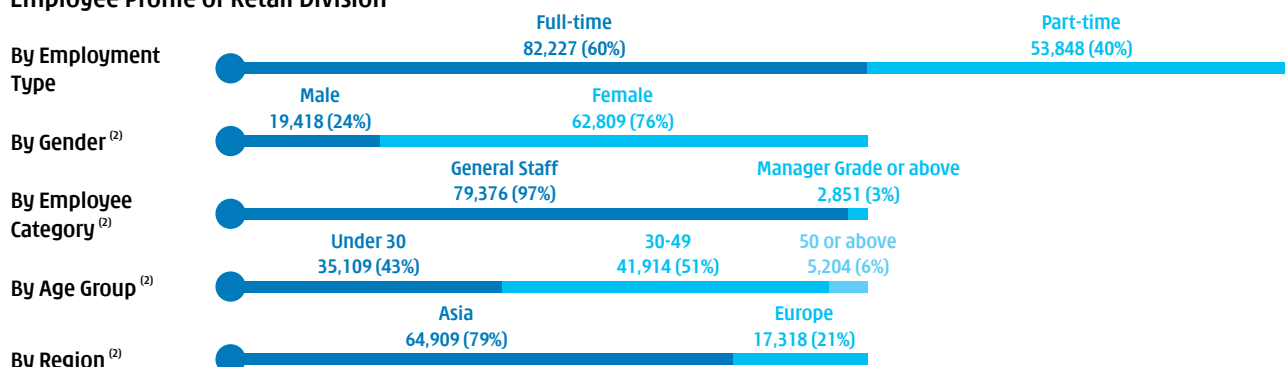
At Superdrug and Savers, there was 480,000 hours in training in 2019, where 82% of which were invested in women. Also, among 1,900 internal promotions this year, 79% of which were female.

#### Percentage of employees of Retail Divisions who received training <sup>(1)</sup> and average hours of training per employee by gender and by employee category <sup>(1) (2)</sup>



Note:

- (1) Covers the first nine months of 2019 only. Moving forward, a complete set of figures will be disclosed covering the full year as data sources improve.
- (2) The average hour of training is based on the total number of employees in respective categories as at 31 December 2019.

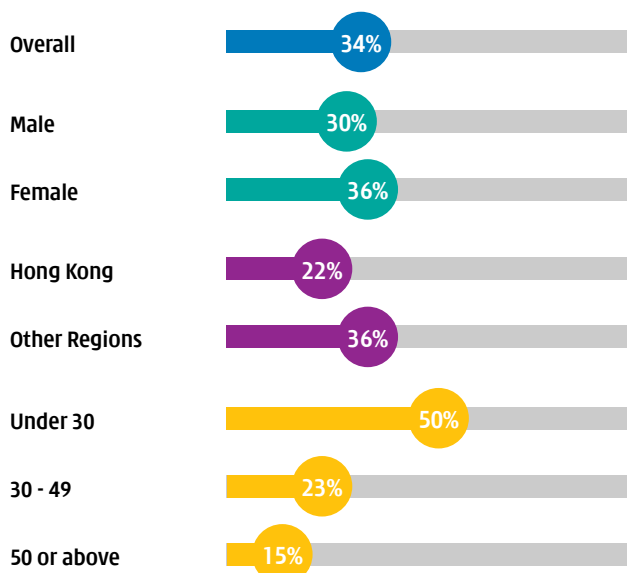
Employee Profile of Retail Division <sup>(1)</sup>

Note:

(1) Figures are as at 31 December 2019.

(2) Full-time employees only.

## Employee Turnover of Retail Division



Note:

Turnover rate refers to full-time employees only, which is calculated based on the employee departure during the year, divided by the average total number of employees as at 31 December 2019.

## 6.5. Community Engagement

## 6.5.1. Commitment

Community engagement is ASW's passion and commitment. It seeks to maintain long-term partnerships with local communities and charities, develop programmes that are mutually beneficial to its business and the community, and encourage its employees to involve in volunteering.

## 6.5.2. The Challenges

Retailers are part of the community in which they serve. To secure support from the customers and strengthen the social licence to operate, businesses should seek to build good relationships and trust with the community.

## 6.5.3. Initiatives

## 6.5.3.1. Partnerships with Communities and Charities

ASW strives to maintain long-term partnerships and support local communities and charities via donations and sponsorships.

Partnering with Operational Smile, ASW launched its first group-wide global charity campaign, "Give a Smile" in 2018. The campaign aims to sponsor surgeries for children with cleft conditions to make smile possible again. To drive awareness across business units, ASW engaged colleagues in a wide range of fundraising activities. It also educated customers about cleft



conditions through creative social media campaigns and Augmented Reality (AR) technology experience, and encourage loyal customers to donate their points to support "Operation Smile". By the end of 2019, ASW has funded over 1,500 surgeries.

For more than three years, Watsons Ukraine has been partnering with National Cardiovascular Surgery Institute Amosova to support children with congenital heart disease. Apart from engaging employees in a range of fundraising activities, customers were encouraged to donate their Watsons Club points. At 2019 year-end, 41 surgeries were supported, 75,000 Watsons Club points were donated with the participation of around 668,000 customers.

Saver and Superdrug have been working with long-term charity partner Marie Curie by raising funds and awareness for the organisation's work in providing quality care to patients suffering from terminal illness across the UK. Savers has raised over 600,000 pounds in 2017 and 2018 while Superdrug has raised 5,000,000 pounds over five years.

#### 6.5.3.2. Donating Edible Surplus

While reducing its ecological footprint and wastage, ASW donates edible surplus food to local charities and social enterprise to help feed the needy.

PARKnSHOP has been organising the "City Food Drive" programme which helps local social enterprise, Food Angel, collect grocery food items and funds from the public since 2012. For seven consecutive years, it has raised more than HK\$7.8 million and donated more than 1,800 tonnes of edible surplus food to help Food Angel prepare five million of meal boxes to feed the needy in Hong Kong.

#### 6.5.3.3. Employee Engagement

Apart from engaging the public community, the Retail division believes engaging and taking care of employees' wellbeing is also an important element to the success of its business. Employees are encouraged to participate in volunteer work and improve their wellbeing to unlock their full potential.

At "Smile for Good", ASW staff across the world has put in a total of 70,000 volunteer hours to help those in need and create a more caring community. In 2019, ASW hosted or participated in 257 activities with over 12,500 volunteers participating.



#### 6.5.3.4. Youth Development

The Retail division supports the community's youth through the sponsorship of local athletic events, contributing to young athletes' growth and development.

Watsons Athletic Club ("WAC"), celebrating its 30<sup>th</sup> anniversary in 2019, has always been central to the development of young athletic talents in Hong Kong. Over the years, more than 10,000 students have challenged themselves and realised their dreams through taking part in WAC's initiatives.

WAC also organised a series of events under the slogan "Reaching New Heights" to celebrate its remarkable achievements and pass the torch to a new generation of young athletes.

To encourage talented student athletes to pursue their interests and develop potential, ASW organised the "A.S. Watson Group Hong Kong Student Sports Awards" in 2005 to honour students who exhibit outstanding performance or great potential, demonstrating passion and good conduct in sport. Since 2005, the programme saw over 14,000 students nominated from over 1,000 primary, secondary and special schools across Hong Kong. Awardees would be invited to participate in leadership workshops, and outstanding awardees will be selected to join the Sports Exchange Tour and will be invited to attend an appreciation lunch as well as a volunteer service.

ASW has also been supporting the Future Stars – Upward Mobility Scholarship organised by the HKSAR Government since 2016. Through the programme, ASW provides grassroots secondary students with both direct scholarship support and career-focused activities to gain practical working experience. ASW also organises visits to PARKnSHOP's Sheung Shui Fresh Food Distribution Centre and Fortress stores, and provide students with summer placements at Watsons stores and event management experience in sports events.

#### 6.6.2. The Challenges

With an extensive retail network spread across a wide range of locations and cultures, regional differences of the stores have to be considered in localising energy management policies and practices to suit their operational needs. Besides the need for adaptive energy management measures, GHG emissions performance is also dependent on the fuel mix used by electricity providers in local markets.

#### 6.6.3. Initiatives

##### 6.6.3.1. Energy Management Programme

In 2014, ASW launched the Energy Management Programme to manage energy use. As part of the plan, Energy Champions are appointed to support proper execution of Energy Management Programme goals at the different markets where ASW operates in.

Energy-saving initiatives were implemented in stores to help improve energy efficiency, ranging from hardware improvements such as gradual LED replacement and investments in other energy-efficient hardware, to behavioural changes concerning staff awareness. Where practicable, sustainable energy sources are introduced into the existing energy mix. By the end of 2019, all business units in the UK and Kruidvat in Belgium switched to 100% renewable energy, with Trekpleister and Kruidvat in the Netherlands using 80% renewable energy in their energy mix.

A Supply Chain Toolkit was implemented to help the in-house vehicle fleet and the subcontracted transport fleet to develop localised fuel-efficiency strategies. As part of this, best practices are promoted and both internal staff and external contractors are engaged to adapt fuel efficiency measures.

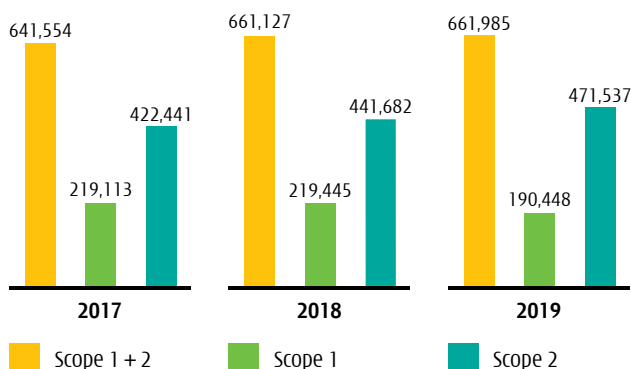
As a result of the energy reduction measures, total net GHG emissions (Scope 1 and 2) have dropped 30% compared to the 2015 baseline.

## 6.6. GHG Emissions and Energy Efficiency

### 6.6.1. Commitment

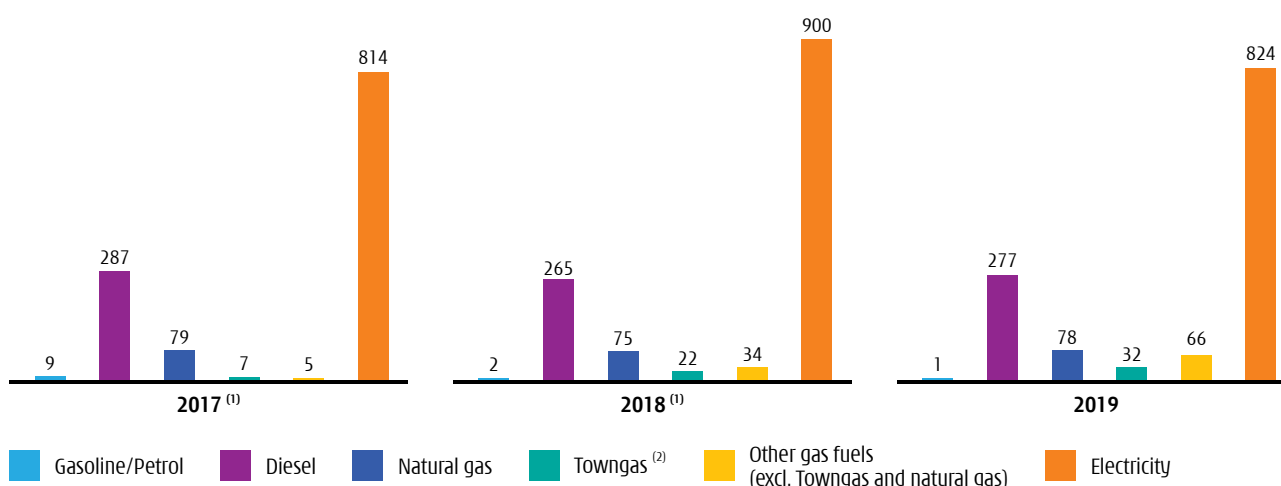
The majority of the Scope 1 and 2 GHG emissions at the Retail division comes from energy consumption, in particular purchased electricity. Therefore, ASW is committed to reducing GHG emissions by improving energy efficiency and using renewable energy sources to reduce emission.

### GHG Scope 1 and 2 Emissions in Retail Division (tCO<sub>2</sub>e)



Note:  
The GHG emissions have been restated mainly due to a unit conversion error.

### Energy Consumption in Retail Division (GWh)



Note:

(1) The 2017 and 2018 figures were mainly restated due to a unit conversion error.

(2) The term is revised to better clarify the fuel used. "Towngas/Gas work gas" was the term used previously.

## 6.7. Waste Management and Circular Economy

### 6.7.1. Commitment

ASW is committed to minimising the amount of waste going into landfills by adopting a circular economy model, where possible, and abide strictly to local requirements in terms of waste collection and disposal. The company makes every effort to ensure no hazardous waste is sent to landfills and to minimise the amount of non-hazardous waste sent to landfills. Additionally, ASW has signed up to the "New Plastic Economy" Global commitment for their OB products, working to eliminate plastic items that are not needed, innovate such that all plastics are designed to be safely reused, recycled or composted, and circulate everything to keep in the economy and out of the environment.

### 6.7.2. The Challenges

Waste management in the retail industry has been a prominent topic as the industry has traditionally involved in



# 83,503

tonnes total non-hazardous waste produced

creating a significant volume of waste through items such as food, single-use plastics and packaging. In recent years, the ASW Group has been actively exploring opportunities to reduce the waste generated across the value chain.

### 6.7.3. Initiatives

#### 6.7.3.1. Improving Store Carrier Bags

Across the Retail operations, various types of store carrier bags are offered for the convenience of

customers. ASW aims to reduce the provision of single-use carrier bags and use alternatives such as reusable bags, paper bags or bags made partially with recycled plastic content.

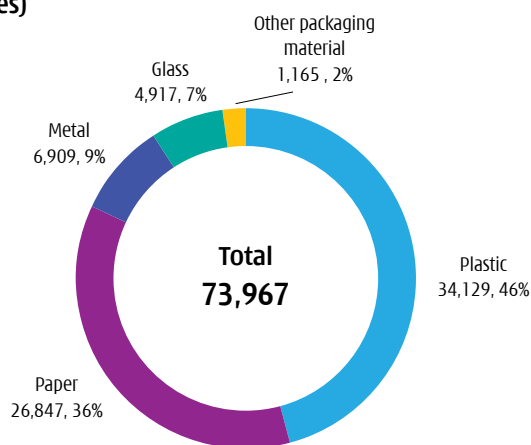
Currently, business units in Europe provide carrier bags which includes a minimum of 25% recycled plastic content. In Asia, this figure is 5-10%. ASW strives to increase the use of recycled plastic content to 25% in Asia to align with Europe.

Paper bags are also offered in multiple locations and customers are encouraged to switch to reusable bags. In Hong Kong, programmes such as “Share Your Bag and Bring Your Own Boxes” are implemented at designed stores.

### 6.7.3.2. Reducing Packaging

There is a significant growth in online business across the world, which has led to an additional use of packaging materials required for product shipment. In the supermarket division, customers' feedback on the extensive use of plastic packaging for raw and fresh products are received.

**Total packaging material used for finished products (tonnes)**



To reduce packaging, business units have been reinventing and redesigning product packaging to keep them safe in transportation with minimal use of materials. In 2018, the regional eCommerce team released guidelines on packaging and dispatch notes not only to standardise the look and feel but also to optimise the amount of material used.

In the guidelines, key strategies and directions, such as introducing product refill options and phasing out the use of PVC in packaging, were introduced for business units to act on.

### 6.7.3.3. Collection of Empty Containers in Stores

ASW partnered with recyclers to collect empty glass and plastic containers from customers and to process them back into raw materials for further re-use in support of circular economy.

Up to 2019, four business units across four operating markets are collecting empty containers for personal care/cosmetics products from customers. In Hong Kong, empty glass containers and water bottles are being collected and reverse vending machines are added to collect empty plastic water bottles. In 2020, it aims to expand the empty containers recycling programme to two new markets.



### 6.7.3.4. Testing In-store Refill

Customer refill may be a potential business model to substantially cut back on plastic waste, and ASW has worked with strategic suppliers to review the opportunity of introducing this initiative.

In Hong Kong, a personal care refill station for a New Zealand brand “ecostore” was launched in PARKnSHOP. Customers can now bring in their container to purchase refills. In 2019, the lines of refill stations have expanded to include olive oil, vinegar and whiskey refill by Vom Fass and nuts corner by Hart.

### 6.7.3.5. Non-hazardous Waste Recycling in Warehouses

The Retail division strives to reduce and recycle warehouse wastes. In daily operation, non-hazardous wastes are handled in compliance with local legislations. Non-hazardous waste is either managed through shopping malls' own waste management systems or brought back to the warehouses to be delivered to local recyclers. This waste usually comes from secondary and tertiary packaging.

#### 6.7.3.6. Banning the Use of Microplastics

The use of microplastics has been a topic of concern in the retail and cosmetics industry in the past couple of years. The Retail division has been taking steps to fully ban the use of microplastics in the development of OB rinse-off cosmetics/personal care scrub products since 2014.

To further fulfil the Retail division's commitment to the environment, ASW has stopped selling all rinse-off cosmetics products/personal care products containing microplastics at its stores since January 2020. With the changes on the definition of microplastics in Europe and potential extended restrictions, ASW is actively working with suppliers to fulfil any additional requirements.

#### 6.7.3.7. Mitigating the Impact of Plastics

With retail and beverage manufacturing being key parts of ASW's business, the company is committed to contribute to the global effort of combating plastic waste.

Four key focus areas in achieving such goal are identified, including:

- Reduce unnecessary and problematic plastic.
- Make packaging more recyclable.
- Explore reusable packaging models.
- Use recycled plastic content.

At Watsons Water, a goal to have all plastic bottles made from 100% recyclable PET materials by 2020 was set.

ASW is also currently reviewing its portfolio of single-use OB plastic products to determine whether they can be re-designed to be recycled, reused or made with better alternative materials. However, this can only be done in markets where regulations allow.

PARKnSHOP was the first supermarket in Hong Kong to launch a trial of non-package fruits and vegetables at three of its university stores. The trial has enabled PARKnSHOP to identify the direct impact of shelf life of certain fruits and vegetables along with the demand for sustainable packaging solution.

#### 6.7.3.8. Making OB Products More Sustainable

The Retail division is committed to having 100% of the dry paper products (toilet tissue, facial tissue and related items) made of PEFC or traceable recycled paper by 2025.

By 2018, dry paper products had already transitioned to sustainable paper sources such as PEFC.



#### 6.7.4. Looking Forward

Immediate next steps are identified to help ASW become more environmentally-friendly, with the upcoming initiatives:

- Installing 400 reverse vending machines in Hong Kong by 2025, with a target to collect 50% equivalent Watsons Water bottles by 2025 and 100% equivalent by 2030.
- Installing 100 water refill stations by 2025.

In Q1 2020, ASW also launched the 2030 Sustainable Packaging Strategy, covering OB products packaging, carrier bags and eCommerce parcels. And in Q2, ASW officially signed up to the "New Plastic Economy" Global commitment.

Below are a few key goals and objectives identified in ASW OB Sustainable Packaging strategy:

- Eliminating unnecessary and problematic packaging. For example through avoiding over-packaging and phasing out PVC by 2030.
- Promoting packaging that is more recyclable or reusable.
- Targeting to use a minimum of 20% recycled plastic content in plastic packaging by 2025 (ASW average), if supply allows.

Before



After

