



Retail



1. Watsons launches in Vietnam, opening its first flagship store in Ho Chi Minh City.
2. The new concept store of Kruidvat in Rijswijk, the Netherlands provides a worldwide selection of health and beauty products and convenient self-checkout counters to enhance customers' shopping experience.
3. Drogas has opened in Riga, Latvia a new concept store equipped with easy-to-navigate zones and extra services to help customer locate the right products.
4. With approximately 800 stores in the UK and Ireland, Superdrug is a fashion-led retailer providing a wide range of health and beauty products.
5. Rossmann operates over 4,000 stores in Germany, Poland, Hungary, Czech Republic, Turkey 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 138 million loyalty member base.

Group Performance

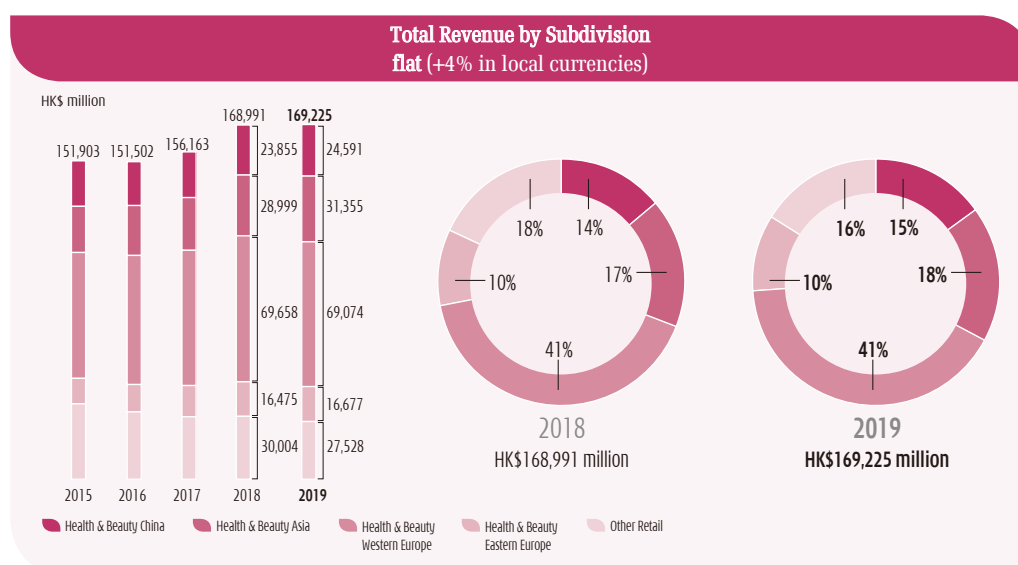
ASW operated 12 retail brands with 15,794 stores in 25 markets worldwide in 2019, providing high quality personal care, health and beauty products; food and fine wines; as well as consumer electronics and electrical appliances. ASW also manufactures and distributes bottled water and other beverages in Hong Kong and the Mainland.

	2019 HK\$ million	2018 HK\$ million	Change	Local currencies change
Total Revenue	169,225	168,991	—	+4%
EBITDA ⁽¹⁾	16,891	16,164	+4%	+8%
EBIT ⁽¹⁾	13,671	13,078	+5%	+8%
Store Numbers	15,794	14,976	+5%	

Note 1: Under Post-IFRS 16 basis, EBITDA was HK\$27,023 million; EBIT was HK\$14,705 million.

Total reported revenue was flat against last year, mainly due to a 5% increase in store numbers, primarily in Health and Beauty China and Asia, as well as an overall 1.2% comparable stores sales growth, offset by the challenging trading environment in Hong Kong in the second half of 2019, and the adverse foreign currency translation impacts. In local currencies, total revenue increased by 4% against last year.

Health & Beauty Loyalty members’ participation & Exclusives sales contribution	2019	2018
Total loyalty members in Health & Beauty division (million)	137	132
Loyalty members’ sale participation (%)	62%	62%
Exclusives sales contribution to total H&B sales (%)	35%	34%



The Health and Beauty subdivision currently has 137 million loyalty members with 62% of total revenue being generated by these loyalty members during 2019. Higher margin own brand and exclusives sales contributed 35% of total Health and Beauty sales (2018: 34%).

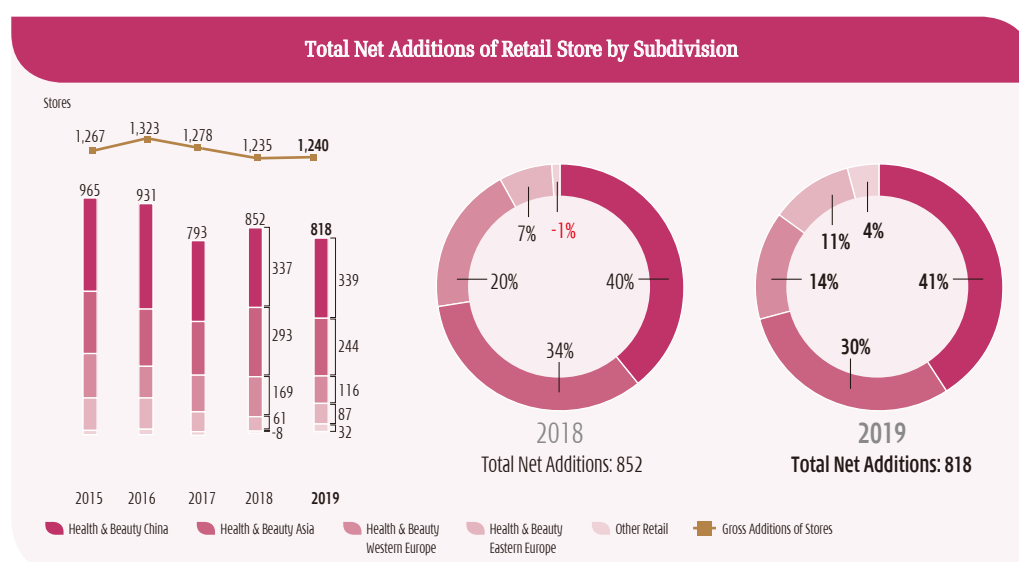
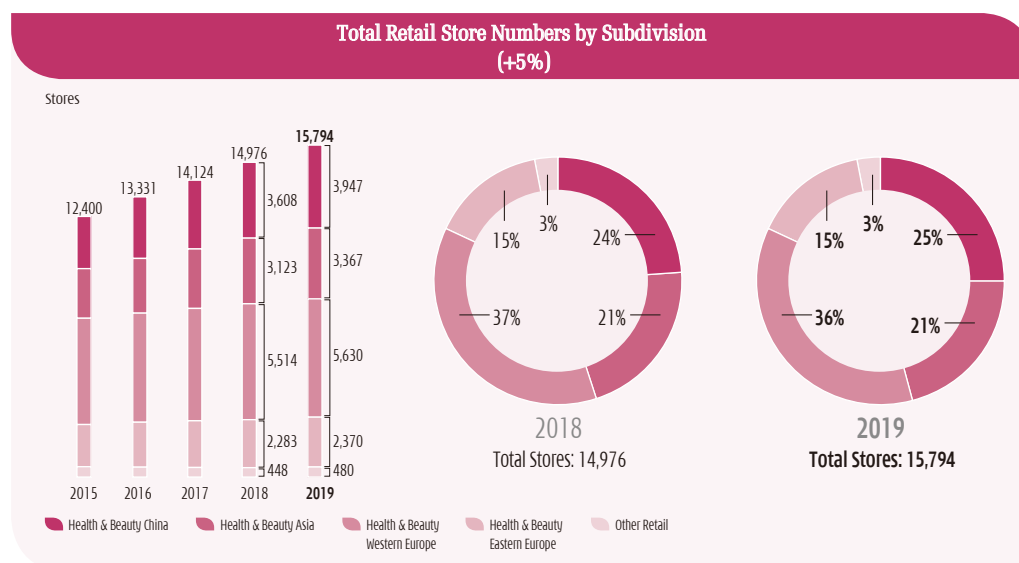
Total Revenue	2019 HK\$ million	2018 HK\$ million	Change	Local currencies change
Health & Beauty China	24,591	23,855	+3%	+7%
Health & Beauty Asia	31,355	28,999	+8%	+9%
Health & Beauty China & Asia Subtotal	55,946	52,854	+6%	+8%
Health & Beauty Western Europe	69,074	69,658	-1%	+4%
Health & Beauty Eastern Europe	16,677	16,475	+1%	+7%
Health & Beauty Europe Subtotal	85,751	86,133	—	+5%
Health & Beauty Subtotal	141,697	138,987	+2%	+6%
Other Retail ⁽²⁾	27,528	30,004	-8%	-8%
Total Retail	169,225	168,991	—	+4%

Comparable Stores Sales Growth (%) ⁽³⁾	2019	2018
Health & Beauty China	+2.0%	-1.6%
Health & Beauty China (adjusted to include loyalty members' sales recovered in proximate new stores)	+5.5%	+2.1%
Health & Beauty Asia	+4.0%	+7.1%
Health & Beauty China & Asia Subtotal	+3.1%	+3.1%
Health & Beauty Western Europe	+1.9%	+1.3%
Health & Beauty Eastern Europe	+2.9%	+2.9%
Health & Beauty Europe Subtotal	+2.1%	+1.6%
Health & Beauty Subtotal	+2.4%	+2.1%
Other Retail ⁽²⁾	-6.7%	+1.4%
Total Retail	+1.2%	+2.0%

Note 2: Other Retail includes PARKnSHOP, PARKnSHOP Yonghui, Fortress, Watson's Wine and manufacturing operations for water and beverage businesses.

Note 3: 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)

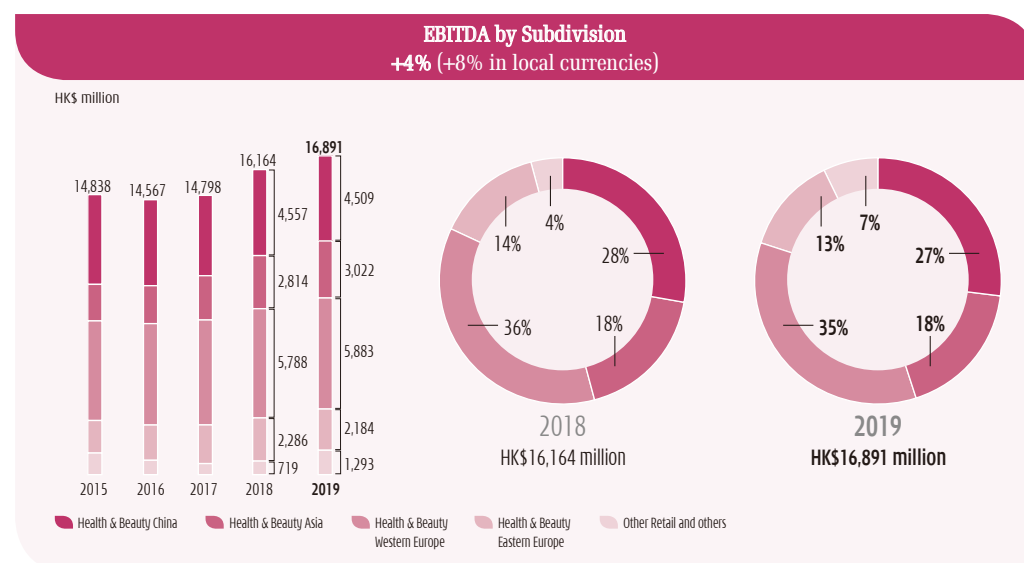


Store Numbers	2019	2018	Change
Health & Beauty China	3,947	3,608	+9%
Health & Beauty Asia	3,367	3,123	+8%
Health & Beauty China & Asia Subtotal	7,314	6,731	+9%
Health & Beauty Western Europe	5,630	5,514	+2%
Health & Beauty Eastern Europe	2,370	2,283	+4%
Health & Beauty Europe Subtotal	8,000	7,797	+3%
Health & Beauty Subtotal	15,314	14,528	+5%
Other Retail ⁽⁴⁾	480	448	+7%
Total Retail	15,794	14,976	+5%

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

The Retail division's EBITDA and EBIT increased by 4% and 5% respectively in reported currency against 2018 due to a one-off gain of approximately HK\$633 million arising from the formation of the joint venture with Yonghui and Tencent for the division's China supermarket business, partly offset by the challenging trading environment in Hong Kong in the second half of 2019, as well as the adverse foreign currency translation impacts. Excluding the one-off gain, EBITDA and EBIT increased by 4% and 3% respectively in local currencies, primarily reflecting steady growth in the Health and Beauty subdivision.

Although the second half of 2019 was particularly challenging for operations in Hong Kong, these only represented 2.6% of the Retail division's EBITDA in 2019. Excluding the Hong Kong contribution and the aforementioned one-off gain, the underlying EBITDA and EBIT performance of the division in local currencies were 6% and 5% higher than last year.



EBITDA	2019 HK\$ million	2018 HK\$ million	Change	Local currencies change
Health & Beauty China	4,509	4,557	-1%	+3%
Health & Beauty Asia	3,022	2,814	+7%	+7%
Health & Beauty China & Asia Subtotal	7,531	7,371	+2%	+5%
Health & Beauty Western Europe	5,883	5,788	+2%	+6%
Health & Beauty Eastern Europe	2,184	2,286	-4%	+1%
Health & Beauty Europe Subtotal	8,067	8,074	—	+5%
Health & Beauty Subtotal	15,598	15,445	+1%	+5%
Other Retail ⁽⁵⁾ and others	1,293	719	+80%	+79%
Total Retail	16,891	16,164	+4%	+8%

Note 5: Other Retail includes PARKnSHOP, PARKnSHOP Yonghui, Fortress, Watson's Wine and manufacturing operations for water and beverage businesses.

The Health and Beauty subdivision, which represented 84% and 92% of the division's revenue and EBITDA respectively, grew revenue and EBITDA by 6% and 5% respectively in local currencies. The Health and Beauty subdivision continued to expand its portfolio with 786 net addition of stores. The quality of new store openings remains high with an average new store cash payback period within 13 months. The average capex per new store for the Health and Beauty subdivision was HK\$1.0 million (2018: HK\$0.9 million). The division opened its first flagship store in Ho Chi Minh City, Vietnam, in January 2019 which is the 25th operating market of the division.

Segment Performance

Health and Beauty China

	2019 HK\$ million	2018 HK\$ million	Change	Local currency change
Total Revenue	24,591	23,855	+3%	+7%
EBITDA <i>EBITDA Margin %</i>	4,509 18%	4,557 19%	-1%	+3%
EBIT <i>EBIT Margin %</i>	3,736 15%	3,846 16%	-3%	+1%
Store Numbers	3,947	3,608	+9%	
Comparable Stores Sales Growth (%)	+2.0%	-1.6%		
Comparable Stores Sales Growth (%) (adjusted to include loyalty members' sales recovered in proximate new stores) ⁽⁶⁾	+5.5%	+2.1%		

Note 6: 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 7% in local currency arising from a 9% increase in store numbers, as well as the turnaround of comparable stores sales in mature stores from a decline of negative 1.6% for 2018 to a positive growth of 2.0% for 2019, following the on-going integration of the online and offline platforms and enhanced operational strategies. Taking into account the CRM sales recovery of new stores opened in the proximity of mature stores, the comparable stores sales was a positive growth of 5.5% for 2019.

EBITDA and EBIT increased by 3% and 1% in local currency respectively in 2019. 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 18%.

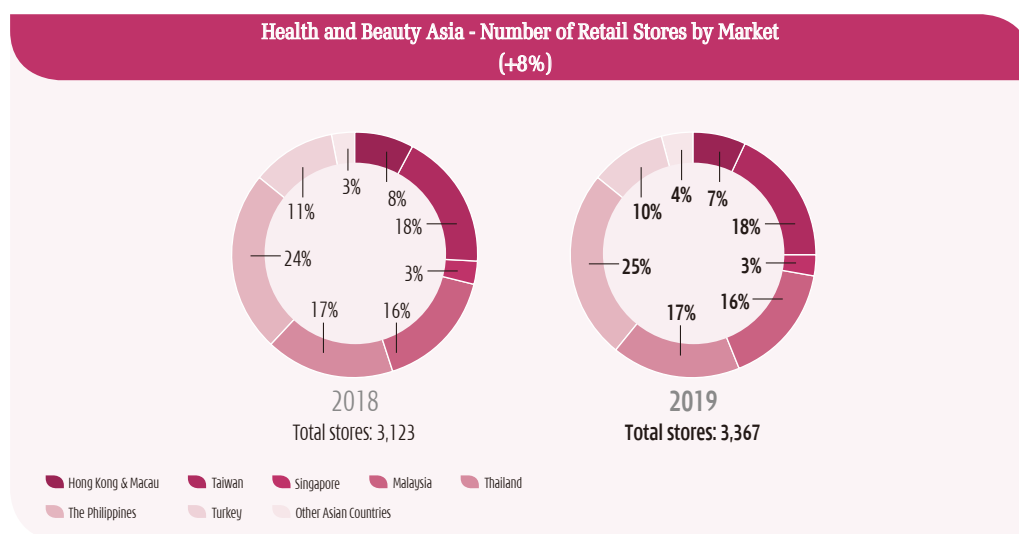
Health and Beauty China increased its total net number of stores by 339 during the year and had more than 3,900 stores operating in 483 cities in the Mainland as at year end.

Health and Beauty Asia

	2019 HK\$ million	2018 HK\$ million	Change	Local currencies change
Total Revenue	31,355	28,999	+8%	+9%
EBITDA <i>EBITDA Margin %</i>	3,022 10%	2,814 10%	+7%	+7%
EBIT <i>EBIT Margin %</i>	2,505 8%	2,364 8%	+6%	+6%
Store Numbers	3,367	3,123	+8%	
Comparable Stores Sales Growth (%)	+4.0%	+7.1%		

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 in 2019 with EBITDA and EBIT increased by 7% and 6% in local currencies respectively. Excluding the adverse year-on-year performance of Watsons Hong Kong, which is included in this segment, EBITDA and EBIT both increased by 14% in local currencies arising from an 8% increase in store numbers and a comparable stores sales uplift of 8.8%, primarily in Malaysia, Philippines and Thailand.

Health and Beauty Asia increased its total net number of stores by 244 during the year. The segment had more than 3,300 stores operating in 10 markets in 2019.

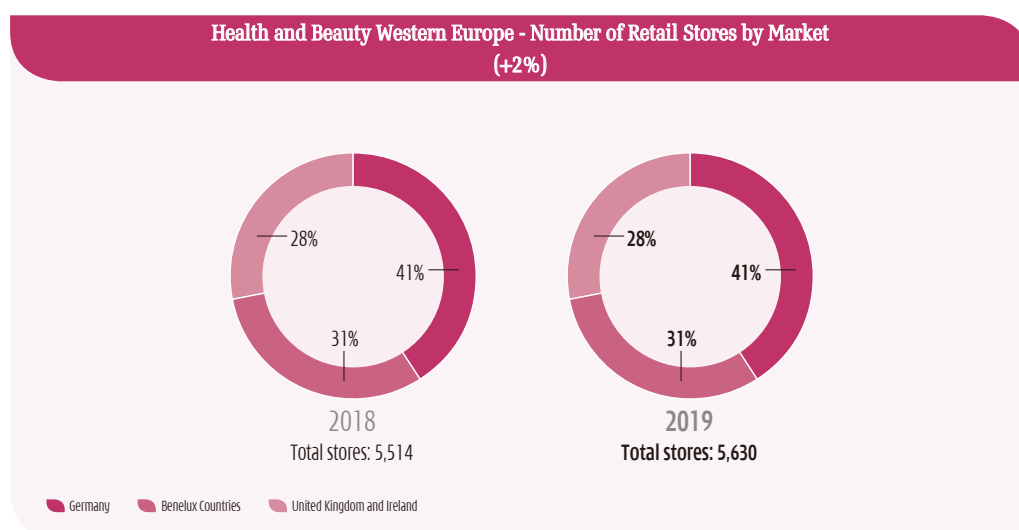


Health and Beauty Western Europe

	2019 HK\$ million	2018 HK\$ million	Change	Local currencies change
Total Revenue	69,074	69,658	-1%	+4%
EBITDA <i>EBITDA Margin %</i>	5,883 9%	5,788 8%	+2%	+6%
EBIT <i>EBIT Margin %</i>	4,685 7%	4,634 7%	+1%	+5%
Store Numbers	5,630	5,514	+2%	
Comparable Stores Sales Growth (%)	+1.9%	+1.3%		

Despite generally weaker consumer sentiment, Health and Beauty Western Europe reported a strong EBITDA and EBIT growth of 6% and 5% in local currencies respectively during the year, arising from a 2% increase in store numbers and a robust comparable stores sales growth rate of 1.9%, primarily in Germany, as well as improved margin from higher own brand and exclusives sales participation in the UK.

Health and Beauty Western Europe added net 116 stores and operated more than 5,600 stores in 2019.



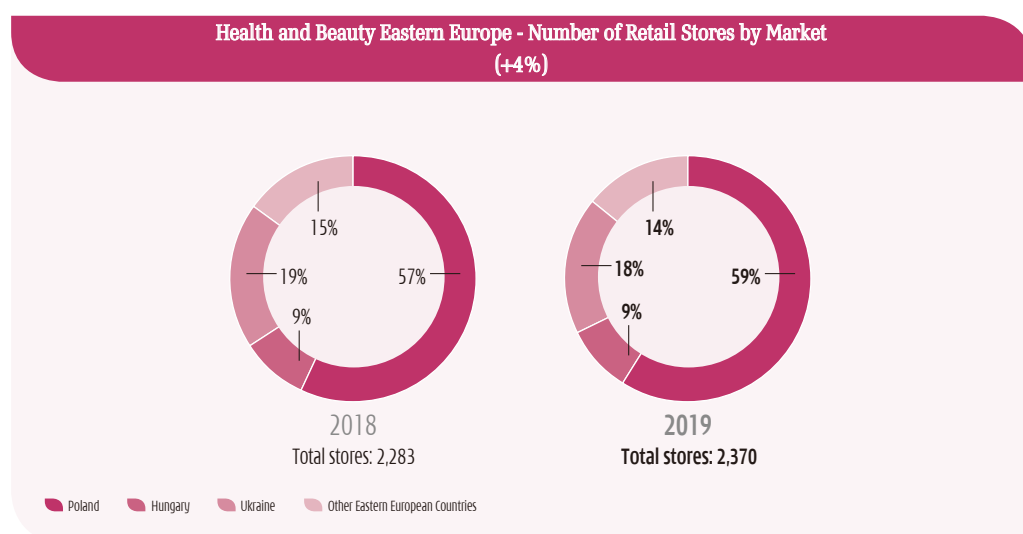
Segment Performance (continued)

Health and Beauty Eastern Europe

	2019 HK\$ million	2018 HK\$ million	Change	Local currencies change
Total Revenue	16,677	16,475	+1%	+7%
EBITDA <i>EBITDA Margin %</i>	2,184 13%	2,286 14%	-4%	+1%
EBIT <i>EBIT Margin %</i>	1,886 11%	1,968 12%	-4%	+1%
Store Numbers	2,370	2,283	+4%	
Comparable Stores Sales Growth (%)	+2.9%	+2.9%		

Excluding the adverse foreign currency translation impacts, Health and Beauty Eastern Europe continued to report steady growth during the year. The growth in both EBITDA and EBIT was mainly attributable to strong sales, partly offset by reduced margin from active promotion strategy to maintain the competitive position of the Rossmann joint venture in Poland.

Health and Beauty Eastern Europe added net 87 stores and operated more than 2,300 stores in 7 markets in 2019.



Other Retail

	2019 HK\$ million	2018 HK\$ million	Change	Local currencies change
Total Revenue	27,528	30,004	-8%	-8%
EBITDA	1,293	719	+80%	+79%
<i>EBITDA Margin %</i>	<i>5%</i>	<i>2%</i>		
EBIT	859	266	+223%	+221%
<i>EBIT Margin %</i>	<i>3%</i>	<i>1%</i>		
Store Numbers	480	448	+7%	
Comparable Stores Sales Growth (%)	-6.7%	+1.4%		

During the year, ASW's China supermarket business completed a joint venture with Yonghui and Tencent to create the largest grocery retail business in Guangdong, China, in which ASW holds a 40% interest. The joint venture has combined the PARKnSHOP China supermarket asset with Yonghui's portfolio in Guangdong, operating over 90 stores by the end of 2019. The Other Retail subdivision's EBITDA and EBIT in 2019 include a one-off gain of approximately HK\$633 million as a result of the formation of the joint venture.

Excluding the one-off gain, Other Retail subdivision reported a decline in total revenue, EBITDA and EBIT of (8)%, (8)% and (15)% respectively, mainly due to the challenging trading environment in Hong Kong in the second half of 2019.

Other Retail operated 480 retail stores in 3 markets in 2019, as well as manufactures and distributes bottled water and other beverages in Hong Kong and the Mainland.

