

Operations Review

Watsons further expands into the Gulf Cooperation Council region with 12 new stores opening in Saudi Arabia, Qatar and the United Arab Emirates.



1

1. Superdrug launches Superdrug Marketplace, a new platform that allows hundreds of start-up brands to sell their products in the UK.

2

2. Operating over 270 O+O stores in Benelux, ICI PARIS XL is committed to making its customers happy by inspiring them to boost the best versions of themselves.

3

4

3. As the market-leading drugstore in the Netherlands and Belgium, Kruidvat always surprises its customers by offering a wide selection of value-for-money products in over 1,200 O+O stores.

4. Watsons China operates five Marionnaud x Watsons cross-over stores in Shanghai, Wuhan, Xian and Chongqing, bringing an exclusive "Marionnaud experience" to customers.

Retail



Operations Review – Retail

The Retail division consists of the A.S. Watson (“ASW”) group of companies, the world’s largest international Health and Beauty (“H&B”) retailer with a 141 million loyalty member base.

Group Performance

ASW operated 12 retail brands with 16,142 stores in 28 markets worldwide as of 31 December 2022, 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.

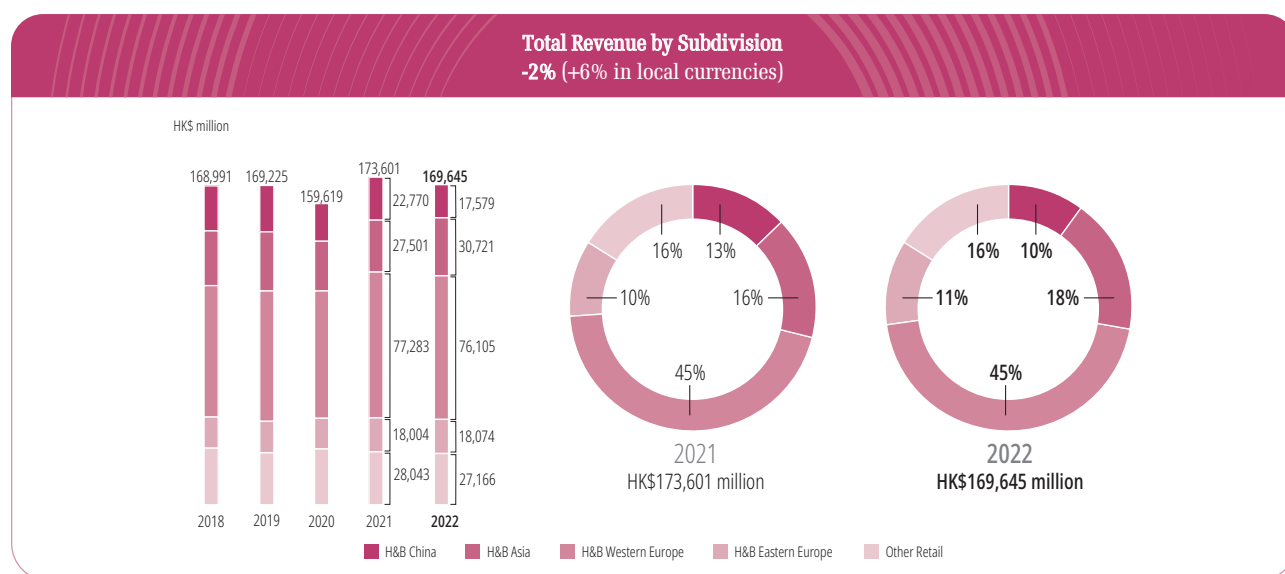
	2022 HK\$ million	2021 HK\$ million	Change	Local currencies change
Total Revenue	169,645	173,601	-2%	+6%
EBITDA ⁽¹⁾	14,309	16,034	-11%	-2%
EBIT ⁽¹⁾	11,048	12,460	-11%	-2%
Store Numbers	16,142	16,398	-2%	

Note 1: Under Post-IFRS 16 basis, EBITDA was HK\$23,359 million (2021: HK\$26,119 million); EBIT was HK\$11,831 million (2021: HK\$13,370 million).

Total reported revenue decreased by 2% against last year due to adverse foreign currency translation impact but, in local currencies, increased by 6% against last year. The higher revenue was primarily due to better overall performance in H&B operations in Asia and Europe from increase in store traffic, partly offset by lower contribution from H&B China resulting from various scale of nation-wide community lockdowns for most part of 2022 with intermittent store closures across the country. Excluding H&B China, total revenue increased by 1% and 10% against last year in reported currency and local currencies respectively.

H&B loyalty members’ participation & exclusives sales contribution	2022	2021
Total loyalty members in H&B segment (million)	140	141
Loyalty members’ sales participation in H&B segment (%)	62%	64%
Exclusives sales contribution to total H&B sales (%)	36%	36%

The H&B segment, which represented 84% of the Retail division’s revenue in 2022, has 140 million loyalty members. Customer insights from these loyalty members have enabled the businesses to drive assortment, store and marketing strategies.



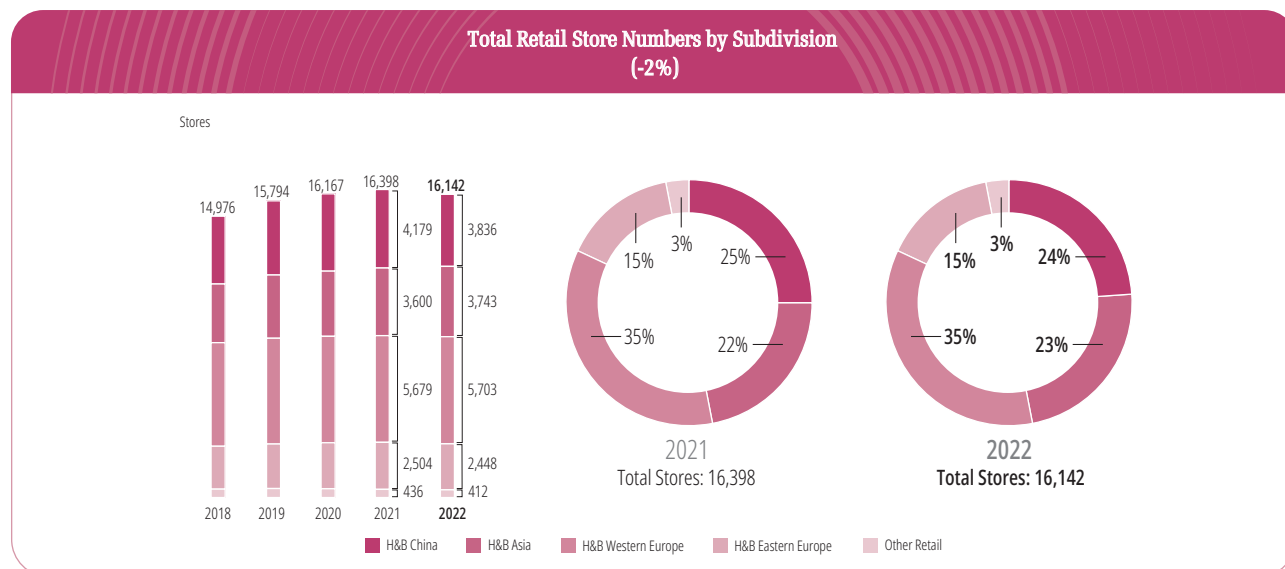
Total Revenue	2022 HK\$ million	2021 HK\$ million	Change	Local currencies change
H&B China	17,579	22,770	-23%	-20%
H&B Asia	30,721	27,501	+12%	+23%
H&B China & Asia Subtotal	48,300	50,271	-4%	+3%
H&B Western Europe	76,105	77,283	-2%	+9%
H&B Eastern Europe	18,074	18,004	–	+14%
H&B Europe Subtotal	94,179	95,287	-1%	+10%
H&B Subtotal	142,479	145,558	-2%	+8%
Other Retail ⁽²⁾	27,166	28,043	-3%	-3%
Total Retail	169,645	173,601	-2%	+6%
Excluding China				
H&B Subtotal	124,900	122,788	+2%	+13%
Total Retail	152,066	150,831	+1%	+10%
Comparable Stores Sales Growth (%) ⁽³⁾				
			2022	2021
H&B China			-18.3%	+1.9%
H&B China (adjusted to include loyalty members' sales recovered in proximate new stores)			-16.6%	+4.7%
H&B Asia			+21.3%	-0.8%
H&B China & Asia Subtotal			+3.9%	+0.2%
H&B Western Europe			+9.5%	+7.9%
H&B Eastern Europe			+14.2%	+4.6%
H&B Europe Subtotal			+10.3%	+7.3%
H&B Subtotal			+8.2%	+4.8%
Other Retail ⁽²⁾			+2.7%	-8.3%
Total Retail			+7.4%	+2.6%
Excluding China				
H&B Subtotal			+12.7%	+5.4%
Total Retail			+11.1%	+2.8%

Note 2: Other Retail includes PARKnSHOP, PARKnSHOP Yonghui, Fortress, Watson's Wine and the manufacturing operations.

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.

Operations Review – Retail

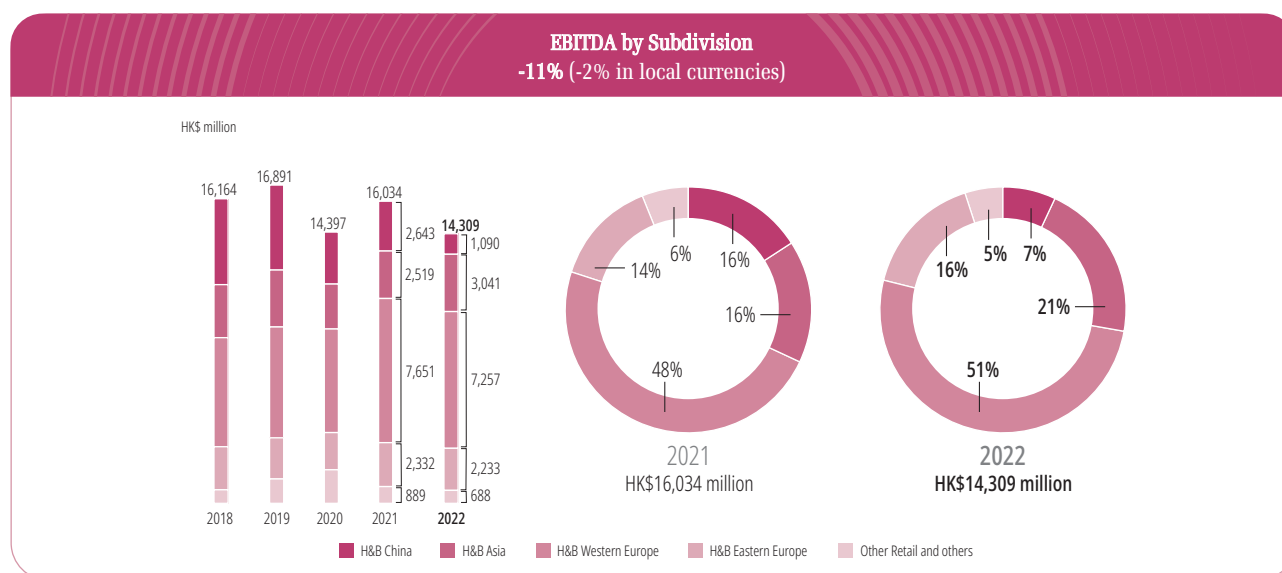
Group Performance (continued)



Store Numbers	2022	2021	Change
H&B China	3,836	4,179	-8%
H&B Asia	3,743	3,600	+4%
H&B China & Asia Subtotal	7,579	7,779	-3%
H&B Western Europe	5,703	5,679	–
H&B Eastern Europe	2,448	2,504	-2%
H&B Europe Subtotal	8,151	8,183	–
H&B Subtotal	15,730	15,962	-1%
Other Retail ⁽⁴⁾	412	436	-6%
Total Retail	16,142	16,398	-2%
Excluding China			
H&B Subtotal	11,894	11,783	+1%
Total Retail	12,306	12,219	+1%

Note 4: Other Retail includes PARKnSHOP, PARKnSHOP Yonghui, Fortress, Watson's Wine and the manufacturing operations.

The Retail division's EBITDA and EBIT both decreased by 11% in reported currency and by 2% in local currencies against 2021, primarily due to the lower contribution from H&B China, lower government subsidies in various markets and one-time non-cash write offs. In local currencies and excluding H&B China, the H&B segment reported EBITDA and EBIT growth of 12% and 15% against 2021 respectively, which was attributable to better performances from improved sales momentum across most businesses in Asia, the UK, the luxury retail businesses and the Rossmann joint venture in Poland. The weaker performance in H&B China was mainly attributable to periodic lockdowns and containment measures which heavily impacted footfall. The operation in the Mainland is implementing various initiatives including both in-store and online customer engagements following the reopening of the economy.



EBITDA	2022 HK\$ million	2021 HK\$ million	Change	Local currencies change
H&B China	1,090	2,643	-59%	-58%
H&B Asia	3,041	2,519	+21%	+33%
H&B China & Asia Subtotal	4,131	5,162	-20%	-13%
H&B Western Europe	7,257	7,651	-5%	+5%
H&B Eastern Europe	2,233	2,332	-4%	+8%
H&B Europe Subtotal	9,490	9,983	-5%	+6%
H&B Subtotal	13,621	15,145	-10%	-
Other Retail ⁽⁵⁾	688	889	-23%	-23%
Total Retail	14,309	16,034	-11%	-2%
Excluding China				
H&B Subtotal	12,531	12,502	-	+12%
Total Retail	13,219	13,391	-1%	+9%

Note 5: Other Retail includes PARKnSHOP, PARKnSHOP Yonghui, Fortress, Watson's Wine and the manufacturing operations.

During 2022, the Retail division opened its first store in Qatar, which is the 28th operating market of the division, as part of the franchise business with Al-Futtaim.

Operations Review – Retail

Segment Performance

Health and Beauty China

	2022 HK\$ million	2021 HK\$ million	Change	Local currency change
Total Revenue	17,579	22,770	-23%	-20%
EBITDA	1,090	2,643	-59%	-58%
<i>EBITDA Margin %</i>	<i>6%</i>	<i>12%</i>		
EBIT	262	1,808	-85%	-85%
<i>EBIT Margin %</i>	<i>1%</i>	<i>8%</i>		
Store Numbers	3,836	4,179	-8%	
Comparable Stores Sales Growth (%)	-18.3%	+1.9%		
Adjusted Comparable Stores Sales Growth (%) ⁽⁶⁾	-16.6%	+4.7%		

Note 6: Adjusted to include loyalty members' sales recovered in proximate new stores.

H&B China's performance was hampered by the ongoing pandemic related restriction measures that resulted in temporary store closures, which persisted until the last quarter of 2022, as well as escalating number of COVID cases resulting from country-wide outbreak of new COVID variants upon relaxation of policies towards the end of the year. In 2022, temporary store closures reached 590 in the first half and peaked at over 1,000 in late November, and only fully re-opened by January 2023. As a result EBITDA and EBIT decreased by 58% and 85% in local currency respectively compared to 2021. Despite an 18.3% decline in comparable store sales, the division was able to partly recover the shortfall in store traffic by recovering sales through its digital channels. Online sales participation increased to 40% in 2022 from 27% in 2021.

As part of H&B China's store rationalisation strategy, total store number became around 3,800 stores in over 500 cities in the Mainland as of 31 December 2022.

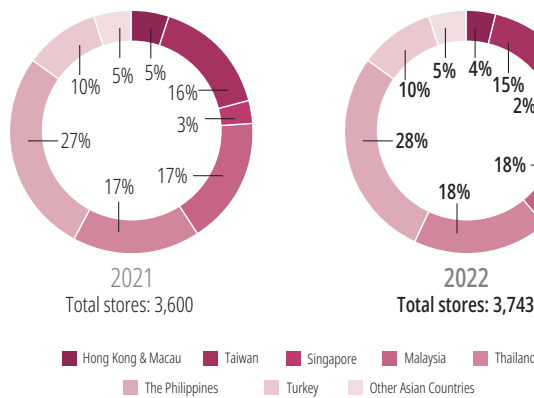
Health and Beauty Asia

	2022 HK\$ million	2021 HK\$ million	Change	Local currencies change
Total Revenue	30,721	27,501	+12%	+23%
EBITDA	3,041	2,519	+21%	+33%
<i>EBITDA Margin %</i>	<i>10%</i>	<i>9%</i>		
EBIT	2,487	1,942	+28%	+42%
<i>EBIT Margin %</i>	<i>8%</i>	<i>7%</i>		
Store Numbers	3,743	3,600	+4%	
Comparable Stores Sales Growth (%)	+21.3%	-0.8%		

Watsons is the leading health and beauty retail chain in Asia with strong brand name recognition and extensive geographical coverage. H&B Asia sustained its encouraging improvement in performance seen in the first half of 2022, with robust comparable store sales growth of 21.3%, enabling delivery of a strong EBITDA and EBIT growth of 33% and 42% respectively in local currencies for the full year of 2022. The growth in EBITDA and EBIT were primarily attributable to operations in Malaysia, Thailand and Turkey from recovery of store traffic upon gradual lifting of restrictive lockdown measures since the second half of 2021, and incremental margin from continued store portfolio expansion in the Philippines. In addition, improved performance was delivered by the H&B operation in Hong Kong from store rationalisation to cater for local demands.

H&B Asia added net 143 stores during the year and had over 3,700 stores in 13 markets as of 31 December 2022, including the division's franchise business which expanded from three stores to 16 stores in UAE, Qatar and Saudi Arabia since market entry into the Middle East in 2020.

H&B Asia - Number of Retail Stores by Market (+4%)



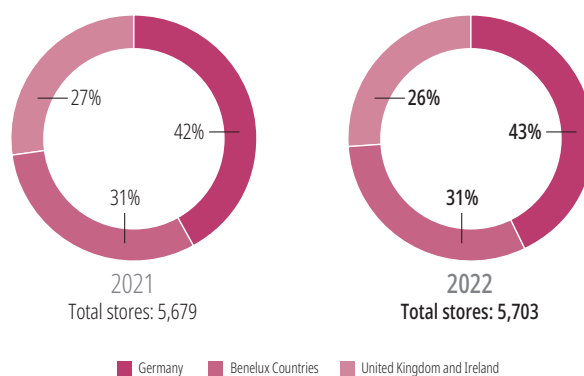
Health and Beauty Western Europe

	2022 HK\$ million	2021 HK\$ million	Change	Local currencies change
Total Revenue	76,105	77,283	-2%	+9%
EBITDA <i>EBITDA Margin %</i>	7,257 10%	7,651 10%	-5%	+5%
EBIT <i>EBIT Margin %</i>	6,070 8%	6,253 8%	-3%	+8%
Store Numbers	5,703	5,679	–	
Comparable Stores Sales Growth (%)	+9.5%	+7.9%		

H&B Western Europe reported EBITDA and EBIT growth of 5% and 8% in local currencies respectively during the year, primarily from the UK and luxury retail businesses with robust comparable stores sales growth from increase in store traffic amidst the rising energy and distribution costs. The Benelux countries, which benefitted from stores remaining open during the lockdown periods in 2021, reported a normalised performance in 2022 with 3% drop in EBITDA and EBIT year-on-year in local currencies, but nonetheless outperformed pre-pandemic trading levels.

H&B Western Europe added net 24 stores during the year and had more than 5,700 stores as of 31 December 2022.

H&B Western Europe - Number of Retail Stores by Market (flat)



Operations Review – Retail

Segment Performance *(continued)*

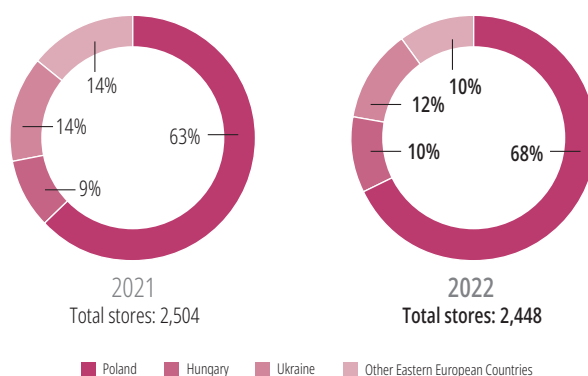
Health and Beauty Eastern Europe

	2022 HK\$ million	2021 HK\$ million	Change	Local currencies change
Total Revenue	18,074	18,004	–	+14%
EBITDA	2,233	2,332	-4%	+8%
<i>EBITDA Margin %</i>	<i>12%</i>	<i>13%</i>		
EBIT	1,917	1,975	-3%	+10%
<i>EBIT Margin %</i>	<i>11%</i>	<i>11%</i>		
Store Numbers	2,448	2,504	-2%	
Comparable Stores Sales Growth (%)	+14.2%	+4.6%		

H&B Eastern Europe showed further recovery in the second half of 2022, delivering EBITDA and EBIT growth of 8% and 10% in local currencies respectively, mainly attributable to the Rossmann joint venture in Poland as a result of improved sales and the strong momentum in store openings during the year, together with robust comparable stores sales growth of 14.2% from higher demand.

H&B Eastern Europe had more than 2,400 stores as of 31 December 2022, a drop of 2% primarily due to market exit from Russia and fewer stores in Ukraine, partly offset by new store additions in Poland.

H&B Eastern Europe - Number of Retail Stores by Market
(-2%)



Other Retail

	2022 HK\$ million	2021 HK\$ million	Change	Local currencies change
Total Revenue	27,166	28,043	-3%	-3%
EBITDA	688	889	-23%	-23%
<i>EBITDA Margin %</i>	<i>3%</i>	<i>3%</i>		
EBIT	312	482	-35%	-36%
<i>EBIT Margin %</i>	<i>1%</i>	<i>2%</i>		
Store Numbers	412	436	-6%	
Comparable Stores Sales Growth (%)	+2.7%	-8.3%		

Excluding one-time non-cash write offs, the Other Retail segment reported a reduction in EBITDA of 1% in local currencies in 2022, mainly arising from weaker performance of beverages business in the Mainland with lower demand as affected by regional outbreaks, partly offset by improved trading environment of the supermarket business in the Mainland. Full year EBIT excluding one-time non-cash write offs was 5% higher than last year as the EBITDA decline was more than offset by savings in depreciation from lower asset base with less number of stores.

Other Retail had 412 retail stores in three markets as of 31 December 2022, as well as manufacturing and distributing bottled water and other beverages in Hong Kong and the Mainland.

Other Retail - Number of Retail Stores by Segment
(-6%)

