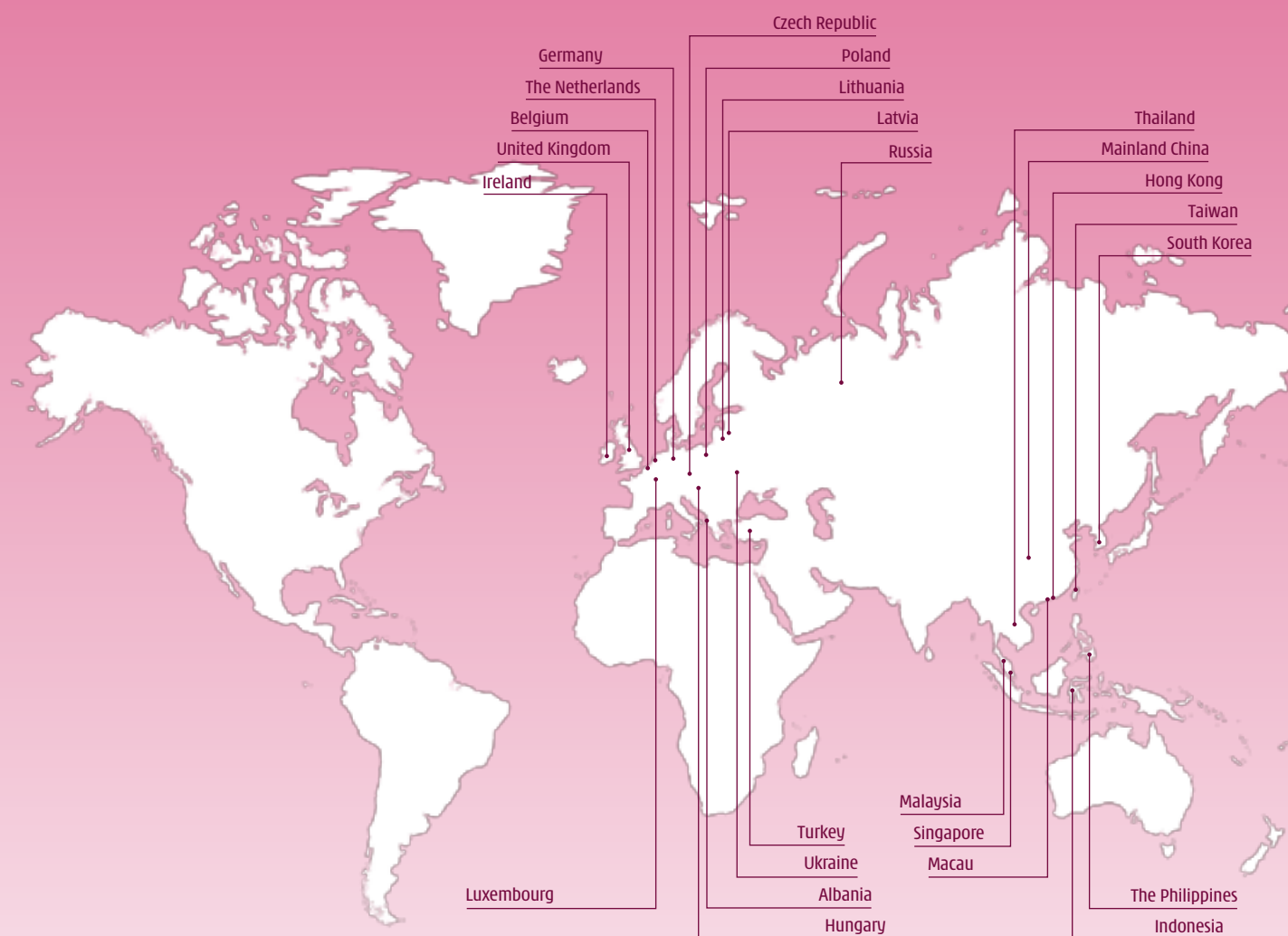


Retail



Over 70% of all Dutch families in the Netherlands are customers at Kruidvat.



- Total revenue increased 8% to HK\$149,147 million.
- EBITDA increased 11% to HK\$14,158 million.
- EBIT increased 14% to HK\$11,771 million.
- The retail division contributed 36%, 15% and 18% respectively to the total revenue, EBITDA and EBIT of the Group's businesses.



1. A S Watson Group's flagship retail brand Watsons opens its first baby concept store in Hong Kong.
2. Superdrug is one of the largest health and beauty retailer in the UK and operates over 800 stores in the region.



3. The Perfume Shop operates over 260 stores in the UK.
4. Watsons reaches 4,000 stores at the end of 2013, of which over 1,600 stores are in Mainland China.
5. The GREAT store at Pacific Place in Hong Kong unveils its new look, reinforcing its brand image as an international concept food hall.



The retail division consists of the A S Watson group of companies, the world's largest health and beauty retailer in terms of store numbers.

The Group is continuing to assess its strategic options for maximising the value and future growth potential of this division. This strategic review process may include considering the possibility of public offerings (whilst retaining control) in all or some of the retail businesses in appropriate markets. While no decision has been made at this time to pursue any particular option, the Marionnaud business will not be considered at this stage as a potential initial public offering candidate. Accordingly, the performance of the Marionnaud business has been excluded from this division and included under the Finance & Investment and Others segment. As part of this ongoing strategic review, the Group has appointed three financial advisors⁽¹⁾ to assist with the review and is engaging with regulators and potential investors. Although progress has been made in the strategic review since October 2013, no decision has been made at this time to pursue any particular option.

Group Performance

A S Watson currently operates 14 retail brands with over 10,500 stores in 25 markets worldwide, providing high quality personal care, health and beauty 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. As mentioned above, the Marionnaud business is now excluded from this division's results and performance.

	2013 HK\$ millions	2012 ⁽²⁾ HK\$ millions	Change
Total Revenue	149,147	138,519	+8%
EBITDA	14,158	12,779	+11%
EBIT	11,771	10,357	+14%
Total Store Numbers	10,581	9,742	+9%

In local currencies, growth in total revenue, EBITDA and EBIT for the year were 6%, 9% and 12% respectively. The retail division contributed 36%, 15% and 18% respectively to the total revenue, EBITDA and EBIT of the Group's businesses.

Excluding the impact attributable to the expiration of Nuance-Watson's two core concession licences at Hong Kong International Airport in late 2012, total revenue, EBITDA and EBIT of the Group's retail businesses grew by 9%, 13% and 16% respectively in 2013.

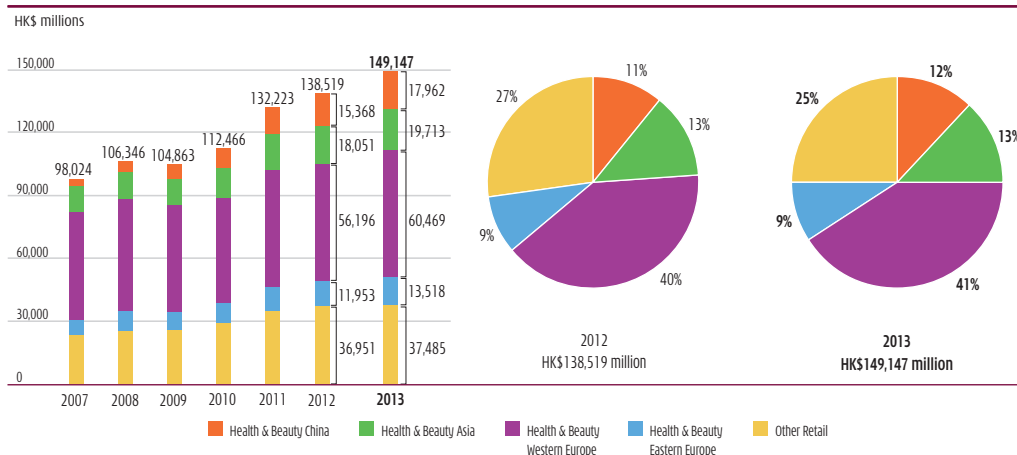
The Group's retail businesses are managed under five principal operating subdivisions: Health and Beauty China; Health and Beauty Asia (excluding the Mainland); Health and Beauty Western Europe; Health and Beauty Eastern Europe and Other Retail.

Revenue growth was strong across all Health and Beauty subdivisions, which was supported by increased store numbers and year-on-year comparable store sales growth. The division reported 7% and 9% growth in total revenue in Asia and Europe respectively compared to last year. In local currencies, growth in total revenue in Asia and Europe were 6% and 7% respectively for the year.

Note 1: The Group has appointed Bank of America Merrill Lynch, Goldman Sachs and HSBC as advisors to assist with the strategic review of its retail businesses.

Note 2: 2012 results exclude Marionnaud results in the comparatives as the business is no longer reported under this division. 2012 EBITDA and EBIT have been restated to reflect the effect of the adoption of amendments to HKAS19 in 2013.

Total Revenue⁽³⁾ (+8%)
by Subdivision



Total Revenue	2013 HK\$ millions	2012 ⁽³⁾ HK\$ millions	Change	Change in local currency
Health & Beauty China	17,962	15,368	+17%	+14%
Health & Beauty Asia	19,713	18,051	+9%	+10%
Health & Beauty Western Europe	60,469	56,196	+8%	+6%
Health & Beauty Eastern Europe	13,518	11,953	+13%	+12%
Health & Beauty Subtotal	111,662	101,568	+10%	+8%
Other Retail ⁽⁴⁾	37,485	36,951	+1%	+1%
Total Retail	149,147	138,519	+8%	+6%
- Asia	75,099	70,294	+7%	+6%
- Europe	74,048	68,225	+9%	+7%

Comparable Store Sales Growth (%) ⁽⁵⁾ - in local currency	2013	2012 ⁽³⁾
Health & Beauty China	+0.6%	+0.6%
Health & Beauty Asia	+4.9%	+5.8%
Health & Beauty Western Europe	+2.8%	+5.0%
Health & Beauty Eastern Europe	+3.2%	+3.6%
Health & Beauty Subtotal	+2.9%	+4.5%
Other Retail ⁽⁴⁾	-0.3%	+5.6%
Total Retail	+2.2%	+4.8%
- Asia	+1.4%	+4.8%
- Europe	+2.9%	+4.8%

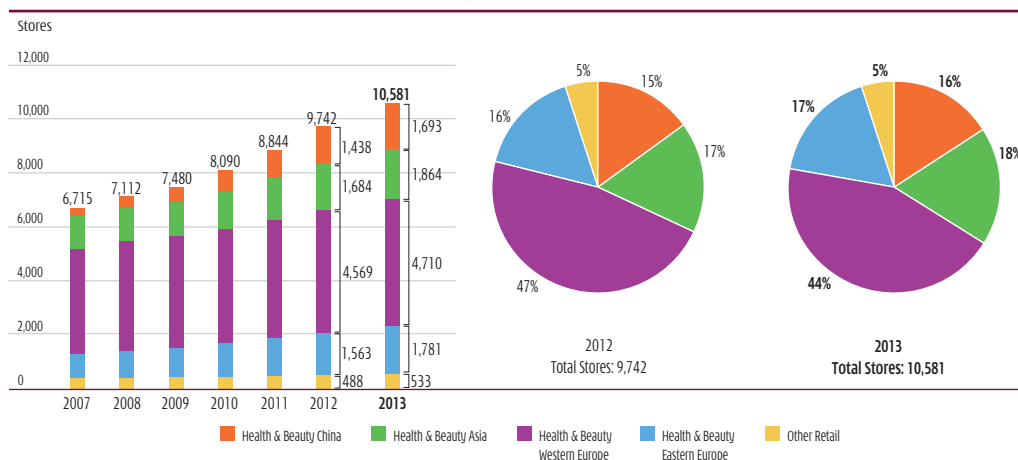
Note 3: 2012 results exclude Marionnaud results in the comparatives as the business is no longer reported under this division.

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

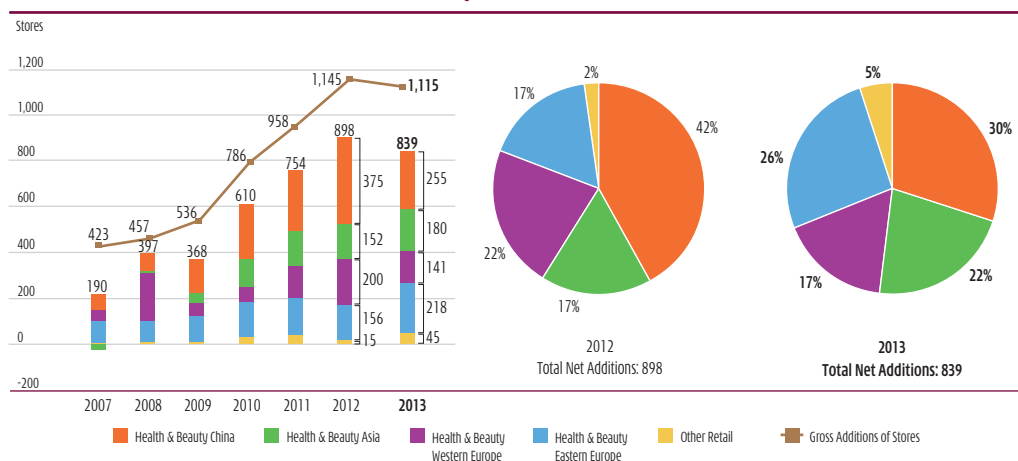
Note 5: Comparable store sales growth represents the percentage change in revenue contributed by stores which, as at the first day of the relevant financial year (a) have been operating for over 12 months and (b) have not undergone major resizing within the previous 12 months.

Operations Review – Retail

Total Retail Store Numbers⁽⁶⁾ (+9%)
by Subdivision



Total Net Additions of Retail Stores^{(6) (7)}
by Subdivision



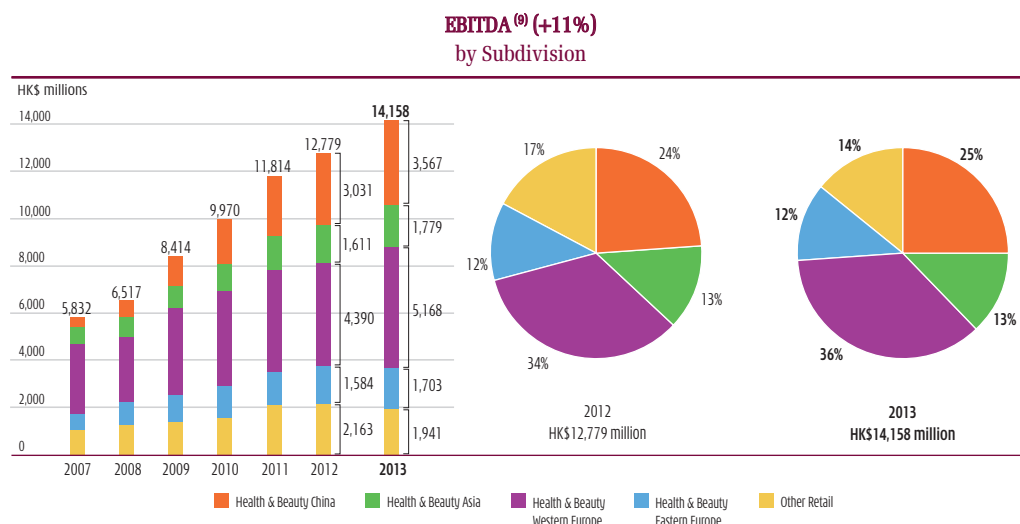
Store Numbers	2013	2012 ⁽⁶⁾	Change
Health & Beauty China	1,693	1,438	+18%
Health & Beauty Asia	1,864	1,684	+11%
Health & Beauty Western Europe	4,710	4,569	+3%
Health & Beauty Eastern Europe	1,781	1,563	+14%
Health & Beauty Subtotal	10,048	9,254	+9%
Other Retail ⁽⁸⁾	533	488	+9%
Total Retail	10,581	9,742	+9%
- Asia	4,090	3,610	+13%
- Europe	6,491	6,132	+6%

Note 6: 2012 results exclude Marionnaud results in the comparatives as the business is no longer reported under this division.

Note 7: In 2012, Rossmann Germany acquired 90 stores as a result of the forced closure of a competitor.

Note 8: Other Retail includes PARKnSHOP, Fortress, Watson's Wine, Nuance-Watson and manufacturing operations for water and beverage businesses.

The Group recorded 11% and 14% increases in EBITDA and EBIT respectively, which were mainly supported by the aforementioned 8% growth in revenue as well as improvements in margins and operational efficiencies. EBITDA growth was solid across all health and beauty subdivisions. However, Other Retail was mainly impacted by the expiration of the two core concession licences of Nuanice-Watson Hong Kong, as well as lower contributions from the PARKnSHOP operations.



EBITDA	2013 HK\$ millions	2012 ⁽⁹⁾ HK\$ millions	Change	Change in local currency
Health & Beauty China	3,567	3,031	+18%	+15%
Health & Beauty Asia	1,779	1,611	+10%	+11%
Health & Beauty Western Europe	5,168	4,390	+18%	+15%
Health & Beauty Eastern Europe	1,703	1,584	+8%	+6%
Health & Beauty Subtotal	12,217	10,616	+15%	+13%
Other Retail ^{(10) (11)}	1,941	2,163	-10%	-10%
Total Retail	14,158	12,779	+11%	+9%
– Asia	7,290	6,807	+7%	+6%
– Europe	6,868	5,972	+15%	+13%

Note 9: 2012 results exclude Marionnaud results in the comparatives as the business is no longer reported under this division. Comparatives have been restated to reflect the effect of the adoption of amendments to HKAS19 in 2013.

Note 10: Other Retail includes PARKnSHOP, Fortress, Watson's Wine, Nuanice-Watson and manufacturing operations for water and beverage businesses.

Note 11: Excluding the impact arising from the expiration of core concession licences in Nuanice-Watson Hong Kong, EBITDA would increase by 1% against 2012.

The Group's retail businesses in Asia recorded 7% increases in both revenue and EBITDA. Excluding the impact arising from the expiration of the concession licences, revenue and EBITDA grew by 9% and 11% respectively in Asia. The Group's retail businesses in Europe continued to demonstrate resilience and delivered strong revenue and EBITDA growth of 9% and 15% respectively. In local currencies, revenue and EBITDA improved by 7% and 13% respectively in Europe. The division's overall growth in Asia and in Europe reflects competitive product offerings, improving margin management, operational efficiencies and the continuing focus on global own-brand and exclusive products.

The Group's retail division has a customer relationship management ("CRM") membership base of over 70 million at the end of 2013 with CRM sales participation reaching 53% in 2013. Moreover, digital sales from ecommerce grew by 14% to HK\$1 billion in 2013 compared to 2012.

In particular, the overall health and beauty subdivisions continued to deliver strong performances in 2013 mainly driven by high quality new store openings with an average new store cash payback period of less than 10 months. The average capex per new store for the overall health and beauty subdivisions was HK\$1 million in 2013.

Segment Performance

Health and Beauty China

	2013 HK\$ millions	2012 HK\$ millions	Change
Total Revenue	17,962	15,368	+17%
EBITDA	3,567	3,031	+18%
EBIT	3,212	2,767	+16%
Total Store Numbers	1,693	1,438	+18%

The Watsons business continues to be the leading health and beauty retail chain in Mainland China. With weaker than expected consumer sentiment in the Mainland, comparable store sales growth for 2013 remained at 0.6%. This was more than offset by total revenue growth, which continued to be robust at 17% driven by an 18% increase in the store numbers. EBITDA and EBIT growth also remained strong at 18% and 16% respectively.

Health and Beauty China increased its total number of stores by 255 during the year with an average new store cash payback period of less than 10 months, average capex per new store of HK\$1.2 million and currently has more than 1,600 stores operating in 297 cities in the Mainland. The subdivision has over 35 million CRM members with a CRM sales participation of 73% in 2013.

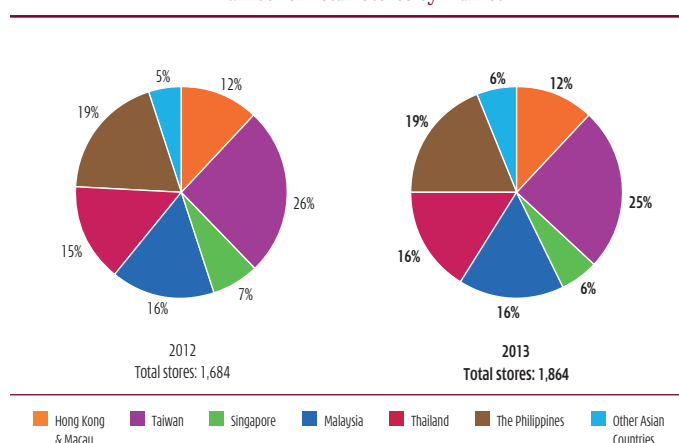
Health and Beauty Asia

	2013 HK\$ millions	2012 HK\$ millions	Change
Total Revenue	19,713	18,051	+9%
EBITDA	1,779	1,611	+10%
EBIT	1,470	1,298	+13%
Total Store Numbers	1,864	1,684	+11%

The Watsons business is the leading health and beauty retail chain in Asia with strong brand name recognition and extensive geographical coverage. Combined total revenue grew by 9% compared to last year reflecting the 11% increase in store numbers and comparable store sales growth of 4.9% (2012: 5.8%). EBITDA and EBIT growth were 10% and 13% respectively, mainly due to increased contributions from the Watsons businesses in Taiwan, Malaysia, Hong Kong, Thailand and the Philippines.

Health and Beauty Asia increased its total number of stores by 180 during the year with an average capex per new store of HK\$0.7 million and achieving an average new store cash payback period of less than 9 months. The subdivision currently has more than 1,800 stores operating in 9 markets.

Health and Beauty Asia (+11%)
Number of Retail Stores by Market



Health and Beauty Western Europe

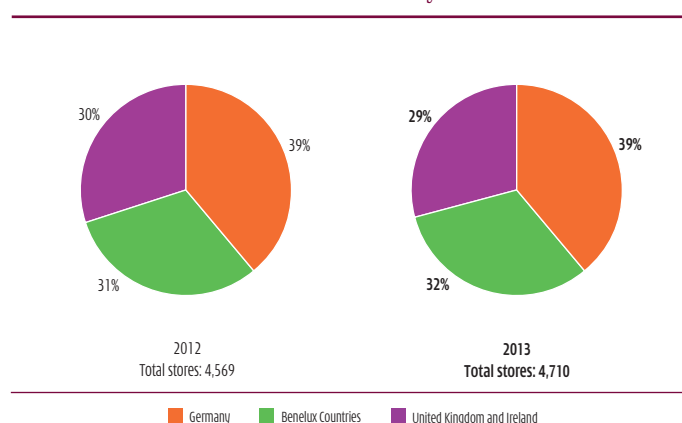
	2013 HK\$ millions	2012 HK\$ millions	Change
Total Revenue	60,469	56,196	+8%
EBITDA	5,168	4,390	+18%
EBIT	4,163	3,250	+28%
Total Store Numbers	4,710	4,569	+3%

Health and Beauty Western Europe consists of Kruidvat and Trekpleister in the Benelux countries; the Rossmann joint venture in Germany; Superdrug and The Perfume Shop in the UK and Ireland; Savers in the UK; and ICI Paris XL in the Netherlands, Belgium and Luxembourg.

Despite the difficult trading environment in Europe, the health and beauty businesses in Western Europe were able to grow their revenue, in local currencies, by 6% against last year. This growth was mainly due to better sales performances of the Rossmann joint venture in Germany and of Kruidvat in the Benelux countries, as well as increased contributions from Savers in the UK. Comparable store sales growth remained healthy at 2.8% (2012: 5.0%). In local currencies, EBITDA increased by 15% compared to last year mainly driven by better margins and tight cost controls, while EBIT grew by 25% as lower depreciation was incurred in 2013.

Health and Beauty Western Europe added 141 stores during 2013 and currently operates more than 4,700 stores. The average capex per new store was HK\$1.4 million in 2013, and the average new store cash payback period of this subdivision was less than 13 months.

Health and Beauty Western Europe (+3%)
Number of Retail Stores by Market



Health and Beauty Eastern Europe

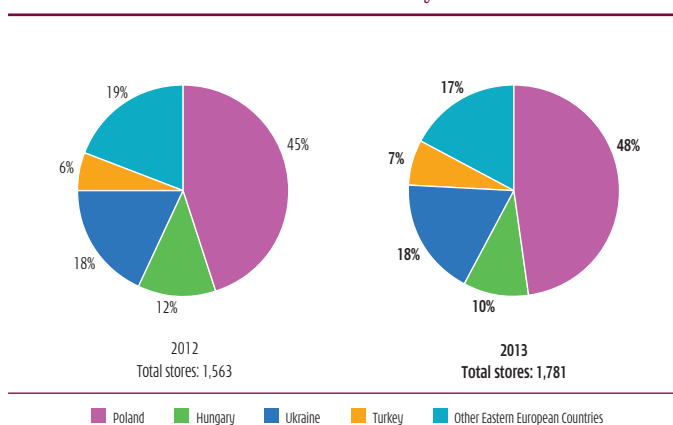
	2013 HK\$ millions	2012 HK\$ millions	Change
Total Revenue	13,518	11,953	+13%
EBITDA	1,703	1,584	+8%
EBIT	1,425	1,330	+7%
Total Store Numbers	1,781	1,563	+14%

Health and Beauty Eastern Europe consists of Watsons in Turkey and Ukraine; the Rossmann joint ventures in Central European countries; Droga in the Baltic States and Spektr in Russia.

In Eastern Europe, the health and beauty businesses reported strong revenue growth of 12% in local currencies, mainly due to the increased contributions from the Rossmann joint venture in Poland, as well as the Watsons businesses in Turkey and Ukraine. Comparable store sales growth remained healthy at 3.2% (2012: 3.6%). EBITDA and EBIT, in local currencies, increased by 6% and 5% respectively compared to last year mainly driven by the aforementioned revenue growth, partially offset by lower margins.

Health and Beauty Eastern Europe added 218 stores during 2013 and currently operates more than 1,700 stores in 8 markets. The average capex per new store was HK\$0.5 million in 2013 and the average new store cash payback period in this subdivision was less than 9 months.

Health and Beauty Eastern Europe (+14%)
Number of Retail Stores by Market



Other Retail

	2013 HK\$ millions	2012 HK\$ millions	Change
Total Revenue	37,485	36,951	+1%
EBITDA	1,941	2,163	-10%
EBIT	1,501	1,712	-12%
Total Store Numbers	533	488	+9%

Other Retail consists of leading retail concepts in Hong Kong, being PARKnSHOP supermarkets and other related concept stores; Fortress consumer electronics and electrical appliances stores; and Watson's Wine stores. The subdivision also includes PARKnSHOP and Watson's Wine stores in the Mainland, Nuance-Watson in Hong Kong, Singapore and Mainland international airports, as well as manufacturing and distribution of well-known brands of bottled water, fruit juices and soft drinks in Hong Kong and the Mainland.

This subdivision reported total revenue growth of 1%, but EBITDA and EBIT declined by 10% and 12% respectively mainly due to the expiration of Nuance-Watson's two core airport concession licences, as well as lower contributions from the PARKnSHOP operations. Excluding the impact arising from the aforementioned expiration of the airport licences, total revenue of this subdivision grew by 5%, while both EBITDA and EBIT increased by 1% against 2012. The subdivision recorded a comparable store sales decline of 0.3% in 2013 (2012: comparable store sales growth of 5.6%) mainly due to the slower comparable store sales of the PARKnSHOP operations, as well as lower mobile phone sales in the Fortress stores during the year. Other Retail currently operates over 530 retail stores in 4 markets.

