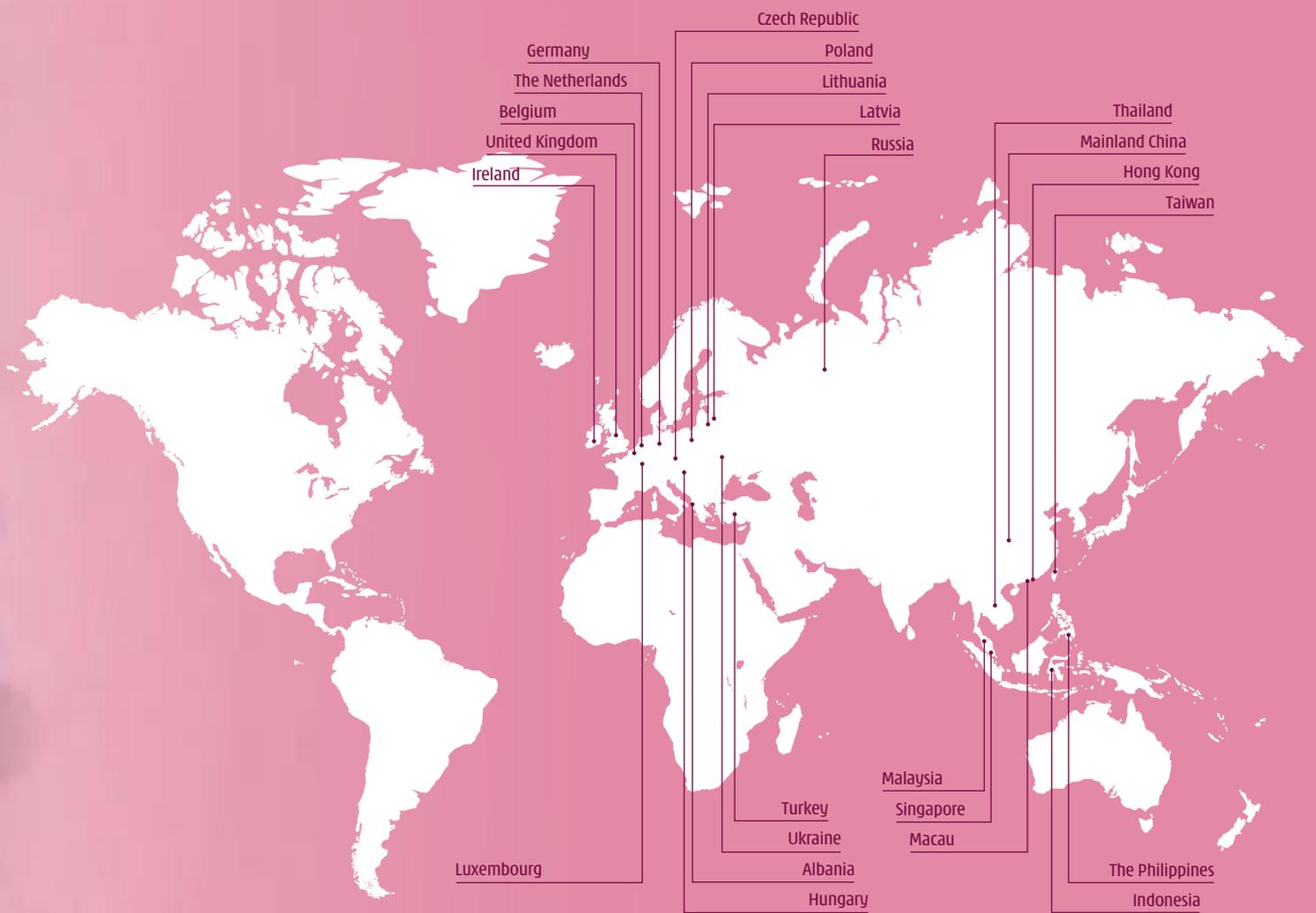




# Retail



Watsons exceeds 4,000 stores in Asia and Eastern Europe.



- Total revenue increased 6% to HK\$157,397 million.
- EBITDA increased 10% to HK\$15,549 million.
- EBIT increased 11% to HK\$13,023 million.





1. A S Watson Group celebrates its milestone of reaching over 11,400 stores worldwide.
2. Kruidvat is selected as Top 3 Retail Brands in the Netherlands, rewarding the brand's investment in online marketing and in-store customer service.
3. Putting customers at the core of their service, Savers is recognised as the UK's Best Personal Care Retailer in 2014.
4. PARKnSHOP continues to win the hearts of customers with close to one million loyalty club members in the Mainland.
5. ICI PARIS XL is nominated as the best online and offline perfumery in both Belgium and the Netherlands.



## Operations Review – Retail

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.

### Group Performance

A S Watson currently operates 13 retail brands with over 11,400 stores in 24 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.

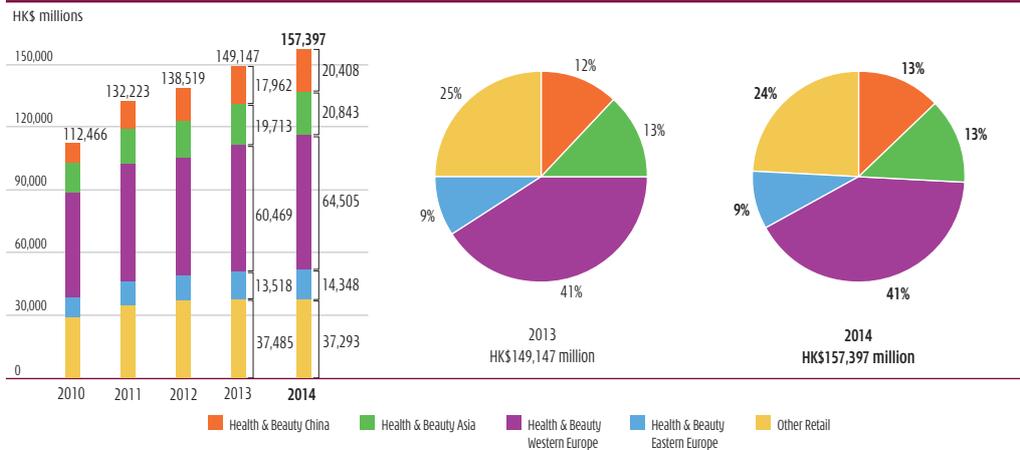
	2014 HK\$ millions	2013 HK\$ millions	Change	Change in Local Currency
Total Revenue	157,397	149,147	+6%	+6%
EBITDA	15,549	14,158	+10%	+12%
EBIT	13,023	11,771	+11%	+13%
Total Store Numbers	11,435	10,581	+8%	

The retail division contributed 37%, 16% and 20% respectively to the total revenue, EBITDA and EBIT of the Group's businesses.

Before taking into account of the gain on disposal of the airport concession operation of HK\$350 million in July 2014 and the foreign currency translation impact, total revenue, EBITDA and EBIT of the Group's retail businesses grew by 6%, 9% and 10% respectively in 2014.

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.

**Total Revenue (+6%)  
by Subdivision**



Total Revenue	2014 HK\$ millions	2013 HK\$ millions	Change	Change in Local Currency
Health & Beauty China	20,408	17,962	+14%	+14%
Health & Beauty Asia	20,843	19,713	+6%	+8%
<b>Health &amp; Beauty China &amp; Asia Subtotal</b>	<b>41,251</b>	37,675	+9%	+11%
Health & Beauty Western Europe	64,505	60,469	+7%	+6%
Health & Beauty Eastern Europe	14,348	13,518	+6%	+13%
<b>Health &amp; Beauty Subtotal</b>	<b>120,104</b>	111,662	+8%	+9%
Other Retail <sup>(1)</sup>	37,293	37,485	-1%	—
<b>Total Retail</b>	<b>157,397</b>	149,147	+6%	+6%
- Asia	78,544	75,099	+5%	+5%
- Europe	78,853	74,048	+6%	+7%

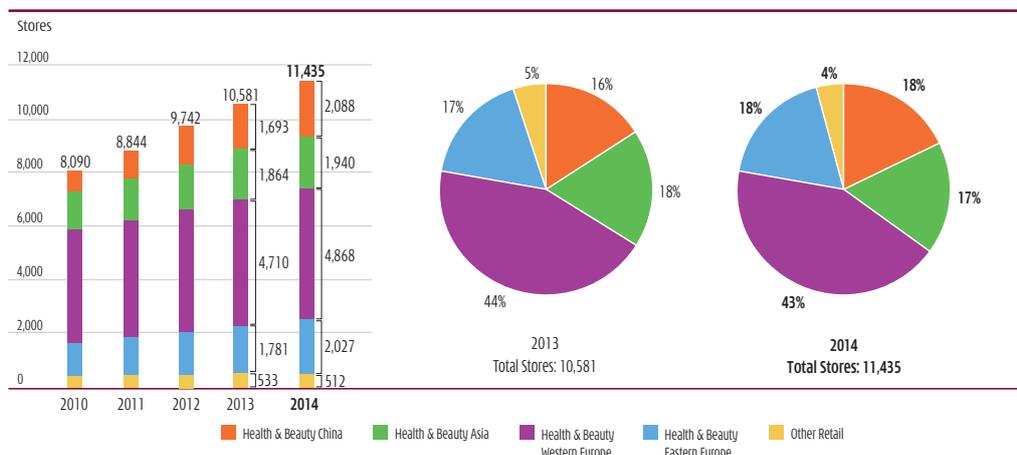
Comparable Store Sales Growth (%) <sup>(2)</sup>	2014	2013
Health & Beauty China	+3.9%	+0.6%
Health & Beauty Asia	+4.6%	+4.9%
<b>Health &amp; Beauty China &amp; Asia Subtotal</b>	<b>+4.3%</b>	+3.1%
Health & Beauty Western Europe	+3.1%	+2.8%
Health & Beauty Eastern Europe	+2.5%	+3.2%
<b>Health &amp; Beauty Subtotal</b>	<b>+3.4%</b>	+2.9%
Other Retail <sup>(1)</sup>	-1.9%	-0.3%
<b>Total Retail</b>	<b>+2.3%</b>	+2.2%
- Asia	+1.4%	+1.4%
- Europe	+3.0%	+2.9%

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

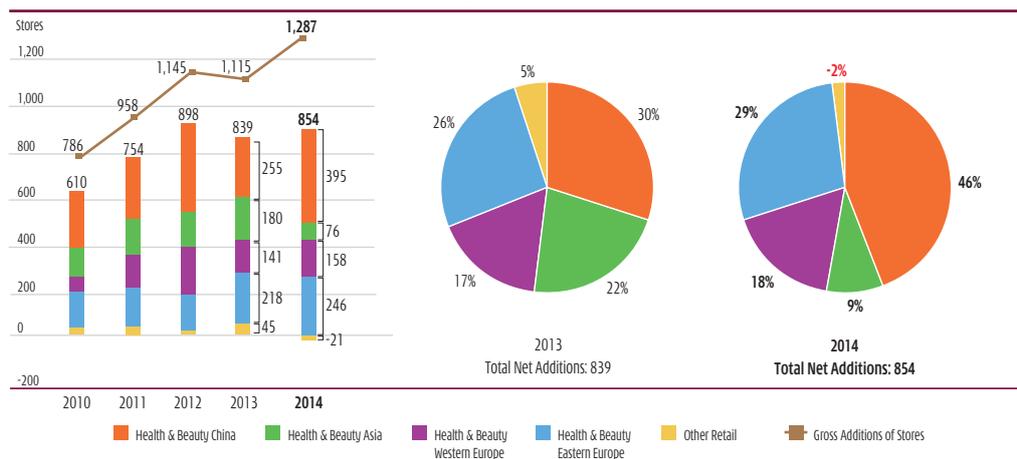
Note 2: Comparable store sales growth represents the percentage change in revenue contributed by stores which, as at the first day of the relevant financial year (a) have been operating for over 12 months and (b) have not undergone major resizing within the previous 12 months.

Group Performance (continued)

**Total Retail Store Numbers (+8%)**  
by Subdivision



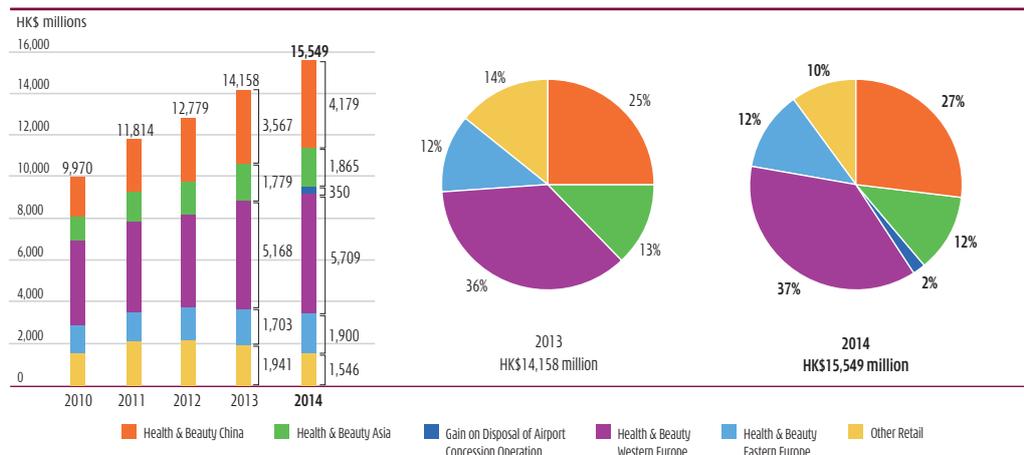
**Total Net Additions of Retail Stores**  
by Subdivision



Store Numbers	2014	2013	Change
Health & Beauty China	2,088	1,693	+23%
Health & Beauty Asia	1,940	1,864	+4%
<b>Health &amp; Beauty China &amp; Asia Subtotal</b>	<b>4,028</b>	<b>3,557</b>	<b>+13%</b>
Health & Beauty Western Europe	4,868	4,710	+3%
Health & Beauty Eastern Europe	2,027	1,781	+14%
<b>Health &amp; Beauty Subtotal</b>	<b>10,923</b>	<b>10,048</b>	<b>+9%</b>
Other Retail <sup>(3)</sup>	512	533	-4%
<b>Total Retail</b>	<b>11,435</b>	<b>10,581</b>	<b>+8%</b>
- Asia	4,540	4,090	+11%
- Europe	6,895	6,491	+6%

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

**EBITDA<sup>(4)</sup> (+10%)**  
by Subdivision



Note 4: 2010 to 2012 comparatives have been restated to reflect the effect of the adoption of amendments to HKAS19 in 2013.

EBITDA	2014 HK\$ millions	2013 HK\$ millions	Change	Change in Local Currency
Health & Beauty China	4,179	3,567	+17%	+18%
Health & Beauty Asia	1,865	1,779	+5%	+8%
<b>Health &amp; Beauty China &amp; Asia Subtotal</b>	<b>6,044</b>	<b>5,346</b>	<b>+13%</b>	<b>+15%</b>
Health & Beauty Western Europe	5,709	5,168	+10%	+12%
Health & Beauty Eastern Europe	1,900	1,703	+12%	+17%
<b>Health &amp; Beauty Subtotal</b>	<b>13,653</b>	<b>12,217</b>	<b>+12%</b>	<b>+14%</b>
Other Retail <sup>(5)</sup>	1,546	1,941	-20%	-20%
<b>EBITDA before one-off</b>	<b>15,199</b>	<b>14,158</b>	<b>+7%</b>	<b>+9%</b>
Gain on disposal of airport concession operation	350	—	+100%	+100%
<b>EBITDA - Total Retail</b>	<b>15,549</b>	<b>14,158</b>	<b>+10%</b>	<b>+12%</b>
- Asia	7,940	7,290	+9%	+10%
- Europe	7,609	6,868	+11%	+13%

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

The overall health and beauty subdivision continued to deliver strong performances in 2014 with an EBITDA growth of 12% (a 14% growth in local currency), which reflected competitive product offerings, improving margin management, operational efficiencies and the continuing focus on global own-brand and exclusive products. This strong performance was also supported 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 subdivision was HK\$1.0 million in 2014.

## Segment Performance

### Health and Beauty China

	2014 HK\$ millions	2013 HK\$ millions	Change	Change in Local Currency
Total Revenue	20,408	17,962	+14%	+14%
EBITDA	4,179	3,567	+17%	+18%
EBIT	3,758	3,212	+17%	+18%
Total Store Numbers	2,088	1,693	+23%	
Comparable Store Sales Growth (%)	+3.9%	+0.6%		

The Watsons business continues to be the leading health & beauty retail chain in the Mainland and has delivered another excellent year of EBIT growth of 18% in local currency. Health and Beauty China increased its total number of stores by 395 during the year with an average new store cash payback period of less than 9 months and currently has more than 2,000 stores operating in 353 cities in the Mainland.

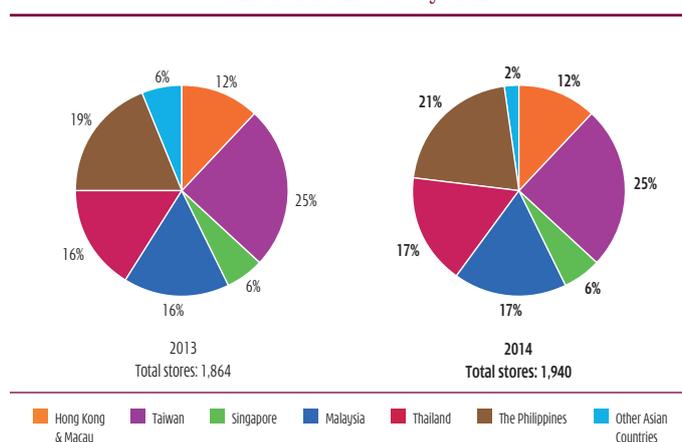
### Health and Beauty Asia

	2014 HK\$ millions	2013 HK\$ millions	Change	Change in Local Currency
Total Revenue	20,843	19,713	+6%	+8%
EBITDA	1,865	1,779	+5%	+8%
EBIT	1,545	1,470	+5%	+8%
Total Store Numbers	1,940	1,864	+4%	
Comparable Store Sales Growth (%)	+4.6%	+4.9%		

The Watsons business is the leading health and beauty retail chain in Asia with strong brand name recognition and extensive geographical coverage. The increased contributions were primarily from the Watsons businesses in Taiwan, Malaysia, Hong Kong, Thailand and the Philippines.

Health and Beauty Asia increased its total number of stores by 76 during the year achieving an average new store cash payback period of less than 12 months. The subdivision currently has more than 1,900 stores operating in 8 markets.

**Health and Beauty Asia (+4%)**  
Number of Retail Stores by Market



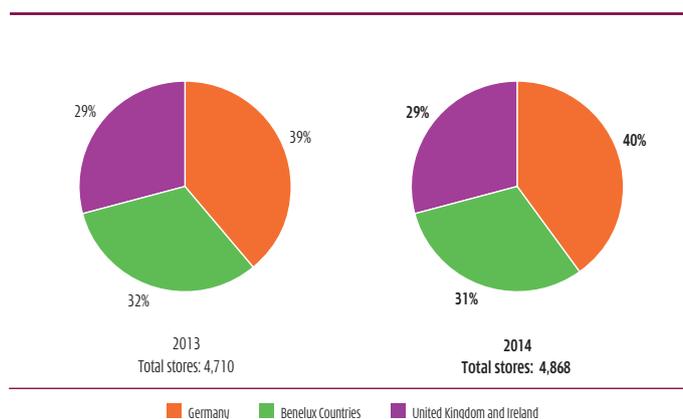
## Health and Beauty Western Europe

	2014 HK\$ millions	2013 HK\$ millions	Change	Change in Local Currency
Total Revenue	<b>64,505</b>	60,469	+7%	+6%
EBITDA	<b>5,709</b>	5,168	+10%	+12%
EBIT	<b>4,671</b>	4,163	+12%	+14%
Total Store Numbers	<b>4,868</b>	4,710	+3%	
Comparable Store Sales Growth (%)	<b>+3.1%</b>	+2.8%		

Despite the difficult trading environment in Europe, the health and beauty businesses in Western Europe were able to grow their revenue during the year. This growth was mainly due to strong sales performances of the Rossmann joint venture in Germany and Kruidvat in the Benelux countries, as well as increased contributions from Savers and Superdrug in the UK.

Health and Beauty Western Europe added 158 stores during 2014 and currently operates more than 4,800 stores. The average new store cash payback period of this subdivision was around 12 months.

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



Segment Performance (continued)

Health and Beauty Eastern Europe

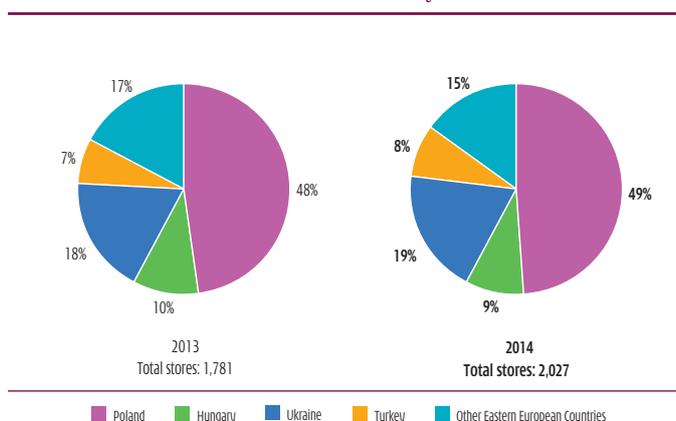
	2014 HK\$ millions	2013 HK\$ millions	Change	Change in Local Currency
Total Revenue	14,348	13,518	+6%	+13%
EBITDA	1,900	1,703	+12%	+17%
EBIT	1,613	1,425	+13%	+18%
Total Store Numbers	2,027	1,781	+14%	
Comparable Store Sales Growth (%)	+2.5%	+3.2%		

In Eastern Europe, the health and beauty businesses reported strong growth mainly from the Rossmann joint venture in Poland, as well as the Watsons businesses in Turkey and Ukraine.

Health and Beauty Eastern Europe added 246 stores during 2014 and currently operates more than 2,000 stores in 8 markets. The average new store cash payback period in this subdivision was less than 16 months.

Health and Beauty Eastern Europe (+14%)

Number of Retail Stores by Market

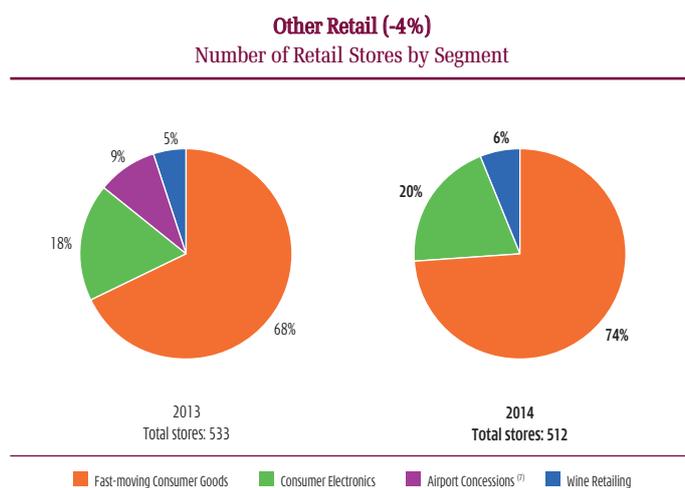


## Other Retail

	2014 HK\$ millions	2013 HK\$ millions	Change	Change in Local Currency
Total Revenue	37,293	37,485	-1%	-
EBITDA <sup>(6)</sup>	1,546	1,941	-20%	-20%
EBIT <sup>(6)</sup>	1,086	1,501	-28%	-28%
Total Store Numbers	512	533	-4%	
Comparable Store Sales Growth (%)	-1.9%	-0.3%		

Note 6: Exclude gain on disposal of airport concession operation in July 2014 of HK\$350 million.

This subdivision's reported total revenue, EBITDA and EBIT declined 1%, 20% and 28% respectively mainly due to the lower contributions from the PARKnSHOP operations and Fortress as both operations experienced keen competition in Hong Kong and additionally for Fortress due to lack of new product launches. Other Retail currently operates over 510 retail stores in 3 markets.



Note 7: Airport Concession operation was disposed in July 2014.