

**A.S. Watson (Health & Beauty UK) Limited**

Annual Report and Financial Statements

For the Year ended 31 December 2017



**A.S. Watson (Health & Beauty UK) Limited**  
**Annual Report and Financial Statements**  
**For the year ended 31 December 2017**

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# **A.S. Watson (Health & Beauty UK) Limited**

## **Strategic Report**

### **For the year ended 31 December 2017**

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The directors present their Strategic Report on the Company (registered number: 04051648), registered in England, in the United Kingdom, and its subsidiaries (the "Group") together with the audited consolidated financial statements for the year ended 31 December 2017.

#### **Principal Activities**

The principal activity of the Company is that of a non-trading holding company. The Company is a private company limited by shares. The principal activity of its subsidiaries is retailing in the United Kingdom and the Republic of Ireland. The Company is an indirect wholly-owned subsidiary of A.S. Watson Holdings Limited, a company incorporated in the Cayman Islands, with its principal place of business in Hong Kong.

#### **Results and Business Review**

The Group has had a successful year. Revenue increased by 3.9% to £1,915 million driven primarily by like for like store sales growth in Superdrug and Savers brands, with The Perfume Shop's performance returning to positive year on year growth.

During the year the Group made no repayments (2016: £50.0 million) of loans from A. S. Watson Group (HK) Limited from operating cash flows.

Costs were well controlled during the year which resulted in an operating profit of £161.6 million, an increase of 15.8% over last year's £139.6 million. Inventories have increased by £37.1m reflecting the increase in stores and total sales, ensuring stocks week cover is available. As at 31 December 2017 total equity was £446.5 million (2016: £381.0 million).

#### **Business Environment**

The Group's markets in 2017 remained very competitive. The market continued to see expansion of general merchandise and clothing retailers into health and beauty products alongside the growth of pure play online beauty retailers and the supermarkets returning to positive volume growth. The UK economy provided a supportive consumer environment for the retail sector as low inflation and interest rates served to increase customers' disposable income, especially during the first half of the year. However, in the second half of the year, retail businesses had to deal with the impact of increases in National Living Wage and the uncertainty posed by the result of the UK's European Union Referendum, both of which placed pressure on retailers' operating models.

#### **Strategy**

The Group's strategy is to continue to drive market share growth across its operations in the perfume, health & beauty and discount sectors. The Group continued to benefit during the year from store refurbishment and fascia investments across the three brands.

The Online channel for Superdrug and The Perfume Shop brands grew significantly ahead of the total market during 2017 and the proportion of sales made via this channel continued to grow year on year. The Group continued to invest in digital technology, both through enhanced website functionality and in support of back office operating efficiencies.

The Group's customer loyalty programmes remained central to its strategy in 2017, with Superdrug's Health & Beauty Card and The Perfume Shop's Rewards Club continuing to be key elements of the Group's customer offering.

Cost efficiency was also an important focus of the Group, especially with the increase in costs arising from government legislation. Tight control in this area helped to increase the operating margin by 0.8% points from the previous year.

#### **Key Performance Indicators ("KPIs")**

The directors monitor progress on the overall Group performance by reference to the following KPIs:

	<b>2017</b>	<b>2016</b>
Revenue	£1,914.9m	£1,842.6m
Operating profit	£161.6m	£139.6m
Operating margin	8.4%	7.6%

**A.S. Watson (Health & Beauty UK) Limited**  
**Strategic Report (continued)**  
**For the year ended 31 December 2017**

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**Principal Risks and Uncertainties**

The management of the Group and the execution of the Group's strategy are subject to a number of risks. These are reviewed formally by the board and appropriate processes are put in place to monitor and mitigate them. If more than one event occurs, it is possible that the overall effect of such events would compound the possible adverse effects. The key business risks are as follows:

- **Competition:** The Group operates in a highly competitive market particularly concerning price and product availability and quality. This can result in downward pressures on volumes and margins. In order to mitigate this risk, market research is carried out, prices are monitored on a regular basis, pricing is adjusted accordingly and the Group carries out planned promotional activities.
- **Costs:** Management focus on rising costs of fuel, rent, rates and wages and seek all possible means to ensure that the effect of price rises are minimised.
- **Data and IT security:** The Group relies upon its IT infrastructure to deliver its operations and through which it handles significant volumes of data (both corporate and customer). The security, resilience and control of these key assets are of significant importance to and focus of management. The Group has undertaken a comprehensive review of the requirements of the new General Data Protection Regulations, and has been taking steps to put in place additional processes and controls to mitigate this risk.
- **Employees:** The Group's performance depends largely on its staff. The loss of key individuals and the inability to recruit people with the right experience and skills could adversely impact the Group's results. To mitigate these issues, the Group operates programmes to improve staff retention.
- **The impact of the Brexit referendum result** has created uncertainty regarding future consumer sentiment and demand, and has created upward pressure on costs arising from the devaluation of sterling. In the longer term, uncertainty will also exist surrounding the access to the single market, taxation regimes and the free movement of labour. Management are reviewing their plans to ensure continuity of trade given the possibility of a new customs border in March 2019 and to enable cost pressures to be minimised.

**Financial Risk Management**

The Group is funded by operationally generated cash flow, by A.S. Watson Group loans and external short term bank overdraft facilities if required. The A.S. Watson Group is part of the CK Hutchison Holdings Limited group. The Group's subsidiary undertakings set financial risk management policies in accordance with A.S. Watson Group's policies and procedures, which are designed to mitigate the impact of fluctuations in interest rates and exchange rates and to minimise the Group's financial risk.

- Credit risk*  
Short-term surplus bank funds are placed with high quality financial institutions. As the Group's retail sales are usually in cash or by credit or debit card, credit risk is to a great extent short-term and limited to the recovery of supplier income.
- Liquidity risk*  
The Group's liquidity risk is mitigated by internal funding primarily from the intermediate holding company, A.S. Watson (Europe) Investments S.a.r.l, and its fellow subsidiary A. S. Watson Group (HK) Limited, in order to meet the Group's funding requirements.
- Foreign exchange risk*  
The Group's direct foreign exchange exposure is minimal, with most purchases contracted and paid for in sterling. The Group has a greater exposure to indirect foreign exchange currency risk which it manages through ongoing planning review with key suppliers.

**A.S. Watson (Health & Beauty UK) Limited**  
**Strategic Report (continued)**  
**For the year ended 31 December 2017**

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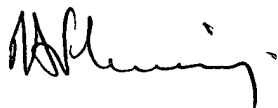
**Financial Risk Management (continued)**

The Group's financial instruments consist of cash, bank overdrafts, A.S. Watson Group loans and intercompany balances, trade receivables and trade payables. The carrying values of these instruments are all recorded at amortised cost and have various contractual maturities.

**Future Outlook and Prospects**

The directors expect the UK retail environment to remain competitive, with the discount retailers continuing to grow and the supermarkets returning to growth. The continued uncertainty of the impact of the UK's decision to exit the European Union, coupled with inflationary pressures on household budgets, has the potential to subdue consumer sentiment and the Group is planning strategies to mitigate the impact of this and to maintain its strong price perception on the High Street. The robust trading performance in 2017 coupled with a clear future strategy, and cash flows that can support investment, leaves the Group well positioned to grow successfully in 2018 and beyond.

On behalf of the Board



R A Fleming  
Director

28 September 2018

**A.S. Watson (Health & Beauty UK) Limited**  
**Directors' Report**  
**For the year ended 31 December 2017**

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The directors present their report together with the audited financial statements of the Company (registered number: 04051648) and audited consolidated financial statements of the Group for the year ended 31 December 2017.

**Future Developments**

The directors' opinion on the future outlook and prospects of the Group have been included in the Strategic Report.

**Dividends**

On 15 May 2017 dividends of 92.59p and 22.22p per share totalling £61,996,934 (2016: £37,615,612) were paid.

**Directors**

The directors have access to the advice and services of the company secretary and board members are able to take independent professional advice at the Company's expense where they judge it necessary to discharge their responsibilities as directors. The directors possess an appropriate balance of skills and experience for the requirements of the business.

The directors of the Company during the year and up to the date of signing these financial statements, unless where stated, were:

D K M Lai	
C N R Salbaing	
A J Heaton	
R A Fleming	
E Shih	
R L Eckert	(resigned on 20 November 2017)
J T Miller	(appointed on 20 November 2017)

As permitted by s234(2) of the Companies Act 2006, the Company maintains directors' and officers' liability insurance which provides insurance cover against liabilities which directors and other officers of the Company may incur personally as a consequence of claims made against them alleging breach of duty or other unlawful acts or omissions in their capacity as directors and officers. The indemnity was in force throughout the last financial year and is currently in force.

**Employee Involvement**

Employment policies are designed to provide opportunities irrespective of colour, ethnic or national origin, nationality, sex or marital status. Applications for employment by disabled persons are always fully considered. In the event of employees becoming disabled every effort is made, including appropriate training, to ensure that their employment with the Group continues. It is the policy of the Group that the training, career development and promotion of a disabled person should be, as far as possible, identical to that of a person who does not suffer from a disability.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Group as a whole. Communication with all employees continues through newsletters and briefing groups.

**Employment of Disabled Persons**

It is the Group's policy to give full consideration to the possibility of employing disabled persons wherever suitable opportunities exist. Employees who have become disabled are given every opportunity and assistance to continue in their employment or to be trained for other suitable positions. It is the policy of the Group that the training, career development and promotion of disabled persons should be identical to that of other employees.

**A.S. Watson (Health & Beauty UK) Limited**  
**Directors' Report (continued)**  
**For the year ended 31 December 2017**

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**Branches outside of the UK**

The Group controls The Perfume Shop stores within the Republic of Ireland. This is treated as a branch for the purposes of taxation and the preparation of the financial statements.

**Financial Risk Management**

The directors' opinion on financial risk management of the Group has been included in the Strategic Report.

**Statement of directors' responsibilities in respect of the financial statements**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that year. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Disclosure of information to auditors**

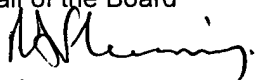
In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Group and the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group and the Company's auditors are aware of that information.

**Independent Auditors**

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be re-appointed and PricewaterhouseCoopers LLP will therefore continue in office.

On behalf of the Board



R A Fleming  
Director

28 September 2018

## **Report on the audit of the financial statements**

### **Opinion**

In our opinion:

- A.S. Watson (Health & Beauty UK) Limited's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2017 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company Balance Sheets as at 31 December 2017; the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Changes in Equity, and the Consolidated Cash Flow Statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Independence**

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.

### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included



## **A.S. Watson (Health & Beauty UK) Limited**

### **Independent Auditors' Report to the member of A.S. Watson (Health & Beauty UK) Limited (continued)**

**For the year ended 31 December 2017**

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

#### **Strategic Report and Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

#### **Responsibilities for the financial statements and the audit**

##### **Responsibilities of the directors for the financial statements**

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

##### **Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

##### **Use of this report**

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

#### **Other required reporting**

##### **Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

*Rosemary Shapland*

Rosemary Shapland (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Gatwick

28 September 2018

**A.S. Watson (Health & Beauty UK) Limited**  
**Consolidated Statement of Comprehensive Income**  
**For the year ended 31 December 2017**

		Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
<b>Income Statement</b>	Note		
<b>Revenue</b>	4	1,914,928	1,842,640
Cost of sales		(1,687,108)	(1,640,289)
<b>Gross profit</b>		<b>227,820</b>	<b>202,351</b>
Administrative expenses		(73,900)	(73,813)
Other operating income		7,680	11,046
<b>Operating profit</b>	5	<b>161,600</b>	<b>139,584</b>
Finance income	8	141	353
Finance costs	8	(9,264)	(9,157)
<b>Profit before taxation</b>		<b>152,477</b>	<b>130,780</b>
Income tax expense	9	(31,715)	(23,021)
<b>Profit for the year</b>		<b>120,762</b>	<b>107,759</b>
<b>Other comprehensive income/(expense)</b>			
<i>Items that will be reclassified subsequently to the income statement</i>			
Exchange reserve movement		470	2,963
<i>Items that will not be reclassified subsequently to the income statement</i>			
Actuarial gains/(losses) recognised in pension scheme	21	7,350	(40,549)
Movement on deferred tax relating to pension deficit	10	(1,082)	6,388
<b>Total other comprehensive income/(expense)</b>		<b>6,738</b>	<b>(31,198)</b>
<b>Total comprehensive income for the year</b>		<b>127,500</b>	<b>76,561</b>

As permitted by section 408 of the Companies Act 2006, the Company has not presented its own Statement of Comprehensive Income. The Company's profit for the year was £62,525,995 (2016: £9,151,018).

Revenue and operating profits arise from the Group's continuing operations.

The notes on pages 15 to 37 form part of these financial statements.

**A.S. Watson (Health & Beauty UK) Limited**  
**Consolidated Balance Sheet**  
**At 31 December 2017**

Registered Number: 04051648

		At 31 December 2017 £'000	At 31 December 2016 £'000
	Note		
<b>Non-current assets</b>			
Goodwill	11	128,474	128,474
Intangible assets	12	266,146	265,910
Property, plant and equipment	13	142,825	127,369
Investment properties	14	2,166	2,204
Deferred income tax assets	10	11,138	17,472
Other investments	15	8	8
		<b>550,757</b>	<b>541,437</b>
<b>Current assets</b>			
Inventories	16	332,476	295,399
Trade and other receivables	17	203,457	190,234
Cash and cash equivalents		181,195	201,691
		<b>717,128</b>	<b>687,324</b>
<b>Total assets</b>		<b>1,267,885</b>	<b>1,228,761</b>
<b>Current liabilities</b>			
Trade and other payables	18	(523,234)	(515,521)
Current income tax liabilities		(36,418)	(47,288)
		<b>(559,652)</b>	<b>(562,809)</b>
<b>Non-current liabilities</b>			
Borrowings	19	(200,000)	(200,000)
Retirement benefit obligation	21	(56,117)	(72,175)
Provisions for liabilities	20	(5,639)	(12,803)
		<b>(261,756)</b>	<b>(284,978)</b>
<b>Total liabilities</b>		<b>(821,408)</b>	<b>(847,787)</b>
<b>Net assets</b>		<b>446,477</b>	<b>380,974</b>
<b>Equity</b>			
Called up share capital	23	54,000	54,000
Share premium account		257,571	257,571
Exchange reserve		1,496	1,026
Retained earnings		133,410	68,377
<b>Total shareholder's funds</b>		<b>446,477</b>	<b>380,974</b>

The notes on pages 15 to 37 form part of these financial statements.

These financial statements on pages 9 to 37 were approved by the Board of Directors and signed on its behalf by:



R A Fleming  
Director

28 September 2018

**A.S. Watson (Health & Beauty UK) Limited**  
**Consolidated Statement of Changes in Equity**  
**For the year ended 31 December 2017**

	Share capital £'000	Share premium account £'000	Exchange reserve £'000	Retained earnings £'000	Total shareholder's funds £'000
At 1 January 2016	54,000	257,571	(1,937)	32,395	342,029
Profit for the year	-	-	-	107,759	107,759
Exchange reserve movement	-	-	2,963	-	2,963
Actuarial loss on pension scheme	-	-	-	(40,549)	(40,549)
Deferred tax relating to pension deficit	-	-	-	6,388	6,388
Dividends	-	-	-	(37,616)	(37,616)
<b>At 31 December 2016</b>	<b>54,000</b>	<b>257,571</b>	<b>1,026</b>	<b>68,377</b>	<b>380,974</b>
Profit for the year	-	-	-	120,762	120,762
Exchange reserve movement	-	-	470	-	470
Actuarial gain on pension scheme	-	-	-	7,350	7,350
Deferred tax relating to pension deficit	-	-	-	(1,082)	(1,082)
Dividends	-	-	-	(61,997)	(61,997)
<b>At 31 December 2017</b>	<b>54,000</b>	<b>257,571</b>	<b>1,496</b>	<b>133,410</b>	<b>446,477</b>

The notes on pages 15 to 37 form part of these financial statements.

**A.S. Watson (Health & Beauty UK) Limited**  
**Consolidated Cash Flow Statement**  
**For the year ended 31 December 2017**

		Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
	Notes		
<b>Cash flow from operating activities</b>			
Group operating profit		161,600	139,584
Adjustments for:			
Depreciation, amortisation and impairment charge	12, 13, 14	27,097	25,106
Loss on disposal of intangible assets	12	-	47
Loss on disposal of tangible assets	13	780	846
Foreign exchange loss		470	2,963
Defined benefit pension contributions	21	(11,500)	(5,425)
<b>Operating cash flow before movement in working capital</b>		<b>178,447</b>	<b>163,121</b>
Increase in inventory	16	(37,077)	(53,962)
Increase in trade and other receivables	17	(13,224)	(9,435)
Increase in trade and other payables	18	10,244	13,399
<b>Operational cash flow after movement in working capital</b>		<b>138,390</b>	<b>113,123</b>
Interest paid		(14,764)	(10)
Taxation paid		(37,415)	(17,793)
<b>Net cash inflow from operating activities</b>		<b>86,211</b>	<b>95,320</b>
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment		(43,943)	(34,028)
Purchase of intangible fixed assets	12	(908)	(1,502)
Interest received		141	353
<b>Net cash outflow from investing activities</b>		<b>(44,710)</b>	<b>(35,177)</b>
<b>Cash flow from financing activities</b>			
Repayment of existing borrowings	19	-	(50,000)
Dividends paid	22	(61,997)	(37,616)
<b>Net cash outflow from financing activities</b>		<b>(61,997)</b>	<b>(87,616)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(20,496)</b>	<b>(27,473)</b>
Cash and cash equivalents at beginning of year		201,691	229,164
<b>Cash and cash equivalents at end of year</b>		<b>181,195</b>	<b>201,691</b>

The notes on pages 15 to 37 form part of these financial statements.

**A.S. Watson (Health & Beauty UK) Limited**  
**Company Balance Sheet**  
**At 31 December 2017**

Registered Number: 04051648

		At 31 December 2017 £'000	At 31 December 2016 £'000
	Note		
<b>Non-current assets</b>			
Property, plant and equipment	13	532	741
Investments	15	174,358	249,358
Deferred income tax assets	10	163	178
		<b>175,053</b>	<b>250,277</b>
<b>Current assets</b>			
Trade and other receivables	17	136,625	132,404
Cash and cash equivalents		2,274	5,792
		<b>138,899</b>	<b>138,196</b>
<b>Total assets</b>		<b>313,952</b>	<b>388,473</b>
<b>Current liabilities</b>			
Trade and other payables	18	(389)	(75,337)
Current income tax liabilities		(449)	(551)
		<b>(838)</b>	<b>(75,888)</b>
<b>Net assets</b>		<b>313,114</b>	<b>312,585</b>
<b>Equity</b>			
Called up share capital	23	54,000	54,000
Share premium account		257,571	257,571
Retained earnings		1,543	1,014
<b>Total shareholder's funds</b>		<b>313,114</b>	<b>312,585</b>

The notes on pages 15 to 37 form part of these financial statements.

These financial statements on pages 9 to 37 were approved by the Board of Directors and signed on its behalf by:



R A Fleming  
Director

28 September 2018

**A.S. Watson (Health & Beauty UK) Limited**  
**Company Statement of Changes in Equity**  
**For the year ended 31 December 2017**

	<b>Share capital £'000</b>	<b>Share premium account £'000</b>	<b>Retained earnings £'000</b>	<b>Total shareholder's funds £'000</b>
At 1 January 2016	54,000	257,571	29,479	341,050
<b>Comprehensive income</b>				
Profit for the year	-	-	9,151	9,151
Dividend paid	-	-	(37,616)	(37,616)
<b>At 31 December 2016</b>	<b>54,000</b>	<b>257,571</b>	<b>1,014</b>	<b>312,585</b>
<b>Comprehensive income</b>				
Profit for the year	-	-	62,526	62,526
Dividend paid	-	-	(61,997)	(61,997)
<b>At 31 December 2017</b>	<b>54,000</b>	<b>257,571</b>	<b>1,543</b>	<b>313,114</b>

The notes on pages 15 to 37 form part of these financial statements.

**A.S. Watson (Health & Beauty UK) Limited**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2017**

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**1. General information**

A.S. Watson (Health & Beauty UK) Limited (the "Company") is a non-trading holding company.

The Company is a private limited company and is incorporated and domiciled in the United Kingdom. The address of its registered office is Hutchison House, 5 Hester Road, Battersea, London, SW11 4AN.

**2. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**Basis of preparation - Group**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and the requirements of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historic cost convention.

The preparation of financial statements in conformity with IFRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

**Basis of preparation - Company**

The financial statements of the Company, for the year ended 31 December 2017, have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006. The Company has elected to prepare these financial statements in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101).

The Company has taken advantage of the following disclosure exemptions from the requirements of International Financial Reporting Standards (IFRS) in accordance with FRS 101.

- IFRS 7, 'Financial Instruments: Disclosures';
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
  - Paragraph 79(a) (iv) of IAS 1;
  - Paragraph 73(e) of IAS 16 'Property, plant and equipment';
  - Paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period);
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d), (statement of cash flows);
  - 16 (statement of compliance with all IFRS);
  - 38A (requirement for minimum of two primary statements, including cash flow statements);
  - 38B-D (additional comparative information);
  - 111 (cash flow statement information);
  - 134-136 (capital management disclosures);
- IAS 7, 'Statement of cash flows';
- Paragraphs 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors';
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation);



**A.S. Watson (Health & Beauty UK) Limited**  
**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2017**

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**2. Summary of significant accounting policies (continued)**

**Basis of preparation – Company (continued)**

- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group; and
- Paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36, 'Impairment of assets'.

**Going Concern**

The Group meets its day-to-day working capital requirements through its cash reserves and borrowings. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current cash reserves and borrowings. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its financial statements. Further information on the Group's borrowings is given in note 19.

**Amendments to published standards**

The following standards and revisions will be effective for future years and are not yet adopted:

- IFRS 9 'Financial instruments'
- IFRS 15 'Revenue from contracts with customers'
- IFRS 16 'Leases'

The Group has considered the impact of IFRS 9 and IFRS 15 and has concluded that they will not have a significant impact on the Group's financial statements.

IFRS 16 will be effective for the Group's financial statements for annual reporting periods beginning on or after 1 January 2019. IFRS 16 specifies how an entity is to recognise, measure, present and disclose leases. IFRS 16 requires lessees to recognise assets and liabilities for all leases unless the lease term is less than 12 months, the underlying asset has a low value or the leases are under other practical expedients as specified in IFRS 16. Lessors continue to classify leases as operating or finance with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor IAS 17. The Group is assessing the impact of the new standard and although it is not practicable to provide a reasonable estimate it is expected to have a material impact on the balance sheet as both assets and liabilities will increase and is also expected to have a material impact on key components within the income statement. IFRS 16 will not have any impact on the underlying commercial performance of the Group nor the cash flow generated in the period. It is not possible to provide an accurate assessment of this standard until a detailed review has been completed on an individual lease basis.

**Basis of consolidation**

The consolidated financial statements of the Group incorporate the financial statements of the Company and those entities controlled by the Company made up to 31 December each year. All subsidiary companies' financial statements are made up to the nearest December Saturday to 31 December each year.

**Subsidiaries**

Subsidiaries are entities in which the Group has the power to govern the financial and operating policies so as to obtain economic benefits from their activities. Subsidiaries are consolidated using the acquisition method of accounting from the date on which control is obtained up until the date that control ceases.

The value of the investment in each subsidiary held by the Company is recorded at cost less any impairment.

Intra-Group transactions, balances, and unrealised gains and losses on transactions between Group companies are eliminated on consolidation.

**A.S. Watson (Health & Beauty UK) Limited**  
**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2017**

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**2. Summary of significant accounting policies (continued)**

**Revenue Recognition**

Revenue represents retail sales to customers and commission income from goods and services provided by third parties. It is measured at the fair value of the consideration received or receivable and is recognised on the day that the sale is made. Revenue through internet sites is recognised once an order has been fulfilled and despatched.

Revenue is shown net of returns, the cost of loyalty card points, colleague discounts and sales made on an agency basis, and is stated net of value added tax. Commission income, arising from goods and services provided by third parties, is recognised in revenue based on the terms of the contract.

In respect of loyalty schemes, as points are issued to customers the retail value of those points is deferred. When the points are used by customers they are recorded as revenue. Liabilities are recorded to estimate the proportion of the points issued which are expected to be redeemed by the customers.

**Cost of Sales**

Cost of sales consists of expenses incurred in bringing products to a saleable position and condition. Such costs principally include purchasing of products from suppliers, packaging and distribution costs, direct staff costs and store costs.

**Supplier Income**

Supplier incentives, promotional funding, volume related rebates and discounts, collectively known as 'supplier income', are deducted from cost of sales and are recognised in accordance with supplier agreements on an accrual basis as they are earned for each relevant supplier contract. Amounts due relating to supplier income are recognised within trade receivables, except in cases where the Group currently has a legally enforceable right to set-off and intends to offset amounts due from suppliers, in which case only the net amount receivable or payable is recognised. Accrued supplier income is recognised within accrued income when earned and not invoiced at the balance sheet date.

**Foreign Currency**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

The reporting currency of the Group is GBP (£). The results and balance sheets of the Group's overseas branches that have a different reporting currency are translated as follows:

- Assets and liabilities for balance sheet items at the closing rate at the date of the balance sheet,
- Income and expenses for income statement items are at the rates of exchange ruling at the transaction date or at average exchange rates,
- All resulting exchange differences are recognised in other comprehensive income.

**Goodwill**

Goodwill arising on consolidation represents the excess of consideration transferred over the interest in the net fair value of the net assets acquired. The carrying value of goodwill is compared to its recoverable amount being the higher of its value in use and its fair value less costs to sell.

Goodwill has an indefinite life and is not amortised. An impairment review is carried out annually or when circumstances arise that may indicate impairment is likely. Any impairment is charged to the consolidated income statement.

Negative goodwill is immediately released to the income statement in the year of acquisition.

**A.S. Watson (Health & Beauty UK) Limited**  
**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2017**

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**2. Summary of significant accounting policies (continued)**

**Intangible Assets (continued)**

*a) Pharmacy licences*

*b) An intangible asset arising on the purchase of a pharmacy licence is calculated as the excess of the fair value of consideration given over the fair value of the identifiable asset acquired and is capitalised as an intangible asset. The licences are not amortised, as they are deemed to have an indefinite useful economic life. Impairment reviews are carried out on an annual basis to ensure that the carrying value of each individual licence is still appropriate.*

*c) Computer software*

Computer software is carried at cost less accumulated amortisation and any provision for impairment. Externally acquired computer software and software licences are capitalised and amortised on a straight-line basis over their useful economic lives of between five to seven years. Costs relating to development of computer software for internal use are capitalised once the recognition criteria of IAS 38 'Intangible Assets' are met. Other development expenditures that do not meet these criteria are expensed as incurred. When the software is available for its intended use, these costs are amortised on a straight-line basis over their useful economic lives of between five to seven years. All amortisation is included within administrative expenses within the income statement.

*d) Brands*

Brands and trademarks are recognised at fair value at the acquisition date. They are not amortised as they are deemed to have an indefinite useful life. The assets are tested for impairment on an annual basis and are carried at cost less any provision for impairment, and any impairment that is identified is recognised in the income statement.

**Property, Plant and Equipment**

Tangible assets are stated at historic cost, net of accumulated depreciation and any recognised impairment in value. The cost of fixed assets is their historic purchase price, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of the tangible fixed assets less their estimated residual values, using the straight-line method, over the following expected useful economic lives of the assets concerned. Leaseholds with an unexpired term of greater than 50 years are treated as long leaseholds.

Long leasehold improvements	- length of the lease
Short leasehold improvements	- shorter of 6 ½ years or length of the lease
Fixtures, fittings and equipment	- 5 to 10 years

The useful economic lives of assets are reviewed periodically.

**Investment Property**

Investment property assets are carried at cost less accumulated depreciation and any recognised impairment in value.

Depreciation is calculated using the straight line method so as to write off the cost of the investment property less their estimated residual values, over 60 years.

**Impairment of Non-Financial Assets**

Non-financial assets that have an indefinite useful life and are not subject to amortisation are tested annually for impairment. All other non-financial assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date. For the purposes of assessing impairment, assets are grouped at the lowest level, for which there are separately identifiable cash flows, cash generating units ("CGUs"). Impairment is tested for groups of CGUs not larger than the operating brands.

**A.S. Watson (Health & Beauty UK) Limited**  
**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2017**

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**2. Summary of significant accounting policies (continued)**

**Inventories**

Inventory is valued at the lower of cost and net realisable value, at weighted average cost and consists of finished goods purchased for resale. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. Provisions are made as appropriate for shrinkage and slow moving items.

**Trade and Other Receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less any provision for impairment. A provision for impairment is established when the carrying value of the debtor exceeds the present value of the future cash flows discounted using the original effective interest rate. The carrying value of the debtor is reduced and any impairment loss is recognised in the income statement.

**Trade Payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

**Current and Deferred Income Tax**

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is the amount of income tax payable in respect of taxable profit for the year or prior years. Tax is calculated on the rate relevant to the financial year.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill or arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

**Employee Benefits**

The Group operates both a defined benefit pension scheme and a defined contribution pension scheme for its employees. A defined benefit scheme is a pension plan that defines an amount of pension benefit that an employee will receive on retirement. A defined contribution scheme is a pension plan under which the Group pays fixed contributions into a separate entity.

The Group's defined benefit pension scheme is closed with employees making no further contributions. The pension scheme deficit recognised in the balance sheet represents the difference between the fair value of the plan assets and the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is actuarially calculated on an annual basis using the projected unit credit method. Plan assets are recorded at fair value.

**A.S. Watson (Health & Beauty UK) Limited**  
**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2017**

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**2. Summary of significant accounting policies (continued)**

**Employee Benefits (continued)**

The income statement charge consists of a financing charge, which is the net of interest cost on pension scheme liabilities and interest income on plan assets and defined benefit pension scheme expenses. The financing charge is determined by applying the discount rate to the net balance of the defined benefit obligation and the fair value of the plan assets.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

**Provisions**

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a discount rate that reflects the risks specific to the liability.

**Leases**

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. The benefits of lease incentives are taken to the income statement on a straight line basis over the period of the lease. Contributions received from landlords as an incentive to enter into a lease are treated as deferred income within payables and released over the period of the lease.

**Capital Risk Management**

The Group's principal objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits for stakeholders. Capital under management by the Group includes the committed revolving credit facility along with its available cash and committed and uncommitted operating facilities. The Group routinely monitors its capital and liquidity requirements and aims to investment its available capital in accordance with approved limits on security, liquidity and counterparty risk in order to minimise idle balances and provides visibility and control of cash and investments. The Group must ensure sufficient capital resources are available for working capital requirements and meeting principal and interest payment obligations as they fall due.

**3. Critical Accounting Estimates and Judgements**

The Group makes judgements and assumptions concerning the future that impact the application of policies and reported amounts. The resulting accounting estimates calculated using these judgements and assumptions will, by definition, seldom equal the related actual results but are based on historical experience and expectations of future events.

The judgements and key sources of estimation uncertainty that have a significant effect on the amounts recognised in the financial statements are discussed below.

**Significant estimates and assumptions**

**a) Useful economic lives of property, plant and equipment**

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets.

**A.S. Watson (Health & Beauty UK) Limited**  
**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2017**

**3. Critical Accounting Estimates and Judgements (continued)**

**b) Impairment**

Financial assets, such as receivables, and non-financial assets, such as brands and pharmacy licences, property, plant and equipment and the Company's investments in subsidiaries are subject to impairment reviews based on whether current or future events and circumstances suggest that their recoverable amount may be less than their carrying value. Those intangible assets with an indefinite useful life and goodwill are tested annually irrespective of whether indications of impairment exist. Recoverable amount is based on the higher of the value in use and fair value less costs to dispose. Value in use is calculated from expected future cash flows using suitable discount rates and includes management assumptions and estimates of future performance.

**c) Retirement benefit obligation**

The Group operates a defined benefit scheme for its employees. The present value of the scheme's liabilities recognised at the balance sheet date and the net financing charge recognised in the income statement are dependent on interest rates of high quality corporate bonds. Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in note 21. Any changes to assumptions used will impact the carrying value of the retirement benefit obligation. As detailed in note 21, the retirement benefit obligation is most sensitive to changes in the discount rate and inflation.

**d) Provisions**

Provisions are made for onerous leases, dilapidations, store exit and other employment costs. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the year when such determination is made. The carrying amount of provisions will be impacted by changes in the discount rate. Details of provisions are set out in note 20.

**Significant judgements**

In order to assess whether it is appropriate for the Group to be reported as a going concern, the directors apply judgement, having undertaken appropriate enquiries and having considered the business activities and the Group's principal risks and uncertainties as set out on page 3. Further information on the Group's going concern can also be found on page 16.

**4. Revenue**

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
<b>Revenue by geographical origin</b>		
United Kingdom	1,902,077	1,830,593
Rest of the world	12,851	12,047
	<b>1,914,928</b>	<b>1,842,640</b>

All of the Group's revenue is generated from its Health and Beauty retailing activities.

**A.S. Watson (Health & Beauty UK) Limited**  
**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2017**

**5. Operating profit**

Operating profit has been arrived at after charging/(crediting):

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Amounts payable under operating leases	130,878	130,470
Rent receivable	(2,054)	(6,314)
Loss on disposal of tangible and intangible assets	793	893
Depreciation and amortisation charge	27,097	24,928
Impairment provision movements		
- Increase in intangible fixed asset impairment	-	178
Fees payable to the Company's auditor for:		
- Statutory audit	327	338
- Audit related assurance services	35	23

**6. Employees**

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Wages and salaries (including directors)	262,407	243,570
Social security costs	15,440	13,910
Other pension costs	6,366	5,989
<b>Total staff costs</b>	<b>284,213</b>	<b>263,469</b>

The average monthly number of persons (including directors) employed by the Group during the year was:

	Year ended 31 December 2017 Number	Year ended 31 December 2016 Number
Selling	18,676	17,728
Administration	853	788
	<b>19,529</b>	<b>18,516</b>

A.S. Watson (Health & Beauty UK) Limited had no employees during the year (2016: none).

**A.S. Watson (Health & Beauty UK) Limited**  
**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2017**

**7. Directors**

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Remuneration	541	550
Long term incentive plan	-	-
Pension contributions	-	-
	<b>541</b>	<b>550</b>

Emoluments paid by the Group were in respect of 1 director (2016: 1 director).

The other directors are remunerated for their services by other CK Hutchison Holdings Limited group companies and do not receive remuneration on behalf of A.S. Watson (Health & Beauty UK) Limited. No director's remuneration is borne by A.S. Watson (Health & Beauty UK) Limited.

The highest paid director's emoluments were as follows:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Remuneration	541	550
Long term incentive plan	-	-
Pension contributions	-	-
	<b>541</b>	<b>550</b>

**8. Finance income and costs**

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Bank interest receivable	123	348
Interest receivable from group undertakings	-	5
Other	18	-
<b>Total finance income</b>	<b>141</b>	<b>353</b>
Bank overdraft	-	6
Interest payable on loans from group undertakings	6,982	7,243
Other interest	1	4
Pension financing charge (note 21)	2,281	1,904
<b>Total finance costs</b>	<b>9,264</b>	<b>9,157</b>
<b>Net finance costs</b>	<b>(9,123)</b>	<b>(8,804)</b>



**A.S. Watson (Health & Beauty UK) Limited**  
**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2017**

**9. Income tax expense**

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
UK corporation tax on profits for the year	26,811	25,329
Adjustment in respect of prior year	(348)	(3,441)
<b>Total current tax</b>	<b>26,463</b>	<b>21,888</b>
Origination and reversal of temporary differences	2,566	1,207
Effect of change in tax rates	36	216
Adjustment in respect of prior year	2,650	(290)
<b>Total deferred tax charge (note 10)</b>	<b>5,252</b>	<b>1,133</b>
<b>Tax on profit on ordinary activities</b>	<b>31,715</b>	<b>23,021</b>
<b>Tax charge/(credit) included in Other Comprehensive Income/(Expense)</b>		
Deferred tax:		
Origination and reversal of temporary differences	1,082	(6,388)
<b>Total tax charge/(credit) included in Other Comprehensive Income/(Expense)</b>	<b>1,082</b>	<b>(6,388)</b>

The effective rate of 20.8% (2016: 17.6%) is higher than (2016: lower than) the standard rate of corporation tax in the United Kingdom. The differences are:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Profit before taxation	152,477	130,780
Income tax at UK corporation tax rate of 19.25% (2016: 20%)	29,352	26,156
Effects of:		
Expenses not deductible for tax	25	380
Re-measurement of deferred tax due to change in UK tax rate	36	216
Adjustment in respect of prior year	2,302	(3,731)
<b>Total income tax expense</b>	<b>31,715</b>	<b>23,021</b>

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

**A.S. Watson (Health & Beauty UK) Limited**  
**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2017**

**10. Deferred income tax assets**

<b>Group</b>	<b>Depreciation in excess of capital allowances £'000</b>	<b>Timing differences £'000</b>	<b>Retirement benefit obligation £'000</b>	<b>Total £'000</b>
At 1 January 2016	3,087	2,730	6,420	12,217
Credit to income statement	(333)	(729)	(71)	(1,133)
Charge to other comprehensive income	-	-	6,388	6,388
<b>At 31 December 2016</b>	<b>2,734</b>	<b>2,001</b>	<b>12,737</b>	<b>17,472</b>
Charge to income statement	(473)	(3,212)	(1,567)	(5,252)
Credit to other comprehensive income	-	-	(1,082)	(1,082)
<b>At 31 December 2017</b>	<b>2,261</b>	<b>(1,211)</b>	<b>10,088</b>	<b>11,138</b>

<b>Company</b>				
At 1 January 2016	207	-	-	207
Charge to income statement	(29)	-	-	(29)
<b>At 31 December 2016</b>	<b>178</b>	<b>-</b>	<b>-</b>	<b>178</b>
Charge to income statement	(15)	-	-	(15)
<b>At 31 December 2017</b>	<b>163</b>	<b>-</b>	<b>-</b>	<b>163</b>

The amount of deferred income tax that is expected to be recoverable within 1 year is immaterial.

**11. Goodwill**

	<b>Goodwill £'000</b>
<b>Cost and net book value</b>	
At 31 December 2016 and 31 December 2017	<b>128,474</b>

Goodwill relates to the acquisition of Superdrug Stores plc, Savers Health and Beauty Limited and Merchant Retail Group Limited. These amounts have been capitalised and allocated to the respective CGUs.

The value of goodwill was tested for impairment during the current financial year by means of comparing the recoverable amount of each CGU with the carrying value of its goodwill. The recoverable amounts of the CGUs are determined from value-in-use calculations which use discounted cash flows for a period of five years taken from management approved budgets, extrapolated into perpetuity based on a 2.4% market growth rate assumption. The cashflows are discounted at a post tax rate of 6.59%. Changes in income and expenditure are based on past experience and expectations of future changes in the market. The valuations indicate sufficient headroom such that a reasonably possible change to key assumptions would not result in an impairment of the related goodwill.

There was no impairment at 31 December 2017 and 31 December 2016.

**A.S. Watson (Health & Beauty UK) Limited**  
**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2017**

**12. Intangible assets**

<b>Group</b>	<b>Brands £'000</b>	<b>Pharmacy licences £'000</b>	<b>Computer software £'000</b>	<b>Total £'000</b>
<b>Cost</b>				
At 1 January 2017	250,000	19,527	15,312	284,839
Additions	-	-	908	908
Disposals	-	-	-	-
<b>At 31 December 2017</b>	<b>250,000</b>	<b>19,527</b>	<b>16,220</b>	<b>285,747</b>
<b>Accumulated amortisation</b>				
At 1 January 2017	-	5,823	13,106	18,929
Charge for the year	-	-	672	672
Disposals	-	-	-	-
<b>At 31 December 2017</b>	<b>-</b>	<b>5,823</b>	<b>13,778</b>	<b>19,601</b>
<b>Net book value</b>				
<b>At 31 December 2017</b>	<b>250,000</b>	<b>13,704</b>	<b>2,442</b>	<b>266,146</b>
<b>Cost</b>				
At 1 January 2016	250,000	19,500	13,929	283,429
Additions	-	27	1,475	1,502
Disposals	-	-	(92)	(92)
<b>At 31 December 2016</b>	<b>250,000</b>	<b>19,527</b>	<b>15,312</b>	<b>284,839</b>
<b>Accumulated amortisation</b>				
At 1 January 2016	-	5,645	9,300	14,945
Charge for the year	-	-	503	503
Disposals	-	-	(45)	(45)
Reclassification	-	-	3,348	3,348
Movement in impairment	-	178	-	178
<b>At 31 December 2016</b>	<b>-</b>	<b>5,823</b>	<b>13,106</b>	<b>18,929</b>
<b>Net book value</b>				
<b>At 31 December 2016</b>	<b>250,000</b>	<b>13,704</b>	<b>2,206</b>	<b>265,910</b>

The value of the brands and pharmacy licences were tested for impairment at 31 December 2017 by means of comparing the recoverable amount with the carrying value. Recoverable amount is based on the higher of value in use or fair value less costs to dispose. To calculate the recoverable amount of the brands, management approved cash flows for the next five financial years are discounted at a post-tax rate of 6.59% with a terminal value derived from a terminal growth rate of 2.4%. Changes in income and expenditure are based on past experience and expectations of future changes in the market. The valuations indicate sufficient headroom such that a reasonably possible change to key assumptions would not result in an impairment of the related brand.

In the year no impairment charge (2016: £177,962) was made to the income statement.

In the prior year a reclassification of accumulated depreciation was made between computer software and fixtures, fittings and equipment of £3,348,000. No reclassification was made in 2017.

Intangible assets amortisation is recorded in administrative expenses in the income statement.

**A.S. Watson (Health & Beauty UK) Limited**  
**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2017**

**13. Property, plant and equipment**

<b>Group</b>	<b>Land and buildings £'000</b>	<b>Fixtures fittings and equipment £'000</b>	<b>Total £'000</b>
<b>Cost</b>			
At 1 January 2017	26,613	323,485	350,098
Additions	2,698	39,925	42,623
Disposals	(356)	(39,649)	(40,005)
Foreign exchange	100	30	130
<b>At 31 December 2017</b>	<b>29,055</b>	<b>323,791</b>	<b>352,846</b>
<b>Accumulated depreciation</b>			
At 1 January 2017	21,746	200,983	222,729
Charge for the year	1,231	25,156	26,387
Disposals	(320)	(38,892)	(39,212)
Foreign exchange	94	23	117
<b>At 31 December 2017</b>	<b>22,751</b>	<b>187,270</b>	<b>210,021</b>
<b>Net book value</b>			
<b>At 31 December 2017</b>	<b>6,304</b>	<b>136,521</b>	<b>142,825</b>
<b>Cost</b>			
At 1 January 2016	25,826	503,510	529,336
Additions	1,471	40,904	42,375
Disposals	(923)	(220,987)	(221,910)
Foreign exchange	239	58	297
<b>At 31 December 2016</b>	<b>26,613</b>	<b>323,485</b>	<b>350,098</b>
<b>Accumulated depreciation</b>			
At 1 January 2016	21,276	401,183	422,459
Charge for the year	1,060	23,324	24,384
Disposals	(811)	(220,228)	(221,039)
Reclassification	-	(3,348)	(3,348)
Foreign exchange	221	52	273
<b>At 31 December 2016</b>	<b>21,746</b>	<b>200,983</b>	<b>222,729</b>
<b>Net book value</b>			
<b>At 31 December 2016</b>	<b>4,867</b>	<b>122,502</b>	<b>127,369</b>

In the prior year a reclassification of accumulated depreciation was made between computer software and fixtures, fittings and equipment of £3,348,000. No reclassification was made in 2017.

In the year a review of fully depreciated assets was undertaken. This resulted in a reduction of £31,357,000 of cost and accumulated depreciation, recorded within disposals.

**A.S. Watson (Health & Beauty UK) Limited**  
**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2017**

**13. Property, plant and equipment (continued)**

<b>Company</b>	<b>Land and buildings £'000</b>	<b>Fixtures fittings and equipment £'000</b>	<b>Total £'000</b>
<b>Cost</b>			
At 1 January 2017	527	8,483	9,010
Additions	-	122	122
<b>At 31 December 2017</b>	<b>527</b>	<b>8,605</b>	<b>9,132</b>
<b>Accumulated depreciation/ impairment</b>			
At 1 January 2017	516	7,753	8,269
Charge for the year	2	329	331
<b>At 31 December 2017</b>	<b>518</b>	<b>8,082</b>	<b>8,600</b>
<b>Net book value</b>			
<b>At 31 December 2017</b>	<b>9</b>	<b>523</b>	<b>532</b>
<b>At 31 December 2016</b>	<b>11</b>	<b>730</b>	<b>741</b>

**14. Investment properties**

<b>Group</b>	<b>At 31 December 2017 £'000</b>	<b>At 31 December 2016 £'000</b>
<b>Cost</b>	2,995	2,995
<b>Accumulated depreciation</b>	791	750
Charge for the year	38	41
	829	791
<b>Net Book Value</b>	<b>2,166</b>	<b>2,204</b>

The investment property is let to a commercial user on an operating lease which expires in 2022. Property rental income earned by the Group in 2017 was £331,000 (2016: £317,000) which is net of all direct costs associated with the leasing of the property except depreciation.

The fair value of the investment property is estimated to be £4,225,000 (2016: £4,225,000). The fair value estimate for 2017 is based upon an independent external valuation performed by Knight Frank LLP in October 2016.

A formal valuation is not required annually and the Directors believe the valuation is still valid.

**A.S. Watson (Health & Beauty UK) Limited**  
**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2017**

**15. Investments**

	<b>Group</b>		<b>Company</b>	
	<b>At 31 December 2017 £'000</b>	<b>At 31 December 2016 £'000</b>	<b>At 31 December 2017 £'000</b>	<b>At 31 December 2016 £'000</b>
At 1 January	8	8	249,358	249,358
Impairment	-	-	(75,000)	-
<b>At 31 December</b>	<b>8</b>	<b>8</b>	<b>174,358</b>	<b>249,358</b>

During the year the investments of the Company were impaired by £75,000,002 due to the liquidation of Kruidvat UK Limited, which was subsequently dissolved in February 2018.

The Directors believe the carrying value of the investments is supported by the net assets or the trading results and net assets of the subsidiaries.

The subsidiaries, all of which are incorporated in the United Kingdom and are wholly owned, are as follows:

<b>Subsidiary</b>	<b>Registered Office</b>	<b>Principal Activity</b>
Superdrug Stores plc*	51 Sydenham Road, Croydon, CR0 2EU	Health & beauty retailer
Savers Health and Beauty Limited*	5 Hester Road, London, SW11 4AN	Health & beauty retailer
The Perfume Shop Limited	5 Hester Road, London, SW11 4AN	Perfume retailer
Superdrug Pension Trustee Limited	51 Sydenham Road, Croydon, CR0 2EU	Dormant
Kruidvat Real Estate UK Limited*	5 Hester Road, London, SW11 4AN	Property rental
A.S. Watson (P&C UK) Ltd*	5 Hester Road, London, SW11 4AN	Investment holding company
Merchant Retail Group Limited	5 Hester Road, London, SW11 4AN	Investment holding company
MRG Department Stores (JOP) Limited	5 Hester Road, London, SW11 4AN	Dormant
Chantlee Properties Limited	5 Hester Road, London, SW11 4AN	Dormant
Joplings Financial Services Limited	5 Hester Road, London, SW11 4AN	Dormant
Normans Group Limited	5 Hester Road, London, SW11 4AN	Dormant (commenced liquidation on 27 March 2017)
The Perfume Shop Holdings Limited	5 Hester Road, London, SW11 4AN	Investment holding company
The Cosmetic Shop Limited	5 Hester Road, London, SW11 4AN	Dormant

\*Held directly whilst all others are held indirectly through wholly owned subsidiaries.

**16. Inventories**

<b>Group</b>	<b>At 31 December 2017 £'000</b>	<b>At 31 December 2016 £'000</b>
Finished goods and goods for resale	<b>332,476</b>	<b>295,399</b>

The value of inventories recognised as an expense and charged to cost of sales for the year to 31 December 2017 was £1,399,322,000 (2016: £1,353,605,573).

Inventories are stated after provisions for impairment of £12,307,000 (2016: £8,110,000).

**A.S. Watson (Health & Beauty UK) Limited**  
**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2017**

**17. Trade and other receivables**

	<b>Group</b>		<b>Company</b>	
	<b>At 31 December 2017 £'000</b>	<b>At 31 December 2016 £'000</b>	<b>At 31 December 2017 £'000</b>	<b>At 31 December 2016 £'000</b>
Amounts falling due within one year:				
Trade receivables	52,225	58,563	-	-
Prepayments and accrued income	97,597	94,498	-	-
Amounts owed by group undertakings	12,660	6,963	135,703	131,569
Other receivables	40,975	30,210	922	835
<b>Total trade and other receivables</b>	<b>203,457</b>	<b>190,234</b>	<b>136,625</b>	<b>132,404</b>

As at 31 December 2017, trade receivables of £779,815 (2016: £881,005) were past 6 months due and unimpaired.

**Provision for impairment of trade receivables**

Where trade receivables are estimated to be less than their carrying values, provisions have been made to write these down to their estimated recoverable amounts. The aggregate impairment at 31 December 2017 was £2,253,961 (2016: £2,611,835).

**Group**

Amounts owed by group undertakings represent debts due to the Company's subsidiary undertakings from other group undertakings within the CK Hutchison Holdings Limited Group, are not interest bearing and are payable on demand.

**Company**

Amounts owed to the Company from group undertakings include a loan of £77,963,949 (2016: £77,963,949) to a subsidiary undertaking. The loan bears interest at 2.19% (2016: 2.19%) and is repayable on demand. Also included in this balance are amounts owed from subsidiary undertakings and other group undertakings within the CK Hutchison Holdings Limited group, which are not interest bearing and are payable on demand.

The Company, as lender, has a credit agreement with Superdrug Stores plc, a subsidiary undertaking, as borrower. Under the agreement, the Company has agreed to make available to Superdrug Stores plc a loan credit facility of up to £85,000,000, charging interest at 3.5%, maturing on 30 June 2020. During the year there were no drawings (2016: £nil).

The Company, as lender, has a credit agreement with Savers Health and Beauty Limited, a subsidiary undertaking, as borrower. Under the agreement, the Company has agreed to make available to Savers Health and Beauty Limited a loan credit facility of up to £35,000,000, charging interest at 3.5%, maturing on 30 June 2020. During the year there were no drawings (2016: £nil).

**A.S. Watson (Health & Beauty UK) Limited**  
**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2017**

**18. Trade and other payables**

	<b>Group</b>		<b>Company</b>	
	<b>At 31</b>	<b>At 31</b>	<b>At 31</b>	<b>At 31</b>
	<b>December</b>	<b>December</b>	<b>December</b>	<b>December</b>
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Amounts falling due within one year:				
Trade payables	107,304	91,988	-	-
Accruals and deferred income	98,981	106,345	195	146
Amounts owed to group undertakings	230,175	237,330	-	75,000
Other taxation and social security	30,531	25,494	194	191
Other payables	56,243	54,364	-	-
<b>Total trade and other payables</b>	<b>523,234</b>	<b>515,521</b>	<b>389</b>	<b>75,337</b>

**Group**

All amounts owed to CK Hutchison Holdings Limited undertakings are payable on demand and are non-interest bearing.

**Company**

All amounts owed to CK Hutchison Holdings Limited undertakings are payable on demand and are non-interest bearing.

The Company, as borrower, has a credit agreement with A.S. Watson (Europe) Investments S.à.r.l., an intermediate holding company. Under the agreement, A.S. Watson (Europe) Investments S.à.r.l. has agreed to make available to the Company a credit facility of up to £120,000,000, charging interest at 3.5%, maturing on 15 July 2020. During the year there were no drawings (2016: £nil).

The fair values of the financial instruments are not considered to be materially different from their carrying value (being amortised cost), as the impact of the discounting is not significant.

**19. Borrowings**

	<b>At 31</b>	<b>At 31</b>
	<b>December</b>	<b>December</b>
	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Amounts owed to group undertakings	<b>200,000</b>	<b>200,000</b>

Borrowings relate to credit agreements with A. S. Watson Group (HK) Limited. Under the agreements, A. S. Watson Group (HK) Limited has agreed to make available credit facilities of £250,000,000, charging interest at 3.5%, maturing on 15 June 2025.

The full value of the credit agreements was drawn down by the Group on 13 July 2015. No repayments were made during the year (2016: £50,000,000).



**A.S. Watson (Health & Beauty UK) Limited**  
**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2017**

**20. Provisions for liabilities**

	<b>£'000</b>
At 1 January 2017	12,803
Credit to the income statement	(7,018)
Utilised during the year	(146)
At 31 December 2017	<b>5,639</b>

Provisions comprise the present value of the estimated expenditure for onerous leases, dilapidations, store exit and other employment costs.

**21. Retirement benefit obligation**

The retirement benefit obligation relates to a defined benefit scheme, the A.S. Watson (Health & Beauty UK) Pension Plan (the "Scheme"). The Scheme is governed by a Trustee board, and the assets of the Scheme are held separately from the Group's assets. The Scheme is closed, with employees making no further contributions, and members accruing no further defined benefits.

The Scheme was subject to a triennial actuarial valuation as at 31 March 2015, carried out by Barnett Waddingham on the projected unit basis. The result of this valuation was finalised in August 2016 and a recovery plan agreed, under which the Group would pay annual deficit contributions of £5,500,000 until December 2023. The next valuation effective date is 31 March 2018.

The retirement benefit obligation at the year-end has been calculated by KPMG LLP, as actuarial advisers to the Group, using the projected unit credit method and based on adjusting the position at 31 March 2015 for known events and changes in market conditions as allowed under IAS 19 Revised.

The amounts recognised in the balance sheet are as follows:

	<b>Year ended 31 December 2017 £'000</b>	<b>Year ended 31 December 2016 £'000</b>
Present value of funded obligation	(237,111)	(234,401)
Fair value of plan assets	180,994	162,226
Retirement benefit obligation	(56,117)	(72,175)
Deferred income tax asset	10,088	12,737
Net retirement benefit obligation	<b>(46,029)</b>	<b>(59,438)</b>

The retirement benefit obligation and the associated deferred income tax asset are shown within different line items on the face of the balance sheet.

The only amount recognised in the income statement is the pension financing charge (including expenses) of £2,281,000 (2016: £1,904,000), included within finance costs.

**A.S. Watson (Health & Beauty UK) Limited**  
**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2017**

**21. Retirement benefit obligation (continued)**

**a) Other comprehensive income**

Re-measurement of the retirement benefit obligation has been recognised as follows:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Return on plan assets, excluding amounts in interest	(9,117)	(13,966)
Actuarial (gains)/losses arising from changes in:		
Demographic assumptions	(3,894)	24
Financial assumptions	5,661	71,125
Experience	-	(16,634)
<b>Total actuarial losses</b>	<b>1,767</b>	<b>54,515</b>
<b>Total re-measurement (gains)/losses</b>	<b>(7,350)</b>	<b>40,549</b>

**b) Valuations**

The movements in the funded retirement benefit obligation are as follows:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Changes in the present value of the defined benefit obligation:		
At 31 December 2016	234,401	176,910
Interest cost on the defined benefit obligation	6,143	6,911
Actuarial losses	1,767	54,515
Net transfer out liability	(2,119)	(802)
Benefits paid	(3,081)	(3,133)
At 31 December 2017	<b>237,111</b>	<b>234,401</b>
Changes in the fair value of plan assets:		
At start of financial year	162,226	141,763
Investment return on plan assets	8,606	13,966
Interest income on plan assets	4,399	5,607
Contributions by Company	11,500	5,425
Pension scheme expenses	(537)	(600)
Net transfer out liability	(2,119)	(802)
Benefits paid	(3,081)	(3,133)
At 31 December 2017	<b>180,994</b>	<b>162,226</b>

The Group's expected contributions (including expenses) to the defined benefit section for the next financial year beginning 1 January 2018 are £11,500,000 (2016: £11,500,000).

**A.S. Watson (Health & Beauty UK) Limited**  
**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2017**

**21. Retirement benefit obligation (continued)**

**b) Valuations (continued)**

The major categories of plan assets as a percentage of total plan assets are as follows:

	<b>Year ended 31 December 2017 %</b>	<b>Year ended 31 December 2016 %</b>
Equities	33.1	41.6
Properties	2.7	3.3
Bonds	25.2	12.4
LDI Derivatives/Other	36.8	30.3
Cash	2.2	12.4
	<b>100.0</b>	<b>100.0</b>

**c) The principal actuarial assumptions used at the balance sheet date are as follows:**

	<b>At 31 December 2017</b>	<b>At 31 December 2016</b>
Discount rate	2.50%	2.65 %
Retail price index	3.15%	3.20 %
Pension increases	3.00%	3.05 %
Life expectancy at balance sheet date for a pensioner at normal retirement age:		
Male pensioner	21.3 years	21.4 years
Female pensioner	23.2 years	23.6 years
Life expectancy at balance sheet date for a future pensioner at normal retirement age:		
Male pensioner	22.4 years	22.7 years
Female pensioner	24.4 years	25.2 years

The discount rate is based on the yield of AA-rated sterling corporate bonds appropriate to the term of the Scheme's liabilities. The base mortality assumptions are based on the SAPS tables, with future improvements based on the CMI 2016 projection with a long-term rate of improvement of 1.25% per annum.

The weighted average duration of the defined benefit obligation at the end of the year is 23 years (2016: 23 years).

**A.S. Watson (Health & Beauty UK) Limited**  
**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2017**

**21. Retirement benefit obligation (continued)**

**d) Sensitivities**

The sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, with changes in more than one assumption more likely as these may be correlated.

An increase of 0.25% in the discount rate would decrease the retirement benefit obligation by £12.5 million. A decrease of 0.25% in the discount rate would increase the retirement benefit obligation by £13.4 million.

An increase of 0.25% in the inflation rate would increase the retirement benefit obligation by £11.5 million. A decrease of 0.25% in the inflation rate would decrease the retirement benefit obligation by £9.6 million.

The sensitivities are based on management's best estimate of a reasonably anticipated change. The sensitivities are calculated using the same methodology used to calculate the retirement benefit obligation, by considering the change in the retirement benefit obligation for a given change in assumption. The net retirement benefit obligation is the difference between the retirement benefit obligation and the fair value of plan assets. There has been no change in the calculation methodology since the prior year.

**e) Other disclosures**

The Scheme exposes the Group to actuarial risks such as longevity risk, currency risk, inflation risk, interest rate risk and market (investment) risk. The Group is not exposed to any unusual entity specific or Scheme specific risks. The Trustee's investment strategy mitigates some of these risks. Market (investment) risk is addressed by diversification across asset classes and investment managers. The Trustee keeps investment performance under review and the Group is consulted before changes are made to the investment policy.

**22. Dividends paid**

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
<b>Equity dividends</b>		
2017: 92.59p per ordinary share of £1 each (2016: 53.70p per ordinary share of £1 each)	50,000	29,000
2017: 22.22p per ordinary share of £1 each (2016: 15.96p per ordinary share of £1 each)	11,997	8,616
	<b>61,997</b>	<b>37,616</b>

**23. Called up share capital**

	At 31 December 2017 £'000	At 31 December 2016 £'000
Allotted, issued and fully paid ordinary shares of £1 each	<b>54,000</b>	<b>54,000</b>
Number of ordinary shares of £1 each	<b>54,000,100</b>	<b>54,000,100</b>

**A.S. Watson (Health & Beauty UK) Limited**  
**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2017**

**24. Commitments**

At 31 December 2017, the Group had the following commitments:

a) A subsidiary undertaking has a duty deferment guarantee in favour of HM Customs & Excise to the value of £2,000,000 (2016: £2,000,000).

b) Lease commitments:

The Group leases various retail stores, offices, distribution centres and equipment under non-cancellable operating leases. These leases have varying terms:

	At 31 December 2017 £'000	At 31 December 2016 Restated* £'000
<b>Aggregate future minimum lease payments:</b>		
<b>Buildings</b>		
Under one year	128,278	124,504
Between one to five years	332,726	304,607
More than five years	189,106	180,313
	<b>650,110</b>	<b>609,424</b>
<b>Plant and machinery</b>		
Under one year	957	934
Between one to five years	932	1,349
	<b>1,889</b>	<b>2,283</b>

\*Prior period figures have been restated following a review of the expected commitment due on leases near expiry and expired leases currently under negotiation. The restatement has reduced commitments for buildings less than one year by £10,214,000.

c) Capital commitments

The Group and the Company have no capital commitments in 2017(2016: £nil).

**A.S. Watson (Health & Beauty UK) Limited**  
**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2017**

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**25. Related party transactions**

The following transactions were carried out with fellow CK Hutchison Holdings Limited group subsidiaries:

	<b>Year ended 31 December 2017 £'000</b>	<b>Year ended 31 December 2016 £'000</b>
Sales of services	2,806	1,734
	<b>2,806</b>	<b>1,734</b>
Purchase of goods	20,760	17,954
Purchase of services	11,135	11,452
	<b>31,895</b>	<b>29,406</b>

The purchase and sales of goods and services were on market terms that would be available to third parties. The Company did not carry out any related party transactions.

See note 7 for the disclosure of the directors' remuneration.

**26. Controlling parties**

The Company's immediate parent undertaking is A.S. Watson (Europe) Holdings B.V., a company registered in the Netherlands. The financial statements of that company can be obtained from Nijborg 17, 3927 DA Renswoude, the Netherlands.

The smallest group into which the results of the Company are consolidated is A.S. Watson Holdings Limited, a company incorporated in the Cayman Islands with its principal place of business in Hong Kong.

The Company's ultimate parent undertaking and controlling party and the largest group to consolidate these financial statements is CK Hutchison Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited and incorporated in the Cayman Islands. The financial statements of CK Hutchison Holdings Limited can be obtained from 22nd Floor, Hutchison House, 10 Harcourt Road, Hong Kong.