



Enterprise Risk Management Report

Effective risk management is essential to the achievement of the Group's strategic objectives. In place since 2010, the ERM System offers a systematic and disciplined approach to provide clear responsibility and accountability structures for risk management. It consists of three major components: risk governance; risk infrastructure and oversight; and assignment of risk ownership.

The Board is responsible for determining the Group's risk profile and risk appetite, with the latter defining the acceptable tolerance levels for key risks. The Board oversees the Group's risk management framework, reviews the Group's key existing and potential risks and their respective mitigation strategies, and ensures risk management effectiveness. The RMC holds regular meetings to review the management of these risks and the effectiveness of mitigation strategies and controls, while also actively identifying any positive business opportunities that arise in relation to these risks.

Risk Management Committee

The Group formed the RMC in 2009, comprising all three Executive Directors, as part of the Group's commitment to further enhancing our control environment. The RMC has written terms of reference that set out the responsibilities of the members, which are available on the Company's website. For the year ended 31 March 2019, the Committee held six meetings at Group level to assess and re-assess the top 10 priority risks and the results of mitigation actions. The RMC assists the Board in providing leadership to the management in relation to risk management and internal control. The Committee has overall responsibility for the establishment and maintenance of appropriate and effective risk management and internal control systems including the design, implementation and monitoring of such systems for the Group.

Enterprise Risk Assessment

Risk assessment is the identification and analysis of existing and emerging risks in order to form a basis for determining how risks are managed in terms of likelihood and impact. Risk areas are categorised into strategic, operational, financial and compliance perspectives for further assessment and management. A bottom-up and top-down approach is adopted to ensure a holistic risk management process. The bottom-up approach is supported by cross-functional workshops for line management to identify and prioritise risks. The top-down approach reviews risks and assesses if they are comprehensively identified, prioritised, and properly addressed by line management to accomplish the Group's objectives. At the Group level, a Group risk register has been maintained since the inception of the ERM System. This register has been regularly monitored and updated by taking emerging risks into account for continuous risk assessment purposes and for building the risk management-based internal audit plan.

The Group has in place Risk Management and Internal Control Self-Assessment and Fraud Risk Control Self-Assessment programmes, requiring overseas business units and major departments in the headquarters to annually assess the adequacy and effectiveness of risk management and internal controls for ongoing risk assurance purposes. This process enhances the Group's risk and control framework effectiveness.

Enterprise Risk Management Process

The ERM System uses risk indicators and red flags to monitor the top 10 selected priority risks. The setting of risk indicators aligns with the risk tolerance regime, representing the magnitude of risk the Group is willing to undertake in order to achieve our business goals. Additionally, a balance scorecard system, which also incorporates a red flag mechanism, has been implemented, incorporating key performance indicators for core business units to measure their progress towards achieving business goals. The balance scorecard system and the ERM System are aligned, allowing the Group to monitor a comprehensive set of indicators at the same time for better business performance and risk management.

The RMC meetings are held at least four times a year to review and discuss the risk management progress of each of the top 10 priority risks and to provide a continuous update on the business environment and to monitor any changes. During this process, the balance scorecard key performance indicators are updated and monitored on a monthly basis so that underperformed activities can be brought to management's attention on a timely basis. Risk owners are required to take mitigating actions to address these risks. Such actions are integrated into the Group's day-to-day activities and their effectiveness is closely monitored by the red flag mechanism. This mechanism is used as a basis for reporting and discussion in the monthly management meetings as well as in RMC meetings. If any risk indicators are highlighted by red flags, the responsible risk owners are required to re-assess the existing remedial action plans and promptly propose new plans if necessary. As an integral part of the Group's ERM to provide assurance on the effectiveness of the Group's risk management process and system of internal control, the IAMS Department carries out continuous assessment on the progress of risk management procedures while it also assesses the risk responses submitted by risk owners. The IAMS Department facilitates the RMC in reporting significant risks, material changes and the associated mitigating actions. The Department highlights these to the Audit Committee on a quarterly basis to enhance the accountability and quality of the risk management process. An illustrative diagram describing the ERM Framework is set out on page 137.

Management of Key Risks

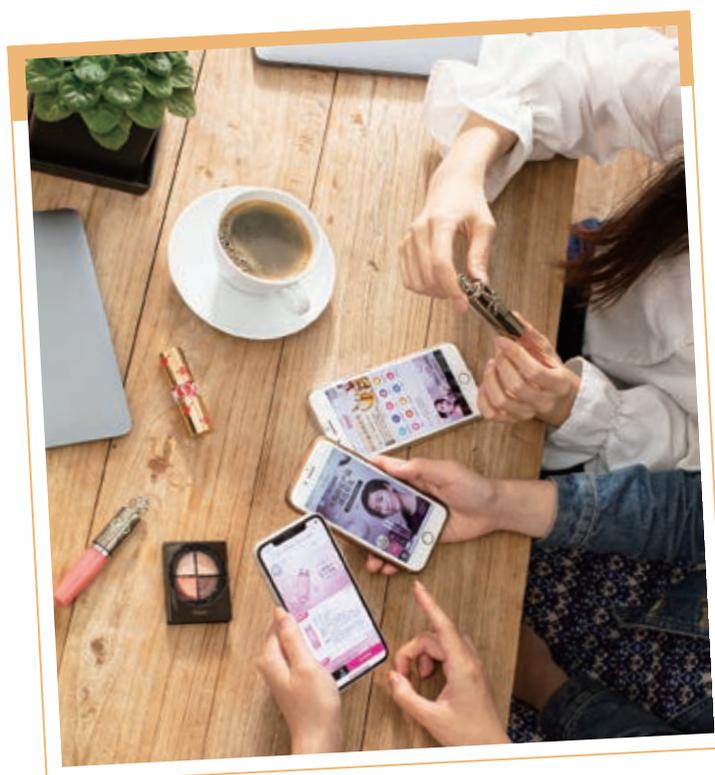
Since the Group operates in a highly dynamic and competitive landscape, continuous and effective risk management is vital for achieving high performance and accomplishing business targets. Some key risks currently being managed are:

Online Threats and Opportunities

Online threats and opportunities remain one of the key challenges faced by the Group. The continuous and exponential growth of everything involving the internet, including social media, digital marketing, e-commerce, mobile apps and payments is reflecting and further driving changes in consumer behaviour. Mainland China, where an ambitious New Retail strategy has been widely promoted and where consumers are highly connected and digital-savvy, continues to be one of the most advanced e-commerce markets in the world and remains as the core market for our e-commerce business. We believe there are considerable opportunities to be gained from these new retail practices if we can overcome the challenges of building our capabilities to manage and serve our customer database.

In this regard, we are at the interim stage of adopting a new Magento e-commerce platform and a new order management system to replace the existing front- and back-end infrastructure for UX optimisation, business conversion effectiveness, operational efficiency, online and offline integration, multiple touch point data collection, consolidation and analysis. The Salesforce SaaS Solution phase one has been completed by the Group in a new Customer Relationship Management initiative and we are now working on phase two to facilitate online and offline customer big data collection, integration and value analysis, as well as to drive business growth. In order to maximise their values to the Group, we have to exercise tighter controls over these projects, which had previously been postponed, to make sure they can be completed within the revised target completion dates and with adequate resources invested. We also need to carefully restructure our business units, assign new responsibilities, improve our work processes, use appropriate departmental key performance indicators and revise our front-line staff commission reward system to ensure that we are all working towards the same strategic goals. It is clear that determination, dedication, patience and expertise as well as the right mind-set at all levels are essential factors for a smooth, successful and sustainable transformation. Although our e-commerce business is able to leverage on major third party platforms in Mainland China, we have yet to improve our Sa Sa website and mobile app by strengthening our Marketing team's expertise and complete the development of the new order management system and e-commerce engine. To further grow our business, we will be launching our WeChat mini-programme to enhance new customer acquisition, and promote customer interaction and loyalty. We are also considering opening new flagship stores on major third party social and e-commerce platforms to maximise exposure to new target customers.

Recognising that speedy and successful dispatch in a cost effective way is critical to meeting customers' expectations and ultimately to drive business growth and profitability, we have launched cross-border e-commerce B2C direct mailing services and relocated the bonded warehouse from Zhengzhou to Hangzhou, which is now the major logistics hub for key cross border e-commerce players. Such initiatives have resulted in significantly lower goods detention rate at customs in Mainland China and therefore higher operational efficiency.



Product Competitiveness

The Group is well known for providing a large variety of trendy products with a wide price range that appeal to broad market segments. Continued success in product competitiveness hinges on our ability to strengthen our House Brands while sourcing and developing products that meet the demands of the market. However, consumers are changing their preferences faster than ever before and fierce competition from new and emerging competitors poses fresh challenges to the industry. In addition to pressures to provide the right trendy products with ever increasing frequency and better quality, digital marketing is enabling much faster product launches, which in turn is driving shorter product life cycles. We have been taking actions to address these challenges. Such initiatives include, but are not limited to: benchmarking performance and understanding market trends through research agencies and internal market data analysis; engaging with some manufacturers to leverage their product development capabilities; employing local sourcing specialists; adjusting our high-end product portfolio and eliminating low productivity SKUs; re-engineering our internal product development processes and inventory management; and building closer relationships with suppliers. However, these measures will not achieve sustained success without alignment across every key functional area and without enhancing our ability to apply the latest technology and to utilise big data for better decision-making and to improve the customer shopping experience. We have therefore launched special projects to streamline our internal processes, explore the application of technology to our operations and to recruit talents with the right skill sets.



Cybersecurity and Personal Data Privacy Risks

Cybersecurity and personal data privacy have been rated as our top risks to manage, which has also been true for most companies in recent years. The increasing number of leaks and the global trend towards more stringent regulations reflect the magnitude of this risk. The recent highly publicised data leakage or misuse incidents of some well-known companies, which are drawing extreme regulator and media attention, serve as a wake-up call for organisations to immediately strengthen their internal controls to prevent personal data from being compromised and causing harm, such as identity theft and financial loss to customers. As we operate in a business environment that needs to collect and manage a vast amount of customer personal data from various legal jurisdictions, we are exposed to data loss risks that may result in potential fines, as well as damage to our reputation and business. Cybersecurity is one of the top 10 risks covered in our ERM. To manage this risk, efforts have been focused on policy setting, data handling process review, training, IT infrastructure upgrades and cybersecurity testing. We have established a comprehensive privacy policy backed up by workshops on personal data privacy compliance for selected staff members. Our management team is charged with the responsibility to ensure regulatory requirements are followed. Each member of the management team is requested to acknowledge that they have familiarised themselves with the relevant training materials provided on our intranet. In order to promote awareness among the Group, a cybersecurity training course has been provided to Board members. We plan to conduct simulated phishing attacks to test employees' security awareness, which will be followed by online training courses, since we recognise that the human element is often one of the weakest components in cybersecurity. We are also in the process of reviewing and strengthening our customer data handling processes so that such personal data is handled in a more secure manner. We have allocated substantial IT resources to enhance our cybersecurity regime over the last financial year. Meanwhile, we engage external certified professionals to help assess our level of protection against cyber attacks on at least an annual basis. Improvement plans will be formulated if gaps are found and reassessments will be undertaken to ensure that adequate and sufficient remedial actions are in place.

Talent Acquisition, Staff Retention and Training

Competition for talent continues to remain a challenge for us due to the overall low unemployment rate and easier access to higher education opportunities for young people. We recognise that human capital is one of the most important assets we have and we need to actively develop new recruitment channels and optimise our training and development programmes to attract, develop and retain talents in order to support our future growth.

New Recruitment Channels

In addition to expanding our traditional recruitment channels, we have leveraged the power of various social media, mobile apps and other electronic channels to acquire talents and raise our profile with the public. We have also made use of internal resources and networks through our Staff Referral Scheme.

Home Grown Talent – Future Management Pipeline and Sales Force

Our home grown talent programmes cover a wide range of students – from the Management Trainee Programme for university graduates to the Sales Trainee Programme for secondary school students – so that we can develop a strong talent pipeline for every level of staff. Our Management Trainee Programme targets high potential new university graduates, offering them an individually planned, fast track career path to managerial level in our frontline sales operations, logistics department, finance and accounting department or e-commerce business. The Sales Trainee Programme and the Earn and Learn Pilot Scheme, which runs in partnership with the Vocational Training Council, will equip graduates with professional product knowledge and selling skills to further develop their career in our Group.

Bonding Enhancement Activities

To enhance bonding between Management Trainees, we have established the MT Society with the purpose of giving continuous attention, support and development opportunities to participants. Existing and newly-joined trainees can meet regularly for networking and experience sharing. Other activities for staff networking include Company events, such as outings, charity events and also activities organised by our Staff Recreation Club. These initiatives enable us to promote our work-life balance and family friendly philosophy to our staff members.

We firmly believe that care for our staff members and good communication with them are the best means to attract, motivate and retain talents. To ensure new joiners are well integrated into the Company, in addition to our orientation programme, we conduct an individual Pulse-Check Programme and small group sharing sessions to express our care and listen to new joiners' feedback, and we provide follow up actions when needed. Mentors are also assigned to new staff in the shop environment itself to provide further guidance and personalised support to new joiners. We are planning to host casual monthly dinners for staff members from selected departments to meet and interact with our management team. We believe that enjoying a meal together in such an informal and relaxed setting will help promote bonding and engagement within the workplace.

Training and Development

We have in place a series of effective functional training and development programmes such as Junior Beautician Trainee (JBT) and Sales Trainee programmes. These are offered in our Sa Sa Beauty Academy, Big Sister and Brother scheme and the Sa Sa e-learning platform with the aim of upgrading staff competence levels and promoting team spirit. The programmes have also been successfully extended to our Mainland China office. The JBT programme helps to equip new joiners with relevant professional product knowledge and offers skillsets to achieve service and selling excellence. The Big Sister and Brother scheme aims to create a harmonious working environment, strengthen bonding relationships, encourage the sharing of experience and improve frontline staff retention. Our one-stop e-learning platform consolidates all training and development courses into one database, enabling frontline staff to access all relevant training information so that they can learn at times that are convenient to them without requiring extra travel and expense. This feature is particularly relevant and effective in Mainland China, where geography has long been a difficult barrier to overcome for traditional instructor-led training courses.



Mainland China Business Prospect

We have taken progressive and disciplined steps to improve our business performance in Mainland China during the past few years with notable improvements in logistics costs and delivery time. However, gaps still continue to compromise our growth due to weak local product and operations management teams, ineffective commission schemes and weak execution. In response to these challenges, we are restructuring the organisation so that we can respond and adapt to rapid changes in market competition. We have established a General Manager Office to support the overall business analytics, development and coordination of cross-departmental activity. We have also merged certain functional units and relocated key staff according to their strength and expertise while replacing underperforming management staff. In addition, we have rolled out a new store image and will proactively approach popular shopping mall operators to secure our presence in their top “go-to” locations. Strategically, the Greater Bay Area is the key development priority for our sales growth. In light of this, we have established internal guidelines on shopping mall and store selection and implemented more frequent progress reviews. To ensure that we can provide more trendy products with reasonable margin to address customers’ needs and to drive traffic, we have been optimising our vendor base. We are also revisiting our commission system for frontline staff to ensure the alignment of goals that yield long-term benefits for both the company and staff. The Group expects that these robust enhancement measures will reshape our company to be more agile, drive our stores to operate more efficiently and to become more attractive to customers while increasing our presence in our target provincial capitals. This will improve overall sales and profitability.

Ethical Business Practices

We are committed to enforcing ethical business practices by setting the right tone at the top. However, we recognise that unethical incidents may still happen even when we have a robust internal control system in place. In order to enable us to evaluate and manage fraud risks through a more systematic and proactive approach, fraud risk assessment is incorporated as an integral part of our risk management structure for continuous management and mitigation. All business units and departments are required to formally assess and report annually their fraud risk exposure via the Fraud Risk Control Self-Assessment. To proactively protect



against fraud, we have introduced a set of fraud monitoring indicators for regions or business units with high fraud vulnerability. All fraud cases, either reported through the whistleblowing channel or identified by the analytics, will be conducted independently by the IAMS Department or jointly, as appropriate, with other departments in the Group or with external investigators. Prompt and consistent disciplinary actions will be taken according to company policy and the results, together with corrective actions, will be reported to the Executive Directors and Audit Committee. We believe that by so doing, we can safeguard our assets, contribute positively to our reputation and image, and thus reduce the direct and indirect costs of doing business. During the financial year and the period up to the date of this report, the following key activities were undertaken to promote the overall culture of ethics and enhance the existing fraud risk management system:

Communication and Training

| Participants/Target | Course/Induction/Workshop/Action |
|-------------------------------------|---|
| All New Staff | Induction training on key corporate policies, including whistleblowing policy, conflict of interest policy, etc |
| PRC, Malaysia & Singapore Suppliers | Letters to suppliers – Code of Business Conduct and Ethics |
| IAMS Department | Delegates attended one external fraud prevention workshop |

Assessment and Enforcement

| Area | Actions |
|---------------------------------|---|
| Internal Audit Scope | Fraud risk assessment is embedded in every single audit assignment |
| Enforcement | Fraudsters are held accountable by enforcing relevant disciplinary actions |
| Headquarters & Overseas Offices | Fraud risk self-assessment conducted |
| Selected Fraud-prone Areas | Regular review on trends and exceptions by both relevant departments and IAMS |

Third-Party Risks

We have been relying on third-party service providers, such as outsourced manufacturers, software vendors, manpower service providers, contractors, warehousing and logistics service providers in some key aspects of our business. Our aim is to improve performance by leveraging their specialised expertise, well-developed service network, operational efficiency and better scalability. Nevertheless, we are potentially exposed to risks that may include but are not limited to business disruptions, investigations by authorities leading to financial losses, and reputational damage as a result of under-performance, noncompliance with local rules and regulations or unexpected withdrawal from the market of key service providers. In order to counter these risks and make our business more secure, the Group has established comprehensive key performance indicators to continuously evaluate and monitor service level. These measures may involve external professionals, executives and other functional teams for key projects as necessary, with clear terms and conditions laid out in service agreements. Although we tend to maintain long-term relationships with thirty-party service providers, we may terminate the services of under-performing vendors. In addition, from time to time we compare their service level to that of the market, which allows us to bring in new vendors with better service quality and to update our backup vendor list while managing our costs.

