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

The Board is responsible for determining the Group’s risk profile within risk appetite which defines the acceptable tolerance levels for key risks, overseeing the Group’s risk management framework, reviewing the Group’s key existing and potential risks and their respective mitigation strategies and ensuring risk management effectiveness. The RMC holds regular meetings to review the management of these risks and effectiveness of mitigation strategies and controls and actively identify the positive business opportunities in relation to these risks.

**RISK MANAGEMENT COMMITTEE**

The Group formed the RMC in 2009, comprising all the three Executive Directors as part of the Group’s commitment to further enhancing its control environment. The RMC has written terms of reference which set out the responsibilities of its members and are available on the Company’s website. It held four meetings at Group level to re-assess the top 10 priority risks and the result of the mitigation actions for the year ended 31 March 2015. The RMC assists the Board in overseeing and monitoring the implementation and effectiveness of the ERM framework and processes, approves risk profile, reviews risk responses, and formulates a risk management strategy for the Group.

**ENTERPRISE RISK ASSESSMENT**

Risk assessment is the identification and analysis of existing and emerging risks to form a basis for determining how risks are managed in terms of likelihood and impact. Risk areas are categorized into strategic, operational, financial and compliance perspectives for further assessment and management. A bottom-up and top-down approach is utilized to ensure a holistic risk management process. The bottom-up approach is supported by cross-functional workshops with line management to identify and prioritize risks while the top-down approach reviews and assesses if risks are comprehensively identified and prioritized, and properly addressed by line management regarding the achievement of the Group’s objectives. At the Group level, a Group risk register was compiled since the inception of the ERM System and has been regularly monitored and updated by taking emerging risks into account for continuous risk assessment purpose and for building the risk-management based internal audit plan.

The Group has in place the Risk Control Self-Assessment (“RCSA”) program, requiring overseas business units to periodically assess the adequacy and effectiveness of risk management and internal controls for ongoing risk assurance purposes. This 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 indicator aligns with the risk tolerance, representing the risk magnitude the Group is willing to take in achieving its business goals. Additionally, a balance scorecard system, which also incorporates a red flag mechanism, has been implemented, incorporating key performance indicators for key business units to measure their progress in achieving business goals. The balance scorecard system and the ERM System are harmonized, allowing the Group to monitor a comprehensive set of indicators at the same time for better business performance and risk management.

While the RMC meetings are held at least on a quarterly basis to review and discuss risk management progress of each of the top 10 priority risks and to provide continuous pulse of the business environment and monitor changes, the balance scorecard key performance indicators are updated and monitored on a monthly basis so that underperformed activities can draw management attention on a timely basis. Risk owners are required to take mitigating actions to address these risks. Such actions are integrated in
Enterprise Risk Management Report

the day-to-day activities and their effectiveness is closely monitored by the red flag mechanism which is used as a basis for reporting and discussion in the RMC meetings. If there are any risk indicators highlighted by red flags, responsible risk owners are required to re-assess the existing remedial action plans and promptly propose new ones if necessary. Being 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 risk management progress and risk responses submitted by risk owners. The IAMS Department facilitates the RMC in reporting significant risks, material changes and the associated mitigating actions and highlights to the Audit Committee quarterly to enhance the accountability and quality of the risk management process.

• MANAGEMENT OF KEY RISKS •

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

ONLINE THREATS AND OPPORTUNITIES

The Group has ranked online threats and opportunities as the number one risk. The exponential growth of online activities, including social media, digital marketing and eCommerce reflects and further drive changes in consumer and business behavior and alters the entire competitive landscape.

In response to this change, the group has deployed a new website for China market and upgraded its Customer Relationship Management system in order to achieve higher customer satisfaction and conversion rate. There is also a trend towards Online and Offline integration that drives both online and offline businesses to provide multi channel services to consumers. To capitalize this opportunity the Group kicked off an O2O program through WeChat platform from which our frontline staffs are able to drive sales via both online and offline channels with no geographical limitation. The shift in consumer towards more usage of smartphones also drives changes within the online arena and we adapt to this trend by launching a mobile site and developing mobile apps to increase penetration on mobiles and facilitate user interaction. The Group has been allocating more resources to its online operations to capitalize on e-commerce opportunities. In addition to the above measures that we have taken, we will also engage external resources and expertise to increase our competitiveness and speed up the pace of development in this area. The Group will also devote more IT and marketing resources to support changes in technology and digital marketing activities.
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**RISK GOVERNANCE & INFRASTRUCTURE**

**THE ERM FRAMEWORK**

**TOP DOWN APPROACH**

Assessment and Management of Strategic Risks to Achieve Group’s Objectives

**RISK MANAGEMENT RESPONSIBILITIES**

- Overall Risk Management Responsibility
- Determine Risk Profile and Oversee Risk Management Framework
- Review Key Risks and Mitigation Strategies and Ensure Risk Management Effectiveness

- Provide Risk Assurance to the Board
- Oversee Risk Management Structures and Processes

**RISK MANAGEMENT FUNCTION**

**THE BOARD** (QUARTERLY)

- Determine Risk Profile and Review Risk Responses
- Formulate Risk Management Strategy

**AUDIT COMMITTEE** (QUARTERLY)

- Identify, Assess and Evaluate Risks in Achieving Strategic Objectives
- Set Risk Priorities for Business Unit
- Prepare and Update the Business Unit Risk Register

**ENTERPRISE RISK MANAGEMENT**

- Top 10 Risks
- Risk Monitoring & Reporting
  - Risk Response Validation
  - Risk Mitigation Plan & Risk Indicators

**ENTERPRISE RISK ASSESSMENT AND RISK TREATMENT**

- Individual Risks
  - Strategic Risks
  - Operational Risks
  - Financial Risks
  - Compliance Risks
  - Risk Assessment Facilitation

**BOTTOM UP APPROACH**

Cross-functional Workshops Identify and Prioritize Risks
Enterprise Risk Management Report

PRODUCT COMPETITIVENESS

The Group is well known for providing a large variety of products with a broad price range that appeal to customers. This continued success in product competitiveness has been substantially built up on our ability to source and develop products that meet the demand of the market. However, there is a very fast shift in consumer demand towards mid-price or low-price products and in particular, favoring fast-changing mid- to low-price Korean products. We have been sourcing and offering Korean products for a long time but the pace of the demand changes has proven to be challenging. The Group will be taking actions to address these challenges. These actions may include, but not limit to, engaging with some targeted manufacturers to leverage on their product development capabilities, exploring the viability of establishing a local sourcing base in Korea and re-engineering the internal product development processes. However, it will not succeed without the support of a robust supply chain management system. Therefore, the Group is also placing greater focus on supply chain process and system development, automating work processes and systems using Information Technology, continually upgrade inventory management to shorten the ordering lead time and improve forecasting accuracy and review product offering mix to cater for changing market conditions.

TALENT ACQUISITION, STAFF RETENTION AND TRAINING

In view of the consistently high staff turnover condition in the Hong Kong retail labor market as well as the adverse business condition in retail and tourist industry last year, the Group is exposed to challenges in staff turnover and vacancy. The Group has increased the number of recruitment channels, including active participation in various job fairs and career exhibitions, as well as utilization of social media. The Group also aims at attracting more young people into the industry by collaborating with various educational institutions and enhancing the best employer image amongst targeted secondary and post secondary students.

Facing the severe competition in acquiring talents and in strengthening the engagement of existing staff the Group has regularly benchmarked the existing employment terms and conditions in order to provide enjoyable and rewarding job to them. This includes active listening to their feedback, benchmarking the remuneration package with market, organizing various recreational and charity activities. On top of these, the Group has launched and broadened an employee referral scheme, and therefore from the existing employee’s social network, has successfully recruited more outstanding talents with better understanding about the culture and stronger passion to join.

The Group mitigates turnover rate by conducting new staff sharing session to strengthen the bonding relationship. To understand and address career aspiration and personal development needs, staff are welcome to express their ideas in the performance appraisal forms and meetings, which are carefully reviewed by management. Frontline career roadmap has been redefined to provide more vision and flexibility for their career development. The succession planning program has been launched to systematically identify, develop and retain potential leaders in order to build the talent pipeline within the Group. Walking side by side is the performance appraisal system with the content being refined to facilitate this succession planning program. In addition, a mentoring program has been in place to provide guidance and personalized assistance to frontline new joiners during their integration into the job and throughout the career progression. To develop home grown talents for the future management pipeline, the Group has developed the management trainee program for fresh graduates under which each management trainee is given the opportunity to develop a fast track, clear and tailor-made career path. Upon their graduation from the 20 months comprehensive program with job rotation throughout the company, they can work either in store operation, logistics or other core departments in the office.
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The Group has also launched functional training and development programs to upgrade staff competence. During the year the Training & People Development Department refined and enhanced the training course structure by introducing advanced courses, in addition to the basic ones, for more experienced frontline staff to attend and certain courses such as local customer service and complaint handling are video-taped and shared in the Sa Sa Channel accessible by Hong Kong staff. In conjunction with traditional instructor-led training courses, which in the case of China and overseas offices are costly to run because of the geographical spread, the Group is going to launch an e-learning platform which makes use of the electronic media to deliver staff training and development courses. This e-learning platform will consolidate all training materials in one database and allow staff to access to all relevant training information and learn in a convenient and flexible schedule.

MAINLAND CHINA BUSINESS GROWTH

While the Group is taking progressive and disciplined steps in growing its market presence in the Mainland China, it is exposed to infrastructural risks, including weak local management team structure, inexperienced staffs, weak supply chain management and inadequate systems which may compromise scalability and business growth. The Group has implemented talent management and development program in acquiring competent management staff to strengthen local management foundation. Tailored selling and customer service training sessions, with support from Hong Kong head office, are offered to frontline staff to enhance their capability and to improve personal and store performances, together with the rolling out of boutique stores, which would operate more efficiently with fewer frontline staff required.

The importation of the Group’s products into china was disrupted early in the year when an independent logistic company which used to handle the importation was investigated by the Chinese Customs for violating certain laws and regulations. The Group was not involved in any wrongdoings but wishes to have a tighter control of this important function. The Group has sourced a new customs declaration and clearance agent with good reputation and the in-house Quality Management team has laid down the policies and procedures for the Group’s importation of goods into China, based on the recommendations proposed by an external consultant.
The Group is committed to enforce ethical business practice by setting the right tone at the top. However, we recognize that ethical incidents may still happen even we have a robust internal control system in place. For the year ended 31 March 2015, six incidents were reported through our whistleblowing channel or identified by IAMS department. Investigations were either conducted independently by the IAMS Department or jointly, as appropriate, with other departments in the Group. The results were reported to the Executive Directors and Audit Committee. In order to enable the Group to evaluate and manage fraud risks in a more systematic and proactive approach, fraud risk assessment is incorporated as an integral part of the Group’s risk management structure to continuously manage and mitigate fraud risks. Furthermore, the following key activities were organized during the year as an enhancement on the existing fraud risk management system:

<table>
<thead>
<tr>
<th>PARTICIPANTS</th>
<th>COURSE / INDUCTION / WORKSHOP</th>
</tr>
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<tbody>
<tr>
<td>The Board of Directors</td>
<td>Fraud risk management conducted by PricewaterhouseCoopers</td>
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<tr>
<td>Overseas Offices</td>
<td>Fraud-awareness communication workshops organized by IAMS Department for Singapore, Malaysia and Taiwan offices</td>
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<tr>
<td>Hong Kong Head Office</td>
<td>Anti-corruption and the Prevention of Bribery Ordinance conducted by the Independent Commission Against Corruption</td>
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<tr>
<td>All New Staff</td>
<td>Induction training on key corporate policies, including whistleblowing policy, conflict of interest policy, etc</td>
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<tr>
<td>IAMS Department</td>
<td>Delegates attended three external fraud prevention workshops</td>
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</tbody>
</table>
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ASSESSMENT AND ENFORCEMENT

<table>
<thead>
<tr>
<th>AREA</th>
<th>ACTION</th>
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</thead>
<tbody>
<tr>
<td>Gap Analysis</td>
<td>IAMS Department performed an anti-fraud gap analysis to evaluate the existing fraud risk management</td>
</tr>
<tr>
<td>Internal Audit Scope</td>
<td>Fraud risk assessment is embedded in every single audit assignment</td>
</tr>
<tr>
<td>Enforcement</td>
<td>Fraudsters are held accountable by enforcing relevant disciplinary actions</td>
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</tbody>
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THIRD-PARTY RISKS

The Group has been relying on third-party service providers in some aspects of our business with the aim of improving performance by leveraging their specialized expertise, well developed service network, operational efficiency and better scalability. While the Group enjoys some benefits from engaging these third-party service providers, the management realizes that the same also means operational dependency and a threat of vulnerability to unexpected poor or lapses in service. The risks may include but not limited to business disruption, authority investigation leading to monetary losses and reputational damage. In order to counter these risks, the Group engages only reputed third-party service providers and sets up key performance indexes to continuously monitor their performance. Although we try to develop good and long-term relationship with strategic partners, we do terminate service with under-performed vendors, and set up alternative vendor database to secure quality and continuity of service.