ENTERPRISE
Risk Management Report

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 2016. 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 categorised into strategic, operational, financial and compliance perspectives for further assessment and management. A bottom-up and top-down approach is utilised to ensure a holistic risk management process. The bottom-up approach is supported by cross-functional workshops with line management to identify and prioritise risks while the top-down approach reviews and assesses if risks are comprehensively identified and 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 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) programme, 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 harmonised, 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 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

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 remained as the number one risk and opportunity faced by the Group. The continuous and exponential growth of online activities, including social media, digital marketing and e-commerce reflects and further drives changes in consumer and business behaviour while altering the entire competitive landscape, especially in the PRC.

To address this risk area, the Group will continue to focus on the development of IT and O2O to enhance the shopping experience and drive online business. We have scheduled a newly enhanced mobile app to deploy in July 2016. Further IT resources will be allocated to upgrade the infrastructure for UX optimisation, business conversion effectiveness and operational efficiency. The Group will also leverage on external IT expertise to accelerate the pace of exploration of the e-commerce opportunity. The launch of the O2O concept is underway and the key factors involved in its success are being studied for future development of the model with more O2O shops and further enhancements scheduled for 2017. The Group considers that new channels to generate UVs will be a key driving force to grow the e-commerce business and we will be focusing more marketing and social media efforts on targeted customer acquisition in these channels. The Marketing team will continue to proactively develop social media platform partnerships and explore joint promotion programme opportunities with payment processors in order to drive traffic and boost sales. The Group is aware that cyber security is crucial to the success and sustainability of our e-commerce business since e-commerce channels are a prime target for hackers and any single major security breach incident may cause operational disruption, loss of sensitive data and regulatory breaches as well as ultimately hurting our brand and image. To address this security threat we have engaged external certified professionals to help assess our resilience to cyber attacks. Improvement plans will be formulated once gaps are found and reassessments will be undertaken to ensure that adequate and sufficient remedial actions are in place.
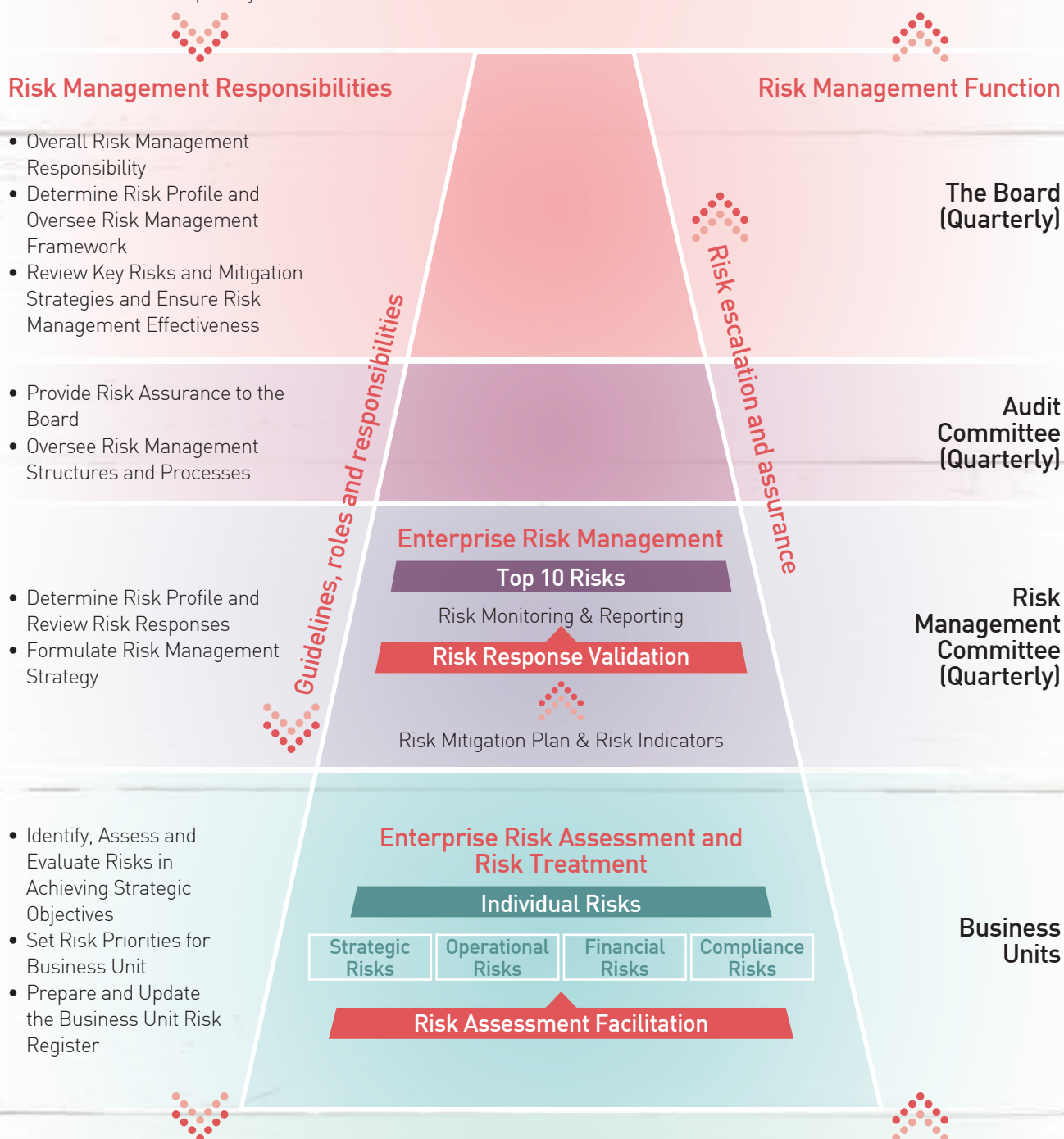
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Risk Governance & Infrastructure

The ERM Framework

Top Down Approach
Assessment and Management of Strategic Risks to Achieve Group's Objectives

Risk Management Responsibilities

Risk Management Function

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

The Board (Quarterly)

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

Audit Committee (Quarterly)

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

Risk Management Committee (Quarterly)

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

Guidelines, roles and responsibilities

Risk escalation and assurance

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

Business Units

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 Prioritise Risks

Product Competitiveness

The Group is well known for providing a large variety of products with a wide price range that appeal to broad market segments. This continued success in product competitiveness has been largely built on our ability to source and develop products that meet the demands of the market. However, consumer demand has rapidly shifted towards mid-price or low-price products and in particular, towards fast changing mid- to low-price Korean products. We have been sourcing and offering Korean products for a long time now but the pace of demand more recently has proven to be extremely challenging. The Group will be taking action to address these challenges. Such actions may include, but are not limited to, engaging with some targeted manufacturers to leverage on their product development capabilities, exploiting the advantages of establishing a local sourcing base in Korea and re-engineering our internal product development processes. However, these measures will not succeed without the support of a robust supply chain management system. The Group will continue to upgrade inventory management to shorten the ordering lead-time and to improve forecasting accuracy while adjusting our product offering mix to cater for changing market conditions.

Changes in Government Regulations and Policies

During the year the Group has experienced severe difficulties partly due to unanticipated changes and the tightening of regulations and policies in the different geographical areas where we operate, especially in Hong Kong and the Mainland China market. Mainland Chinese visitors have long been the major revenue contributor to the Group while China cross-border e-commerce has strategically been our focus for further growing our business. However, the replacement of the multiple-entry visa for Shenzhen residents with a one-visit-one-week permit early in the fiscal year, which was originally aimed at easing the problems of Hong Kong's limited visitor receiving capacity and booming parallel trading activities, has unwittingly reduced the number of Mainland Chinese visitors to Hong Kong and impacted the performance of the Group. Meanwhile, the recent release of the widely anticipated Circular of Tax Policies for Cross-border E-commerce Retail Imports (Circular) and its attached Positive Product List has created unexpected uncertainties and difficulties in regard to execution. Although a 1-year transition period was granted officially until 11 May 2017, under which customs clearance certificates are exempted for goods entering the 10 cross-border e-commerce pilot cities, our business may be adversely affected in the future if stricter and more complicated regulations and policies are introduced as cross-border e-commerce business further develops. In addition to difficulties in the Mainland China market, the Malaysian government imposed Goods & Services Tax (GST) in April 2015 that resulted in more cautious spending by local customers and caused a slowdown in our sales performance in Malaysia at the beginning of the year. Working alongside regulatory changes, the Group has set up bonded warehouses, launched a product mix review and a product registration process in order to capture the huge potential in cross-border e-commerce business that is currently not being fully realised.

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Talent Acquisition, Staff Retention and Training

The consistent downward trend and counter-currents in the retail industry have resulted in a diminishing number of new talents entering the field and increased the number of talents moving to other industries. Despite such challenges, the Group has striven to turn adversity into opportunity. We recognise that young people are pillars of our future success and it is essential to attract them to develop their careers within the Group and to support our growth. By proactively collaborating with various government departments and educational institutions, the Group has enhanced our image as a best employer and successfully cultivated "retail seeds" among targeted secondary and post secondary students. In collaboration with the Education Bureau for the Business-School Partnership Program and Vocational Training Council for the Earn & Learn Pilot Scheme for the Retail Industry, valuable opportunities have been provided for students to gain exposure and hands-on experience in the retail industry, equipping them with generic skills for their future career, while also providing the Group with a dedicated and trained workforce. In addition, the Group has made good use of various social media and technology channels to acquire talent and raise our profile with the public.

To cultivate home grown talents for the future management pipeline, the Group has developed a management trainee programme for new university graduates under which each management trainee is given the opportunity to develop a fast track, clear and tailor-made career path. Upon graduation from the comprehensive programme with job rotation throughout the company, graduates can choose to continue their career in store operations, logistics or other core departments. In addition, our sales trainee programme for secondary school graduates has been established to nurture new talents who are interested in developing a career in the retail industry. Systematic training and coaching are provided, enabling young people to prepare for a challenging yet fruitful career in sales and marketing. These programmes attract young people of various levels of attainment who are suited to different jobs and positions.

Work-life balance, active responses to staff opinions and competitive remuneration packages are integral components of an enjoyable and rewarding job. In view of this, the Group has established a Staff Recreation Committee to broaden the scope of leisure activities while also utilising social media to strengthen interactive communications and regularly benchmarking existing employment terms throughout the market. To develop a joyful and family-friendly working environment, during the year a shuttle bus service was launched and a breast-feeding room was designated for working mothers. The Group has organised regular health talks to enrich staff's knowledge of health issues and to raise safety consciousness. We believe that we are not just a work place, but also a place where people unite and act as one, and strive towards one common goal. At the same time, our staff can spend precious time with one another and their families, thereby genuinely experiencing the true benefits of "Joy at Sa Sa".

The Group believes a highly motivated workforce is our most important asset. In line with this, the Group conducts new staff sharing sessions to strengthen bonding relationships and boost the morale of the team. This year, the Pulse-Check Program was conducted by Human Resources colleagues to deliver warm and caring visits to new joiners so that they feel being supported during the integration period. In addition, a mentoring programme has been established in stores to offer guidance and personalised assistance to new joiners during the job integration process and throughout their career progression. The frontline career roadmap has been further refined to provide more vision and flexibility for career development while a succession planning programme has been launched to systematically identify, develop and retain potential leaders in order to build a strong talent pipeline within the Group.

The Group has also launched functional training and development programmes to upgrade staff competence and promote team spirit. During the year, the Training & People Development Department (T&PD) applied for the Recognition of Prior Learning mechanism of the retail sector – "Customer Service" and "Store Operations (Integrated)" -- under the Qualification Framework for our frontline staff. A total of 51 frontline staff have been accredited for the certifications at either level 3 or level 4. These measures were undertaken in addition to videotaped training courses such as local customer service and complaint handling, which have been launched since last year and shared in the Sa Sa Channel by Hong Kong T&PD staff. T&PD launched a video and photo competition in which selected learning points, videos and photos were uploaded to the platform to promote staff learning engagement and experience sharing. 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 aiming to launch an e-learning platform in September 2016 that makes use of 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 all relevant training information and learning by means of a convenient and flexible schedule.

Mainland China Business Growth

While the Group is taking progressive and disciplined steps to grow our market presence in the Mainland China, we are still exposed to infrastructural risks, including weak local management team structure, inexperience and high frontline staff turnover, disrupted supply chains, below-par product management and inadequate systems, all of which have compromised scalability and business growth. In response to these challenges, the Group has implemented a talent management and development programme in order to acquire competent management staff to strengthen the 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 performance. Meanwhile, the newly formed management team is consolidating the store network, closing underperforming stores, rolling out boutique stores, and introducing O2O functions in physical stores. The Group expects these strong enhancement measures will drive stores to operate more efficiently, benefiting from streamlined frontline staff and improving overall profitability.

Ethical Business Practice

The Group is 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. For the year ended 31 March 2016, four incidents were reported through our whistleblowing channel or otherwise identified by IAMS department. Investigations were either conducted independently by the IAMS Department or jointly, as appropriate, with other departments in the Group or with external investigators. The results were reported to the Executive Directors and Audit Committee. In order to enable the Group to evaluate and manage fraud risks with 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. We believe that by so doing we contribute positively to the Group's reputation and image and thus reduce the costs of doing business. During the year, the following key activities were undertaken in order to enhance the existing fraud risk management system:

Communication and Training

Participants	Course/Induction/Workshop
Hong Kong Head Office	Anti-corruption and the Prevention of Bribery Ordinance conducted by the Independent Commission Against Corruption
All New Staff	Induction training on key corporate policies, including whistleblowing policy, conflict of interest policy, etc
IAMS Department	Delegates attended four external fraud prevention workshops

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Assessment and Enforcement

Area	Action
Internal Audit Scope	Fraud risk assessment is embedded in every single audit assignment
Enforcement	Fraudsters are held accountable by enforcing relevant disciplinary actions

Third-party Risks

The Group has been relying on third-party service providers, such as outsourced manufacturers, software vendors, warehousing and logistics service providers, in some aspects of our business with the aim of improving performance by leveraging their specialised expertise, well developed service network, operational efficiency and better scalability. At the same time, we are potentially exposed to risks which may include but are not limited to business disruptions, investigations by authorities leading to monetary losses, and reputational damage as a result of under-performance or non-compliance with local rules and regulations. During the year, the Group did encounter business disruptions due to unexpected poor performance or lapses in the service of some vendors. In order to counter these risks and make our business more secure, the Group will be strengthening oversight of the third-party service providers' sourcing and selection process, setting up comprehensive key performance indexes to closely and continuously monitor their performance, and enhancing internal transparency in regard to emerging risks where the involvement of executives and other functional teams as necessary. Although the Group tries to develop good and long-term relationships with strategic partners, we do terminate service with under-performing vendors, and set up alternative vendor databases to secure quality and continuity of service.