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 and risk appetite, the later defines 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 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 six 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 2017. The RMC assists the Board in providing leadership to the management in relation to risk management and internal controls, and to have overall responsibility for the establishment and maintenance of an 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 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 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 Management and Internal Control Self-Assessment and Fraud Risk Control Self-Assessment programs, 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 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 regularly 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. An illustrative diagram for the ERM Framework is set out on page 144.

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

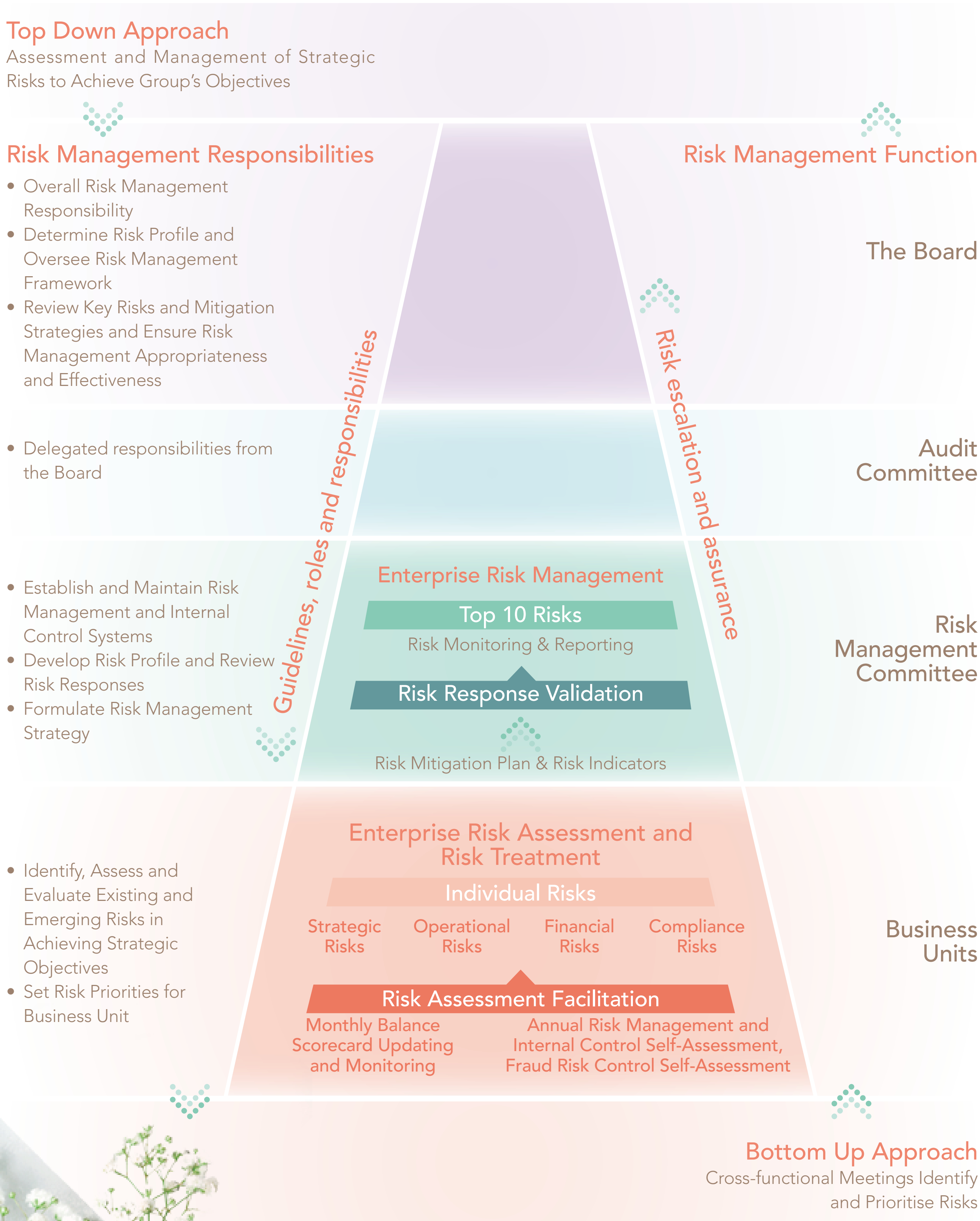
Online threats and opportunities remained the number one challenge faced by the Group. The continuous and exponential growth of everything involving the internet, including social media, digital marketing, e-commerce, mobile apps and payments are reflecting and further driving changes in consumer and business behaviour while altering the entire competitive landscape, especially in Mainland China. To build competitiveness and to tap this O2O business potential, the Group will have to take bold steps in the adoption of technology, system development, integration of online and offline databases and systems, and enhancement of cyber security and supply chain infrastructure. The overall aim is to improve customer experience and boost sales.

In this regard, additional IT resources have been budgeted for upgrading the front- and back-end infrastructure for UX optimisation, business conversion effectiveness, operational efficiency and online and offline integration. In addition, we have been refining our O2O initiatives as we conduct trials in physical stores in Mainland China. However, we have experienced several challenges during the course of execution. The deployment of the enhanced mobile app for the Mainland China market was postponed due to its unsatisfactory performance in the UAT stage. To address this issue, we engaged a new service provider and the mobile app was successfully launched in September 2016, with its platform migrating to Cloud hosting from November 2016 onwards. Recognising that the delivery process from our Hong Kong outsourced warehouse to Mainland China was not meeting customers' expectations of speedy dispatch and was also not a cost effective way for certain product categories, we began operating a bonded warehouse in Zhengzhou in October 2016. This has enabled us to lower operating costs and increase the speed of delivery. The newly bonded warehouse had processed around 30% of the total daily transaction by volume by the end of March 2017.

The Group also considers that new channels to generate UVs will be a key driving force to grow the Online and Omni-channel business. The Marketing team will continue to proactively develop social media platform partnerships with better content management and to explore joint promotion programme opportunities with payment processors in order to drive target traffic and boost turnover with better data analytic support. The Group has allocated adequate IT resources to enhance our cyber security over the last financial year. Meanwhile, we are engaging an external certified professional to help assess our protection against cyber attacks. 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.

Risk Governance & Infrastructure

The ERM Framework



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 trendy Asian products with a much shorter product life cycle. Adding to these pressures to provide the right trendy products with ever increasing frequency is the market competitiveness that drives much faster product launches. The Group has been taking action to address these challenges. These initiatives include, but are not limited to: engaging with some targeted manufacturers to leverage on their product development capabilities; employing a local sourcing specialist in South Korea; and re-engineering our internal product development processes and inventory management. However, these measures will not achieve sustained success without alignment across every key functional area. The Group also realises that the ability to apply the latest technology and utilise big data for better decision-making plays a key role in enhancing our competitive advantage. We have therefore launched special projects to explore the application of technology in our operations and to recruit talents with the right skill sets.

Changes in Government Regulations & Policies and Political Risks

The deployment of the Terminal High Altitude Area Defense (THAAD) anti-missile system in South Korea, which is strongly opposed by the Chinese government, has resulted in widespread boycotts of Korean products. The Group's sales of South Korean products have been negatively affected, an impact that we have mitigated by adjusting our product offering mix and our physical shelf displays. Since the new President of Taiwan took office in May 2016, Taiwan-China relations have been steadily deteriorating. One of the consequences of this increased cross-Strait tension has been a significant decrease in the flow of Mainland tour groups into Taiwan, which in turn has directly affected the Group's Taiwan business. In addition, the Malaysian retail market has yet to fully recover from the abolition of fuel subsidies in December 2014 and the imposition of the Goods & Services Tax in April 2015. The weakening Ringgit has resulted in higher imported goods' prices and therefore more cautious spending by local customers during the financial year, which further contributed to a slowdown in our sales performance in Malaysia. Conscious of the impact of these changes, the Group is mindful of the need to react with precision and speed.

Talent Acquisition, Staff Retention and Training

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

New Recruitment Channels

In addition to traditional recruitment channels, we have also 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 by re-launching 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 or e-commerce business. During 2017, the programme will be further expanded to our Finance and Accounting Department. The Sales Trainee Programme and the Earn and Learn Pilot Scheme, which is run in collaboration 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. Past and newly-joined trainees can meet regularly for networking and experience sharing. Other activities for staff networking include Company events, such as our first ever Sa Sa Charity Concert, 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.

The Group firmly believes that care for staff 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, providing 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.

Training and Development

The Group has launched a series of functional training and development programmes to upgrade staff competence and promote team spirit. During the year, a total of 197 frontline staff were accredited for certifications at either level 3 or level 4 for the Recognition of Prior Learning mechanism of the retail sector – "Customer Service" and "Store Operations (Integrated)" – under the Qualification Framework. The Group also successfully launched the Sa Sa e-learning system in September 2016, which offers our frontline staff a new learning platform outside the traditional instructor-led classroom. This one-stop e-learning platform will consolidate all training and development courses in one database and will allow frontline staff to access all relevant training information and learning by means of a convenient and flexible schedule.

Mainland China Business Prospect

Although the Group has been taking progressive and disciplined steps to grow our market presence in Mainland China over the past few years, progress has been limited. Despite consolidating our store network, closing underperforming stores, rolling out boutique stores, introducing O2O functions in physical stores for trial, and lowering the frontline staff turnover rate, results have remained unsatisfactory. The deploying of the THAAD anti-missile system in South Korea had a significant negative impact on our sales of Korean products. In addition, persistent internal risks such as the delay in launching replacement private label products, a weak local product management team, a disrupted product supply and weak execution have also compromised our growth. In response to these challenges, the Group has restructured the Category Management and Product Development Department ("CMPD") in Mainland China, re-engineered the new product introduction strategy and monitoring processes, and revisited the auto-replenishment system. We are also formulating a strategic store-opening plan and aim to develop more physical stores with O2O functions. In addition to the tailored selling and customer service training sessions provided, the Group has restructured the commission scheme to motivate frontline staff by aligning their personal reward to overall store performance. The Group expects these strong enhancement measures will drive stores to operate more efficiently, benefiting from streamlined frontline staff and therefore 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 2017, five incidents were reported through our whistleblowing channel or otherwise identified by the 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 can safeguard the Group's assets, contribute positively to the Group's 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 in order to enhance the existing fraud risk management system:

Communication and Training

Participants / Target	Course / Induction / Workshop / Action
Logistics Department	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
PRC Suppliers	Letters to suppliers – Code of Business Conduct and Ethics
IAMS Department	Delegates attended four external fraud prevention workshops

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
Hong Kong Head Office & Overseas Offices	Fraud risk self assessment conducted
Selected Fraud-prone Areas	Regular review on trend and exceptions by both relevant departments and IAMS

Third-Party Risks

The Group has 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 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 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 or noncompliance with local rules and regulations. During the year, the Group experienced a number of 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 terminated services with these under-performing vendors, and enhanced our oversight of third-party service providers' sourcing and selection process by delegating key projects to a special taskforce. The group has established comprehensive key performance indicators and involved external professional to closely and continuously monitor their performances, enhance internal transparency in regard to emerging risks, involved executives and other functional teams as necessary, and laid down clear terms and conditions in service agreements.