

ENTERPRISE RISK MANAGEMENT REPORT

Effective risk management is essential to the achievement of the Group's strategic objectives. In place since 2010, the Group's 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; as well as 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.

Risk Management Committee

The Group formed the Risk Management Committee ("RMC") in 2009 that comprises 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. The RMC assists the Board in providing leadership to the management in relation to risk management and internal control. The RMC has 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. For the year ended 31 March 2022, the Committee held two meetings to assess and re-assess the major risks and to review the management of these risks and the effectiveness of mitigation actions, while also actively identifying any positive business opportunities that arise in relation to these risks.

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, and a 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 building the risk-based internal audit plan.

The Group has in place the Control Self-Assessment, requiring all business units and major departments in the headquarters to annually identify potential and significant risks and assess the adequacy and effectiveness of risk management and internal controls.

Enterprise Risk Management Process

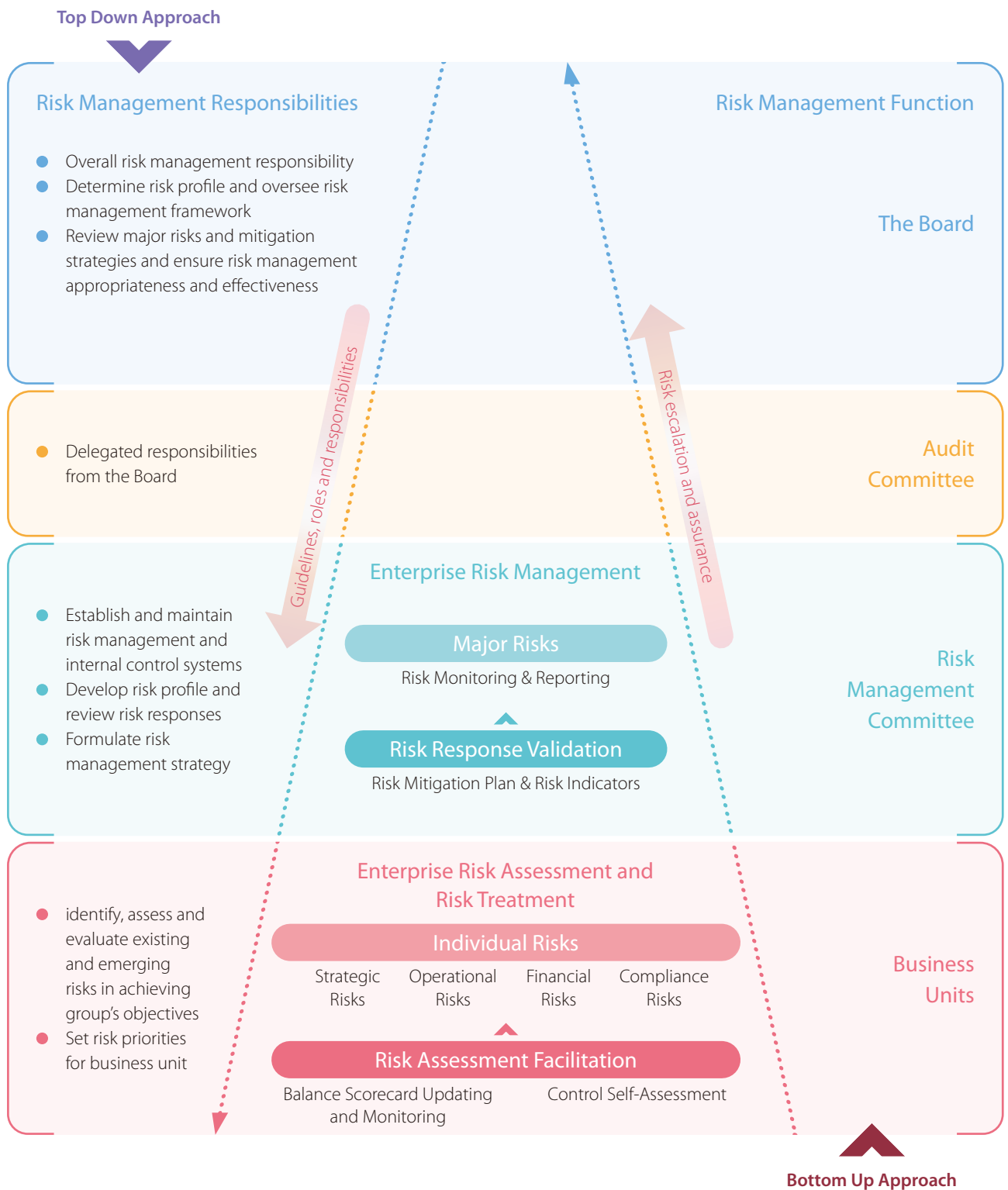
The ERM system uses risk indicators to monitor major risks. The setting of risk indicators aligns with the risk tolerance regime, representing the magnitude of risk the Group is willing to undertake in order to achieve its business goals. Risk owners are required to take mitigating actions to address these risks. Such actions are integrated into the Group's day-to-day activities while their effectiveness are closely measured by risk indicators. This system is used as a basis for reporting and discussion in the management meetings as well as in RMC meetings. If any risk indicators underperformed, the responsible risk owners are required to re-assess the existing remedial action plans and promptly propose new plans if necessary.

Members of the RMC meet as often as necessary to review and discuss the risk management progress of each of the major risks and to provide a continuous update on the business environment and to monitor any changes. The IAMS Department carries out continuous assessment on the progress of risk management procedures while it also evaluates the risk responses submitted by risk owners. The IAMS Department facilitates the RMC in reporting significant risks, material changes and the associated mitigating actions to the Audit Committee on a quarterly basis.

The balanced scorecard system has been implemented, with the incorporation of key performance indicators for major departments in headquarters to measure their progress towards achieving business goals. During the year, we aligned the reporting of the balanced scorecard system and the ERM system to provide management with a comprehensive set of indicators for monitoring both business performance and risks. An illustrative diagram describing our ERM framework is set out on page 77.

Risk Governance & Infrastructure

The ERM Framework



Management of Major Risks

There have been no significant changes in the nature and extent of major risks during the year. The COVID-19 pandemic continues to adversely impact our operations and remains a key driver of risks, including liquidity risk and operating risks in our brick-and-mortar retail markets. On the other hand, we also see enormous opportunities in our online business. The Group has established controls, mitigating measures, and plans to manage these risks.

Market Concentration Risk

The Group is adopting a diversification strategy for its sales channels, markets, customers and products. Aiming to achieve sustainable business development and to balance its mix of online and offline operations and geographical sales, the Group will accelerate its development in markets beyond the Group's traditional brick and mortar core markets of Hong Kong and Macau SARs, especially its online business in different markets (for details, please refer to the Online Threats and Opportunities section) which offer promising growth potential.

In Hong Kong and Macau SARs markets, the Group has adapted to the evolving trend of local customers. We have introduced more new products, including health & fitness products, personal care products and beauty gadgets to cater for the needs of local customers (for details, please refer to the Product Competitiveness section). We have also launched a wide range of enticing promotional activities, including collaborations with payment gateways and credit card companies, to attract more local customers.

Online Threats and Opportunities

For online cross-border sales of products into Mainland China, our WeChat mini-programme has been extended for use by beauty consultants based in our retail stores in Mainland China. We are also strategically committed to extending our reach beyond Hong Kong, Macau and Mainland China, and we are collaborating with current and targeting other well-known e-commerce platforms to serve a diversity of markets in Asia.

COVID-19 has accelerated the purchase behaviour shift towards online shopping. The Group is moving in a strategic direction that facilitates online-merge-offline ("OMO") operations in order to develop a "customer-centric" new retail model that we expect to drive the Group's income and profitability. We are striving to accelerate OMO development by further increasing collaboration between our online business teams and our retail store business units and deploying technology to enhance seamlessness between customer touch points and optimise our OMO operational processes. We are also emphasising digital marketing techniques and continuing to align online and offline promotional activities and run complementary marketing campaigns promoting interaction with consumers and the creation of a holistic shopping experience.

Product Competitiveness

In a fast-changing and increasingly competitive market, our continued success hinges on sourcing and developing products that meet the rapidly evolving demand and especially our ability to strengthen our exclusive brands.

Our offering of a broad range of quality beauty products at competitive prices is in line with the proven concept of serving as a "one-stop beauty product specialty store". Developing strategic product categories, particularly in the areas of personal care products and health and fitness products will help to further broaden our product offering that would see less fluctuations in sales performance. By adopting a broader product offering, we can also improve the loyalty of existing customers, and attract new customers and customer segments.

In the future, we will increase investment in building our exclusive products to enhance product competitiveness by increasing their visibility and recognition.

Liquidity Risk

Working capital management is crucial to the sustainability of a company. The pandemic has led to a plunge in revenue in our core markets, significant losses and a drain on the Group's cash reserves. We have made strenuous efforts to optimise our cost structure and inventory, in addition to exploring new revenue drivers. A revolving loan facility has been made available to the Group by Dr Kwok Siu Ming Simon and Dr Kwok Law Kwai Chun Eleanor, the executive directors and controlling shareholders of the Group. The facility has further strengthened the Group's financial position with additional working capital.

We have closed loss-making stores with exorbitant rents and sought rental concessions and rental reductions upon renewal of others. The new retail business model also helps to lower rental costs. Ultimately, the aim is to rationalise our store network and reduce store expenses to maximise store contribution, as well as to reduce non-productive costs to optimise our cost structure and therefore increase competitiveness and profitability.

Inventory management plays a significant role in a company's product competitiveness as well as liquidity since uncompetitive products and excessive inventories will tie up working capital and increase the risks of obsolescence. We succeeded in reducing excessive inventory by implementing aggressive clearance activities and placing stringent control on purchasing, and have allocated funds to productive products and new strategically products categories only.

Staff Health and Safety Risk

We recognise that human capital is one of the most important assets. Being a caring and socially responsible company, staff health, safety and livelihoods are always our primary concern. Since we are committed to providing a safe workplace for our employees, especially amid the COVID-19 crisis, the Group has implemented measures and dedicated resources to keep our employees safe (for details, please refer to the Environmental, Social and Governance Report – Employees health and safety and wellness)

We continue to review the measures regularly and monitor notices issued by official sources while providing regular updates to our employees. We deeply believe that by always prioritising staff health and safety, we can keep our employees engaged and productive, retain key talents and ensure sustainability of our business.

Cybersecurity and Personal Data Privacy Risks

Cyberattacks, including the use of ransomware, have become increasingly common and sophisticated. They may cause losses or leakages of data, including customers' personal data, and disruptions to the Group's operations, and they have therefore been rated as a major risk to manage.

The Personal Information Protection Law – the first data privacy law in China – came into effect in November 2021. The law regulates the handling of personal information and contains provisions for extraterritorial enforcement. Our operations in China and our online cross-border sales for products imported to Mainland China are subject to the law.

As we integrate customer data from our physical stores and online businesses in Hong Kong and Macau SARs and Mainland China to enhance customer engagement, potential risks related to data collection and use within the Group are expected to intensify. We are exposed to personal data privacy risks that may result in losses to our customers, potential fines, and damage to our reputation and business.

The Group has a privacy policy in place, and it has developed a compliance manual – a practical guide complete with examples and illustrations, case studies and compliance checklists – aiming to assist employees comply with their obligations under laws and regulations governing personal data.

To ensure that the Group complies with the data protection laws in which we operate, we will constantly review our practices to keep up to date with the latest legal and regulatory developments. Improvement plans will be formulated if discrepancies are identified, and reassessments will be undertaken to ensure that adequate remedial actions are timely taken. External consultants will be engaged whenever necessary to provide in-depth training to staff involved in handling personal data.

The Group has been paying increased attention to information security management. In addition to annual penetration testing performed by an external consultant, we also engaged an external consultant during the year to assure the effectiveness of our information security. The Group has enhanced its existing IT security controls, and has continued to raise awareness of potential IT security threats among our management and staffs.

Mainland China and Malaysia Business Prospects

The Mainland China and Malaysia markets have much more potential than we have exploited so far. Success in further penetration of these markets and their potential profit contribution will alleviate our market concentration risks.

In the Mainland China market, we will rationalise our store network and focus our resources on optimising the operating performance of the physical stores as well as online sales, while at the same time, integrate our online and offline operations. We will strive to enhance our product portfolio and strengthen training for frontline staff in relation to online-and-offline integration to improve Sa Sa's overall competitiveness.

Since the Malaysian government has eased its anti-pandemic measures, we have rolled out appealing promotions to boost sales. As a result, we achieved a business turnaround and a profit in the market during the second half of the year. We will remain prudent in our store opening strategies, and we remain committed to optimising our existing store network to further improve its efficiency. We will continue to enhance our product portfolio with protective and personal care products, and expand sales through online channels.

Ethical Business Practice

We are committed to enforcing ethical business practice by setting the right tone at the top. However, we understand that unethical incidents may still happen even when we have a robust internal control system in place, especially when incentives or pressures to commit fraud increase significantly during economic downturn.

In order to enable us to evaluate and manage fraud risks through a more systematic approach, all business units and major departments in headquarters are required to formally assess and report annually their fraud risk exposure via the Control Self-Assessment. To proactively protect against fraud, we have introduced a set of fraud monitoring indicators and performed continuous monitoring of selected key operational processes for regions with high fraud vulnerability. All possible cases of fraud, either reported through the whistleblowing channel or identified by analytics, will be followed up independently by the IAMS Department or jointly, if 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 to close the gaps and reduce the opportunity for fraudulent acts, will be reported to the Executive Directors and Audit Committee. Proper communication and training will be delivered thereafter to reduce the capacity for fraud. 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.

Third-Party Risks

The Group has been relying on third-party service providers, such as outsourced manufacturers, IT service providers, 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, and reputational damage as a result of under-performance, non-compliance 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 levels. 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 third-party service providers, we may terminate the services of under-performing vendors. We would from time to time compare their service level and their prices to that in the market, to update our backup vendor list and with a clear view to replace vendors with a combination of better service quality and costs if we feel fit.