

# ENTERPRISE RISK MANAGEMENT REPORT

Effective risk management is essential to the achievement of the Group's strategic objectives. 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 2023, 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

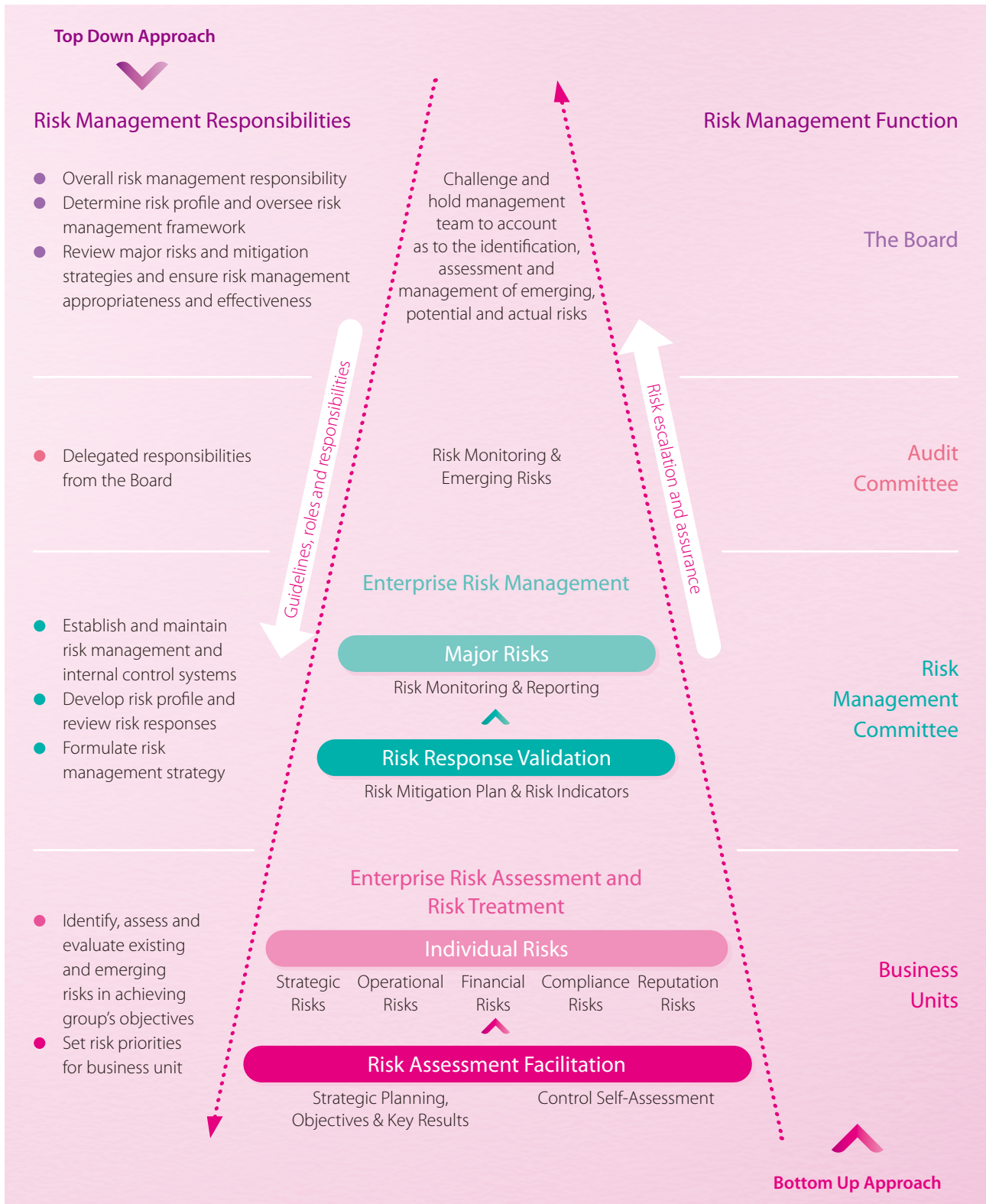
The ERM system uses risk indicators to monitor major risks. The setting of risk indicators aligns with the risk tolerance regime, representing the magnitude of risk the Group is willing to undertake in order to achieve its business goals. Risk owners are required to take mitigating actions to address 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 Internal Audit and Management Services Department ("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.

Purpose driven annual strategic planning based on objectives and key results aligned to the Group's strategic objectives (see section headed "Our Strategy") incorporating key performance indicators for all functions is conducted annually and progress is measured regularly throughout the year. These plans incorporate risks identified through the ERM system and provide management with a comprehensive set of indicators for monitoring both business performance and the associated risks. An illustrative diagram describing our ERM framework is set out on page 86.

## Risk Governance & Infrastructure

### The ERM Framework



Guidelines, roles and responsibilities

Risk escalation and assurance

**Enterprise Risk Assessment and Risk Treatment**

Individual Risks

Strategic Risks
Operational Risks
Financial Risks
Compliance Risks
Reputation Risks

**Risk Assessment Facilitation**

Strategic Planning, Objectives & Key Results

Control Self-Assessment

**Bottom Up Approach**

## Management of Major Risks

The adverse impact of the pandemic on our operations has eased although it will take time for economies in the regions we operate and our business to normalise. Aside from changes to Liquidity Risk and, Staff Health and Safety Risk, as a result of the easing of the pandemic, there have been no significant changes in the nature and extent of other major risks during the year.

In light of the relaxation of social distancing measures and return of tourism post pandemic, the attention and focus has turned to business opportunities and risks associated with not being able to take advantage of these and losing market share to existing and emerging competitors. To address these challenges and mitigate associated risks, the Group has established strategic plans and implemented people management initiatives.

### Market Concentration Risk

The Group's home market and core region and channel is offline sales in Hong Kong and Macau SARs, with further offline sales operations in Malaysia and Mainland China, while via online we reach parts of Southeast Asia, North America, Australasia and Europe. The Group has ambitions to significantly grow the sales mix outside of our core region over time, particularly in Asia.

In order to facilitate steps towards these goals, accountability of markets and channels is clearly established with designated management teams. Steps have been taken to centralise management of offline and online channels to ensure in-sync, enhance synergies and possibility of driving online-merge-offline ("OMO").

Strategic plans for each market are clearly defined and encompass the Group's core strategic pillars of:

1. Desired assortment,
2. Accessible and engaging and
3. Aspirational brands.

Please refer to "Our Strategy" on pages 10 to 15.

### Online Threats and Opportunities

The Group conducts online cross-border sales of products into Mainland China via Wechat Mini-program. In order to enhance reach and stickiness, the WeChat mini-programme has been extended for use by beauty consultants based in our retail stores both in Hong Kong and Macau SARs, and also Mainland China. The Group is also strategically committed to extending its reach beyond Hong Kong and Macau SARs, and Mainland China, and is targeting to launch in Asia on, both existing and new, third-party platforms to expand income channels, reduce reliance on individual platforms, and diversify concentration risk. In terms of product assortment, the Group will increasingly focus on exclusive brands where it has the right-to-win and can enhance stickiness with customers.

Covid-19 accelerated the purchase behaviour shift towards online shopping, and now with social distancing measures eased, the Group is focused on enabling OMO in order to stay "customer-centric". This new retail model is expected to be a key enabler of online sales going forwards. 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 seamless touch points with customers. 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 demands, the quality of such products and our ability to strengthen our exclusive brands portfolio.

The Group invests significant amounts in quality control to ensure only genuine and quality products are sold through our channels. In recognition of these efforts, the Group has received Q-Mark Elite Brand Award for the past 17 years. Additionally, the Group has participated in HKSARG Intellectual Property Department's "No Fakes Pledge" Scheme for 20+ years and has been recognized under "The Quality Tourism Services Scheme" by Hong Kong Tourism Board. The Group is so confident in these investments that both online and offline customers enjoy a 30-day Purchase Guarantee when they shop with us.

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 platform”. While our core categories are skincare, make-up and fragrance, developing new product categories in line with our purpose of “making life beautiful” such as personal care products and inner beauty related health and fitness products, is a core driver of growth will help to reduce reliance. By adopting a broader product offering, we can also better serve and hence improve the loyalty of existing customers, and also attract new customers and customer segments.

A core part of the Group’s strategy is to invest in and build exclusive products to enhance product competitiveness, see “Our Strategy” on pages 10 to 15.

### Talent Acquisition, Training and Retention

Competition for talent has been a recurring theme and continues to remain a challenge for the Group. However, demographic changes post pandemic have increased the severity of this risk including reduction in the working population due to emigration abroad and overall low unemployment rate. Human capital is one of the most important, if not the most, assets. The Group is actively adopting new recruitment channels and optimising training and development programmes to attract, develop and retain talents to support the Group’s future growth.

#### New Recruitment Channels

In addition to expanding our traditional recruitment channels, the Group is leveraging the power of social media, mobile apps and other electronic channels to acquire talents and raise our profile with the public. The Group also makes use of internal resources and networks through the Staff Referral Scheme.

#### Home Grown Talent – Future Management Pipeline

Our Management Trainee Programme targets high potential university graduates, offering them an individually planned, fast track career path to managerial level in our frontline sales operations or e-commerce business. Over the years, the scheme has provided many managers for the organization.

#### 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 competency levels, ensure consistency in service quality and to promote team spirit. The JBT and ‘Big Sister and Brother scheme’ are extended to our offline operations in Mainland China. 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.

### 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 identified as a risk.

The Personal Information Protection Law, the first data privacy law in Mainland China, came into effect in November 2021. The law regulates the handling of personal information and contains provisions for extraterritorial enforcement. Our operations in Mainland China including offline stores and our cross-border e-commerce platforms are subject to this law.

As the world becomes increasingly digital and the collection and use of data becomes more prevalent, potential risks related to data collection and use within the Group are expected to intensify. Personal data privacy risks may result in losses to our customers, potential fines, and damage to our reputation and business.

The Group has a personal data privacy policy in place and 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, it regularly reviews its practices to keep up to date with the latest legal and regulatory developments assisted by Legal and Company Secretary Department Improvement plans are formulated if discrepancies are identified, and reassessments will be undertaken to ensure that adequate and sufficient remedial actions are taken. External consultants will be engaged where necessary to provide in-depth training to staff involved in handling personal data.

The Group has stepped-up attention to information security management. The Group has enhanced its existing IT security controls, and continues to raise awareness of potential IT security threats to the organisation.

### **Ethical Business Practice**

We are committed to enforcing ethical business practices 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 may be more apparent during economic downturns.

To evaluate and manage fraud risks, all business units and departments 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, are 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. To cultivate fairness, honesty, and integrity among our employees, we provide continuous training and improve our communication with them. Our anti-corruption policy is formulated according to the most effective practices in the industry, and we routinely evaluate and revise our employee handbook and code of conduct. We stress our company's unwavering zero tolerance for unethical actions, which is mandated for all personnel. These measures are aimed at ensuring that our employees consistently uphold the highest standards of professional ethics. 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, banks and logistics service providers in some aspects of our business. Our aim is to improve performance by leveraging their specialised expertise, well-developed service network, operational efficiency and 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 mitigate these risks, the Group has established comprehensive key measures to continuously evaluate and monitor service levels. These measures include clear terms and conditions laid out in service agreements, regularly review service levels with targets, compare service levels and prices to the market, and maintain a backup vendor list. The Group may involve external professionals, executives and other functional teams as necessary in these reviews. Although the Group tends to maintain long-term relationships with third-party service providers, it would not hesitate in terminating the services of under-performing vendors.