

ENTERPRISE RISK MANAGEMENT REPORT

Our Approach

Effective risk management is essential to the achievement of the Group's strategic objectives and starts with the right conversations between the right stakeholders to drive the 'right' business decisions.

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.

We actively identify and embed mitigating actions for material risks that could impact our current or future performance. Our risk management efforts engage all stakeholders in order to ensure we focus on the risks that could have the greatest impact and we take all reasonable steps to mitigate, but not necessarily eliminate, our principal risks. Accountability for managing risk is embedded into our management structure, an annual risk assessment establishes mitigation plans and monitors risk on a continual basis.

Risk Management Committee (RMC)

The RMC, acting for the Board, independently reviews the assessment at least annually and receives regular reports on the risks faced across the business and the effectiveness of the actions taken to mitigate these risks. We use internal and external data to monitor our risks and to make proactive interventions. We also establish cross-functional working groups and use expert advice where necessary to ensure significant risks are effectively managed and, where appropriate, escalated to the RMC and the Board for consideration.

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.

The Group formed the 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 2024, 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 Management (ERM)

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.

ERM uses risk indicators to identify and monitor major risks. The setting of risk indicators aligns with the risk appetite, 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 management while their effectiveness are closely measured by risk indicators. This is used as a basis for reporting and discussion in the management meetings as well as in RMC meetings. If any risk indicators are worsening, the responsible risk owners are required to re-assess the existing remedial action plans and promptly propose new plans if necessary.

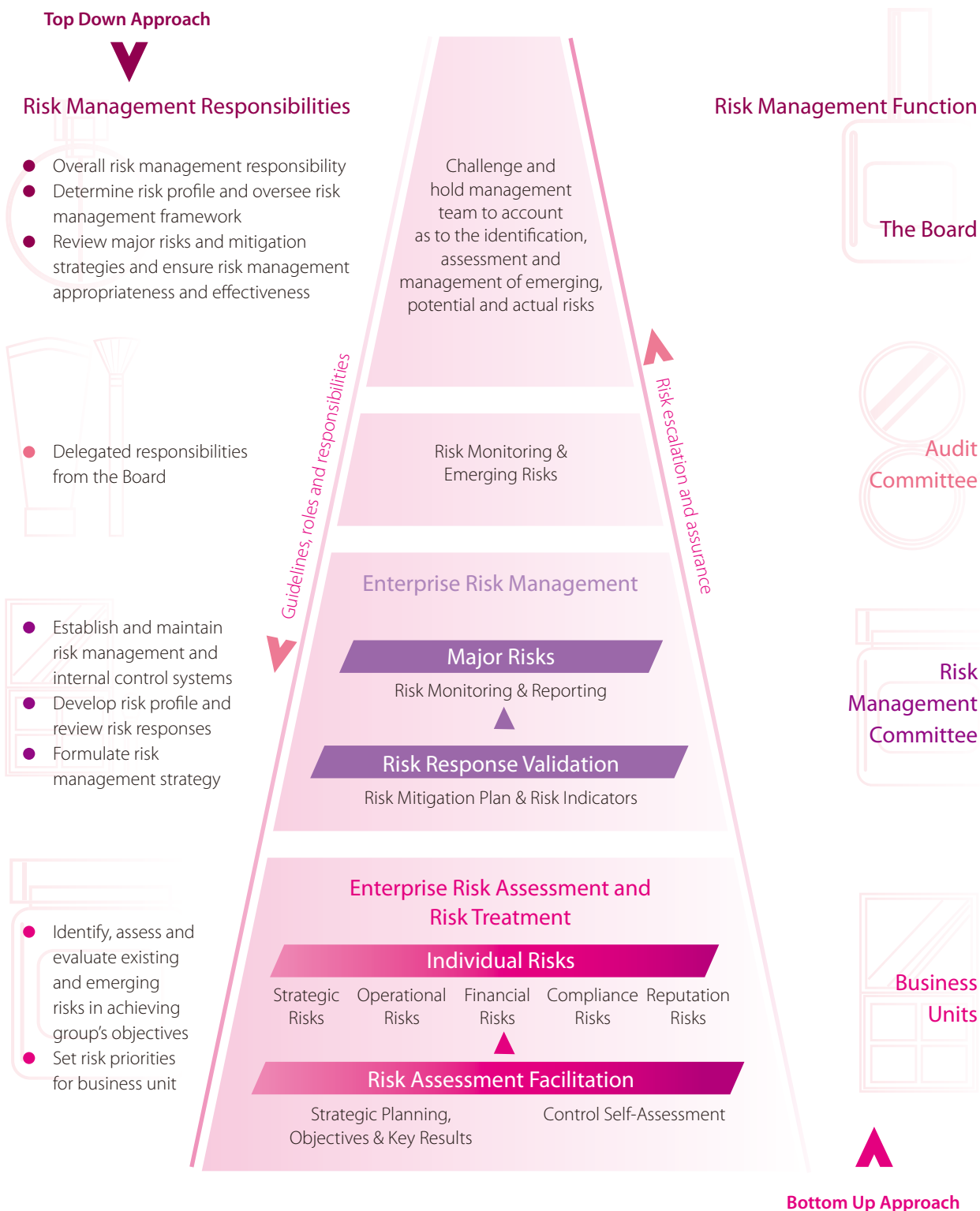
Members of the RMC meet as often as necessary to review and discuss the risk management progress of each of the major risks and to provide a continuous update on the business environment and to monitor any changes. The Internal Audit and Management Services Department ("IAMS Department") carries out 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 ERM 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 81.



Risk Governance & Infrastructure

The ERM Framework



Principal Risks

The RMC considers principal risks to be the most significant risks faced by the group, including those that are the most material to our performance and that could threaten our business model or future long-term performance, solvency or liquidity. They do not comprise all the risks associated with our business and are not set out in priority order. Additional risks not known to management, or currently deemed to be less significant, may also have an adverse effect on the business.

The RMC formally reviews emerging risks. Our management team undertakes horizon-scanning to monitor any potential disruptions that could dramatically change our industry and/or our business, from both a risk and opportunity perspective, to understand the changing landscape and take appropriate actions. We are currently monitoring a number of emerging risks across the business.

The following list does not include all of our risks, and the risks listed are not set out in order of priority. Risk Assessment refers to the relative change in risk intensity from the prior year.

Risk and Impact	Mitigation Plans	Risk Assessment
<p>1. Consumer Behaviour and Lifestyle Choices</p> <p>Consumer patterns are being disrupted by, but not limited to, digital technology, health and lifestyle priorities, altered consumption behaviour, and new formats and technologies.</p> <p>Consumer behaviour and lifestyle of local residents in Hong Kong has changed, with consumers more likely to return home earlier at night and a preference to travel during holidays, particularly to Mainland China. Travel to Shenzhen just north of the boundary can be quicker than to other places within Hong Kong, making the casual unplanned trip to Mainland China an increasing trend.</p> <p>This poses a risk to our business with more household spend allocated to travel and less hours allocated to shopping in Hong Kong, particularly at weekends and long public holidays.</p> <p>Inability to respond and adapt our products or processes to these disruptive market forces could impact our ability to effectively service our customers and consumers with the required agility, and result in financial loss.</p>	<p>The Group has formulated strategic plans and implemented management initiatives including:</p> <ul style="list-style-type: none"> – Focussing on exclusive brands product mix to increase gross margin; – strengthening emerging product category sales such as inner beauty and beauty equipment to grow average sales value per transaction; – exploring new sales channels such as online livestreaming; – enabling OMO and improving the flexibility for consumers to shop and receive their goods; – systematic review of emerging consumer and route to consumer trends at market and brand level; and – variance analysis, we identify changes in consumer attitudes and spending. <p>In addition, the Hong Kong SAR government is actively tackling these intrinsic structural issues by stimulating the night-time economy and inbound travel.</p>	<p>Increasing ▲</p>



Risk and Impact	Mitigation Plans	Risk Assessment
<p>2. Product Competitiveness</p> <p>Our success hinges upon our ability to identify product trends, anticipate changing customer demands, and respond promptly.</p> <p>However, we face the risk that our products may not gain consumer acceptance due to the rapid shifts in consumer preferences for example the increasing prominence for niche brands and, China brands among Mainland Chinese consumers.</p>	<p>As part of our strategic planning, we engage third-parties to conduct research, including engaging consumers and conducting focus group discussions in order to understand customers preferences and gain insights into emerging trends.</p> <p>We are implementing a revamped CRM programme and investing in data analysis in order to be able to identify consumer preferences and trends, and provide personalised experiences.</p> <p>Our Category Management and Product Development team is actively introducing new and emerging brands from around the world to address changing consumer preferences and enhance stickiness with customers. We have a highly diversified portfolio of brands from across the world, to ensure broad coverage of consumer occasions, country of origin, trends and price points.</p> <p>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 beauty equipment and inner beauty related health and fitness products, is a core driver of growth. 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.</p>	<p>Increasing ▲</p>
<p>3. Product Quality and Counterfeit</p> <p>Accidental or malicious contamination of raw materials or finished product; quality control issues through our supply chain management; and/or ineffective intervention to address quality issues in products supplied to market, could cause harm to consumers, damage our corporate and brand reputation.</p>	<p>The Group invests significant amounts in quality control to ensure only genuine and quality products are sold through our channels.</p> <p>In recognition of these efforts, the Group has received Q-Mark Elite Brand Award for the past 18 years. Additionally, the Group has participated in HKSARG Intellectual Property Department’s “No Fakes Pledge” Scheme for 20+ years and has been recognised 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.</p> <p>Regular risk assessments are undertaken against our product quality standards.</p>	<p>Stable ▶</p>

Risk and Impact	Mitigation Plans	Risk Assessment
<p>4. Market Concentration Risk</p> <p>The Group’s core region and sales channel is offline stores in Hong Kong and Macau, where 44.5% of sales (71.5% pre-covid) were from Mainland Chinese tourists.</p> <p>During four years of covid, numerous alternative sales channels have opened up in Mainland China, including the duty free island of Hainan. Mainland Chinese shopping habits have somewhat changed and they are accustomed to shop at these alternative channels.</p> <p>This could significantly impact the ability of the Group to recover tourist sales mix to pre-covid levels.</p>	<p>One of the Group’s core strategic goals is to diversify sales channels outside offline stores in Hong Kong and Macau.</p> <p>In order to facilitate steps towards these goals, accountability of markets and channels is clearly established with designated management teams.</p> <p>Strategic plans for each market are clearly defined and encompass the Group’s core strategic pillars of:</p> <ol style="list-style-type: none"> 1. Desired assortment, 2. Accessible and engaging and 3. Aspirational brands. <p>Please refer to “Our Strategy” on page 10 to 15.</p> <p>We have strengthened our content marketing on trending social media applications such as ‘Little Red Book’ to reach our target consumers and communicate our product offering. We also align online and offline promotional activities and run complementary marketing campaigns promoting interaction with consumers and the creation of a holistic shopping experience.</p> <p>We are focused on enabling OMO in order to stay “customer-centric” and allow them to shop across channels and jurisdiction with consistency of experience. 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.</p> <p>We leverage the offline store Beauty Consultants to provide best-in-class consumer experience and act as the glue for OMO via chat commerce.</p>	<p>Decreasing ▼</p>



Risk and Impact	Mitigation Plans	Risk Assessment
<p>5. Cybersecurity and IT Resilience</p> <p>There is a rise in cyber-attacks and related crime. Sophisticated cyber and IT threats (both within our network and at third parties), including those facilitated through breaches of internal policies and unauthorised access continue to be prevalent, and could lead to theft, loss and misappropriation of critical assets, such as personal and consumer data, and operational/production systems. Inadequate IT resilience arrangements and integration with legacy systems and our increasing dependence on third-party IT services and solutions could cause disruption to core business operations resulting in financial loss and reputational damage.</p> <p>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 also expected to intensify. Personal data privacy risks may result in losses to our customers, potential fines, and damage to our reputation and business.</p>	<p>To mitigate these risks, we have invested in:</p> <ul style="list-style-type: none"> Enterprise-wide cyber risk management processes and policies are in place. 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. Cyber security training and awareness outreach programme, including regular phishing exercises to deliver anti-fraud messages and increase public awareness of scams among all employees. Identity and access management framework. IT disaster recovery and business continuity testing across key systems. Monitor internal systems and respond to cyber threats. <p>These measures are aimed at proactively protecting our digital assets, minimising the impact of cyber incidents, and ensuring the confidentiality, integrity, and availability of our systems and data.</p>	<p>Increasing ▲</p>
<p>6. Talent Succession for Critical Positions</p> <p>The departure of employees who hold critical positions within the organisation for an extended period of time can present a significant risk to business continuity.</p> <p>In situations where such departures are at short notice or beyond the control of the organisation, such as retirement, illness, or unforeseen circumstances, there is a genuine concern regarding the potential loss of invaluable knowledge and expertise. This loss could have a significant impact on the seamless continuity of business operations. The wealth of experience and industry insights possessed by these seasoned professionals represents an irreplaceable asset that greatly contributes to the success and stability of the company.</p>	<p>To proactively manage this risk, we have embedded succession plans in our people management practices and conduct annual reviews of these plans to ensure a smooth transition and mitigate any potential disruptions.</p> <p>The plan includes:</p> <ul style="list-style-type: none"> Identifying potential candidates with the necessary skills, knowledge, and potential to assume key positions in the future. This can be achieved through performance evaluations, talent assessments, and discussions with managers and department heads. Establishing a talent pool: Implementing development plans to cultivate potential successors and prepare them for future positions. This may involve providing training, mentoring, job rotations, stretch assignments, and exposing them to cross-functional teams or projects. 	<p>Increasing ▲</p>

Risk and Impact	Mitigation Plans	Risk Assessment
<p>7. Talent Acquisition, Training and Retention</p> <p>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.</p>	<p>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 talent and raise our profile with the public. The Group also makes use of internal resources and networks through the Staff Referral Scheme.</p> <p>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 organisation.</p> <p>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.</p> <p>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.</p>	<p>Increasing ▲</p>
<p>8. Ethical Business Practice</p> <p>Lack of an embedded business integrity culture or any breach of our policies, relevant laws or regulations (including but not limited to anti-corruption, money laundering, anti-competition, human rights, data protection) could result in penalties, financial loss and reputational damage.</p> <p>We understand that incentives or pressures to commit fraud may be more apparent during economic downturns.</p>	<p>We are committed to enforcing ethical business practices by setting the right tone at the top. To evaluate and manage fraud risks, all business units and departments are required to formally assess and report annually their fraud risk exposure.</p> <p>To proactively protect against fraud, we have established whistleblowing process. All possible cases of fraud are followed up independently by the Internal Audit Department or jointly, if appropriate, with other departments in the Group or with external investigators.</p> <p>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.</p> <p>Our Code of Business Conduct and supporting policies and standards set out compliance requirements which are then embedded through regular training and communications.</p> <p>To cultivate fairness, honesty, and integrity among our employees, we provide continuous training. Besides, vendors are required to follow and sign the Declaration of Vendor Code of Conduct, which includes various aspects such as conflicts of interest, confidentiality, gifts and entertainment, anticorruption and anti-competitive behaviour.</p> <p>These measures are aimed at ensuring that our employees and vendors consistently uphold the highest standards of professional ethics.</p>	<p>Decreasing ▼</p>



Risk and Impact	Mitigation Plans	Risk Assessment
<p>9. Geopolitical Volatility and Business Interruption</p> <p>Geopolitical forces, primarily driven by the Russia/Ukraine conflict (but also several other vectors globally), coupled with macro-economic stress, increase the likelihood of international and domestic tensions, disputes, conflict, unrest, and crime.</p> <p>A significant interruption to our business due to external events or a global health emergency could restrict access to our products, negatively affect our operations and brands, or pose a threat to the safety of our employees; any of which could have a negative impact on our commercial and financial performance.</p>	<p>We have policies in place to prioritise the health and safety of our people.</p> <p>There is a Business Continuity Programme in place, including training, to enhance our capability to react effectively to a crisis and minimise disruption.</p> <p>Supply chain risk and inventory management enable us to better to maintain operations through volatility.</p> <p>Multi-channel product availability enables consumers to flexibly continue to purchase our products.</p> <p>Insurance policies are in place to protect against the financial consequences of covered events.</p> <p>Home working capability is well established and supports business continuity.</p>	<p>Increasing ▲</p>
<p>10. Macroeconomic and Financial Volatility</p> <p>Consumer demand is increasingly disrupted as a result of heightened macroeconomic volatility, with inflation and cost-of-living crises across many countries adversely impacting consumer spending power.</p> <p>Failure to react quickly enough to changing macro-economic conditions and financial volatility could erode consumer confidence and propensity to spend, adversely impacting financial performance.</p> <p>Macroeconomic conditions include inflationary pressures, unemployment and global trade tensions. Financial volatility risk could arise from variability in financial and property markets, interest rate fluctuations and currency instability.</p>	<p>We monitor local and global key business drivers and performance to prepare for changes in the external environment.</p> <ul style="list-style-type: none"> • Currency monitoring takes place in combination with forecast forex receipts and payments to manage volatility which arises. • Group-level strategic analysis and scenario planning is managed at both headquarters and at local level, to manage risk across the business. • We have multi-country and local sourcing strategies. • Acute issues including inflation are embedded in monthly country level management meetings and managed accordingly. <p>We actively manage down the working capital life cycle to preserve cash.</p>	<p>Increasing ▲</p>

