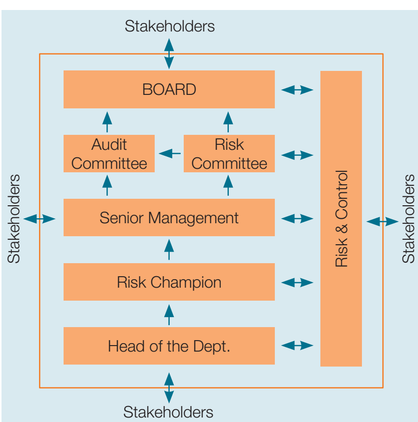
RISK MANAGEMENT

Risk management is integral to Hemas' achievement of long-term goals as a diversified conglomerate. When we identify and exploit the opportunities generated by our businesses and the markets, we take an embedded approach of risk management to provide reasonable assurance that our assets are safeguarded, the risks of the businesses are being assessed and responded.

Hemas adopts a dynamic bottom up approach to risk management which ensures that key risks are pro-actively identified, assessed, responded to and reviewed appropriately. The Group also looks at implementing various policies, procedures and practices that would identify, analyse, evaluate and monitor risks followed by applications and solutions to minimise the probability of occurrence and consequence of the identified risks.

THE BOARD AND RISK MANAGEMENT



The Hemas Group is involve in a diverse range of business activities, spanning several industries and market segments. Whilst this diversification provides a hedge against the positive correlation of business and environmental risks, it also exposes the group to a wider range of risks and opportunities. Our system of risk management identifies and provides responses to risks of group significance and business significance through the establishment of standards and other controls. These risks have been broadly categorised under seventeen headlines. These headlines are not static; they continue to evolve according to changes in the business environment.

The Hemas Risk Management Framework has been adopted at both Group and SBU levels to enable scarce resources to generate maximum return whilst minimizing the associated risk according to the standard of risk management; ISO 31000.

HEMAS RISK MANAGEMENT POLICY

Our policy for risk management is to respond to risk pro-actively to ensure continued growth of our business in a highly competitive and uncertain environment while protecting the value created. Accordingly we;

- Utilise an effective and integrated risk management system while maintaining business flexibility.
- Identify and assess material risks associated with our business and monitor, respond to and mitigate risks.

INTERNAL CONTROL AND RISK MANAGEMENT

The group reviews and assess significant risks on a regular basis and has implemented an oversight programme to ensure that there is a system of internal controls in place.

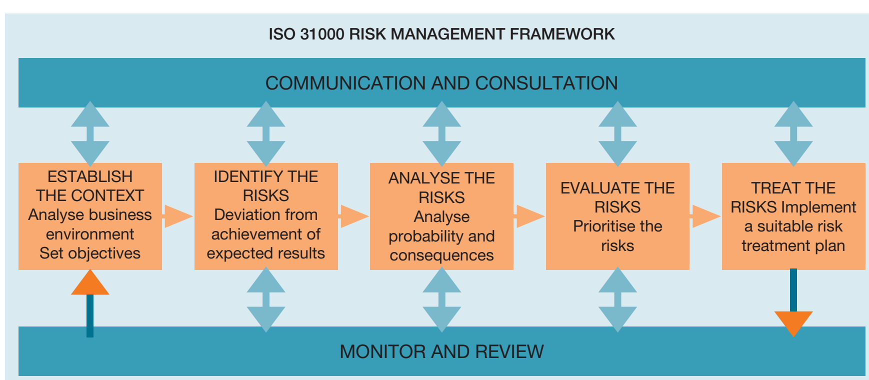
Group Risk Management Committee (GRMC) has been formed to overlook the risk management process. The GRMC reviews the company's risk profile and provides guidance on required risk responses on a quarterly basis.

The agenda for the Group Audit Committee contains standing items on internal controls. These include internal audit reports, quarterly risk reports and compliance statements.

As a part of the Risk Management process, at the Group level, the Board reviews its strategies, processes, procedures and guidelines on a continuous basis to effectively identify, assess and respond to risks.

The group wide Risk Management programme is being facilitated by the Risk and Control Division with input from Business Strategy, Corporate Finance, Group Treasury and Group HR divisions.

Risk facilitation is exercised through risk workshops, risk reviews, essential control checklist and risk reporting.



RISK MANAGEMENT

KEY RISKS AND ACTION PLANS

The following framework depicts the specific and most relevant risks faced by the Group and the management actions to respond to the risks.

Risk	Risk exposure	Mitigating actions
Market Risk	Loss of market share or market leadership in relevant segment due to intense competition from existing and potential competitors, changes in customer attitudes due to adverse economic and social conditions.	• Regular monitoring of key customers and consumer trends • Enhancing productivity/efficiency to improve price competitiveness • Continuous focus on innovation • Focus on new markets and growth prospects to diversify the investment portfolio
Environment Risk	Probability of business operations creating negative consequences in the environment and creating non compliance or reputational risks.	• Adoption of GRI standards on sustainability reporting throughout the Group. • Development of Group policies in order to facilitate adaption of GRI standards on sustainability.
Social Risk	Challenges by stakeholders to companies' business practices due to real or perceived business impact on a broad range of issues related to human welfare	• Implementing CSR projects at group and SBU level E.g. Hemas "Piyawara" Project, Hemas Outreach Foundation
Business Partner Risk	Loss of principals/business partners due to global mergers and acquisitions, intense competition, service level gaps.	• Regular assessments of service levels in order to ensure business partner expectations are met. • Developing strategies to maximise value proposition of existing business partners • Seeking new market opportunities and developing new alliances to minimise exposure to a single business partner.
Foreign Exchange Risk	Potential losses as a result of high volatility in foreign currency exchange rates against the Sri Lankan Rupee.	• Monitoring exchange rate movements continuously for currencies in which the Group carries out transactions. • Hedging Strategies
Interest rate risk	Potential losses as a result of adverse movement of interest rates.	• Interest rate risk is responded through establishing better relationship with financial institutions. • Use of internal fund management techniques
Liquidity Risk	Probability of businesses facing cash flow shortages for operations and investments.	• Centralised treasury management • Continuous reviewing of business models and working capital management
Credit Risk	Probable income loss arising due to the probability of default by the company's debtors.	• Credit customers are subject to a credit analysis before establishing business relationships • Debtors are continuously assessed and debtor circulation is done by each business
Legal and Regulatory Risk	Changes to regulations or new regulations imposed could bring adverse effect on our businesses.	• Compliance with legal and regulatory provisions. • Obtaining assistance and advice of the centralised legal division on legal matters. • Participating in industry forums to lobby against regulations that could have an adverse consequence.

Risk	Risk exposure	Mitigating actions
Human Resource Risk	Risk arising as a result of failure to attract, develop and retain a skilled workforce	• Building strong employer brand image and talent management process to retain critical employees in the long term. • Developing career development programme, monitoring programmes and performance based rewards programmes. • Periodic salary surveys to ensure that remuneration is in line with the market. • Succession Plans
System Risk	Potential for system failures, Inaccuracy or delays in decision making due to inaccurate or non-availability of timely information from key computer systems	• Centralised IT division • A contingency plan is in place to mitigate the risk of system failures. • Comprehensive IT policy across the Group to ensure adequate systems and controls are in place.
Technological Risk	Probability of occurring technological changes.	• Analysing technological trends and updating business operations and systems in a feasible manner
Operational Risk	Internal process failures, frauds, breakdown of internal controls, natural and man-made disasters could result in potential loss of earnings as well as reputation.	• Conversion of existing business models into resilient business models • Adoption of safe working environments by complying with OSHAS and other standards.
Product Risk	Probability of products becoming irrelevant in the market	• Product/services innovation is given high priority. • Developing strategies to get closer to customers and be responsive to their needs.
Supply Chain Risk	Adverse events such as physical disruptions, environmental and industrial accidents or bankruptcy of key suppliers	• Testing product quality control for effectiveness • Reviewing key suppliers periodically to ensure they meet the rigorous quality standards • Expanding the supplier portfolio and developing closer relationships
Business Probity Risk	Unethical behaviour by one or more participants in a particular process, lack of trust in business dealings, disputes	• Stringent Internal Controls • Strong internal audit function • Establishment of independent audit committees
Country Risk	Risk of operating in new markets, political risks	• Analysing PEST factors and developing appropriate strategies