



RISK MANAGEMENT

“ In order to minimize possible risks in business operations, the Group has built a strategy of risk management, which not only guarantees business objectives but also creates competitive advantage in order to ensure the Group’s best operation. The establishment of the functional units such as Internal Control Division, Legal Division, Valuation Division and Purchasing Division aim to control the possible risks and make the positive outcomes in business operation and supervision of the Group. In addition, Hoa Sen Group has issued the flowchart of "Risks Identification and Risks Assessment Process" for guiding the implementation of risks identification and risks assessment, thereby issuing proper control measures to minimize the possibility of risks, stabilize the business operations of the Group, and create comfortable workplace for employees. ”



RISKS IN BUSINESS ACTIVITIES

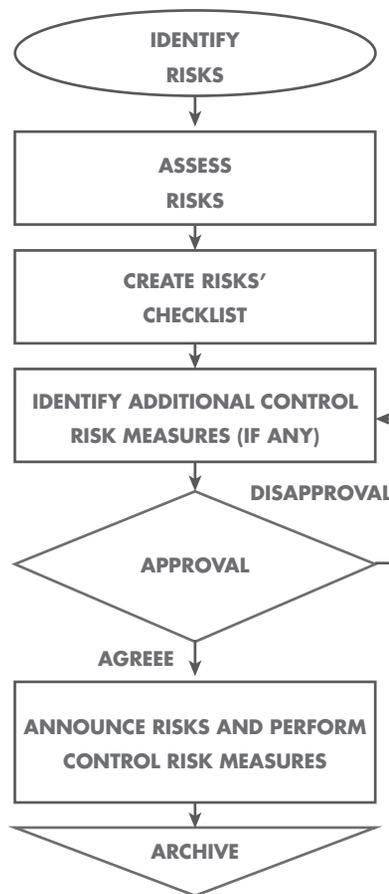
Identifying: The economic growth rate is a factor that directly affects the aggregate demand. As the economy grows, the demand of steel and building materials products including the demand of Hoa Sen Group products will also increase. Otherwise, when the economy goes down, the demand of using steel and building material products will decline.

Assessing, supervising and managing risks:

Therefore, the Group has always prepared operational scenarios in order to actively respond to any situations to ensure the most efficient business operations.

- The Group imports the majority of hot rolled coils (the main raw materials) from foreign countries, therefore watch and analysis of hot rolled coils’ domestic and international price to select the right time to buy with the reasonable price and to limit of raw material risks that are particularly attended by the Board of Directors and the Board of Management.

- The fluctuation of selling price in the market directly affects Hoa Sen Group’s business activities. Therefore, the flexible selling price policy in accordance with the fluctuation of market price is always considered and adjusted by the Board of Directors and the Board of Management due to the market situation at specific time.



Flowchart "Hazard identification and risk assessment process"

RISKS IN PRODUCTION ACTIVITIES

Identifying: In production activities, Hoa Sen Group always focuses on reviewing, improving and standardizing the consumption norms of raw materials in order to optimize the products' cost.

Assessing, supervising and managing risks:

- The Valuation Division and Purchasing Division co-ordinate and consider in selecting suppliers of the raw materials which have suitable quality and reasonable price in order to minimize the raw material risks. Simultaneously, the Internal Control Division will recheck all the expenses of buying raw materials to guarantee the integrity, accuracy and transparency.
- The Group always has regular and periodic maintenance and repair schedules so that machinery and equipment are always in the best condition in order to ensure safe and efficient operation.

FINANCIAL RISKS

Identifying: In production and business activities, the Group may be subjected to risk of exchange rate, risk of interest rate, risk of bad debts and risk of liquidity.

Assessing, supervising and managing risks:

- Basing on the export revenue, the Board of Management balances structure of borrowings in VND and USD to ensure the lowest average interest rate but still has enough USD to payback the foreign currency loans. The borrowing structure is submitted to the Board of Directors to consider and supervise monthly in order to minimize impact of the risk of interest rate and the risk of exchange rate.
- For new customers, the Group requires payment guarantee from bank for delivery. For traditional customers, the Group issues debt limit for each customer in each period based on financial situation, collateral, transaction reputation of each

customer and proposal of sales units. The Board of Management reviews the debt limit monthly. The sales units are responsible for collecting the debts on time. The Internal Control Division inspects, supervises, and reports to the Board of Management the debts which need to be collected daily. If bad debts occur, the Legal Division will implement some measures to collect the debts including suing measure.

- The Financial Division creates and reports on schedule of cash flow weekly so that the Board of Management has flexible business operating measures in order not to have overdue payables.

RISKS OF CHANGING POLICY

Identifying: Legal documents in the field of business and securities have been in the process of improvement so that changing policy can always happen and they can somehow affect to management, production, and business activities of Hoa Sen Group.

Assessing, supervising and managing risks:

The Assistant Board takes responsibility in updating and consulting new legal documents to minimize risk of changing policy which can affect directly to production and business activities of the Group.

OTHER RISKS

Other risks: include unavoidable risks such as natural disasters, fires, accidents, etc.

Assessing, supervising and managing risks: The Group always buys 24/24 accident insurance for all employees and the asset insurance of the Group.

