

## **PACE (PAKISTAN) LIMITED (“THE COMPANY”)**

The risk is an integral component of the business, and that it is characterized by both threat and opportunity. The management of the Company must foster a risk aware corporate culture in all decision-making, and is committed to managing all risk in a proactive and effective manner through competent risk management. To support this commitment, risk is analyzed in order to inform the management decisions taken at all levels within the organization. Due to the limitations inherent in any risk management system, the process for identifying, evaluating and managing the material business risks is designed to manage, rather than eliminate, risk and to provide reasonable, but not absolute assurance, against material misstatement or loss. Certain risks, for example natural disasters, cannot be managed to an acceptable degree using internal controls. Such major risks are transferred to third parties in the local insurance markets, to the extent considered appropriate.

### **OVERVIEW**

The risk management framework described in this document broadly covers all aspects of Company's operations which may be categorized into following areas:

### **RISK FACTORS**

The various risk factors, which may affect the profitability of the Company are:

#### **Regulatory risk**

The Company is exposed to imposition/enhancement of duties, taxes, levies and other conditions on the import of various items for its projects. Likewise, the new regulation by the Government of Pakistan, or other authorities/agencies/local governments may adversely affect the Company's operations and/or profitability. However given the aspirations of the current government to create an investment friendly environment, expand infrastructure facilities and promote construction/ housing industry, we remain positive about the future.

#### **Market Risk**

##### **New Entrants/ competitors**

In Pakistan there has been immense activity and growth in real estate business in the recent past and a number of players are entering in the market with a broad range of service offerings, some of which directly compete with the Company.

The Company has a head start as far as the shopping mall is concerned. The Company is to focus on strengthening customer-services and support and building customer-relations that will allow it to meet the challenges accompanying a developing market.

#### **Operational Risks**

##### **(a) Utility Charges**

New regulation by the utility companies, or other authorities/agencies/local governments may adversely affect the Company's operations and/or profitability. However the increase in the charges from the licensees and shopkeeper would cover the additional cost.

##### **(b) Natural Calamities**

Natural factors and events beyond control which may adversely affect the Company's operations and destruction of the buildings/equipment. It shall be guarded with insurance against potential damage or may cause destruction and the Company will undertake the best possible efforts to resume/continue its operations as early as possible under such circumstances.

#### (c) Land Acquisition Risk

The properties purchased may not have clean legal title which may result into litigations and eventually project delays. In case of Company, all the acquisitions done have involvement of legal department which goes through detailed verification and also obtain legal opinions from renowned law firms. For the existing projects legal due diligence has also been done by the transaction lawyer and foreign investor's legal team.

#### (d) Physical Risk

The Company's properties, stores and other assets may be subject to breakage, riots, theft, fire or other similar events. The Company takes adequate steps to insure its assets in all stages of completion.

#### Foreign Exchange Risk

Devaluation of the value of Pak Rupee or an adverse change in the Pak Rupee exchange rate may affect the economics of the project, especially the impact of dollar change on liabilities in Dollar terms.

#### Inflationary Risk

High inflation rate can effect the economy in general which may tickle down to the stock market. This phenomenon is mitigated to some extent by the fact that State Bank of Pakistan takes steps to manage the inflation rate.

#### Political Risk

Political instability or law an order situation in the area of Company's operations may cause interruption to the construction activities or Company's operations. However, most of the Company's operations is centered around areas that are least susceptible to any law and order situations. Also the government would like to avoid any such actions, which would adversely affect operations of business community.

#### Pricing Risk

Like most business pricing pressure & escalation in prices of a construction related raw materials such as cement, steel etc. may involve certain risks. However such risks are mitigated through prudent purchasing policies and contract award. Such risks can be actively mitigated by pursuing long term relationships with preferred contractors and by limiting the contractor's exposure to cost risks through such approach as fluctuation clauses, pre-purchasing, bulk purchasing contract, turn-key contract etc,

Risk management measures have been described for the above mentioned areas across three dimensions: policies and procedures, systems, and organization. Additionally, measures for specific risks in each area have also been described.

#### **POLICIES AND PROCEDURES**

Risk management is most effective when it follows a top-down approach. In this approach, the senior management of Pace is the center of power and responsibility.

Based on various factors like the risk appetite and business strategy of the organization, the philosophy regarding risk should be developed. This philosophy should then be transmitted throughout the organization in the form of concrete and detailed policies, procedures and guidelines. The policy and procedures documents should build a framework for the effective and efficient management of Pace.

#### **REVIEW BY INTERNAL AUDITORS**

After full implementation of the risk management system, it shall be made a part of internal audit and the auditors shall check on a constant basis about the adequacy of risk management systems.

## **RISK MANAGEMENT ACTIVITIES**

### **Procedures**

Consistent with the objective of Pace, the Board of Directors and the management of the Company shall ensure the smooth functioning of business activities.

### **Financial Risk and mitigation;**

- CFO and Group Director finance shall be responsible for identification of potential financial risk and its mitigation;

### **Operational Risk and mitigation;**

- Managing Director / Chief Operating Officer shall be responsible for identification of potential Operational risk and its mitigation;

### **Compliance related and legal Risk and mitigation;**

- Chief Compliance Officer, shall be responsible for identification of potential regulatory or legal risk and its mitigation;

### **Potential and strategic Risk and mitigation;**

- Chief Executive Officer shall be responsible for overall risk management and highlighting the potential strategic risks to the Board of Directors.
- Pace ensures full compliance of all the risk management practices within a period of 12 months.

**Internal controls:**

The management is responsible for the Company's system of internal controls and for reviewing annually its effectiveness in providing shareholders with a return on their investments that is consistent with a responsible assessment and management of risks. This includes reviewing financial, operational and compliance controls and risk management procedures and their effectiveness.

The audit committee shall regularly review reports of the internal audit function of the Company related to the Company's control framework in order to satisfy the internal control requirements. The Company's internal Audit function shall perform reviews of the integrity and effectiveness of control activities and provides regular reports to the Audit Committee and the Board.

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