



Uva Wellassa University

Faculty of Management

of Business Management in Entrepreneurship and Management

EMG 305 -2 Financial Risk Management I



Part C- Essay Questions

Answer **only three (03)** questions including question No.1

Marks allocation: 50 Marks

01.

DDL manufactures and supplies a wide range of different clothing to retail customers from 150 stores located in three different countries. The company has made a small net profit for the last three years. Clothes are made in two different countries, one in south Asia and one in East Asia. Sales are made through cash, major credit cards and increasingly through the company's own credit card. Additional capital expenditure is planned in the next financial year to update some old production machinery.

In order to increase sales, a new internet site is being developed which will sell DDL's entire range of clothes using 3D revolving dummies to display the clothes on screen. The site will use some new compression software to download the large media files to purchase PC's so that the clothes can be viewed. This move is partly in response to environmental scanning which indicate a new competitor, RABEL who will be opening an unknown number of stores in the next six months.

As a cost cutting measure, the directors are considering delaying DDL's new range of clothes by one year. Sales are currently in excess of expectations and the directors are unwilling to move away from potentially profitable lines.

You are required to:

- i. Explain the business risk and the financial risk affecting DDL. (10 Marks)
- ii. Explain the risk management strategies available to the organization. (10 Marks)

Hint: The most important risks that many business faces are Trading risk, Cultural, Country and political risk, Currency risk, Interest Rate risk and Technological risk

(Total Marks 20)