33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

33.1 Risk management policies

The Company's objective in managing risks is the creation and protection of share holders' value. Risk is inherent in the Company's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Company's continuing profitability. The Company is exposed to credit risk, liquidity risk and market risk (which includes interest rate risk and price risk) arising from the financial instruments it holds.

The Company finances its operations through equity, borrowings and management of working capital with a view to maintaining an appropriate mix between various sources of finance to minimize risk.

33.2 Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fail to perform as contracted and arises principally from trade and other receivables. The Company's policy is to enter into financial contracts with reputable counter parties in accordance with the internal guidelines and regulator

Exposure to credit risk

The carrying amounts of the financial assets represent the maximum credit exposures before any credit enhancements. Out of total financial assets of Rs. 6.704 million (2010 : Rs. 9.781 million) the financial assets which are subject to credit risk amounted to Rs. 6.668 million (2010 : Rs. 9.155 million). The carrying amounts of financial assets exposed to credit risk at reporting date are as under:

	2011 Rupees	2010 Rupees
Long term deposits	1,513,450	1,513,450
Trade debts	404,607	6,426,859
Advances	1,178,436	416,493
Cash and bank balances	3,571,706	797,983
	6,668,199	9,154,785

The aging of gross trade receivables at the reporting date is:

	2011 Rupees	2010 Rupees
Past due 1-30 days	135,639	659,832
Past due 30-90 days	442,800	1,092,431
Past due 90 days	1,326,167	6,174,596
	1,904,606	7,926,859

All the trade debts at balance sheet date are domestic parties.

To manage exposure to credit risk in respect of trade debts, management performs credit reviews taking into account the customer's financial position, past experience and other factors. Where considered necessary, advance payments are obtained from certain parties. Sales made to certain customers are secured through letters

The exposure to banks is managed by dealing with variety of major banks and monitoring exposure limits on continuous basis.

Concentration of credit risk

Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their abilities to meet contractual obligation to be similarly affected by the changes in economic, political or other conditions.

The Company believes that it is not exposed to concentration of credit risk. However, this risk is mitigated by monitoring credit exposures.

Impaired assets

During the year no assets have been impaired.

33.3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements, if any:

	Carrying Amount	Contractual Cash Flows	Six months or less	Six to Twelve months	One to two years	Two to five years	Over five years
				(Rupees)			
2011							
Long term financing	269,841,048	269,841,048	96,398,599	75,157,320	98,285,130	-	-
Long term deposits	576,000	576,000	-	-	-	576,000	-
Trade and other payables	78,408,825	78,408,825	78,408,825	-	-	-	-
Mark up accrued	1,527,226	1,527,226	1,527,226	-	-	-	-
Short term borrowings	3,680,521	3,680,521	3,680,521	-	-	-	-
	354,033,620	354,033,620	180,015,171	75,157,320	98,285,130	576,000	-

	Carrying Amount	Contractual Cash Flows	Six months or less	Six to Twelve months	One to two years	Two to five years	Over five years
				(Rupees)			
2010							
Long term financing	323,049,131	323,049,131	45,785,998	26,333,364	250,929,769	-	-
Long term deposits	576,000	576,000				576,000	-
Trade and other payables	52,164,359	52,164,359	52,164,359	-	-	-	-
Mark up accrued	962,045	962,045	962,045	-	-	-	-
Short term borrowings	3,680,521	3,680,521	3,680,521	-	-	-	-
	380,432,056	380,432,056	102,592,923	26,333,364	250,929,769	576,000	-

33.4 Market risk

Market risk is the risk that changes in market price, such as foreign exchange rates, interest rates and equity prices will effect the Company's income or the value of its holdings of financial instruments.

a) Currency risk

Foreign currency risk is the risk that the value of financial asset or a liability will fluctuate due to a change in foreign exchange rates. It arises mainly where receivables and payables exist due to transactions entered into in foreign currencies. The Company believes that it is not exposed to currency risk as there are no foreign currency, financial assets or financial liabilities.

b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the interest rate exposure arises from short borrowings. At the balance sheet date the interest rate profile of the Company's interest -bearing financial instruments is:

	2011	2010	2011	2010
	Effective Rate (In percent)		Carrying amount (Rupees)	
Financial Liabilities				
Fixed rate instrument				
Short term borrowings	11.5%	11.5%	1,910,000	1,910,000
Variable rate instrument				
Short term borrowings	15% to 15.74%	14.22% to 15%	1,770,521	1,770,521

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have decreased / (increased) loss for the year by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for prior year.

	Profit and loss	
	100 bp Increase	100 bp Decrease
As at June 30, 2011		
Cash flow sensitivity - Variable rate financial liabilities	17,705	(17,705)
As at June 30, 2010		
Cash flow sensitivity - Variable rate financial liabilities	17,705	(17,705)

The sensitivity analysis prepared is not necessarily indicative of the effects on (loss) / profit for the year and assets / liabilities of the Company.

34 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction.

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

35 CAPITAL MANAGEMENT

The Company's objectives when maintaining capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders through the optimisation of the debt and equity balance.

The Company sets the amount of capital it requires in proportion to risk. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares.

The Company management believes on maintaining appropriate mix of debt and equity capital and monitors capital on the basis of the net debt to equity ratio. The net debt is defined as long and short term borrowings offset by cash and bank balances. The equity includes share capital, all types of reserves that are managed as

The Company is not subject to any externally imposed capital requirements.

36 PLANT CAPACITY AND PRODUCTION

	2011	2010
Ceramic tiles		
Ideal capacity in square meters	2,160,000	2,160,000
Actual production in square meters	1,061,945	1,132,376
No. of shifts worked daily	3	3
Sanitary ware		
Ideal capacity in tons	3,000	3,000
Actual production in tons	Nil	Nil

Reasons for under utilization of capacity

The Company could not achieve the ideal capacity of ceramic tile due to excessive load shedding of gas during winter season and political instability in the area.

Production of sanitary ware was stopped by the management since 2003, due to lack of expertise in the area.