**FRONTIER CERAMICS LIMITED**
**NOTES TO THE ACCOUNTS**
**FOR THE YEAR ENDED JUNE 30, 2012**

## 1 STATUS AND NATURE OF BUSINESS

**1.1** Frontier Ceramics Limited ( "the Company" ) was incorporated in July 1982 as a Public Limited Company with its shares quoted on Karachi and Lahore Stock Exchanges of Pakistan. The registered office of the Company is situated in 29-Industrial Estate, Jamrud Road, Peshawar. The principal activities of the company are manufacturing of ceramic tiles, sanitary wares and related ceramic products.

**1.2** The Company's acumulated loss exceeded the issued, subscribed and paid up capital by an amount of Rs. 63.779 million. Current liabilities exceeded the current assets by Rs. 239.976 million. These conditions indicate the existence of material uncertainty which casts doubt about the Company's ability to continue as a going concern. Furthermore, the ability of the Company to obtain NOCs from all creditor banks against final settlement of loans and vacation of charges/mortgages on Company's assets as per the settlement agreement dated June 26, 2008 with its creditors.

These financial statements have been prepared on going concern basis without any adjustments to assets and liabilities. The shareholder has made a commitments not to seek repayment of long term loan within the foreseeable future. Moreover, the management have plans to increase profitability by introducing new designs and sizes of wall tiles. Further, the installation of new plant in process is capable of producing different sizes of wall tiles as well as the floor tiles. In the opinion of the management future profits shall wipe out the accumulated loss and restore the equity of the Company. Accordingly, the management is confident that they will succeed in their efforts to continue the Company as a going concern.

## 2 BASIS OF PREPARATION

### 2.1 Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), directives issued by the Securities and Exchange Commission of Pakistan (SECP) and approved financial reporting standards as applicable in Pakistan. Approved financial reporting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the SECP differ with the requirements of these standards, the requirements of the Ordinance and of the said directives have been followed.

## 2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention and on accrual basis of accounting except:
- the cash flow statement; and
- certain fixed assets which are stated at revalued amounts.

The preparation of these financial statements in conformity with approved accounting standards requires the management to exercise its judgment in the process of applying the Company's accounting policies and use of certain critical accounting estimates. The areas involving a higher degree of judgment, critical accounting estimates and significant assumptions are disclosed in note 4.20.

## 2.3 Functional and presentation currency

These financial statements are presented in Pak Rupees, which is the Company's functional and presentation currency.

# 3 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED ACCOUNTING STANDARDS

## 3.1 Amendments that are effective in current year but not relevant to the Company

The Company has adopted the amendments to the following accounting standards which became effective during the year :

| | | Effective date (annual periods beginning on or after) |
|---|---|---|
| | Conceptual Framework for Financial Reporting | September 2010 |
| IFRS 1 | - First time Adoption of International Financial Reporting Standards | July 01, 2011 |
| IFRS 7 | - Financial Instruments: Disclosures | July 01, 2011 |
| IAS 24 | - Related Party Disclosures | January 01, 2011 |
| IFRIC 14 | - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | January 01, 2011 |

In May 2010, International Accounting Standards Board issued amendments to various accounting standards primarily with a view to removing inconsistencies and clarifying wording. These improvements are listed below:

| | | Effective date (annual periods beginning on or after) |
|---|---|---|
| **Issued in May 2010** | | |
| IFRS 1 | - First time Adoption of International Financial Reporting Standards | January 01, 2011 |
| IFRS 7 | - Financial Instruments: Disclosures | January 01, 2011 |
| IAS 1 | - Presentation of Financial Statements | January 01, 2011 |
| IAS 34 | - Interim Financial Reporting | January 01, 2011 |
| IFRIC 13 | - Customer Loyalty Programmes | January 01, 2011 |

### 3.2 Amendments not yet effective

The following amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

| | | Effective date (annual periods beginning on or after) |
|---|---|---|
| IFRS 1 | First-time Adoption of International Financial Reporting Standards - Amendments for government loan with a below-market rate of interest when transitioning to IFRSs and amendments resulting from Annual Improvements 2009-2011 Cycle (repeat application, borrowing costs) | January 01, 2013 |
| IFRS 7 | Financial Instruments Disclosures - Amendments related to the offsetting of assets and liabilities and deferral of mandatory effective date of IFRS 9 and amendments to transition disclosures | January 01, 2013 |
| IFRS 9 | Financial Instruments - Reissue to include requirements for the classification and measurement of financial liabilities and incorporate existing derecognition requirements | January 01, 2015 |
| IFRS 9 | Financial Instruments - Deferral of mandatory effective date of IFRS 9 and amendments to transition disclosures | January 01, 2015 |

| | | Effective date (annual periods beginning on or after) |
|---|---|---|
| IAS 1 | Presentation of Financial Statements - Amendments to revise the way other comprehensive income is presented | July 01, 2012 |
| IAS 1 | Presentation of Financial Statements - Amendments resulting from Annual Improvements 2009-2011 Cycle (comparative information) | January 01, 2013 |
| IAS 12 | Income Taxes - Limited scope amendment (recovery of underlying assets) | January 01, 2012 |
| IAS 16 | Property, Plant and Equipment - Amendments resulting from Annual Improvements 2009-2011 Cycle (servicing equipment) | January 01, 2013 |
| IAS 19 | Employee Benefits - Amended standard resulting from the post-employment benefits and termination benefits projects | January 01, 2013 |
| IAS 32 | Financial Instruments: Presentation - Amendments relating to the offsetting of assets and liabilities | January 01, 2014 |
| IAS 32 | Financial Instruments: Presentation - Amendments resulting from Annual Improvements 2009-2011 Cycle (tax effect of equity distributions) | January 01, 2013 |
| IAS 34 | Interim Financial Reporting - Amendments resulting from Annual Improvements 2009-2011 Cycle (interim reporting of segment assets) | January 01, 2013 |

The Company expects that the adoption of the above amendments and interpretations of the standards will not affect the Company's financial statements in the period of initial application.

## 3.3 Standards or interpretations not yet effective

The following International Financial Reporting Standards or interpretations issued by IASB would be effective from the dates mentioned below against the respective standard or interpretation:

| | | Effective date (annual periods beginning on or after) |
|---|---|---|
| IFRS 10 | Consolidated Financial Statements | January 01, 2013 |
| IFRS 11 | Joint Arrangements | January 01, 2013 |
| IFRS 12 | Disclosure of Interests in Other Entities | January 01, 2013 |
| IFRS 13 | Fair Value Measurement | January 01, 2013 |
| IAS 27 | Separate Financial Statements | January 01, 2013 |
| IAS 28 | Investments in Associates | January 01, 2013 |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine | January 01, 2013 |

The Company expects that the adoption of the above amendments and interpretations of the standards will not affect the Company's financial statements in the period of initial application.

# 4 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the presentation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

## 4.1 Property, plant and equipment

### a) Operating fixed assets

Operating fixed assets except for freehold land are stated at cost/revalued amount less accumulated depreciation or impairment, if any. Freehold land is stated at revalued amount.

Depreciation is charged on the basis of reducing balance at the rates given in note 6, whereby cost or revalued amount of an asset is written off over its useful life without taking into account any residual value. Full month's depreciation is charged on addition, while no depreciation is charged in the month of disposal or deletion of assets.

Major renewals and repairs are capitalized and the assets so replaced are retired. Minor renewals or replacement, maintenance and repairs are charged to income as and when incurred.

Amount equivalent to incremental depreciation charged on revalued assets is transferred from surplus on revaluation of building net of deferred taxation to retained earnings.

The assets' residual value and useful lives are reviewed, and adjusted if significant, at each balance sheet date.

Disposal of assets is recognized when significant risks and reward incidental to the ownership have been transferred to buyers. Gain and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognized in the profit and loss accounts.

**b) Capital work in progress**

Capital work in progress is stated at cost. Assets are transferred to operating fixed assets when they are available for intended use.

**4.2 Impairment**

The carrying amount of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indications exist, the assets' recoverable amounts are estimated in order to determine the extent of impairment loss, if any.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that is largely independent from other assets and group. Impairment losses are recognized as expense in profit and loss account.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

**4.3 Stores, spares and loose tools**

Stores and spares are stated at cost less provision for slow moving and obsolete items. Cost is determined by using the moving average method. Items in transit are valued at cost comprising invoice value plus other charges incurred thereon.

Spare parts of capital nature which can be used only in connection with an item of property, plant and equipment are classified as operating fixed assets under "Plant and machinery" category and are depreciated over a time period not exceeding the useful life of the related assets.

### 4.4 Stock in trade

Stock in trade, except stock in transit, are valued at lower of cost and net realizable value. Cost is determined as follows:

- Raw materials - at moving average method except stock in transit
- Work in process - at cost of material plus proportionate production overheads
- Finished goods - at cost of material as above plus proportionate production overheads

Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessary to be incurred in order to make the sale.

Stock in transit is valued at cost comprising invoice value plus other charges thereon.

### 4.5 Trade debts

Trade debts are recognized and carried at original invoiced amount which is fair value of the consideration to be received in future. An estimated provision for doubtful debts is made when collection of the full amount is no longer probable. Debts considered irrecoverable are written-off.

### 4.6 Other receivables

Other receivables are recognized at nominal amount which is fair value of the consideration to be received in future.

### 4.7 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit and loss account except to the extent that it relates to items recognized in other comprehensive income or directly in equity in which case it is recognized in other comprehensive income or directly in equity respectively .

### a) Current

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

**b) Deferred**

Deferred tax is accounted for using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available in future years to utilize deductible temporary differences, unused tax losses and tax credits.

Deferred tax is calculated based on tax rates that have been enacted or substantively enacted up to the balance sheet date and are expected to apply to the periods when the differences reverse. Deferred tax for the year is charged or credited to the profit and loss account.

## 4.8 Cash and bank balances

Cash in hand and at banks are carried at nominal amount.

## 4.9 Borrowings

Loans and borrowings are recorded at the proceeds received. Financial charges are accounted for on accrual basis.

Short term borrowings are classified as current liabilities unless the Company has unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Borrowing cost on long term finances and short term borrowings which are specifically obtained for the acquisition of qualifying assets are capitalized as part of cost of that assets. All other borrowing costs are charged to profit and loss account in the period in which these are incurred.

## 4.10 Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for the goods and services received, whether or not billed to the Company.

### 4.11 Provisions

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provisions are determined by discounting future cash flows at appropriate discount rate where ever required. Provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

### 4.12 Revenue recognition

Revenue comprises of the fair value of the consideration received or receivable from the sale of goods and services in the ordinary course of the Company's activities. Revenue from sale of goods is shown net of sales tax.

Revenue is recognized when it is probable that the economic benefits associated with the transactions will flow to the Company and the amount of revenue can be measured reliably. The revenue arising from different activities of the Company is recognized on the following basis:

- Sales are recorded on dispatch of goods to customers.

- Rental income is recognized on accrual basis.

### 4.13 Earnings per share

The Company presents earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by weighted average number of ordinary shares outstanding during the period.

### 4.14 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalent comprise cash in hand and cash at bank.

### 4.15 Related party transactions

Transactions with related parties are based at arm's length at normal commercial rates on the same terms and conditions as applicable to third party transactions.

### 4.16 Dividend and apportioning to reserves

Dividend and appropriation to reserves are recognized in the financial statements in the period in which these are approved.

### 4.17 Financial instruments

All the financial assets and financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. All financial liabilities are derecognized at the time when they are extinguished that is, when the obligation specified in the contract is discharged, cancelled, or expired. Any gain or loss on derecognition of the financial assets and financial liabilities is included in profit and loss account.

### 4.18 Offsetting of financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to set-off the recognized amounts and intends either to settle on a net basis or to realize the assets and settle the liability simultaneously.

### 4.19 Foreign currency translation

Transactions in foreign currencies are converted into Pak Rupees at the rates of exchange prevailing on the dates of transactions. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the rates of exchange prevailing at the balance sheet date. Exchange gains and losses are included in the profit and loss account.

### 4.20 Significant accounting judgments and critical accounting estimates / assumptions

The preparation of financial statements in conformity with approved accounting standards requires the management to:-

- exercise its judgment in process of applying the Company’s accounting policies, and
- use of certain critical accounting estimates and assumptions concerning the future.

Judgments have been exercised by the management in applying the Company's accounting policies in many areas. Actual results may differ from estimates calculated using these judgments and assumptions.

The areas involving critical accounting estimates and significant assumptions concerning the future are discussed below:-

**a) Income taxes**

The Company takes into account relevant provisions of the prevailing income tax laws while providing for current and deferred taxes as explained in note 4.7 of these financial statements.

**b) Property, plant and equipment**

Management has made estimates of residual values, useful lives and recoverable amounts of certain items of property, plant and equipment. Any change in these estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with corresponding effect on the depreciation charge and impairment loss.

**c) Stores and spares**

Management has made estimates for realizable amount of slow moving and obsolete stores and spares items to determine provision for slow moving and obsolete items. Any future change in the estimated realizable amounts might affect carrying amount of stores and spares with corresponding affect on amounts recognized in profit and loss account as provision / reversal.

## 5 Property, plant and equipment

The following is the statement of operating fixed assets:

| Description | Land free hold | Buildings | | Plant & machinery | | | | | | Furniture and fixtures | Office equipment | Computers | Vehicles | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Factory | Office | Imported | Local | Electrification | Casting benches | Laboratory ware | Generators | | | | | |
| | Rupees | | | | | | | | | | | | | |
| **Year ended June 30, 2012** | | | | | | | | | | | | | | |
| **Gross carrying value basis** | | | | | | | | | | | | | | |
| Cost / revalued amount | 141,120,000 | 126,264,221 | 2,648,885 | 399,761,413 | 7,267,721 | 19,545,360 | 449,385 | 198,744 | 407,936 | 2,696,361 | 4,627,146 | 203,300 | 1,425,723 | 706,616,195 |
| Accumulated depreciation | - | (1,052,202) | (1,695,642) | (59,494,492) | (2,158,513) | (1,905,673) | (85,384) | (71,548) | (121,157) | (2,283,491) | (3,820,228) | (153,499) | (988,729) | (73,830,558) |
| **Net book value** | 141,120,000 | 125,212,019 | 953,243 | 340,266,921 | 5,109,208 | 17,639,687 | 364,001 | 127,196 | 286,779 | 412,870 | 806,918 | 49,801 | 436,994 | 632,785,637 |
| **Net carrying value basis** | | | | | | | | | | | | | | |
| Opening net book value (NBV) | 117,600,000 | 125,751,118 | 1,003,414 | 378,074,357 | 6,386,510 | 18,568,092 | 404,446 | 158,995 | 358,474 | 516,088 | 1,008,647 | 71,144 | 546,242 | 650,447,527 |
| Revaluation during the year | 23,520,000 | 12,040,289 | - | - | - | - | - | - | - | - | - | - | - | 35,560,289 |
| Depreciation charge | - | (12,579,388) | (50,171) | (37,807,436) | (1,277,302) | (928,405) | (40,445) | (31,799) | (71,695) | (103,218) | (201,729) | (21,343) | (109,248) | (53,222,179) |
| **Closing net book value** | 141,120,000 | 125,212,019 | 953,243 | 340,266,921 | 5,109,208 | 17,639,687 | 364,001 | 127,196 | 286,779 | 412,870 | 806,918 | 49,801 | 436,994 | 632,785,637 |
| **Year ended June 30, 2011** | | | | | | | | | | | | | | |
| **Gross carrying value basis** | | | | | | | | | | | | | | |
| Cost / revalued amount | 117,600,000 | 134,000,525 | 2,648,885 | 399,761,413 | 7,267,721 | 19,545,360 | 449,385 | 198,744 | 407,936 | 2,696,361 | 4,627,146 | 203,300 | 1,425,723 | 690,832,499 |
| Accumulated depreciation | - | (8,249,407) | (1,645,471) | (21,687,056) | (881,211) | (977,268) | (44,939) | (39,749) | (49,462) | (2,180,273) | (3,618,499) | (132,156) | (879,481) | (40,384,972) |
| **Net book value** | 117,600,000 | 125,751,118 | 1,003,414 | 378,074,357 | 6,386,510 | 18,568,092 | 404,446 | 158,995 | 358,474 | 516,088 | 1,008,647 | 71,144 | 546,242 | 650,447,527 |
| **Net carrying value basis** | | | | | | | | | | | | | | |
| Opening net book value (NBV) | 117,600,000 | 134,000,525 | 1,056,225 | 399,761,414 | 7,267,721 | 19,545,360 | 449,385 | 198,744 | 407,936 | 587,298 | 1,058,060 | 82,886 | 682,802 | 682,698,356 |
| Additions (at cost) | - | - | - | - | - | - | - | - | - | - | 88,500 | 18,300 | - | 106,800 |
| Depreciation charge | - | (8,249,407) | (52,811) | (21,687,057) | (881,211) | (977,268) | (44,939) | (39,749) | (49,462) | (71,210) | (137,913) | (30,042) | (136,560) | (32,357,629) |
| **Closing net book value** | 117,600,000 | 125,751,118 | 1,003,414 | 378,074,357 | 6,386,510 | 18,568,092 | 404,446 | 158,995 | 358,474 | 516,088 | 1,008,647 | 71,144 | 546,242 | 650,447,527 |
| **Annual rate of depreciation (%)** | - | 10% | 5% | 10% | 20% | 5% | 10% | 20% | 20% | 20% | 20% | 30% | 20% | |

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **5.1 Depreciation has been allocated as follows:** | | | |
| Cost of sales | 24 | 52,956,068 | 32,109,651 |
| Distribution cost | 25 | 133,056 | 123,989 |
| Administrative expenses | 26 | 133,055 | 123,989 |
| | | 53,222,179 | 32,357,629 |

| | | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **6** | **CAPITAL WORK IN PROGRESS** | | |
| | Opening balance | 101,272,642 | 51,871,997 |
| | Additions during the year | 34,730,744 | 49,400,645 |
| | Closing balance - Plant and machinery | 136,003,386 | 101,272,642 |

**6.1** This represents import of new plant and machinery for production of floor and wall tiles.

| | | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|---|
| **7** | **STORES, SPARES AND LOOSE TOOLS** | | | |
| | Stores | | 6,959,260 | 2,793,319 |
| | Spare parts and loose tools | | 5,553,187 | 4,347,114 |
| | | | 12,512,447 | 7,140,433 |
| **8** | **STOCK IN TRADE** | | | |
| | Raw material | | 19,860,045 | 19,786,286 |
| | Work in process | | 2,809,103 | 2,302,237 |
| | Finished goods | | 56,082,266 | 51,667,632 |
| | | | 78,751,414 | 73,756,155 |
| | Less: Allowance for write down of inventory | 8.1 | (27,083,637) | (27,083,637) |
| | | | 51,667,777 | 46,672,518 |

**8.1** This represents write down of finished goods inventory to its Net Realizable Value.

| | | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|---|
| **9** | **TRADE DEBTS** | | | |
| | Unsecured; | | | |
| | Considered good | 9.1 | 2,822,833 | 404,607 |
| | Considered doubtful | | 1,500,000 | 1,500,000 |
| | | | 4,322,833 | 1,904,607 |
| | Less: Provision for doubtful debts | | (1,500,000) | (1,500,000) |
| | | | 2,822,833 | 404,607 |

**9.1** Trade debts include an amount of Rs.2,578,043 (2011 : Rs. 78,044) due from Toyota Rawal Motors (Private) Limited, an associated company.

**9.2** The maximum aggregate amount due from associated company at the end of any month during the year was Rs. 2,578,043 (2011: Rs. 78,044).

| | 2012 Rupees | 2011 Rupees |
|---|---|---|

## 10 ADVANCES

| | | |
|---|---|---|
| Unsecured considered good | | |
| Advances : | | |
| - to suppliers | 7,251,972 | 2,175,773 |
| - against expenses | 30,704 | 20,276 |
| - against salaries | 776,577 | 1,178,436 |
| - against letter of credit and guarantee | 4,638,820 | 4,159,376 |
| - others | 591,874 | - |
| | 13,289,947 | 7,533,861 |

## 11 TAXATION - NET

| | | |
|---|---|---|
| Opening balance | 1,513,285 | 2,329,977 |
| Provision for the year | (3,292,531) | (3,569,497) |
| | (1,779,246) | (1,239,520) |
| Less : Payment / adjustment | 4,262,364 | 2,752,805 |
| | 2,483,118 | 1,513,285 |

## 12 CASH AND BANK BALANCES

| | | |
|---|---|---|
| Cash in hand | 944,388 | 35,682 |
| Cash at banks - current account | 1,373,140 | 3,571,706 |
| | 2,317,528 | 3,607,388 |

## 13 SHARE CAPITAL

### 13.1 Issued, subscribed and paid up capital:

| | | |
|---|---|---|
| 7,741,200 (2011 : 7,741,200) ordinary shares of Rs.10/- each fully paid in cash | 77,412,000 | 77,412,000 |

### 13.2 Authorized share capital:

This represents 8,000,000 (2011 : 8,000,000) ordinary shares of Rs. 10 each amounting to Rs.80,000,000 (2011 : 80,000,000) at year end.

The Company has, however, increased its authorized share capital subsequently in July 2012 from 8,000,000 ordinary shares to 75,000,000 ordianry shares of Rs. 10 each amounting to Rs.750,000,000.

| | | 2012<br>Rupees | 2011<br>Rupees |
|---|---|---|---|
| **14** | **SURPLUS ON REVALUATION OF OPERATING FIXED ASSETS** | | |
| | Opening balance - restated | 525,367,029 | 550,054,468 |
| | Add: Revaluation during the year | 35,560,289 | - |
| | | 560,927,318 | 550,054,468 |
| | Less: | | |
| | - Transferred to equity in respect of incremental depreciation charged during the year - (net of deferred tax) | 26,416,950 | 16,046,835 |
| | - Related deferred tax liability during the year transferred to profit and loss account | 14,224,512 | 8,640,604 |
| | | 40,641,462 | 24,687,439 |
| | | 520,285,856 | 525,367,029 |
| | Less: | | |
| | Related deferred tax effect : | | |
| | - Opening balance - as previously reported | 143,949,845 | 152,590,449 |
| | - Revaluation during the year | 4,214,101 | - |
| | Less: Incremental depreciation charged during the year transferred to profit and loss account | (14,224,512) | (8,640,604) |
| | | 133,939,434 | 143,949,845 |
| | | 386,346,422 | 381,417,184 |

**14.1** The Company has revalued its freehold land and buildings on May 21, 2012 by independent valuer M/s Mughal Associates, Valuers & Consulting Engineers on the basis of market value. At the above date, the revaluation resulted in a surplus of Rs. 35,560,289.

**14.2** Previously freehold land and building was revalued on June 30, 2010 by M/S. Mughal Associates, Valuers & Consulting Engineers, independent firm of industrial valuation consultants. The revaluation was based on prevailing market price. At that date, the revaluation resulted in a surplus of Rs. 353,104,564 on these assets.

**14.3** Previously freehold land and building was revalued on June 08, 2004 by M/S. Industrial Consultants and Machinery Linkers, independent firm of industrial valuation consultants. The revaluation was based on prevailing market price for free hold land and replacement value for building. At that date, the revaluation resulted in a surplus of Rs. 66,359,632 on these assets.

**14.4** Previously plant and machinery was revalued on August 25, 1996 by M/s. Global Engineers (Private) Limited, independent firm of industrial valuation consultants. The revaluation was based on depreciated replacement value. At that date, the revaluation resulted in a surplus of Rs. 283,925,776 on these assets.

**14.5** Under the requirements of the Companies Ordinance, 1984, the Company cannot use the surplus except for setting off the losses arising out of the disposal of the revalued assets, losses arising out of the subsequent revaluation of assets and to set-off any incremental depreciation arising as a result of revaluation.

**14.6** Had there been no revaluation, the net book value of the specific classes of operating assets would have been as follows:

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| Free hold land | | 3,518,245 | 3,518,245 |
| Factory building | | 36,953,637 | 41,059,597 |
| Plant and machinery | | | |
| Imported | | 83,799,632 | 85,948,341 |
| Local | | 3,452,086 | 4,315,107 |
| Electrification | | 4,782,726 | 5,034,448 |
| Casting benches | | 143,558 | 159,509 |
| Laboratory ware | | 17,435 | 21,794 |
| Generators | | 143,558 | 159,509 |
| | | 92,338,995 | 95,638,708 |
| | | 132,810,877 | 140,216,550 |

## 15 LONG TERM FINANCING

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| From financial institutions - secured | 15.1 | - | - |
| From associated person - unsecured | 15.2 | 89,180,130 | 98,285,130 |
| | | 89,180,130 | 98,285,130 |

### 15.1 Financial institutions - secured

| | 2012 Rupees | 2011 Rupees |
|---|---|---|
| National Bank of Pakistan | 86,663,313 | 106,041,804 |
| Banker's Equity Limited (BEL) | 6,046,219 | 9,503,263 |
| Habib Bank Limited | 1,098,380 | 1,958,796 |
| National Bank of Pakistan (BEL Syndicate) | - | 1,137,503 |
| Allied Bank Limited | - | 520,810 |
| MCB Bank Limited | - | 646,177 |
| United Bank Limited | 620,179 | 1,292,533 |
| Orix Investment Bank Pakistan Limited | 5,499,864 | 7,849,088 |
| NIB Bank Limited | 6,920,672 | 11,100,113 |
| Bank of Khyber | 7,277,664 | 10,264,552 |
| | 114,126,291 | 150,314,639 |
| Less : Current portion | (114,126,291) | (150,314,639) |
| | - | - |

**15.1.1** This represents interest free loan received from 10 financial institutions under settlement agreement and is repayable in 36 equal monthly installments starting from March 2009. In 2006, the Company approached The State Bank of Pakistan's Committee for Revival of Sick Industrial Units (CRSIU) for restructuring of outstanding liabilities. CRSIU arranged the meeting of all the participant financial institutions in which CRSIU directed all the financial institutions to reduce their respective loans proportionally to the forced sale vale of the project of Rs. 168 million, and a settlement agreement was signed on March 05, 2009 between the parties.

**15.1.2** As per agreement in case the Company fails to pay any three consecutive monthly installment amount, the write off/ waiver to be granted by the financial institutions in accordance with the decision of CRSIU dated August 19, 2006 and under the settlement agreement of certain portions of their principal outstanding amount and whole of the mark up shall become ineffective and stand revoked with Company being liable to immediately pay the total outstanding amount to the financial institutions along with all mark up, profits, compensation, charges, cost and other amounts in the same manner as it would have been if this agreement had not been entered into and a fresh cause of action shall become available to the financial institutions to recover their outstanding amounts along with all mark up etc by exercising, judicial and other legal remedies available to them.

**15.1.3** The Company has provided from time to time following securities in favor of the financial institutions to secure its repayment of loans;

**National Bank of Pakistan**

- First charge on project assets ranking Pari Passu with NIB Bank Limited.
- First charge on stocks , book debts and other current assets.
- Hypothecation of stocks
- Pledge of stocks
- Personal guarantees of sponsors

**ORIX Investment Bank Pakistan Limited**

Hypothecation charge on plant, machinery, equipment and other moveable assets of the Company.

**NIB Bank Limited**

- First charge on all the moveable and immoveable assets of the Company ranking pari passu with the securities offered to NDFC and BEL Consortium.
- Personal guarantees of directors.

**Bank of Khyber**

Hypothecation of stocks, stores and spares of the Company.

**Other financial institutions**

- Joint charge on the assets of the Company pari passu
- Hypothecation of moveable / receivable
- Personal guarantees of the sponsors

However, in the case of ambiguity / dispute regarding securities / charges against loans / finances, the loan documents already executed in this regard between the parties shall prevail.

**15.1.4** As per settlement agreement for long term financing, it is expressly agreed between the parties that the sponsor shares of the Company totaling Rs. 2,323,965 held by BEL under its pledge shall be released to and transferred by BEL to the new investors after the receipt of payment of total settlement amount to BEL and its consortium members by the Company in accordance with the agreement.

These are secured against first charge on Project assets ranking Pari Passu with NIB, first charge on stocks , book debts and other current assets, hypothecation of stocks and personal guarantees of the sponsors.

**15.1.5** The loan has been fully repaid during the year. However, full settlement and no objection certificates (NOCs) from few financial institutions are outstanding to date regarding vacation of charges/mortgages on Company's assets. The management is confident that the negotiations with the financial institutions are at advanced stage and NOCs shall be obtained subsequently in due course of time.

**15.2** This represents interest free unsecured loan received from a shareholder of the Company, to meet the working capital requirements of the Company. The loan is not repayable before June 30, 2013. The Company in its Extra Ordinary General Meeting held on July 19, 2012 has approved the issue of right shares, subject to SECP approval, against issue of this loan. On receipt of SECP approval which is in process and yet to be filed, said loan shall be converted into equity of the Company next year.

## 16 DEFERRED TAXATION

Deferred tax liabilities/(assets) arising due to taxable temporary differences are as follows:

| | 2012<br>Rupees | 2011<br>Rupees |
|---|---|---|
| Accelerated depreciation | (15,936,604) | (20,313,179) |
| Surplus on revaluation of fixed assets | 133,939,435 | 143,949,846 |
| | 118,002,831 | 123,636,667 |
| Tax rate used | 35% | 35% |

Deferred tax asset of Rs. 77.381 million (2011 : Rs. 131.346 million) due to turnover tax, brought forward losses and provision for doubtful debts has not been recognized in the current financial statements, as in the opinion of the management there is no certainty regarding realisibility of the amount.

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **17 TRADE AND OTHER PAYABLES** | | | |
| Trade creditors | | 57,116,214 | 42,688,607 |
| Accrued liabilities | | 20,639,537 | 22,168,878 |
| Advances from customers | | 106,681,977 | 76,733,879 |
| Advance rental income | | 213,120 | - |
| Unclaimed dividend | | 3,189,224 | 3,189,224 |
| Old labour dues | | 4,518,342 | 5,932,991 |
| Sales tax payable | | 1,882,205 | 4,379,125 |
| Withholding tax payable | | 974,115 | 1,261,046 |
| Payable to provident fund | | 2,833,920 | 1,353,600 |
| Workers' profit participation fund | 17.1 | 6,040,117 | 4,011,912 |
| Workers' welfare fund | | 440,139 | 440,139 |
| Other payables | | - | 50,000 |
| | | 204,528,910 | 162,209,401 |
| **17.1 Workers profit participation fund** | | | |
| Opening balance | | 4,011,912 | 2,603,236 |
| Provision for the year | | 1,366,240 | 979,142 |
| Interest for the year @ 16.5% | | 661,965 | 429,534 |
| | | 6,040,117 | 4,011,912 |
| **18 MARK UP ACCRUED** | | | |
| Mark up on short term borrowing from | | | |
| Financial institution | | 1,232,432 | 945,932 |
| Related party | | 868,827 | 581,294 |
| | | 2,101,259 | 1,527,226 |
| **19 SHORT TERM BORROWINGS** | | | |
| Financial institutions - secured | 19.1 | 1,910,000 | 1,910,000 |
| Related parties - unsecured | | | |
| Due to associated company | 19.2 | 1,770,521 | 1,770,521 |
| Due to associated person | | 734,716 | - |
| | | 4,415,237 | 3,680,521 |

**19.1** This represents interest bearing loan received from Innovative Investment Bank Limited for working capital on musharika sharing basis in 2003. The loan carries mark up @ 15% per annum.

Loan is secured by way of demand promissory note, registered mortgage on residential property, registered charge on current and fixed assets of the Company.

**19.2** This represents interest bearing unsecured loan received from Toyota Rawal Motors for working capital of the Company. The loan carries mark up @ one year KIBOR plus 2 % per annum.

| | | 2012<br>Rupees | 2011<br>Rupees |
|---|---|---|---|
| **20 CURRENT PORTION OF LONG TERM FINANCING** | | | |
| Current portion | 20.1 | 114,126,275 | 171,555,918 |

**20.1** This represents the wavier amount of long term financing (2011: Nil) to be granted by creditor banks on settlement of loans as per Settlement Agreement dated June 26, 2008.The management intends to retain the amount for write off till next year, as the management is in the process of receiving NOC from concerned creditor banks as per CRSIU agreement dated 26-06-2008, which will take time, specially for BEL which needs clearance through High Court.

## 21 CONTINGENCIES AND COMMITMENTS

### 21.1 CONTINGENCIES

**21.1.1** As per settlement agreement with the creditor banks, no interest has been accounted for subsequent to the settlement agreement relating to long term financing in prior years. The loan has been fully repaid during the year, however, no objection certificates (NOCs) from few financial institutions are outstanding to date to confirm the final settlement of the loans, interest and vacation of charges/mortgages on the Company's assets. As no event of default has been communicated to the Company to date, the amount of default, if any, can not be accurately quantifiable.

**21.1.2** Through the Finance Act, 2006 an amendment was made in section 12 (i) of the Worker's Welfare Fund Ordinance, 1971 (the WWF Ordinance) by virtue of which the taxpayers was required to pay WWF, where return of the Income Tax is required to be filed under this Ordinance, on the profit before taxation as per accounts or the declared Income as per return of Income, whichever, is higher.

During the year the Lahore High Court has struck down the above mentioned amendment of the WWF Ordinance. The management is of the opinion that the amendment having been stuck down, the provisions of the amended Ordinance are no longer applicable to the Company. Accordingly no provision has been made for the current year in respect of Worker's Welfare Fund amounting to Rs. 519,171.

**21.1.3** Noman Ghani vs. FCL & others:

This is the recovery suit against the Company. In this suit original claim was of Rs. 1,248,172. Later on, the petitioner submitted another application for amendment of plaint for recovery of Rs. 20 million plus 18% being current bank interest. The application was dismissed and they filled an appeal against the order in the District court. The District Judge dismissed their claim of 20 million and partially allowed the interest. The matter is still pending before the trail court. The Company has not incorporated the contingency as the management is of the view that the case will be settled in favour of the Company.

**21.1.4** Sardar Asif vs. FCL:

An ex-partee decree was issued in favor of one of the past suppliers of the Company, by the Civil Court, Peshawar, against the claim of Rs 1,450,000, for the possession of the property of the Company bearing plot No 21, 22 & 23 situated at Peshawar. The case was filed by the supplier before the acquisition of the Company by the current management. The case is now pending before the Civil Court, Peshawar to set aside the ex-partee decree.

**21.1.5** Guarantee has been issued by Silk Bank Limited on behalf of the Company in the normal course of business in favour of M/s Sui Northern Gas Pipelines Limited aggregating to Rs. 20.453 million (2011: Rs. 11.167 million).

**21.2 COMMITMENTS**

The Company has commitments of Rs. Nil ( June 30, 2011: Rs. 23.164 million) against import of plant & machinery, Rs. 3.804 million (June 30, 2011: Rs.6.678 million) against import of raw materials, Rs. 0.903 million against import of stores and spares, in respect of outstanding letter of credits and telegraphic transfers and Rs. 12.920 million against construction of building.

| | 2012<br>Rupees | 2011<br>Rupees |
|---|---|---|
| **22 SALES** | | |
| Gross sales | | |
| Sales - Tiles | 355,353,265 | 361,572,149 |
| Sales - Sanitary ware | 240,084 | - |
| | 355,593,349 | 361,572,149 |
| Less : Sales tax | (26,340,249) | (28,325,929) |
| | 329,253,100 | 333,246,220 |

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|

## 23 COST OF SALES

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| Raw material consumed | | 66,438,969 | 62,849,275 |
| Stores, spares and loose tools consumed | | 38,367,363 | 46,869,421 |
| Gas and electricity | | 97,343,839 | 71,288,790 |
| Salaries, wages and other benefits | | 28,803,700 | 20,899,852 |
| Travelling and conveyance | | 1,442,758 | 1,178,270 |
| Repairs and maintenance | | 22,100 | 311,188 |
| Depreciation | 5.1 | 52,956,068 | 32,109,651 |
| Generator rent | | 2,069,500 | 887,500 |
| Miscellaneous | | 213,216 | 101,682 |
| | | 287,657,513 | 236,495,629 |
| Work in process | | | |
| Opening | | 2,302,237 | 671,557 |
| Closing | | (2,809,103) | (2,302,237) |
| | | (506,866) | (1,630,680) |
| Finished goods | | | |
| Opening | | 51,667,632 | 60,457,237 |
| Closing | | (56,082,266) | (51,667,632) |
| | | (4,414,634) | 8,789,605 |
| | | 282,736,013 | 243,654,554 |

## 23.1 Raw material consumed

| | 2012 Rupees | 2011 Rupees |
|---|---|---|
| Opening balance | 19,786,286 | 12,246,146 |
| Add : Purchases | 66,512,728 | 70,389,415 |
| Less : Closing stock | (19,860,045) | (19,786,286) |
| | 66,438,969 | 62,849,275 |

## 23.2 Stores, spares and loose tools consumed

| | 2012 Rupees | 2011 Rupees |
|---|---|---|
| Opening balance | 7,140,433 | 9,843,040 |
| Add : Purchases | 43,739,377 | 44,166,814 |
| | 50,879,810 | 54,009,854 |
| Less : Closing stock | (12,512,447) | (7,140,433) |
| | 38,367,363 | 46,869,421 |

| | | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|---|
| **24** | **DISTRIBUTION COST** | | | |
| | Salaries, allowances and benefits | | 3,142,096 | 3,269,202 |
| | Traveling and conveyance | | 14,966 | 5,838 |
| | Depreciation | 5.1 | 133,056 | 123,989 |
| | Rent expense | | 180,240 | 155,230 |
| | Miscellaneous | | 1,835 | 3,900 |
| | | | 3,472,193 | 3,558,159 |
| **25** | **ADMINISTRATIVE EXPENSES** | | | |
| | Directors' remuneration | | 2,441,988 | 2,034,000 |
| | Salaries, allowances and benefits | | 7,490,688 | 6,314,211 |
| | Rent, rates and taxes | | 499,895 | 453,818 |
| | Utilities | | 877,458 | 120,000 |
| | Printing and stationery | | 129,519 | 317,167 |
| | Communication | | 294,895 | 278,673 |
| | Fee and subscription | | 650,715 | 210,185 |
| | Travelling and conveyance | | 98,283 | 76,933 |
| | Repair and maintenance | | 19,430 | 179,255 |
| | Vehicle running and maintenance | | 60,714 | 35,438 |
| | Vehicle rental | | 167,256 | 795,783 |
| | Additional sales tax | 25.1 | - | 18,092,404 |
| | Depreciation | 5.1 | 133,055 | 123,989 |
| | Old labour dues | 25.2 | - | 6,900,650 |
| | Entertainment | | 53,035 | 806,104 |
| | Miscellaneous | | 63,996 | 52,334 |
| | | | 12,980,927 | 36,790,944 |

**25.1** This represents provision recorded against sales tax short paid in year 1996-97. The case was decided against the Company by Inland Revenue Appellate Tribunal and a provision has been accounted for during the year ended June 30, 2011.

**25.2** This represents labor dues of old employees which relates to years prior to acquisition by current management of the Company. The dues are recorded in the year ended June 30, 2011 due to claims lodged against Company by workmen and on receipt of notification from SECP last year.

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **26 OTHER OPERATING EXPENSES** | | | |
| Workers' profit participation fund | | 1,366,240 | 979,142 |
| Legal and professional charges | | 438,882 | 866,750 |
| Auditors' remuneration | 26.1 | 335,800 | 351,000 |
| Allowance for write down of inventory | 8.1 | - | 27,083,637 |
| | | 2,140,922 | 29,280,529 |

**26.1 Auditors' remuneration**

| | | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| Audit fee | | 250,000 | 250,000 |
| Review of half year financial statements | | 75,000 | 75,000 |
| Out of pocket expenses | | 10,800 | 26,000 |
| | | 335,800 | 351,000 |

**27 FINANCIAL COST**

| | | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| Mark up/interest on: | | | |
| Short term borrowings | | | |
| - From financial institutions | | 286,500 | 286,501 |
| - From related party | | 287,533 | 278,680 |
| Workers' profit participation fund | | 661,965 | 429,534 |
| Short term running finance | | - | 69,298 |
| Bank charges | | 728,489 | 358,641 |
| | | 1,964,487 | 1,422,654 |

**28 TAXATION**

| | Note | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| Provision for taxation | | | |
| Current | 28.1 | 3,292,531 | 3,478,257 |
| Prior year | | - | 91,240 |
| | | 3,292,531 | 3,569,497 |
| Deferred | | (9,847,937) | (400,190) |
| | | (6,555,406) | 3,169,307 |

**28.1** In view of tax loss for the year, provision for current year represents minimum tax payable under section 113 of the Income Tax Ordinance, 2001.

**28.2** Numerical reconciliation between applicable tax rate and average effective tax rate has not been prepared as the Company was subject to minimum tax in the current and prior year.

| | 2012<br>Rupees | 2011<br>Rupees |
|---|---|---|

## 29 EARNINGS PER SHARE - BASIC AND DILUTED

There is no dilutive effect on the basic earnings per share of the Company, which is based on:

| | 2012 | 2011 |
|---|---|---|
| Profit after taxation | 32,513,964 | 15,370,073 |
| | **Number of shares** | |
| Weighted average number of ordinary shares | 7,741,200 | 7,741,200 |
| | **Rupees** | |
| Earnings per share - basic and diluted | 4.20 | 1.99 |

## 30 FINANCIAL ASSETS AND LIABILITIES

The Company's exposure to interest rate risk on its financial assets and liabilities are summarized as follows: -

| | Total 2012 | Interest/mark up bearing: Maturity up to one year | Interest/mark up bearing: Maturity after one year | Interest/mark up bearing: Sub-total | Not interest /mark up bearing |
|---|---|---|---|---|---|
| | | | Rupees | | |
| **Financial assets** | | | | | |
| Long term deposits | 1,513,450 | - | - | - | 1,513,450 |
| Trade debts | 2,822,833 | - | - | - | 2,822,833 |
| Advances | 776,577 | - | - | - | 776,577 |
| Cash and bank balances | 2,317,528 | - | - | - | 2,317,528 |
| | 7,430,388 | - | - | - | 7,430,388 |
| **Financial liabilities** | | | | | |
| Long term financing | 203,306,405 | 114,126,275 | - | 114,126,275 | 89,180,130 |
| Long term deposits | 576,000 | - | - | - | 576,000 |
| Trade and other payables | 85,463,317 | - | - | - | 85,463,317 |
| Mark up accrued | 2,101,259 | - | - | - | 2,101,259 |
| Short term borrowings | 4,415,237 | 4,415,237 | - | 4,415,237 | - |
| | 295,862,218 | 118,541,512 | - | 118,541,512 | 177,320,706 |
| **On balance sheet gap** | (288,431,830) | (118,541,512) | - | (118,541,512) | (169,890,318) |
| **Off Balance sheet Items** | | | | | |
| Financial commitments: | - | - | - | - | - |
| Letter of credits | 4,707,635 | | | | 4,707,635 |
| Bank guarantee | 20,453,052 | | | | 20,453,052 |
| **Total Gap** | (313,592,517) | (118,541,512) | - | (118,541,512) | (195,051,005) |

| | Total 2011 | Interest/mark up bearing: Maturity up to one year | Interest/mark up bearing: Maturity after one year | Interest/mark up bearing: Sub-total | Not interest /mark up bearing |
|---|---|---|---|---|---|
| | | | Rupees | | |
| **Financial assets** | | | | | |
| Long term deposits | 1,513,450 | - | - | - | 1,513,450 |
| Trade debts | 404,607 | - | - | - | 404,607 |
| Advances | 1,178,436 | - | - | - | 1,178,436 |
| Cash and bank balances | 3,607,388 | | | | 3,607,388 |
| | 6,703,881 | - | - | - | 6,703,881 |
| **Financial liabilities** | | | | | |
| Long term financing | 269,841,048 | 171,555,918 | - | 171,555,918 | 98,285,130 |
| Long term deposits | 576,000 | - | - | - | 576,000 |
| Trade and other payables | 78,408,825 | - | - | - | 78,408,825 |
| Mark up accrued | 1,527,226 | - | - | - | 1,527,226 |
| Bank over draft | 3,680,521 | 3,680,521 | - | 3,680,521 | - |
| | 354,033,620 | 175,236,439 | - | 175,236,439 | 178,797,181 |
| **On balance sheet gap** | (347,329,739) | (175,236,439) | - | (175,236,439) | (172,093,300) |
| **Off Balance sheet Items** | | | | | |
| Financial commitments: | | | | | |
| Letter of credits | 29,841,496 | - | - | - | 29,841,496 |
| Bank guarantee | 11,166,500 | - | - | - | 11,166,500 |
| **Total Gap** | (388,337,735) | (175,236,439) | - | (175,236,439) | (213,101,296) |

Effective interest rates are mentioned in the respective notes to the financial statements.

## 31 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### 31.1 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.

### 31.2 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 requirements.

**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. 7.319 million (2011 : Rs. Rs. 6.704 million) the financial assets which are subject to credit risk amounted to Rs. 6.375 million (2011 : Rs. 6.668 million). The carrying amounts of financial assets exposed to credit risk at reporting date are as under:

| | 2012<br>Rupees | 2011<br>Rupees |
|---|---|---|
| Long term deposits | 1,513,450 | 1,513,450 |
| Trade debts | 2,822,833 | 404,607 |
| Advances | 776,577 | 1,178,436 |
| Cash and bank balances | 1,373,140 | 3,571,506 |
| | 6,486,000 | 6,667,999 |

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

| | 2012<br>Rupees | 2011<br>Rupees |
|---|---|---|
| Past due 1-30 days | 133,600 | 135,639 |
| Past due 30-90 days | 100,000 | 442,800 |
| Past due 90 days | 4,089,233 | 1,326,167 |
| | 4,322,833 | 1,904,606 |

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.

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.

## 31.3 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) | | | |
| **2012** | | | | | | | |
| Long term financing | 203,306,405 | 203,306,405 | 57,063,146 | 57,063,146 | - | - | - |
| Long term deposits | 576,000 | 576,000 | - | - | - | 576,000 | - |
| Trade and other payables | 85,463,317 | 85,463,317 | 85,463,317 | - | - | - | - |
| Mark up accrued | 2,101,259 | 2,101,259 | 2,101,259 | - | - | - | - |
| Bank over draft | - | - | - | - | - | - | - |
| | 291,446,981 | 291,446,981 | 144,627,721 | 57,063,146 | - | 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) | | | |
| **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 | - | - | - | - |
| Bank over draft | 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 | - |

## 31.4 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:

| | 2012 | 2011 | 2012 | 2011 |
|---|---|---|---|---|
| | Effective Rate (In percent) | | Carrying amount (Rupees) | |
| **Financial Liabilities** | | | | |
| ***Fixed rate instruments*** | | | | |
| Short term borrowings | 15.0% | 11.5% | 1,910,000 | 1,910,000 |
| ***Variable rate instruments*** | | | | |
| Short term borrowings | 15% to 16.42% | 15% to 15.74% | 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, 2012** | | |
| Cash flow sensitivity - Variable rate financial liabilities | 17,705 | (17,705) |
| **As at June 30, 2011** | | |
| 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.

## 32 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.

## 33 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 capital.

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

| | **2012** | **2011** |
|---|---|---|
| **34 PLANT CAPACITY AND PRODUCTION** | | |
| ***Ceramic tiles*** | | |
| Ideal capacity in square meters | 2,160,000 | 2,160,000 |
| Actual production in square meters | 1,113,346 | 1,061,945 |
| 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.

## 35 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The transactions with key management personnel includes remuneration and other benefits under the terms of their employment which are as follows:

| | 2012 | | | | 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | Chief executive | Directors | Executive | Total | Chief executive | Directors | Executive | Total |
| | ---------- Rupees ---------- | | | | | | | |
| Managerial remuneration | 1,161,288 | 414,192 | 3,695,136 | 5,270,616 | 558,900 | 356,400 | 2,072,177 | 2,987,477 |
| Housing and utilities | 638,700 | 227,808 | 2,248,104 | 3,114,612 | 683,100 | 435,600 | 2,532,661 | 3,651,361 |
| | 1,799,988 | 642,000 | 5,943,240 | 8,385,228 | 1,242,000 | 792,000 | 4,604,838 | 6,638,838 |
| No. of persons | 1 | 1 | 5 | 7 | 1 | 2 | 5 | 8 |

## 36 TRANSACTIONS WITH RELATED PARTIES

The related parties and associated undertakings of the Company comprise of group companies, other associate companies, directors and key management personnel. Transactions with related parties and associated undertakings are as under:

| Relation with the Company | Nature of Transaction | 2012 Rupees | 2011 Rupees |
|---|---|---|---|
| **Associated Company** | | | |
| Toyota Rawal Motors | Sales of tiles | 2,500,000 | - |
| (Private) Limited | Short term financing | | |
| | - Mark up | 270,935 | 27,860 |
| | Rental for building | 396,000 | 360,000 |
| | Utilities | 120,000 | 120,000 |
| **Key management personnel** | | | |
| | Short term borrowings - addition | 734,716 | - |
| | Long term financing - addition | - | 8,140,000 |
| | Long term financing - repaid | 9,105,000 | 10,470,000 |
| | Remuneration and other benefits | 8,385,228 | 6,638,838 |

## 37 DATE OF AUTHORIZATION

These financial statements were authorized for issue on October 08, 2012 by the Board of Directors of the Company.

## 38 GENERAL

Figures have been rounded off to the nearest rupee.

**CHIEF EXECUTIVE** **DIRECTOR**