FINANCIAL RISK MANAGEMENT

39.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, other price risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is carried out by the Company's finance department under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas such as currency risk, other price risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments and non derivative financial instruments and investment of excess liquidity.

(a) Market risk

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

The Company is not exposed to currency risk as it has no receivables and payables denominated in foreign currency.

(ii) Other price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instrument traded in the market. The Company is not exposed to equity and commodity price risks.

(iii) Interest rate risk

This represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company has no significant long-term interest-bearing assets. The Company's interest rate risk arises from long term financing, liabilities against assets subject to finance lease and short term borrowings. Borrowings obtained at variable rates expose the Company to cash flow interest rate risk. Borrowings obtained at fixed rate expose the Company to fair value interest rate risk.

At the balance sheet date the interest rate profile of the Company’s interest bearing financial instruments was:

	2013 Rupees	2012 Rupees
Fixed rate instruments		
Financial assets		
Term deposit receipts	743,000	743,000
Defence saving certificates	1,340,221	1,340,221
Financial liabilities		
Short term borrowings	70,287,251	1,250,000
Liabilities against assets subject to finance lease	-	-
Floating rate instruments		
Financial assets		
Bank balances - saving accounts	21,829	7,546
Financial liabilities		
Long term financing	73,193,999	73,193,999
Liabilities against assets subject to finance lease	-	47,002,212
Short term borrowings	-	65,437,252

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rate at the balance sheet date would not affect profit or loss of the Company.

Cash flow sensitivity analysis for variable rate instruments

If interest rates at the year end date, fluctuates by 1% higher / lower with all other variables held constant, loss after taxation for the year would have been Rupees 0.732 million (2012: Rupees 1.856 million) lower / higher, mainly as a result of higher / lower interest expense on floating rate borrowings. This analysis is prepared assuming the amounts of liabilities outstanding at balance sheet dates were outstanding for the whole year.

(b) Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	2013 Rupees	2012 Rupees
Investments	2,083,221	2,083,221
Deposits	26,282,046	36,138,121
Trade debts	-	42,631
Advances	138,854	60,410
Other receivables	159,500	183,459
Bank balances	304,010	302,592
	28,967,631	38,810,434

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (If available) or to historical information about counterparty default rate:

	Rating			2013	2012
	Short term	Long term	Agency	Rupees	Rupees
Banks					
National Bank of Pakistan	A-1+	AAA	JCR-VIS	24,522	39,522
Askari Bank Limited	A1+	AA	PACRA	2,273	2,239
Bank Alfalah Limited	A1+	AA	PACRA	26,928	3,428
Habib Bank Limited	A-1+	AAA	JCR-VIS	118,431	2,966
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	37,812	31,529
MCB Bank Limited	A1+	AAA	PACRA	51,064	27,023
Faysal Bank Limited	A1+	AA	PACRA	917	5,708
Silk Bank Limited	A-2	A -	JCR-VIS	20,901	34,632
Meezan Bank Limited	A-1+	AA	JCR-VIS	1,744	155,545
				284,592	302,592
Investments					
Silk Bank Limited - Term deposit receipts	A-2	A -	JCR-VIS	743,000	743,000
				1,027,592	1,045,592

Due to the Company's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the Company. Accordingly the credit risk is minimal.

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Company manages liquidity risk by maintaining sufficient cash and the availability of funding through sponsors' support. Following are the contractual maturities of financial liabilities, including interest payments. The amount disclosed in the table are undiscounted cash flows:

Contractual maturities of financial liabilities as at 30 June 2013.

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 Year	More than 2 years
	------------------------------------ Rupees ----------------------------------					
Non-derivative financial liabilities:						
Long term financing	73,193,999	73,193,999	73,193,999	-	-	-
ilitie s	11,286,686	11,501,074	11,501,074	-	-	-
Deferred mark-up	4,455,371	5,175,000	910,000	910,000	1,820,000	1,535,000
Trade and other payables	104,053,298	104,053,298	104,053,298	-	-	-
Short term borrowings	127,363,917	127,363,917	127,363,917	-	-	-
Accrued mark-up	131,391,394	131,391,394	131,391,394	-	-	-
	451,744,665	452,678,682	448,413,682	910,000	1,820,000	1,535,000

Contractual maturities of financial liabilities as at 30 June 2012.

	Carrying amount	Contractual cash flows	6 months or less	6-12 month	1-2 Year	More than 2 years
	------------------------------------ Rupees ----------------------------------					
Non-derivative financial liabilities:						
Long term financing	73,193,999	73,193,999	73,193,999	-	-	-
ilitie s	47,002,212	57,300,007	57,300,007	-	-	-
Deferred mark-up	12,660,470	14,074,038	6,948,003	1,951,035	1,820,000	3,355,000
Trade and other payables	99,553,399	99,553,399	99,553,399	-	-	-
Short term borrowings	108,974,722	108,974,722	108,974,722	-	-	-
Accrued mark-up	116,485,709	116,485,709	116,485,709	-	-	-
	457,870,511	469,581,874	462,455,839	1,951,035	1,820,000	3,355,000

The contractual cash flows relating to the above financial liabilities have been determined on the basis of interest rates / mark up rates effective as at 30 June. The rates of interest / mark up have been disclosed in note 5, 6 and note 11 to these financial statements.

39.2 **Fair values of financial assets and liabilities**

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

39.3 **Financial instruments by categories**

	Loans and receivables	Held to maturity	Total
	--------------- Rupees ----------		
As at 30 June 2013			
Assets as per balance sheet			
Investments	-	2,083,221	2,083,221
Deposits	26,282,046	-	26,282,046
Advances	138,854	-	138,854
Other receivables	159,500	-	159,500
Cash and bank balances	454,887	-	454,887
	27,035,287	2,083,221	29,118,508

	Financial liabilities at amortized

Liabilities as per balance sheet	
Long term financing	73,193,999
Liabilities against assets subject to finance lease	11,286,686
Deferred mark-up	4,455,371
Accrued mark-up	131,391,394
Short term borrowings	127,363,917
Trade and other payables	104,053,298
	451,744,665

	Loans and receivables	Held to maturity	Total
	----------- Rupees -----------		
As at 30 June 2012			
Assets as per balance sheet			
Investments	-	2,083,221	2,083,221
Deposits	36,138,121	-	36,138,121
Trade debts	42,631	-	42,631
Advances	60,410	-	60,410
Other receivables	183,459	-	183,459
Cash and bank balances	383,582	-	383,582
	36,808,203	2,083,221	38,891,424

	Financial liabilities at amortized cost
	--------- Rupees --------
Liabilities as per balance sheet	
Long term financing	73,193,999
Liabilities against assets subject to finance lease	47,002,212
Deferred mark-up	12,660,470
Accrued mark-up	116,485,709
Short term borrowings	108,974,722
Trade and other payables	99,553,399
	457,870,511

39.4 **Capital risk management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may issue new shares or sell assets to reduce debt.

DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on October 08,2013 by the Board of Directors of the Company.

CORRESPONDING FIGURES

No significant reclassifications of corresponding figures have been made.

GENERAL

Figures have been rounded off to the nearest Rupee.

CHIEF EXECUTIVE OFFICER

DIRECTOR