



### 33.1 Effective interest rates and related risk

|   | <b>Fixed or<br/>Variable</b> | <b>2007<br/>%</b>    | <b>2006<br/>%</b> |
|---|------------------------------|----------------------|-------------------|
| <b>Financial Assets</b>                           |                              |                      |                   |
| Loan to associated company                        | Variable                     | <b>11.59</b>         | 10.27             |
| Cash and bank balances                            | Fixed                        | <b>1 - 10</b>        | 4.15 - 10         |
| <b>Financial Liabilities</b>                      |                              |                      |                   |
| Finance under mark-up arrangements                | Variable                     | <b>6.36 - 11.59</b>  | 5.55 - 10.27      |
| Liability against assets subject to finance lease | Fixed                        | <b>10.50 - 11.33</b> | 10.50 - 11.33     |

### 33.2 Financial risk management objectives

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

Taken as a whole, risk arising from the Company's financial instruments is limited as there is no significant exposure to price and cash flow risk in respect of such instruments.

#### 33.2.1 Concentration of credit risk

The credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed to perform as contracted. The Company does not have significant exposure to any individual customer except for the exposure with subsidiary company. Out of total financial assets of Rs. 1,091 million (2006: Rs.1,059 million ) the financial assets, which are subject to credit risk amounted to Rs. 147 million (2006: Rs. 81 million). The Company believes that it is not exposed to any major credit risk, as major portion of local sales are made to its subsidiary, which sets credit limits for its customers and also obtain collaterals.

#### 33.2.2 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rate. The Company usually borrows funds at fixed and market based rates, therefore, such risk is minimised. Significant interest rate exposures are primarily managed by contracting floor and cap of interest rates.

#### 33.2.3 Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The Company follows an effective cash management and planning policy to ensure availability of funds and to take appropriate measures for new requirements.

#### 33.2.4 Foreign currency exchange risk

Foreign currency exchange risk is the risk that the value of financial instrument will fluctuate due to changes in foreign currency exchange rates. Foreign exchange risk arises mainly where receivables and payables exist due to transactions with foreign buyers and suppliers. The Company manages its exchange risk partially through forward exchange contracts.

### 33.3 Fair value of financial instruments

All financial instruments are reflected at their fair value.