

**AUDITORS' REPORT  
AND  
FINANCIAL STATEMENTS  
OF  
FAR CHEMICAL INDUSTRIES LIMITED  
FOR THE FINANCIAL YEAR ENDED 30 JUNE, 2015**

**AHMAD & AKHTAR**

*Chartered Accountants*

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**Branch Office: Dhaka and Chittagong**



**AUDITORS' REPORT  
TO THE SHAREHOLDERS OF  
FAR CHEMICAL INDUSTRIES LIMITED**

We have audited the accompanying financial statements of the FAR Chemical Industries Limited (the company) which comprise the statement of financial position as at June 30, 2015, the related Statement of Profit or Loss and Other Comprehensive Income, Statement of Cash Flows and Statement of Changes in Equity for the period then ended and notes, comprising a summary of significant accounting policies and other relevant explanatory notes thereon.

**Managements' Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Bangladesh Financial Reporting Standards (BFRS), Bangladesh Accounting Standards (BAS), the Companies Act 1994, the Securities & Exchange Commission Rules 1987 and other applicable laws and regulations. This responsibility includes: designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

**Auditors' Responsibility**

Our responsibility is to express an opinion these financial statements based on our audit. We conducted our audit in accordance with Bangladesh Standards on Auditing (BSA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements of the company along with the notes thereon prepared in accordance with Bangladesh Financial Reporting Standards (BFRS) and Bangladesh Accounting Standards (BASs), give a true and fair view of the state of the statement of financial position of the company as at 30 June 2015 and of the results of their financial performance and cash flows for the year then ended and comply with the Companies Act 1994, the Securities & Exchange Commission Rules 1987 and other applicable laws and regulations.

**We also report that:**

- we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and made due verification thereof;
- in our opinion, proper books of account as required by the law have been kept by the Company so far as it appeared from our examination of those books;
- the Company's statement of financial position and statement of profit or loss and other comprehensive income dealt with by the report are in agreement with the books of accounts; and
- the expenditures were incurred for the purpose of the Company's business.

Date: October 06, 2015  
Place: Dhaka




AHMAD & AKHTAR  
Chartered Accountants

**FAR Chemical Industries Limited**  
**Statement of Financial Position**  
**As at June 30, 2015**

	Notes	Amount in Taka	
		30-06-2015	30-06-2014
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant & equipment	4.00	859,529,782	799,583,599
Security deposit	5.00	1,548,471	1,548,471
		<b>861,078,253</b>	<b>801,132,070</b>
<b>Current assets</b>			
Inventories	6.00	374,399,878	304,333,397
Trade and other receivables	7.00	644,292,072	406,101,996
Advances, deposits and prepayments	8.00	51,710,861	43,187,323
STD Account (IPO)	9.00	3,035,000	155,986,104
Cash and cash equivalents	10.00	39,940,930	8,772,753
		<b>1,113,378,741</b>	<b>918,381,573</b>
<b>TOTAL ASSETS</b>		<b>1,974,456,995</b>	<b>1,719,513,642</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital	11.00	1,092,378,780	910,315,650
Retained earnings	12.00	836,390,809	719,992,809
		<b>1,928,769,589</b>	<b>1,630,308,459</b>
<b>Current Liabilities</b>			
Trade and other payables	13.00	31,937,074	56,140,265
Short term borrowings	14.00	4,521,876	8,542,157
Share Money Deposits (IPO)	15.00	3,035,000	6,282,239
Creditors and Accrues	16.00	6,193,456	18,240,522
		<b>45,687,406</b>	<b>89,205,183</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,974,456,995</b>	<b>1,719,513,642</b>
<b>Net Assets Value (NAV) per share</b>	24.00	<b>17.66</b>	<b>17.91</b>

The annexed notes form an integral part of these financial statements.

  
Chairman

  
Managing Director

  
Chief Financial Officer

As per our annexed report of even date

Dated: October 06, 2015  
Place: Dhaka

  
AHMAD & AKHTAR  
Chartered Accountants

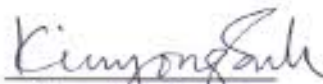


**FAR Chemical Industries Limited**  
**Statement of Profit or Loss and Other Comprehensive Income**  
**For the year ended June 30, 2015**

	Notes	Amount in Taka	
		30-06-2015	30-06-2014
Revenue	17.00	1,308,365,030	1,198,194,039
Cost of sales	18.00	998,740,653	915,210,597
<b>Gross profit</b>		<b>309,624,377</b>	<b>282,983,442</b>
<b>Operating expenses</b>			
Selling and distribution expenses	19.00	8,274,333	6,276,711
Administrative expenses	20.00	6,993,121	38,454,160
Employee Welfare expenses	21.00	628,579	614,080
		<b>15,896,033</b>	<b>45,344,951</b>
<b>Profit from operation</b>		<b>293,728,345</b>	<b>237,638,491</b>
Financial expenses	22.00	181,524	658,176
		<b>293,546,821</b>	<b>236,980,315</b>
Other income	23.00	4,914,309	44,730,870
<b>Profit before tax</b>		<b>298,461,130</b>	<b>281,711,185</b>
Income tax expenses		-	-
<b>Profit after tax</b>		<b>298,461,130</b>	<b>281,711,185</b>
<b>Other Comprehensive Income</b>			
Other Comprehensive Income for the year		-	-
<b>Total Comprehensive Income for the year</b>		<b>298,461,130</b>	<b>281,711,185</b>
<b>Earnings per share (EPS)</b>			
Basic earnings per share	25.00	2.73	3.45
Restated Basic EPS	25.00	2.73	2.58

The annexed notes form an integral part of these financial statements.

  
Chairman

  
Managing Director

  
Chief Financial Officer

As per our annexed report of even date

Dated: October 06, 2015  
Place: Dhaka

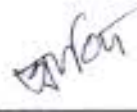
  
**AHMAD & AKHTAR**  
Chartered Accountants



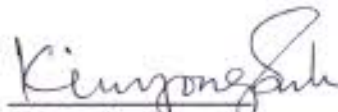
FAR Chemical Industries Limited  
Statement of Cash Flows  
For the year ended June 30, 2015

	Note	Amount in Taka	
		30-06-2015	30-06-2014
<b>A. Cash flows from operating activities:</b>			
Receipt from customers		1,070,174,954	1,162,415,040
Receipt from other income		4,914,309	44,730,870
Payment for cost of expenses		(1,033,508,694)	(984,889,528)
Payment for operating expenses		(27,116,882)	(32,298,718)
Payment for employee welfare expenses		-	(614,080)
<b>Net cash from operating activities</b>		<b>14,463,687</b>	<b>189,343,584</b>
<b>B. Cash flows from investing activities:</b>			
Acquisition of property, plant and equipment		(128,797,569)	(156,183,709)
Increase/(Decrease) in STD Account		152,951,104	(155,986,104)
<b>Net cash used in investing activities</b>		<b>24,153,535</b>	<b>(312,169,813)</b>
<b>C. Cash flows from financing activities:</b>			
Receipt/(Payment) against short term loan		(4,020,281)	(3,682,939)
Increase in Share Capital		-	120,000,000
Increase/(Decrease) in Share Money Deposit		(3,247,239)	6,282,239
Payment of financial expenses		(181,524)	(658,176)
<b>Net Cash used in financing activities</b>		<b>(7,449,044)</b>	<b>121,941,124</b>
<b>D. Net increase in cash and cash equivalents (A+B+C)</b>		<b>31,168,178</b>	<b>(885,105)</b>
E. Opening cash and cash equivalents		8,772,753	9,657,858
<b>F. Closing cash and cash equivalents (D+E)</b>		<b>39,940,930</b>	<b>8,772,753</b>
<b>Net Operating Cash Flow Per Share (NOCFPS)</b>	26.00	<b>0.13</b>	<b>2.08</b>

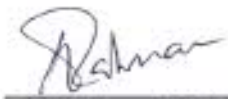
The annexed notes form an integral part of these financial statements.



Chairman



Managing Director



Chief Financial Officer

As per our annexed report of even date

Dated: October 06, 2015  
Place: Dhaka



AHMAD & AKHTAR  
Chartered Accountants



FAR Chemical Industries Limited  
Statement of Changes in Equity  
As at June 30, 2015

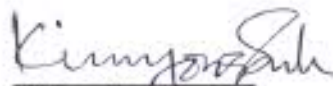
Particulars	Share capital Taka	Retained earnings Taka	Total Taka
Balance at July 01, 2014	910,315,650	719,992,809	1,630,308,459
Add/Less: Bonus issue for the year 30 June, 2014	182,063,130	(182,063,130)	-
Add: Profit during the year	-	298,461,130	298,461,130
<b>Balance as at 30 June 2015</b>	<b>1,092,378,780</b>	<b>836,390,809</b>	<b>1,928,769,589</b>

FAR Chemical Industries Limited  
Statement of Changes in Equity  
As at June 30, 2014

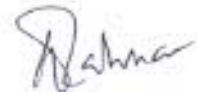
Particulars	Share capital Taka	Retained earnings Taka	Total Taka
Balance at July 01, 2013	790,315,650	438,281,624	1,228,597,274
Add: IPO Share issue	120,000,000	-	120,000,000
Add: Profit during the year	-	281,711,185	281,711,185
<b>Balance as at 30 June 2014</b>	<b>910,315,650</b>	<b>719,992,809</b>	<b>1,630,308,459</b>



Chairman



Managing Director



Chief Financial Officer

As per our annexed report of even date

Dated: October 06, 2015  
Place: Dhaka

  
AHMAD & AKHTAR  
Chartered Accountants



**FAR Chemical Industries Limited**  
**Notes, Comprising a Summary of Significant Accounting**  
**Policies and Other Explanatory Information**  
**For the financial year ended June 30, 2015**

**1.00 Reporting Entity**

**1.01 Background of the Company**

FAR Chemical Industries Limited (the Company) was incorporated in Bangladesh on 22 March 2007 as a Private Limited Company under the Companies Act 1994 with its Corporate office at M.L Tower, DIT Road, 1 East Rampura, Dhaka-1219 and Registered office & factory is situated at Plot # 135-136 in CEPZ, Comilla Export Processing Zone, Comilla, Bangladesh. Subsequently the company has been converted into Public Limited Company under the Companies Act 1994 on 19 June 2012 and issue of Public offer of 12,000,000 ordinary shares of Tk. 10.00 each at par totaling to Tk.120,000,000 as Bangladesh Securities and Exchange Commission (BSEC) ref no. BSEC/CI/IPO-220/2013/98 dated February 05, 2014.

**1.02 Nature of Business**

The principal activities of the Company are to manufacture and export of Chemicals products to different export oriented Textiles, Dyeing and Apparels. Some of the Principal products and services are:

- Softening agent;
- Scouring Agent;
- Anti-Foaming Agent;
- Leveling Agent;
- Fixing Agent;
- Stabilizer;
- Retarding Agent; and
- Bleaching Agent.

**2.00 Basis of Preparation of Financial Statements**

**2.01 Statement of Compliance**

The financial statements have been prepared in accordance with Bangladesh Accounting Standards (BASS), Bangladesh Financial Reporting Standards (BFRSs), International Financial Reporting Standards (IFRSs) and International Accounting Standards (IAS) as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB), the Companies Act 1994, the Securities and Exchange Rules 1987 and other applicable laws and regulations in Bangladesh.

**2.02 Regulatory Compliances**

As required FAR Chemical Industries Limited comply with the following major legal provisions in addition to the Companies Act 1994 and other applicable laws and regulations:

The Income Tax Ordinance 1984;  
The Income Tax Rules 1984;  
The Value Added Tax Act 1991; and  
The Value Added Tax Rules 1991.

**2.03 Measurement Bases used in preparing the Financial Statements**

The financial statements have been prepared on the historical cost basis, and therefore, do not take into consideration the effect of inflation. The accounting policies, unless otherwise stated, have been consistently applied by the company and are consistent with those of the previous year.



**2.04 Reporting Currency and Level of Precision**

The financial statements are presented in Bangladeshi Taka (Taka/Tk.), which is the Company's functional currency. All financial information presented in Taka have been rounded off to the nearest Taka.

**2.05 Preparation and Presentation of Financial Statements of the Company**

The Board of Directors of FAR Chemical Industries Limited is responsible for the preparation and presentation of financial statements.

**2.06 Use of Estimates and Judgments**

The preparation of these financial statements, in conformity with BASs/BFRSs, required management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual amounts may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation on uncertainty and critical judgments in applying accounting policies that have the most significant affect on the amounts recognized in the financial statements are included in the following notes:

- Note: 4 Property, Plant and Equipment
- Note: 6 Inventories
- Note: 7 Trade Receivables
- Note: 8 Advance Deposit and Pre-payment
- Note: 13 Trade Payable

**2.07 Reporting Period**

The financial period of the companies covers one year from 1 July 2014 to 30 June 2015 and is followed consistently.

**2.08 Statement of Cash Flows**

Statement of cash flows is prepared in accordance with "BAS 7: Statement of Cash Flow" and the cash flow from operating activities have been presented under Direct Method as required by the Securities and Exchange Rules 1987 and considering the provisions that "Enterprises are Encouraged to Report Cash Flow from Operating Activities using the Direct Method".





**2.09 Compliance with the Requirements of Notification of the Securities and Exchange Commission dated 04.06.2008 under ref. # SEC/CMMRPC/2008-181/53/Adm/03/28**

- a) Notes to the financial statements marked from 3.00 to 3.16 setting out the policies are unambiguous with respect to the reporting framework on which the accounting policies are based.
- b) The accounting policies on all material areas have been stated clearly in the notes marked from 3.00 to 3.16.
- c) The accounting standards that underpin the policies adopted by the company can be found in the following places of the notes to the financial statements:

Sl. No.	Name of the Bangladesh Accounting Standards (BAS)	BAS's no.
1	Presentation of Financial Statements	1
2	Inventories	2
3	Cash Flow Statements	7
4	Accounting policies, Changes in accounting Estimates & Errors	8
5	Events after the Reporting Period	10
6	Construction Contracts	11
7	Income Taxes	12
8	Segment Reporting	14
9	Property, Plant and Equipment	16
10	Leases	17
11	Revenue	18
12	Employees Benefits	19
13	Accounting for Government Grants & Disclosure of Government Assistance	20
14	The Effects of Changes in Foreign Exchange Rates	21
15	Borrowing Costs	23
16	Related Party Disclosures	24
17	Accounting for Investment	25
18	Accounting and Reporting by Retirement Benefit Plans	26
19	Consolidated and Separate Financial Statements	27
20	Investment in Associates	28
21	Disclosures in the Financial Statements of Banks and similar Financial Institutions (supersedes by BFRS-7)	30
22	Interest in Joint Ventures	31
23	Financial Instruments: Presentation	32
24	Earnings Per Share	33
25	Interim Financial Reporting	34
26	Impairment of Assets	36
27	Provision, Contingent Liabilities and Contingent Assets	37
28	Intangible Assets	38
29	Financial Instruments: Recognition & Measurement	39
30	Investment Property	40
31	Agriculture	41



SL. No.	Name of the BFRS/IFRS	BFRS/IFRS No
1	First-time Adoption of Bangladesh Financial Reporting Standards	1
2	Share based payment	2
3	Business Combinations	3
4	Insurance Contracts	4
5	Non-Current Assets held for sale and discontinued operations	5
6	Exploration for and evaluation of mineral resources	6
7	Financial Instruments: Disclosures	7
8	Operating Segments	8
9	Financial Instruments	9
10	Consolidate Finance Statements	10
11	Joint Arrangements	11
12	Disclosure of Interests in Other Entities	12
13	Fair Value Measurement	13

d) The financial statements are in compliance with the Bangladesh Financial Reporting Standards (BFRS) which are adopted from the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

### 3.00 Significant Accounting Policies

#### 3.1 Property, Plant & Equipment

##### 3.1.1 Recognition and Measurement

Tangible fixed assets are accounted for according to "BAS 16: Property, plant and equipment", Items of property, plant and equipment are measured at cost or revaluation less accumulated depreciation. The cost of acquisition of an asset comprises its purchase price and any attributable cost of bringing the assets to its working condition for its intended Expenditure incurred after the assets have been put into use, such as repairs maintenance is normally charged off as revenue expenditure in the year in which it incurs. In situation where it can be clearly demonstrated that the expenditure has resulted increase in the future economic benefit expected to be obtained from the asset expenditure is capitalized as an additional cost of the assets.

##### 3.1.2 Depreciation

Depreciation is provided on Reducing Balance Method except Leasehold Land Development (Comilla EPZ) on the value at which the assets carried in the books of Accounts. Depreciation is charged at the rates varying from 3.33% to 20% depending on the estimated useful life of assets. Depreciation is provided on Leasehold Land development on straight-line method the lease term of 30 years. Depreciation on current year addition is charge from date of utilization and when the assets are available for use. No depreciation is charged in the year of disposal at all.

The rates of depreciation of assets considering their useful lives are as follows:

<u>Category</u>	<u>Rate</u>
Leasehold Land Development	3.33%
Factory Buildings	2.50%
Plant and Machinery	10%
Electrical Installation	10%
Compressor	10%
Forklift	10%
Water line Installation	10%
Office Equipment	20%



### **3.2 Components of the Financial Statements**

According to the International Accounting Standards (IAS)-1 as adopted by ICAB as BAS-1 "Presentation of Financial Statements" the complete set of financial statements includes the following components.

- i. Statement of financial position as at 30 June, 2015
- ii. Statement of profit or loss and other comprehensive income for the financial year 30 June, 2015
- iii. Statements of cash flows for the financial year 30 June, 2015
- iv. Statement of changes in equity for the financial year 30 June, 2015
- v. Notes, comprising a summary of significant accounting policies and other explanatory information for the financial year 30 June, 2015

### **3.3 Inventories**

Inventories are measured at lower of cost and ex-factory net realizable value in compliance with "BAS 2: Inventories". The cost of inventories is based on weighted average principle and includes expenditure for acquiring the inventories and bringing them to their existing location and condition. Net realizable value is estimated upon selling price in the ordinary course of business less estimated cost of completion. When the inventories are used, the carrying amounts of those inventories are recognized as expense in the year in which the related revenue is recognized.

### **3.4 Revenue**

Revenue represents the ex-factory invoice value of goods supplied to customers during the period. Revenue from sale of goods is recognized in the statement of profit or loss and comprehensive income when the significant risks and rewards of ownership have been transferred to the buyer in compliance with BAS 18: Revenue. Sales are recognized when delivery certificate is raised against confirmed orders.

### **3.5 Foreign Currency Transaction/Translation**

Foreign currency transactions are translated into Bangladeshi Taka at the exchange rates ruling at the transaction dates according to BAS 21: "The effect of changes in Foreign Exchange Rates". Monetary assets and liabilities denominated in the foreign currencies are translated at prevailing rates on the balance sheet (financial position) date. Non monetary assets and liabilities denominated in foreign currencies, which are related at historical cost, are translated into Bangladeshi Taka at the exchange rate ruling at the date of transactions. Foreign exchange fluctuation gain/losses are charged to Statement of profit or loss and other comprehensive income for the respective period.

### **3.6 Financial Expenses**

Financial costs comprise of interest expense on short term loan. The costs are charged to revenue except those are capitalized in accordance with BAS 23: Borrowing Costs.

### **3.7 Financial Instruments**

Non-derivative financial instruments comprise trade receivables, trade payables, cash and cash equivalents and share capital.

#### **Trade Receivables**

Trade receivables are recognized initially at invoice value and subsequently measured at the remaining amount less allowance for doubtful receivable at the year end, if any. Receivables from foreign currency transactions are recognized in Bangladeshi Taka using exchange rates prevailing on the date of transaction.

#### **Trade Payables**

Liabilities are recorded at the amount payable for settlement in respect of goods and services received by the company.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash in hand and with banks on current and deposit accounts and short term investments which are held and available for use by the company without any restriction. There is insignificant risk of change in value of the same.

**Share Capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effect.

**3.08 Taxation**

**3.08.1 Current Tax**

No provision is made for income tax since the Company is situated in Export Processing Zone, Comilla and as per Income Tax Ordinance 1984 vide IRD SRO No. 289-Law/89, dated 19 August 1989, all industries operated in the Bangladesh Export Processing Zone (BEPZ) have been exempted from payment of income tax for a period of 10 years from the date of commercial operation.

**3.08.2 Deferred Tax**

Deferred tax arises due to temporary difference deductible or taxable for the transaction which is recognized in the income statement. A temporary difference between the tax base of an asset or liability and its carrying amount/or amount in the Statement of Financial Position. Deferred tax assets or liability is the year income tax recoverable or payable in future period recognized in the current period "BAS 12: Income Tax".

Since the income of the company is exempted from tax. So the calculation of deferred tax is not required for the company.

**3.09 Provisions**

As per "BAS 37: Provisions, Contingent Liabilities and Contingent Assets" a provision recognized on the date of statement of financial position if, as a result of past event Company has a present obligation that can be estimated reliably, and it is probable outflow of economic benefits will be required to settle the obligation.

**3.10 Contingencies**

Contingencies arising from claim, litigation assessment, fines, penalties etc are recorded if it is probable that a liability has been incurred and the amount can be measured reliably accordance with "BAS 37: Provisions, Contingent Liabilities and Contingent Assets".

**3.11 Earnings per Share (EPS)**

This has been calculated in compliance with the requirements of "BAS 33: Earnings per Share" by dividing the basic earnings by the weighted average number of ordinary Shares outstanding during the year.

**Basic Earnings**

This represents earnings for the period attributable to the ordinary shareholders. As there are no preference dividends, minority interest or extra ordinary items, the net profit for the year has been considered as fully attributable to ordinary shareholders. Basic earnings per share has been calculated by dividing the net profit or loss by the number of ordinary shares outstanding during the year.

**Diluted Earnings Per Share (DEPS)**

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding, for the effect of all dilutive potential ordinary shares. However, dilution of EPS is not applicable for these financial statements as there were no potential ordinary shares during the relevant period.

**3.12 Segment Reporting**

No segmental reporting is applicable for the company as required by "BAS 14: Segment Reporting" as the company operates in a single industry segment and within a single geographical segment.

**3.13 Event after Statement of Financial Position Date**

In compliance with the requirements of "BAS-10: Event After the reporting period" that provide additional information about the company's position at the date of the financial position are reflected in the financial statements and events after the reporting period that are not adjusting events are disclosed in the notes when materials.

There was no significant event that has been occurred between the statement of financial position date and the date on which the financial statements are authorized for issue.

**3.14 Worker's Profit Participation & Welfare Funds**

Accordance with the requirement of section 234 of labour Act. 2006, the company should contributed 5% of net profit before charging the amount to the aforementioned fund. But the company established in Comilla Export Processing Zone and the always comply only BEPZA rules relating to services matter concerning workers and officers employed in the company operating in the Export Processing Zone of Bangladesh, which imposed by BEPZA. There is no provision for workers' participation fund in Company's profits at BEPZA rules.

On the other hand, the company has been paying against "Workers Welfare Fund" to BEPZA since 1<sup>st</sup> February 2013, the date of implementation of the fund by BEPZA and the expenses have already been included into "Employee Welfare Expense" which presented in the statement of profit or loss and other comprehensive income.

**3.15 Financial Risk Management Policies**

The company is exposed to normal business risks from changes in market interest rates and currency exchange rates and from non-performance of contractual obligations by counterparties. The company does not hold or issue derivative financial instruments for speculative or trading purposes.

**Interest Rate Risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The majority of the interest rate exposure arises from short and long term borrowings from banks. The company has no significant risk of fluctuations in interest rates.

**Foreign Currency Risk**

The company is exposed to foreign currency risk relating to purchases and sales which are denominated in foreign currencies. The company primarily utilizes forward exchange contracts with maturities of less than one year to hedge such financial liabilities denominated in foreign currencies. The forward exchange contracts entered into at the reporting date also relate to anticipated purchases, denominated in foreign currencies, for the subsequent period.

**Credit Risk**

Credit risk is the potential financial loss resulting from the failure of a customer or counterparty to settle its financial and contractual obligations to the company as and when they fall due.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. At the reporting date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. However, due to the large number of parties comprising the group's customer base, Management does not anticipate material losses from its debt collection.

Credit risk is the risk which arises with the possibility that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties.



