# Dost Steels Limited

# ANNUAL REPORT 2011

The Next Generation Steel

# CONTENTS

## Our Vision

- To recognize globally as a leading supplier of steel large bar of the highest quality standards, with market leading standards of customer service.
- Business development by adoption of emerging technologies, growth in professional competence, support to innovation. Enrichment of human resources and performance recognition.

## Our Mission

- To manufacture and supply high quality steel large bar to the construction sector whilst adopting safe and environmentally friendly practices.
- To remain the preferred and consistent supply source for various steel products in the country.
- Offer products that are not only viable in terms of desirability and price but most importantly give true and lasting value to our customers.
- To fulfill social obligation and compliance of good governance.
- Ensure that the business policies and targets are in conformity with national goals.
- Deliver strong returns on investments of our stakeholders by use of specialized and high quality corporate capabilities with the combined use of modern bar mill practices, enterprise class software on a web based solution and targeted human resource support.

## Corporate Strategies

- Ensure that the business policies and targets are in conformity with national goals.
- Establish a better and safer work environment for all employees.
- Contribute in national efforts towards attaining sustainable self-efficiency in steel products.
- Customer's satisfaction by providing best value and quality products.
- Maintain modern management system conforming to international standards needed for an efficient organization.
- Ensure to foster open communications, listen, and understand other perspectives.
- Acquire newer generation technologies for effective and efficient operations.

# COMPANY INFORMATION

**Board of Directors**

| | |
|---|---|
| Mr. Jamal Iftakhar | Chairman / Chief Executive Officer |
| Mr. Zahid Iftakhar | Director |
| Mr. Faisal Zahid | Director |
| Mr. Bilal Jamal | Director |
| Mr. Hamza Raees | Director |
| Mr. Saad Zahid | Director |
| Mr. Mustafa Jamal | Director |

**Audit Committee**

| | |
|---|---|
| Mr. Faisal Zahid | Chairman of Committee |
| Mr. Bilal Jamal | Member |
| Mr. Saad Zahid | Member |
| Mr. Zahid Iftakhar | Company Secretary |

**Chief Financial Officer**

Mr. Sajid Ahmed Ashrafi

**Company Secretary**

Mr. Zahid Iftakhar

**Bankers**

Faysal Bank Limited
National Bank of Pakistan
Askari Commercial Bank Limited
NIB Bank Limited
Bank of Khayber
Pak Kuwait Investment Co. (Pvt) Ltd
The Royal Bank of Scotland
Saudi pak Industrial & Agricultural Investment Co. Ltd.
United Bank Limited

**Auditors**

Haroon Zakaria & Company
Chartered Accountants

**Legal Advisor**

Mr. Zahoor Shah
Advocate High Court
Suit # 509, 5th Floor,
Panorama Centre No. 2,
Raja Ghazanfar Ali Road
Saddar, Karachi

**Shares Registrar**

M/s. Your Secretary (Pvt.) Ltd.,
Suit no. 1020, 10th Floor,
Uni Plaza, I. I. Chundrigar Road,
Karachi-74200.
Ph: 92 021-32428842, 32416957
Fax: 92 021-32427790
E mail: ysecr@hotmail.com

**Registered/Head Office**

Plot # 222, Sector – 39,
Korangi Creek Industrial Area,
Karachi – 74900
Ph # 021-35110421-22
Fax # 021-35110423

**Mills**

Bhai Pheru, 52 Km Lahore
Multan Road

**Web Presence**

www.doststeels.com

# DOST STEELS LIMITED

## Notice of the 8th Annual General Meeting

NOTICE is hereby given that the 8th Annual General Meeting of the Shareholders of M/s. Dost Steels Limited, will be held on Thursday, 27th October 2011 at 09:00 a.m. at its registered office situated at Plot # 222, Sector - 39, Korangi Creek Industrial Area, Karachi-74900 to transact the following business:-

**Ordinary Business**

1. To confirm the minutes of the last Annual General Meeting held on 27th October 2010.

2. To receive, consider and adopt the annual audited accounts of the Company together with the report of Directors and Auditors thereon for the year ended June 30, 2011.

3. To appoint Auditors of the Company for the year ending 30th June 2012 and to fix their remuneration.

4. To transact any other business with the permission of the Chair.

**By order of the Board**

**Karachi**
Dated: 5th October 2011

**Zahid Iftakhar**
Company Secretary

**NOTES:**

1. The Shares Transfer Books of the Company will remain close from 20-10-2011 to 27-10-2011 (both days inclusive)

2. A member entitled to attend and vote at the meeting is entitled to appoint another member as a proxy to attend. Speak and vote on his/her behalf. A corporation being a member may appoint as its proxy any of its official or any other person whether a member of the company or otherwise.

3. An instrument of proxy and a Power of Attorney or other authority (if any) under which it is signed, or notarized copy of such Power of Attorney must be valid and deposited at the Share Register of the Company M/s. Your Secretary (Pvt.) Ltd., Suit no. 1020, 10th Floor, Uni Plaza, I. I. Chundrigar Road, Karachi-74200. Not less than 48 hours before the time of the Meeting.

4. Those shareholders, whose shares are deposited with Central Depository Company of Pakistan Ltd. (CDC) are requested to bring their original Computerized National Identity Card (CNIC) along with participant's Id number and their account/sub-account numbers in CDC to facilitate identification at the time of Annual General Meeting.

5. Shareholders are requested to notify the Company of the change in their address, if any, to our Share Registrar M/s. Your Secretary (Pvt.) Ltd.,

# DIRECTORS' REPORT TO THE SHARE HOLDERS

**DEAR MEMBERS ASSALAM-O-ALEKUM**

On behalf of my colleagues on the Board, I welcome you to the 8th Annual General Meeting of your Company and present before you the annual report, along with the audited financial statements of your company for year ended June 30, 2011.

## COMPANY'S PLANT STATUS

The cold commissioning and testing of the electrical and mechanical systems had been completed in mid 2008. Re-checking of mechanical and electrical cold commissioning stages in the presence of Italian technicians, hot commissioning simulations and trials are to the scheduled, subject to financial restructuring of DSL. It would take a period of 6 months for the company to come into production from the dated of funding.

## FINANCIAL RESTRUCTURING

The company has awarded its mandate to the National Bank of Pakistan for its financial restructuring. The National Bank of Pakistan in turn has mandated Ernst & Young Ford Rhodes Sidat Hyder for conducting of financial, technical and commercial due diligence of Dost Steels Ltd. The financial, technical and commercial due diligence is being carried out jointly by following consultants and is expected to be completed by the end of September 2011.

- Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants (Lead Advisor)
- Advance Engineering Associates (Electrical Engineering Consultant)
- A. A. Associates (Civil Engineering Consultant)
- Industrial Development & Engineering Associates (Mechanical Engineering Consultant)

The National Bank of Pakistan has also mandated Mohsin Tayabaly & Company for conducting of legal due diligence of Dost Steels Ltd.

## FUTURE PROSPECTS

Presently there is a deficiency in the quality and quantity of the ASTM, BS and EURO standards complaint rebar produced under these standards. The defense and allied sectors require grade compliant rebar and DSL is being pursued for delivery of this grade of rebar. There is demand for high strength deformed steel bars from this sector for special grades that have hitherto been imported from abroad and can now be catered to by DSL from its range of production. There is a need to bring DSL into production to be able to start catering to the demand.

## AUDITORS' RESERVATIONS

The auditors in their report to the members have expressed reservation about the Company's ability to continue as a going concern. The company maintains that since there has not been any material change from previous year, the financial statements for the year under review have been prepared on "going concern basis" and the reasons thereof have been more fully explained in Note No. 1 of the Notes to the financial statements.

Pakistan Kuwait Investment Company (Private) Limited (the lender) has claimed for recovery of Rs.122.197 million. The lender has advanced the loan as a part of consortium syndicate as discussed in note 12.2. The management is confident the suit is likely to be rejected as the lender has filed a suit without the approval of agent of the consortium syndicate as required under the finance agreement.

The suit has been filed against the Company by one of the trade creditors of the Company in High Court of Sindh for recovery of Rs. 18.996 million. In addition to this, the said creditor has also filed a petition of winding up against the Company on account of aforesaid unpaid debt. Both of these suits are at the stage of hearing therefore the probable outcome of the suit or related liability is not determinable at this stage. Hence no provision is made in these financial statements.

As stated above that the company is defending a suit for the recovery of loan filed by Pak Kuwait Investment Company and also given mandate to the National Bank of Pakistan for its financial re-structuring. Therefore markup on Term Loan has not been charged in these financial statements.

Confirmations from the six syndicate banks have not been responded. However there is no receipt or payment of Term Loan during current financial year and outstanding balances of Term Loans by all the Syndicate Banks remain unchanged.

Since the company has not sufficient funds to discharge its market debts. Trade creditors are also not replying promptly to the confirmations sent them every year.

As company in not in operation and Fixed Assets are not being used, therefore depreciation has not been charged in these financial statements.

**EARNING/(LOSS) PER SHARE**

The basic and diluted (Loss) per share on June 30, 2011 was Rs.(0.16) as compared to Rs.(0.16) on June 30, 2010.

**AUDITORS**

The auditors Haroon Zakaria & Co., Chartered Accountants, retire and offered themselves for reappointment. The Audit Committee and the Board of Directors of the Company have endorsed their appointment for shareholders consideration at the forthcoming Annual General Meeting. The external auditors have been given satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan.

**CORPORATE AND FINANCIAL REPORTING FRAMEWORK**

The Directors are pleased to state that all the necessary steps have been taken to comply with requirements of the Code of Corporate Governance as required by Securities & Exchange Commission of Pakistan (SECP).

Following are the Statements on Corporate and Financial Reporting frame work:

- The financial statements prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of accounts have been maintained by the Company.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- In preparation of these financial statements International Accounting Standards, as applicable in Pakistan, have been followed.
- The system of internal control is sound in design. The system is being continuously monitored by Internal Audit and through other such monitoring procedures. The process of monitoring internal controls will continue as an ongoing process with the objective to further strengthen the controls and bring improvements in the system.
- There are no doubts upon the Company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the Listing Regulations.

- The summary of key operating and financial data of the Company of last six years is annexed in this report.
- Information about taxes and levies is given in the notes to the accounts.

During the year four (4) meetings of the Board of Directors were held. Attendance by each Director was as follows:

| Name of Directors | No. of meetings attended |
|---|---|
| Mr. Jamal Iftakhar | 04 |
| Mr. Zahid Iftakhar | 04 |
| Mr. Faisal Zahid | 04 |
| Mr. Hamza Raees | NIL |
| Mr. Bilal Jamal | 04 |
| Mr. Saad Zahid | 04 |
| Mr. Mustafa Jamal | 04 |

Leave of absence was granted to Directors who could not attend some of the Board meetings.

**PATTERN OF SHAREHOLDING**

The pattern of shareholding as per Section 236 of the Companies Ordinance, 1984 is attached separately on page 34 . No trade in the shares of the company was carried out by CEO, CFO, Company Secretary, their spouses and minor children except those that have been duly reported as per the law except following:

| Name of Director | Shares Sold |
|---|---|
| Mr. Jamal Iftakhar | Nil |
| Mr. Zahid Iftakhar | Nil |
| Mr. Faisal Zahid | Nil |
| Mr. Hamza Raees | Nil |
| Mr. Bilal Jamal | Nil |
| Mr. Saad Zahid | Nil |
| Mr. Mustafa Jamal | Nil |

**FINANCIAL STATEMENTS**

The financial statements of the company have been duly audited and approved by the auditors of the Company, Haroor Zakari & Co., Chartered Accountants and their report is attached with the financial statements. No material changes and commitments affecting the financial position between the end of the financial year to which this balance Sheet relates and the date of the Directors Report.

**ACKNOWLEDGEMENT**

The Board of Directors once again acknowledges the cooperation of its shareholders, project partner, bankers, supplier's, employees who are helping the Company in its efforts to consolidate and commence commercial operations.

On behalf of the Board of Directors

**Jamal Iftakhar**
Chief Executive

Karachi : 21st September 2011

# Statement of Ethics and Business Practices

Dost Steels Limited is engaged in the manufacturing of hot rolled high tensile, reinforcement bars (rebars) and allied products with the object to achieve sustainable productivity, profitability and high standard of safety, occupational health and environmental care. The company solemnly believes in the application of business ethics as have been embodied in this documents.

All employees are bound by the following ethical obligations, and each agrees that he or she will:

- The Company discloses the Code of Ethic and Business Practices in Company's Annual Report and also that the Code is maintained on the website as well.
- Perform his or her duties in an honest and ethical manner.
- Refrain from engaging in any activity or having a personal interest that presents an actual or apparent conflict of interest.
- Take all necessary actions to ensure full, fair, accurate, timely and understandable disclosure in report and documents that the Company files with or submits to government agencies and in other public communications.
- Comply with all applicable laws, rules and regulations of federal, provincial and local governments.
- Proactively promote and be an example of ethical behavior in the work environment.
- Will not support any political party nor contribute to the funds of groups whose activities promote party interest.
- It is important that all disclosure in reports and documents that the Company files with Securities and Exchange Commission of Pakistan, Stock Exchanges, Federal and Provincial Government, Autonomous Bodies and in other General Public communications, fair, accurate, timely and understandable.
- Company assets both tangible and intangible are to be used only for legitimate business purposes of the Company and by authorized employees. Make best use of Company's equipment, system and technological methods in order to have fast and reliable communication and strong MIS system in accordance with Company's guidelines.
- Conduct Company's business with integrity and endeavor to deal honestly with the customers, suppliers, competitors, and employees under the laws prevailing in the country.
- All confidential information concerning the Company is the property of the Company and must be protected. Confidential information includes the company's trade secrets, business trends and projections, information about financial performance, new product or marketing plans, manufacturing processes, information about potential acquisitions, divestitures and investment, significant personnel changes, existing and potential major contracts, orders, suppliers, customers or finance sources and any other material information which directly relates with share price sensivity of the company.

- Agrees that Company is an equal opportunity employer. Its employee recruitment and promotional policies are free of any gender bias, and is merit, and excellence oriented. It believes in providing its employees safe and healthy working environment, and in maintaining good channels of communications.

- Agrees that Company strives to serve best interest of its shareholders to provide consistent growth and a fair rate of return on their investment, to maintain our position and reputation as a leading company, to protect shareholders investment and to provide full and timely information. By conducting our business in accordance with the principles of fairness, decency and integrity set forth here, we help to build shareholder value.

- By accepting employment with the company, each is now accountable for compliance with these standards of conduct and with all laws and regulations of the Company.

# STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 35, of listing regulations of Karachi Stock Exchange (Guarantee) Limited for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The company has applied the principles contained in the Code in the following manner:

1. The Company encourages the representation of independent non-executive Directors on its Board of Directors (the Board). At present, the Board includes four (4) non-executive directors. The company encourages representing of minority shareholders on the Board, however, none of the minority shareholder offered himself for election.

2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.

3. All the directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a Development Financial Institution or a Non-banking Financial Institution. None of the directors of the company are members of any Stock Exchange.

4. No casual vacancy has occurred during the year.

5. ‘Statement of Ethics and Business Practices’ has been developed, which has been signed by all the directors and employees of the company.

6. The Board has developed a vision/mission statement, overall corporate strategy, and significant policies of the company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.

8. The meeting of the board were presided over by the Chairman and in his absence, by a director elected by the Board for this purpose. The Board met at least once in every quarter. Written notices of the Board meetings, alongwith agenda and working papers, were circulated at least seven (7) days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. In-house orientations for the Directors were made, as and when required, to apprise them of their duties and responsibilities. The Directors are conversant with the relevant laws applicable to the Company including the Companies Ordinance, 1984, Listing Regulations, Code of Corporate Governance, Company Memorandum and Articles of Association and other relevant rules and regulations and are aware of their duties and responsibilities.

10. The Board has approved the appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.

11. The Directors’ report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The CEO and CFO duly endorsed the financial statement of the Company before approval of the Board.

13. The directors, CEO and executives do not hold any interest in the shares of the company other then that disclosed in the pattern of shareholding.

14. The company has complied with all the corporate and financial reporting requirements of the Code.

15. The meetings of the audit committee were held at least once in every quarter after listing prior to approval of interim and final results of the Company as required by the Code. The terms of reference of the committee have been determined and approved by the Board of Directors and advised to the committee for compliance.

16. The Board has formed an Audit Committee. It comprises of three members, all of whom are non-executive Directors including the Chairman of the Committee. It requires that at least two members of the Audit Committee must be financially literate.

17. The statutory auditors of the company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guideline on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

18. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

19. The Company maintains a list of related parties which is updated on a regular basis. All transactions with related parties are placed before the Audit Committee on a quarterly basis and are approved by the Board along with the methods of pricing.

20. The Management of the Company is committed to good corporate governance, and appropriate steps are taken to comply with the best practices.

21. We confirm that all other material principles contained in the Code have been complied with.

**Jamal Iftakhar**
Chief Executive Officer
Karachi, 21st September 2011

**REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE**

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **DOST STEELS LIMITED** ("the Company") to comply with the Listing Regulation No. 35 (Previously Regulation No. 37) of Karachi Stock Exchange (Guarantee) Limited, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Sub- Regulation (xiii a) of Listing Regulation No. 35 (previously Regulation No. 37) notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were under taken at arm's length price.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company the year ended 30 June 2011.

**Haroon Zakaria & Company**
**Chartered Accountants**

**Place:** Karachi
**Date:** 21st September 2011



Room 211, 2nd Floor, Progressive Plaza,
Plot No. 5 - CL -10, Civil Lines Quarter,
Beaumont Road, Near Dawood Center,
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# AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **DOST STEELS LIMITED** as at June 30, 2011 related profit and loss account, statement of comprehensive income, cash flow statement statement of changes in equity together with the notes forming part thereof, for the year then en and we state that we have obtained all the information and explanations which, to the best of knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of inte control, and prepare and present the above said statements in conformity with approved accoun standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to expres opinion on these statements based on our audit.

Except as discussed in paragraph (c) & (d) below, we conducted our audit in accordance with auditing standards as applicable in Pakistan. These standards require that we plan and perform audit to obtain reasonable assurance about whether the above said statements are free of any mate misstatement. An audit includes examining, on test basis, evidence supporting the amounts disclosures in the above said statements. An audit also includes assessing the accounting policies significant estimates made by management, as well as, evaluating the overall presentation of above said statements. We believe that our audit provides a reasonable basis for our opinion and, a due verification, we report that:

(a) As explained in note 1 to the financial statements, the Company has prepared the anne financial statements on the going concern basis assumption. However, as on June 30, 20 the Company has accumulated losses of Rs.74.182 (2010: Rs.63.675) million and its cur liabilities exceeded its current assets by Rs.1,425.354 (2010: Rs.1,256.093) million. Du the year, the Company has incurred a net loss of Rs.10.508 (2010 : Rs.10.787) mill Further, the Company has failed to discharge the overdue portion of its long term loans fi banking companies amounting to Rs.764.336 million.

In addition to above, the Company has failed to commence its commercial production du liquidity crises and funding is not being made by syndicated banks. One of the bank company of syndicated loan has also filed suit for the recovery of its outstanding amoun the Company has not discharged its liability as mentioned in note 16.1.1. The Compan also a defendant in a law suit filed by one of the trade creditors of the Company for winc up as the Company is unable to discharge its obligation as stated in note 16.1.3.

These events indicate a material uncertainty that may cast significant doubt on the compar ability to continue as a going concern and therefore the Company may be unable to realiz assets and discharge its liabilities in the normal course of business. Consequently necess adjustments and classification as to the recorded assets and liabilities have not been mad these financial statements.

(b) The Company has not charged mark up of Rs.159.261 million during the year on outstanc balance of long term loans from banking companies. Had the mark up been charged in th financial statements net loss for the year and accumulated losses of the Company would h been increased by the same amount.



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E-Mail : info@hzco.com.pk
URL : http://www.hzco.co

(c) Confirmations to six participants of syndicated loan and bankers for bank balances remai unresponded; therefore relevant facts relating to these balances could not be substantiated.

(d) We did not receive any response to our confirmations sent to the trade creditors stated Rs.34.369 million and were unable to satisfy ourselves by alternative means.

(e) The Company has not charged depreciation of Rs.1.145 million during the year on prope plant and equipment. Had the depreciation been charged in these financial statements net l for the year and accumulated losses of the Company would have been increased by the sa amount.

(f) In our opinion except as stated in paragraph (b) and (e) above, proper books of accounts h been kept by the Company as required by the Companies Ordinance, 1984;

(g) In our opinion;

(i) the balance sheet and profit and loss account together with the notes thereon have b drawn up in conformity with the Companies Ordinance, 1984 and are in agreem with the books of accounts and are further in accordance with accounting polic consistently applied;

(ii) the expenditure incurred during the year was for the purpose of the Compan business; and

(iii) the business conducted, investments made and the expenditure incurred during the y were in accordance with the objects of the Company;

(h) owing to the significance of the matters stated in paragraph (a) to (e) above and possi adjustments that may required but are not determined, in our opinion and to the best of information and according to the explanations given to us, the balance sheet, profit and l account, statement of comprehensive income, cash flow statement and statement of chan in equity together with the notes forming part thereof do not give a true and fair view of state of the Company's affairs as at June 30, 2011 and of the loss, total comprehensive lo its cash flows and changes in equity for the year ended with the approved accounti standards as applicable in Pakistan, and information required by the Companies Ordinan 1984, in the manner so required.

(i) In our opinion, no zakat was deductible at source under the Zakat and Usrh Ordinance, 19 (XVII of 1980).

**Haroon Zakaria & Company**
**Chartered Accountants**

**Place:** Karachi
**Dated:**

**Engagement Partner:**
**Zakaria**

**DOST STEELS LIMITED**
**BALANCE SHEET**
**AS AT JUNE 30, 2011**

| | Note | *2011 Rupees* | *2010 Rupees* |
|---|---|---|---|
| ***ASSETS*** | | | |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 4 | **2,014,249,653** | 2,011,228,819 |
| Long term deposits | 5 | **21,673,345** | 22,807,345 |
| Deferred tax asset | 6 | - | - |
| | | **2,035,922,998** | 2,034,036,164 |
| **Current Assets** | | | |
| Advances | 7 | **638,094** | 563,415 |
| Short term prepayment | | - | 165,000 |
| Tax refund due from government | 8 | **442,998** | 369,130 |
| Other receivable | 9 | **66,547** | 78,975 |
| Cash and bank balances | 10 | **129,421** | 175,376 |
| | | **1,277,060** | 1,351,896 |
| **Total Assets** | | **2,037,200,058** | 2,035,388,060 |
| ***EQUITY AND LIABILITIES*** | | | |
| **Share Capital and Reserves** | | | |
| **Authorized share capital** | | | |
| 70,000,000 ordinary shares of Rs. 10 each | | **700,000,000** | 700,000,000 |
| Issued, subscribed and paid up capital | 11 | **674,645,000** | 674,645,000 |
| Reserves | | **(74,182,488)** | (63,674,856) |
| **Shareholders' Equity** | | **600,462,512** | 610,970,144 |
| **Non-Current Liabilities** | | | |
| Provision for gratuity | | **4,550,902** | - |
| Long term loans | 12 | **5,555,553** | 166,972,721 |
| | | **10,106,455** | 166,972,721 |
| **Current Liabilities** | | | |
| Current and overdue portion of long term loans | 12 | **925,752,684** | 764,335,516 |
| Short term borrowings | 13 | **255,973,012** | 249,061,508 |
| Trade and other payables | 14 | **41,055,375** | 40,198,151 |
| Markup accrued | 15 | **203,850,020** | 203,850,020 |
| | | **1,426,631,091** | 1,257,445,195 |
| **Contingencies and Commitments** | 16 | | |
| **Total Equity and Liabilities** | | **2,037,200,058** | 2,035,388,060 |

The annexed notes form an integral part of these financial statements

***Chief Executive*** ***Director***

***DOST STEELS LIMITED***
***PROFIT AND LOSS ACCOUNT***
***FOR THE YEAR ENDED JUNE 30, 2011***

| | Note | ***2011 Rupees*** | *2010 Rupees* |
|---|---|---|---|
| Administrative expenses | 17 | **(10,654,102)** | (10,954,800) |
| Other operating income | 18 | **146,470** | 168,034 |
| **Loss before taxation** | | **(10,507,632)** | (10,786,766) |
| Taxation | 19 | - | - |
| **Loss after taxation** | | **(10,507,632)** | (10,786,766) |
| **Loss per share** | 20 | **(0.16)** | (0.16) |

The annexed notes form an integral part of these financial statements

***Chief Executive***

***Director***

***DOST STEELS LIMITED***
***STATEMENT OF COMPREHENSIVE INCOME***
***FOR THE YEAR ENDED JUNE 30, 2011***

| | ***2011*** ***Rupees*** | *2010* *Rupees* |
|---|---|---|
| Loss for the year | **(10,507,632)** | (10,786,766) |
| Other comprehensive income | - | - |
| **Total comprehensive loss** | **(10,507,632)** | (10,786,766) |

The annexed notes form an integral part of these financial statements

***Chief Executive***

***Director***

***DOST STEELS LIMITED***
***STATEMENT OF CHANGES IN EQUITY***
***FOR THE YEAR ENDED JUNE 30, 2011***

| *Particulars* | *Share Capital* | *Revenue Reserve* | *Shareholders' Equity* |
|---|---|---|---|
| | *Issued, subscribed and paid up* | *Accumulated loss* | |
| | ---------- Rupees ---------- | | |
| **Balance as at June 30, 2009** | 674,645,000 | (52,888,090) | 621,756,910 |
| Total comprehensive loss | - | (10,786,766) | (10,786,766) |
| **Balance as at June 30, 2010** | 674,645,000 | (63,674,856) | 610,970,144 |
| Total comprehensive loss | - | (10,507,632) | (10,507,632) |
| **Balance as at June 30, 2011** | **674,645,000** | **(74,182,488)** | **600,462,512** |

The annexed notes form an integral part of these financial statements

*Chief Executive*

*Director*

***DOST STEELS LIMITED***
***CASH FLOW STATEMENT***
***FOR THE YEAR ENDED JUNE 30, 2011***

| | 2011 Rupees | 2010 Rupees |
|---|---|---|
| ***A. CASH FLOWS FROM OPERATING ACTIVITIES*** | | |
| **Loss before taxation** | **(10,507,632)** | (10,786,766) |
| **Adjustment for:** | | |
| Provision for doubtful receivable | - | 1,013,468 |
| Provision for Gratuity | **4,550,902** | - |
| Depreciation | - | 1,420,726 |
| **Operating loss before working capital changes** | **(5,956,730)** | (8,352,572) |
| **(Increase) / Decrease in current assets:** | | |
| Short term prepayment | **165,000** | (165,000) |
| Advances | **(74,679)** | (62,615) |
| Other receivable | **12,428** | 8,775 |
| | **102,749** | (218,840) |
| **Increase / (Decrease) in current liabilities:** | | |
| Trade and other payables | **857,224** | (17,995,591) |
| Cash used in operations | **(4,996,757)** | (26,567,003) |
| Long term security deposits- net | **1,134,000** | 1,060,000 |
| Taxes paid | **(73,868)** | (10,743,115) |
| **Net cash used in operating activities** | **(3,936,625)** | (36,250,118) |
| ***B. CASH FLOW FROM INVESTING ACTIVITIES*** | | |
| Capital expenditure incurred | **(3,020,834)** | (912,158) |
| **Net cash used in investing activities** | **(3,020,834)** | (912,158) |
| ***C. CASH FLOW FROM FINANCING ACTIVITIES*** | | |
| Receipts of Short term Financing | **6,911,504** | 15,677,101 |
| **Net cash generated from financing activities** | **6,911,504** | 15,677,101 |
| **Net (decrease) / increase in cash and cash equivalents** | **(45,955)** | 1,055 |
| **Cash and cash equivalents at beginning of the year** | **175,376** | 174,321 |
| **Cash and cash equivalents at end of the year** | **129,421** | 175,376 |

The annexed notes form an integral part of these financial statements

***Chief Executive*** ***Director***

## *1. LEGAL STATUS AND NATURE OF BUSINESS*

Dost Steels Limited (the Company) was incorporated in Pakistan on March 19, 2004 as a private limited company under the Companies Ordinance, 1984 (The Ordinance). The Company was converted into public limited company with effect from May 20, 2006 and then listed on the Karachi Stock Exchange (Guarantee) Limited with effect from November 26, 2007. The registered office of the Company is situated at Plot No. 222, Sector - 39, Korangi Creek Industrial Area, Karachi 74900. The principal business of the Company include manufacturing of steel, direct reduced iron, sponge iron, hot briquetted iron, carbon steel, pig iron and special alloy steel in different forms.

The Company has incurred a net loss of Rs.10.508 (2010 : Rs.10.787) million and its accumulated losses are Rs.74.182 (2010 : Rs.63.675) million. Its current liabilities exceeds its current assets by Rs.1,425.354 (2010 : Rs.1,256.093) million. Further, the Company has insufficient funds to repay its overdue liabilities, owed to banking companies amounting to Rs.764.336 (2010 : Rs.545.015) million.

Further, the Company is defendant in a law suit filed by one of the trade creditors of the Company during the year for winding up as the Company is unable to discharge its outstanding balance as well as the Company has failed to commence its commercial production during the year. Due to these factors material uncertainty arises which may create doubts regarding the Company's ability to continue as going concern and accordingly the Company may not be able to realize its assets and discharge its liabilities at the stated amounts.

However, the Company is still maintaining a positive relationship with the lead agent of syndicated loan. Further, the Company has also given a mandate to National Bank of Pakistan to make adequate plans and take necessary actions that are required for commencement of Company's commercial operations. Therefore the company expects that adequate inflows will be generated in the future years which will wipe out these losses. Due to strong chances of success of these plans, the financial statements are prepared on the basis of going concern assumption.

## *2. BASIS OF PREPARATION*

### *2.1. Statement of Compliance*

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions of, or directives issued under the Companies Ordinance, 1984 shall prevail.

### *2.2. Functional and Presentation Currency*

These financial statements are presented in Pak Rupee, which is the Company's functional currency. All financial information presented in Pak Rupee has been rounded to the nearest of Rupees, unless otherwise stated.

### *2.3. Basis of Measurement*

These financial statements have been prepared under the historical cost convention except as otherwise disclosed in these financial statements. Further accrual basis of accounting has been followed except for cash flow information.

### *2.4. Use of Estimates And Judgments*

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of asset, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows: -

- ***Property and Equipment***

  The Company estimates the rate of depreciation of property and equipment. Further, the Company reviews the value of the assets for possible impairment on an annual basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property and equipment with a corresponding effect on the depreciation charge and impairment.

- ***Income Taxes***

  In making the estimates for income taxes currently payable by the Company, the management looks at the current income tax law and the decisions of appellate authorities on certain issues in the past.

- ***Trade receivables***

  The Company regularly reviews its trade and other receivables in order to estimate the provision required against bad debts.

- ***Employee benefits***

  These are estimated by multiplying years of service with last drawn salary which will be different at each reporting date.

***2.5. Standards, amendments to approved accounting standards and new interpretations becoming effective during the year ended June 30, 2011:***

There are certain new approved accounting standards, amendments to approved accounting standards and interpretations that are mandatory for accounting periods beginning on or before January 1, 2010 but are considered not to be relevant or to have any significant effect on the Company's operations and are, therefore, not disclosed in these financial statements.

***Standards, amendments to approved accounting standards and interpretations that are not yet effective and have not been early adopted by the Company:***

The following standards, amendments and interpretations of approved accounting standards are only effective for annual periods beginning from the dates specified below. These standards are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements, other than increased disclosures in certain cases:

- Presentation of items of Other Comprehensive Income (Amendments to IAS 1: Presentation of Financial Statements) effective for annual periods beginning on or after 1 July 2012.
- Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12) effective for annual periods beginning on or after 1 January 2012.
- IAS 19 Employee Benefits (amended 2011) effective for annual periods on or after 1 January 2013.
- Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14) effective for annual periods beginning on or after 1 January 2011.
- IAS 24 Related Party Disclosures (revised 2009) effective for annual periods beginning on or after 1 January 2011.
- Disclosures - Transfers of Financial Assets (Amendments to IFRS 7) effective for annual periods beginning on or after 1 July 2011.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1. Property, Plant and Equipment

These are internally measured at cost subsequent to initial recognistion these are stated at cost less accumulated depreciation and impairment losses, if any, except for freehold land and capital work-in-progress, which are stated at cost. Depreciation on fixed assets is charged to income by applying reducing balance method at the rates specified in the relevant note.

Full year's depreciation is charged on the assets acquired during the year, whereas, no depreciation is charged in the year of disposal.

Normal repairs and maintenance are charged to income as and when incurred. Major renewals and improvements are capitalized.

Gain/ loss on disposal of fixed assets are recognized in the profit and loss account.

The assets' residual values and useful lives are continually reviewed by the Company and adjusted if impact on depreciation is significant. The company's estimate of residual values of property, plant and equipment as at June 30, 2011 has not required any adjustment as its impact is considered insignificant.

### 3.2. Short term prepayment, deposits and other receivable

Other receivables are stated at cost less provision for doubtful balance, if any.

Short term prepayments and deposits are stated at nominal value.

### 3.3. Cash and Cash Equivalents

Cash in hand and cash at bank, which are held to maturity, are carried at cost. For the purpose of cash flow statements, cash equivalent are short-term highly liquid instrument that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in values.

### 3.4. Long term loans

These are carried at their nominal values.

### 3.5. Trade and Other Payables

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

### 3.6. Taxation

***Current***

Provision for taxation is determined in accordance with the provisions of Income Tax Ordinance, 2001.

***Deferred***

Deferred tax is provided in full using the balance sheet liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of all deferred tax assets are reviewed at each balance sheet date and reduced to the extent, if it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized.

### *3.7. Provisions*

A provision is recognized when the Company has an obligation (legal or constructive), as a result of a past event and 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 the

### *3.8. Revenue Recognition*

Sales is recorded on dispatch of goods to customers when significant risks and rewards are transferred to the customers.

Interest income is recorded on accrual basis using effective interest rate.

### *3.9. Financial Instruments*

All the financial assets and liabilities are initially measured at fair value, and subsequently measured at fair value or amortized cost as the case may be. The Company derecognizes the financial assets and financial liabilities when it ceases to be a party to such contractual provisions

### *3.10 Off-Setting of Financial Assets And Financial Liabilities*

Financial assets and financial liabilities are 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 net basis or to realize the assets and to settle the liabilities

### *3.11 Impairment*

The carrying amounts of the company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, the assets recoverable amount is estimated and if the carrying amount of the asset is in excess of its recoverable amount, impairment loss is recognised as an expense to the extent carrying amount exceed the recoverable amount.

### *3.12 Related Party Transactions*

The Company enters into transactions with related parties for sale or purchase of goods and services on an arm's length basis. However, loan from the related parties are unsecured and

### *3.13 Foreign Currency Translation*

Foreign currency transactions are translated into Pak rupees at the rate of exchange prevailing on the date of each transaction. Assets and liabilities denominated in foreign currencies are translated into Pak rupee at the rate of exchange ruling on the balance sheet date.

### *3.14 Borrowing Cost*

Borrowing costs related to the capital work-in-progress are capitalized in the cost of the related assets. All other borrowing costs are charged to profit & loss account when incurred.

### *3.15 Staff retirement benefit*

#### *Defined Benefit Plan*

The Company has introduced an unfunded gratuity scheme for its permanent employees. Provisions are made in the financial statements to cover the obligation in respect of current and past service cost.

## 4. *PROPERTY, PLANT AND EQUIPMENT*

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | ------ Rupees ------ | |
| Operating fixed assets | 4.1 | **164,294,240** | 164,294,240 |
| Capital work-in-progress | 4.2 | **1,849,955,413** | 1,846,934,579 |
| | | **2,014,249,653** | 2,011,228,819 |

### 4.1. *Operating fixed assets*

| *Particulars* | OWNED | | | | | | *Total* |
|---|---|---|---|---|---|---|---|
| | *Freehold land* | *Furniture & fittings* | *Electric Equipments* | *Computers equipments* | *Office equipments* | *Vehicles* | |
| | ------ Rupees ------ | | | | | | |
| ***Year ended June 30, 2011*** | | | | | | | |
| Opening net book value | 157,876,220 | 1,848,943 | 2,136,490 | 635,448 | 57,191 | 1,739,948 | 164,294,240 |
| Depreciation charge | - | - | - | - | - | - | - |
| **Net book value as at June 30, 2011** | **157,876,220** | **1,848,943** | **2,136,490** | **635,448** | **57,191** | **1,739,948** | **164,294,240** |
| ***As at June 30, 2011*** | | | | | | | |
| Cost | 157,876,220 | 2,855,829 | 3,557,310 | 2,169,448 | 117,252 | 4,730,575 | 171,306,634 |
| Accumulated depreciation | - | 1,006,886 | 1,420,820 | 1,534,000 | 60,061 | 2,990,627 | 7,012,394 |
| | **157,876,220** | **1,848,943** | **2,136,490** | **635,448** | **57,191** | **1,739,948** | **164,294,240** |
| ***Year ended June 30, 2010*** | | | | | | | |
| Opening net book value | 157,876,220 | 2,175,227 | 2,513,518 | 907,783 | 67,283 | 2,174,935 | 165,714,966 |
| Depreciation charge | - | (326,284) | (377,028) | (272,335) | (10,092) | (434,987) | (1,420,726) |
| Net book value as at June 30, 2010 | 157,876,220 | 1,848,943 | 2,136,490 | 635,448 | 57,191 | 1,739,948 | 164,294,240 |
| ***As at June 30, 2010*** | | | | | | | |
| Cost | 157,876,220 | 2,855,829 | 3,557,310 | 2,169,448 | 117,252 | 4,730,575 | 171,306,634 |
| Accumulated depreciation | - | 1,006,886 | 1,420,820 | 1,534,000 | 60,061 | 2,990,627 | 7,012,394 |
| | 157,876,220 | 1,848,943 | 2,136,490 | 635,448 | 57,191 | 1,739,948 | 164,294,240 |
| Rate of Depreciation | - | 15% | 15% | 30% | 15% | 20% | |

### *4.2. Capital work in progress*

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | ------ Rupees ------ | |
| Land development | | **11,012,712** | 11,012,712 |
| Civil works | | **207,077,462** | 206,813,057 |
| Plant and machinery | | **1,207,429,763** | 1,204,673,334 |
| Unallocated borrowing costs | | **424,435,476** | 424,435,476 |
| | | **1,849,955,413** | 1,846,934,579 |

## *5. LONG TERM DEPOSITS*

| | Note | 2011 | 2010 |
|---|---|---|---|
| Utilities | 5.1 | **21,000,345** | 22,170,345 |
| Rent | | **587,000** | 587,000 |
| Others | | **86,000** | 50,000 |
| | | **21,673,345** | 22,807,345 |

***5.1.*** This security deposit against Gas of Rs 9.36 million (2010 10.53 million) repayable in 10 years having mark-up of 1.5% (2010: 1.5%) per annum.

## *6. DEFERRED TAX ASSET*

**(Taxable) / deductible temporary differences due to:**

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | ------ Rupees ------ | |
| Accelerated accounting depreciation | | **(120,146)** | 295,712 |
| Minimum tax impact | | **-** | 1,072,544 |
| Provision for gratuity | | **1,592,816** | |
| Assessed tax losses | | **24,085,159** | 19,991,629 |
| | 6.1 | **25,557,828** | 21,359,885 |

***6.1.*** Deferred tax asset has not recognized on the ground that sufficient taxable profits are not expected in foreseeable future against which the asset could be utilized.

## *7. ADVANCES*

| | 2011 | 2010 |
|---|---|---|
| | ------ Rupees ------ | |
| **Considered good** | | |
| To staff | **138,094** | 63,415 |
| For services | **500,000** | 500,000 |
| | **638,094** | 563,415 |

## 8. *TAX REFUND DUE FROM GOVERNMENT*

| | | | |
|---|---|---|---|
| Income tax refundable | | **442,998** | 369,130 |

| | Note | *2011* | *2010* |
|---|---|---|---|
| | | ------ ***Rupees*** ------ | |

## 9. *OTHER RECEIVABLE*

| | Note | 2011 | 2010 |
|---|---|---|---|
| **Considered good** | | | |
| Mark up receivable | | **66,547** | 78,975 |
| **Considered doubtful** | | | |
| Receivable against trading | | **1,013,468** | **1,013,468** |
| Provision against doubtful receivable | | **(1,013,468)** | **(1,013,468)** |
| | | **-** | **-** |
| | | **66,547** | 78,975 |

## 10. *CASH AND BANK BALANCES*

| | Note | 2011 | 2010 |
|---|---|---|---|
| Cash in hand | | **2,177** | 27,978 |
| Cash at banks - in current accounts | | **127,244** | 147,398 |
| | | **129,421** | 175,376 |

## 11. *ISSUED, SUBSCRIBED AND PAID UP CAPITAL*

| | Note | 2011 | 2010 |
|---|---|---|---|
| 67,464,500 Ordinary shares of Rs.10 each fully paid in cash | 11.1 | **674,645,000** | 674,645,000 |

*11.1* The shareholders are entitled to receive all distributions to them including dividend and other entitlements in the form of bonus and right shares as and when declared by the Company. All shares carry "one vote" per share without restriction.

## 12. *LONG TERM LOANS*

| | *Note* | *2011* | *2010* |
|---|---|---|---|
| | | ------ ***Rupees*** ------ | |
| **Secured - from banking companies** | | | |
| Faysal Bank Limited | 12.1 | **143,948,806** | 143,948,806 |
| Syndicate loan | 12.2 | **737,359,431** | 737,359,431 |
| Saudi Pak Industrial and Agricultural Investment Company Limited | 12.3 | **50,000,000** | 50,000,000 |
| | | **931,308,237** | 931,308,237 |
| Current portion | | **161,417,168** | 219,320,535 |
| Overdue portion | | **764,335,516** | 545,014,981 |
| | | **925,752,684** | 764,335,516 |
| | | **5,555,553** | 166,972,721 |

*12.1* The Company has arranged a Murabaha Finance facility aggregating to Rs. 150 million from Faysal Bank Limited for setting up the project and repayment of letter of credit facility. The facility is secured against first pari passu charge by way of mortgage of movable and immovable properties of the Company, personal guarantees of sponsors and demand promissory note in favor of the Faysal Bank Limited. The facility is repayable in 8 semi-annual installments of Rs.18.75 million commencing from after two years grace period from the final drawdown date being a date not later then 31st July 2006 or any later date as may be mutually agreed. The facility carries markup at a rate of KIBOR + 4% per annum on quarterly basis.

*12.2* The Company has arranged an aggregate finance facility of Rs. 775 million from National Bank of Pakistan, Askari Bank Limited, NIB Bank Limited, Bank of Khyber, Pakistan Kuwait Investment Company (Private) Limited and The Royal Bank of Scotland Limited as syndicate loan, whereby Faysal Bank Limited is acting as agent of the syndicate. The loan is secured against first pari passu charge by way of mortgage over the mortgaged property of the Company, first pari passu charge over the hypothecated assets of the Company, personal guarantees of sponsors and demand promissory note in favor of the syndicate. The facility is repayable in 9 semi-annual installments of Rs.86.111 million commencing after two years grace period from the final drawdown date being a date not later then 31st July 2006. The facility carries markup at a rate of KIBOR + 4% per annum on quarterly basis.

*12.3* The Company has arranged finance facility of Rs.50 million from Saudi Pak Industrial and Agricultural Investment Company Limited. The loan is secured against First Equitable Mortgage on all immovable assets of the Company plus 25% margin. The loan is repayable in 9 semi annual installments of Rs.5.56 million commencing from December 2008.

| | *2011* | *2010* |
|---|---|---|
| | ------ *Rupees* ------ | |
| ***13. SHORT TERM BORROWINGS*** | | |
| ***- Unsecured - Interest free*** | | |
| Loan from related parties | **33,829,594** | 31,009,594 |
| Loan from Directors | **222,143,418** | 218,051,914 |
| | **255,973,012** | 249,061,508 |
| ***14. TRADE AND OTHER PAYABLES*** | | |
| Trade creditors | **34,368,971** | 33,383,634 |
| Accrued expenses | **6,658,804** | 6,801,826 |
| With holding tax payable | **27,600** | 12,691 |
| | **41,055,375** | 40,198,151 |
| ***15. MARKUP ACCRUED*** | | |
| On secured loans | **203,850,020** | 203,850,020 |

## 16. CONTINGENCIES AND COMMITMENTS

### 16.1 Contingencies

***16.1.1*** Pakistan Kuwait Investment Company (Private) Limited (the lender) has claimed for recovery of Rs.122.197 million. The lender has advanced the loan as a part of consortium syndicate as discussed in note 12.2. The management is confident the suit is likely to be rejected as the lender has filed a suit without the approval of agent of the consortium syndicate as required under the finance agreement.

***16.1.2*** The suit has been filed by an ex-employee of the Company for recovery of Rs. 504,723 arrears and salary on termination from services.

***16.1.3*** The suit has been filed against the Company by one of the trade creditors of the Company in High Court of Sindh for recovery of Rs. 18.996 million. In addition to this, the said creditor has also filed a petition of winding up against the Company on account of aforesaid unpaid debt. All these suits are at the stage of hearing therefore the probable outcome of the suit is not determinable at this stage.

### 16.2 Commitment

The Company is committed to capital expenditure amounting to Rs.54.793 (2010 : Rs.40.067) million as at the balance sheet date.

## 17. ADMINISTRATIVE EXPENSES

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | ------ Rupees ------ | |
| Salaries and other benefits | 17.1. | **7,147,992** | 4,804,469 |
| Utilities | | **916,644** | 1,220,001 |
| Rent, rates and taxes | | **543,355** | 624,034 |
| Printing and stationery | | **28,417** | 293,550 |
| Vehicle running and maintenance | | **393,947** | 375,199 |
| Shares transfer expenses | | **159,922** | 351,418 |
| Telephone, postage and couriers | | **112,559** | 207,140 |
| Auditors' remuneration | 17.2 | **210,000** | 210,000 |
| Legal and professional charges | | **180,015** | 194,774 |
| Entertainment expenses | | **61,551** | 83,044 |
| Repairs and maintenance | | **1,925** | 66,206 |
| Traveling and conveyance | | **1,290** | 20,852 |
| Advertising expenses | | **24,400** | 16,000 |
| Bank charges and commission | | **4,993** | 12,219 |
| Provision for doubtful receivable | | - | 1,013,468 |
| Depreciation | 4.1 | - | 1,420,726 |
| General expenses | | **867,092** | 41,700 |
| | | **10,654,102** | 10,954,800 |

***17.1*** This includes provision for gratuity amounting to Rs. 4.551 (2010: Nil) million.

### 17.2 Auditors' Remuneration

| | 2011 | 2010 |
|---|---|---|
| Audit fee | **150,000** | 150,000 |
| Interim review fees and other certification | **55,000** | 55,000 |
| Out of pocket expenses | **5,000** | 5,000 |
| | **210,000** | 210,000 |

## 18. OTHER OPERATING INCOME

| | 2011 | 2010 |
|---|---|---|
| **Income from financial assets** | | |
| Interest on deposits | **146,470** | 168,034 |

## 19. TAXATION

| | 2011 | 2010 |
|---|---|---|
| Current | - | - |
| Deferred | - | - |
| | - | - |

### 19.1 *Tax charge reconciliation*

Reconciliation between tax expense and accounting profit has not been made because the Company has incurred tax loss during the year and turnover tax under section 113 is not applicable to the Company as the commercial production has not commenced during the year.

***19.2*** Returns for the tax year upto 2010 have been filed, which are deemed to be assessment order under provisions of the Income Tax Ordinance, 2001 however the CIR has power to re-assess any of the five preceding tax years.

## 20. *LOSS PER SHARE*

| | | 2011 | 2010 |
|---|---|---|---|
| Loss attributable to ordinary shareholders | Rs. | **(10,507,632)** | (10,786,766) |
| Weighted average number of ordinary shares in issue | | **67,467,500** | 67,467,500 |
| Loss per share - basic and diluted | Rs. | **(0.16)** | (0.16) |

## 21. *FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES*

### 21.1 *Risk management policies*

The Company's activities expose it to a variety of financial risks: capital risk, credit risk, liquidity risk and market risk (interest/mark-up rate risk and price risk). The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance. Overall, risks arising from the Company's financial assets and liabilities are limited. The Company consistently manages its exposure to financial risk without any material change from previous period in the manner described in notes below.

### 21.2 *Risk managed and measured by the Company are explained below: -*

The Board of Directors has overall responsibility for the establishment and oversight of Company's risk management framework. All treasury related transactions are carried out within the parameters of these policies. The Company has exposure to the following risks from its use of financial instruments:-

a) Credit Risk
b) Liquidity Risk
c) Market Risk

***a) Credit Risk***

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss, without taking into account the fair value of any security or collaterals held against that obligation. Credit risk arises principally from Long term deposits, Advances, Other receivables and Bank balances.

The carrying amount of the financial assets represent the maximum credit exposure. The maximum exposure to credit risk at the reporting date is:

| | 2011 | 2010 |
|---|---|---|
| | ------ Rupees ------ | |
| Long term deposits | **21,673,345** | 22,807,345 |
| Advances | **138,094** | 63,415 |
| Other receivable | **66,547** | 78,975 |
| Bank balances | **127,244** | 147,398 |
| | **22,005,230** | 23,097,133 |

**b) *Liquidity Risk***

Liquidity / cash flow risk reflects the Company's inability of raising funds to meet commitments. Management closely monitors the Company's liquidity and cash flow position. This includes maintenance of balance sheet liquidity ratios, debtors and creditors concentration both in terms of the overall funding mix. The Company is in process of negotiating with the lenders for rescheduling of long term loans. Further, the Company is working with syndicate consortium to arrange for working capital need to commence commercial production.

The following are the contractual maturities of the financial liabilities, including estimated interest payments: -

| | 2011 | | | | |
|---|---|---|---|---|---|
| | Carrying amount | Contractual cash flows | One year or less | One year to two years | More than two years |
| | --------------------Rupees-------------------- | | | | |
| *Non-derivative financial liabilities* | | | | | |
| Long term loans | 931,308,237 | (931,308,237) | (925,752,684) | (5,555,553) | - |
| Short term borrowings | 255,973,012 | (255,973,012) | (255,973,012) | - | - |
| Trade and other payables | 41,055,375 | (41,055,375) | (41,055,375) | - | - |
| Accrued markup | 203,850,020 | (203,850,020) | (203,850,020) | - | - |
| | 1,432,186,644 | (1,432,186,644) | (1,426,631,091) | (5,555,553) | - |

| | 2010 | | | | |
|---|---|---|---|---|---|
| | Carrying amount | Contractual cash flows | One year or less | One year to two years | More than two years |
| | --------------------Rupees-------------------- | | | | |
| *Non-derivative financial liabilities* | | | | | |
| Long term loans | 931,308,237 | (931,308,237) | (764,335,516) | (166,972,721) | - |
| Short term borrowings | 249,061,508 | (249,061,508) | (249,061,508) | - | - |
| Trade and other payables | 40,198,151 | (40,198,151) | (40,198,151) | - | - |
| Accrued markup | 203,850,020 | (203,850,020) | (203,850,020) | - | - |
| | 1,424,417,916 | (1,424,417,916) | (1,257,445,195) | (166,972,721) | - |

**c) *Market risk***

Market risk means that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices such as foreign exchange rates, interest rates and equity prices. The objective is to manage and control market risk exposures within acceptable parameters, while optimising the return. Market risk comprises of three types of risk: foreign exchange or currency risk, interest/mark up rate risk and price risk. The market risks associated with the Company's business activities are discussed as under:-

***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. Foreign Currency risk arises mainly where receivables and payables exist due to transactions entered into foreign currencies.

Currently the Company is not exposed to any currency risk because the company is not dealing in any foreign currency transactions.

***Interest rate risk***

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

At the balance sheet date the interest rate profile of the Company's interest-bearing financial instruments are: -

| | 2011 Rate | 2010 Rate |
|---|---|---|
| ***Financial asset*** | | |
| Fixed rate - Long term security deposit | **1.5%** | 1.5% |
| ***Financial liabilities*** | | |
| Variable rate - Long term loans | **16.34% to 17.49%** | **16.34% to 16.84%** |

*Interest rate risk cash flow sensitivity*

Since the Company is in phase of construction and errection, therefore all borrowing cost shall be capitalized as given under *IAS-23 Borrowing costs*, therefore, any change in interest rates at the reporting date would not be sensitive to profit and loss account and equity.

*Capital risk management*

The Company's objective 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 and take other measures commensurating the circumstances.

Consistent with others in the industry, the Company monitors the capital on the basis of the debt to equity ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and bank balances. Total capital is calculated as equity as shown in the balance sheet plus net debt.

| | 2011 | 2010 |
|---|---|---|
| | ------ Rupees ------ | |
| ***Total borrowings*** | | |
| Long term loans | **931,308,237** | 931,308,237 |
| Short term loans | **255,973,012** | 249,061,508 |
| | **1,187,281,249** | 1,180,369,745 |
| Cash and bank balances | **(129,421)** | (175,376) |
| **Net debt** | **1,187,151,828** | 1,180,194,369 |
| Total Equity | **600,462,512** | 610,970,144 |
| **Total Capital** | **1,787,614,340** | 1,791,164,513 |
| Gearing ratio | **66.41%** | 65.89% |

***Fair value of financial assets and liabilities***

The estimated fair value of financial instruments is not significantly different from their book value as shown in these financial statements.

## 22 TRANSACTIONS WITH RELATED PARTIES

Related parties include associated companies, directors of the company, companies where directors also hold directorship, related group companies, key management personnel, staff retirement funds and entities over which directors are able to exercise influence. All transactions involving related parties arising in the normal course of business are conducted at commercial terms and conditions, and at prices agreed based on inter company prices using admissible valuation modes, i.e. comparable uncontrolled price method except short term loan which are unsecured and interest free. There are no transactions with the key management personnel other than under their terms of employment /

Transactions with related parties and associated undertakings, other than those disclosed elsewhere in these financial statements, are follows: -

| | 2011 | 2010 |
|---|---|---|
| ***Entities over which directors have significant influence*** | **Rupees** | Rupees |
| Receipt of short term loan | **2,820,000** | 14,120,058 |
| Repayment of short term loan | - | 24,036,750 |
| ***Loans from directors*** | | |
| Receipt of short term loan | **4,091,504** | 25,593,793 |

## *23. REMUNERATION AND OTHER BENEFITS TO CEO / DIRECTORS AND EXECUTIVES*

The aggregate amount charged in the financial statements for the year for remuneration, including certain benefits, to the full time working executives of the Company is as follows: -

| | 2011 Rupees | 2010 Rupees |
|---|---|---|
| ***Remuneration to Executives:*** | | |
| Managerial | **787,500** | 408,000 |
| House rent | - | - |
| Utilities | - | - |
| | **787,500** | 408,000 |
| Number of persons | **1** | 1 |

The Company is not providing any remuneration to its chief executive and directors.

## *24. OPERATING SEGMENT*

These financial statements have been prepared on the basis of a single reportable segment. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

## *25. INSTALLED CAPACITY*

As the plant has not been completely installed to start production, therefore installed capacity could not be determined.

## *26. DATE OF AUTHORIZATION FOR ISSUE*

These financial statements have been authorized for issue by the Board of Directors of the Company on 21st September 2011 .

## *27. GENERAL*

Figures have been rounded off to nearest rupee.

*Chief Executive* *Director*

## Pattern of holding of the shares held by the Shareholders of Dost Steels Limited as at June 30, 2011

| Number of Shareholding | Shareholding From | To | Total Shares Held |
|---|---|---|---|
| 104 | 1 | 100 | 3,430 |
| 9236 | 101 | 500 | 4,601,935 |
| 1678 | 501 | 1000 | 1,666,602 |
| 2076 | 1001 | 5000 | 5,570,448 |
| 352 | 5001 | 10000 | 2,779,839 |
| 118 | 10001 | 15000 | 1,450,750 |
| 52 | 15001 | 20000 | 952,744 |
| 29 | 20001 | 25000 | 669,923 |
| 40 | 25001 | 30000 | 1,131,461 |
| 15 | 30001 | 35000 | 494,280 |
| 8 | 35001 | 40000 | 311,549 |
| 5 | 40001 | 45000 | 214,294 |
| 9 | 45001 | 50000 | 443,378 |
| 11 | 50001 | 55000 | 569,368 |
| 7 | 55001 | 60000 | 407,836 |
| 3 | 60001 | 65000 | 193,413 |
| 4 | 65001 | 70000 | 274,033 |
| 2 | 70000 | 75000 | 146,000 |
| 2 | 75001 | 80000 | 160,000 |
| 3 | 80001 | 85000 | 250,634 |
| 3 | 85001 | 90000 | 268,514 |
| 1 | 90001 | 95000 | 92,925 |
| 6 | 95001 | 100000 | 600,000 |
| 3 | 105001 | 110000 | 325,459 |
| 1 | 130001 | 135000 | 131,100 |
| 1 | 140001 | 145000 | 144,137 |
| 1 | 145001 | 150000 | 150,000 |
| 2 | 160001 | 165000 | 325,886 |
| 1 | 170001 | 175000 | 171,143 |
| 1 | 175001 | 180000 | 178,150 |
| 1 | 195001 | 200000 | 200,000 |
| 1 | 210001 | 215000 | 215,000 |
| 1 | 325001 | 330000 | 325,500 |
| 1 | 370001 | 375000 | 370,139 |
| 1 | 380001 | 385000 | 385,000 |
| 1 | 395001 | 400000 | 400,000 |
| 1 | 460001 | 465000 | 465,000 |
| 1 | 570001 | 575000 | 571,000 |
| 1 | 1025001 | 1030000 | 1,028,530 |
| 1 | 2890001 | 2895000 | 2,890,500 |
| 1 | 3420001 | 3425000 | 3,424,484 |
| 1 | 5535001 | 5540000 | 5,535,221 |
| 1 | 5540001 | 5545000 | 5,544,688 |
| 1 | 6890001 | 6895000 | 6,893,203 |
| 1 | 7150001 | 7155000 | 7,150,961 |
| 1 | 7385001 | 7390000 | 7,386,043 |
| **13,790** | | | **67,464,500** |

## Category of Shareholding as at June 30, 2011

| S.No | Shareholders Category | Number of Shareholders | Number of Shares | Percentage |
|---|---|---|---|---|
| 1 | Individual | 13,718 | 27,148,749 | 40.24% |
| 2 | Investment Companies | 1 | 13,000 | 0.02% |
| 3 | Insurance Companies | 1 | 21,183 | 0.03% |
| 4 | Joint Stock Companies | 54 | 952,492 | 1.41% |
| 5 | Sponsors, Directors, Chief Executive and their Spouse and Minor Children | 11 | 39,226,500 | 58.14% |
| 6 | Financial Institution, Modarabas & Mutual Funds | 4 | 101,576 | 0.15% |
| 7 | Others | 1 | 1,000 | 0.00% |
| | **TOTAL** | **13,790** | **67,464,500** | **100%** |

# Information as required under the Code of Corporate Governance as on 30th June 2011

| Shareholders' Category | Number of Shareholders | Number of Shares held | Percentage |
|---|---|---|---|
| **Associated Companies, Undertaking and Related Parties** | - | - | - |
| **Investment Companies** | 1 | 13,000 | 0.02% |
| **Directors, CEO** | | | |
| MR. JAMAL IFTAKHAR | 1 | 7,150,961 | 10.62% |
| MR. ZAHID IFTAKHAR | 1 | 6,893,203 | 10.24% |
| MR. MUSTAFA JAMAL | 1 | 2,890,500 | 4.29% |
| MR. FAISAL ZAHID | 1 | 100 | 0% |
| MR. BILAL JAMAL | 1 | 100 | 0% |
| MR. HAMZA RAEES | 1 | 100 | 0% |
| MR. SAAD ZAHID | 1 | 1,100 | 0% |
| **Directors Spouse and Minor Children** | 4 | 22,290,436 | 33.11% |
| **Executives** | - | - | - |
| **Public Sector Companies & Corporation** | 54 | 952,492 | 1.41% |
| **Banks, DFIs, NBFIs, Insurance Companies, Modaraba & Mutual Funds** | 5 | 122,759 | 0.18% |
| **Shareholders Holding Ten Percent or more** | | | |
| MR. JAMAL IFTAKHAR | | 7,150,961 | 10.62% |
| MRS.NAJMA JAMAL IFTAKHAR | | 7,386,043 | 10.97% |
| MR. ZAHID IFTAKHAR | | 6,893,203 | 10.24% |

**Detail of purchase/sales of shares by Directors/Company Secretary/Chief Financial Officer and their spouses/minor children as on 30-06-2011.**

| Name | Dated | Purchase | Sales | Rate |
|---|---|---|---|---|
| NIL | NIL | NIL | NIL | NIL |

# FORM OF PROXY

## 8th Annual General Meeting

I/We ______________________________________________________________________

of _______________________________________________ being a member of **DOST STEELS LIMITED** and holder of ________________________________ Ordinary Shares, do hereby appoint Mr/Mrs/Miss ______________________________________of ________________________ who is also a member of **DOST STEELS LIMITED,** vide Registered Folio No _____________________ as my/our proxy to attend, speak and vote for me/us and on my/our behalf at the 8th Annual General Meeting of the Company to be held on 27th October 2011 at 09:00 a.m at Plot No. 222, Sector 39, Korangi Creek Industrial Area, Karachi-74900 and at any adjournment there of.

Signed this _________________________ day of ______________, 2011

Witness:

1 Signature ______________________

Name ______________________

CNIC No/Passport No. ______________

Address ______________________

______________________________

**Member's Signature**

(Signature should agree with the specimen signature registered with the Company)

Witness:

2 Signature ______________________

Name ______________________

CNIC No/Passport No. ______________

Address ______________________

______________________________

Folio No. ___________________

CDC A/c No _________________

Sub A/c. No. _________________

No. of Shares held ______________

Distinctive Nos.
From___________To___________