Dost Steels Limited

ANNUAL REPORT 2010

The Next Generation Steel

C O N T E N T S

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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 7th Annual General Meeting

NOTICE is hereby given that the 7th Annual General Meeting of the Shareholders of M/s. Dost Steels Limited, will be held on Wednesday, 27th October 2010 at 10:00 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 2009.

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, 2010.

3. To appoint Auditors of the Company for the year ending 30th June 2011 and to fix their remuneration.

4. To elect seven member of the company as fixed by the Board of Directors in accordance with the provisions of the Companies Ordinance with the provisions of the Companies Ordinance,1984 for a period of three years commencing from October 27, 2010. the names of retiring are as follows:

   Mr. Jamal Iftakhar
   Mr. Zahid Iftakhar
   Mr. Faisal Zahid
   Mr. Bilal Jamal
   Mr. Hamza Raees
   Mr. Saad Zahid
   Mr. Mustafa Jamal

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

By order of the Board

Karachi
Dated: 6th October 2010

Zahid Iftakhar
Company Secretary

NOTES:

1. The Shares Transfer Books of the Company will remain close from 20-10-2010 to 27-10-2010 (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 7th 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, 2010.

ECONOMY & INDUSTRY

The global steel industry has been under a demand recession with short jump starts that fizzle out and are unable to sustain the price rises. Consumption of steel has started to pick up again in most regional markets. Yet we are short of levels reached before the peak levels of early 2008.

The Government of Pakistan budgeted Rs.783 billion for the annual development plan in the previous year but ate it away in funds being diverted to their day to day expenditures. The reduced annual development spending was only a fourth of the budgeted amounts. The bad governance of the Government in power for the last few years has now affected most strata of our society.

Steel consumption is the universal indicator of the industrial development of a country and accordingly the Steel Sector being a back-bone of the industry needs an equally important and significant thrust in the Government Policies for industrial development. It is frustrating to observe that our per capita steel consumption in the country has gone down to level of 25 Kgs., which is even less than our African neighbors'. Our immediate neighbor on the other hand is witnessing boom times of 52 Kg per capita steel consumption in 2010 and growing steadily. The Engineering Development Board of Pakistan has prepared a plan to take the steel production up to 15 million tons per annum by the year 2020.

Currently demand for steel in Pakistan is over 5 million tons per annum. Demand for reinforced bars is at 2.5 million tons with negative growth rate during the last two years.

COMPANY'S PLANT STATUS

The cold commissioning stage had been completed with the guidance of Italian Engineers in mid 2008 but will have to repeated again due to passage of time. The management has been engaged in enticing strategic equity interest in the company but has failed in its efforts. As and when any strategic interest is shown by any investor, re-profiling its term debts by way of enhancement of existing terms loan to cater to cost overruns, re-scheduling of term loan payment plan and waiver/deferment of accrued markup will take place. The company may also approach the capital markets by way of a rights issue to commission the bar mill.

The company acknowledges the support extended by its banker namely Faysal Bank, National Bank of Pakistan, Bank of Khyber, NIB Bank, Askari Commercial Bank, Saudi Pak Industrial Commercial Agricultural & Investment Co (Pvt) Limited. and hopes that its lenders, as well as, shareholders will continue to support the management, in its efforts to get a strategic equity investor on board and achieve hot commissioning of its plant thereby meeting the expectations of all its shareholders.

The delay in the operation of mill in 2007-08 was initially due to the geopolitical condition and security situation in the country. Our approach to the Italian to come over to complete their contractual jobs was not acceded to because of the prevailing political turmoil in the country at that time in 2007 and this caused the delay and thus the cost over-run. To overcome the initial cost over-run, the sponsors injected an additional amount of Rs.75 million by way of enhancing the sponsors' equity. Further we then approached our existing banking syndicate for an additional funding of Rs. 200 million in November 2007, which was refused. We then had to approach another bank in mid 2008 and initiate a new banking syndicate, This new banking syndicate had been mandated by us to provide additional funding to enable the company to hot commission the bar mill, raise funds for working capital and steel billet procurement. Financial arrangements were then managed with Arif Habib Ltd. and Arif Habib Bank Ltd. to care of funds to commission the bar mill. Mandates for rights issue and underwritings had also been signed, but could not be invoked due to the capital markets sudden fall in 2008.

FUTURE PROSPECTS

Dost Steels Limited will become a leading steel re-rolling mill right from the day one when it would come in production. The market has become competitive due to lack of demand for steel bars. As a prospective market leader, your company needs highlighting of our brand superiorities over the existing competitors. While costs have continued to soar we plan to re-double our efforts to source raw material requirements on most competitive prices. This is intended to help our margins and our profitability. In spite of the difficulties, it is expected that your company will come up to maintain a profitable track record.

Pakistan Kuwait Investment Company (Private) Limited (the lender) has claimed for recovery of Rs.122,197,136. The lender has advanced the loan as a part of consortium syndicate as discussed in note 10.2 The management has been advised by its legal counsel that the suit is likely to be rejected as the lender has filed a suit without the approval of the agents to the bank syndicate and without the approval of any of the syndicate banks in the term loan arrangements as required under the finance agreement. Further with the change of the Managing Director at Pak Kuwait since the filing of the case, the new incumbent is now supporting the case for the project revival instead of pursuing legal litigation. Hearings of the Honorable High Court of Sindh, Pakistan are in progress.

AUDITORS' RESERVATIONS

The auditors in their report to the members have expressed an adverse opinion due to non-availability of finance, adverse liquidity ratios, pending litigations. These issues will be resolved soon as Company will get new finance in form of additional term loans and/or fresh equity participation. Therefore, these financial statements are prepared on going concern basis as fully explained in note 1 to the financial statements.

Further, the auditors raised the issues of mark-up charges and non-availability of certain confirmations. As the Company is in process of defending litigation with the one of the Creditors therefore the certain confirmations were not available to the auditors as the matter is pending in Court of Law. Also the Company is maintaining the positive relationship with its bankers, these issues will be resolved as soon as the Company will commence its commercial production with the availability of new finances.

EARNING/(LOSS) PER SHARE

The basic and diluted (Loss) per share on June 30, 2010 was Rs (0.16) as compared to Rs.(0.20) on June 30, 2009.

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. Humza Raees	04
Mr. Bilal Jamal	04
Mr. Saad Zahid	04
Mr. Mustafa Jamal	Nil

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 37 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. Humza 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 Zakaria & Co., Chartered Accountants and their report is attached with the financial statements. No material changes and commitments affecting the financial 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, suppliers, employees who are helping the Company in its efforts to consolidate and continue operations.

On behalf of the Board of Directors

Jamal Iftakhar
Chief Executive

Karachi : 1^{st} October 2010

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, October 1, 2010

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 2010.

Date: 1st October 2010
Place: Karachi

HAROON ZAKARIA & COMPANY
CHARTERED ACCOUNTANTS

Member of msi Global Alliance
Independent Legal & Accounting Firms

Room 211, 2nd Floor, ProgressivePlaza,
Plot No. 5 - CL -10, Civil Lines Quarter,
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URL : http://www.hzco.com.pk

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **DOST STEELS LIMITED** as at June 30, 2010 and related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state 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.

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

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

(a) As explained in note 1 to the financial statements, the Company has prepared the annexed financial statements on the going concern basis assumption. However, as on June 30, 2010, the Company has accumulated losses of Rs.63.68 (2009 : Rs.52.89) million and its current liabilities exceeded its current assets by Rs.1,256.10 (2009 : Rs.1,027.54) million. During the year, the Company has incurred a net loss of Rs.10.79 (2009 : Rs.13.65) million. Further, the Company has failed to discharge the overdue portion of its long term loans from banking companies amounting to Rs.545.02 million.

In addition to above, the Company has failed to commence its commercial production due to liquidity crunch. The Company is also a defendant in a law suit filed by one of the trade creditors of the Company for winding up as the Company is unable to discharge its obligation as stated in note 17.1.2.

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

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(b) The Company has not charged mark up of Rs.155.60 million during the year on outstanding balance of long term loans from banking companies. Had the mark up been charged in these financial statements net loss for the year and accumulated losses of the Company would have been increased by the same amount.

(c) Confirmations to two participants of syndicated loan and bankers for bank balances remained 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 at Rs. 33.384 million and were unable to satisfy ourselves by alternative means.

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

(f) In our opinion;

(i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied except for the change as stated in note 2.5 with which we concur;

(ii) the expenditure incurred during the year was for the purpose of the Company's business; and

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

(g) owing to the significance of the matters stated in paragraph (a) to (d) above and possible adjustments that may required but are not determined, in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof do not give a true and fair view of the state of the Company's affairs as at June 30, 2010 and of the loss, total comprehensive loss, its cash flows and changes in equity for the year ended with the approved accounting standards as applicable in Pakistan, and information required by the Companies Ordinance, 1984, in the manner so required.

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

Place: Karachi
Dated: 1st October 2010

Haroon Zakaria & Company
Chartered Accountants

Engagement Partner:
Zakaria

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DOST STEELS LIMITED
BALANCE SHEET
AS AT JUNE 30, 2010

	Note	*2010*	*2009*
	Note	***Rupees***	*Rupees*
ASSETS			
Non-current assets			
Property, plant and equipments	4	**2,011,228,819**	2,011,737,387
Long term deposits	5	**22,807,345**	23,867,345
Deferred tax asset	6	**-**	-
Current assets			
Advances	7	**563,415**	500,800
Short term prepayment	8	**165,000**	**-**
Tax refund due from government	9	**369,130**	11,112,245
Other receivable	10	**78,975**	1,101,218
Cash and bank balances	11	**175,376**	174,321
		1,351,896	12,888,584
Total assets		**2,035,388,060**	2,048,493,316
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	12	**674,645,000**	674,645,000
Reserves		**(63,674,856)**	(52,888,090)
Shareholders' Equity		**610,970,144**	621,756,910
Non-current liabilities			
Long term loans	13	**166,972,721**	386,293,256
Current liabilities			
Current and overdue portion of long term loans	13	**764,335,516**	545,014,981
Short term borrowings	14	**249,061,508**	233,384,407
Trade and other payables	15	**40,198,151**	58,193,742
Markup accrued	16	**203,850,020**	203,850,020
Provision for taxation		**-**	-
		1,257,445,195	1,040,443,150
Contingencies and Commitments	17		
Total equity and liabilities		**2,035,388,060**	2,048,493,316

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, 2010

	Note	***2010 Rupees***	*2009 Rupees*
Administrative expenses	18	**10,954,800**	12,983,293
Other operating income	19	**168,034**	203,278
Loss before taxation		**(10,786,766)**	(12,780,015)
Taxation	20	**-**	873,907
Loss after taxation		**(10,786,766)**	(13,653,922)
Loss per share	21	**(0.16)**	(0.20)

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, 2010

	2010 ***Rupees***	*2009* *Rupees*
Loss for the year	**(10,786,766)**	(13,653,922)
Other comprehensive income	**-**	-
Total comprehensive loss	**(10,786,766)**	(13,653,922)

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, 2010

	2010 Rupees	*2009 Rupees*
A. CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before taxation	**(10,786,766)**	(12,780,015)
Adjustment for:		
Provision for doubtful receivable	**1,013,468**	-
Depreciation	**1,420,726**	1,772,083
Operating loss before working capital changes	**(8,352,572)**	(11,007,932)
(Increase) / Decrease in operating assets:		
Short term prepayment	**(165,000)**	-
Advances	**(62,615)**	3,360,101
Tax refund due from government	**10,743,115**	-
Other receivable	**8,775**	139,022
	10,524,275	3,499,123
Increase / (Decrease) in current liabilities:		
Trade and other payables	**(17,995,591)**	18,636,117
Cash (used in) / generated from operations	**(15,823,888)**	11,127,308
Long term security deposits- net	**1,060,000**	-
Taxes paid	**-**	(237,045)
Net cash (used in) / generated from operating activities	**(14,763,888)**	10,890,263
B. CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditures made during the year	**(912,158)**	(57,254,618)
Net cash (used in) investing activities	**(912,158)**	(46,364,355)
C. CASH FLOW FROM FINANCING ACTIVITIES		
Payment of shares confiscated by SECP	**-**	(355,000)
Repayments of Short term Financing	**15,677,101**	44,926,286
Net cash generated from financing activities	**15,677,101**	44,571,286
Net increase / (decrease) in cash and cash equivalents	**1,055**	(1,793,069)
Cash and cash equivalents at beginning of the year	**174,321**	1,967,390
Cash and cash equivalents at end of the year	**175,376**	174,321

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, 2010

	Share Capital ***Issued, subscribed and paid up***	***Revenue Reserve*** ***Accumulated loss***	***Shareholders' Equity***
	- - - - - - - - - - - - - - - -	***Rupees***	***- - - - - - - - - - - - - - - -***
Balance as at June 30, 2008	675,000,000	(39,234,168)	635,765,832
Shares confiscated by The Securities & Exchange Commission of Pakistan	(355,000)	-	(355,000)
Total comprehensive loss	-	(13,653,922)	(13,653,922)
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**

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.10.787 (2009 : Rs.13.654) million and its accumulated losses are Rs.63.675 (2009 : Rs.52.888) million. Its current liabilities exceeds its current assets by Rs.1,256.100 (2009 : Rs.1,027.555) million. Further, the Company has insufficient funds to repay its overdue liabilities, owed to banking companies amounting to Rs.545.015 (2009 : Rs.325.694) 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 uncertainity 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 an open mandate to the leading agent of the syndicated loan 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 Pakistan Rupee (PKR), which is the Company's functional currency. All financial information presented in PKR has been rounded to the nearest of PKR, unless otherwise stated.

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.

2.5. *Changes in accounting policies*

Starting 1 July 2009, the Company has changed its presentation of financial statements in the following areas: -

Revised IAS 1 Presentation of Financial Statements became effective from 1 January 2009

The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and the statement of requirement to present balance sheets at the end of the current period and comparative period. The Company has opted to present two statements; a profit and loss account and a statement of comprehensive income.

IFRS 8 - Operating Segments (effective from January 1, 2009)
This standard requires the Company to determine and present operating segments based on the information that is provided internally to the Company's Chief Operating Decision Maker, that is, the organisation's function which allocates resources to and assesses performance of its operating segments. Management has determined that the Company has a single reportable segment and therefore the adoption of the said IFRS has only resulted in some entity wide disclosures as described in note 25.

Comparative information has been re-presented so that it is in conformity with the revised / new standards. Since the change in accounting policies only affect presentation / disclosures of financial statements, there is no impact on profit for the year and earnings per share.

2.6. Other accounting developments

Disclosures pertaining to fair values and liquidity risk for financial instruments
The Company has applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7). issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorized as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level Furthermore, changes in valuation techniques from one period to another. including the reasons therefore, are required to be disclosed for each class of financial instruments. However, the Company does not have any items to report under these levels.

Further definition of liquidity risk has been amended and it is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The amendments require disclosure of a maturity analysis for non-derivative and derivative financial liabilities but contractual maturities are required to be disclosed for derivative financial liabilities only when contractual maturities are essential for an understanding of the timing of cash flows. For issued financial guarantee contracts, the amendments require the maximum amount of the guarantee to be disclosed in the earliest period in which the guarantee could be called.

2.7. Standards, Interpretations and Amendments not yet effective

The following standards interpretations and amendments of approved accounting standards are effective for accounting periods beginning on or after I January 2010: -

	Effective date
Amendments to IFRS 5 Non Current Assts Held for Sale and Discontinued Operations	January 1, 2010
Amendments to IFRS 8 Operating Segments	January 1, 2010
Amendments to IAS 1 Presentation of Financial Statements	January 1, 2010

Amendments to IAS 17 leases	January 1, 2010
	Effective date
Amendments to IAS 36 Impairment of assets	January 1, 2010
Amendments to IFRS 1 First-time adoption of International Financial Reporting Standards-Additional Exemption for first time adopters	January 1, 2010
Amendments to IFRS 2 Share-based Payment-Group Cash-Settled share based Payment Transactions	January 1, 2010
Amendments to IAS 32 Financial Instruments Presentation; Classification of Rights Issues	January 1, 2010
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	July 1, 2010
Amendments to IFRS 1 First time Adoption of International Financial Reporting Standards-Limited Exemption from Comparative IFRS 7 Disclosure for First time Adopters.	July 1, 2010
Amendments to IFRS 3 Business Combinations	July 1, 2010
Amendments to IAS 27 Consolidated and separate Financial Statements	July 1, 2010
IAS 24 Related Party Consolidated and Separate Financial Statements	January 1, 2011
AS 24 Related Party Disclosures (Revised 2009): These amendments will result in increase in disclosures in the Fund's financial statements	January 1, 2011
Amendments to IFRIC 14 IAS 19 - The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their interaction	January 1, 2011
Amendments to IFRS 1 First - time adoption of IFRSs	January 1, 2011
Amendments to IFRS 7 Financial Instruments	January 1, 2011
Amendments to IAS 1 Presentation of Financial Statements	January 1, 2011
Amendments to IAS 34 Interim Financial Reporting	January 1, 2011
Amendments to IFRIC 13 Customer Loyalty Programmes	January 1, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Property, Plant and Equipment

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.

The carrying values of tangible fixed assets are reviewed for impairment when event or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

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, 2010 has not required any adjustment as its impact is considered insignificant.

3.2. Trade debts

Trade debts against trading are carried at original invoice amount less an estimate made for doubtful receivables based on review of outstanding amounts. Balances considered bad and irrecoverable are written off when identified.

3.3. Advances, short term prepayment, deposits and other receivable

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

Short term prepayments and deposits are stated at nominal value.

3.4. Cash and Cash Equivalents

Cash in hand, 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.

3.5. 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.

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 obligation.

3.8. Revenue Recognition

Sales is recorded on dispatch to 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 of the instruments.

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 simultaneously.

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 interest free.

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.

4. *PROPERTY, PLANT AND EQUIPMENTS*

	Note	***2010***	*2009*
		- - - - - - Rupees - - - - - -	
Operating assets	4.1	**164,294,240**	165,714,966
Capital work-in-progress	4.2	**1,846,934,579**	1,846,022,421
		2,011,228,819	2,011,737,387

4.1. *Operating Assets*

Particulars	***OWNED***						***Total***
	Freehold land	***Furniture & fittings***	***Electric Equipments***	***Computers equipments***	***Office equipments***	***Vehicles***	
	- -	- -	- -	***Rupees***	- -	- -	- -
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
Additions	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-
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**
Year ended June 30, 2009							
Opening net book value	157,876,220	1,182,511	2,800,580	812,533	66,977	2,682,669	165,421,490
Additions	-	-	156,500	484,300	12,180	36,000	688,980
Transfers	-	1,376,579	-	-	-	-	1,376,579
Depreciation charge	-	383,863	443,562	389,050	11,874	543,734	1,772,083
Net book value as at June 30, 2009	157,876,220	2,175,227	2,513,518	907,783	67,283	2,174,935	165,714,966
As at June 30, 2009							
Cost	157,876,220	2,855,829	3,557,310	2,169,448	117,252	4,730,575	171,306,634
Accumulated depreciation	-	680,602	1,043,792	1,261,665	49,969	2,555,640	5,591,668
	157,876,220	2,175,227	2,513,518	907,783	67,283	2,174,935	165,714,966
Rate of Depreciation	-	15%	15%	30%	15%	20%	

	Note	*2010*	*2009*
		- - - - - - Rupees - - - - - -	

4.2. *Capital work in progress*

Land development		**11,012,712**	11,012,712
Civil works		**206,813,057**	206,813,057
Plant and machinery		**1,204,673,334**	1,203,761,176
Unallocated borrowing costs		**424,435,476**	424,435,476
		1,846,934,579	1,846,022,421

5. LONG TERM DEPOSITS

Against Utilities	5.1	**22,170,345**	23,340,345
Against Rent		**587,000**	477,000
Others		**50,000**	50,000
		22,807,345	23,867,345

5.1. This security deposit against Gas of Rs 10.53 million (2009 11.7 million) repayable in 10 years having mark-up of 1.5% (2009: 1.5%) per annum.

	Note	*2010*	*2009*
		- - - - - - Rupees - - - - - -	

6. DEFERRED TAX ASSET

Deductible temporary differences due to:

Accelerated accounting depreciation		**295,712**	305,126
Minimum tax impact		**1,072,544**	1,072,544
Assessed tax losses		**19,991,629**	16,530,276
	6.1	**21,359,885**	17,907,946

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.

	2010	*2009*
	- - - - - - Rupees - - - - - -	

7. ADVANCES

Considered good		
To staff	**63,415**	800
For services	**500,000**	500,000
	563,415	500,800

8. SHORT TERM PREPAYMENT

Prepaid rent	**165,000**	-

	Note	2010	2009
		------ Rupees ------	

9. TAX REFUND DUE FROM GOVERNMENT

	Note	2010	2009
Income tax refundable		**369,130**	11,112,245

10. OTHER RECEIVEABLE

	Note	2010	2009
Considered good			
Receivable against trading		**-**	1,013,468
Mark up receivable		**78,975**	87,750
		78,975	1,101,218
Considered doubtful			
Receivable against trading		**1,013,468**	-
Provision against doubtful receivable		**(1,013,468)**	-
		-	-
		78,975	1,101,218

11. CASH AND BANK BALANCES

	Note	2010	2009
Cash in hand		**27,978**	25,935
Cash at banks - in current account		**147,398**	148,386
		175,376	174,321

12. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

	Note	2010	2009
67,464,500 Ordinary shares of Rs.10/- each fully paid in cash	12.1	**674,645,000**	674,645,000

12.1 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.

	Note	2010	2009
		------ Rupees ------	

13. LONG TERM LOANS

	Note	2010	2009
Secured - from banking companies			
Faysal Bank Limited	13.1	**143,948,806**	143,948,806
Syndicate loan	13.2	**737,359,431**	737,359,431
Saudi Pak Industrial and Agricultural Investment Company Limited	13.3	**50,000,000**	50,000,000
		931,308,237	931,308,237
Current portion		**219,320,535**	219,320,536
Overdue portion		**545,014,981**	325,694,445
		764,335,516	545,014,981
		166,972,721	386,293,256

13.1 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.

13.2 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.

13.3 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.

	2010	*2009*
	- - - - - - Rupees - - - - - -	
14. SHORT TERM BORROWINGS		
- Unsecured - interest free		
Loan From related parties	**31,009,594**	40,926,286
Loan From Directors	**218,051,914**	192,458,121
	249,061,508	233,384,407
15. TRADE AND OTHER PAYABLES		
Trade creditors	**33,383,634**	51,273,308
Accrued expenses	**6,801,826**	6,920,434
With holding tax payable	**12,691**	-
	40,198,151	58,193,742
16. MARKUP ACCRUED		
On secured loans	**203,850,020**	203,850,020

17. CONTINGENCIES AND COMMITMENTS

17.1 Contingencies

17.1.1 Pakistan Kuwait Investment Company (Private) Limited (the lender) has claimed for recovery of Rs.122,197,136. The lender has advanced the loan as a part of consortium syndicate as discussed in note 13.2. 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.

17.1.2 The suit has been filed against the Company by one of its trade creditor in High Court of Sindh for recovery of Rs.18,995,630 alongwith a petition of winding up against the Company for its unpaid debt. Both the 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 has been made in these financial statements.

17.2 Commitment

The Company is committed to capital expenditure amounting to Rs. 40.067 (2009: Rs.50.893) million as at the balance sheet date.

18. ADMINISTRATIVE EXPENSES

	Note	***2010***	*2009*
		------ Rupees ------	
Salaries and other benefits		**4,804,469**	5,990,510
Utilities		**1,220,001**	312,739
Rent, rates and taxes		**624,034**	590,333
Printing and stationery		**293,550**	76,236
Vehicle running and maintenance		**375,199**	960,040
Shares Transfer Expenses		**351,418**	455,376
Telephone, postage and couriers		**207,140**	329,344
Auditors' remuneration	18.1	**210,000**	205,000
Legal and professional charges		**194,774**	498,245
Entertainment expenses		**83,044**	181,111
Repairs and maintenance		**66,206**	383,080
Traveling and conveyance		**20,852**	292,720
Advertising expenses		**16,000**	24,500
Bank charges and commission		**12,219**	523,886
Communication charges		**-**	216,000
Fees and subscription		**-**	130,250
Provision for doubtful receivable		**1,013,468**	-
Depreciation	4.1	**1,420,726**	1,772,083
General expenses		**41,700**	41,840
		10,954,800	12,983,293

18.1 Auditors' Remuneration

Audit fee	**150,000**	132,000
Interim review fees and other certification	**55,000**	70,000
Out of pocket expenses	**5,000**	3,000
	210,000	205,000

	2010	2009
	- - - - - - Rupees - - - - - -	

19. OTHER OPERATING INCOME

Income from financial assets		
Interest on deposits	**168,034**	175,500
Return on bank deposits	**-**	27,778
	168,034	203,278

20. TAXATION

Current	**-**	-
Deferred	**-**	873,907
	-	873,907

20.1 Tax charge reconciliation

Reconciliation between tax expense and accounting profit has not been made because company has incurred tax loss during the year and turnover tax u/s 113 is not applicable to the company as the commercial production has not being commenced during the year.

20.2 Returns for the tax year upto 2009 have been filed, which are deemed to be assessment order under provisions of the Income Tax Ordinance, 2001 however the CIT has power to re-assess any of the five preceding tax years.

21. LOSS PER SHARE

		2010	2009
Loss attributable to ordinary shareholders	*Rs.*	**(10,786,766)**	(13,653,922)
Weighted average number of ordinary shares in issue		**67,467,200**	67,467,200
Loss per share - basic and diluted	*Rs.*	**(0.16)**	(0.20)

22. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

22.1 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.

22.2 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

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 trade receivables, Bank balances, Advances and other receivables.

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

	2010	*2009*
	- - - - - - Rupees - - - - - -	
Long term deposits	**22,807,345**	23,867,345
Advances	**63,415**	800
Other receivable	**78,975**	1,101,218
Bank balances	**147,398**	148,386
	23,097,133	25,117,749

The credit quality of the receivables can be assessed with reference to the historical performance with no or some defaults in recent history, however, no loses. Company's bank balances are fall under the categories of A-1+ and A-2.

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: -

	2010				
	Carrying amount	***Contractual cash flows***	***One year or less***	***One year to two years***	***More than two years***
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)**	**-**

	2009				
	Carrying amount	***Contractual cash flows***	***One year or less***	***One year to two years***	***More than two years***
Non-derivative financial liabilities					
Long term loans	931,308,237	(1,344,735,410)	(864,557,738)	(283,098,310)	(197,079,362)
Short term borrowings	233,384,407	(233,384,407)	(233,384,407)	-	-
Trade and other payables	58,193,742	(58,193,742)	(58,193,742)	-	-
Accrued markup	203,850,020	(203,850,020)	203,850,020	-	-
	1,426,736,406	(1,840,163,579)	(952,285,867)	(283,098,310)	(197,079,362)

c) Market risk

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 instrument 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: -

	2010 Rate	*2009 Rate*
Financial asset		
Fixed rate - Long term security deposit	**1.5%**	1.5%
Financial liabilities		
Variable rate - Long term loans	**16.34% to 16.84%**	19.50% to 16.77%

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.

	2010	*2,009*
	- - - - - - Rupees - - - - - -	
Total borrowings		
Long term loans	**931,308,237**	931,308,237
Short term loans	**249,061,508**	233,384,407
	1,180,369,745	1,164,692,644
Less: Cash and bank balances	**(175,376)**	(174,321)
Net debt	**1,180,194,369**	1,164,518,323
Total Equity	**610,970,144**	621,756,910
Total Capital	**1,791,164,513**	1,786,275,233
Gearing ratio	**65.89%**	65.19%

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.

23 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 / entitlements.

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

	2010 Rupees	*2009 Rupees*
Entities over which directors have significant influence		
Receipt of short term loan	**14,120,058**	48,662,332
Repayment of short term loan	**24,036,750**	7,736,045
Loans from directors		
Receipt of short term loan	**25,593,793**	4,000,000

24. 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: -

	2010 Rupees	*2009 Rupees*
Remuneration to Executives:		
Managerial	**787,500**	4,515,000
House rent	**-**	1,478,220
Utilities	**-**	456,780
	787,500	6,450,000
Number of persons	**1**	8

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

25. *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.

26. *INSTALLED CAPACITY*

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

27. *CORRESPONDING FIGURES*

Deposit against utilities amounting to Rs.9.981 million was previously classified as short term deposit now reclassified long term deposits for better presentation.

28. *DATE OF AUTHORIZATION FOR ISSUE*

These financial statements have been authorized for issue by the Board of Directors of the Company on October 01, 2010.

29. *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, 2010

Number of Shareholding	Shareholding From	To	Total Shares Held
85	1	100	3,167
9610	101	500	4,791,469
1833	501	1000	1,825,670
2230	1001	5000	5,989,758
380	5001	10000	3,001,804
137	10001	15000	1,717,044
53	15001	20000	961,765
37	20001	25000	862,322
28	25001	30000	803,177
15	30001	35000	492,705
10	35001	40000	388,825
7	40001	45000	297,000
13	45001	50000	635,001
7	50001	55000	367,095
6	55001	60000	341,879
1	60001	65000	65,000
4	65001	70000	278,430
3	70000	80000	218,126
3	75001	90000	232,456
2	90001	95000	167,500
1	95001	100000	90,000
6	100001	105000	600,000
1	105001	110000	102,925
1	110001	115000	107,500
1	115001	120000	117,599
1	120001	125000	125,000
1	130001	135000	131,100
1	140001	145000	144,137
1	145001	150000	150,000
1	160001	165000	164,023
1	170001	175000	171,143
1	175001	180000	178,150
1	180001	185000	184,575
1	185001	190000	187,550
2	210001	215000	426,505
1	220001	225000	225,000
1	325001	330000	325,500
1	380001	385000	385,000
1	395001	400000	400,000
1	460001	465000	463,500
1	515001	520000	520,000
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
14,498			**67,464,500**

Category of Shareholding as at June 30, 2010

S.No	Shareholders Category	Number of Shareholders	Number of Shares	Percentage
1	Individual	14,400	26,999,445	40.02%
2	Investment Companies	2	19,879	0.03%
3	Insurance Companies	3	66,183	
4	Joint Stock Companies	74	977,925	1.45%
5	Sponsors, Directors, Chief Executive and their Spouse and Minor Children	11	39,226,500	58.14%
6	Financial Institution, Modarabas & Mutual Funds	5	171,076	0.25%
7	charitable Trust	1	492	0.00%
8	Others	2	3,000	0.00%
	TOTAL	**14,498**	**67,464,500**	**100%**

Information as required under the Code of Corporate Governance

Shareholders' Category	Number of Shareholders	Number of Shares held	Percentage
Associated Companies, Undertaking and Related Parties	-	-	-
Investment Companies	2	19,879	0.03%
Directors, CEO			
MR. JAMAL IFTAKHAR	1	7,150,961	10.60%
MR. ZAHID IFTAKHAR	1	6,893,203	10.22%
MR. MUSTAFA JAMAL	1	2,890,500	4.28%
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	33.04%
Executives	-	-	-
Public Sector Companies & Corporation	74	977,925	1.45%
Banks, DFIs, NBFIs, Insurance Companies, Modaraba & Mutual Funds	11	240,751	0.36%
Shareholders Holding Ten Percent or more			
MR. JAMAL IFTAKHAR		7,150,961	10.60%
MRS.NAJMA JAMAL IFTAKHAR		7,386,043	10.95%
MR. ZAHID IFTAKHAR		6,893,203	10.22%

Detail of purchase/sales of shares by Directors/Company Secretary/Chief Financial Officer and their spouses/minor children as on 30-06-2010.

Name	Dated	Purchase	Sales	Rate
NIL	NIL	NIL	NIL	NIL

FORM OF PROXY

7th 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 7th Annual General Meeting of the Company to be held on 27th October 2010 at 10:00 a.m at Plot No. 222, Sector 39, Korangi Creek Industrial Area, Karachi-74900 and at any adjournment there of.

Signed this _____________________________ day of ________________, 2010

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___________