

Half Yearly Report
December 31, 2009



Dost Steels Limited

Registered Office: Plot No. 222, Sector 39, Korangi Creek Industrial Area, Karachi-74900
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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. Zahid Iftakhar	Member

Chief Financial Officer

Mr. Farukh Jamil

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. Noble Computer Services (Pvt.) Ltd.,
Mezzanine Floor,
House of Habib Building (Siddiqsons Tower)
3-Jinnah Cooperative Housing Society,
Main Shahrah-e-Faisal,
Karachi.
Ph # 021-34325482-87
Fax # 021-34325442

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

Directors Review:

It is my pleasure to present the un-audited financial statement of the company for the six month ending on 31st December 2009.

Company's Review

Time is ticking with slow meaningful progress being made. The entire country is now engulfed in the ruthless mess of terrorism and lack of political will. This does not augur well for the economy. This is a disturbing trend that has frozen all investment and developmental activity in the country. Developmental plans are made and then shelved later due to diversion of funds for other purposes. The prevailing uncertainty and lack of political direction bodes very badly for the country.

The company needs additional funds to the extent of PKR.500 million that will be utilized for making balance payments to the Italian suppliers under the original LC's opened from Faysal Bank Ltd and for site preparation thereby achieving commercial production. Additional term loans may also be taken from the syndicate banks to facilitate working capital facilities.

An understanding has been arrived at in principle with a Pakistani blue chip group to inject equity by way of a joint venture, thereby enabling the commercial production of the bar mill. The blue chip Karachi Stock Exchange quoted company has initiated efforts to establish a 1.2 million tons steel billet plant at Port Qasim in Karachi for which it has assigned the responsibility of preparation of bankable project feasibility to Atkins of United Kingdom. The project report is expected to be presented to their board of directors for approval by 2nd quarter of 2010. The joint venture has been initiated and is being managed by the lead syndicate bank Faysal Bank Ltd. for the last six months. Further progress of this front is expected by the 2nd quarter of 2010. This joint venture is expected to facilitate commissioning of the bar mill.

The bank syndicate has also indicated its willingness to restructure the existing term loans and extend working capital banking facilities to the company, subject to execution of the joint venture. The overall country and global situation has affected the company's fate during the last year.

For and on behalf of the Board of Directors

Jamal Iftakhar
Chief Executive Officer

Karachi: 26th February 2010

**INDEPENDENT AUDITORS' REPORT ON REVIEW OF
CONDENSED INTERIM FINANCIAL INFORMATION TO THE MEMBERS**

INTRODUCTION:

We have reviewed the accompanying condensed interim balance sheet of **DOST STEELS LIMITED** as at December 31, 2009, and the related condensed interim profit and loss account, condensed interim cash flow statement and condensed interim statement of changes in equity together with the condensed notes forming part thereof (here-in-after referred to as the "Interim financial information") for the six month period ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan. Our responsibility is to express a conclusion on this interim financial information based on our review. The figures of the condensed profit and loss account for the quarters ended December 31, 2009 and 2008 have not been reviewed as we are required to review only the cumulative figures for the six months period ended December 31, 2009.

SCOPE OF REVIEW:

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

BASIS FOR QUALIFIED CONCLUSION:

During the period, the Company has not accrued borrowing cost amounting to Rs. 79.324 million on long term loans from banking companies for the reason fully described in note 8.1 to the condensed interim financial statements. Had the provision being made the loss for the period and accumulated losses would have been increased by said amount.

QUALIFIED CONCLUSION:

Based on our review, with the exception of the effects of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the annexed interim financial information are not presented fairly, in all materials respects, in accordance with approved accounting standards as applicable in Pakistan.

Without further qualifying our review report, we draw attention of the users of the financial statements to the note 2 which more extensively discusses the reasons for preparing these financial statements on going concern basis. The viability of commencing of commercial production is dependent on financing arrangements from lending institutions which is conditional to further equity participation by the shareholders of the Company.

Place: Karachi

Dated: *26th February 2010*

HAROON ZAKARIA & COMPANY

CHARTERED ACCOUNTANTS

Engagement Partner: Muhammad Haroon

DOST STEELS LIMITED**CONDENSED INTERIM BALANCE SHEET (UNAUDITED)
AS AT 31 DECEMBER 2009**

		(Unaudited) 31 December 2009 Rupees	(Audited) 30 June 2009 Rupees
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	6	2,011,939,180	2,011,737,387
Long term security deposits		13,886,445	13,886,445
CURRENT ASSETS			
Receivable against trading		1,013,468	1,013,468
Advances, deposit and other receivable		10,971,322	21,681,695
Cash and bank balances		339,065	174,321
		<u>12,323,855</u>	<u>22,869,484</u>
TOTAL ASSETS		<u>2,038,149,480</u>	<u>2,048,493,316</u>
EQUITY AND LIABILITIES			
Share capital and reserves			
Authorized capital			
70,000,000 ordinary shares of Rs. 10/- each		<u>700,000,000</u>	<u>700,000,000</u>
Issued, subscribed and paid-up capital			
67,464,500 ordinary shares of Rs. 10/- each.		674,645,000	674,645,000
Accumulated losses		<u>(59,870,649)</u>	<u>(52,888,090)</u>
SHAREHOLDERS' EQUITY		<u>614,774,351</u>	<u>621,756,910</u>
NON-CURRENT LIABILITIES			
Long term loans - secured	7	303,995,899	386,293,256
CURRENT LIABILITIES			
Current and overdue portion of long term loans		627,312,338	545,014,981
Short term loans - unsecured		246,658,508	233,384,407
Trade and other payables		41,558,364	58,193,742
Markup accrued on secured loans		203,850,020	203,850,020
		<u>1,119,379,230</u>	<u>1,040,443,150</u>
CONTINGENCY AND COMMITMENT	8		
TOTAL CAPITAL AND LIABILITIES		<u>2,038,149,480</u>	<u>2,048,493,316</u>

The annexed notes form an integral part of these financial statements

Chief Executive

Director

DOST STEELS LIMITED**CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED)
FOR THE SIX MONTHS PERIOD ENDED 31 DECEMBER 2009**

	Six months period ended		Quarter ended	
	31 December 2009 Rupees	31 December 2008 Rupees	31 December 2009 Rupees	31 December 2008 Rupees
Administrative and financial expenses	(7,071,140)	(3,679,974)	(5,387,585)	(5,071,258)
Other Income	88,581	114,328	44,118	44,536
Recognized loss before taxation	<u>(6,982,559)</u>	<u>(3,565,646)</u>	<u>(5,343,467)</u>	<u>(5,026,722)</u>
Taxation	-	(725,083)	-	(979)
Recognized loss after taxation	<u>(6,982,559)</u>	<u>(4,290,729)</u>	<u>(5,343,467)</u>	<u>(5,027,701)</u>
Loss per share - basic and diluted	<u>(0.103)</u>	<u>(0.064)</u>	<u>(0.079)</u>	<u>(0.075)</u>

The annexed notes form an integral part of these financial statements

Chief Executive

Director

DOST STEELS LIMITED

**CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)
FOR THE SIX MONTHS PERIOD ENDED 31 DECEMBER 2009**

	31 December 2009 Rupees	31 December 2008 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) before taxation	(6,982,559)	(3,565,646)
Adjustments for non cash items		
Depreciation	710,365	769,244
	(6,272,194)	(2,796,402)
Working capital changes		
Decrease in current assets:		
- Advances, deposits and other receivable	10,710,373	525,729
Decrease in current liabilities:		
- Trade and other payables	(16,635,378)	43,373,653
Cash (outflow)/inflow from working capital	(12,197,199)	41,102,980
Taxes paid	-	(129,191)
Net cash (used in)/generated from operating activities	(12,197,199)	40,973,789
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital work in progress	(912,158)	(37,221,061)
Additions in property, plant and equipment	-	(603,260)
Net cash (used in) from investing activities	(912,158)	(37,824,321)
CASH FLOWS FROM FINANCING ACTIVITIES		
Forfeit of shares	-	(300,000)
Short term Financing	13,274,101	4,000,000
Net cash generated from financing activities	13,274,101	3,700,000
Net increase in cash and cash equivalents	164,744	6,849,468
Cash and cash equivalents at beginning of the six months period	174,321	1,967,390
Cash and cash equivalents at end of the six months period	339,065	8,816,858

The annexed notes form an integral part of these financial statements

Chief Executive

Director

DOST STEELS LIMITED

**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE SIX MONTHS PERIOD ENDED 31 DECEMBER 2009**

Description	Issued, subscribed and paid up capital	Accumulated losses	Total
	← Rupees →		
Balance as at 01 July 2008	675,000,000	(39,234,168)	635,765,832
Forfeit of 30,000 shares by SECP	(300,000)	-	(300,000)
Loss for the six months period	-	(4,290,729)	(4,290,729)
Balance as at December 31, 2008	<u>674,700,000</u>	<u>(43,524,897)</u>	<u>631,175,103</u>
Balance as at 01 July 2009	674,645,000	(52,888,090)	621,756,910
Loss for the six months period	-	(6,982,559)	(6,982,559)
Balance as at December 31, 2009	<u>674,645,000</u>	<u>(59,870,649)</u>	<u>614,774,351</u>

The annexed notes form an integral part of these financial statements

Chief Executive

Director

DOST STEELS LIMITED

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED 31 DECEMBER 2009

1. THE COMPANY AND ITS OPERATIONS

Dost Steels Limited was incorporated in Pakistan on March 19, 2004 as a private limited company under the Companies Ordinance, 1984. The company was converted into public limited company as on 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.

2. GOING CONCERN ASSUMPTION

The Company has incurred loss after taxation of Rs. 6.983 (June 30, 2009: Rs. 13.653) million. As at that date its accumulated losses are Rs. 59.871 (June 30, 2009: Rs. 52.888) million . Its current liabilities exceeds current assets by Rs. 1,107 (June 30, 2009: Rs. 1,018) million. Further, the company has insufficient funds to repay its loan liabilities, owed to banking companies and directors amounting to Rs.1,178 (June 30, 2009: Rs. 1,165) million. Further, the Company has not been able to commence its commercial production to date due to non availability of funds required for completion of project. Due to these factors material uncertainty arises which may create doubts regarding the company's ability to continue as going concern and accordingly company may not be able to realize its assets and discharge its liabilities at the stated amounts.

However, company has acquired necessary infrastructure to support its production activities and installation of plant and machinery is successfully completed pending its testing for commercial operations. The company expects that adequate inflows will be generated in future years by lender institutions and by way of Joint Venture with the interested parties for commercial production and working capital which will wipe out these losses. However, support from lender institutions is subject to equity investment by sponsors or through venture capitalist. The company has also passed special resolution for increase in its authorized share capital to Rs. 1.5 billion so that funds may be raised by issuing shares. However, besides special resolution, other legal formalities are not fulfilled yet to increase authorized share capital. Considering these facts and strong chances of induction of funds through joint venture and success in negotiation with the lender institutions, these financial statements are prepared on the basis of going concern assumption.

3. BASIS OF PREPARATION

These condensed interim financial statements are unaudited but subject to limited scope review by auditors and have been prepared in accordance with the requirements of the International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting as applicable in Pakistan. These condensed interim financial statements do not include all of the information and disclosures required in the financial statements, and should be read in conjunction with the Company's annual financial statements for the year ended 30 June 2009.

These condensed interim financial statements are being submitted to the shareholders as required by listing regulations of Karachi Stock Exchanges and section 245 of the Companies Ordinance, 1984.

These condensed interim financial statements have been presented in Pakistan Rupees, which is the functional currency of the Company and the figures are rounded off to the rupees.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied for the preparation of these condensed interim financial statements are the same as those applied in preparation of the annual audited financial statements of the Company for the year ended 30 June 2009.

5. ESTIMATES

The preparation of condensed interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The significant judgments made by the management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 30 June 2009.

	(Unaudited) 31 December 2009 Rupees	(Audited) 30 June 2009 Rupees
6. PROPERTY, PLANT AND EQUIPMENT		
Operating fixed assets - tangible	165,004,601	165,714,966
Capital work-in-progress	1,846,934,579	1,846,022,421
	2,011,939,180	2,011,737,387

Addition during the six months period ending are as follows:

	Six Months Ended	
	31 December 2009	31 December 2008
Operating fixed assets	-	603,260
Capital work in progress	912,158	123,503,742

	(Unaudited) 31 December 2009 Rupees	(Audited) 30 June 2009 Rupees
7. LONG TERM LOANS		
Secured - from banking companies		
Faysal Bank Limited	7.1 143,948,806	143,948,806
Saudi Pak Industrial And Agriculture Investment Company (Private) Limited	7.2 50,000,000	50,000,000
Syndicate loan	7.3 737,359,431	737,359,431
	931,308,237	931,308,237
Current maturity	210,955,965	219,320,536
Overdue portion	416,356,373	325,694,445
Current and overdue portion of long term loan	627,312,338	545,014,981
	303,995,899	386,293,256

- 7.1** 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 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. The total loan sanctioned amounted Rs.150 million (June 30, 2009 : Rs. 150 million) of which unavailed amount is Rs. 6.051 (June 30, 2009: Rs. 6.051) million.

7.2 The Company has arranged finance facility of Rs.50 million from Saudi Pak Industrial and Agricultural Investment Company Private 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. The unavailed amount of facility is Rs. Nil (June 30, 2009 : Rs. Nil).

7.3 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. The total loan sanctioned amounted is Rs.775 million (June 30, 2009 : Rs. 775 million) of which unavailed amount is Rs. 37.640 (June 30, 2009 : 37.640) million.

8. CONTINGENCY AND COMMITMENT

8.1 CONTINGENCY

Pakistan Kuwait Investment Company (Private) Limited (the lender) has claimed for recovery of Rs. 122,197,136. The lender has advanced a loan as a part of consortium syndicate. The management has not provided mark-up as the suit is pending.

	31 December 2009 Rupees	30 June 2009 Rupees
8.2 COMMITMENT		
For capital expenditure	51,661,000	50,893,000

9. TRANSACTIONS WITH RELATED PARTIES

The related parties and associated undertakings comprise related group companies, associates, directors and key management personnel.

During half year, following transactions with related parties are carried out:

		(Unaudited) 31 December 2009 Rupees	(Audited) 30 June 2009 Rupees
	Note		
- Repayment of loan to related parties	9.1	(10,189,692)	40,926,286
- Receipt of loan from director	9.2	23,463,793	192,458,121

9.3 Loan payable to related parties at the end of half year is Rs. 30.74 (June 30, 2009: Rs.40.93) million.

9.4 Loan payable to director at the end of half year is Rs. 215.93 (June 30, 2009: Rs.192.46) million.

10. DATE OF AUTHORIZATION FOR ISSUE

These condensed interim financial statements were authorized for issue on 26th February 2010 by the Board of Directors of the Company.

11. GENERAL

The figures have been round off to the nearest rupee.

Chief Executive

Director