

Half Yearly Report
December 31, 2010



Dost Steels Limited

Registered Office: Plot No. 222, Sector 39, Korangi Creek Industrial Area, Karachi-74900
Phone: (92-21) 111 STEELS (783 357) Fax: (92-21) 5110423 www.doststeels.com

CONTENTS

COMPANY INFORMATION

DIRECTORS' REVIEW

REVIEW REPORT TO MEMBERS

FINANCIAL STATEMENTS OF DOST STEELS LIMITED

BALANCE SHEET

PROFIT AND LOSS ACCOUNT

STATEMENT OF COMPREHENSIVE INCOME

CASH FLOW STATEMENT

STATEMENT OF CHANGES IN EQUITY

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

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 Khyber
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

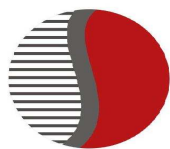
Plot # 222, Sector – 39,
Korangi Creek Industrial Area,
Karachi – 74900
Ph # 021-35110421-22 / Fax # 021-35110423

Mills

Bhai Pheru, 52 Km Lahore
Multan Road

Web Presence

www.doststeels.com



DOST STEELS LIMITED

Directors review:

It is my pleasure to present the un-audited financial statement of the company for the six month ending on 31st December 2010.

Company's review

The status quo continues. During quarter under review we have been expecting an interest from the strategic equity investors with whom discussions have been in progress. Perhaps the next quarter may lead to some progress. The company needs funds of PKR.400 million to repeat cold commissioning and achieve commercial hot production.

We have focused all our energies toward a suitable financing arrangement for the company.

Future outlook

We are foreseeing economic growth in the country which led to simultaneous growth in construction sector and engineering sectors. We are confident that increasing demand of deformed bars will have positive an impact on the profitability of the company. The country's standards authority has been seen to be active in the enforcement of standards compliance manufacture and sale of compulsory items that includes steel bars for use in buildings.

For and on behalf of the Board of Directors

Jamal Iftakhar
Chief Executive Officer

Karachi: February 21, 2011

**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, 2010, and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, 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 months period ended December 31, 2010. 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.

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 adverse conclusion

During the period, the Company has incurred a net loss of Rs.7.355 million and its accumulated losses stands at Rs.71.029 (June 30, 2010: Rs.63.675) million. Further, the Company is unable to commence its commercial production due to non-availability of finance require for commencement of commercial production. In addition, its overdue portion of long term loan reached at Rs.654.675 (June 30, 2010: 545.015) million.

The Company is also defendant in winding up petition filed by one of the creditors on the basis of non payment of its overdue amount.


In addition to the above, the Company has not account for the borrowing cost on loans from banking companies amounting to Rs.234,807 million including Rs. 79.158 million of current interim period.

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 required to be made in interim financial information. However, the annexed interim financial information is prepared on the basis of going concern assumption as explained in note 2 without making necessary adjustments to the carrying value of recorded assets and liabilities.

Adverse conclusion

Our review indicates that, because of the matters stated in preceding paragraphs, this interim financial information does not give a true and fair view of the financial position of the **DOST STEELS LIMITED** as at December 31, 2010 and of its financial performance and its cash flows for the six-month period then ended in accordance with approved accounting standards as applicable in Pakistan.

The figures of the condensed profit and loss account for the quarters ended December 31, 2010 and 2009 have not been reviewed as we are required to review only the cumulative figures for the six months period ended December 31, 2010.

 **Haroon Zakaria & Company**
Chartered Accountants

Place: Karachi
Dated: 21st February 2011

Engagement Partner:
Zakaria

DOST STEELS LIMITED
CONDENSED INTERIM BALANCE SHEET (UNAUDITED)
AS AT DECEMBER 31, 2010

		<i>(Unaudited)</i> December 31, 2010 <i>Rupees</i>	<i>(Audited)</i> June 30, 2010 <i>Rupees</i>
<u>ASSETS</u>			
Non-current assets			
Property, plant and equipment	6	2,010,656,310	2,011,228,819
Long term security deposits		22,843,345	22,807,345
Current assets			
Advances		544,800	563,415
Short term prepayment		165,000	165,000
Tax refund due from government		401,048	369,130
Other receivable		78,975	78,975
Cash and bank balances		323,327	175,376
		1,513,150	1,351,896
Total assets		2,035,012,805	2,035,388,060
<u>EQUITY AND LIABILITIES</u>			
Share capital and reserves			
Authorized capital			
70,000,000 Ordinary shares of Rs. 10/- each		700,000,000	700,000,000
Issued, subscribed and paid-up capital			
67,464,500 Ordinary shares of Rs. 10/- each		674,645,000	674,645,000
Accumulated loss		(71,029,856)	(63,674,856)
Shareholders' equity		603,615,144	610,970,144
Non-current liabilities			
Long term loans - secured	7	59,581,652	166,972,721
Deferred liability	8	4,353,209	-
Current liabilities			
Current and overdue portion of long term loans		871,726,585	764,335,516
Short term loans - unsecured		251,740,507	249,061,508
Trade and other payables		40,145,688	40,198,151
Markup accrued on secured loans		203,850,020	203,850,020
		1,367,462,800	1,257,445,195
Contingency and commitment	9	-	-
Total capital and liabilities		2,035,012,805	2,035,388,060

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 DECEMBER 31, 2010

	<i>Six months period ended</i>		<i>Quarter ended</i>	
	<i>December 31, 2010</i>	<i>December 31, 2009</i>	<i>December 31, 2010</i>	<i>December 31, 2009</i>
----- <i>Rupees</i> -----				
Administrative and financial expenses	(7,355,477)	(7,071,140)	(5,133,555)	(5,387,585)
Other Income	477	88,581	477	44,118
Recognized loss before taxation	(7,355,000)	(6,982,559)	(5,133,078)	(5,343,467)
Recognized loss after taxation	(7,355,000)	(6,982,559)	(5,133,078)	(5,343,467)
Loss per share - basic and diluted	(0.109)	(0.103)	(0.076)	(0.079)

The annexed notes form an integral part of these financial statements

Chief Executive

Director

DOST STEELS LIMITED
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE HALF YEAR ENDED DECEMBER 31, 2010

	<i>Half year ended</i>		<i>Quarter ended</i>	
	<i>December 31,</i> <i>2010</i>	<i>December 31,</i> <i>2009</i>	<i>December 31,</i> <i>2010</i>	<i>December 31,</i> <i>2009</i>
	----- <i>Rupees</i> -----			
Loss after tax for the period	(7,355,000)	(6,982,559)	(5,133,078)	(5,343,467)
Other comprehensive income for the period	-	-	-	-
Total comprehensive loss for the period	(7,355,000)	(6,982,559)	(5,133,078)	(5,343,467)

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 DECEMBER 31, 2010

	<i>December 31, 2010 Rupees</i>	<i>December 31, 2009 Rupees</i>
A. CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) before taxation	(7,355,000)	(6,982,559)
Adjustments for non cash items		
Gratuity	4,353,209	-
Depreciation	572,509	710,365
	(2,429,282)	(6,272,194)
Working capital changes		
Decrease in current assets:		
Advances	18,615	6,200
Other receivable	-	87,750
Decrease in current liabilities:		
Trade and other payables	(52,463)	(16,635,378)
Cash (outflow)/inflow from working capital	(2,463,130)	(22,813,622)
Taxes (paid) / refund	(31,918)	10,616,423
Security deposit - Net	(36,000)	-
Net cash used in operating activities	(2,531,048)	(12,197,199)
B. CASH FLOWS FROM INVESTING ACTIVITIES		
Capital work in progress	-	(912,158)
Net cash used in investing activities	-	(912,158)
C. CASH FLOWS FROM FINANCING ACTIVITIES		
Short term Financing	2,678,999	13,274,101
Net cash generated from financial activities	2,678,999	13,274,101
Net increase in cash and cash equivalents (A+B+C)	147,951	164,744
Cash and cash equivalents at beginning of the six months period	175,376	174,321
Cash and cash equivalents at end of the six months period	323,327	339,065

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 DECEMBER 31, 2010

<i>Description</i>	<i>Issued, subscribed and paid up capital</i>	<i>Accumulated loss</i>	<i>Total</i>
	----- <i>Rupees</i> -----		
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>
Balance as at 01 July 2010	674,645,000	(63,674,856)	610,970,144
Loss for the six months period	-	(7,355,000)	(7,355,000)
Balance as at December 31, 2010	<u>674,645,000</u>	<u>(71,029,856)</u>	<u>603,615,144</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 DECEMBER 31, 2010

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.7.355 (June 30, 2010 : Rs.10.787) million. As at that date its accumulated losses are Rs.71.030 (June 30, 2010 : Rs.63.675) million. Its current liabilities exceeds current assets by Rs.1,365.949 (June 30, 2010 : Rs.1,256.093) million. Further, the Company has insufficient funds to repay its overdue liabilities, owed to banking companies amounting to Rs.654.675 (2010 : Rs.545.015) 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.

Further, the Company is 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 outstanding balance as well as the Company has failed to commence its commercial production during the year. Due to these factors material uncertainty arises which may create doubts regarding the Company's ability to continue as going concern and accordingly the Company may not be able to realize its assets and discharge its liabilities at the stated amounts.

However, the Company is still maintaining a positive relationship with the lead agent of syndicated loan. Further, the Company has also given 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.

3. BASIS OF PREPARATION

This condensed interim financial report of the company for the six months period ended December 31, 2010 has been prepared in accordance with the requirements of the International Accounting Standard 34 - Interim Financial Reporting and provisions of and directives issued under the Companies Ordinance, 1984. In case where requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984 have been followed. These condensed interim financial statements are unaudited but subject to limited scope review by auditors. 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 June 30, 2010.

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 and the methods of computation adopted in the preparation of this condensed interim financial report are the same as those applied in the preparation of the financial statements for the year ended June 30, 2010 except as mentioned below:

4.1. Staff retirement benefit

Defined Benefit Plan

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

Certain standards, amendments and interpretations to the approved accounting standards are effective for accounting periods beginning on or after July 1, 2010 but are considered not to be relevant or have any significant effect on the Company's operation and are therefore not detailed in this condensed interim financial report.

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 June 30, 2010 except as a result of introduction of define benefit plan, the estimate of staff retirement benefit is made as product of last drawn salary and number of years of service.

	<i>(Unaudited)</i> <i>December 31,</i> <i>2010</i>	<i>(Audited)</i> <i>June 30,</i> <i>2010</i>
<i>Note</i>	<i>Rupees</i>	<i>Rupees</i>

6. **PROPERTY, PLANT AND EQUIPMENT**

Operating fixed assets - tangible

Book value at the beginning of the period / year	164,294,240	165,714,966
Depreciation for the period / year	<u>(572,509)</u>	<u>(1,420,726)</u>
	163,721,731	164,294,240
Capital work-in-progress	1,846,934,579	1,846,934,579
	<u>2,010,656,310</u>	<u>2,011,228,819</u>

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	<u>737,359,431</u>	<u>737,359,431</u>
		931,308,237	931,308,237
Current maturity		217,051,336	219,320,535
Overdue portion		654,675,249	545,014,981
Current and overdue portion of long term loan		871,726,585	764,335,516
		<u>59,581,652</u>	<u>166,972,721</u>

- 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 than 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, 2010 : Rs.150 million) of which unavailed amount is Rs.6.051 (June 30, 2010 : 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, 2010 : 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 and Pakistan Kuwait Investment Company (Private) Limited and 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 than 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, 2010 : Rs.775 million) of which unavailed amount is Rs.37.640 (June 30, 2010 : Rs.37.640) million.

	<i>(Unaudited)</i> <i>December 31,</i> <i>2010</i> <i>Rupees</i>	<i>(Audited)</i> <i>June 30,</i> <i>2010</i> <i>Rupees</i>
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8. DEFERRED LIABILITY

Employee retirement benefits - gratuity	7.1	<u>4,353,209</u>	<u>-</u>
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8.1. The Company has introduced the staff retirement benefit - unfunded gratuity for its employees. The benefits that are vested at the introduction of define benefit plan are recognised immediately.

9. CONTINGENCY AND COMMITMENT

9.1 Contingency

There were no change in contingencies since the last audited financial statements.

<i>December 31,</i> <i>2010</i> <i>Rupees</i>	<i>June 30,</i> <i>2009</i> <i>Rupees</i>
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9.2 Commitment

For capital expenditure	<u>50,454,000</u>	<u>40,067,000</u>
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10. 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: -

	<i>(Unaudited)</i> <i>December 31,</i> <i>2010</i> <i>Rupees</i>	<i>(Audited)</i> <i>June 30,</i> <i>2009</i> <i>Rupees</i>
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Entities over which directors have significant influence

Receipt of short term loan	<u>-</u>	<u>14,120,058</u>
Repayment of short term loan	<u>-</u>	<u>24,036,750</u>

Loans from directors

Receipt of short term loan	<u>2,678,999</u>	<u>25,593,793</u>
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Loan payable to related parties at the end of half year is Rs.31.00 (June 30, 2010 : Rs.31.00) million.

Loan payable to director at the end of half year is Rs.220.74 (June 30, 2010 : Rs.218.05) million.

11. DATE OF AUTHORIZATION FOR ISSUE

These condensed interim financial statements were authorized for issue on 21st February 2011 by the Board of Directors of the Company.

12. GENERAL

The figures have been round off to the nearest rupee.

Chief Executive

Director