FINANCIAL STATEMENTS

for the year ended June 30, 2014

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of MUGHAL IRON & STEEL INDUSTRIES LIMITED ("the Company") as at June 30, 2014 and the 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 the 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.

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 a 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) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

b) 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 account and are further in accordance with accounting policies consistently applied except for the changes in accounting policies as disclosed in note 3.23 to the accompanying financial statements, 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;

c) 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 conform with approved accounting standards as applicable in Pakistan and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 2014 and of the profit, its cash flows and changes in equity for the year then ended; and

d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

The financial statements of the Company for the year ended June 30, 2013 were audited by another firm of auditors whose report dated October 2, 2013 expressed an unqualified opinion with an emphasis of matter para thereon.

FAZAL MAHMOOD & COMPANY
Chartered Accountants
Engagement Partner: Fazal Mahmood
Lahore
Date: September 02, 2014

BALANCE SHEET
as at June 30, 2014

Rupees	Note	2014	2013 Restated	2012 Restated
ASSETS				
NON - CURRENT ASSETS				
Property, plant & equipment	4	2,865,374,803	2,423,557,366	1,834,918,045
Long-term investments	5	–	431,000	200,000
Long-term deposits & loans	6	19,007,848	17,423,312	16,566,790
Deferred tax asset	7	–	3,095,976	–
Total non current assets		2,884,382,651	2,444,507,654	1,851,684,835
CURRENT ASSETS				
Stores, spare parts & loose tools		189,241,050	140,461,702	335,687,028
Stock-in-trade	8	2,683,315,636	472,975,469	433,629,823
Trade debts	9	321,049,463	230,560,623	563,403,354
Advances	10	294,549,694	73,039,104	192,034,139
Short term prepayments & other receivables	11	13,939,045	13,460,039	157,660,258
Refunds due from the Government	12	569,897,941	490,060,059	457,656,834
Short term investments		–	–	22,406,535
Cash and bank balances	13	117,345,747	103,953,771	19,791,071
Total Current Assets		4,189,338,576	1,524,510,767	2,182,269,042
TOTAL ASSETS		7,073,721,227	3,969,018,421	4,033,953,877
EQUITY AND LIABILITIES				
SHARE CAPITAL & RESERVES				
Share capital	14	820,411,530	820,411,530	586,395,530
(Deficit) on remeasurement of available for sale investments to fair value	15	–	(569,000)	(800,000)
Revenue reserve	16	505,906,156	128,667,062	148,598,974
Shareholders' Equity		1,326,317,686	948,509,592	734,194,504
NON - CURRENT LIABILITIES				
Long term financing - banking companies	17	254,645,565	162,396,104	248,556,812
Long term loans from related parties	18	1,834,464,178	1,322,254,092	916,957,858
Deferred liabilities	19	39,968,644	15,579,684	10,411,112
Total non current liabilities		2,129,078,387	1,500,229,880	1,175,925,782
CURRENT LIABILITIES				
Trade and other payables	20	586,300,571	265,530,404	646,514,432
Mark-up accrued on secured loans	21	40,512,933	28,062,301	40,118,603
Short term borrowings	22	2,802,741,491	1,070,950,036	1,322,906,915
Current maturity of long term financing	17	188,770,159	155,736,208	114,293,641
Total current liabilities		3,618,325,154	1,520,278,949	2,123,833,591
Total liabilities		5,747,403,541	3,020,508,829	3,299,759,373
CONTINGENCIES AND COMMITMENTS	23	–	–	–
TOTAL EQUITY & LIABILITIES		7,073,721,227	3,969,018,421	4,033,953,877

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

Chief Executive

Director

PROFIT AND LOSS ACCOUNT

for the year ended June 30, 2014

Rupees	Note	2014	2013 Restated
Sales - net	24	5,857,176,563	3,928,513,675
Less: Cost of sales	25	5,131,793,211	3,553,973,719
GROSS PROFIT		725,383,352	374,539,956
Less:			
Distribution cost	26	10,678,119	19,396,763
Administrative expenses	27	81,648,797	77,675,389
Loss on de-recognition of available for sale investments		561,600	–
Workers' profit participation fund		20,927,908	6,161,494
		113,816,424	103,233,646
Add:			
Other income	28	3,663,214	5,529,415
PROFIT FROM OPERATIONS		615,230,142	276,835,725
Less: Finance cost	29	217,599,894	152,270,740
PROFIT BEFORE TAXATION		397,630,248	124,564,985
Taxation - net	30	6,770,389	(3,095,976)
PROFIT AFTER TAXATION		390,859,859	127,660,961
EARNING PER SHARE - BASIC & DILUTED	31	4.76	1.72

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

Chief Executive

Director

STATEMENT OF COMPREHENSIVE INCOME

for the year ended June 30, 2014

Rupees	2014	2013 Re-stated
PROFIT AFTER TAXATION	390,859,859	127,660,961
OTHER COMPREHENSIVE INCOME		
Items that may be re-classified subsequently to profit and loss account		
Available for sale financial assets:		
Net fair value gain on re-measurement of investments arising during the year	–	231,000
Net unrealized loss on available for sale investments reclassified to profit and loss account on disposal	569,000	–
Items that will not be-classified subsequently to profit and loss account		
Retirement benefit obligations		
Actuarial (loss) on defined benefit plan	(13,847,244)	(993,973)
Related deferred taxation	1,727,679	–
	(12,119,565)	(993,973)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	379,309,294	126,897,988

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

Chief Executive

Director

CASH FLOW STATEMENT

for the year ended June 30, 2014

Rupees	Note	2014	2013 Re-stated
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		397,630,248	124,564,985
Adjustments for non cash items:			
Depreciation		76,873,432	51,443,556
Finance costs		217,599,894	152,270,740
Loss on de-recognition of available for sale investments		561,600	–
Retirement benefit charge		6,215,282	4,174,599
Provision for workers' profit participation fund		20,927,908	6,161,494
		322,178,116	214,050,389
Profit before working capital changes		719,808,364	338,615,374
Working capital changes			
(Increase) / Decrease In Current Assets			
Stores, spare parts & loose tools		(48,779,348)	195,225,326
Stock in trade		(2,210,340,167)	(39,345,646)
Trade debts		(90,488,841)	332,842,731
Advances		(221,510,590)	118,995,035
Short term prepayments & other receivables		139,174	–
Refunds due from the Government		36,578,612	175,609,181
		(2,534,401,160)	783,326,627
Increase / (Decrease) In Current Liabilities			
Trade and other payables		306,003,753	(381,065,940)
Cash (utilized) / generated from operations		(1,508,589,042)	740,876,061
Finance cost paid		(205,149,263)	(164,327,042)
Workers' profit participation fund paid		(6,161,494)	(6,079,581)
Retirement benefits paid		(383,544)	–
Long term security deposits		560,530	(856,523)
Income tax paid		(116,416,494)	(63,812,187)
		(327,550,265)	(235,075,333)
Net cash (utilized) / generated from operating activities		(1,836,139,308)	505,800,728
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for capital work in progress		(300,345,525)	(503,895,949)
Sale proceeds from disposal of short term investments		–	22,406,535
Sale proceeds from disposal of available for sale investments		438,400	–
Payments for capital expenditure in property, plant & equipment		(218,345,344)	(136,186,928)
Net cash (out flow) from investing activities		(518,252,469)	(617,676,342)
CASH FLOWS FROM FINANCING ACTIVITIES			
Long term financing - net		125,283,412	(44,718,141)
Long term loans from related parties - net		512,210,086	405,296,234
Share issue costs		(1,501,200)	87,417,100
Net cash inflow from financing activities		635,992,298	447,995,193
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(1,718,399,479)	336,119,579
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		(966,996,265)	(1,303,115,844)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	32	(2,685,395,744)	(966,996,265)

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

Chief Executive

Director

STATEMENT OF CHANGES IN EQUITY

for the year ended June 30, 2014

Rupees	Share capital	(Deficit) on remeasurment of available for sale investments to fair value	Revenue Reserve - Un - appropriated Profit	Total
Balance as at June 30, 2012 - previously reported	586,395,530	(800,000)	155,101,602	740,697,132
Effect of change in accounting policy (Note.3.23)	–	–	(6,502,628)	(6,502,628)
Balance as at June 30, 2012 - restated	586,395,530	(800,000)	148,598,974	734,194,504
Total Comprehensive Income - restated				
After tax profit for the year	–	–	127,660,961	127,660,961
Other comprehensive income - net of taxes				
- Actuarial (loss) on defined benefit plan	–	–	(993,973)	(993,973)
- Fair value gain on re-measurement of investments held as "available for sale" to fair value	–	231,000	–	231,000
	–	231,000	126,666,988	126,897,988
Owner Changes in Equity				
Issuance of 8,741,710 ordinary shares of Rs 10/- each fully paid for cash	87,417,100	–	–	87,417,100
Issuance of 14,659,890 ordinary shares of Rs 10/- each as fully paid up bonus shares	146,598,900	–	(146,598,900)	–
Balance as at June 30, 2013	820,411,530	(569,000)	128,667,062	948,509,592
Total Comprehensive Income				
After tax profit for the period	–	–	390,859,859	390,859,859
Other comprehensive income - net of taxes				
- Actuarial (loss) on defined benefit plan	–	–	(12,119,565)	(12,119,565)
- Loss realized on disposal of available for sale investments	–	569,000	–	569,000
	–	569,000	378,740,294	379,309,294
Share issue costs	–	–	(1,501,200)	(1,501,200)
Balance as at June 30, 2014	820,411,530	–	505,906,156	1,326,317,686

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

Chief Executive

Director

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended June 30, 2014

1. THE COMPANY AND ITS OPERATIONS

Mughal Iron & Steel Industries Limited ("The Company") was incorporated on February 16, 2010. The Company is registered as an unlisted public Company in Pakistan under Companies Ordinance, 1984. The registered office of the Company is situated at 31-Shadman-I, Lahore. The Company is principally engaged in the business of manufacturing and trading of mild steel products.

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, the requirements of the Companies Ordinance, 1984 (the Ordinance), and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) 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 or directives of the Companies Ordinance, 1984 shall prevail. The Company is in the process of listing its securities on stock exchanges, therefore, the management has voluntarily complied with Fourth Schedule of the Companies Ordinance, 1984 for disclosure requirements.

2.2 Overall valuation policy

These financial statements have been prepared under the historical cost convention except as explained in relevant notes, if any.

2.3 Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency), which is the Pakistan Rupee (Rs.).

2.4 Critical accounting estimates & judgments

The preparation of these financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to make estimates, assumptions and use judgments that affect the application of policies and reported amount of assets, liabilities, income and expenses. 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 carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates underlying the 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 affect only that period, or in the period of revision in future period if the revision affects both current and future periods.

Judgments and estimates made by the management that may have a significant risk of material adjustments to the financial statements in subsequent years are as follows:

i) Residual values and useful lives of Property, plant and equipment (Note. 3.3)
ii) Provision for slow moving and obsolete stores and spares and stock in trade (Note. 3.4 & 3.5)
iii) Estimated liability in respect of staff retirement benefits (Note. 3.19)
iv) Provisions against doubtful balances (Note. 3.6)
v) Taxation (Note. 3.1)
vi) Fair value of investments classified as 'available for sale' (Note. 3.18)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended June 30, 2014

2.5 Revised standards and amendments/interpretations/improvements to existing standards that are effective in the current period

The Company has adopted the following revised standards and amendments/interpretations/improvements to approved accounting standards as applicable in Pakistan, which became effective for the current year:

(i) "IFRS - 7 - Disclosures — Offsetting Financial Assets and Financial Liabilities". Amends the disclosure requirements in IFRS 7 Financial Instruments: Disclosures to require information about all recognized financial instruments that are set off in accordance with paragraph 42 of IAS 32 Financial Instruments: Presentation. The amendments also require disclosure of information about recognized financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. The IASB believes that these disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognized financial assets and recognized financial liabilities, on the entity's financial position.

(ii) IAS 19 (revised) 'Employee Benefits' has eliminated the corridor approach and requires to calculate finance cost on net funding bases. The Company has applied this change in accounting policy retrospectively in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and recorded unrecognized actuarial losses net of taxes associated with retirement benefit plan by adjusting the opening balance of unappropriated profit and retirement benefit for the prior years presented.

(iii) Annual Improvements 2009-2011 Cycle

i) IAS 1 — Clarification of the requirements for comparative information
ii) IAS 16 — Classification of servicing equipment
iii) IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
iv) IAS 32 — Clarify that tax effect of a distribution to holders of equity instruments should be accounted for in accordance with IAS 12 Income Taxes
v) IAS 34 — Clarify interim reporting of segment information for total assets in order to enhance consistency with the requirements in IFRS 8 Operating Segments

The adoption of the above amendments, revisions, improvements to approved accounting standards as applicable in Pakistan did not have any effect on the financial statements except for IAS-19 employee Benefits (Revised) which has been disclosed in Note. 3.23 to these financial statements.

2.6 Amendments/interpretations to existing approved accounting standards that have been published but not yet effective

The following amendments / interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standards / interpretations.

(i) "IFRS 32 Offsetting financial assets and financial liabilities " - (effective for periods beginning on or after January 1, 2014). These amendments address inconsistencies in current practice when applying the offsetting criteria in IAS-32 Financial Instruments: Presentation. These amendments clarify the meaning of 'currently has a legally enforceable right of set-off': and that some gross settlement systems may be considered equivalent to net settlement.

(ii) "IAS-36 Impairments of assets - recoverable amount disclosures for non-financial assets " - (effective for periods beginning on or after January 1, 2014). These narrow-scope amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less cost of disposal.

(iii) "IFRIC 21 Levies - an interpretation on the accounting for levies imposed by Governments" (effective for periods beginning on or after January 1, 2014). IFRIC 21 is an interpretation of IAS 37 Provision, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event. The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity describe in the relevant legislation that triggers the payment levy.

(iv) "IAS-39 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting Amendment" (effective for periods beginning on or after January 1, 2014). Amendment makes it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met. A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations.

(v) "IAS-19 Defined Benefit Plans: Employee Contributions " (effective for periods beginning on or after July 1, 2014). Amendment clarifies the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service, in that contributions, can, but are not required, to be recognized as a reduction in the service cost in the period in which the related service is rendered.

(vi) "IAS-16 & 38 Clarification of Acceptable Methods of Depreciation and Amortization " (effective for periods beginning on or after January 1, 2016). Amendment clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. The amendment introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendment adds guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

The Company expects that the adoption of the above amendments/interpretations to approved accounting standards in Pakistan will not affect the Company's financial statements in the period of initial application.

2.7 List of new standards issued by the International Accounting Standard Board (IASB) but not yet notified for adoption locally by the Securities and Exchange Commission of Pakistan (SECP) for the year ended June 30, 2014 are as follows:

IFRS 1	–	First time adoption of international financial reporting standards
IFRS 9	–	Financial instruments
IFRS 10	–	Consolidated financial statements
IFRS 11	–	Joint arrangements
IFRS 12	–	Disclosure of interest in other entities
IFRS 13	–	Fair value measurement
IAS 27 (Revised 2011)	–	Separate financial statements due to non-adoption of IFRS-10 and IFRS-11
IAS 28 (Revised 2011)	–	Investments in associates and joint ventures due to non - adoption of IFRS 10 and IFRS 11.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended June 30, 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented except as mentioned in note 3.20.

3.1 Taxation

a) Current

Provision for current tax is based on taxable income for the period determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the period if enacted. The charge for current tax also includes adjustments, where considered necessary, to existing provision for tax made in previous years arising from assessments framed during the period for such years.

b) Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all taxable temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination; and that affects neither accounting nor taxable profit or loss, and differences arising on the initial recognition of goodwill. Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

3.2 Foreign currency translation

All monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the rate of exchange prevailing at the balance sheet date or at the contracted rates while foreign currency transactions are initially recorded at the rate of exchange prevailing at the transaction date or at the contracted rates. Exchange risk fee is charged to profit and loss accounts. The Company charges all the exchange differences to profit and loss accounts.

3.3 Property, plant & equipment - owned

These are stated at cost less accumulated depreciation and accumulated impairment losses, (if any), except freehold land which is stated at cost less accumulated impairment losses (if any). Cost comprises of historical cost, exchange differences arising on translation of foreign currency loans, borrowing cost pertaining to the erection period and directly attributable costs of bringing the assets to working condition. These costs are transferred to specific assets as and when assets are available for use. Subsequent costs are included in the assets carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economics benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Cost incurred to replace a component of an item of property, plant and equipment is capitalized and the asset so replaced is derecognized. The cost of the day to day servicing of property, plant and equipment are recognized in profit or loss account. The cost of self constructed assets includes the cost of materials, direct labor and any other cost directly attributable to bringing the assets to a working condition for their intended use.

Depreciation is charged to income applying the reducing balance method at the rates given in relevant notes to the financial statements to write off the cost of operating fixed assets over their expected useful life. Depreciation on additions is charged from the date when the asset is available for use and on deletions up to the date when the asset is deleted. An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or de-recognition (calculated at the difference between the net disposal proceeds and carrying amount of the asset) is taken to profit and loss account.

Impairment test for property, plant and equipment is performed when there is an indication of impairment. At each period end, an assessment is made to determine whether there is any indication of impairment. If any such indications exist, an estimate of the asset's recoverable amount is calculated being the higher of the fair value of the asset less cost to sell and the asset's value in use. If the carrying amount of the asset exceeds its recoverable amount, the property, plant and equipment is impaired and an impairment loss is charged to the profit and loss account so as to reduce the carrying amount of property, plant and equipment to its recoverable amount. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the property, plant and equipment in its present form and its eventual disposal. An impairment loss is recovered if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Capital work in progress is stated at cost accumulated to the balance sheet date including borrowing costs less impairment losses, (if any). The costs are transferred to fixed assets as and when assets are available for use.

3.4 Stores and spares

These are valued at cost determined on weighted average basis less provision for slow moving and obsolete stores and spares. Items in transit are valued at invoice value plus other charges incurred thereon.

3.5 Stock in trade

These are valued at lower of cost and net realizable value.
Cost is determined as follows:

Raw material	–	at weighted average cost
Finished goods	–	at estimated manufacturing cost
Wastage	–	at weighted average cost

Net realizable value of raw material inventory is determined on the basis of replacement cost, whereas net realizable value of finished inventory signifies the estimated selling price in the ordinary course of business less cost necessary to be incurred for its sale.

3.6 Trade and other receivables

rade and other receivables are carried at original invoice amount being the fair value. Provision is made against debts considered doubtful of recovery whereas debts considered irrecoverable are written off.

3.7 Revenue recognition

(i) Revenue is measured at the fair value of the consideration received or receivable, and represents amount receivable or received in advance for goods supplied, stated net of discounts, returns and value added taxes. Revenue from sale of goods is recognized on delivery of goods to customers i.e. when the significant risk and rewards of ownership have been transferred to the customer.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended June 30, 2014

(ii) Return on bank deposits and short term investments is recognized on a time proportion basis taking into account the principal outstanding and the interest applicable; and

(iii) Dividend income is recognized when the shareholder's right to receive payment is established.

3.8 Borrowings and their costs

3.8.1 Interest bearing borrowings

Interest bearing borrowings are recognized initially at cost being the fair value of consideration received, less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at original cost less subsequent repayments.

3.8.2 Interest-free borrowings at cost

In the absence of the availability of a realistic means for determining fair value, these loans have been stated at cost.

3.8.3 Borrowing costs

Borrowing costs are recognized as an expense in the period in which these are incurred except to the extent of borrowing cost that are directly attributable to the acquisition, construction or production of a qualifying assets. Such borrowing costs, if any are capitalizable as part of the cost of the asset.

3.9 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, 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 obligation.

3.10 Contingent liabilities

Contingent liability is disclosed when the Company has a possible obligation as a result of past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company; or the Company has a present legal or constructive obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of obligation cannot be measured with sufficient reliability.

3.11 Impairment

a) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events had a negative effect on the estimated future cash flow of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as a difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

b) Non- financial assets

The carrying amount of the Company's non financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indications exist, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment loss is

recognized as expense in the profit and loss account. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3.12 Dividend and appropriations to reserves

Dividend distribution to the Company's shareholders and appropriation to reserves is recognized in the financial statements in the period in which these are approved.

3.13 Cash and cash equivalents

Cash and cash equivalents are carried at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash, cheques in hand, balances with banks on current, saving and deposit accounts and short term borrowings under mark-up arrangements.

3.14 Trade and other payables

Liabilities for trade and other payables are measured at cost which is the fair value of the consideration to be paid in the future for goods and services received.

3.15 Financial instruments

All financial assets and liabilities are recognized at the time when the company becomes a party to the contractual provisions of the instrument. All financial assets and liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortized cost or cost as the case may be.

A financial asset is de-recognized when the company loses control of its contractual rights that comprise the financial asset. A financial liability is de-recognized when it is extinguished. Any gains or losses on de-recognition of the financial assets or liabilities are taken to profit and loss account currently. The Company recognizes the regular way purchase or sale of financial assets using settlement date accounting.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to setoff the recognized amounts and the Company intends to settle on a net basis, or realize the asset and settle the liability simultaneously.

3.16 Related party transactions

Related party", in relation to a company, means an entity which has the ability to control the company or exercise significant influence over the company in making financial and operating decisions or vice versa and includes the following, namely:__

a) entities that directly or indirectly through one or more intermediaries control, or are controlled by, or are under common control with, the reporting company including holding companies, subsidiaries and fellow subsidiaries

b) individuals owning, directly or indirectly, an interest in the voting power of the reporting company that gives them significant influence over the company, and close members of the family of any such individual;

c) key management personnel, that is, persons having authority and responsibility for planning, directing and controlling the activities of the reporting company including directors and officers of such company and close members of the families of such individuals;

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for the year ended June 30, 2014

d) Entities in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in clause (c) or (d) or over which such person is able to exercise significant influence including entities owned by directors or major shareholders of the reporting company and entities that have a key management personnel in common with the reporting company;

In considering each possible related party relationship, attention should be directed to the substance of the relationship and not merely to the legal form. All transactions between Company and related parties are accounted for at arm's length price in accordance with "Comparable Uncontrolled Price Method", except as explained in relevant notes, if any.

3.17 Earning per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, for the effects of all diluted potential ordinary shares.

3.18 Investments

Investments available for sale

These are initially measured at their fair value plus directly attributable transaction cost and at subsequent reporting dates measured at fair values and gains or losses from changes in fair values other than impairment loss are recognized in other comprehensive income until disposal at which time these are recycled to profit or loss. Impairment loss on investments available for sale is recognized in the profit or loss.

3.19 Staff retirement benefits - defined benefit plan

Defined benefit plan defines the amount which an employee will receive on or after retirement, usually dependant on one or more factors such as age, years of service, and compensation. The liability recognized in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of any plan assets. The defined benefit obligation is calculated annually by an independent actuary using projected-unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high quality corporate bonds or the market rates on government bonds.

The defined benefit plan represents an approved unfunded gratuity scheme for all its permanent employees subject to a minimum qualifying period of service according to the terms of employment. The amounts of retirement benefits are usually dependant on one or more factors such as age, years of service and salary. Provision is made annually to cover obligation under the scheme. Latest valuation was conducted on June 30, 2014. All actuarial gains and losses are recognized in other comprehensive income as they occur.

3.20 Segment Reporting

Segment information is presented on the same basis as that used for internal reporting purposes by the Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments. On the basis of its internal reporting structure, the Company considers itself to be a single reportable segment. An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. The financial information has been prepared on the basis of single reportable segment.

3.21 Share Capital

Ordinary shares are classified as equity and recognized at their fair value. Incremental costs directly attributable to the issue of new shares or options are shown in equity as deduction, net of tax, from the proceeds.

3.22 Operating leases

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease.

3.23 Change in accounting policy

"IAS 19 (revised) - 'Employee Benefits' effective for annual periods beginning on or after January 1, 2013 amends the accounting for employee benefits. The standard requires immediate recognition of past service cost and also replaces the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability and the discount rate, measured at the beginning of the year.

Further, a new term 'remeasurements' has been introduced. This is made up of actuarial gains and losses, the difference between actual investment returns and the return implied by the net interest cost. The standard requires 'remeasurements' to be recognized in the balance sheet immediately, with a charge or credit to Other Comprehensive Income in the periods in which they occur.

Following the application of IAS 19 (revised) - 'Employee Benefits', the Company's policy for Staff Retirement Benefits in respect of 'remeasurements' stands amended as follows:

- The amount arising as a result of remeasurements are recognized in the balance sheet immediately, with a charge or credit to Other Comprehensive Income in the periods in which they occur.

- The change in accounting policy has been accounted for retrospectively in accordance with the requirements of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and comparative figures have been restated.

The Company's financial statements are affected by the 'remeasurements' relating to prior years. The effects have been summarized below:

Rupees	2013	2012
Impact on Balance Sheet		
– Increase in retirement benefit - obligation	–	6,502,628
– Decrease in unappropriated profit	–	6,502,628
Impact on Statement of changes in Equity		
– Decrease in unappropriated profit		
– Current year	–	6,502,628
Impact on Profit & Loss account		
– Decrease / (Increase) in cost of sales	7,429,813	(4,409,252)
– Decrease / (Increase) in administrative expenses	66,788	(2,093,376)
Impact on Statement of Comprehensive Income		
– Decrease in Comprehensive Income	(993.973)	–
Impact on Earning per Share		
– Increase / (Decrease) in EPS	0.10	(0.09)

There is no cash flow impact as a result of retrospective application of change in accounting policy.

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Rupees		2014	2013
4. Property, Plant & Equipment			
Property, Plant & Equipment	4.1	2,558,660,278	2,417,188,366
Capital work in progress	4.3	306,714,525	6,369,000
		2,865,374,803	2,423,557,366

4.1 Property, Plant & Equipment

	Land - freehold	Building on freehold land	Plant and machinery	Power plant	Weight machine	Office Equipment	Elecrtic equipment & installation	Furniture & fittings	Vehicles	Arms and Ammunition	Computer	Development of property	Total
							Rupees						
At June 30, 2012													
Cost	63,325,863	41,659,583	647,515,964	258,281,114	91,434	454,221	107,001,072	1,058,577	52,372,791	149,693	799,220	-	1,172,709,532
Accumulated depreciation	-	1,649,720	16,723,041	12,726,266	4,515	11,625	390,508	62,562	9,215,313	5,091	131,622	-	40,920,263
Net book Value	63,325,863	40,009,863	630,792,923	245,554,848	86,919	442,596	106,610,564	996,015	43,157,478	144,602	667,598	-	1,131,789,269
Depreciation Rate (%)	-	4	2.50	4	2.50	10	5	10	15	10	30	-	
Year ended June 30, 2013													
Opening Net book value	63,325,863	40,009,863	630,792,923	245,554,848	86,919	442,596	106,610,564	996,015	43,157,478	144,602	667,598	-	1,131,789,269
Additions	-	-	1,304,170,362	-	-	320,700	7,870,701	64,000	23,987,844	111,000	318,046	-	1,336,842,653
Depreciation charged for the year	-	(1,600,395)	(22,436,489)	(12,277,742)	(8,692)	(63,513)	(5,402,812)	(105,634)	(9,261,131)	(24,376)	(262,772)	-	(51,443,556)
Closing Net book value	63,325,863	38,409,468	1,912,526,796	233,277,106	78,227	699,783	109,078,453	954,381	57,884,191	231,226	722,872	-	2,417,188,366
At June 30, 2013													
Cost	63,325,863	41,659,583	1,951,686,326	258,281,114	91,434	774,921	114,871,773	1,122,577	76,360,635	260,693	1,117,266	-	2,509,552,185
Accumulated depreciation	-	3,250,115	39,159,530	25,004,008	13,207	75,138	5,793,320	168,196	18,476,444	29,467	394,394	-	92,363,819
Net book Value	63,325,863	38,409,468	1,912,526,796	233,277,106	78,227	699,783	109,078,453	954,381	57,884,191	231,226	722,872	-	2,417,188,366
Depreciation Rate (%)	-	4	2.50	3.50	2.50	10	5	10	15	10	30	-	
Period ended June 30, 2014													
Opening Net book value	63,325,863	38,409,468	1,912,526,796	233,277,106	78,227	699,783	109,078,453	954,381	57,884,191	231,226	722,872	-	2,417,188,366
Additions	-	27,713,985	152,207,816	-	-	87,500	699,750	26,395	2,243,000	-	4,966,898	30,400,000	218,345,344
Depreciation charged for the year	-	(2,011,175)	(49,438,420)	(8,164,699)	(1,956)	(70,704)	(5,453,923)	(98,070)	(9,018,157)	(23,123)	(566,538)	(2,026,667)	(76,873,432.00)
Closing Net book value	63,325,863	64,112,278	2,015,296,192	225,112,407	76,271	716,579	104,324,280	882,706	51,109,034	208,103	5,123,232	28,373,333	2,558,660,278
At June 30, 2014													
Cost	63,325,863	69,373,568	2,103,894,142	258,281,114	91,434	862,421	115,571,523	1,148,972	78,603,635	260,693	6,084,164	30,400,000	2,727,897,529
Accumulated depreciation	-	5,261,290	88,597,950	33,168,707	15,163	145,842	11,247,243	266,266	27,494,601	52,590	960,932	2,026,667	169,237,251
Net book Value	63,325,863	64,112,278	2,015,296,192	225,112,407	76,271	716,579	104,324,280	882,706	51,109,034	208,103	5,123,232	28,373,333	2,558,660,278
Depreciation Rate (%)	-	4	2.50	3.50	2.50	10	5	10	15	10	30	20	

Rupees	2014	2013
4.2 Depreciation for the year has been allocated as follows:		
Cost of Goods Sold	67,686,501	41,750,506
Administrative Expenses	9,186,931	9,693,050
	76,873,432	51,443,556

4.2.1 The company has leased out its power plant, sheet mill unit and ferro alloy unit aggregating to Rs. 494.361 million respectively, to Mughal Steel Metallurgies Corporation Limited.

Rupees	Opening balance	Expenditure	Capitalized	Closing balance
		2014		
4.3 Following is the movement in capital work in progress:				
Plant & machinery				
- Civil work	–	52,614,758	–	52,614,758
- Plant & machinery	–	247,098,267	–	247,098,267
Intangible				
- Software	6,369,000	632,500	–	7,001,500
June 30, 2014	6,369,000	300,345,525	–	306,714,525

Rupees	Opening balance	Expenditure	Capitalized	Closing balance
		2013		
Plant & machinery				
- Plant & machinery	703,128,776	497,526,949	(1,200,655,725)	–
Intangible				
- Software	–	6,369,000	–	6,369,000
June 30, 2013	703,128,776	503,895,949	(1,200,655,725)	6,369,000

Rupees	Note	2014	2013
5. LONG - TERM INVESTMENTS			
Available for sale investments - at fair value			
Wateen Telecom Limited	5.1	–	431,000
		–	431,000

5.1 Investment in Wateen Telecom Limited represented 100,000 ordinary shares of Rs. 10/- each. During the year, as a result of de-listing, the shares were bought back by Wateen Telecom Limited at a price of Rs. 4.38 per share.

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Rupees	Note	2014	2013
6. LONG TERM DEPOSITS & LOANS			
(Considered good)			
Long term deposits			
Related parties			
- Al-Bashir Steel Industries (Private) Limited		500,000	500,000
Others			
- Lesco		12,852,000	12,852,000
- Others		4,831,313	4,071,313
		18,183,313	17,423,313
Long term loan to related parties			
- Employees – (secured)	6.1	1,442,715	–
Less: Current maturity		(618,180)	–
		824,535	–
		19,007,848	17,423,313

6.1 This represents interest free vehicle loan to employees. These are secured against post dated security cheques.

Rupees	Note	2014	2013
7. DEFERRED TAX ASSET			
Deferred tax asset			
Deferred taxation - net	19.2	–	3,095,976
		–	3,095,976
8. STOCK IN TRADE			
Raw material		1,082,698,119	410,248,164
Finished goods		547,927,209	53,662,217
		1,630,625,328	463,910,381
Stock in transit		1,052,690,308	9,065,088
		2,683,315,636	472,975,469
9. TRADE DEBTS			
Considered good - unsecured			
Related parties			
- Mughal Steel Metallurgies Corporation Limited		141,686,862	1,393,499
Others		179,362,601	229,167,124
		321,049,463	230,560,623

9.1 As of June 30, aging analysis of trade debts is as follow:

- Not yet due	42,367,593	229,398,274
- Past due 1-30 days	67,360,679	–
- Past due 31-90 days	207,331,575	–
- Over 90 days	3,989,616	1,162,349
	321,049,463	230,560,623

9.2 The maximum aggregate amount of balance outstanding in respect of related parties at the end of any month during the year was Rs. 166.586 million. (2013: Rs.7.056 million). Balance amounting to Rs. 2.827 million in respect of related party is past due 90 days.

Rupees	Note	2014	2013
10. ADVANCES			
(Considered good)			
Related party			
- Employees - secured			
- Executives	10.1	1,858,641	1,541,600
- Others		6,141,217	4,953,425
		7,999,858	6,495,025
- Advances against expenses		190,245	–
		8,190,103	6,495,025
Others			
- Suppliers		286,359,591	66,544,079
		294,549,694	73,039,104

10.1 These are provided to employees under their terms of employment. These are secured against gratuity.

10.1.1 Reconciliation of carrying amount of advances from employees

Rupees	Note	2014	2013
Opening balance		6,495,025	3,083,046
Add: Disbursements		7,968,122	9,435,298
		14,463,147	12,518,344
Less: Repayments		(6,463,289)	(6,023,319)
Closing balance		7,999,858	6,495,025

11. SHORT TERM PREPAYMENTS & OTHER RECEIVABLES			
(Considered good)			
Prepayments		687,650	799,706
Letters of credit		8,144,419	10,151,530
Other receivables			
- Related parties			
- Employees		618,180	–
- Mughal Steel Metallurgies Corporation Limited		2,400,000	–
- Other		2,088,796	2,508,803
		5,106,976	2,508,803
		13,939,045	13,460,039

12. REFUNDS DUE FROM THE GOVERNMENT			
Advance income tax		297,273,252	180,856,758
Export regulatory duty refundable	12.1	54,148,408	54,148,408
Sales tax refundable		218,476,281	255,054,893
		569,897,941	490,060,059

12.1 Government of Pakistan (GoP) imposed regulatory duty on export of scrap and steel products with the objective to protect the local steel industry. This duty was not applicable in respect of goods manufactured and exported

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from raw material imported under the DTRE scheme or in manufacturing bonded warehouse. However, the company under protest deposited the regulatory duty to clear the export consignments at that time. This fact is also evident from the subsequent withdrawal by Federal Board of Revenue (FBR) from exports made out of finished goods manufactured from raw material imported in manufacturing bonded ware house or under DTRE regime. The matter is pending with custom authorities after decision of Honorable High Court. The Company is highly confident that the duty would be refunded.

Rupees	Note	2014	2013
13. CASH AND BANK BALANCES			
Cash in hand		724,424	355,530
Cash at banks			
- Current accounts		116,621,323	98,151,274
- Saving accounts	13.1	–	5,446,967
		116,621,323	103,598,241
		117,345,747	103,953,771

13.1 The Company is maintaining saving accounts with different banks with interest on the daily product basis which carries interest Nil per annum. (2013: 6% to 6.25%)

14. SHARE CAPITAL

Authorized share capital

Number of Shares				
150,000,000	150,000,000	Ordinary shares of Rs. 10/- each	1,500,000,000	1,500,000,000
150,000,000	150,000,000		1,500,000,000	1,500,000,000

Issued. Subscribed & paid up capital

Number of Shares				
8,801,710	8,801,710	Ordinary shares of Rs. 10/- each allotted for consideration paid in cash	88,017,100	88,017,100
58,579,553	58,579,553	Ordinary shares of Rs. 10/- each allotted for consideration other than cash	585,795,530	585,795,530
14,659,890	14,659,890	Ordinary shares of Rs. 10/- each allotted as bonus shares	146,598,900	146,598,900
82,041,153	82,041,153		820,411,530	820,411,530

Rupees Number of Shares			2014	2013 Restated
		Movement in issued share capital:		
82,041,153	58,639,553	Opening balance	820,411,530	586,395,530
–	8,741,710	Issuance of ordinary shares of Rs 10/- each fully paid for cash	–	87,417,100
–	14,659,890	Issuance of ordinary shares of Rs 10/- as fully paid bonus shares	–	146,598,900
82,041,153	82,041,153	Closing balance	820,411,530	820,411,530

14.1 Ordinary shares issued for consideration otherwise than cash includes shares issued against purchase of business comprising of assets and liabilities of Mughal Steel (AoP).

Rupees	Note	2014	2013
15. (DEFICIT) ON REMEASUREMENT OF AVAILABLE FOR SALE INVESTMENTS TO FAIR VALUE			
Un-realized (loss) on available for sale investments			
Opening balance		(569,000)	(800,000)
Un-realized gain on re-measurement of investments to fair value		–	231,000
Loss realized on de-recognition of available for sale investments		569,000	–
Closing balance		–	(569,000)
16. REVENUE RESERVE			
Un-appropriated profit			
Opening balance		128,667,062	148,598,974
Profit after taxation for the year		390,859,859	127,660,961
Share issue costs		(1,501,200)	–
Actuarial (loss) on defined benefit plan		(12,119,565)	(993,973)
Bonus shares issued (Refer Note. 14)		–	(146,598,900)
		505,906,156	128,667,062
17. LONG TERM FINANCING - BANKING COMPANIES			
(Secured)			
Bank Alfalah Limited (BAFL)	17.1	350,788,250	217,167,500
MCB Bank Limited (MCB)	17.2	92,627,474	100,964,812
		443,415,724	318,132,312
Less: Current maturity shown under current liabilities		(188,770,159)	(155,736,208)
Long term portion		254,645,565	162,396,104

17.1 Terms & conditions of borrowings from Bank Alfalah Limited are as follows:

Loan outstanding	130.300 million	220.487 million
Nature of facility	LTFF (P&M)-I	Term Finance / LTFF-II
Sanctioned limit	153.000 million	250.000 million
Markup Rate	SBP rate +1.50 % p.a.	6MK+2% p.a.
Total installments	12 quarterly	12 quarterly
No. of installments outstanding	6 quarterly	12 quarterly
Date of final repayment	October 05, 2015	October 04, 2017

Purpose:

New plant of new re-rolling mill
Import of new melting furnace & ancillary components

Security/collateral:

- 1st exclusive charge of Rs. 100.000 million on land, building & steel structure of new re-rolling mill section.
- 1st hypothecation charge of Rs. 650.000 Million on plant & machinery of new re-rolling mill.
- Exclusive charge of Rs. 250.000 million on Plant & machinery of new Electric Furnace, CCM, Load Management System and auxiliary components.
- Personnel guarantees of all directors and Chief Executive Officer

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17.2 Terms & conditions of borrowings from MCB Bank Limited are as follows:

Loan outstanding	36.000 million	56.627 million
Nature of facility	DF	LF I&II
Sanctioned limit	40.000 million	142.050 million
Markup Rate	3MK+1.5%	3MK+1.5%
Total installments	10 quarterly	13-14 quarterly
No. of installments outstanding	9 quarterly	3-7 quarterly
Date of final repayment	July 01, 2016	January 12, 2016

Purpose:

To finance cost of construction of building / civil works, electric panel / wires and errection of induction furnace.

To finance two brand new induction furnaces and parts of related accessories, electrical equipment and associated costs for grid station purchased directly from LESCO against their demand notices

Security/collateral:

- 1st specific charge of Rs. 876.000 million over specific fixed assets of the company
- 1st pari passu charge of Rs. 507.000 million, 2nd charge of Rs. 310.000 million and 5th charge of Rs. 100.000 million over current assets of the company,
- Personnel guarantees of all directors and Chief Executive Officer

Rupees	Note	2014	2013
18. LONG TERM LOANS FROM RELATED PARTIES			
(Unsecured and Interest free)			
Loan from:			
- Mughal steel	18.1	964,004,469	1,322,254,092
- Directors & Sponsors	18.2	870,459,709	–
		1,834,464,178	1,322,254,092

18.1 This represents interest free and unsecured loan from Mughal Steel, an unincorporated entity. The loan is not repayable within the next twelve months. There is no fixed tenure for repayment of this liability and in the absence of the availability of a defined repayment schedule, the fair value of the loan is not determinable and hence it has been stated at cost.

18.2 This represent interest free and unsecured loan from the directors of the Company. The loan is not repayable within the next twelve months. There is no fixed tenure for repayment of these liabilities and in the absence of the availability of a defined repayment schedule, the fair value of these loans is not determinable and hence they have been stated at cost.

Rupees		Note	2014	2013 Restated	2012 Restated
19.	**DEFERRED LIABILITIES**				
	Retirement benefit obligation	19.1	35,258,666	15,579,684	10,411,112
	Deferred taxation - net	19.2	1,946,733	–	–
	Deferred income	19.3	2,763,245	–	–
			39,968,644	15,579,684	10,411,112

19.1 Retirement benefit obligations - unfunded gratuity plan

As stated in Note. 3.19 the Company operates a defined benfit plan which comprises of an approved unfunded gratuity scheme for its permanent employees. The scheme defines the amounts of benefit that an employee will receive on or after retirement subject to a minimum qualifying period of service under the scheme. Actuarial valuation of the scheme is carried out every year and the latest actuarial valuation was carried out on June 30, 2014 using Projected Unit Credit method by an approved actuary.

The latest actuarial valuation of the fund was as at June 30, 2014 was carried out using Projected Unit Credit Method. Details of the fund as per the actuarial valuation are as follows:

Rupees		2014	2013 Restated	2012 Restated
19.1.1	Movement in balance sheet liability			
	Opening balance	15,579,684	10,411,112	–
	Expense charged to profit & loss account	6,215,282	4,174,599	10,411,112
	Remeasurements recognized in other comprehensive income	13,847,244	993,973	–
		35,642,210	15,579,684	10,411,112
	Less: benfits paid	(383,544)	–	–
	Closing liability	35,258,666	15,579,684	10,411,112
19.1.2	Movement in present value of defined benefit obligation			
	Opening liability	15,579,684	10,411,112	–
	current Service cost	4,599,551	3,081,432	–
	Interest cost on defined benefit obligation	1,615,731	1,093,167	–
	Remeasurements	13,847,244	993,973	
	Benefits paid	(383,544)	–	–
	Present value of defined benefit obligation as June 30,	35,258,666	15,579,684	–
19.1.3	Expense charged to profit & loss account consists of:			
	Current Service cost	4,599,551	3,081,432	–
	Interest cost	1,615,731	1,093,167	–
		6,215,282	4,174,599	–
19.1.4	Amounts recognized in other comprehensive income are:			
	Actuarial loss on defined benefit plan	13,847,244	993,973	–

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended June 30, 2014

Rupees		2014	2013 Restated	2012 Restated
19.1.5	Expense charged to profit & loss account			
	Cost of sales	4,214,411	2,830,680	7,059,487
	Administrative expenses	2,000,871	1,343,919	3,351,625
		6,215,282	4,174,599	10,411,112

19.1.6	Key actuarial assumptions used:		
	Discount rate used for interest cost %	10.50%	10.50%
	Discount rate used for benefit obligation %	13.25%	10.50%
	Future salary increased %	12.25%	9.50%
	Next salary increase	42,186	41,640
	Pre-retirement mortality	SLIC 2001-2005	EFU 61-66
	Withdrawal rates	Age based	Age based
	Retirement assumption	Age 60	Age 60
	Actuarial valuation method used	Projected unit credit method	

Expenses of defined benefit plan is calculated by the actuary. Figure in this note are based on the latest actuarial valuation carried out as at June 30, 2014.

19.1.7 Sensitivity analysis for actuarial assumptions

The sensitivity of the defined benefit obligation to chnages in the weighted principle assumptions is:

	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.00%	32,471,875	38,521,346
Salary increase	1.00%	38,587,361	32,366,080

There is no significant change in the obligation if the life expectancy increases by 1 year.

The sensitivity analysis are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

Based on actuary's advice, the amount of expected contribution to gratuity and pension funds in 2014-15 will be Rs. 16.319 million.

19.1.8 Expected benefit payments for the next 10 years and beyond:

	Rupees
- FY 2015	5,480,109
- FY 2016	3,679,171
- FY 2017	5,339,922
- FY 2018	4,959,020
- FY 2019	8,927,294
- FY 2020	7,435,862
- FY 2021	7,408,002
- FY 2022	11,076,749
- FY 2023	13,820,588
- FY 2024	20,345,007
- FY 2025 onwards	2,097,407,091

The avergae duration of the defined benefit obligation is 9 years

Rupees	Note	2014	2013
19.2 Deferred taxation - net			
Opening balance		(3,095,976)	–
Charge for the year			
- Profit & loss account		6,770,389	(3,095,976)
- Other comprehensive income		(1,727,679)	–
Closing balance		1,946,734	(3,095,976)

19.2.1 Net deferred tax liability has been recognized in respect of following temporary differences:

Credit balance arising in respect of taxable temporary differences		
Accelerated depreciation allowance	144,186,201	145,093,751
Debit balance arising in respect of deductible temporary differences		
Employee benefits	(4,399,119)	–
Losses	(42,745,869)	(122,988,744)
Minimum tax & tax credits	(95,094,480)	(25,200,983)
	(142,239,468)	(148,189,727)
	1,946,733	(3,095,976)

19.3 This represents unearned income in respect of vehicle loans to employees.

Rupees	Note	2014	2013
20. TRADE & OTHER PAYABLES			
Creditors		123,063,481	73,239,804
Murabaha -secured	20.1	20,073,401	63,114,566
Accrued liabilities		87,157,104	120,362,137
Tax deducted at source		622,010	526,755
Advances from customers		334,456,667	2,125,648
Workers' profit participation fund	20.2	20,927,908	6,161,494
		586,300,571	265,530,404

20.1 This represents Murabaha facility with sanctioned limit of Rs. 750.000 million (June 30, 2013: 500.000 million) for purchase of used / balled tyres, direct reduced iron, cobble plates, steel scrap/billet, Ferro silicone / manganese / chrome and silicone manganese etc. This facility is operative for 180 days and carries profit rate of respective KIBOR + 1.25 % per annum. The facility is secured against 1st pari passu charge of Rs. 667 million over present and future current assets of the Company, ranking charge of Rs. 333.000 million over present and future current assets of the Company to be upgraded in to 1st pari passu charge within 180 days from the date of sanction advice.

Rupees	Note	2014	2013
20.2 Workers' profit participation fund:			
Opening balance		6,161,494	6,079,581
Allocation for the year		20,927,908	6,161,494
		27,089,402	12,241,075
Amount paid during the year		(6,161,494)	(6,079,581)
Closing balance		20,927,908	6,161,494

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended June 30, 2014

Rupees	Note	2014	2013
21. MARK-UP ACCRUED ON SECURED LOANS			
From banking companies in respect of:			
Long term financing		11,612,591	9,321,785
Short term borrowing		28,900,342	18,740,516
		40,512,933	28,062,301
22. SHORT TERM BORROWINGS			
(Secured)			
From banking companies			
Cash finance		563,501,952	320,786,640
Running finance		266,174,717	200,000,000
Other financing facilities		1,973,064,822	542,274,395
	22.1	2,802,741,491	1,063,061,035
Temporary overdraft	22.2	–	7,889,001
		2,802,741,491	1,070,950,036

22.1 These finances are obtained against a total facility of Rs. 4,864.000 million (2013: 2,815.000 million) and carry markup ranging from 3 months Kibor or SBP rate plus 1 % to 2.25%. These are secured against pledge of stocks, 1st pari passu charge of Rs.1,974.000 million, second charge of Rs. 310.00 million and 5th charge of Rs. 100.00 million over the present & future current assets of the company. ranking charge of Rs. 333.00 million over the present and future current assets of the company, Lien on import documents, Duly executed trust receipts, Lien on export documents, Shipping guarantees & personal guarantees of directors.

22.2 This represented un-presented cheques to be met with subsequent deposits.

Rupees	Note	2014	2013
23. CONTINGENCIES AND COMMITMENTS			
Contingencies			
Guarantees issued by banks		124,400,000	29,533,000
Commitments			
Non capital expenditure			
Raw material		1,045,055,729	1,969,738,124
Stores & spares		43,422,522	–
Capital expenditure			
Capital expenditure		8,254,250	66,899,812

Rupees	Note	June 30, 2014 Trading	Manufacturing	Total	June 30, 2013 Trading	Manufacturing	Total
24. SALES - NET							
Export		–	2,249,634,495	2,249,634,495	–	2,419,068,994	2,419,068,994
Local		174,782,787	3,548,255,410	3,723,038,197	563,708,041	1,063,434,582	1,627,142,623
		174,782,787	5,797,889,905	5,972,672,692	563,708,041	3,482,503,576	4,046,211,617
Less: Sales tax				(115,496,129)			(117,697,942)
				5,857,176,563			3,928,513,675
25. COST OF SALES							
Raw material consumed	25.1	–	4,157,270,448	4,157,270,448	399,662,883	2,370,968,485	2,770,631,368
Wages, salaries & benefits	25.2	–	138,794,400	138,794,400	–	73,588,437	73,588,437
Stores consumed		173,163,605	249,668,417	422,832,022	79,652,284	119,998,100	199,650,384
Fuel and power		–	804,133,990	804,133,990	–	452,914,489	452,914,489
Repair & maintenance		–	1,450,160	1,450,160	–	2,749,875	2,749,875
Other manufacturing expenses		–	33,890,682	33,890,682	–	18,330,730	18,330,730
Depreciation	4.2	–	67,686,501	67,686,501	–	41,750,506	41,750,506
Cost of goods manufactured		173,163,605	5,452,894,598	5,626,058,203	479,315,167	3,080,300,622	3,559,615,789
Add: Opening stock of finished goods		–	53,662,217	53,662,217	–	48,020,147	48,020,147
		173,163,605	5,506,556,815	5,679,720,420	479,315,167	3,128,320,769	3,607,635,936
Less: Closing stock of finished goods		–	(547,927,209)	(547,927,209)	–	(53,662,217)	(53,662,217)
		173,163,605	4,958,629,606	5,131,793,211	479,315,167	3,074,658,552	3,553,973,719
25.1 Raw material consumed:							
Opening stock		–	410,248,164	410,248,164	–	385,609,676	385,609,676
Purchases		–	4,829,720,403	4,829,720,403	399,662,883	2,395,606,973	2,795,269,856
		–	5,239,968,567	5,239,968,567	399,662,883	2,781,216,649	3,180,879,532
Less: Closing stock		–	(1,082,698,119)	(1,082,698,119)	–	(410,248,164)	(410,248,164)
		–	4,157,270,448	4,157,270,448	399,662,883	2,370,968,485	2,770,631,368

25.2 This includes Rs. 4.214 million (June 30, 2013 (Restated): Rs.2.830 million) on account of retirement benefit charge.

Rupees	Note	2014	2013
26. DISTRIBUTION COST			
Freight outward		3,142,719	5,780,627
Sales & marketing expenses		7,535,400	13,616,136
		10,678,119	19,396,763

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended June 30, 2014

Rupees	Note	2014	2013
27. ADMINISTRATIVE EXPENSES			
Directors' remuneration		9,000,000	9,000,000
Salaries and benefits	27.1	32,577,753	23,622,973
Traveling and conveyance		3,872,234	3,647,978
Postage, telegram and telephone		597,663	542,531
Printing, stationery & office supplies		399,316	122,581
Legal and professional charges		3,424,018	4,647,640
Auditors' remuneration	27.2	905,000	420,000
Entertainment		723,170	1,944,300
Fee & subscription		1,095,170	2,783,045
Rent, rates & taxes		1,581,000	1,663,518
Repair and maintenance		231,190	968,264
Computer expenses		216,500	789,200
Vehicle running & maintenance		2,471,734	2,555,796
Utilities		10,019,659	10,746,658
Insurance		1,963,365	390,333
Charity & Donations	27.3	3,384,094	1,367,606
Miscellaneous expenses		–	207,503
Balances written off		–	2,562,413
Depreciation	4.2	9,186,931	9,693,050
		81,648,797	77,675,389

27.1 This includes Rs.2.001 million (June 30,2013 (Restated): Rs.1.343 million) on account of retiremnet benefit charge.

27.2 Auditors' remuneration

Audit fee	885,000	400,000
Out of pocket	20,000	20,000
	905,000	420,000

27.3 The directors or their spouse had no interest in the donee's fund.

Rupees	Note	2014	2013
28. OTHER INCOME			
Income from financial assets			
Interest / profit on deposit with banks		183,214	1,297,761
Profit on short term investment		–	572,575
Income from non - financial assets			
Other income		–	1,019,079
Income from related parties			
Lease rental Income		3,480,000	2,640,000
		3,663,214	5,529,415

Rupees	Note	2014	2013
29. FINANCE COSTS			
Mark up on:			
Short term financing		183,436,681	145,379,868
Long term financing		26,798,430	–
		210,235,111	145,379,868
Bank charges		7,364,783	6,890,872
		217,599,894	152,270,740

29.1 Borrowing cost capitalized during the year amounted to Rs. 21.601 million (2013: Rs.42.374 million). The rate of mark-up has been disclosed in Note.17 to the financial statements.

Rupees	Note	2014	2013
30. TAXATION			
Current	30.1	–	–
Deferred		6,770,389	(3,095,976)
		6,770,389	(3,095,976)
30.1 Current			
Provision for taxation for the year		64,507,829	45,600,717
Tax credit available u/s 65B		(64,507,829)	(45,600,717)
		–	–
30.1.1 Movement in Tax credit available u/s 65B			
Balance brought forward		84,816,319	–
Add : Tax credit for the year		15,220,782	130,417,036
Available for adjustment		100,037,101	130,417,036
Less: Tax credit adjusted during the year		(64,507,829)	(45,600,717)
Balance available for carry forward		35,529,272	84,816,319
30.2 Reconciliation of tax expense for the year			
Profit before taxation		397,630,248	124,564,985
Applicable tax rate		34%	35%
Tax calculated as the applicable tax rate		135,194,284	43,597,745
Tax effect of :			
- Tax effect of amounts that are admissible for tax purposes		4,170,079	(17,244,916)
- Income subject to final taxation		(76,925,207)	(31,796,309)
- Tax effect of amounts that are inadmissible for tax purposes		(62,439,156)	5,443,481
- Tax effect of timing differences		6,770,389	(3,095,976)
		6,770,389	(3,095,976)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended June 30, 2014

30.3 Company's income from export sales is subject to final tax liability (Final Tax Regime) under section 154 (4) of the Income Tax Ordinance, 2001. Tax charge on local sales and profit on bank deposits is subject to normal tax under relevant provision of the Ordinance. During the period, the tax liability on account of alternate corporate tax payable and final taxes payable has been adjusted against the tax credit available U/S 65B of the Ordinance and hence no provision for taxation has been provided in these financial statements.

Change in the rate of corporate tax from 35% to 34% by the Government has been enacted.

Following are the list of pending cases against the company, It is expected that all cases mentioned will be decided in favor of the company as per the legal counsel.

The initiation of the proceedings under section 161/205 of Income Tax Ordinance, 2001, in respect of tax year 2009 and 2010 have been challenged in the Honorable High Court through writ petition no. 12950/2012. After hearing the counsel of the petitioner, the learned judge in chamber was pleased to put the Federal Board of Revenue and Inland Revenue Department to notice while the concerned ACIR was restrained from passing any adverse order against the tax payer. The said writ petition is pending adjudication before the court.

Writ petition no. 8170/2011 was filed before the honorable Lahore High Court, thereby challenging audit proceeding under section 177 of the Income Tax Ordinance, 2001 in respect of tax year 2009. The court having heard the petition issued notices to the department and restrained the department from passing final order against the tax payer. The judgment of the honorable court is still awaited.

The Income Tax Return of the tax payer for the Tax Year 2004 was selected for audit under section 177, against which a writ petition no. 12475/2009 was filed before the honorable Lahore High Court, which was disposed off vide order dated October 22, 2009. Appeal has been filed before the Honorable Supreme Court of Pakistan against the order of the Honorable Lahore High Court. The case is still pending for adjudication before the Supreme Court of Pakistan.

Income Tax Return for the year 2008 was selected for Audit under section 177 of the Income Tax Ordinance 2001. Writ petition no. 5825/2009 was filed before the Honorable Lahore High Court, which was disposed off vide judgment dated July 14, 2009. Appeal has been filed before the honorable Supreme Court of Pakistan against the above order.

An appeal against order dated May 16th 2012 passed under section 161/2005 of the Income Tax Ordinance 2001 in respect of tax year 2011 was filed before commissioner inland revenue (appeals IV), Lahore by the tax payer. The CIR (A) remanded the case back to assessing officer. Cross Appeal have been filed before the Appellate Tribunal Inland Revenue, Lahore Bench, which are still pending.

An appeal against order dated May 16th 2012 passed under section 161/2005 of the Income Tax Ordinance 2001 in respect of tax year 2011 was filed before commissioner inland revenue (appeals IV), Lahore by the tax payer. The CIR (A) remanded the case back to assessing officer. Cross Appeal have been filed before the Appellate Tribunal Inland Revenue, Lahore Bench, which are still pending.

Appeal has been filed before the honorable appellate tribunal Inland Revenue Lahore Bench, Lahore against the order passed by the CIR (Appeals-II) Lahore in respect of Tax Year 2011 on the issue of amendment of assessment under section 122(5) of the Ordinance. Appeal is pending adjudication till date.

Appeals against separate orders, passed under section 122(5) of the income tax ordinance 2001, in respect of tax year 2011, 2012 were passed by the learned additional commission inland revenue, audit range, zone, IV, regional tax office, Lahore which have been impugned in appeal before the learned commissioner Inland revenue (appeals - II), Lahore and are still pending for decision.

Pending Before	Appeal against O-in-Original/ O-in-Appeal No. & date.	Remarks
President of Pakistan	Representations by the department against FTO order dated 17.01.2014 in complaint No. 954/LHR/Cust(59)/ 1744/2013	Notice for production of records
Appellate Tribunal Inland Revenue, Lahore	O-in-A No.33/A-II/2011 dated 10.01.2012	
FTO	Complaint No. 741/LHR/ST(16) 1323/2012 regarding SRO 308(1) /2008 (rate difference)	FTO decision in favor of company, pending for implementation of FTO order
FTO	Complaint No. 378-80/LHR/IT (290-92)/713-15/2012 regarding compensation for delayed refunds	FTO decision in favor of company, pending for implementation of FTO order

Rupees	2014	2013
31. EARNING PER SHARE - BASIC & DILUTED		
There is no dilutive effect on the basic earnings per share which is based on:		
Profit after taxation	390,859,859	127,660,961
Weighted average number of ordinary shares	82,041,153	74,027,919
Basic earning per share	4.76	1.72
32. CASH & CASH EQUIVALENTS		
Cash and bank balances	117,345,747	103,953,771
Short term financing	(2,802,741,491)	1,070,950,036
	(2,685,395,744)	(966,996,265)
33. PLANT CAPACITY AND ACTUAL PRODUCTION		
Production at normal capacity in Metric Tonne		
- Melting	294,000	78,000
- Rolling	675,000	675,000
Actual production in Metric Tonne		
- Melting	46,732	19,845
- Rolling	112,771	36,443

33.1 Low production during the period is due to gas and electricity shortages.

34. NUMBER OF EMPLOYEES		
Number of employees as at June 30	416	282
Average number of employees during the year	349	255

35. RELATED PARTY DISCLOSURES

The related parties comprise of directors, major shareholders, key management personnel, entities over which the directors are able to exercise influence, entities under common directorship and employees' funds. Transactions with related parties are given below, while the balances outstanding at the year end are disclosed in their respective notes. Remuneration of chief executive, directors and executives are disclosed in notes 36 to the financial statements respectively.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended June 30, 2014

Disclosure of transactions between the Company and related parties:

Relationship	Nature of Transaction	2014	2013
		Rupees in thousand	
(i) Associated companies - common directorship			
- Mughal Steel (Sole Proprietor)	- Sale of goods	1,542,627,120	773,166,401
	- Rental Income	1,080,000	1,440,000
	- Net loan repaid / disbursed	358,249,623	405,296,234
- Mughal Steel Metallurgies Corporation Limited	- Sale of goods	163,759,595	18,946,817
	- Rental income	2,400,000	1,200,000
- Al-Bashir Steels Industries (Private) Limited	- Rental expense	1,440,000	1,440,000
(ii) Employee benefits	- Payments for gratuity	383,544	–
	- Payment of WPPF	6,161,494	6,079,581
(iii) Directors - Loan disbursed		870,459,709	–

Sale and purchase transactions have been carried out on commercial terms and conditions under comparable uncontrolled price method. Outstanding balances with related parties as at year end have been disclosed in relevant notes. Details of key management personnel is given in Note 36. below. Transactions at non arm's length, if any, are approved by the BoD.

36. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS & EXECUTIVES

	Chief Executive		Directors	
	2014	2013	2014	2013
Managerial remuneration	3,000,000	3,000,000	6,000,000	6,000,000
Number of persons	1	1	3	3

	Executives	
	2014	2013
Managerial remuneration	19,699,891	16,782,163
Other allowances	6,580,062	1,678,216
	26,279,953	18,460,379
Number of persons	23	16

36.1 No meeting fee has been paid to any director of the Company during the period. Chief executive and directors are provided with Company maintained cars for business use only. Executives include employees whose annual basic salary is more than Rs. 500,000/-.

37. FINANCIAL INSTRUEMNTS AND RELATED DISCLOSURES

37.1 Risk management framework

The Company's activities expose it to a variety of financial risks. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies. The Board meets frequently throughout the year for developing and monitoring the Company's risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

		Maturity		
		Up to one year	After one year	Total
37.2	Financial instruments as per balance sheet			
	FINANCIAL ASSETS			
	(Non interest bearing)			
	Loans & receivables			
	Long-term deposits & loans	–	19,007,848	19,007,848
	Trade debts	321,049,463	–	321,049,463
	Advances	6,141,217	–	6,141,217
	Other receivables	5,106,976	–	5,106,976
	Cash and bank balances	117,345,747	–	117,345,747
	Total 2014	449,643,403	19,007,848	468,651,251
	Total 2013	343,518,222	17,854,312	361,372,534
	FINANCIAL LIABILITIES			
	(Interest bearing)			
	At amortized cost			
	Long term financing - banking companies	188,770,159	254,645,565	443,415,724
	Short term borrowings	2,802,741,491	–	2,802,741,491
	(Non interest bearing)			
	At cost			
	Long term loans from related parties	–	1,834,464,178	1,834,464,178
	At amortized cost			
	Trade and other payables	230,293,986	–	230,293,986
	Mark-up accrued on secured loans	40,512,933	-	40,512,933
	Total 2014	3,262,318,569	2,089,109,743	5,351,428,312
	Total 2013	1,511,465,052	1,484,650,196	2,996,115,248
	On balance sheet gap			
	Total 2014	(2,812,675,166)	(2,070,101,895)	(4,882,777,061)
	Total 2013	(1,167,946,830)	(1,466,795,884)	(2,634,742,714)
	Off balance sheet financial instruments			
	Letter of credits			1,096,732,501
	Letter of guarantees			124,400,000
	Total 2014			1,221,132,501
	Total 2013			2,066,170,936

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended June 30, 2014

37.2.1 The respective interest/markup rates for the monetary financial asset and liabilities are mentioned in respective notes to the financial statements.

37.2.2 Fair value

The carrying values of the financial assets and financial liabilities approximate their fair values except for loans from related parties and long term investments in subsidiary as disclosed in note. 18 and 5 respectively to the financial statements. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. If the transaction is not based on market terms, or if a market price cannot be readily determined, then an estimate of future cash payments or receipts, discounted using the current market interest rate for a similar financial instrument, is used to approximate the fair value.

37.3 Financial Risk Factors

The Company is exposed to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

37.4 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from investments, long term security deposits, advances to employees, deposits, trade debts, other receivables and bank balances . The carrying amount of financial assets represents the maximum credit exposure before any credit enhancements. The maximum exposure to credit risk at the reporting date was:

Rupees	2014	2013
Long term investments	–	431,000
Long term security deposits	19,007,848	17,423,312
Trade debts	321,049,463	230,560,623
Advances	6,141,217	6,495,025
Other receivables	5,106,976	2,508,803
Bank balances	116,621,323	103,598,241
	467,926,827	361,017,004

Geographically there is no concentration of credit risk. The maximum exposure to credit risk for trade debts at the reporting date are with dealers within the country. Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their abilities to meet contractual obligation to be similarly effected by the changes in economic, political or other conditions. The Company believes that it is not exposed to major concentration of credit risk.

The Company's most significant amount receivable is from Mughal Steel Metallurgies Corporation Limited (2013: M/s Khalid Rauf). This is included in total carrying amount of trade receivables as at reporting date.

Bank balances are held only with reputable banks with high quality credit ratings. Advances to employees are not exposed to any material credit risk since these are secured against their salaries / gratuity payable. Geographically there is no concentration of credit risk as all export sales are against advances. The maximum exposure to credit risk for trade debts at the reporting date are with customers within the country .

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. To manage exposure to credit risk in respect of trade receivables, management reviews credit worthiness,

references, establish purchase limits taking into account the customer's financial position, past experience and other factors. For trade debts, internal risk assessment process determines the credit quality of the customers, taking into account their financial positions, past experiences and other factors. Aging of trade debts is regularly reviewed by the Board and necessary actions are taken in respect of overdue balances. The company assesses the credit quality of the counter parties as satisfactory.

Based on past experience, the management believes that no impairment allowance is necessary in respect of trade debts.

37.5 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company uses different methods which assists it in monitoring cash flow requirements and optimizing its cash return on investments. Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a reasonable period, including the servicing of financial obligation; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Company maintains lines of credit as mentioned in note. 22 to the financial statements.

The contractual maturities of financial liabilities have been disclosed in Note. 17 above. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

37.6 Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. The Company incurs financial liabilities to manage its market risk. All such activities are carried out with the approval of the Board. The Company is exposed to interest rate risk, foreign currency risk and market price risk.

Foreign Currency Risk

Foreign 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 from future commercial transaction or receivables and payables that exist due to transactions in foreign currencies. The Company is not exposed to foreign currency risk.
Interest Rate Risk

The interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the interest rate exposure arises from short and long term borrowings from banks and short term deposits with banks. At the balance sheet date the interest rate risk profile of the Company's interest bearing financial instruments is:

Variable rate instruments

Financial Liabilities	3,246,157,215	1,381,193,347

Cash flow sensitivity analysis for variable rate instruments
As at June 30, 2014, if interest rates on Company's bank borrowings had been 1% higher / lower the markup expenses would have been higher / lower by Rs.19.943 million.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended June 30, 2014

Price Risk

Price risk represents the risk that fair value of financial instrument will fluctuate because of changes in the market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factor affecting all or similar financial instruments traded in the market. Equity price risk arises from available for sale equity securities held. The investment in available for sale equity securities is not material and Company is not expose to significant price risk.

38. CAPITAL RISK MANAGEMENT

The Board's policy is to maintain an efficient capital base so as to maintain investor, creditor and market confidence and to sustain the future development of its business. The Board of Directors monitors the return on capital employed, which the Company defines as operating income divided by total capital employed. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Company's objectives when managing capital are:

(i) to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and;

(ii) to provide an adequate return to shareholders.

The Company manages the capital structure in the context of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may, for example, adjust the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

39. DATE OF AUTHORIZATION

These financial statements have been authorized for issue by the Board of Directors of the Company on 02 September, 2014.

40. GENERAL

The figures have been rounded off to the nearest rupee.

The corresponding figures have been rearranged or reclassified, wherever necessary, for the purpose of comparison, however, no material significant reclassification have been made other than disclosed below:

Reclassification from component	Reclassification to component	Amount
Trade Deposits, Prepayments & other receivables	Tax refunds due from Government	
- Advance income tax	- Advance income tax	180,856,758
- Export regulatory duty refundable	- Export regulatory duty refundable	54,148,408
- Sales tax refundable	- Sales tax refundable	255,054,893
Trade Deposits, Prepayments & other receivables	Prepayments & Other receivables	
- Letters of credit	- Letter of credits	10,151,530
- Other receivables	- Other receivables	2,508,803

Chief Executive

Director