


**FARUKI PULP MILLS
LIMITED**

**FINANCIAL STATEMENTS FOR THE
YEAR ENDED JUNE 30, 2011**

A.F. FERGUSON & Co.
CHARTERED ACCOUNTANTS
LAHORE

A member firm of

PRICEWATERHOUSECOOPERS 

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Faruki Pulp Mills Limited as at June 30, 2011 and the related profit and loss account, statement of changes in equity and cash flow statement 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 stated in note 2.2.1 to the annexed 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;

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- (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 changes in equity and cash flow statement 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 June 30, 2011 and of the loss, changes in equity and its cash flows 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).



Chartered Accountants

Lahore, November 4, 2011

Name of engagement partner: Muhammad Masood

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FARUKI PULP MILLS LIMITED
BALANCE SHEET AS AT JUNE 30, 2011

	2011 Rupees	2010 Rupees	2011 Rupees	2010 Rupees
EQUITY AND LIABILITIES			ASSETS	
CAPITAL AND RESERVES			NON-CURRENT ASSETS	
Authorised capital			Property, plant and equipment	
108,000,000 (2010: 100,000,000) ordinary shares of Rs 10 each	1,080,000,000	1,000,000,000		
Issued, subscribed and paid up capital				
108,000,000 (2010: 98,000,000) ordinary shares of Rs 10 each	1,080,000,000	980,000,000		
Accumulated loss	(80,937,588)	(56,884,527)		
	999,062,412	923,115,473		
NON-CURRENT LIABILITIES			CURRENT ASSETS	
Long term loans - secured	1,400,000,000	315,248,789	Stores and spares	3,410,466
Long term loans from related parties - unsecured	483,000,000	-	Advances, deposits, prepayments and other receivables	78,439,744
Staff retirement benefits	6,770,712	3,594,657	Stock in trade	72,456,023
Markup payable on long term loans - secured	-	53,942,869	Cash and bank balances	35,264,328
	1,889,770,712	372,786,315		169,570,561
CURRENT LIABILITIES				21,634,899
Current portion of non-current liabilities	-	92,297,913		
Short term borrowings - unsecured	-	161,000,000		
Trade and other payables	75,448,445	36,467,541		
Accrued finance cost	98,335,006	21,036,866		
Taxation	8,492,503	13,389,705		
	182,275,954	324,192,025		
CONTINGENCIES AND COMMITMENTS				
	3,071,109,078	1,620,093,813		
	<u>3,071,109,078</u>	<u>1,620,093,813</u>		

The annexed notes 1 to 30 form an integral part of these financial statements.

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Chief Executive

Director

FARUKI PULP MILLS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2011

	Note	2011 Rupees	2010 Rupees
Administrative expenses	19	(24,683,909)	(17,026,867)
Other operating expenses	20	-	(1,597,602)
Other operating income	21	1,500,968	453,797
Operating loss		(23,182,941)	(18,170,672)
Finance costs	22	(413,258)	(446,063)
Loss before taxation		(23,596,199)	(18,616,735)
Taxation	23	(456,862)	(1,633,427)
Loss after taxation		(24,053,061)	(20,250,162)
Other comprehensive income		-	-
Total comprehensive loss for the year		(24,053,061)	(20,250,162)

The annexed notes 1 to 30 form an integral part of these financial statements.

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Chief Executive

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Director

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FARUKI PULP MILLS LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2011

(Rupees)

	Share capital	Share deposit money	Accumulated loss	Total
Balance as on June 30, 2009	716,200,000	23,500,000	(36,634,365)	703,065,635
Transactions with owners				
Share deposit money received during the year		240,300,000	-	240,300,000
Issuance of share capital against cash (26,380,000 ordinary shares of Rs.10 each)	263,800,000	(263,800,000)	-	-
	263,800,000	(23,500,000)	-	240,300,000
Total comprehensive loss for the year	-	-	(20,250,162)	(20,250,162)
Balance as on June 30, 2010	980,000,000	-	(56,884,527)	923,115,473
Transactions with owners				
Issuance of share capital against cash (10,000,000 ordinary shares of Rs.10 each)	100,000,000	-	-	100,000,000
Total comprehensive loss for the year	-	-	(24,053,061)	(24,053,061)
Balance as on June 30, 2011	1,080,000,000	-	(80,937,588)	999,062,412

The annexed notes 1 to 30 form an integral part of these financial statements.

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Chief Executive

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Director

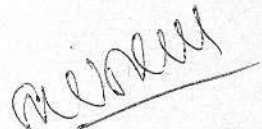
FARUKI PULP MILLS LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2011

	Note	2011 Rupees	2010 Rupees
Cash flows from operating activities			
Cash used in operations	26	(117,770,102)	(16,369,831)
Finance costs paid		(206,294,087)	(70,889,205)
Taxes paid		(5,354,064)	(489,416)
Staff retirement benefits paid		(160,876)	(602,220)
Net cash used in operating activities		(329,579,129)	(88,350,672)
Cash flows from investing activities			
Fixed capital expenditure		(1,068,810,882)	(235,332,061)
Proceeds from sale of property, plant and equipment		1,852,500	710,000
Markup on deposits received		1,792,747	436,772
Net cash used in investing activities		(1,065,165,635)	(234,185,289)
Cash flows from financing activities			
Loan proceeds from related parties		614,800,000	164,500,000
Repayment loan from related parties		(292,800,000)	(3,500,000)
Proceeds of long term loan		1,400,000,000	-
Repayment of long term loan		(394,060,987)	(78,812,198)
Proceeds from issuance of share capital / share deposit money received during the year		100,000,000	240,300,000
Net cash generated from financing activities		1,427,939,013	322,487,802
Net increase / (decrease) in cash and cash equivalents		33,194,249	(48,159)
Cash and cash equivalents at the beginning of the year		2,070,079	2,118,238
Cash and cash equivalents at the end of the year	18	35,264,328	2,070,079

The annexed notes 1 to 30 form an integral part of these financial statements.


Chief Executive


Director

FARUKI PULP MILLS LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

1. Legal status and nature of business

Faruki Pulp Mills Limited ('The Company') was incorporated as a public limited Company under the Companies Ordinance, 1984 vide certificate of incorporation dated October 20, 1991. The Company will be engaged in the manufacture of paper pulp. The production facility is situated 20 Km from Gujrat and the registered office is situated in Lahore. The company had its trial production run in the year 1997 but could not commence commercial production as some of the production processes vital for commercial viability were incomplete. Further construction was suspended due to insufficient funds. Pursuant to the injection of further capital by the new investors, restructuring with the lenders in 2007 and obtaining long term loan from consortium of banks in 2010, completion of production facility and trial production thereof, start of commercial production is expected within 6 months of the reporting date.

2. Basis of preparation

2.1 These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS) issued by Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984 or directives issued by Securities and Exchange Commission of Pakistan differ with the requirements of IFRS or IFAS, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives prevail.

2.2 Standards, interpretations and amendments to published approved accounting standards

The following amendments to existing standards have been published that are applicable to the Company's financial statements covering annual periods, beginning on or after the following dates:

2.2.1 Amendments to published standards effective in current year

- Amendment to IFRS 2, 'Share-based payments – Group cash-settled payment transactions'. These amendments provide a clear basis to determine the classification of share-based payment awards in consolidated and separate financial statements. The amendment incorporates IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', into the standard; expands on the guidance given in IFRIC 11 to address plans that were not considered in the interpretation; and clarifies the definitions section of IFRS 2. The amended definitions remove inconsistencies between Appendix A, defined terms and the main body of the standard. The original wording was inconsistent regarding the treatment of equity instruments of other entities in the group.

- IFRS 5 (Amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

- IAS 1 (Amendment), 'Presentation of Financial Statements'. The amendment is part of the International Accounting Standard Board's (IASB) annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

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- 'Classification of rights issues' (Amendment to IAS 32), issued in October 2009. For rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to all the entity's existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated.

- IAS 36 (amendment), 'Impairment of assets'. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating Segments' (that is, before the aggregation of segments with similar economic characteristics).

- IAS 38 (Amendment), 'Intangible Assets'. The amendment is part of the IASB's annual improvements project published in April 2009 and the company will apply IAS 38 (Amendment) from the date IFRS 3 (Revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'. This clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially.

2.2.2 Amendments and interpretations to published standards not yet effective

The following amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after their respective effective dates:

- IFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Company's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption.

- IAS 24 - Related Party Disclosures (revised 2009) – effective for annual periods beginning on or after July 01, 2011. The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.

2.2.3 Standards and interpretations to existing standards that are not applicable to the Company and not yet effective

The following amendments and interpretations to existing standards have been published and are mandatory for the company's accounting periods beginning on or after January 1, 2011 or later periods, but the company has not early adopted them:

- IFRS 7, 'Disclosures on transfers of financial assets' (Amendment), issued on 8 October 2010. The new disclosure requirements apply to transferred financial assets. An entity transfers a financial asset when it transfers the contractual rights to receive cash flows of the asset to another party. These amendments are as part the IASBs comprehensive review of off balance sheet activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial asset. The company will apply these amendments for the financial reporting period commencing on July 1, 2011. It is not expected to have any material impact on the company's financial statements.

- IFRS 12 - 'Disclosures of interests in other entities'. This is applicable on accounting periods beginning on or after January 01, 2013. This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The company will apply this standard from July 01, 2013.

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- IFRS 13 - 'Fair value measurement'. This is applicable on accounting periods beginning on or after January 01, 2013. This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The company will apply this standard from July 01, 2013.

- IAS 1 (amendments), effective January 01, 2011, clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. It is not expected to have any material impact on the company's financial statements.

- IAS 1 - 'Financial statement presentation' (Amendment). This is applicable on accounting periods beginning on or after July 01, 2012. The main change resulting from these amendment is a requirement for entities to group items presented in Other comprehensive income (OCI) on the basis of whether they are potentially recycled to profit or loss (reclassification adjustments). The amendment does not address which items are presented in OCI. The Company will apply this amendment from January 01, 2013 and does not expect to have a material impact on its financial statements.

- IAS 12, 'Amendment to Deferred Taxation', issued on 23 December 2010. This amendment requires the entity holding investment properties measured at fair value in territories where there is no capital gains tax or where the capital gains rate is different from the income tax rate. This amendment is likely to reduce the deferred tax assets and liabilities recognised by the entity on such investments. The amendment is effective for annual periods beginning on or after January 01, 2012. Earlier adoption is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. It is not expected to have any material impact on the company's financial statements.

- IAS 19 - 'Employee benefits'(Amendment). This is applicable on accounting periods beginning on or after January 01, 2013. The amendment will eliminate the corridor approach and calculate finance costs on a net funding basis. The Company will apply this amendment from July 01, 2013 and has yet to assess its full impact. It is not expected to have any material impact on the company's financial statements.

- 'Prepayments of a minimum funding requirement' (Amendments to IFRIC 14), issued in November 2009. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning January 1, 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. It is not expected to have any material impact on the company's financial statements.

3. **Basis of measurement**

These financial statements have been prepared under the historical cost convention.

The Company's significant accounting policies are stated in note 4. Not all of these significant policies require the management to make difficult, subjective or complex judgments or estimates. The following is intended to provide an understanding of the policies the management considers critical because of their complexity, judgment of estimation involved in their application and their impact on these financial statements. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. These judgments involve assumptions or estimates in respect of future events and the actual results may differ from these estimates. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:



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a) **Provision for taxation**

The Company takes into account the current income tax law and the decisions taken by appellate authorities. Instances where the Company's view differs from the view taken by the income tax department at the assessment stage and where the Company considers that its views on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

b) **Useful life and residual values of property, plant and equipment**

The Company reviews the useful lives of property, plant and equipment on regular basis. Any change in estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge and impairment.

c) **Retirement benefits**

The company uses the valuation performed by an independent actuary as the present value of its retirement benefit obligations. The valuation is based on assumptions as mentioned in note 4.6.

4. **Significant accounting policies**

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

4.1 **Taxation**

Current

Provision of current tax is based on the taxable income for the year 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 year if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all 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 the taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised 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 utilised.

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 or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except in the case of items credited or charged to equity in which case it is included in equity.

4.2 **Property, plant and equipment**

Property, plant and equipment except freehold land are stated at cost less accumulated depreciation and any identified impairment loss. Freehold land is stated at cost less any identified impairment loss. Cost in relation to certain plant and machinery signifies historical cost and borrowing costs as referred to in note 4.13.

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Depreciation on property, plant and equipment is charged to profit on diminishing balance method so as to write off the depreciable amount of an asset over their estimated useful lives, at the rates given in note 15.1. The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant. The Company's estimate of the residual value of its property, plant and equipment as at June 30, 2011 has not required any adjustment as its impact is considered insignificant.

Depreciation on additions to property, plant and equipment is charged from the month in which an asset is acquired or capitalised, while no depreciation is charged for the month in which the asset is disposed off.

The Company assesses at each balance sheet date whether there is any indication that property, plant and equipment may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognised to profit and loss account for the year. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognised, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to profit and loss account during the period in which they are incurred.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognised as an income or expense.

Capital work in progress is stated at cost less any identified impairment loss, if any. Trial production losses are capitalized till the date of commencement of commercial production as unallocated expenditure.

4.3 Intangible assets

Expenditure incurred to acquire computer software and licence fee for the right of its use, is capitalised as intangible assets and stated at cost less accumulated amortisation and any identified impairment loss.

Amortisation on additions to intangible assets is charged from the month in which an asset is acquired or capitalised while no amortisation is charged for the month in which the asset is disposed off.

The Company assesses at each balance sheet date whether there is any indication that intangible may be impaired. If such indication exists, the carrying amount of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in profit and loss account for the year. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognised, the amortisation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

4.4 Stores and spares

Stores and spares are valued at lower of moving average cost, while items considered obsolete are carried at nil value. Items in transit are valued at cost comprising invoice value plus other directly attributable charges incurred thereon.

Provision is made in the financial statements for obsolete and slow moving stores based on management estimate.

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4.5 Stock in trade

Stock of raw materials, except for those in transit, work-in-process and finished goods are valued principally at the lower of weighted average cost and net realizable value. Cost of work-in-process and finished goods comprises cost of direct materials, labour and appropriate manufacturing overheads.

Materials in transit are stated at cost comprising invoice value plus other charges paid thereon.

Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessary to be incurred in order to make a sale. Provision is made in the financial statements for obsolete and slow moving stock-in-trade based on management's estimate.

4.6 Staff retirement benefits

The main features of the scheme operated by the Company for its employees are as follows:

Defined benefit plan

The main features of the scheme operated by the company for its employees are as follows:

Employees are entitled to retirement benefits on completion of prescribed qualifying period of 1 year with the Company. Gratuity is paid on retirement or resignation of employees on the basis of last drawn salary for each completed year of service.

Projected unit credit method using the following significant assumptions, is used for valuation of these schemes:

Discount rate	14%	per annum
Expected increase in eligible pay	13%	per annum
Expected mortality rate	EFU 61-66 mortality table adjusted for	
Expected withdrawal and early retirement rate	Based on experience	

Expected charge for the year ended June 30, 2012 is Rs 5,982,884.

Experience gains and losses arising during the year are recognized immediately in accordance with the provisions of IAS 19.

The company policy with regard to actuarial gains/losses follows minimum recommended approach under IAS 19 (revised 2000).

Accumulated compensated absences

Provisions are made annually to cover the obligation for accumulating compensated absences.

4.7 Leases

The Company is the lessee:

Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit and loss account on a straight-line basis over the lease term.

4.8**Financial instruments**

Financial assets and financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument and de-recognised when the Company loses control of contractual rights that comprise the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of financial assets and financial liabilities is included in the profit and loss account for the year.

Financial instruments carried on the balance sheet include loans, deposits, trade and other debts, cash and bank balances, borrowings, trade and other payables and accrued finance cost. All financial assets and liabilities are initially measured at cost, which is the fair value of consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value or cost as the case may be. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

4.9**Offsetting of financial assets and financial liabilities**

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements only when there is a legally enforceable right to set off the recognised amount and the Company intends either to settle on a net basis or to realise the assets and to settle the liabilities simultaneously.

4.10**Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, demand deposits, other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and finances under markup arrangements.

4.11**Trade and other payables**

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

Provisions are recognised 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 of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

4.12**Foreign currencies****a)****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 Company operates (the functional currency). The financial statements are presented in Pak Rupees, which is the Company's functional and presentation currency.

b)**Transactions and balances**

Foreign currency transactions are translated into Pak Rupees using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

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4.13 **Borrowing costs**

Markup, interest and other charges on borrowings are capitalised up to the date of commissioning of the related property, plant and equipment, acquired out of the proceeds of such borrowings. All other markup, interest and other charges are charged to profit and loss account.

5. **Issued, subscribed and paid up capital**

2011 (Number of shares)	2010		2011 Rupees	2010 Rupees
98,000,000	71,620,000	Ordinary shares of Rs 10 each fully paid as at July 01	980,000,000	716,200,000
10,000,000	26,380,000	Ordinary shares of Rs 10 each fully paid issued during the year against cash	100,000,000	263,800,000
<u>108,000,000</u>	<u>98,000,000</u>	Ordinary shares of Rs 10 each fully paid as at June 30	<u>1,080,000,000</u>	<u>980,000,000</u>

5.1 Closing balance of issued, subscribed and paid up capital comprise of the following:

2011 (Number of shares)	2010		2011 Rupees	2010 Rupees
94,566,500	84,566,500	Ordinary shares of Rs 10 each fully paid in cash	945,665,000	845,665,000
13,433,500	13,433,500	Ordinary shares of Rs 10 each fully paid for consideration other than cash	134,335,000	134,335,000
<u>108,000,000</u>	<u>98,000,000</u>		<u>1,080,000,000</u>	<u>980,000,000</u>

Ordinary shares of the Company held by associates are as follows:

	2011 (Number of Shares)	2010
Zen Associates (Private) Limited	29,664,699	29,664,699
JDW Sugar Mills Limited	51,500,000	41,500,000
Ali Khan Tareen	16,465,333	23,132,000
	<u>97,630,032</u>	<u>94,296,699</u>

2011 Rupees	2010 Rupees
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6. **Long term loans - secured**

Long term loans - secured	- note 6.1	1,400,000,000	394,060,987
Less: Current portion shown under current liabilities		-	(78,812,198)
		<u>1,400,000,000</u>	<u>315,248,789</u>

6.1 This represents a long term loan from a consortium of banks led by Pak Brunei Investment Company which comprises of National Bank of Pakistan, Faysal Bank Limited, Askari Bank Limited, Soneri Bank Limited, KASB Bank Limited, Silk Bank Limited and Pak Iran Investment Company (referred to as "Pak Brunei Syndicate") in connection with the setting up of manufacturing facility of the Company.

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Out of the proceeds of the new loan, the company has repaid in full, existing debt of the project amounting to Rs. 394.06 million obtained from "NBP/BEL Syndicate", and the markup accrued thereon.

Markup rate

Markup rate of the loan is based on 6 months KIBOR plus 375 bps per annum prevailing on the initial disbursement date and every six months thereafter.

Terms of repayment

The tenure of loan is 6 years starting from facility effective date. It includes a grace period of 18 months after which loan will be repaid in 9 equal semi annual instalments commencing in August 2012. There is no grace period for the payment of markup. The markup will be repaid on semi annual basis in arrears.

Security

First exclusive charge in favour of the consortium members over all present and future fixed assets of the Company and pledge over 51% of the shares of the Company.

		2011 Rupees	2010 Rupees
7.	Long term loans from related parties - unsecured		
	JDW Sugar Mills Limited (subordinated) - note 7.1	250,000,000	-
	JK Farming Systems Limited - note 7.2	158,000,000	-
	Ali Khan Tareen - note 7.3	75,000,000	-
		<u>483,000,000</u>	<u>-</u>

7.1 This represents an unsecured long term finance from JDW Sugar Mills Limited, an associated company. It carries markup at 15.91%. The repayment of principal amount of this loan is subordinated to the repayment of the long term syndicate loan as referred in note 6.

7.2 This represents an unsecured long term finance from JK Farming Systems Limited, a related party. It carries markup at 16.51%. This loan is not repayable before July 1, 2012.

7.3 This represents an unsecured long term finance from Ali Khan Tareen, a director. It carries markup at 15.51%. This loan is not repayable before July 1, 2012.

8. Staff retirement benefits

	2011 Rupees	2010 Rupees
The amounts recognized in the balance sheet are determined as follows:		
Present value of defined benefit obligations	6,566,520	4,035,078
Unrecognized actuarial (losses)/gains	204,192	(440,421)
Liability as at June 30	<u>6,770,712</u>	<u>3,594,657</u>

The movement in the defined benefit obligation over the year is as follows:

Present value of defined benefit obligations as at July 1	4,035,078	2,010,704
Current Service Cost	2,780,281	2,021,889
Interest Cost	484,209	241,284
Benefits paid during the year	(83,876)	(602,220)
Benefits due but not paid	(8,250)	(77,000)
Actuarial gains	(640,922)	440,421
Present value of defined benefit obligations as at June 30	<u>6,566,520</u>	<u>4,035,078</u>

	2011 Rupees	2010 Rupees
The amounts recognized in the Profit and Loss Account are as follows:		
Current Service Cost	2,780,281	2,021,889
Interest Cost	484,209	241,284
Asset charged due to application of IAS 19	-	(60,282)
Actuarial Loss Charge	3,691	-
Total, included in salaries and wages	<u>3,268,181</u>	<u>2,202,891</u>

The amounts recognized were included in the Financial Statements as follows:

Administrative expenses	710,608	882,840
Capital work in progress	2,557,573	1,320,051
Total, included in salaries and wages	<u>3,268,181</u>	<u>2,202,891</u>

The principal actuarial assumptions used were as follows:

Discount Rate	14%	12%
Future salary increases	13%	11%
Average expected remaining working life time of employees	10 years	10 years

	2010-11 Rupees	2009-10 Rupees	2008-09 Rupees	2007-08 Rupees
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As at June 30

Present value of defined benefit obligation	6,566,520	4,035,078	2,010,704	1,059,378
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	2011 Rupees	2010 Rupees
9. Markup on long term loans - secured		
Markup on long term loans - secured	-	67,428,584
Less: Current portion shown under current liabilities	-	(13,485,715)
	<u>-</u>	<u>53,942,869</u>

This represents markup accrued during the grace period on long term loan obtained from "NBP/BEL Syndicate". As per the terms of the settlement agreement the outstanding balance was payable in 10 semi equal instalments. However, the company has made an early repayment of total principal outstanding amount as referred to in note 6.1.

		2011 Rupees	2010 Rupees
10. Current portion of long term liabilities			
Long term loans - secured	- note 6	-	78,812,198
Markup on long term loans - secured	- note 9	-	13,485,715
		<u>-</u>	<u>92,297,913</u>

11. **Short term borrowings - unsecured**

This has been repaid during the year.

	2011 Rupees	2010 Rupees
12. Trade and other payables		
Trade creditors	54,494,925	23,379,055
Accrued liabilities	16,230,117	9,034,238
Due to related party	-	884,281
Others	4,723,403	3,169,967
	<u>75,448,445</u>	<u>36,467,541</u>

13. **Accrued finance cost**

Mark up accrued on:

- Long term loans - secured	83,254,433	17,861,336
- Long term loans from related parties - unsecured	15,080,573	3,175,530
	<u>98,335,006</u>	<u>21,036,866</u>

14. **Contingencies and Commitments**

14.1 **Contingencies**

Guarantee in favour of collector of customs against the import of machinery amounting to Rs 6,263,744 (2010: Nil).

Claims not acknowledged as debts amounting to Rs 20,000,000 (2010: Nil).

14.2. **Commitments**

Contracts for capital expenditure amounting to Nil (2010: Rs 31,225,000).

The amount of future payments under operating leases and the period in which these payments will become due are as follows:

	2011 Rupees	2010 Rupees
Not later than one year	900,000	303,360
Later than one year and not later than five years	1,136,000	-
	<u>2,036,000</u>	<u>303,360</u>

15. **Property, plant and equipment**

Operating assets	- note 15.1	54,460,420	26,690,134
Capital work-in-progress	- note 15.2	2,827,078,097	1,571,768,780
		<u>2,881,538,517</u>	<u>1,598,458,914</u>

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15.1 Property, plant and equipment

	Cost as at June 30, 2010	Additions/ (deletions)	Cost as at June 30, 2011	Accumulated depreciation as at June 30, 2010	Depreciation charge/ (deletions) for the year	Accumulated depreciation as at June 30, 2011	Net Book value as at June 30, 2011	Rate of depreciation %
Freehold land	4,899,038	-	4,899,038	-	-	-	4,899,038	-
Buildings on freehold land	9,065,877	18,145,675	27,211,552	883,923	484,705	1,368,628	25,842,924	5
Plant and machinery	4,918,600	398,941	5,317,541	670,836	341,023	1,011,859	4,305,682	7.5
Furniture and fixtures	1,132,269	1,035,010	2,167,279	299,467	158,943	458,410	1,708,869	15
Office equipment	6,236,289	3,644,867 (547,179)	9,333,977	3,239,499	953,661 (195,647)	3,997,513	5,336,464	20
Vehicles	9,232,933	8,828,901	18,061,834	3,701,147	1,993,244	5,694,391	12,367,443	20
2011	35,485,006	32,053,394 (547,179)	66,991,221	8,794,872	3,931,576 (195,647)	12,530,801	54,460,420	
Freehold land	4,899,038	-	4,899,038	-	-	-	4,899,038	-
Buildings on freehold land	9,065,877	-	9,065,877	453,294	430,629	883,923	8,181,954	5
Plant and machinery	4,584,000	334,600	4,918,600	330,944	339,892	670,836	4,247,764	7.5
Furniture and fixtures	1,098,719	33,550	1,132,269	156,515	142,952	299,467	832,802	15
Office equipment	5,853,459	382,830	6,236,289	2,546,714	692,785	3,239,499	2,996,790	20
Vehicles	8,156,773	1,851,160 (775,000)	9,232,933	2,532,799	1,194,181 (25,833)	3,701,147	5,531,786	20
2010	33,657,866	2,602,140 (775,000)	35,485,006	6,020,266	2,800,439 (25,833)	8,794,872	26,690,134	

The depreciation charge has been allocated as follows:

Capital work-in-progress
Administrative expenses

	2011 Rupees	2010 Rupees
- note 14.3	2,036,618	1,267,538
- note 18	1,894,958	1,532,901
	3,931,576	2,800,439

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		2011 Rupees	2010 Rupees
15.2.	Capital work-in-progress		
Civil works		164,203,578	104,864,805
Plant and machinery		1,585,318,480	812,773,891
Advances for plant and machinery		13,340,857	10,579,124
Unallocated expenses	- note 15.3	1,064,215,182	643,550,960
		<u>2,827,078,097</u>	<u>1,571,768,780</u>

15.3 This includes the following expenses capitalised to date:

Salaries, wages and other benefits	- note 15.3.1	280,837,006	163,653,141
Borrowing costs	- note 15.3.2	448,509,299	237,444,078
Rent, rates and taxes		7,925,042	6,854,400
Communications		8,826,883	8,311,991
Utilities		9,496,103	7,632,046
Legal and professional charges		46,249,804	14,525,632
Travelling and conveyance		39,222,475	32,759,097
Freight		6,293,199	493,536
Repairs and maintenance		7,459,204	5,357,368
Printing and stationery		2,686,687	1,975,639
Vehicle running and maintenance		10,088,903	8,697,149
Depreciation on property, plant and equipment	- note 15.3.3	6,128,378	4,131,281
Insurance		5,967,175	2,572,546
Consultancy charges		104,171,408	98,578,978
Trial production expenses		29,981,148	5,177,804
Dismantling cost		8,302,234	8,355,775
Foundation machinery		15,280,987	15,379,533
Development expenses		667,694	672,000
Others		26,121,553	20,978,966
		<u>1,064,215,182</u>	<u>643,550,960</u>

15.3.1 It includes staff retirement benefits capitalised during the year amounting to Rs 2,557,573 (2010: Rs 1,320,051).

15.3.2 It includes finance cost capitalised during the year amounting to Rs 222,995,043 (2010: Rs 61,772,106), including finance cost of Rs 24,230,319 (2010: Rs 3,175,530) in respect of the unsecured long term borrowings from related parties as referred to in note 7.

15.3.3 It includes depreciation on property, plant and equipment capitalised during the year amounting to Rs 2,036,618 (2010: Rs 1,267,538).

		2011 Rupees	2010 Rupees
16.	Advances, deposits, prepayments and other receivables		
Unsecured advances - considered good			
- to employees			
against salary		240,038	87,000
against expenses		154,623	72,810
against purchase of wood		3,890,882	-
		<u>4,285,543</u>	<u>159,810</u>
- to suppliers		6,529,465	397,000
- to associated company		-	2,000
Trade deposits		619,000	211,000
Prepayments		1,004,858	830,571
Sales tax recoverable		66,000,878	17,964,439
		<u>78,439,744</u>	<u>19,564,820</u>

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17. Stock in trade

This represents Eucalyptus wood purchased as raw material to be used in manufacturing of pulp.

		2011 Rupees	2010 Rupees
18. Cash and bank balances			
At banks on:			
- Saving accounts	- note 18.1	8,160,016	600,618
- Current accounts		<u>25,659,260</u>	<u>910,892</u>
In hand		33,819,276	1,511,510
		<u>1,445,052</u>	<u>558,569</u>
		<u><u>35,264,328</u></u>	<u><u>2,070,079</u></u>

18.1 The balances in saving accounts bear markup of 5% per annum (2010: 5% per annum).

		2011 Rupees	2010 Rupees
19. Administrative expenses			
Salaries, wages and other benefits	- note 19.1	13,255,554	10,293,001
Rent, rates and taxes		1,390,670	1,034,742
Communications		738,487	465,600
Utilities		692,095	583,870
Entertainment		257,043	159,290
Legal and professional charges	- note 19.2	3,783,187	2,042,854
Travelling and conveyance		751,857	51,214
Repairs and maintenance		564,270	125,600
Printing and stationery		395,693	200,214
Vehicle running and maintenance		383,124	154,427
Depreciation on property, plant and equipment	- note 15.1	1,894,958	1,532,901
Others		576,971	383,154
		<u>24,683,909</u>	<u>17,026,867</u>

19.1 Salaries, wages and benefits include Rs 710,608 (2010: Rs 882,840) in respect of provision for gratuity.

19.2 Legal and professional charges include fee for statutory audit of the Company's financial statements amounting to Rs 750,000 (2010: Rs 500,000).

		2011 Rupees	2010 Rupees
20. Other operating expenses			
Loss on sale of property, plant and equipment		-	39,167
Net exchange loss		-	1,394,595
Receivable written off		-	163,840
		<u>-</u>	<u>1,597,602</u>
21. Other operating income			
Profit on sale of property, plant and equipment		1,500,968	-
Markup on bank deposits		-	436,772
Miscellaneous income		-	17,025
		<u>1,500,968</u>	<u>453,797</u>

	2011 Rupees	2010 Rupees
22. Finance costs		
Finance arrangement fees	-	393,500
Bank charges	413,258	52,563
	<u>413,258</u>	<u>446,063</u>
23. Taxation		
Current taxation		
- For the year	456,862	136,079
- Prior years	-	1,497,348
	<u>456,862</u>	<u>1,633,427</u>

23.1 For the purposes of current taxation, tax losses available for carry forward including pre-commencement expenditure are estimated at approximately Rs 95.223 million (2010: Rs 72.020 million). The Company has not recognised deferred tax asset of Rs 35.555 million (2010: Rs 26.840 million) on prudence principle as the Company is still in pre-commencement stage.

23.2 Tax charge reconciliation

Numerical reconciliation between the average effective tax rate and the applicable tax rate:

	2011 %	2010 %
Applicable tax rate	(35.00)	(35.00)
Tax losses for which no deferred tax asset is recognised	37.00	36.00
Effect of change in prior years taxes	-	8.00
Average effective tax rate	<u>2.00</u>	<u>9.00</u>

24. Directors' remuneration

The aggregate amount charged in the financial statements for the year for remuneration, including certain benefits, to the Chief Executive and full time working Directors of the Company are as follows:

	Chief Executive		Directors	
	2011	2010	2011	2010
Managerial remuneration	3,120,000	2,940,000	4,020,000	3,660,000
Utilities	240,000	240,000	396,000	396,000
Vehicle running and maintenance	-	-	360,000	360,000
Other benefits	-	-	270,660	302,094
	<u>3,360,000</u>	<u>3,180,000</u>	<u>5,046,660</u>	<u>4,718,094</u>
Number of persons	1	1	2	2

The Company also provides the Chief Executive and two directors with Company maintained vehicle.

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25. **Related party transactions**

Related parties comprise holding Company, associated undertakings, other related group companies, directors of the Company, key management personnel and post employment benefit plans. The Company in the normal course of business carries out transactions with various related parties. Amounts due from and to related parties are shown under receivables and payables, amounts due from directors and key management personnel are shown under receivables and remuneration of directors and key management personnel is disclosed in note 24. Other significant transactions with related parties are as follows:

Relationship with the Company	Nature of transactions	2011 Rupees	2010 Rupees
Associated undertakings	Shares issued during the year	100,000,000	263,800,000
	Markup expense on loan from related parties	19,884,943	3,175,530
	Markup paid to related parties	12,325,276	-
	Loan obtained from related parties	415,000,000	164,500,000
	Loan repaid to related parties	226,000,000	3,500,000
	Sale of goods and services	-	12,313,750
	Reimbursement of expenses	728,145	125,665
	Payments on behalf of the Company	-	2,000
	Purchase of fixed assets by related party on behalf of Company	284,120,278	25,873,653
	Others	Markup expense on loan from related parties	4,345,376
Loan obtained from related parties		299,800,000	-
Loan repaid to related parties		66,800,000	-
Loan given to related party		450,000,000	-
Loan repaid by related party		450,000,000	-
Markup receipts from related party		7,244,658	-

26. **Cash used in operations**

Loss before tax		(23,596,199)	(18,616,735)
Adjustment for non cash charges and other items:			
Depreciation on property, plant and equipment - note 15.1		1,894,958	1,532,901
(Profit) / loss on sale of property, plant and equipment		(1,500,968)	39,167
Exchange Loss		-	1,394,595
Receivable written off		-	163,840
Markup on bank deposits		-	(436,772)
Finance costs - note 22		413,258	446,063
Staff retirement benefits		710,608	882,840
Working capital changes - note 26.1		(95,691,759)	(1,775,730)
		<u>(117,770,102)</u>	<u>(16,369,831)</u>

26.1 **Working capital changes**

Increase in advances, deposits, prepayments and other receivables	(58,874,924)	(11,685,460)
Increase in stores and spares	(3,410,466)	-
Increase in stock in trade	(72,456,023)	-
Increase in trade and other payables	39,049,654	9,909,730
	<u>(95,691,759)</u>	<u>(1,775,730)</u>

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27. **Financial risk management**

27.1 **Financial risk factors**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, other price risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance.

Risk management is carried out by the Board of Directors (the Board). The Board provides principles for overall risk management as well as policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity. All treasury related transactions are carried out within the parameters of this policy.

(a) **Market risk**

(i) **Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

The Company is exposed to currency risk arising from various currency exposures, primarily with respect to the United States Dollar (USD). Currently, the Company's foreign exchange risk exposure is restricted to the amounts receivable from / payable to the foreign entities. The Company's exposure to currency risk was as follows:

	2011	2010
USD		(FCY)
Trade and other payables	-	75,118
EUR		
Trade and other payables	-	25,000

The following significant exchange rates were applied during the year:

Rupees per USD

Average rate	87.50	83.97
Reporting date rate	86.05	85.60

Rupees per EURO

Average rate	122.51	116.98
Reporting date rate	124.89	104.48

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At June 30, 2011, if the Rupee had strengthened / weakened by 5% against the US dollar with all other variables held constant, post-tax profit for the year would have been unchanged (2010: Rs 315,495) as no amount in US dollar stands payable at reporting date. Therefore no foreign exchange gains / losses on translation of US dollar-denominated financial assets and liabilities will arise.

At June 30, 2011, if the Rupee had strengthened / weakened by 5% against the EURO with all other variables held constant, post-tax profit for the year would have been unchanged (2009: Rs 149,500) as no amount in Euro stands payable at reporting date. Therefore no foreign exchange gains / losses on translation of EURO-denominated financial assets and liabilities will arise.

(ii) Other price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company does not hold any financial instruments which are exposed to other price risk.

(iii) Interest rate risk

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

The Company has no long-term interest-bearing assets. The Company's interest rate risk arises from long term and short term financing obtained at variable rates.

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

	2011 Rupees	2010 Rupees
Financial assets		
Fixed rate instruments		
Balances at bank - savings accounts	8,160,016	600,618
Financial liabilities		
Fixed rate instruments		
Long term loans from related parties - unsecured	483,000,000	-
Short term borrowings - unsecured	-	161,000,000
Floating rate instruments		
Long term loan - secured	1,400,000,000	394,060,987
	1,883,000,000	555,060,987

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rate at the balance sheet date would not affect profit or loss of the Company.

Cash flow sensitivity analysis for variable rate instruments

If interest rates on long term loans during the year had been 1% higher / lower with all other variables held constant, total finance cost accrued during the year would have been Rs 11,865,270 (2010: 2,381,423) higher / lower mainly as a result of higher / lower interest expense on floating rate borrowings.

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(b) **Credit risk**

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Company's credit risk is primarily attributable to its loans, advances, deposits, prepayments and other receivables and its balances at banks. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	2011 Rupees	2010 Rupees
Advances, deposits, prepayments and other receivables	619,000	213,000
Balances at bank	33,819,276	1,511,510
	<u>34,438,276</u>	<u>1,724,510</u>

The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The Company believes that it is not exposed to major concentration of credit risk.

The credit quality of Company's bank balances can be assessed with reference to external credit ratings as follows:

	Rating Short term	Rating Long term	Rating Agency	2011 Rupees	2010 Rupees
Faysal Bank Limited	A1+	AA	PACRA	15,081	269,953
United Bank Limited	A-1+	AA+	JCR-VIS	302,489	330,665
KASB, Bank limited	A2	A-	PACRA	-	-
Soneri Bank Limited	A1+	AA-	PACRA	7,842,446	-
				<u>8,160,016</u>	<u>600,618</u>

Due to the Company's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the Company. Accordingly, the credit risk is minimal.

(c) **Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Company manages liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Company follows an effective cash management and planning policy to ensure availability of funds and to take appropriate measures for new requirements.

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The following are the contractual maturities of financial liabilities as at June 30, 2011:

	Carrying amount	Less than one year	One to five years	More than five years
Rupees				
Long term loan - secured	1,400,000,000	-	1,244,444,444	155,555,556
Long term loans from related parties - unsecured	483,000,000	-	483,000,000	-
Markup on long term loan	83,254,433	83,254,433	-	-
Accrued finance cost	15,080,573	15,080,573	-	-
Trade and other payables	75,448,445	75,448,445	-	-
	<u>2,056,783,451</u>	<u>173,783,451</u>	<u>1,727,444,444</u>	<u>155,555,556</u>

The following are the contractual maturities of financial liabilities as at June 30, 2010:

	Carrying amount	Less than one year	One to five years	More than five years
Rupees				
Long term loan - secured	394,060,987	78,812,198	315,248,789	-
Markup on long term loan	67,428,584	13,485,715	53,942,869	-
Accrued finance cost	21,036,866	21,036,866	-	-
Short term borrowings	161,000,000	161,000,000	-	-
Trade and other payables	36,467,541	36,467,541	-	-
	<u>679,993,978</u>	<u>310,802,320</u>	<u>369,191,658</u>	<u>-</u>

27.2 Fair values of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

27.3 Financial instruments by categories

Financial assets as per balance sheet

Advances, deposits, prepayments and other receivables
Balances at bank

Loans and receivables	
2011	2010
Rupees	Rupees
619,000	213,000
35,264,328	2,070,079
<u>35,883,328</u>	<u>2,283,079</u>

Financial liabilities at amortised cost

Financial liabilities as per balance sheet

Long term loan - secured
Long term loans from related parties - unsecured
Markup on long term loan
Short term borrowings
Trade and other payables

2011	2010
Rupees	Rupees
1,400,000,000	394,060,987
483,000,000	-
83,254,433	67,428,584
-	161,000,000
75,448,445	21,036,866
<u>2,041,702,878</u>	<u>643,526,437</u>

Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may issue new shares or sell assets to reduce debt. Consistent with others in the industry and the requirements of the lenders the Company monitors the capital structure on the basis of gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings including current and non-current borrowings, less cash and cash equivalents as disclosed in note 18. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt. The gearing ratio as at year ended June 30, 2011 and June 30, 2010 are as follows:

		2011 Rupees	2010 Rupees
Loan term loans - secured	- note 6	1,400,000,000	394,060,987
Long term loans from related parties - unsecured	- note 7	483,000,000	-
Short term borrowings - unsecured	- note 11	-	161,000,000
		<u>1,883,000,000</u>	<u>555,060,987</u>
Less: Cash and cash equivalents	- note 18	(35,264,328)	(2,070,079)
Net debt		<u>1,847,735,672</u>	<u>552,990,908</u>
Total equity		<u>999,062,412</u>	<u>923,115,473</u>
Total capital		<u><u>2,846,798,084</u></u>	<u><u>1,476,106,381</u></u>
Gearing ratio	Percentage	65	37

28. Date of authorisation for issue

These financial statements were authorised for issue on November 4, 2011 by the Board of Directors of the Company.

29. Events after the balance sheet date

There are no subsequent events occurring after balance sheet date.

30. Corresponding figures

Corresponding figures have been re-arranged and reclassified, wherever necessary, for the purposes of comparison and better presentation as per reporting framework. Significant re-arrangements made are as follows:

Capital work in progress amounting to Rs 1,571,768,780 as at June 30, 2010 has been included in property, plant and equipment as it is considered a better presentation under International Accounting Standard 16 - Property, Plant and Equipment.

AM


Chief Executive


Director