AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Faruki Pulp Mills Limited as at June 30, 2012 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 resulted on initial application of standards, amendments, or an interpretation to the existing standards 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, 2012 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).

We draw attention to note 1.2 to the financial statements, which indicates that the company has not been able to commence commercial production to date due to reasons explained therein. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Chartered Accountants

Lahore, November 16, 2012

Name of engagement partner: Asad Aleem Mirza

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FARUKI PULP MILLS LIMITED

BALANCE SHEET AS AT JUNE 30, 2012

	Note	2012 Rupees	2011 Rupees
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Authorised capital			
108,000,000 (2011: 108,000,000) ordinary shares of Rs 10 each		1,080,000,000	1,080,000,000
Issued, subscribed and paid up capital			
108,000,000 (2011: 108,000,000) ordinary shares of Rs 10 each	5	1,080,000,000	1,080,000,000
Accumulated loss		(112,720,705)	(80,937,588)
		967,279,295	999,062,412
NON-CURRENT LIABILITIES			
Long term loans - secured	6	1,088,888,890	1,400,000,000
Long term loans from related parties - unsecured	7	75,000,000	483,000,000
Staff retirement benefits	8	10,303,029	6,770,712
		1,174,191,919	1,889,770,712
CURRENT LIABILITIES			
Current portion of non-current liabilities	6	311,111,110	-
Short term borrowings	9	1,587,498,647	-
Trade and other payables	10	114,824,133	75,448,445
Accrued finance cost	11	163,613,028	98,335,006
Taxation		4,844,086	8,492,503
		2,181,891,004	182,275,954
CONTINGENCIES AND COMMITMENTS	12	-	-
		4,323,362,218	3,071,109,078

	Note	2012 Rupees	2011 Rupees
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	13	4,098,995,650	2,881,538,517
Intangible assets	14	1,080,000	-
		4,100,075,650	2,881,538,517
CURRENT ASSETS			
Stores and spares		6,681,981	3,410,466
Advances, deposits, prepayments and other receivables	15	106,651,292	78,439,744
Trade debts		1,484,192	-
Stock in trade	16	106,628,902	72,456,023
Cash and bank balances	17	1,840,201	35,264,328
		223,286,568	189,570,561
		4,323,362,218	3,071,109,078

The annexed notes 1 to 29 form an integral part of these financial statements.

Chief Executive **Director**

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FARUKI PULP MILLS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2012

	Note	2012 Rupees	2011 Rupees
Administrative expenses	18	(31,270,599)	(24,683,909)
Other operating income	19	455,583	1,500,968
Operating loss		(30,815,016)	(23,182,941)
Finance costs	20	(663,961)	(413,258)
Loss before taxation		(31,478,977)	(23,596,199)
Taxation	21	(304,140)	(456,862)
Loss after taxation		(31,783,117)	(24,053,061)
Other comprehensive income		-	-
Total comprehensive loss for the year		(31,783,117)	(24,053,061)

The annexed notes 1 to 29 form an integral part of these financial statements.

Chief Executive **Director**

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FARUKI PULP MILLS LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2012

(Rupees)

	Share capital	Accumulated loss	Total
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
Total comprehensive loss for the year	-	(31,783,117)	(31,783,117)
Balance as on June 30, 2012	1,080,000,000	(112,720,705)	967,279,295

The annexed notes 1 to 29 form an integral part of these financial statements.

Chief Executive **Director**

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FARUKI PULP MILLS LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2012

	Note	2012 Rupees	2011 Rupees
Cash flows from operating activities			
Cash used in operations	24	(53,806,877)	(117,770,102)
Finance costs paid		(330,634,982)	(206,294,087)
Taxes paid		(3,952,557)	(5,354,064)
Staff retirement benefits paid		(3,583,408)	(160,876)
Net cash used in operating activities		(391,977,824)	(329,579,129)
Cash flows from investing activities			
Fixed capital expenditure		(822,588,921)	(1,068,810,882)
Proceeds from sale of property, plant and equipment		740,000	1,852,500
Markup on deposits received		903,971	1,792,747
Net cash used in investing activities		(820,944,950)	(1,065,165,635)
Cash flows from financing activities			
Loan proceeds from related parties		1,210,235,592	614,800,000
Repayment loan from related parties		(230,736,945)	(292,800,000)
Proceeds of long term loan		-	1,400,000,000
Repayment of long term loan		-	(394,060,987)
Proceeds from issuance of share capital / share deposit money received during the year		-	100,000,000
Net cash generated from financing activities		979,498,647	1,427,939,013
Net (decrease) / increase in cash and cash equivalents		(233,424,127)	33,194,249
Cash and cash equivalents at the beginning of the year		35,264,328	2,070,079
Cash and cash equivalents at the end of the year	25	(198,159,799)	35,264,328

The annexed notes 1 to 29 form an integral part of these financial statements.

Chief Executive **Director**

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FARUKI PULP MILLS LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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 and sale of paper pulp. The production facility is situated 20 km from Gujrat and the registered office is situated in Lahore.

1.2 Going concern assumption

The company had its first trial production run in the year 1997 but since then has not commenced commercial production. 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, the Company re-commenced trial production in the current year, however, these trial runs identified significant additional capex requirements to enable commercial production, principally the need for replacement of existing turbine, installation of additional mixed fuel boiler and equipment in the washing and bleaching process, to make the production processes commercially viable. The Company has subsequent to the year end, commenced the process for selection of suppliers for designing and installation of the boiler, which is the key bottle-neck. The management expects that another 24 months approximately from the balance sheet date shall be required to make the plant commercially viable. Subsequent to the year end, active construction has been suspended pending the design and installation of the boiler.

As at the reporting date, the current liabilities of the Company have exceeded its current assets by Rs 1,958.6 million. The Company has already fully utilised financing available from syndicate and the short term running finance facility obtained during the year with repayment of long term loans commencing from August 2012.

The above conditions raise significant doubts on the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent, in view of the above, based on continued financial support from its shareholders. These financial statements have been prepared on a going concern basis as the management is confident, based upon a commitment of continued financial support from its principal shareholder, M/s JDW Sugar Mills Limited.

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

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

- IFRS 7, 'Disclosures on transfers of financial assets' (Amendment), issued in 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 part of 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. These amendments do not have any impact on the Company's financial statements.

- IAS 1 'Presentation of financial statements' (Amendment), is effective from January 1, 2011. The amendment 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. The company has opted to present the analysis in statement of changes in equity.

- IAS 24 (Revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The application of this standard has no material impact on the Company's financial statements.

- Annual improvements to IFRSs 2010 (effective January 1, 2011). This set of amendments includes changes to six standards and one IFRIC: IFRS 1, 'First time adoption of IFRS', IFRS 3, 'Business combinations', IFRS 7, 'Financial instruments; Disclosure', IAS 1, 'Presentation of financial statements', IAS 27, 'Separate financial statements', IAS 34, 'Interim financial reporting' and IFRIC 13, 'Customer loyalty programmes'. The application of these amendments has no material impact on the Company's financial statements.

- IFRS 1 (Amendment), 'First time adoption of IFRS' (effective July 1, 2011). These amendments include two changes to IFRS 1, 'First-time adoption of IFRS'. The first replaces references to a fixed date of January 1, 2004 with 'the date of transition to IFRSs', thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. The application of this amendment has no material impact on the Company's financial statements. The application of these amendments has no material impact on the Company's financial statements.

- IFRIC 14 (Amendments), 'Prepayments of a minimum funding requirement' (effective January 1, 2011). 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 this. The application of this amendment has no material impact on the Company's financial statements.

2.2.2 Standards, amendments and interpretations to existing standards that are applicable to the Company and not yet effective and have not been early adopted

The following amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after July 01, 2012 or later periods, but the Company has not early adopted them:

- IFRS 9, 'Financial instruments', addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until January 01, 2013 but is available for early adoption. This is the first part of a new standard on classification and measurement of financial assets and financial liabilities that will replace IAS 39, 'Financial instruments: Recognition and measurement'. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. For liabilities, the standard retains most of the IAS 39 requirements. These include amortised-cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. This change will mainly affect financial institutions. The Company will apply this standard from July 01, 2013.

- 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 1, 2013.

- IAS 1 - 'Presentation of Financial Statement' (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 July 1, 2012 and does not expect to have a material impact on its financial statements.

- IAS 1 - 'Presentation of Financial Statement' (Amendment). This amendment has been issued part of Annual Improvements project and is applicable on accounting periods beginning on or after January 1, 2013. The amendment clarifies the disclosure requirements for comparative information when an entity provides a third balance sheet. When an entity produces balance sheet as required by IAS 8 'Accounting policies, changes in accounting estimates and errors' in which case the balance sheet should be as at the date of the beginning of the preceding period i.e. the opening position. No notes are required to support this balance sheet. When management provides additional comparative information voluntarily e.g. statement of profit and loss, balance sheet, it should present the supporting notes to these additional statements. The Company will apply this amendment from July 1, 2013.

- IAS 16 - 'Property, plant and equipment' (Amendment). This amendment has been issued part of Annual Improvements project and is applicable on accounting periods beginning on or after January 1, 2013. The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment. The Company shall apply the amendment from July 1, 2013.

- IAS 32 - 'Financial instruments: Presentation' (Amendment). This amendment has been issued part of Annual Improvements project and is applicable on accounting periods beginning on or after January 1, 2013. Prior to the amendment, IAS 32 was ambiguous as to whether the tax effects of distributions and the tax effects of equity transactions should be accounted for in the income statement or in equity. The amendment clarifies that the treatment is in accordance with IAS 12. So, income tax related to distributions is recognised in the income statement, and income tax related to the costs of equity transactions is recognised in equity. The Company will apply this amendment from July 1, 2013.

- IAS 12 (Amendment), 'Income taxes'. These are applicable on accounting periods beginning on or after January 1, 2012. IAS 12, 'Income taxes', currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery shall be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes, recovery of revalued non-depreciable assets', shall no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The application of this amendment has no material impact on the Company's financial statements. The Company shall apply this amendment from July 1, 2012.

- IAS 19 (Amendment), 'Employee Benefits' is applicable on accounting periods beginning on or after January 01, 2013. The amendment shall eliminate the corridor approach and calculate finance costs on a net funding basis. The Company shall apply this amendment from July 1, 2013.

- 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.

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-IAS 27 (Revised 2011), 'Separate Financial Statements' includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The revised standard is applicable for accounting periods beginning on or after January 1, 2013. The Company shall apply this standard from July 1, 2013 and does not expect to have a material impact on its financial statements.

- IFRS 7 (Amendment), 'Financial Instruments: Disclosures', reflects the joint IASB and FASB requirements to enhance current offsetting disclosures. These new disclosures are intended to facilitate comparison between those entities that prepare IFRS financial statements and those that prepare US GAAP financial statements. The Company shall apply this amendment from July 1, 2013 and does not expect to have a material impact on its financial statements.

- IFRS 1 (Amendment), 'First time adoption of IFRS', addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS. It also adds an exception to the retrospective application of IFRS, which provides the same relief to first-time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008. The Company does not expect to have a material impact on its financial statements.

- IFRIC 20, 'Stripping costs in the production phase of a surface mine', (effective January 1, 2013). This sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. The interpretation may require mining entities reporting under IFRS to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable component of an ore body. These amendments do not have any 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:

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.

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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.

Depreciation on property, plant and equipment is charged to profit on diminishing balance method so as to write off the depreciable amount of on asset over their estimated useful lives, at the rates given in note 13.1. 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, 2012 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 license 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.

4.5 Stock in trade

Stock of raw materials, except for those in transit, is valued at lower of moving 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 and is determined based on annual weighted average cost.

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

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.

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

Discount rate	13%	per annum
Expected increase in eligible pay	12%	per annum
Expected mortality rate	EFU 61-66 mortality table adjusted for company's experience	
Expected withdrawal and early retirement rate	Based on experience	

Expected charge for the year ended June 30, 2013 is Rs 11,607,818.

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.

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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.

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

2012	2011		2012	2011
(Number of shares)			Rupees	
108,000,000	98,000,000	Ordinary shares of Rs 10 each fully paid as at July 01	1,080,000,000	980,000,000
-	10,000,000	Ordinary shares of Rs 10 each fully paid issued during the year against cash	-	100,000,000
108,000,000	108,000,000	Ordinary shares of Rs 10 each fully paid as at June 30	1,080,000,000	1,080,000,000

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

2012	2011		2012	2011
(Number of shares)			Rupees	Rupees
94,566,500	94,566,500	Ordinary shares of Rs 10 each fully paid in cash	945,665,000	945,665,000
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
108,000,000	108,000,000		1,080,000,000	1,080,000,000

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Ordinary shares of the Company held by associated undertakings are as follows:

	2012	2011
	(Number of Shares)	
Zen Associates (Private) Limited	29,664,699	29,664,699
JDW Sugar Mills Limited	51,500,000	51,500,000
Ali Khan Tareen	16,465,333	16,465,333
	97,630,032	97,630,032

		2012 Rupees	2011 Rupees
6. Long term loans - secured			
Long term loans - secured	- note 6.1	1,400,000,000	1,400,000,000
Less: Current portion shown under current liabilities		(311,111,110)	-
		1,088,888,890	1,400,000,000

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.

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 installments 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.

		2012 Rupees	2011 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 7.1	-	158,000,000
Ali Khan Tareen	- note 7.2	75,000,000	75,000,000
		75,000,000	483,000,000

7.1 These loans have been converted into short term borrowings subsequent to the Company's agreement with M/s JDW Sugar Mills Limited and M/s JK Farming Systems Limited dated January 31, 2012 and September 30, 2011 respectively.

7.2 This represents an unsecured long term finance from Ali Khan Tareen, a director. It carries markup at 0% (2011: 15.51%). This loan is not repayable before July 1, 2013.

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8. Staff retirement benefits

	2012 Rupees	2011 Rupees
The amounts recognized in the balance sheet are determined as follows:		
Present value of defined benefit obligations	10,928,560	6,566,520
Unrecognized actuarial (losses)/gains	(625,531)	204,192
Liability as at June 30	10,303,029	6,770,712
The movement in the defined benefit obligation over the year is as follows:		
Present value of defined benefit obligations as at July 1	6,566,520	4,035,078
Current Service Cost	6,188,162	2,780,281
Interest Cost	919,313	484,209
Benefits paid during the year	(1,902,615)	(83,876)
Benefits due but not paid	(1,672,543)	(8,250)
Actuarial losses/ (gains)	829,723	(640,922)
Present value of defined benefit obligations as at June 30	10,928,560	6,566,520
The amounts recognized in the Profit and Loss Account are as follows:		
Current Service Cost	6,188,162	2,780,281
Interest Cost	919,313	484,209
Actuarial Loss Charge	-	3,691
Total, included in salaries and wages	7,107,475	3,268,181
The amounts recognized were included in the Financial Statements as follows:		
Administrative expenses	1,720,300	710,608
Capital work in progress	5,387,175	2,557,573
Total, included in salaries and wages	7,107,475	3,268,181
The principal actuarial assumptions used were as follows:		
Discount Rate	13%	14%
Future salary increases	12%	13%
Average expected remaining working life time of employees	10 years	10 years

	2011-12 Rupees	2010-11 Rupees	2009-10 Rupees	2008-09 Rupees	2007-08 Rupees
As at June 30					
Present value of defined benefit obligation	10,928,560	6,566,520	4,035,078	2,010,704	1,059,378

9. Short term borrowings

		2012 Rupees	2011 Rupees
Loans from related parties - unsecured			
JDW Sugar Mills Limited	- note 9.1	500,000,000	-
JK Farming Systems Limited	- note 9.2	887,498,647	-
		1,387,498,647	-
Running finances - secured	- note 9.3	200,000,000	-
		1,587,498,647	-

9.1 This represents an unsecured finance obtained from M/s JDW Sugar Mills Limited (JDW), an associated company, which was previously subordinated to the long term finance as referred to in note 6, however, has been converted into a balance payable on demand through an agreement dated January 31, 2012. Mark up is chargeable at the average borrowing rate of JDW (effective rate charged during the year ranges from 13.43% to 15.94%) and is payable on a quarterly basis.

9.2 This represents an unsecured financing availed from M/s JK Farming Systems Limited (JKFS), a related party through an agreement dated September 30, 2011, against a facility of Rs 1 billion. As per terms of this agreement, this loan is repayable by September 30, 2012. Mark up is chargeable at the average borrowing rate of JKFS (effective rate charged during the year ranges from 14.07% to 16.15%) and is payable on a monthly basis.

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9.3 This represents a short term running finances available from Faysal Bank under mark up arrangements amount to Rs 200 million (2011: nil). Markup rate of the loan is based on 6 months KIBOR plus 375 bps per annum. In the event the Company fails to make payment on due date, liquidated damages at 5% over and above the markup rate will be charged by the Bank. The aggregate running finances are secured by hypothecation of stores, spares, stock-in-trade and trade debts and personal guarantee of director.

		2012 Rupees	2011 Rupees
10. Trade and other payables			
Trade creditors		82,175,055	54,494,925
Accrued liabilities		19,933,167	16,230,117
Due to related parties			
JDW Sugar Mills Limited		35,195	-
JK Farming Systems Limited		458,640	-
		493,835	-
Others		12,222,076	4,723,403
		114,824,133	75,448,445
11. Accrued finance cost			
Mark up accrued on:			
- Long term loans-secured		75,188,155	83,254,433
- Long term loans from related parties-unsecured			
JDW Sugar Mills Limited		-	10,735,197
JK Farming Systems Limited		-	3,803,588
Ali Khan Tareen		541,788	541,788
		541,788	15,080,573
- Short term borrowings-secured		14,685,276	-
- Short term borrowings from related parties-unsecured			
JDW Sugar Mills Limited	- note 11.1	59,143,093	-
JK Farming Systems Limited		14,054,716	-
		73,197,809	-
		163,613,028	98,335,006

11.1 It includes overdue mark up amounting to Rs 41,396,299.

12. Contingencies and commitments

12.1 Contingencies

Guarantee in favour of collector of customs against the import of machinery amounting to nil (2011: Rs 6,263,744).

Claims not acknowledged as debts amounting to nil (2011: Rs 20,000,000).

12.2. Commitments

Contracts for capital expenditure amounting to nil (2011: nil).

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

	2012 Rupees	2011 Rupees
Not later than one year	1,408,000	900,000
Later than one year and not later than five years	88,000	1,136,000
	1,496,000	2,036,000

13. Property, plant and equipment			
Operating assets	- note 13.1	79,371,302	54,460,420
Capital work-in-progress	- note 13.2	4,019,624,348	2,827,078,097
		4,098,995,650	2,881,538,517

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13.1 Operating assets

(Rupees)

	Cost as at June 30, 2011	Additions/ (deletions)	Cost as at June 30, 2012	Accumulated depreciation as at June 30, 2011	Depreciation charge/ (deletions) for the year	Accumulated depreciation as at June 30, 2012	Net Book value as at June 30, 2012	Rate of depreciation %
Freehold land	4,899,038	-	4,899,038	-	-	-	4,899,038	-
Buildings on freehold land	27,211,552	-	27,211,552	1,368,628	1,292,146	2,660,774	24,550,778	5
Plant and machinery	5,317,541	19,167,362	24,484,903	1,011,859	1,418,773	2,430,632	22,054,271	7.5
Furniture and fixtures	2,167,279	2,242,014	4,409,293	458,410	415,217	873,627	3,535,666	15
Office equipment	9,333,977	2,569,440	11,903,417	3,997,513	1,351,674	5,349,187	6,554,230	20
Vehicles	18,061,834	8,872,399 (775,000)	26,159,233	5,694,391	3,064,207 (376,684)	8,381,914	17,777,319	20
2012	66,991,221	32,851,215 (775,000)	99,067,436	12,530,801	7,542,017 (376,684)	19,696,134	79,371,302	

(Rupees)

	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	

		2012 Rupees	2011 Rupees
The depreciation charge has been allocated as follows:			
Capital work-in-progress	- note 13.3	4,312,399	2,036,618
Administrative expenses	- note 18	3,229,618	1,894,958
		7,542,017	3,931,576

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13.2 Capital work-in-progress		2012 Rupees	2011 Rupees
Civil works		183,028,159	164,203,578
Plant and machinery		1,745,646,603	1,585,318,480
Advances for plant and machinery		17,302,401	13,340,857
Unallocated expenses	- note 13.3	2,073,647,185	1,064,215,182
		4,019,624,348	2,827,078,097

13.3 This includes the following expenses capitalised to date:

Salaries, wages and other benefits	- note 13.3.1	432,916,591	280,837,006
Borrowing costs	- note 13.3.2	843,872,241	448,509,299
Rent, rates and taxes		18,900,356	7,925,042
Communications		10,420,650	8,826,883
Utilities		19,365,500	9,496,103
Legal and professional charges		46,249,804	46,249,804
Travelling and conveyance		52,644,178	39,222,475
Freight		12,113,108	6,293,199
Repairs and maintenance		11,463,735	7,459,204
Printing and stationery		3,488,907	2,686,687
Vehicle running and maintenance		11,917,042	10,088,903
Depreciation on property, plant and equipment	- note 13.3.3	10,440,777	6,128,378
Insurance		10,843,299	5,967,175
Consultancy charges		120,173,386	104,171,408
Trial production expenses	- note 13.3.4	408,509,123	29,981,148
Dismantling cost		8,302,234	8,302,234
Foundation machinery		15,280,987	15,280,987
Development expenses		667,694	667,694
Others		36,077,573	26,121,553
		2,073,647,185	1,064,215,182

13.3.1 It includes staff retirement benefits capitalised during the year amounting to Rs 4,398,296 (2011: Rs 2,557,573).

13.3.2 It includes finance cost capitalised during the year amounting to Rs 395,362,942 (2011: Rs 222,995,043), including finance cost of Rs 137,794,616 (2011: Rs 24,230,319) in respect of the unsecured borrowings from related parties.

13.3.3 It includes depreciation on property, plant and equipment capitalised during the year amounting to Rs 4,312,399 (2011: Rs 2,036,618).

13.3.4 Trial production expenses		2012 Rupees	2011 Rupees
As at July 1		29,981,148	5,177,804
Expenses incurred during the year			
Raw materials consumed	- note 13.3.5	135,279,178	6,828,041
Fuel		295,392,045	15,141,469
Salaries, wages and other benefits		34,192,390	-
Others		6,188,676	2,833,834
		471,052,289	24,803,344
Sale of trial production		(92,524,314)	-
As at June 30		408,509,123	29,981,148

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		2012 Rupees	2011 Rupees
13.3.5	**Raw materials consumed**		
Cost as at July 1		72,456,023	-
Purchases during the year		169,452,057	79,284,064
Cost as at June 30		(106,628,902)	(72,456,023)
		135,279,178	6,828,041
14.	**Intangible assets**		
Software			
Movement in cost			
Opening cost as at June 30, 2011		-	-
Additions		1,350,000	-
Deletions		-	-
Closing cost as at June 30, 2012		1,350,000	-
Movement in accumulated amortization			
Accumulated amortization as at June 30, 2011		-	-
Amortization charge for the year	- note 14.1	270,000	-
Deletions		-	-
Closing accumulated amortization as at June 30, 2012		270,000	-
Net book value as at June 30, 2012		1,080,000	-

14.1 Amortization charge for the year has been computed at the rate of 20% and has been charged to administrative expenses.

		2012 Rupees	2011 Rupees
15.	**Advances, deposits, prepayments and other receivables**		
Unsecured advances - considered good			
- to employees			
against salary		288,374	240,038
against expenses		177,271	154,623
against purchase of wood		2,550,579	3,890,882
		3,016,224	4,285,543
- to suppliers		10,578	6,529,465
- to related parties		61,612	-
Trade deposits		444,089	619,000
Prepayments		232,900	1,004,858
Sales tax recoverable		102,885,889	66,000,878
		106,651,292	78,439,744

16. **Stock in trade**

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

		2012 Rupees	2011 Rupees
17.	**Cash and bank balances**		
At banks on:			
- Saving accounts	- note 17.1	478,746	8,160,016
- Current accounts		733,207	25,659,260
		1,211,953	33,819,276
In hand		628,248	1,445,052
		1,840,201	35,264,328

17.1 The balances in saving accounts bear markup of 5% per annum (2011: 5% per annum).

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18. Administrative expenses		2012 Rupees	2011 Rupees
Salaries, wages and other benefits	- note 18.1	19,256,411	13,255,554
Rent, rates and taxes		955,000	1,390,670
Communications		668,543	738,487
Utilities		1,012,336	692,095
Entertainment		269,840	257,043
Legal and professional charges	- note 18.2	2,497,630	3,783,187
Travelling and conveyance		1,164,052	751,857
Repairs and maintenance		445,286	564,270
Printing and stationery		366,378	395,693
Vehicle running and maintenance		303,261	383,124
Depreciation on property, plant and equipment	- note 13.1	3,229,618	1,894,958
Amortization of intangible assets	- note 14.	270,000	-
Others		832,244	576,971
		31,270,599	24,683,909

18.1 Salaries, wages and benefits include Rs 1,720,300 (2011: Rs 710,608) in respect of provision for gratuity.

18.2 Legal and professional charges include fee for statutory audit of the Company's financial statements amounting to Rs 750,000 (2011: Rs 750,000).

19. Other operating income	2012 Rupees	2011 Rupees
Profit on sale of property, plant and equipment	341,684	1,500,968
Net exchange gain	113,899	-
	455,583	1,500,968

20. Finance costs

These represent bank charges.

21. Taxation

This represents provision for current taxation in respect of markup on bank deposits.

For the purposes of current taxation, tax losses available for carry forward including pre-commencement expenditure are estimated at approximately Rs 123.543 million (2011: Rs 95.223 million). The Company has not recognised deferred tax asset of Rs 46.890 million (2011: Rs 35.555 million) on prudence principle as the Company is still in pre-commencement stage.

21.2 Tax charge reconciliation

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

	2012 %	2011 %
Applicable tax rate	(35.00)	(35.00)
Tax losses for which no deferred tax asset is recognised	35.97	37.00
Average effective tax rate	0.97	2.00

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22. 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	
	2012	2011	2012	2011
	Rupees	Rupees	Rupees	Rupees
Managerial remuneration	3,720,000	3,120,000	4,824,000	4,020,000
Utilities	240,000	240,000	523,200	396,000
Vehicle running and maintenance	-	-	384,000	360,000
Other benefits	-	-	274,305	270,660
	3,960,000	3,360,000	6,005,505	5,046,660
Number of persons	1	1	2	2

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

23. 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 22. Other significant transactions with related parties are as follows:

Relationship with the Company	Nature of transactions	2012 Rupees	2011 Rupees
Associated undertakings	Shares issued during the year	-	100,000,000
	Markup expense on loan from related parties	137,794,616	19,884,943
	Markup paid to related parties	79,135,592	12,325,276
	Loan obtained from related parties	1,131,100,000	415,000,000
	Loan repaid to related parties	230,736,945	226,000,000
	Purchases from related party	2,367,138	-
	Payment against purchases from related party	1,955,110	-
	Reimbursement of expenses	-	728,145
	Payments on behalf of the Company	35,195	-
	Purchase of fixed assets by related party on behalf of Company	-	284,120,278
Key management personnel	Markup expense on loan from director	-	541,788
	Loan obtained from director	-	75,000,000
Others	Markup expense on loan from related parties	-	3,803,588
	Loan obtained from related parties	-	224,800,000
	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

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		2012 Rupees	2011 Rupees
24. Cash used in operations			
Loss before tax		(31,478,977)	(23,596,199)
Adjustment for non cash charges and other items:			
Depreciation on property, plant and equipment	- note 13.1	3,229,618	1,894,958
Amortization of intangible assets	- note 14	270,000	-
Profit on sale of property, plant and equipment		(341,684)	(1,500,968)
Exchange Gain		(113,899)	-
Finance costs	- note 20	663,961	413,258
Staff retirement benefits		1,720,300	710,608
Working capital changes	- note 24.1	(27,756,196)	(95,691,759)
		(53,806,877)	(117,770,102)
24.1 Working capital changes			
Increase in advances, deposits, prepayments and other receivables		(29,695,740)	(58,874,924)
Increase in stores and spares		(3,271,515)	(3,410,466)
Increase in stock in trade		(34,172,879)	(72,456,023)
Increase in trade and other payables		39,383,938	39,049,654
		(27,756,196)	(95,691,759)
25. Cash and cash equivalents			
Cash and bank balances	- note 17	1,840,201	35,264,328
Finances under mark up arrangements - secured	- note 9	(200,000,000)	-
		(198,159,799)	35,264,328

26. Financial risk management

26.1 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.

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(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:

	2012 Rupees	2011 Rupees
Financial assets		
Fixed rate instruments		
Balances at bank - savings accounts	478,746	8,160,016
Financial liabilities		
Floating rate instruments		
Long term loans from related parties - unsecured	75,000,000	483,000,000
Short term borrowings - unsecured	1,587,498,647	-
Long term loan - secured	1,400,000,000	1,400,000,000
	3,062,498,647	1,883,000,000

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 24,764,576 (2011: 11,865,270) higher / lower mainly as a result of higher / lower interest expense on floating rate borrowings.

(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:

	2012 Rupees	2011 Rupees
Advances, deposits, prepayments and other receivables	505,701	619,000
Balances at bank	1,211,953	33,819,276
	1,717,654	34,438,276

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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	2012	2011
				Rupees	
Faysal Bank Limited	A-1+	AA	JCR-VIS	377	15,081
United Bank Limited	A-1+	AA+	JCR-VIS	367,788	302,489
Soneri Bank Limited	A1+	AA-	PACRA	110,581	7,842,446
				478,746	8,160,016

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.

The following are the contractual maturities of financial liabilities as at June 30, 2012:

	Carrying amount	Less than one year	One to five years	More than five years
		Rupees		
Long term loan - secured	1,400,000,000	311,111,110	1,088,888,890	-
Long term loans from related parties - unsecured	75,000,000	75,000,000	-	-
Short term borrowings	1,587,498,647	1,587,498,647	-	-
Markup on long term loan	75,188,155	75,188,155	-	-
Accrued finance cost	15,227,064	15,227,064	-	-
Trade and other payables	114,824,133	114,824,133	-	-
	3,267,737,999	2,178,849,109	1,088,888,890	-

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	10,735,197	10,735,197	-	-
Trade and other payables	75,448,445	75,448,445	-	-
	2,052,438,075	169,438,075	1,727,444,444	155,555,556

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26.2 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.

26.3 Financial instruments by categories

	Loans and receivables	
	2012	2011
	Rupees	Rupees
Financial assets as per balance sheet		
Advances, deposits, prepayments and other receivables	505,701	619,000
Balances at bank	1,840,201	35,264,328
	2,345,902	35,883,328

	Financial liabilities at amortised cost	
	2012	2011
	Rupees	Rupees
Financial liabilities as per balance sheet		
Long term loan - secured	1,400,000,000	1,400,000,000
Long term loans from related parties - unsecured	75,000,000	483,000,000
Markup on long term loan	75,188,155	83,254,433
Short term borrowings	1,587,498,647	-
Trade and other payables	114,824,133	75,448,445
	3,252,510,935	2,041,702,878

26.4 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 26. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt. The gearing ratio as at year ended June 30, 2012 and June 30, 2011 are as follows:

		2012	2011
		Rupees	Rupees
Loan term loans - secured	- note 6	1,088,888,890	1,400,000,000
Long term loans from related parties - unsecured	- note 7	75,000,000	483,000,000
Short term borrowings - secured	- note 6	311,111,110	
Short term borrowings - unsecured	- note 9	1,587,498,647	-
		3,062,498,647	1,883,000,000
Less: Cash and bank balances	- note 17	(1,840,201)	(35,264,328)
Net debt		3,060,658,446	1,847,735,672
Total equity		967,279,295	999,062,412
Total capital		4,027,937,741	2,846,798,084
Gearing ratio	Percentage	76	65

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27. **Date of authorisation for issue**

These financial statements were authorised for issue on 16th November 2012, 2012 by the Board of Directors of the Company.

28. **Events after the balance sheet date**

Subsequent to the year end, active construction has been suspended pending the design and installation of the boiler and significant number of employees have been laid off at both the plant and head office in view of the suspended business activities.

29. **Corresponding figures**

Corresponding figures have been re-arranged and reclassified, wherever necessary, for the purposes of comparison. However no significant re-arrangements were made.

Chief Executive **Director**

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