



**KPMG Taseer Hadi & Co.**  
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### **Auditors' Report to the Members**

We have audited the annexed balance sheet of **International Industries Limited** ("the Company") as at 30 June 2010 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion:
  - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes as described in note 2.5 with which we concur;
  - ii) the expenditure incurred during the year was for the purpose of the Company's business; and
  - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan and give the information required by the Companies Ordinance, 1984, in the manner so required and give a true and fair view of the state of the Company's affairs as at 30 June 2010 and respectively of the profit, cash flows and changes in equity for the year then ended; and



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- d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980, was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

**Date: 5 August 2010**

**Karachi**

*KPMG Taseer Hadi & Co.*

**KPMG Taseer Hadi & Co.  
Chartered Accountants  
Mohammad Nadeem**

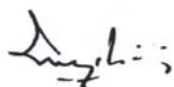
# International Industries Limited

## Balance Sheet

As at 30 June 2010

<b>ASSETS</b>	<i>Note</i>	<b>2010</b>	2009
		<b>(Rupees in '000)</b>	
<b>Non Current Assets</b>			
Property, plant and equipment	4	<b>9,904,901</b>	5,986,717
Intangible assets	5	<b>11,801</b>	17,959
Investment in an associated company	6	<b>125,852</b>	-
Long term deposits		<b>6,376</b>	6,425
<b>Total Non Current Assets</b>		<b>10,048,930</b>	6,011,101
<b>Current Assets</b>			
Stores and spares	7	<b>130,547</b>	130,694
Stock-in-trade	8	<b>6,114,406</b>	2,228,967
Trade debts	9	<b>1,579,112</b>	1,083,990
Loans and advances	10	<b>49,332</b>	12,605
Trade deposits and short term prepayments	11	<b>21,242</b>	17,936
Other receivables	12	<b>681,212</b>	361,494
Taxation-net	13	<b>111,819</b>	96,637
Cash and bank balances	14	<b>21,568</b>	1,235,455
<b>Total Current Assets</b>		<b>8,709,238</b>	5,167,778
<b>Total Assets</b>		<b>18,758,168</b>	11,178,879
<b>EQUITY AND LIABILITIES</b>			
<b>Share Capital and Reserves</b>			
Authorised capital 200,000,000 (2009: 200,000,000) ordinary shares of Rs. 10 each		<b>2,000,000</b>	2,000,000
Issued, subscribed and paid up capital	15	<b>999,105</b>	999,105
General reserves		<b>1,422,854</b>	1,272,854
Unappropriated profit		<b>901,642</b>	388,346
		<b>3,323,601</b>	2,660,305
<b>Surplus on revaluation of property, plant and equipment</b>	16	<b>1,366,865</b>	1,378,555
<b>LIABILITIES</b>			
<b>Non-Current Liabilities</b>			
Long term financing	17	<b>5,113,227</b>	2,015,460
Deferred taxation-net	18	<b>245,763</b>	286,492
<b>Total Non-Current Liabilities</b>		<b>5,358,990</b>	2,301,952
<b>Current Liabilities</b>			
Trade and other payables	19	<b>769,067</b>	810,379
Short term borrowings	20	<b>7,115,764</b>	3,533,094
Current portion of long term financing	17	<b>600,002</b>	408,333
Accrued markup		<b>223,879</b>	86,261
<b>Total Current Liabilities</b>		<b>8,708,712</b>	4,838,067
<b>Contingencies and Commitments</b>	21		
<b>Total Equity and Liabilities</b>		<b>18,758,168</b>	11,178,879

The annexed notes 1 to 42 form an integral part of these financial statements.



**Fuad Azim Hashimi**  
Director & Chairman  
Board Audit Committee



**Asad A. Siddiqui**  
Chief Financial  
Officer



**Towfiq H. Chinoy**  
Managing Director &  
Chief Executive

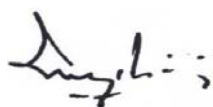
# International Industries Limited

## Profit and Loss Account

For the year ended 30 June 2010

	Note	2010 (Rupees in '000)	2009
Net sales	22	13,471,783	12,319,422
Cost of sales	23	<u>(11,249,674)</u>	<u>(11,152,273)</u>
<b>Gross profit</b>		<b>2,222,109</b>	<b>1,167,149</b>
Selling and distribution expenses	24	<u>(384,019)</u>	<u>(318,172)</u>
Administrative expenses	25	<u>(134,890)</u>	<u>(108,695)</u>
		<b>(518,909)</b>	<b>(426,867)</b>
Financial charges	26	<u>(257,090)</u>	<u>(535,081)</u>
Other operating charges	27	<u>(227,292)</u>	<u>(56,427)</u>
		<b>(484,382)</b>	<b>(591,508)</b>
Share of profit from an associated company	6	4,755	-
Other operating income	28	<u>135,698</u>	<u>320,035</u>
<b>Profit before taxation</b>		<b>1,359,271</b>	<b>468,809</b>
Taxation	29	<u>(333,000)</u>	<u>(94,000)</u>
<b>Profit for the year</b>		<b><u>1,026,271</u></b>	<b><u>374,809</u></b>
		<b>(Rupees)</b>	
<b>Earnings per share - basic and diluted</b>	30	<b><u>10.27</u></b>	<b><u>3.75</u></b>

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**Fuad Azim Hashimi**  
Director & Chairman  
Board Audit Committee



**Asad A. Siddiqui**  
Chief Financial  
Officer

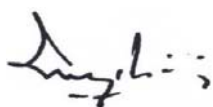


**Towfiq H. Chinoy**  
Managing Director  
& Chief Executive

**International Industries Limited**  
**Statement of Comprehensive Income**  
*For the year ended 30 June 2010*

	<b>2010</b>	2009
	<b>(Rupees in '000)</b>	
<b>Profit for the year</b>	<b>1,026,271</b>	374,809
Other comprehensive income	-	-
<b>Total comprehensive income for the year</b>	<b><u>1,026,271</u></b>	<u>374,809</u>

The annexed notes 1 to 42 form an integral part of these financial statements.



**Fuad Azim Hashimi**  
Director & Chairman  
Board Audit Committee



**Asad A. Siddiqui**  
Chief Financial  
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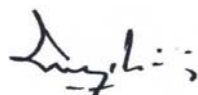


**Towfiq H. Chinoy**  
Managing Director  
& Chief Executive

**International Industries Limited**  
**Cash Flow Statement**  
For the year ended 30 June 2010

	Note	2010	2009
		(Rupees in '000)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before taxation		1,359,271	468,809
<i>Adjustments for:</i>			
Depreciation and amortisation		233,773	230,087
Provision for doubtful debts - net		27,720	-
Reversal of provision for infrastructure cess		-	(106,721)
Interest on bank deposits		(20,745)	(11,101)
Gain on disposal of available for sale investments		-	(2,741)
Gain on sale of property, plant and equipment		(4,752)	(3,817)
Gain on acquisition of investment in an associated company		(15,195)	-
Share of profit from an associated company		(4,755)	-
Financial charges		257,090	535,081
		1,832,407	1,109,597
<i>Movement in:</i>			
Working capital	31	(4,814,392)	2,563,778
Long term deposits		49	(2,235)
Net cash (used in) / from operations		(2,981,936)	3,671,140
Financial charges paid		(119,472)	(563,582)
Taxes paid		(388,911)	(162,557)
<b>Net cash (used in) / from operating activities</b>		(3,490,319)	2,945,001
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditure incurred		(4,146,607)	(2,055,173)
Investment in an associated company		(105,902)	-
Proceeds from sale of property, plant and equipment		5,560	6,940
Interest received		25,171	6,763
Net proceeds from sale of investments		-	2,741
<b>Net cash (used in) investing activities</b>		(4,221,778)	(2,038,729)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from long term financing		3,697,769	1,619,627
Repayment of long term financing		(408,333)	(758,334)
Dividends paid		(373,896)	(124,490)
<b>Net cash from financing activities</b>		2,915,540	736,803
Net (decrease) / increase in cash and cash equivalents		(4,796,557)	1,643,075
Cash and cash equivalents at beginning of the year		(2,297,639)	(3,940,714)
Cash and cash equivalents at end of the year		(7,094,196)	(2,297,639)
<b>CASH AND CASH EQUIVALENTS COMPRISE</b>			
Cash and bank balances	14	21,568	1,235,455
Short term borrowings	20	(7,115,764)	(3,533,094)
		(7,094,196)	(2,297,639)

The annexed notes 1 to 42 form an integral part of these financial statements.



**Fuad Azim Hashimi**  
Director & Chairman  
Board Audit Committee



**Asad A. Siddiqui**  
Chief Financial  
Officer

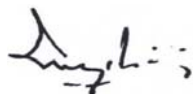


**Towfiq H. Chinoy**  
Managing Director &  
Chief Executive

**International Industries Limited**  
**Statement of Changes in Equity**  
*For the year ended 30 June 2010*

	Issued, subscribed and Paid up capital	Revenue reserves		Total reserves	Total
		General reserves	Un- appropriated profit		
------(Rupees in '000)-----					
<b>Balance as at 1 July 2008</b>	832,587	997,854	567,206	1,565,060	2,397,647
<i>Total comprehensive income for the year-Profit for the year ended 30 June 2009</i>	-	-	374,809	374,809	374,809
<i>Transactions with owners recorded directly in equity - distributions</i>					
Final dividend for 2007 - 2008	-	-	(124,888)	(124,888)	(124,888)
Bonus shares issued - 2008	166,518	-	(166,518)	(166,518)	-
<i>Total transactions with owners-distribution</i>	166,518	-	(291,406)	(291,406)	(124,888)
Transferred to general reserves	-	275,000	(275,000)	-	-
Transfer from surplus on revaluation of property, plant and equipment - net of deferred tax	-	-	12,737	12,737	12,737
<b>Balance as at 30 June 2009</b>	999,105	1,272,854	388,346	1,661,200	2,660,305
<i>Total comprehensive income for the year-Profit for the year ended 30 June 2010</i>	-	-	1,026,271	1,026,271	1,026,271
<i>Transactions with owners recorded directly in equity - distributions</i>					
Final dividend for 2008 - 2009	-	-	(224,799)	(224,799)	(224,799)
Interim dividend for 2009 - 2010	-	-	(149,866)	(149,866)	(149,866)
<i>Total transactions with owners-distribution</i>	-	-	(374,665)	(374,665)	(374,665)
Transferred to general reserves	-	150,000	(150,000)	-	-
Transfer from surplus on revaluation of property, plant and equipment - net of deferred tax	-	-	11,690	11,690	11,690
<b>Balance as at 30 June 2010</b>	<b>999,105</b>	<b>1,422,854</b>	<b>901,642</b>	<b>2,324,496</b>	<b>3,323,601</b>

The annexed notes 1 to 42 form an integral part of these financial statements.



**Fuad Azim Hashimi**  
 Director & Chairman  
 Board Audit Committee



**Asad A. Siddiqui**  
 Chief Financial  
 Officer



**Towfiq H. Chinoy**  
 Managing Director &  
 Chief Executive

# International Industries Limited

## Notes to the Financial Statements

*For the year ended 30 June 2010*

### **1. STATUS AND NATURE OF BUSINESS**

International Industries Limited ("the Company") was incorporated in Pakistan in 1948 and is quoted on the Karachi, Lahore and Islamabad Stock Exchanges in Pakistan. The Company is in the business of manufacturing and marketing of galvanized steel pipes, precision steel tubes, API line pipes and polyethylene pipes. The registered office of the Company is situated at 101, Beaumont Plaza, 10, Beaumont Road Karachi - 75530.

### **2. BASIS OF PREPARATION**

#### **2.1 Statement of compliance**

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions of, or directives issued under the Companies Ordinance, 1984 shall prevail.

#### **2.2 Basis of measurement**

These financial statements have been prepared under the historical cost convention except that the land and buildings are stated at revalued amounts and investment in associate on equity basis.

#### **2.3 Functional and presentation currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Pakistani Rupees, which is also the Company's functional currency.

#### **2.4 Use of estimates and judgments**

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amount of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates underlying the assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgments made by the management in the application of approved accounting standards, as applicable in Pakistan, that have significant effect on the financial statements and estimates with significant risk of material judgment in the next year are discussed in note 40 to these financial statements.



## 2.5 Changes in accounting policies

Starting 1 July 2009, the Company has changed its accounting policies in the following areas:

- "Revised IAS 1 Presentation of Financial Statements (2007)" became effective from 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and the statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated balance sheet as at the beginning of comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Company has opted to present two statements; a profit and loss account and a statement of comprehensive income.
- IFRS 8 - Operating Segments (effective from January 1, 2009). This standard requires the Company to determine and present operating segments based on the information that is provided internally to the Company's Chief Operating Decision Maker, that is, the organisation's function which allocates resources to and assesses performance of its operating segments. Management has determined that the Company has a single reportable segment and therefore the adoption of the said IFRS has only resulted in some entity wide disclosures as described in note 39.

Comparative information has been re-presented so that it is in conformity with the revised / new standards. Since the change in accounting policies only affect presentation / disclosures of financial statements, there is no impact on profit for the year and earnings per share.

## 2.6 Other accounting developments

### *Disclosures pertaining to fair values and liquidity risk for financial instruments*

The Company has applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7), issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorized as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reasons therefore, are required to be disclosed for each class of financial instruments. However, the Company does not have any items to report under these levels.

Further, the definition of liquidity risk has been amended and it is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The amendments require disclosure of a maturity analysis for non-derivative and derivative financial liabilities, but contractual maturities are required to be disclosed for derivative financial liabilities only when contractual maturities are essential for an understanding of the timing of cash flows. For issued financial guarantee contracts, the amendments require the maximum amount of the guarantee to be disclosed in the earliest period in which the guarantee could be called.

Apart from above certain other standards, amendments to published standards and interpretations of accounting standards became effective during the year, however, they do not affect the Company's financial statements.

## 2.7 Standards, Interpretations and Amendments not yet effective

The following standards, interpretations and amendments of approved accounting standards are effective for accounting periods beginning on or after 1 January 2010.

- Improvements to IFRSs 2009 – Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that the required disclosures for non-current assets (or disposal groups) classified as held for sale or discontinued operations are specified in IFRS 5. These amendments are unlikely to have an impact on the Company's financial statements.
- Improvements to IFRSs 2009 – Amendments to IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that segment information with respect to total assets is required only if such information is regularly reported to the chief operating decision maker. The amendment is unlikely to have an impact on Company's financial statements.
- Improvements to IFRSs 2009 – Amendments to IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that the classification of the liability component of a convertible instrument as current or non-current is not affected by terms that could, at the option of the holder of the instrument, result in settlement of the liability by the issue of equity instruments. These amendments are unlikely to have an impact on the Company's financial statements.
- Improvements to IFRSs 2009 – Amendments to IAS 7 Statement of Cash Flows (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that only expenditures that result in the recognition of an asset can be classified as a cash flow from investing activities. These amendments are unlikely to have a significant impact on the Company's financial statements.
- Improvements to IFRSs 2009 – Amendments to IAS 17 Leases (effective for annual periods beginning on or after 1 January 2010). The IASB deleted guidance stating that a lease of land with an indefinite economic life normally is classified as an operating lease, unless at the end of the lease term title is expected to pass to the lessee. The amendments clarify that when a lease includes both the land and building elements, an entity should determine the classification of each element based on paragraphs 7 – 13 of IAS 17, taking account of the fact that land normally has an indefinite economic life. The amendment is unlikely to have an impact on Company's financial statements.
- Improvements to IFRSs 2009 – Amendments to IAS 36 Impairment of Assets (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that the largest unit to which goodwill should be allocated is the operating segment level as defined in IFRS 8 before applying the aggregation criteria of IFRS 8. The amendments apply prospectively. The amendment is not relevant to the Company's operations.
- Improvements to IFRSs 2009 – Amendments to IAS 39 Financial Instruments: Recognition and Measurement (effective for annual periods beginning on or after 1 January 2010). The amendments provide additional guidance on determining whether loan prepayment penalties result in an embedded derivative that needs to be separated; clarify that the scope exemption in IAS 39 paragraph 2(g) is restricted to forward contracts, i.e. not options, between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date within a reasonable period normally necessary to obtain any required approvals and to complete the transaction; and clarify that the gains or losses on a cash flow hedge should be reclassified from other comprehensive income to profit or loss during the period that the hedged forecast cash flows impact profit or loss. The amendments apply prospectively to all unexpired contracts from the date of adoption. These amendments are unlikely to have an impact on the Company's financial statements.

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010). The IASB provided additional optional exemptions for first-time adopters of IFRSs that will permit entities not to reassess the determination of whether an arrangement contains a lease if the same assessment as that required by IFRIC 4 was made under previous GAAP; and allow entities in the oil and gas industry to use their previous GAAP carrying amounts as deemed cost at the date of transition for oil and gas assets. The amendment is not relevant to the Company's operations.
- Amendment to IFRS 2 – Share-based Payment – Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010). Amendment provides guidance on the accounting for share based payment transactions among group entities. The amendment is not relevant to the Company's operations.
- Amendments to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 1 January 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. These amendments are unlikely to have an impact on the Company's financial statements.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for accounting periods beginning on or after 1 July 2010). This interpretation provides guidance on the accounting for debt for equity swaps. The amendment is not relevant to the Company's operations.
- Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for accounting periods beginning on or after 1 July 2010). The amendment provides the same relief to first-time adopters as was given to current users of IFRSs upon adoption of the Amendments to IFRS 7. The amendment also clarifies the transitional provisions of the Amendments to IFRS 7. The amendment is not relevant to the Company's operations.

Improvements to IFRSs 2010 (effective for annual periods beginning on or after 1 July 2010). The IASB issued amendments to various standards effective. Below is a summary of the amendments that are effective for either annual periods beginning on or after 1 July 2010 or annual periods beginning on or after 1 January 2011.

- Improvements to IFRSs 2010 – Amendments to IFRS 3 Business Combinations (effective for accounting periods beginning on or after 1 July 2010). The amendments clarify that contingent consideration arising in a business combination previously accounted for in accordance with IFRS 3 (2004) that remains outstanding at the adoption date of IFRS 3 (2008) continues to be accounted for in accordance with IFRS 3 (2004); limit the accounting policy choice to measure non-controlling interests upon initial recognition at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets to instruments that give rise to a present ownership interest and that currently entitle the holder to a share of net assets in the event of liquidation; and expand the current guidance on the attribution of the market-based measure of an acquirer's share-based payment awards issued in exchange for acquiree awards between consideration transferred and post-combination compensation cost when an acquirer is obliged to replace the acquiree's existing awards to encompass voluntarily replaced unexpired acquiree awards. These amendments are unlikely to have an impact on the Company's financial statements.

- Improvements to IFRSs 2010 – Amendments to IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2010). The amendments clarify that the consequential amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 and IAS 31 resulting from IAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering. These amendments are unlikely to have an impact on the Company's financial statements.
- IAS 24 Related Party Disclosures (revised 2009) (effective for accounting periods beginning on or after 1 January 2011). The revised IAS 24 Related Party Disclosures amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. These amendments are unlikely to have an impact on the Company's financial statements other than increase in disclosures.
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for accounting periods beginning on or after 1 January 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. These amendments are unlikely to have an impact on the Company's financial statements.
- Improvements to IFRSs 2010 – IFRS 1 First-time Adoption of IFRSs (effective for accounting periods beginning on or after 1 January 2011). The amendments clarify that IAS 8 is not applicable to changes in accounting policies occurring during the period covered by an entity's first IFRS financial statements; introduce guidance for entities that publish interim financial information under IAS 34 Interim Financial Reporting and change either their accounting policies or use of the IFRS 1 exemptions during the period covered by their first IFRS financial statements; extend the scope of paragraph D8 of IFRS 1 so that an entity is permitted to use an event-driven fair value measurement as deemed cost for some or all of its assets when such revaluation occurred during the reporting periods covered by its first IFRS financial statements; and introduce an additional optional deemed cost exemption for entities to use the carrying amounts under previous GAAP as deemed cost at the date of transition to IFRSs for items of property, plant and equipment or intangible assets used in certain rate-regulated activities. The amendment is not relevant to the Company's operations.
- Improvements to IFRSs 2010 – IFRS 7 Financial Instruments: Disclosures (effective for accounting periods beginning on or after 1 January 2011). The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements. These amendments would result in increase in disclosures in the financial statements of the Company.
- Improvements to IFRSs 2010 – IAS 1 Presentation of Financial Statements (effective for accounting periods beginning on or after 1 January 2011). The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income is also required to be presented, but may be presented either in the statement of changes in equity or in the notes. The amendment is not likely to have an impact on Company's financial statements other than increase in disclosure.
- Improvements to IFRSs 2010 – IAS 34 Interim Financial Reporting (effective for accounting periods beginning on or after 1 January 2011). The amendments add examples to the list of events or transactions that require disclosure under IAS 34 and remove references to materiality in IAS 34 that describes other minimum disclosures. The amendment is not likely to have an impact on Company's financial statements other than increase in disclosure.

- Improvements to IFRSs 2010 – IFRIC 13 Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 January 2011). The amendments clarify that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. The amendment is not relevant for the Company's operation.

### **3. SUMMARY OF 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 except as explained in note 2.5.

#### **3.1 Property, plant and equipment**

Property, plant and equipment (except freehold and leasehold land and buildings) are stated at cost less accumulated depreciation and impairment losses, if any. Freehold and leasehold land are stated at revalued amounts and buildings on freehold and leasehold land are stated at revalued amounts less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and its cost can be reliably measured. Cost incurred to replace a component of an item of property, plant and equipment is capitalized and the asset so replaced is retired from use. Normal repairs and maintenance are charged to the profit and loss account during the period in which they are incurred.

Depreciation is charged on buildings and plant and machinery on diminishing balance method except for certain buildings and plant and machinery on which depreciation is charged on straight line method. Depreciation on furniture, fixture and office equipment and vehicles is charged on straight line method. The rates of depreciation are indicated in note 4.1.

Depreciation on additions to buildings and plant and machinery, furniture, fixture and office equipment and vehicles is charged from the month the asset is available for use upto the month prior to disposal.

Depreciation methods, useful lives and residual values of each part of property, plant and equipment that is significant in relation to the total cost of the asset are reviewed, and adjusted if appropriate, at each balance sheet date.

Surplus on revaluation of land and buildings is credited to the surplus on revaluation account. Revaluation is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from the fair value. To the extent of the incremental depreciation charged on the revalued assets, the related surplus on revaluation of property, plant and equipment (net of deferred taxation) is transferred directly to retained earnings / unappropriated profit.

Gains and losses on disposal of assets are taken to the profit and loss account, and the related surplus on revaluation of property, plant and equipment, if any, is transferred directly to retained earnings / unappropriated profits.

Capital work in progress is stated at cost less impairment loss, if any and consists of expenditure incurred and advances made in the course of their construction and installation. Transfers are made to relevant asset category as and when assets are available for intended use.

### **3.2 Intangible assets**

An intangible asset is recognized as an asset if it is probable that future economic benefits attributable to the asset will flow to the entity and the cost of such asset can be measured reliably.

Costs directly associated with identifiable software that will have probable economic benefits exceeding costs beyond one year, are recognized as an intangible asset. Direct costs include the purchase costs of software and other directly attributable costs of preparing the software for its intended use.

Computer software is measured initially at cost and subsequently stated at cost less accumulated amortization and impairment losses, if any. These are amortized on straight line basis over its estimated useful life (three years).

### **3.3 Investment in an associated company - equity method**

Investment in associated companies where the Company has significant influence but not control over the financial and operating policies is accounted for using equity basis of accounting under which the investment in associate is initially recognized at cost and the carrying amounts are increased or decreased to recognise the Company's share of profit or loss for the associate after the date of acquisition, less impairment losses, if any. The Company's share of profit or loss of the associate is recognized in the Company's profit and loss. Distributions received from associate reduce the carrying amount of the investment. Adjustments to the carrying amounts are also made for changes in the Company's proportionate interest in the associate arising from changes in the associate's equity that have not been recognized in the associate's profit and loss. The Company's share of those changes is recognized directly in equity of the Company.

Gain / (loss) on sales of above investments, if any, are recognized in the period of sale. The carrying amount of the investment is tested for impairment, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount and loss, if any is recognized in profit and loss account.

### **3.4 Borrowings and their costs**

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

### **3.5 Stores and spares**

Stores and spares are stated at lower of cost and net realisable value less impairment loss, if any. Cost is determined using weighted average method.

### **3.6 Stock-in-trade**

These are valued at lower of cost and net realisable value less impairment loss, if any. Cost is determined under the weighted average basis. Cost comprises all costs of purchases, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value signifies the estimated selling price in the ordinary course of the business less net estimated cost of completion and selling expenses.

Scrap is valued at estimated realisable value.

### **3.7 Trade debts and other receivables**

Trade debts and other receivables are recognized initially at fair value and subsequently measured at amortized cost less provision for impairment, if any. A provision for impairment is established when there is an objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Trade debts and other receivables considered irrecoverable are written off.

### **3.8 Derivative financial instruments**

Derivatives that do not qualify for hedge accounting are recognized in the balance sheet at estimated fair value with corresponding effect to profit and loss. Derivative financial instruments are carried as assets when fair value is positive and liabilities when fair value is negative.

### **3.9 Cash and cash equivalents**

Cash and cash equivalents for cash flow purposes include cash in hand, current and deposit accounts held with banks. Short term borrowings availed by the Company, which are payable on demand and form an integral part of the Company's cash management are included as part of cash and cash equivalents for the purpose of statement of cash flows.

### **3.10 Taxation**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the profit and loss account, except to the extent that it relates to items recognized directly in comprehensive income or below equity, in which case it is recognized in comprehensive income or below equity respectively.

#### *Current*

Provisions for current taxation is based on taxability of certain income streams of the Company under presumptive / final tax regime at the applicable tax rates and remaining income streams chargeable at current rate of taxation under the normal tax regime after taking into account tax credits and tax rebates available, if any.

#### *Deferred tax*

Deferred tax is recognized using balance sheet liability method, providing for temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using the tax rates enacted or substantively enacted at the balance sheet date.

The Company recognizes a deferred tax asset to the extent that it is probable that taxable profits for the foreseeable future will be available against which the assets can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Further, the Company also recognizes deferred tax asset / liability on deficit / surplus on revaluation of property, plant and equipment which is adjusted against the related deficit / surplus.

### **3.11 Staff retirement benefits**

#### *Defined benefit plan*

The Company operates an approved funded gratuity scheme (the plan) for all employees of the Company. Company's obligation under the scheme is determined through actuarial valuations carried out under the "Projected Unit Credit Method". Actuarial valuations are carried out annually and the latest valuation was conducted at the balance sheet date.

Net cumulative unrecognized actuarial gains / losses relating to previous reporting periods in excess of the higher of 10% of present value of defined benefit obligation or 10% of the fair value of plan assets are recognized as income or expense over the estimated remaining working lives of the employees.

#### *Defined contribution plan*

The Company operates a recognized provident fund for all employees of the Company except unionized staff. Equal contributions are made, both by the Company and the employees, to the fund at the rate of 8.33% of basic salary and cost of living allowance and the same is charged to the profit and loss account.

#### *Compensated absences*

The liability for accumulated compensated absences of employees is recognized in the period in which employees render service that increases their entitlement to future compensated absences.

### **3.12 Trade and other payables**

Trade and other payables are recognized initially at fair value plus directly attributable cost, if any, and subsequently measured at amortized cost.

### **3.13 Foreign currency translation**

Transactions in foreign currencies are translated into Pak rupees at the rates of exchange approximating those prevailing on the date of transactions. Monetary assets and liabilities in foreign currencies are translated into Pak rupees at the rates of exchange ruling on the balance sheet date.

Exchange differences are included in the profit and loss account currently.

### **3.14 Revenue recognition**

- Domestic sales are recognized as revenue when invoiced with the transfer of significant risks and rewards of ownership, which coincides with delivery.
- Export sales are recognized as revenue when invoiced with the transfer of significant risks and rewards of ownership, which coincides with date of shipping bill.
- Interest income is recognized on a time-apportioned basis using the effective rate of return.
- Dividend income is recognized when the right to receive payment is established.
- Revenue from power generation plant is recognized on transmission of electricity to Karachi Electric Supply Company Limited (KESC).
- Service income is recognized when services are rendered.

### **3.15 Financial instruments**

All financial assets and liabilities are initially measured at fair value, and subsequently measured at fair value or amortized cost as the case may be. The Company derecognizes the financial assets and financial liabilities when it ceases to be a party to such contractual provisions of the instruments.



### **3.16 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 legally enforceable right to set-off the recognized amounts and the Company intends either to settle on a net basis or to realize the assets and to settle the liabilities simultaneously.

### **3.17 Impairment**

#### **Financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

#### **Non-Financial assets**

The carrying amounts of non-financial assets other than inventories and deferred tax asset, are assessed at each reporting date to ascertain whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognized, as an expense in the profit and loss account, for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. Value in use is ascertained through discounting of the estimated future cash flows using a discount rate that reflects current market assessments of the time value of money and the risk specific to the assets. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### **3.18 Financial expense**

Financial expenses are recognized using the effective interest rate method and comprise foreign currency losses and interest expense on borrowings.

### **3.19 Provisions**

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provisions are measured at the present value of expected expenditure, discounted at a pre tax rate that reflects current market assessment of the time value of money and the risk specific to the obligation. However, provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

### **3.20 Dividend and appropriation to / from reserves**

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

#### 4. PROPERTY, PLANT AND EQUIPMENT

		2010	2009
		(Rupees in '000)	
Operating assets	4.1 & 4.4	3,849,399	3,987,224
Capital work-in-progress	4.2 & 4.4	6,041,888	1,946,855
Stores and spares held for capital expenditure	4.3	13,614	52,638
		<b>9,904,901</b>	<b>5,986,717</b>

##### 4.1 Operating assets

	2010								Net book value as at 30 June 2010	Rate %
	Cost / revalued				Depreciation					
	As at 01 July 2009	Additions (note 4.2)	(Disposals)	As at 30 June 2010	As at 01 July 2009	For the year	Disposal	As at 30 June 2010		
	(Rupees in '000)									
Freehold land-revalued	1,105,737	-	-	1,105,737	-	-	-	-	1,105,737	-
Leasehold land-revalued	917,830	-	-	917,830	-	-	-	-	917,830	-
Building on freehold land-revalued	52,916	-	-	52,916	8,664	1,600	-	10,264	42,652	10
Building on leasehold land-revalued	492,615	1,288	-	493,903	60,792	40,897	-	101,689	392,214	5 - 50
Plant and machinery	2,635,932	40,008	(3,185)	2,672,755	1,192,261	165,949	(3,185)	1,355,025	1,317,730	10 - 50
Furniture, fixtures and office equipment	50,873	11,700	(1,838)	60,735	34,733	7,018	(1,838)	39,913	20,822	10-33.3
Vehicles	60,003	37,602	(11,512)	86,093	32,232	12,151	(10,704)	33,679	52,414	20
	<b>5,315,906</b>	<b>90,598</b>	<b>(16,535)</b>	<b>5,389,969</b>	<b>1,328,682</b>	<b>227,615</b>	<b>-</b>	<b>1,540,570</b>	<b>3,849,399</b>	
							<b>(15,727)</b>			

	2009								Net book value as at 30 June 2009	Rate %
	Cost / revalued				Depreciation					
	As at 01 July 2008	Additions	(Disposals)	As at 30 June 2009	As at 01 July 2008	For the year	Disposal	As at 30 June 2009		
	(Rupees in '000)									
Freehold land-revalued	1,105,737	-	-	1,105,737	-	-	-	-	1,105,737	-
Leasehold land-revalued	917,830	-	-	917,830	-	-	-	-	917,830	-
Building on freehold land-revalued	52,916	-	-	52,916	1,843	6,821	-	8,664	44,252	10
Building on leasehold land-revalued	477,549	15,066	-	492,615	21,829	38,963	-	60,792	431,823	5 - 50
Plant and machinery	2,430,522	209,777	(4,367)	2,635,932	1,027,838	168,407	(3,984)	1,192,261	1,443,671	10 - 50
Furniture, fixtures and office equipment	40,158	11,287	(572)	50,873	30,711	4,594	(572)	34,733	16,140	10-33.3
Vehicles	49,158	18,729	(7,884)	60,003	28,337	9,039	(5,144)	32,232	27,771	20
	<b>5,073,870</b>	<b>254,859</b>	<b>(12,823)</b>	<b>5,315,906</b>	<b>1,110,558</b>	<b>227,824</b>	<b>(9,700)</b>	<b>1,328,682</b>	<b>3,987,224</b>	

##### 4.2 Capital work-in-progress

	Cost			As at 30 June 2010
	As at 01 July 2009	Additions	(Transfers)	
	(Rupees in '000)			
Land	-	27,200	-	27,200
Buildings	465,386	332,344	(1,288)	796,442
Plant and machinery	1,480,608	3,773,544	(40,008)	5,214,144
Furniture, fixtures and office equipment	861	14,941	(11,700)	4,102
Vehicles	-	37,602	(37,602)	-
	<b>1,946,855</b>	<b>4,185,631</b>	<b>(90,598)</b>	<b>6,041,888</b>

##### 4.3 Stores and spares held for capital expenditure

	Cost			As at 30 June 2010
	As at 01 July 2009	Additions	(Transfers)	
	(Rupees in '000)			
In store	52,582	-	(38,968)	13,614
In transit	56	-	(56)	-
	<b>52,638</b>	<b>-</b>	<b>(39,024)</b>	<b>13,614</b>

4.4 Property, plant and equipment includes Rs.6,887.795 million (2009: Rs. 3,424.031 million) relating to the new Galvanising Plant and Cold Rolling Mills. It includes land amounting to Rs. 861.207 million (2009: Rs. 834.007 million), building Rs.772.954 million (2009: Rs. 509.822 million), plant and machinery Rs. 5,208.196 million (2009: Rs. 2,039.584 million), furniture, fixture, office equipment and vehicles Rs.26.328 million (2009: Rs.5.100 million) and stores and spares Rs.19.110 million (2009: Rs.35.518 million). Refer note 38.

4.5 Details of property, plant and equipment disposed off / scrapped during the year are:

	Original cost	Accumulated depreciation	Book value	Proceeds	Mode of disposal	Purchaser
------(Rupees in '000)-----						
<b>Plant and machinery</b>						
Book value less than Rs.50,000 each	3,185	3,185	-	282	Negotiation	Various
<b>Furniture, fixtures and office equipment</b>						
Various items of book value upto Rs.50,000 each	1,838	1,838	-	24	Negotiation	Various
<b>Vehicles</b>						
Honda City Manual	901	615	286	780	Insurance Claim	M/s. New Jubilee Insurance Co.
Suzuki Mehran VX	403	-	403	403	Insurance Claim	M/s. New Jubilee Insurance Co.
Various vehicles of book value upto Rs.50,000 each	10,208	10,089	119	4,071	Negotiation	Various
	11,512	10,704	808	5,254		
	<b>16,535</b>	<b>15,727</b>	<b>808</b>	<b>5,560</b>		

4.6 The depreciation charge for the year has been allocated as follows:

	Note	2010	2009
(Rupees in '000)			
Cost of sales	23	165,055	167,208
Selling and distribution expenses	24	2,604	3,727
Administrative expenses	25	10,043	9,734
Income from power generation	28.2	47,097	45,731
Capital work in progress		2,816	1,424
		<b>227,615</b>	<b>227,824</b>

4.7 The latest revaluation was carried out under market value basis by an independent valuer, M/s. Iqbal A.Nanji & Co., Karachi, resulting in a surplus of Rs. 913.786 million, over book values as detailed in note 16. This has been credited to surplus on revaluation of property, plant and equipment.

Freehold land, leasehold land and buildings represent values subsequent to revaluations as at 30 June 1988, 30 June 1997, 30 June 2000, 30 June 2004 and last revaluation was conducted on 31 December 2007. Had there been no revaluation, the values of specific classes of property, plant and equipment would have been amounted to:

	Cost	Book value
(Rupees in '000)		
Leasehold land	187,645	187,645
Freehold land	621,302	621,302
Buildings	427,567	223,941
As at 30 June 2010	<b>1,236,514</b>	<b>1,032,888</b>
As at 30 June 2009	<b>1,235,226</b>	<b>1,057,813</b>

4.8 Borrowing costs capitalised during the year in the capital work-in-progress relating to Galvanising Plant and Cold Rolling Mills amounted to Rs. 265.565 million (2009: Rs. 80.187 million). Borrowing costs were relating to both specific and general borrowings and were capitalised at the rate of 6.90% per annum (2009 : Ranging from 11.02% to 16.06%).

5. INTANGIBLE ASSETS

	Note	2010	2009
(Rupees in '000)			
Computer software and license	5.1	<b>11,801</b>	17,959

## 5.1 Computer software and license

	2010						Net Book value as at 30 June 2010	Rate %
	Cost			Amortisation				
	As at 01 July 2009	Additions	As at 30 June 2010	As at 01 July 2009	For the year	As at 30 June 2010		
------(Rupees in '000)-----								
Computer software and license	32,087	-	32,087	14,128	6,158	20,286	11,801	33.3

	2009						Net Book value as at 30 June 2009	Rate %
	Cost			Amortisation				
	As at 01 July 2008	Additions	As at 30 June 2009	As at 01 July 2008	For the year	As at 30 June 2009		
------(Rupees in '000)-----								
Computer software and license	13,615	18,472	32,087	11,865	2,263	14,128	17,959	33.3

## 5.2 The amortisation expense for the year has been allocated as follows:

	2010	2009
	(Rupees in '000)	
Cost of sales	23	3,079
Selling and distribution expenses	24	1,848
Administrative expenses	25	1,231
	6,158	2,263

## 6. INVESTMENT IN AN ASSOCIATED COMPANY - equity accounted for

	2010
	(Rupees in '000)
Investment made during the year	105,902
Gain on acquisition of investment in an associated company (note 28)	15,195
Share of profit from an associated company	4,755
	125,852

This represents investment in Pakistan Cables Limited incorporated in Pakistan. The Company has invested in 1,929,828 shares of the associate and holds 8.99 per cent of total share capital. The Chief Executive Officer of this company is Mr. Kamal A. Chinoy. The market value as at 30 June 2010 was Rs. 104.269 million. The share of profit after acquisition is recognised based on unaudited financial statements for the year ended 30 June 2010. The summarised financial information of the associated company based on financial statements for the year ended 30 June 2010 is as follows:

## 6.1 Summarised financial information of associated company

	30 June 2010	30 June 2009
	(Unaudited)	(Audited)
	(Rupees in '000)	
Assets	3,640,949	3,007,734
Liabilities	2,241,291	1,605,292
	4,497,510	3,941,372
Total revenue		
Profit after tax	45,506	63,921

6.2 The management believes that there would be no significant changes in the financial information stated above from the audited financial position / results of the associated company.

<b>7. STORES AND SPARES</b>	<b>2010</b>	<b>2009</b>
	<b>(Rupees in '000)</b>	
Stores	<b>26,321</b>	27,566
Spares	<b>102,583</b>	96,117
Stores and spares in transit	-	6,387
Loose tools	<b>1,643</b>	624
	<u><b>130,547</b></u>	<u>130,694</u>
<b>8. STOCK-IN-TRADE</b>		
Raw material - in hand	<b>2,735,020</b>	889,087
- at Unit - II	<b>798,801</b>	-
- in transit	<b>716,353</b>	541,378
	<u><b>4,250,174</b></u>	<u>1,430,465</u>
 Work-in-process	 <b>422,027</b>	 283,399
Finished goods	<b>1,382,654</b>	506,264
Write down of inventory to net realisable value	<b>-</b>	(14,766)
	<u><b>1,382,654</b></u>	<u>491,498</u>
 By-products	 <b>53,999</b>	 20,480
Scrap material	<b>5,552</b>	3,125
	<u><b>6,114,406</b></u>	<u>2,228,967</u>
<b>9. TRADE DEBTS</b>		
Considered good - secured	<b>232,249</b>	92,606
- unsecured	<b>1,346,863</b>	991,384
	<u><b>1,579,112</b></u>	<u>1,083,990</u>
Considered doubtful	<b>33,440</b>	5,720
	<u><b>1,612,552</b></u>	<u>1,089,710</u>
 Provision for doubtful debts	 <b>(33,440)</b>	 (5,720)
	<u><b>1,579,112</b></u>	<u>1,083,990</u>
<b>9.1 Provision for doubtful debts</b>		
Balance as at 1 July	<b>5,720</b>	5,720
Charge for the year	<b>27,720</b>	5,255
Reversals	-	(900)
Write offs	-	(4,355)
Balance as at 30 June	<u><b>33,440</b></u>	<u>5,720</u>

<b>10. LOANS AND ADVANCES</b>	<b>2010</b>	<b>2009</b>
	<b>(Rupees in '000)</b>	
Advances - considered good		
- suppliers	<b>44,469</b>	11,138
- employees	<b>4,863</b>	1,467
	<b>49,332</b>	12,605
	<b>49,332</b>	12,605
<b>11. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS</b>		
Trade deposits	<b>18,351</b>	6,651
Short term prepayments	<b>2,891</b>	11,285
	<b>21,242</b>	17,936
	<b>21,242</b>	17,936
<b>12. OTHER RECEIVABLES - considered good</b>		
Interest income receivable	<b>47</b>	4,473
Sales tax receivable	<b>424,930</b>	80,182
Receivable on transmission of electricity to KESC	<b>254,877</b>	275,758
Others	<b>1,358</b>	1,081
	<b>681,212</b>	361,494
	<b>681,212</b>	361,494
<b>13. TAXATION - net</b>		
Tax receivable as at 1 July	<b>96,637</b>	15,835
Tax payments / adjustments during the year	<b>388,911</b>	162,557
	<b>485,548</b>	178,392
Less: Provision for tax	<b>(373,729)</b>	(81,755)
	<b>111,819</b>	96,637
	<b>111,819</b>	96,637
<b>14. CASH AND BANK BALANCES</b>		
Cash at banks - in current accounts	<b>21,568</b>	18,547
- in profit and loss sharing accounts	-	16,908
- in term deposit receipts	-	1,200,000
	<b>21,568</b>	1,235,455
	<b>21,568</b>	1,235,455
<b>15. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL</b>		
	<b>2010</b>	<b>2009</b>
	<b>(Number of shares)</b>	
<b>6,769,725</b>	6,769,725	Fully paid ordinary shares of Rs. 10 each issued for cash
	<b>67,697</b>	67,697
<b>93,140,791</b>	93,140,791	Fully paid ordinary shares of Rs.10 each issued as bonus shares
<b>99,910,516</b>	<b>99,910,516</b>	<b>931,408</b>
		<b>999,105</b>
		<b>999,105</b>

**15.1** Associated companies held 3,661,779 (2009: 3,097,751) ordinary shares of Rs.10 each at the year end.

**16. SURPLUS ON REVALUATION OF PROPERTY,  
PLANT AND EQUIPMENT**

**2010**                      **2009**  
**(Rupees in '000)**

**Freehold land**

Balance as at 01 July	<b>9,728</b>	9,728
Revaluation surplus over original cost/ book value of Rs. 6.65 million on 31 December 2007	<b>3,667</b>	3,667
Revaluation surplus over original cost/ book value of of Rs.597.29 million on 31 December 2007	<b>463,965</b>	463,965
Revaluation surplus over original cost/ book value of Rs. 6.530 million on 31 December 2007	<b>7,076</b>	7,076
	<b>484,436</b>	484,436

**Leasehold land**

Balance as at 01 July	<b>383,635</b>	383,635
Revaluation surplus over original cost / book value of Rs.571.28 million on 31 December 2007	<b>346,550</b>	346,550
	<b>730,185</b>	730,185

**1,214,621**                      **1,214,621**

**Buildings**

Revaluation surplus over written down value as at 01 July	<b>227,210</b>	244,956
Revaluation surplus over original cost / book value of Rs. 559.052 million on 31 December 2007	-	-
Transferred to retained earnings (Unappropriated profit) in respect of incremental depreciation charged during the year - net of deferred tax	<b>(16,286)</b>	(17,746)
	<b>210,924</b>	227,210

Related deferred tax liability as on 1 July	<b>(63,276)</b>	(68,285)
Tax effect on incremental depreciation transferred to retained earnings	<b>4,596</b>	5,009
Related deferred tax liability as on 30 June	<b>(58,680)</b>	(63,276)

**152,244**                      **163,934**  
**1,366,865**                      **1,378,555**

**17. LONG TERM FINANCING - secured**

Long-term finances utilised under mark-up arrangements	<b>5,713,229</b>	2,423,793
Current portion of long term finances shown under current liabilities	<b>(600,002)</b>	(408,333)
	<b>5,113,227</b>	2,015,460

## 17.1 Long term finances utilised under mark-up arrangements

	Sale price (Rupees in '000)	Purchase price	Number of instalments and commencement date	Date of maturity	Rate of mark-up per annum	2010 (Rupees in '000)	2009
<b>i) Bank Al-Habib Limited</b>							
Local currency assistance of Rs.100 million for plant and machinery	100,000	156,968	8 half yearly 30-06-2006	29-12-2009	1.00 % over 6 months Kibor	-	12,500
<b>ii) MCB Bank Limited</b>							
Local currency assistance of Rs.100 million for plant and machinery	100,000	148,385	8 half yearly 30-12-2006	29-06-2010	1.00 % over 6 months Kibor	-	25,000
<b>iii) United Bank Limited</b>							
Local currency assistance of Rs.200 million for plant and machinery	200,000	310,301	6 half yearly 31-12-2008	30-06-2011	1.00 % over 6 months Kibor	<b>66,667</b>	133,333
<b>iv) Standard Chartered Bank</b>							
Local currency assistance of Rs.200 million for plant and machinery	200,000	270,648	6 half yearly 31-12-2008	30-06-2011	1.00 % over 6 months Kibor	<b>66,665</b>	133,332
<b>v) Bank Al-Habib Limited</b>							
Local currency assistance of Rs.250 million for plant and machinery	250,000	412,586	8 half yearly 31-12-2009	28-06-2013	1.25 % over 6 months Kibor	<b>150,000</b>	200,000
<b>vi) MCB Bank Limited</b>							
Local currency assistance of Rs.750 million for plant and machinery	750,000	1,238,000	8 half yearly 31-12-2009	1-07-2013	1.25 % over 6 months Kibor	<b>562,500</b>	750,000
<b>vii) Syndicated term financing</b>							
Local currency assistance of Rs. 4,000 million for plant and machinery of Cold Rolled Galvanised Sheet Project	4,000,000	9,376,178	16 half yearly 10-03-2011	10-09-2018	1.50% over SBP Refinance rate	<b>3,581,399</b>	1,169,628
<b>viii) Habib Bank Limited</b>							
Bridge Finance	750,000	900,000	04-07-2011	04-07-2011	3 month KIBOR plus 1%	<b>750,000</b>	-
<b>ix) Loan from International Finance Corporation (note 17.2)</b>							
	-	-	-	-	LIBOR plus 2.32%	<b>535,998</b>	-
						<b>5,713,229</b>	<b>2,423,793</b>

**17.1.1** All long term finances except for the syndicated term financing mentioned above, utilised under mark-up arrangements are secured by way of a joint equitable mortgage on all the present and future immovable properties on plot number LX-15 & 16 and HX-7/4, Landhi Industrial Area, Karachi and other assets of the Company, excluding inventories and book debts.

**17.1.2** The syndicated term financing is obtained for plant and machinery of new Galvanising Plant and Cold Rolling Mills Project and is secured by way of mortgage of land located at Survey No. 399-405, Landhi Town, Karachi, joint pari passu charge, joint supplemental memorandum of deposit of title deeds as per the terms of syndicated term financing agreement. Refer note 38.

**17.2** The International Finance Corporation (IFC) has extended a loan amounting to US\$ 6,400,000 (Rs. 535.998 million) to the Company. This loan carries mark up at the rate of LIBOR plus 2.32% per annum and secured by first ranking security interest over the steel project's fixed and immovable assets including the cold rolling mill, metal coating plant located at plot bearing Survey No. 399-405, Landhi Town, Karachi and 18 MW gas fired power plant. This loan is convertible, at the option of IFC and at the time of conversion event, into ordinary shares of International Steels Limited (ISL) at a 20% discount on the premium amount.

This loan is repayable in one year in three consecutive instalments of US\$ 2,133,333 each starting from earlier of 15 December 2010 and Initial Public Offer of ISL. In the event of a public offer for sale not taking place by 15 December 2010, IFC may in its sole discretion allow the loan to be repaid within one year in three consecutive equal instalments of US\$ 2,133,333 each every four months



starting from 15 December 2011 or may agree on receipt of an application in writing for repayment of the loan in sixteen consecutive semi-annual instalments of US\$ 400,000 each beginning on 15 January 2011 or in thirteen consecutive semi-annual instalments of US\$ 457,000 each and final instalment of US\$ 459,000 during the period from 15 January 2012 to 18 July 2018.

The hive down procedure of the net assets relating to steel project of the Company into ISL is detailed in note 38. The Company expects that the hive down process would be completed in near future and accordingly this loan would be settled through conversion into ordinary shares of ISL resultantly there will be no cash outflow from the Company.

## 18. DEFERRED TAXATION - net

Deferred tax liability comprises of (deductible) / taxable temporary differences in respect of the following:

	2010			2009		
	Opening	Charge / (Reversal)	Closing	Opening	Charge / (Reversal)	Closing
------(Rupees in '000)-----						
<b>Taxable temporary difference</b>						
Accelerated tax depreciation	294,194	(29,432)	264,762	283,592	10,602	294,194
Share of profit from associate	-	475	475	-	-	-
<b>Deductible temporary differences</b>						
Provision for doubtful debts	(2,002)	(9,702)	(11,704)	(2,002)	-	(2,002)
Provision for unavailed leaves	(5,700)	(2,070)	(7,770)	(7,343)	1,643	(5,700)
	<b>286,492</b>	<b>(40,729)</b>	<b>245,763</b>	<b>274,247</b>	<b>12,245</b>	<b>286,492</b>

## 19. TRADE AND OTHER PAYABLES

	2010	2009
	(Rupees in '000)	
Trade creditors	155,804	72,671
Accrued expenses	516,067	249,326
Bills payable	-	360,305
Advances from customers	45,450	109,031
Workers' profit participation fund	19.1	5,000
Workers' welfare fund	38,958	9,658
Unclaimed dividend	5,955	5,186
Others	1,833	1,497
	<b>769,067</b>	<b>810,379</b>

### 19.1 Workers' profit participation fund

Balance as at 01 July		2,705	7,948
Interest on funds utilised in the Company's business at 17.50% (2009: 18.75%) per annum	26	40	114
		<b>2,745</b>	8,062
Allocation for the year	27	73,000	25,205
		<b>75,745</b>	33,267
Payments made during the year		(70,745)	(30,562)
Balance as at 30 June		<b>5,000</b>	<b>2,705</b>

<b>20. SHORT TERM BORROWINGS</b>	<b>2010</b>	<b>2009</b>	
	<b>(Rupees in '000)</b>		
Running finance under mark-up arrangement from banks - secured	20.1	484,615	94,646
Short term borrowing under Export Refinance Scheme	20.2	1,545,000	1,345,000
Running finance under FE-25 Export and Import Scheme	20.3	5,086,149	2,068,412
Book overdraft		-	25,036
		<b>7,115,764</b>	<b>3,533,094</b>

**20.1** The facilities for running finance available from various banks amounting to Rs. 1,145 million (2009: Rs. 2,374 million) are secured by way of hypothecation of stock-in-trade and book debts. The rates of mark-up on these finances range from 13.16% to 14.68% per annum (2009: 13.98% to 16.70% per annum). The facility for short term finance mature within twelve months.

**20.2** The Company has also borrowed short term running finance under Export Refinance Scheme of the State Bank of Pakistan. The facility availed is for an amount of Rs. 1,545 million (2009: Rs. 1,345 million). The rate of mark-up on this facility ranges from 8.00% to 8.50% per annum. (2009: 7.50% per annum).

**20.3** The Company has also borrowed short term running finance under Foreign Exchange Circular No.25 dated 20 June 1998 for the purpose of meeting import requirements. The facilities availed is for an amount of USD 59.418 million equivalent to Rs. 5,086.149 million (2009: USD 25.364 million equivalent to Rs.2,068.412 million). The rates of mark-up on these finances range from 1.90% to 2.22% (2009: 2.84% to 3.53%) per annum. These facilities are secured against the first pari passu hypothecation charge over the Company's present and future current assets.

## **21. CONTINGENCIES AND COMMITMENTS**

### **21.1 Contingencies**

**21.1.1** Bank guarantees have been issued under certain supply contracts and to the collector of customs aggregating Rs. 501.945 million (2009: Rs. 259.870 million).

**21.1.2** Custom duties amounting to Rs. 263.738 million (2009: Rs. 101.921 million) on imports of raw material shall be payable by the Company in case of non-fulfilment of certain conditions imposed by the custom authorities under SRO 565 (1) / 2006.

**21.1.3** The Custom authorities have charged redemption fine of Rs. 83 million on clearance of imported raw material consignment. The High Court of Sindh allowed our appeal against this order with the Honourable Supreme Court of Pakistan, the management expects favourable outcome.

**21.1.4** During the year ended 30 June 2009, the Company reversed the provision for the levy of infrastructure fee amounting to Rs. 106.721 million on import of materials recorded upto 28 December 2006. This had been reversed based on the decision of the Honourable Sindh High Court dated 17 September 2008 in which the imposition of levy of infrastructure cess before 28 December 2006 had been declared as void and invalid. However, the Excise and Taxation Department has filed an appeal before the Honourable Supreme Court of Pakistan against the order of the Honourable Sindh High Court. The Company is confident that the decision by Honourable Supreme Court will be in line with Honourable Sindh High Court.

## 21.2 Commitments

- 21.2.1** Capital expenditures commitments outstanding as at 30 June 2010 amounted to Rs. 996.501 million (2009: Rs. 2,834.319 million).
- 21.2.2** Commitments under letters of credit for raw materials and spares as at 30 June 2010 amounted to Rs. 2,367.029 million ( 2009: Rs. 1,491.230 million).
- 21.2.3** Commitments under purchase contract as at 30 June 2010 amounted to Rs. 32.254 million (2009: Rs.572.413 million)
- 21.2.4** The unavailed facilities for opening letters of credit and guarantees from banks as at the year end amounted to Rs. 4,227.120 million (2009: Rs. 2,406.821 million) and Rs. 273.054 million (2009: Rs. 290.007 million) respectively.

## 22. NET SALES

	2010	2009
	(Rupees in '000)	
Local	11,931,505	11,272,984
Export	3,626,785	2,907,002
	<u>15,558,290</u>	<u>14,179,986</u>
Sales tax and special excise duty	<u>(1,690,894)</u>	<u>(1,582,265)</u>
Trade discount	<u>(127,521)</u>	<u>(98,744)</u>
Sales discount and commission	<u>(268,092)</u>	<u>(179,555)</u>
	<u>(2,086,507)</u>	<u>(1,860,564)</u>
	<u>13,471,783</u>	<u>12,319,422</u>

## 23. COST OF SALES

Opening stock of raw material and work-in-process		1,172,486	2,343,888
Purchases		13,747,603	8,929,564
Salaries, wages and benefits		360,517	274,882
Rent, rates and taxes		702	2,133
Electricity, gas and water		196,210	137,032
Insurance		9,019	8,551
Security and janitorial		11,464	11,288
Depreciation and amortisation	4.6 & 5.2	168,134	169,215
Stores and spares consumed		66,778	41,658
Repairs and maintenance		87,722	68,656
Postage, telephone and stationery		9,647	6,327
Vehicle, travel and conveyance		6,017	5,667
Internal material handling		8,464	9,641
Environment controlling expense		2,484	2,094
Sundries		2,399	1,854
(Reversal) / write down of inventory to net realisable value	8	(14,766)	14,766
Recovery of scrap		(518,250)	(344,266)
		<u>15,316,630</u>	<u>11,682,950</u>
Closing stock of raw material and work-in-process		<u>(3,157,047)</u>	<u>(1,172,486)</u>
Cost of goods manufactured		<u>12,159,583</u>	<u>10,510,464</u>
<i>Finished goods and By-product:</i>			
Opening stock		526,744	1,168,553
Closing stock	8	(1,436,653)	(526,744)
		<u>(909,909)</u>	<u>641,809</u>
		<u>11,249,674</u>	<u>11,152,273</u>

<b>24. SELLING AND DISTRIBUTION EXPENSES</b>	<b>2010</b>	<b>2009</b>
	<b>(Rupees in '000)</b>	
Freight and forwarding expense	<b>269,653</b>	234,319
Salaries, wages and benefits	<b>51,876</b>	40,289
Rent, rates and taxes	<b>304</b>	370
Electricity, gas and water	<b>2,878</b>	1,732
Insurance	<b>1,079</b>	219
Depreciation and amortisation	<b>4,452</b>	3,880
Repairs and maintenance	<b>955</b>	516
Advertising and sales promotion	<b>7,608</b>	20,189
Postage, telephone and stationery	<b>5,329</b>	2,716
Office supplies	<b>55</b>	42
Vehicle, travel and conveyance	<b>8,230</b>	6,431
Provision for doubtful debts - net	<b>27,720</b>	4,355
Certification and registration charges	<b>2,074</b>	121
Others	<b>1,806</b>	2,993
	<b>384,019</b>	318,172
<b>25. ADMINISTRATIVE EXPENSES</b>		
Salaries, wages and benefits	<b>85,425</b>	66,415
Rent, rates and taxes	<b>114</b>	168
Electricity, gas and water	<b>3,288</b>	3,550
Insurance	<b>734</b>	171
Depreciation and amortisation	<b>11,274</b>	9,837
Repairs and maintenance	<b>1,846</b>	1,500
Postage, telephone and stationery	<b>7,274</b>	5,260
Office supplies	<b>1,014</b>	256
Vehicle, travel and conveyance	<b>3,434</b>	4,113
Legal and professional charges	<b>11,855</b>	7,315
Certification and registration charges	<b>764</b>	5,493
Others	<b>7,868</b>	4,617
	<b>134,890</b>	108,695
<b>26. FINANCIAL CHARGES</b>		
Mark-up on:		
- long term financing	<b>121,217</b>	178,755
- short term borrowings	<b>121,060</b>	343,948
Interest on workers' profit participation fund	<b>40</b>	114
Bank charges	<b>14,773</b>	12,264
	<b>257,090</b>	535,081

<b>27. OTHER OPERATING CHARGES</b>		<b>2010</b>	2009
		<b>(Rupees in '000)</b>	
Auditors' remuneration	27.1	1,746	1,140
Donations	27.2	25,170	20,000
Workers' profit participation fund	19.1	73,000	25,205
Exchange loss - net		98,076	-
Workers' welfare fund		29,300	10,082
		<u>227,292</u>	<u>56,427</u>
<b>27.1 Auditors' remuneration</b>			
Audit fee		825	750
Half yearly review		215	195
Other services including certifications		625	140
Out of pocket expenses		81	55
		<u>1,746</u>	<u>1,140</u>
<b>27.2 Donations</b>			
<b>27.2.1</b>	Interest of the Directors or their spouses in the donations made during the year is as follows:		
-	Donation of Rs. 0.825 million (2009: Rs. 1.675 million) paid to Pakistan Centre for Philanthropy, Karachi. Mr.Towfiq H.Chinoy, Managing Director & CEO and Mr. Zaffar A.Khan, Director of the Company are on the Board of Trustees of the Centre.		
-	Donation of Rs. 6.250 million (2009: Rs. 0.5 million) paid to Amir Sultan Chinoy Foundation, Karachi. Mr.Riyaz Chinoy, Director of the Company is the Chairman of the Foundation.		
<b>27.2.2</b>	None of the directors or their spouses had any interest in other donees, except that in the case of donation to the Institute of Business Administration, Karachi the sponsored Chair is named after the first Managing Director of International Industries Limited Mr. Amir S. Chinoy.		
<b>28. OTHER OPERATING INCOME</b>			
<b>Income / return on financial assets</b>			
Interest on bank deposits		20,745	11,101
Gain on disposal of available for sale investments		-	2,741
Net unrealised gain on forward contracts	28.1	-	49,412
<b>Income from non-financial assets</b>			
Income from power generation-18MW	28.2 & 28.2.1	29,186	98,045
Income from power generation- 4MW	28.2.2	27,105	3,574
Late payment surcharge	28.3	7,614	12,871
Rent income		788	482
Gain on sale of property, plant and equipment		4,752	3,817
Gain on acquisition of investment in an associated company	6	15,195	-
Others		30,313	31,271
<b>Others</b>			
Reversal of provision for infrastructure cess		-	106,721
		<u>135,698</u>	<u>320,035</u>

**28.1** This includes stock dividend, remeasurement gain / loss taken to profit and loss account on disposal and capital gain / loss on disposal.

**28.2 Income from power generation**

	<b>2010</b>	2009
	<b>(Rupees in '000)</b>	
Net sales	<b>587,608</b>	649,268
<i>Cost of electricity produced:</i>		
Salaries, wages and benefits	<b>(9,711)</b>	(7,238)
Rent, rates and taxes		
Electricity, gas and water	<b>(386,387)</b>	(387,158)
Insurance	<b>(771)</b>	(702)
Security and janitorial	-	-
Depreciation	<b>(47,097)</b>	(45,731)
Stores and spares consumed	<b>(32,717)</b>	(19,923)
Repairs and maintenance	<b>(15,183)</b>	(3,541)
Postage, telephone and stationery	<b>(288)</b>	(397)
Vehicle, travel and conveyance	<b>(152)</b>	(275)
Sundries	<b>(67)</b>	(540)
	<b>(492,373)</b>	(465,505)
Financial charges	<b>(66,049)</b>	(85,718)
Income from power generation	<b><u>29,186</u></b>	<u>98,045</u>

**28.2.1** The Company has electricity power generation facilities at its premises. Currently the Company has excess electricity power which it is selling to the Karachi Electric Supply Company Limited (KESC) under two different agreements. These agreements are valid for period upto 20 years.

**28.2.2** It represent gross billing on account of sale of excess power generation of 4MW plant to KESC.

**28.3** This represents amount charged to KESC as per the agreement for delay in payment on account of sale of electricity.

<b>29. TAXATION</b>	<b>2010</b>	<b>2009</b>
	<b>(Rupees in '000)</b>	
Current		
- for the year	<b>373,729</b>	114,000
- for prior years	<b>-</b>	<b>(32,245)</b>
	<b>373,729</b>	81,755
Deferred	<b>(40,729)</b>	12,245
	<b>333,000</b>	<b>94,000</b>

<b>29.1 Relationship between income tax expense and accounting profit</b>	<b>2010</b>	<b>2009</b>		
	<b>Effective tax rate</b>			
Profit before taxation			<b>1,359,271</b>	468,809
Tax at the enacted tax rate of 35% (2009: 35%)	<b>35.00</b>	35.00	<b>475,745</b>	164,083
Tax effect of permanent differences	<b>0.58</b>	6.38	<b>7,896</b>	29,900
Tax effect on exports under final tax regime	<b>(10.54)</b>	(15.54)	<b>(143,268)</b>	(72,838)
Tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes	<b>(0.57)</b>	0.93	<b>(7,772)</b>	4,370
Effect of change in prior years' tax	<b>0.00</b>	(6.88)	<b>-</b>	(32,245)
Others	<b>0.03</b>	0.16	<b>399</b>	730
Tax effective rate / tax charge	<b>24.50</b>	20.05	<b>333,000</b>	<b>94,000</b>

**29.2** Income tax assessments of the Company have been finalised upto and including the tax year 2008. Income Tax return for the year 2009 has been filed by the Company in December 2009 and is deemed to be assessment order u/s 120 of the Income Tax Ordinance 2001. The Commissioner of Income Tax has selected the case for audit. The required information has been furnished thereafter no notice is received.

**30. EARNINGS PER SHARE - BASIC AND DILUTED**

Profit after taxation for the year		<b>1,026,271</b>	374,809
		<b>(Number)</b>	
Weighted average number of ordinary shares in issue during the year	15	<b>99,910,516</b>	99,910,516
		<b>(Rupees)</b>	
Earnings per share		<b>10.27</b>	3.75

**31. MOVEMENT IN WORKING CAPITAL**

2010                  2009  
(Rupees in '000)

*Decrease / (increase) in current assets:*

Stores and spares	147	(31,020)
Stock-in-trade	(3,885,439)	2,362,601
Trade debts	(522,842)	317,343
Loans and advances	(36,727)	(5,034)
Trade deposits and short term prepayments	(3,306)	(2,955)
Other receivables	(324,144)	(76,916)
	(4,772,311)	2,564,019

*(Decrease) in current liabilities:*

Trade and other payables	(42,081)	(241)
	(4,814,392)	2,563,778

**32. STAFF RETIREMENT BENEFITS****32.1 Provident fund**

Salaries, wages and benefits include Rs. 9.143 million ( 2009: Rs. 7.506 million ) in respect of provident fund contribution.

**32.2 Gratuity fund**

Principal actuarial assumptions used in the actuarial valuation of the scheme carried out under Projected Unit Credit Method as at 30 June 2010 are as follows:

- Discount rate at 12% per annum (2009: 12% per annum).
- Expected rate of return on plan assets at 12% per annum (2009: 12% per annum).
- Expected rate of increase in salary level at 11% per annum (2009: 11% per annum).

The amount recognised in the balance sheet is as follows:

Present value of defined benefit obligation	162,100	124,326
Fair value of plan assets	(133,568)	(109,108)
	28,532	15,218
Unrecognised actuarial loss	(28,532)	(15,218)
Liability as at 30 June	-	-

**Movement in the present value of defined benefit obligation**

Obligation as at 1 July	124,326	106,051
Current service cost	12,645	8,126
Interest cost	14,919	12,726
Actuarial loss	14,545	1,601
Benefits paid	(4,335)	(4,178)
Obligation as at 30 June	162,100	124,326



<b>Movement in the fair value of plan assets</b>	<b>2010</b>	<b>2009</b>
	<b>(Rupees in '000)</b>	
Fair value as at 1 July	<b>109,108</b>	108,001
Expected return on plan assets	<b>13,093</b>	12,960
Net actuarial gain/ (loss)	<b>977</b>	(16,360)
Benefits paid	<b>(4,335)</b>	(4,178)
Contribution to the fund	<b>14,725</b>	8,685
Fair value as at 30 June	<b>133,568</b>	109,108

**Movement in (assets) / liabilities**

Balance as at 1 July	-	793
Expense recognised	<b>14,725</b>	7,892
Payments during the year	<b>(14,725)</b>	(8,685)
Liability as at 30 June	-	-

The amount recognised in the profit and loss account is as follows:

Current service cost	<b>12,645</b>	8,126
Interest cost	<b>14,919</b>	12,726
Expected return on plan assets	<b>(13,093)</b>	(12,960)
Net actuarial gain recognised in the year	<b>254</b>	-
	<b>14,725</b>	7,892

Major categories / composition of plan assets are as follows:

Equity	<b>47%</b>	22%
Debt instruments	<b>49%</b>	28%
Others	<b>4%</b>	50%

Return on plan assets is are as follows:

Expected return on plan assets	<b>13,093</b>	12,960
Net actuarial gain / (loss) on plan assets	<b>977</b>	(16,360)
	<b>14,070</b>	(3,400)

**Historical information**

	<b>2010</b>	2009	2008	2007	2006
	<b>(Rupees in '000)</b>				
Present value of defined benefit obligation	<b>162,100</b>	124,326	106,051	79,317	68,271
Fair value of plan assets	<b>(133,568)</b>	(109,108)	(108,001)	(88,355)	(71,826)
Deficit / (surplus)	<b>28,532</b>	15,218	(1,950)	(9,038)	(3,555)
Unrecognised actuarial (loss) / gains	<b>(28,532)</b>	(15,218)	2,743	9,038	3,555
Liability in balance sheet	-	-	793	-	-
Experience adjustments on plan liabilities	<b>14,545</b>	1,601	14,986	234	10,222
Experience adjustments on plan assets	<b>977</b>	(16,360)	8,709	5,717	3,031

### 33. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	2010				2009			
	Chief Executive	Directors	Executives	Total	Chief Executive	Directors	Executives	Total
	------(Rupees in '000)-----							
Managerial remuneration	19,544	14,216	73,813	107,573	15,632	12,920	57,974	86,526
Retirement benefits	-	1,270	10,093	11,363	-	894	5,671	6,565
Rent, utilities, leave encashment etc.	15,635	11,847	60,390	87,872	9,899	9,553	46,457	65,909
	<b>35,179</b>	<b>27,333</b>	<b>144,296</b>	<b>206,808</b>	<b>25,531</b>	<b>23,367</b>	<b>110,102</b>	<b>159,000</b>
Number of persons	<b>1</b>	<b>2</b>	<b>63</b>	<b>66</b>	<b>1</b>	<b>2</b>	<b>38</b>	<b>41</b>

33.1 In addition to the above, the Chief Executive, Directors and certain Executives are provided with free use of Company maintained vehicles in accordance with the Company's policy .

33.2 Fee paid to non-executive directors is Rs. 1.520 million (2009: Rs. 1.300 million).

### 34. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

#### Financial risk management

The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

#### Risk management framework

The Board meets frequently throughout the year for developing and monitoring the Company's risk management policies. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

#### 34.1 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss, without taking into account the fair value of any collateral. Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economics, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

## Exposure to credit risk

Credit risk arises when changes in economic or industry factors similarly affects Company's of counter parties whose aggregate credit exposure is significant in relation the Company's total credit exposure. Credit risk of the Company arises principally from the trade debts, loans and advances, trade deposits and other receivables. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is as follows:

		2010	2009
		(Rupees in '000)	
Trade debts	34.1.1 to 34.1.3	<b>1,579,112</b>	1,083,990
Loans and advances	34.1.3	<b>4,863</b>	1,467
Trade deposits	34.1.3	<b>18,351</b>	6,651
Other receivables	34.1.1 to 34.1.3	<b>256,282</b>	281,312
Bank balances	34.1.4	<b>21,568</b>	1,235,455
		<b><u>1,880,176</u></b>	<b><u>2,608,875</u></b>

**34.1.1** The maximum exposure to credit risk for trade debts and receivables from KESC amounting to Rs.254.877 million (2009: Rs. 275.758 million), included in other receivable. Trade debts and receivable from KESC at the balance sheet date by geographic region are as follows:

Domestic	<b>1,601,740</b>	1,267,142
Export	<b>232,249</b>	92,606
	<b><u>1,833,989</u></b>	<b><u>1,359,748</u></b>

The majority of export debtors of the Company are situated in Africa, Asia, and Europe.

### 34.1.2 Impairment losses

The aging of trade debtors and receivable from KESC at the balance sheet date was:

	2010		2009	
	Gross	Impairment	Gross	Impairment
	----- (Rupees in '000) -----			
Not past due	<b>1,317,474</b>	-	820,034	-
Past due 1-60 days	<b>328,722</b>	-	369,326	-
Past due 61 days -1 year	<b>187,098</b>	-	157,693	-
More than one year	<b>34,135</b>	<b>33,440</b>	18,415	5,720
Total	<b><u>1,867,429</u></b>	<b><u>33,440</u></b>	<b><u>1,365,468</u></b>	<b><u>5,720</u></b>

**34.1.3** Based on the past experience, consideration of financial position, past track records and recoveries, the Company believes that trade debtors past due upto one year do not require any impairment and no impairment allowance is necessary in respect of remaining portion of past due over one year.

**34.1.4** Bank balances are held only with reputable banks with high quality credit ratings.

## **34.2 Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Company could be required to pay its liabilities earlier than expected or difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company ensures that it has sufficient cash on demand to meet expected working capital requirements. The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

	<b>2010</b>					
	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>Six months or less</b>	<b>Six to twelve months</b>	<b>Two to five years</b>	<b>More than five years</b>
	------(Rupees in '000)-----					
<b>Non-derivative financial liabilities</b>						
Long term financing	5,713,229	(7,989,613)	(443,461)	(1,121,648)	(2,395,722)	(4,028,782)
Trade and other payables	769,067	(769,067)	(769,067)	-	-	-
Short-term borrowings	7,115,764	(7,115,764)	(7,115,764)	-	-	-
	<u>13,598,060</u>	<u>(15,874,444)</u>	<u>(8,328,292)</u>	<u>(1,121,648)</u>	<u>(2,395,722)</u>	<u>(4,028,782)</u>
	<b>2009</b>					
	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>Six months or less</b>	<b>Six to twelve months</b>	<b>Two to five years</b>	<b>More than five years</b>
	------(Rupees in '000)-----					
<b>Non-derivative financial liabilities</b>						
Long term financing	2,423,793	(3,415,615)	(365,941)	(335,734)	(2,018,834)	(695,106)
Trade and other payables	810,379	(810,379)	(810,379)	-	-	-
Short-term borrowings	3,533,094	(3,564,325)	(3,564,325)	-	-	-
	<u>6,767,266</u>	<u>(7,790,319)</u>	<u>(4,740,645)</u>	<u>(335,734)</u>	<u>(2,018,834)</u>	<u>(695,106)</u>

**34.2.1** The contractual cash flows relating to the above financial liabilities have been determined on the basis of mark-up rate effective as at 30 June. The rate of mark-up have been disclosed in note 17.1 and 20 to these financial statements.

### 34.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Company is exposed to currency risk and interest rate risk only.

#### 34.3.1 Currency risk

Exposure to currency risk

The Company is exposed to currency risk on trade debts, borrowings and sales that are denominated in a currency other than the respective functional currency of the Company, primarily U.S. Dollar. The Company's exposure to foreign currency risk is as follows:

	2010		2009	
	Rupees	US Dollars	Rupees	US Dollars
	------(In '000)-----		------(In '000)-----	
Trade debts	232,249	2,720	92,606	1,139
Short term borrowings as FE 25 import / export loans	(5,086,149)	(59,418)	(2,068,412)	(25,364)
Accrued mark-up on FE 25 import / export loans	(20,607)	(241)	(6,916)	(85)
<b>Balance sheet exposure</b>	<b><u>(4,874,507)</u></b>	<b><u>(56,939)</u></b>	<b><u>(1,982,722)</u></b>	<b><u>(24,310)</u></b>

The following significant exchange rates applied during the year:

	2010	2009	2010	2009
	Average rates		Balance sheet date rate	
US Dollars to PKR	83	80	85.40 / 85.60	81.33 / 81.55

#### Sensitivity analysis

A 10 percent strengthening of the Rupee against US Dollar at 30 June would have increased / (decreased) equity and profit and loss account by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

As at 30 June	Profit and loss	
	(Rupees in '000)	
	2010	2009
Effect in US Dollars-gain	<b><u>487,456</u></b>	<b><u>198,272</u></b>

A 10 percent weakening of the Rupees against the above currency at 30 June would have had the equal but opposite effect on the above currency to the amounts shown above, on the basis that all other variables remain constant.

### 34.3.2 Interest rate risk

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

	<u>Carrying amount</u>	
	<u>2010</u>	<u>2009</u>
	<u>(Rupees in '000)</u>	
<b>Fixed rate instruments</b>		
Financial assets	-	1,200,000
Financial liabilities	<u>(1,545,000)</u>	<u>(1,345,000)</u>
	<u><u>(1,545,000)</u></u>	<u><u>(145,000)</u></u>
<b>Variable rate instruments</b>		
Financial liabilities	<u><u>(11,283,993)</u></u>	<u><u>(4,611,887)</u></u>

#### **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 and loss. Therefore a change in interest rates at the reporting date would not affect profit and loss account.

#### **Cash flow sensitivity analysis for variable rate instruments**

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) equity and profit or loss by Rs. 112.840 million (2009: Rs. 46.119 million). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

### 34.4 Fair value of financial assets and liabilities

The carrying values of financial assets and financial liabilities reported in balance sheet approximate their fair values.

## 35. CAPITAL MANAGEMENT

The objective of the Company when managing capital i.e., its shareholders' equity and surplus on revaluation on property, plant and equipment, is to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and to maintain a strong capital base to support the sustained development of its businesses.

The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. As at 30 June 2010, the shareholders' equity amounts to Rs 4,690.466 million (30 June 2009: Rs 4,038.860 million).

### 36. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise associated undertakings, directors of the Company, key management employees and staff retirement funds. The Company continues to have a policy whereby all transactions with related parties undertakings are entered into at commercial terms and conditions. Further, contribution to defined contribution plan (provident fund) are made as per the terms of employment and contribution to the defined benefit plan (gratuity scheme) are in accordance with the actuarial advice. Remuneration of key management personnel are in accordance with their terms of engagements. Details of transactions with related parties, other than those which have been specifically disclosed elsewhere in these financial statements are as follows:

	2010	2009
	(Rupees in '000)	
<b>Associated companies</b>		
Sales	405	108
Purchases	102,974	13,735
Security deposits	-	720
Insurance premium expense	50,053	46,913
Insurance claims received	3,629	6,268
Investments in an associated company	105,902	150,000
Sale of investments	-	149,520
Loss on disposal of available for sale investments	-	(480)
Donations	7,075	2,193
Dividend paid	9,515	3,062
Payable to related parties	3,552	2,350
Receivable from related parties	953	50
Others	1,666	964
<b>Key management personnel</b>		
Remuneration	138,353	119,137
Staff retirement benefits	6,431	4,169
Disposal of vehicles	3,423	1,122
<b>Staff retirement fund</b>		
Contribution paid	23,793	15,398

### 37. PRODUCTION CAPACITY

(Metric tonnes)

The production capacity at the year end was as follows:

Pipe	312,000	312,000
Galvanising	150,000	150,000
Cold rolled steel strip	50,000	50,000
Polyethylene pipe	8,000	8,000

The actual production for the year was:

Pipe	182,144	138,728
Galvanising	92,366	65,030
Cold rolled steel strip	36,768	31,356
Polyethylene pipe	5,181	3,557

The name-plate capacities of the plants are determined based on a certain product mix. The actual production mix is different.

### **38. SEPARATION / (HIVE DOWN) OF STEEL PROJECT UNDERTAKING**

The Board of Directors in its meeting held on 23 July 2009 has approved the Scheme of Arrangement ("the Scheme") for the Reconstruction of International Industries Limited by the separation ("the Hive down") of the Steel Project Undertaking ("the Project"), and the vesting of the Project in International Steels Limited (ISL), which would initially be a substantially wholly owned subsidiary of the Company and eventually at least a 55% owned subsidiary of the Company.

The Project comprises of a Cold Rolling Mill 250,000 tons per annum and a Metal Coating Steel Plant 150,000 tons per annum located at Landhi, Karachi and the 18 MW gas fired power plant already constructed and operational at that plot inclusive of assets and liabilities relating to the Project.

Under the Scheme, assets and liabilities of the Company relating exclusively or primarily to the Project including without limitation, properties of all kinds and by whatever title held and whether movable or immovable or tangible or intangible, and without limiting the generality of the foregoing in particular and relating liabilities including loans, creditors etc. would be transferred to the International Steels Limited in accordance with the Scheme and pursuant to an order of the Court, for which an application has been filed with the Sindh High Court on 13 January 2010.

In consideration of transferring to and vesting the Steel Project Undertaking in ISL, ISL shall issue to the Company its fully paid up ordinary shares at par. The number of shares to be issued will be determined after the Scheme become effective in accordance with its term based on the net assets determined at book value. Net assets as at 30 June 2010 amount to Rs. 5,108.742 million comprises of total assets of Rs.8,880.084 million and total liabilities of Rs.3,771.342 million (30 June 2009: Net assets Rs.2,330.229 million comprises of total assets of Rs.3,731.398 million and total liabilities of Rs.1,401.169 million).

The Scheme has already been approved by 99.998% of the shareholders of the Company present and voting at the Extra Ordinary General Meeting, held on 16 April 2010 under the pursuant to the order dated 9 March 2010 passed by the High Court in Judicial Miscellaneous Application No. 1 of 2010.

The Scheme shall become effective as soon as a certified copy of an order of the High Court under section 284 of the Companies Ordinance, 1984 sanctioning this Scheme is filed with the Registrar of Companies Karachi. The hearing is expected on 12 August 2010.

### **39. OPERATING SEGMENT**

These financial statements have been prepared on the basis of a single reportable segment.

- 39.1** Revenue from sale of pipes represents 98% (2009 : 98%) of the gross sales of the Company.
- 39.2** 77% (2009: 79%) of the gross sales of the Company are made to customers located in Pakistan.
- 39.3** All non-current assets of the Company at 30 June 2010 are located in Pakistan.
- 39.4** One customer of the Company accounts for 7% (2009: 8%) of gross sales of the Company for the year.



## **40. ACCOUNTING ESTIMATES AND JUDGEMENTS**

### **40.1 Income taxes**

In making the estimates for income taxes currently payable by the Company, the management looks at the current income tax law and the decisions of appellate authorities on certain issues in the past.

### **40.2 Staff retirement benefits**

Certain actuarial assumptions have been adopted as disclosed in these financial statements for valuation of present value of defined benefit obligations and fair value of plan assets. Any changes in these assumptions in future years might affect unrecognised gains and losses in those years.

### **40.3 Trade debts and other receivables**

Impairment loss against doubtful trade and other debts is made on a judgemental basis, which provision may differ in the future years based on the actual experience. The difference in provision if any, is recognised in the future period.

### **40.4 Property, plant and equipment**

The Company's management determines the estimated useful lives and related depreciation charge for its plant and equipment. The estimates for revalued amounts of different classes of property, plant and equipment, are based on valuation performed by external professional valuers and recommendation of technical teams of the Company. The said recommendation also include estimates with respect to residual values and depreciable lives. Further, the Company reviews the value of the assets for possible impairment on an annual basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipments with a corresponding affect on the depreciation charge and impairment.

### **40.5 Stock-in-trade and stores and spares**

The Company's management reviews the net realisable value (NRV) and impairment of stock-in-trade and stores and spares to assess any diminution in the respective carrying values and wherever required provision for NRV / impairment is made. The difference in provision, if any, is recognised in the future period.

### **40.6 Investment in an associated company**

The Company determines that a significant or prolonged decline in the fair value of its investment in associate below its cost is an objective evidence of impairment. The impairment loss is recognized when the higher of fair value less cost to sell or value in use exceed the carrying value.

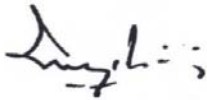
**41. NON - ADJUSTING EVENT AFTER BALANCE SHEET DATE**

**Appropriations**

The Board of Directors in its meeting held on 5 August 2010 has proposed a final cash dividend of Rs.2.50 per share amounting to Rs. 249.776 million (2009: Rs. 2.25 per share final cash dividend amounting to Rs. 224.799 million) 20% bonus shares amounting to Rs. 199.821 million (2009: nil) for for approval of the members at the Annual General Meeting to be held on 16 September 2010. Further the Board of Directors has approved transfer to general reserves amounting to Rs. 400.000 million (2009: Rs. 150 million). The financial statements for the year ended 30 June 2010 do not include the effect of the proposed cash dividends, bonus shares and transfer to general reserves which, will be accounted for in the financial statements for the year ending 30 June 2011.

**42. DATE OF AUTHORISATION FOR ISSUE**

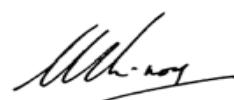
These financial statements were authorised for issue in the meeting of Board of Directors held on 5 August 2010.



**Fuad Azim Hashimi**  
Director & Chairman  
Board Audit Committee



**Asad A. Siddiqui**  
Chief Financial  
Officer



**Towfiq H. Chinoy**  
Managing Director &  
Chief Executive