



Dost Steels Limited

Half Yearly Report
December 31, 2007



Dost Steels Limited

101 Chapal Plaza, Hasrat Mohani Road, Karachi - 74000
UAN: 111-STEELS (783357)
Fax: (92-21) 242-3252
www.doststeels.com

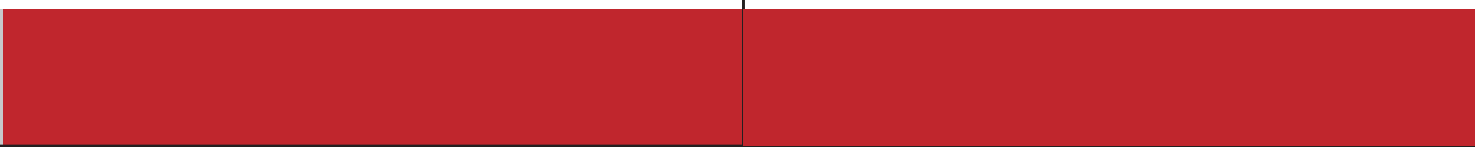
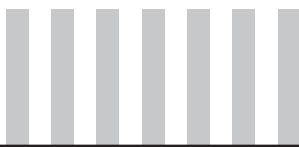


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COMPANY INFORMATION

Board of Directors

Mr. Jamal Iftakhar	Chairman/Chief Executive Officer
Mr. Zahid Iftakhar	Director
Mr. Raees Iftakhar	Director
Mr. Faisal Zahid	Director
Mr. Bilal Zahid	Director
Mr. Hamza Raees	Director
Mr. M. Seraj ul Haque	Director

Audit Committee

Mr. Raees Iftakhar	Chairman of Committee
Mr. Zahid Iftakhar	Member
Mr. M. Seraj ul Haque	Member
Mr. Athar A. Khan	Secretary

Chief Financial Officer

Mr. M. Seraj ul Haque

Company Secretary

Mr. Athar Ali Khan

Bankers

Askari Commercial Bank Limited
Faysal Bank Limited
National Bank of Pakistan
United Bank Limited
ABN Amro Bank Limited

Auditors

Haroon Zakaria & Company
Chartered Accountants

Legal Advisor

M/s. Tax Haven
114-Business Arcade
Shahrah-e-Faisal
Karachi

Shares Registrar

Noble Computer Services (Private) Limited
2nd Floor, Sohni Centre,
BS 5 & 6 Main Karimabad, Block – 4,
Federal 'B' Area, Karachi –75950
Phone Nos. 6801880 – 6802326

Registered/Head Office

101 - Chapal Plaza,
Hasrat Mohani Road,
Karachi – 74000

Mills

Bhai Pheru, 52 Km Lahore
Multan Road,

Web Presence

www.doststeels.com

DIRECTORS' REVIEW

On behalf of the Board of Directors of your Company, I have pleasure to present before your half-yearly financial statement as on 31st December 2007 of your Company duly reviewed by the auditors of the Company.

As estimated earlier in the Directors' Report for the quarter ended 30th September 2007 that your company had sent a team of engineers for training to Italy due to the difficult political conditions prevailing in the country then. I am pleased to inform you that our engineers' have successfully been comprehensively trained for a period of eight weeks by the Italian engineers. I may add here that these engineers on their return have since completed all the erection works and the cold commissioning works which the Italians were initially supposed to do and have made the plant ready for final checking and hot commissioning.

It has already been agreed with our technology and plant suppliers Siemens Vai Metal Technologies srl, ASI Ansaldo srl and Fornie Combustione that the plant has to be commissioned by their Italian Engineers. In this connection it was initially agreed that after the General Election which was scheduled on the 8th January 2008 is over and as soon as the political situation improves the Italian Engineers will be in Pakistan to commission the plant.

As luck would have it, instead of improving the situation, the assassination of Mohtarma Benazir Bhutto the ex-prime minister of Pakistan took place thereby deferring of the general elections for the 18th February 2008, resulted in reluctance of the Italians to come over to Pakistan for further period of more than two months. Therefore the hot commissioning and subsequent commercial production is being delayed adding to the financial overruns which have not been budgeted for.

Your company has also mandated the National Bank of Pakistan and Bank Alfalah Limited for arranging and syndicating a term loan for an amount of PKR.1625 million. This term loan is being availed at a reduced rate of finance and will settle the existing Term loan syndicate availed by the company from Faisal Bank Limited. Furthermore the enhanced term loan will also cover the margin money for working capital requirements of the company to cover for the higher working capital requirements.

In spite of the difficulties as explained above, your management has been making all efforts for hot commissioning of the Plant and as the latest situation has developed; we expect the plant to be operational by the end of the quarter, if every thing goes smoothly as planned. The Italians have agreed to come over to Lahore on two weeks notice for the final checking and subsequent hot commissioning of the plant. The smooth holding of the election without any worthwhile disturbances will definitely boost the moral of the Italian technicians and it will increase their comfort level viz viz the political conditions in Pakistan

I may also add here that your company has recently entered into a long term raw material and finished product transportation agreement with the Pakistan Railway that will yield substantial cost savings to the company. The company plans to carry almost all its Steel Billets by rail to Lahore and to also bring a small portion of its finished bars from Lahore to Karachi by rail in the reverse direction.

ACKNOWLEDGEMENT

The Board of Directors takes this opportunity to thanks to all our project partners, bankers, shareholders, suppliers, insurance companies and specially our staff members for their continuous support to the ongoing bar mill project.

On behalf of the Board of Directors

Jamal Iftakhar
Chief Executive Officer

Karachi : 25th February 2008

INDEPENDENT AUDITOR'S REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS TO THE MEMBERS

Introduction

We have reviewed the accompanying condensed interim balance sheet of DOST STEELS LIMITED as at December 31, 2007, and the related condensed interim profit and loss account, condensed interim cash flow statement and condensed interim statement of changes in equity together with the condensed notes forming part thereof (here-in-after referred to as the "Interim financial statements") for the six month period ended December 31, 2007. Management is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan. Our responsibility is to express a conclusion on this interim financial information based on our review. The figures of the condensed profit and loss account for the quarters ended December 31, 2007 and 2006 have not been reviewed as we are required to review only the cumulative figures for the six months period ended December 31, 2007.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of Company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Conclusion

As stated in note -5 to the financial statements, the company has not charged the expenditures of Rs. 18.893 million, relating to Initial Public Offer of shares, to the profit and loss account. Had the deferred cost not been recognized, loss for the half year would have been increased by aforesaid amount.

Based on our review, except for the matter as stated above, nothing has come to our attention that causes us to believe that the annexed condensed interim financial statements are not presented fairly, in all materials respects, in accordance with approved accounting standards as applicable in Pakistan.

Place: Karachi
Dated: 25 Feb. 2008

HAROON ZAKARIA & COMPANY
CHARTERED ACCOUNTANTS

FINANCIAL STATEMENTS

Half Yearly Report
December 31, 2007



CONDENSED INTERIM BALANCE SHEET (UN-AUDITED) AS AT DECEMBER 31, 2007

	Note	(UN-AUDITED) December 31, 2007 Rupees	(AUDITED) June 30, 2007 Rupees
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipments	4	1,454,846,570	1,291,267,373
Long term security deposits		13,749,445	13,579,445
Deferred Cost	5	18,898,113	-
CURRENT ASSETS			
Advances, deposit and other receivable		192,225,997	221,929,397
Cash and bank balances		13,487,375	23,710,876
		205,713,372	245,640,273
TOTAL ASSETS		<u>1,693,207,500</u>	<u>1,550,487,091</u>
CAPITAL AND LIABILITIES			
Share capital			
Authorised capital			
Issued, subscribed and paid up capital	6	675,000,000	400,000,000
Accumulated loss		(9,720,840)	(7,839,682)
SHAREHOLDERS' EQUITY		<u>665,279,160</u>	<u>392,160,318</u>
NON-CURRENT LIABILITIES			
Long term loans	7	931,308,237	931,308,237
CURRENT LIABILITIES			
Short term loan	8	17,582	178,861,468
Trade and other payables		62,900,845	44,204,296
Markup accrued on secured loans		32,629,132	3,002,894
Provision for taxation		1,072,544	949,876
		96,620,103	227,018,536
COMMITMENTS	9	-	-
TOTAL CAPITAL AND LIABILITIES		<u>1,693,207,500</u>	<u>1,550,487,091</u>

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

CHIEF EXECUTIVE

DIRECTOR

CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UN-AUDITED)

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2007

		For the Half Year ended December 31, 2007	For the Half year ended December 31, 2006	For the Quarter ended December 31, 2007	For the Quarter ended December 31, 2006
	Note	Rupees	Rupees	Rupees	Rupees
Sales	10	24,831,021	84,957,840	4,392,780	18,258,593
Sales tax		(297,835)	(11,081,458)	(54,842)	(2,381,556)
		<u>24,533,186</u>	<u>73,876,382</u>	<u>4,337,938</u>	<u>15,877,037</u>
Cost of sales		(20,839,366)	(75,197,578)	(3,779,134)	(17,286,760)
Gross profit / (loss)		<u>3,693,820</u>	<u>(1,321,196)</u>	<u>558,804</u>	<u>(1,409,723)</u>
Administrative and financial expenses		3,602,655	1,801,821	129,635	972,587
Selling and distribution expenses		1,937,407	572,055	605,572	572,055
		<u>(5,540,062)</u>	<u>(2,373,876)</u>	<u>(735,207)</u>	<u>(1,544,642)</u>
Operating Loss		<u>(1,846,242)</u>	<u>(3,695,072)</u>	<u>(176,403)</u>	<u>(2,954,365)</u>
Other Income		87,750	-	43,875	-
Loss before taxation		(1,758,492)	(3,695,072)	(132,528)	(2,954,365)
Taxation - current:		(122,666)	(289,997)	(21,690)	-
Loss after taxation		<u>(1,881,158)</u>	<u>(3,985,069)</u>	<u>(154,218)</u>	<u>(2,954,365)</u>
Loss per share - basic and diluted	11	<u>(0.041)</u>	<u>(0.123)</u>	<u>(0.003)</u>	<u>(0.091)</u>

The annexed notes form an integral of these financial statements

CHIEF EXECUTIVE

DIRECTOR

CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2007

	Note	2007 Rupees	2006 Rupees
CASH FLOW (USED IN) / GENERATED FROM WORKING CAPITAL			
Cash (used in) / generated from working capital	12	77,687,135	(44,723,477)
Long term security deposits		(170,000)	(11,820,000)
Taxes paid		(685,863)	(7,119,791)
Net cash flow from operating activities		<u>76,831,272</u>	<u>(63,663,268)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Capital work in progress		(161,244,349)	(589,300,030)
Deferred Cost		(18,898,113)	-
Fixed Asset		(3,068,425)	(749,455)
Net cash used in investing activities		<u>(183,210,887)</u>	<u>(590,049,485)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Issue of Shares		275,000,000	-
Long term financing		-	612,756,175
Short term Financing		(178,843,886)	14,554,172
Net increase/(decrease) in cash and cash equivalents		(10,223,501)	(26,402,406)
Cash and cash equivalents at beginning of the period		23,710,876	29,016,309
Cash and cash equivalents at end of the period		<u>13,487,375</u>	<u>2,613,903</u>

The annexed notes form an integral of these financial statements

CHIEF EXECUTIVE

DIRECTOR

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2007

Description	Issued, subscribed and paidup capital	Accumulated loss	Total
	R U P E E S		
Balance as at June 30, 2006	325,000,000	(5,257,990)	319,742,010
Loss for the period after tax	-	(3,985,069)	(3,985,069)
Balance as at December 31, 2006	<u>325,000,000</u>	<u>(9,243,059)</u>	<u>315,756,941</u>
Balance as at June 30, 2007	400,000,000	(7,839,682)	392,160,318
Issue of share capital	275,000,000	-	275,000,000
Loss for the period after tax	-	(1,881,158)	(1,881,158)
Balance as at December 31, 2007	<u>675,000,000</u>	<u>(9,720,840)</u>	<u>665,279,160</u>

The annexed notes form an integral of these financial statements

CHIEF EXECUTIVE

DIRECTOR

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2007

1. THE COMPANY AND ITS OPERATIONS

Dost Steels Limited was incorporated in Pakistan on March 19, 2004 as a private limited company under the Companies Ordinance, 1984. The company was converted into public limited company as on May 20, 2006 and then listed on the Karachi Stock Exchange (Guarantee) Limited with effect from November 26, 2007. The registered office of the Company is situated at 101 Chapal Plaza, Hasrat Mohani Road, Karachi - 74000. The Principal business of the Company include manufacturing of steel, direct reduced iron, sponge iron, hot briquetted iron, carbon steel, pig iron and special alloy steel in different forms.

2. BASIS OF PREPARATION

These condensed interim financial statements are un-audited but subject to limited scope review by the auditors and have been prepared in accordance with the requirements of the International Financial Reporting Standards (IFRS) IAS - 34 "Interim Financial Reporting" as applicable in Pakistan.

These condensed interim financial statements have been presented in Pakistan Rupees, which is the functional currency of the Company and the figures are rounded off to the nearest thousand of rupees.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

These financial statements have been prepared under the historical cost convention except as otherwise disclosed in these financial statements.

3.1 Critical accounting estimates and judgment

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 amounts 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 and underlying 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 management in the application of approved accounting standard as, applicable in Pakistan, that have significant effect on the financial statements and estimates with a significant risk of material judgment in the next year are as follows:

3.2 Property and equipment

The Company estimates the rate of depreciation of property and equipment. Further, the Company review 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 and equipment with a corresponding effect on the depreciation charge and impairment.

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.

3.3 Property, plant and equipment

These are stated at cost less accumulated depreciation and impairment losses, if any, except for freehold land and capital work-in-progress, which are stated at cost. Depreciation on fixed assets is charged to income by applying reducing balance method at the rates specified in the relevant note.

Full year's depreciation is charged on the assets acquired during the year, whereas, no depreciation is charged in the year of disposal.

Normal repairs and maintenance are charged to income as and when incurred. Major renewals and improvements are capitalized.

The carrying values of tangible fixed assets are reviewed for impairment when event or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

Gain/ loss on disposal of fixed assets are recognized in the profit and loss account.

3.4 Trade debts

Trade debts originated by the Company are carried at an amount, net of any allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as and when identified.

3.5 Trade and other payables

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

3.6 Taxation

a) Current

Provision for current taxation is based on taxable income at the current rates of tax after taking into account applicable tax credits, rebates and exemptions available, if any, or half percent of turnover under the Income Tax Ordinance, 2001, whichever is higher.

b) Deferred

Deferred tax is provided in full using the balance sheet liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. 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 tax rates enacted or substantially enacted at the balance sheet date.

The carrying amount of all deferred tax assets are reviewed at each balance sheet date and reduced to the extent, if it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized.

3.7 Provisions

A provision is recognized when the Company has an obligation (legal or constructive), as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

3.8 Revenue recognition

Sales of stores is recorded on dispatch of goods to customers.

3.9 Cash and cash equivalents

Cash in hand, cash at bank and short-term deposits, which are held to maturity, are carried at cost. For the purpose of cash flow statements, cash equivalents are short-term highly liquid instruments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in values.

3.10 Financial instruments

All the financial assets and financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument. Any gain or losses on derecognition of the financial assets and financial liabilities are taken to profit and loss account currently. Financial assets are stated at their nominal value as reduced by the appropriate allowances for estimating irrecoverable amount. Mark up bearing financial liabilities are recorded at the gross proceeds received. Other financial liabilities are stated at their nominal value.

3.11 Offsetting of financial assets and financial liabilities

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

3.12 Related party transaction

All transactions with related parties are carried out by the company at arms' length price using the method prescribed under the Companies Ordinance, 1984.

3.13 Foreign currency translation

Foreign currency transactions are translated into Pak rupees at the rate of exchange prevailing on the date of each transaction. Assets and liabilities denominated in foreign currencies are translated into Pak rupee at the rate of exchange ruling on the balance sheet date. Gain or loss on foreign exchange translation are taken into profit and loss accounts.

3.14 Borrowing cost

Borrowing costs related to the capital work-in-progress are capitalized in the cost of the related assets. All other borrowing costs are charged to profit & loss account when incurred.

4. PROPERTY, PLANT AND EQUIPMENTS

	Six months period ended	
	December 2007 Rupees	December 2006 Rupees
Operating fixed assets	3,068,425	749,455
Capital work in progress	161,244,349	589,300,030
5. Deferred Cost	18,898,113	-

These expenses incurred on the issuance of shares to the general public and are not charged to the profit and loss account because of the fact that the production of steel has not been started yet.

	UN-AUDITED	AUDITED
	December 31 2007 Rupees	June 30 2007 Rupees
6. ISSUED SUBSCRIBED AND PAID-UP CAPITAL		
67,500,000 (June 2007: 40,000,000) ordinary shares of Rs. 10 each fully paid in cash	675,000,000	400,000,000
7. LONG TERM LOANS		
Secured - from banking companies		
Faysal Bank Limited 7.1	143,948,806	193,948,806
Saudi Pak Industrial And Agriculture Investment Company (Private) Limited 7.1	50,000,000	-
Syndicate loan 7.2	737,359,431	737,359,431
	<u>931,308,237</u>	<u>931,308,237</u>

7.1 The Company has arranged a Murabaha Finance facility aggregating to Rs. 200 million from Faysal Bank Limited. During the half year, the Faysal Bank Limited sell down its participation by Rs.50 million in favour of Saudi Pak Industrial And Agricultural Investment Company (Private) Limited. The said facility is arranged for setting up the project and repayment of letter of credit facility. The facility is secured against first pari passu charge by way of mortgage of movable and immovable properties of the Company, personal guarantees of the sponsors and demand promissory note in favour of the Faysal Bank Limited. The facility is

repayable in 9 semi-annual installments of Rs. 22.222 million commencing after a two years grace period from the final drawdown date. The facility carries markup at a rate of KIBOR + 4% per annum payable on quarterly basis.

7.2 The Company has arranged an aggregate finance facility of Rs. 775 million from National Bank of Pakistan, Askari Commercial Bank Limited, Pakistan Industrial Credit and Investment Corporation Limited, Bank of Khyber, Pakistan Kuwait Investment Company (Private) Limited and Prime Commercial Bank Limited as syndicate loan, whereby Faysal Bank Limited is acting as agent of the syndicate. The loan is secured against first pari passu charge by way of mortgage of movable and immovable properties of the Company, first pari passu charge over the hypothecated assets of the Company, personal guarantees of the sponsors and demand promissory note in favour of the syndicate. The facility is repayable in 9 semi-annual installments of Rs. 86.111 million commencing after a two years grace period from the final drawdown date. The facility carries markup at a rate of KIBOR + 4% per annum payable on quarterly basis.

		UN-AUDITED December 31 2007 Rupees	AUDITED June 30 2007 Rupees
8. Short term loans			
Bridge Loan	8.1	-	157,350,000
Book overdraft	8.2	17,582	21,511,468
		<u>17,582</u>	<u>178,861,468</u>

8.1 The company had arranged a Murabaha Financing facility aggregating to Rs. 275 million from Faysal Bank Limited to meet its financing needs until the proceeds from initial public offering are received. This financing facility was secured against the proceeds from initial public offering. This loan carries a mark up of KIBOR + 5%. The loan has been repaid from the proceeds of initial public offering.

8.2 This represents negative balance of bankbook which is outcome of cheques issued at the balance sheet date.

9. COMMITMENTS

The Company is committed to capital expenditure amounting to Rs 98.6 million as at the balance sheet date.

10. SALES

Company has not yet commenced production, however, during the half year, the Company has traded in purchase and sale of local steel bars.

	UN-AUDITED December 31 2007	UN-AUDITED December 31 2006
11. LOSS PER SHARE - BASIC AND DILUTED		
Loss attributable to ordinary shareholders	<u>(1,881,158)</u>	<u>(3,985,069)</u>
Weighted average number of ordinary shares in issue	<u>45,380,435</u>	<u>32,500,000</u>
Loss per share - basic and diluted	<u>(0.041)</u>	<u>(0.123)</u>
12. CASH (USED IN) / GENERATED FROM WORKING CAPITAL		
Loss before taxation	(1,758,492)	(3,695,072)
Adjustment for Depreciation	<u>733,577</u>	<u>137,303</u>
	(1,024,915)	(3,557,769)
Effect of changes in working capital (Increase) / decrease in current assets		
Advances, deposits and other receivable	30,389,263	(138,228,858)
Construction material stock	-	112,667,273
Trade and other payables	18,696,549	(20,798,491)
Markup accrued on secured loans	<u>29,626,238</u>	<u>5,194,368</u>
	<u>77,687,135</u>	<u>(44,723,477)</u>
13. DATE OF AUTHORIZATION FOR ISSUE		
These condensed interim financial statements were authorized for issue on February 25, 2008 by the Board of Directors of the Company.		
14. GENERAL		
The figures have been round off to the nearest rupee.		

CHIEF EXECUTIVE

DIRECTOR