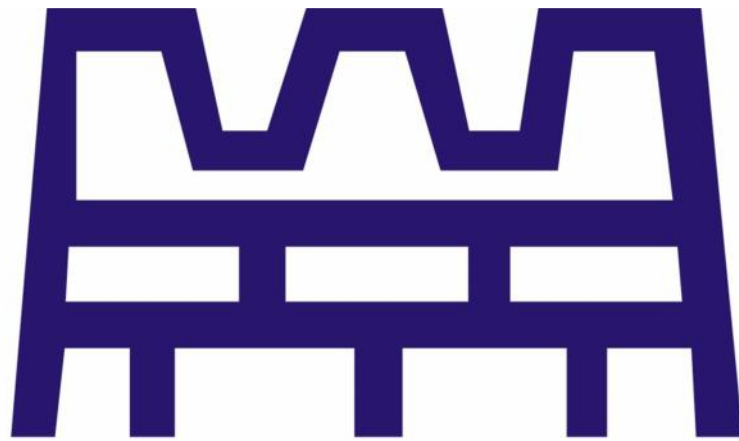


FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2013



FORTE

FRONTIER CERAMICS LIMITED
VISION & MISSION STATEMENT

VISION STATEMENT

To become an industry leader through our FORTE Brand by offering the best innovative and quality products at competitive prices.

MISSION STATEMENT

OUR MISSION IS:

- Deliver unparalleled value to stakeholders and continually striving to exceed the customers' expectations by developing the innovative solutions
- Treat our employees fairly so that they feel as a family member in the company
- Earn reasonable return for profits and growth of the company in order to provide the shareholders reasonable return on their investments in the company
- Special emphasis on workforce, health, safety, environment and contribution to the national economic development

COMPANY INFORMATION

BOARD OF DIRECTORS

Mr. Raja Ghazanfar	Chairman
Mr. Omer Khalid	Chief Executive Officer
Ms. Sana Khalid	Director
Mrs. Shazia Khalid	Director
Mrs. Hameeda Khalid	Director
Ms. Farhat	Director
Mrs. Pervez Aslam	Director

Audit Committee

Mrs. Shazia Khalid	Chairperson
Mrs. Hameeda Khalid	Member
Mr. Raja Ghazanfar	Member

Human Resource & Remuneration Committee

Mrs. Pervez Aslam	Chairperson
Mr. Omer Khalid	Member
Ms. Farhat	Member

Chief Operating Officer

Mr. Nadeem Khalid

Chief Financial Officer & Company Secretary

Khawaja Mushtaq Ahmed FCA,ACIS

Bankers

Bank Alflah Limited
Standard Chartered Bank Limited
Silk Bank Limited
Faysal Bank Limited
Allied Bank Limited

Auditors

M/S BDO Ebrahim & Co Chartered Accountants
4th Floor, Saeed Plaza, 22 East, Jinnah Avenue,
Blue Area, Islamabad.

Legal Advisor

Ishtiaq Ahmed (Advocate & Legal Consultant)
Flat No. 42. Block C. 2nd Floor. Cantonment Plaza.
Saddar Road. Peshawar Cantt.

Registrar and Share Transfer Office

M/S Saeed Methani Mushtaq & Co
Suite # 23-C, Block B, 2nd Floor, Cantonment Plaza,
Fakhr-e-Alam Road, Peshawar Cantt. Ph. 091-5275628

Head Office/Registered Office

29-Industrial Estate, Jamrud Road, Peshawar
Ph: 091-5891470-79, Fax: 091-5830290

Lahore Sales Office

VIP Estate, Pearl Plaza, Shahjamal Morh,
174-Ferozpur Road, Lahore, Ph. 042-37525277

Website

www.forte.com.pk

FRONTIER CERAMICS LIMITED
NOTICE OF THE 31st ANNUAL GENERAL MEETING

Notice is hereby given that SECP has accorded its approval, and Thirty First Annual General Meeting of **Frontier Ceramics Limited** will be held on Thursday, October 31, 2013 at 09:00 a.m at Toyota Rawal Motors Building, Near Swan Camp, Main G.T Road, Rawalpindi to transact the following business:

1. To confirm the minutes of the 30th Annual General Meeting of the Company held on November 03, 2012.
2. To receive, consider and approve the Audited Annual Accounts of the Company together with the Directors' and Auditors' Reports for the year ended June 30, 2013.
3. To appoint Auditors of the Company for the year ending June 30, 2014 and to fix their remuneration. The present Auditors Messrs BDO Ebrahim & Co. Chartered Accountants, 4th Floor, Saeed Plaza, Jinnah Avenue, Islamabad retires and being eligible offer themselves for reappointment.
In compliance of section (xxxix) of the Code of Corporate Governance as well as based on the proposal of Audit Committee, the Board of Directors recommended appointment of the retiring Auditors Messrs BDO Ebrahim & Co., Chartered Accountants, as auditors of the Company for the year ending June 30, 2014.
4. To transact any other business with the permission of the Chair.

BY ORDER OF THE BOARD

October 08, 2013.

(Company Secretary)

NOTES:

1. The Share Transfer Books of the Company will remain closed from 24-10-2013 to 31-10-2013 (both days inclusive).
2. A member eligible to attend and vote at the General Meeting may appoint another member as his/her proxy to attend and vote on his/her behalf. Proxy Forms must reach the Company's Registered Office not less than 48 hours before the time of the meeting.
3. In case of the CDC Account holder and Sub-account holder individuals, whose registration details are uploaded as per the Regulations, shall authenticate his/her identity by showing his/her original Computerized National Identity Card (CNIC) or original Passport at the time of attending the meeting.

4. In case of individuals, are the Account holders and Sub-account holder of CDC, whose registration details are unloaded as per the regulations shall submit the proxy forms as follows:
 - a) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.
 - b) Attested copies of CNIC or Passport of the beneficial owners and the proxy shall be furnished with the proxy form.
 - c) The proxy shall produce his/her original CNIC or original Passport at the time of the meeting.
5. In case of Corporate Entity, the Board of Directors' Resolution/Power of Attorney with specimen signature of the nominee shall be produced unless it has been provided earlier at the time of the meeting.
6. Members are requested to notify the Company or Registrar of the Company, Messrs Saeed Methani Mushtaq & Co., Chartered Accountants, 23-C, 2nd Floor, Block-B, Cantonment Plaza, Fakhre-Alam Road, Peshawar for any change in their mailing addresses.

Frontier Ceramics Limited

KEY OPERATING & FINANCIAL DATA - FOR LAST 6 YEARS

(Rupees in Thousands)

	2013	2012	2011	2010	2009	2008
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Sales - Net	302,938	329,253	333,246	168,926	124,238	70,019
Gross Profit/(Loss)	20,984	46,517	89,592	23,556	2,457	(84,914)
Expenses	31,361	20,559	71,052	5,780	(91,163)	19,876
(Loss)/Profit Before Taxation	(10,377)	25,958	18,540	17,776	93,620	(104,790)
(Loss)/Profit After Taxation	(2,236)	32,514	15,370	8,326	93,439	(105,197)
Dividend %	-	-	-	-	-	-

(Loss)/Earning Per Share (Rs.)	(0.29)	4.20	1.99	1.08	12.07	(13.59)
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DIRECTORS' REPORT TO THE SHAREHOLDERS

The Directors are pleased to present the annual audited financial statements of the Company along with auditors' report thereon for the financial year ended June 30, 2013.

Operational results for the year under review are as follows:-

- Sales - Net at Rs. 302.93m lower by 7.99% vs. previous Rs. 329.25m.
- Gross profit at Rs 20.98m lower by 54.89% vs. previous Rs 46.52m.
- Administrative expenses 12.95m lower by 0.22% vs. previous Rs 12.98m.
- Operating (Loss) at Rs. (8.66)m higher by 131.00% vs. previous Profit Rs. 27.92m.
- (Loss) after taxation at Rs. (2.24)m higher by 106.88% vs. previous profit Rs. 32.51m.

During the year, Company sold 1,007,471 Sqm vs. 1,097,411 Sqm, lower by 7.99 %, as compared to previous corresponding year. Further, average sale price of our products marginally increased during the year resultantly inflation impact could not be passed on to consumers due to intense market situation.

Decrease in Gross Profit by 54.89% as compared to corresponding year is mainly due to less production due to gas shortage, tremendous inflation effects of raw materials prices, and increase in natural gas and electricity rates. On the other hand, management remained successful in controlling the administrative expenses, whereas operating expenses increased mainly because of a provision of Rs 9.99 million for obsolete stock.

Your Company realizing the gas shortage threats imported a coal gas stove plant as an alternate energy source to cater this issue. Erection and installation of this plant will be possible to carry out once a legal pending case elaborated in the forthcoming paragraph of this report is decided.

Company has settled the bank loans under Committee for Revival of Sick Industrial Unit (CRSIU) agreement. No Objection Certificates (NOC) formalities especially from National Bank of Pakistan are under process .Bankers Equity Limited (BEL) will proceed for its clearance due to its liquidation formalities through Honorable High Court; therefore, the said clearance process, at the BEL end, will take indefinite time.

The Company in its Extra Ordinary General Meeting (EOGM) held on July 19, 2012 has approved the issue of right shares at Rs 1.80/right share, whereas subsequently SECP approved right shares vide letter No. EMD/233/584/02-096 dated June 18, 2013 at the rate of Rs. 5.50/right share. Major shareholders/sponsors are willing to buy at the rate approved by shareholders in EOGM .However the matter is yet under consideration.

As regards auditors' qualification regarding the gratuity, as your company has not yet obtained final NOC from NBP, therefore, Company is planning now to introduce the staff retirement benefits scheme in the ensuing year on settlement of NOC issue with the banks.

An ex-parte decree, in favor of our one of our past suppliers who proceeded at the back of the Company in the court, was issued by the Civil Court, Peshawar. The court decreed the suit in favor of the plaintiff, against the decreed claim of Rs 1,450,000, for the possession of the property of the Company bearing plot No 21, 22 & 23 situated at Peshawar. Decree holder further got the stay order to stop the ongoing construction works on these plots, resultantly all the construction and expansion activities which were being/or to be carried out at these plots are standstill. Case was filed during the previous management by the supplier and is now pending before the Civil Court, Peshawar to set aside the ex-parte decree.

A case was also filed by the Company with Honorable High Court, Peshawar to vacate the stay order , but Honorable High Court has ordered to maintain the Status Quo till the final decision of the Civil Court, Peshawar. Currently case is being heard on regular basis to decide the ex-parte decree.

Dividend

Due to operational losses, future expansions and liquidity limitations, no dividend is recommended for the year ended June 30, 2013

Earnings per Share

Earnings per share decreased to, negative, Rs (0.29) per share from previous, positive, Rs 4.20 per share

Future Prospects

We are confident that by introducing the Floor tiles in future, Company will enhance its production and market share which will help in strengthening the operational performance of the Company.

Corporate & Financial Reporting Frame Work

The Directors are pleased to state that your Company has complied with the provisions of the Code of Corporate Governance as required by Securities & Exchange Commission of Pakistan. Following are the statements on corporate and financial reporting:

- (a) The financial statements, prepared by the management of the Company, present its state of affairs fairly, the result of its operations, cash flows and changes in equity;
- (b) Proper books of account of the Company have been maintained;
- (c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;
- (d) International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departures therefrom has been adequately disclosed and explained;

(e) The system of internal control is sound in design and has been effectively implemented and monitored; and

(f) There are no significant doubts upon the Company's ability to continue as a going concern:

- There has been no material departure from the best practice of corporate governance as detailed in the listing regulations.
- A summary of key operating and financial data for the last six years is annexed with the report.
- Information about the taxes and levies is given in the notes to the accounts.
- During the year four meetings of the board of directors were held, which were attended by the directors as detailed below.

<u>Name of Directors</u>	<u>No. of Meetings attended</u>
Mr. Omer Khalid	4
Miss Sana Khalid	4
Miss Farhat	4
Mr. Raja Ghazanfar	4
Mrs. Pervez Aslam	4
Mrs. Shazia Khalid	3
Mrs. Hameeda Khalid	4

Audit Committee

The audit committee comprises of three non executive directors. Four meetings were held during the year under review.

Auditors

As suggested by the Audit Committee, the present auditors M/S BDO Ebrahim&Co., Chartered Accountants, retire and being eligible offer themselves for reappointment.

Pattern of Shareholding

The pattern of shareholding as on 30th June, 2013 and its disclosure as required by the Code of the Corporate Governance is annexed with this report.

Subsequent Events

There have not been any material events that occurred subsequent to the date of the statement of financial position that require adjustment to the enclosed financial statements.

Acknowledgement

The Board of Directors recognizes the contribution of all the staff members in achieving the company's objectives. We also appreciate the continuous support of our valued dealers, customers, banks and stakeholders.

On behalf of the Board

**Date: October 08, 2013
Peshawar**

Chairman

**STATEMENT OF COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED JUNE 30, 2013**

This statement is being presented to comply with the Code of Corporate Governance (CCG) contained in Regulation No. 35 of the listing regulations of Karachi and Lahore Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The company has applied the principles contained in the CCG in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present, the Board includes:

Category	Names
Executive Directors	Mr. Omer Khalid Ms. Sana Khalid
Non-Executive Directors	Mrs. Hameeda Khalid Mrs. Shazia Khalid Ms. Farhat Mrs. Pervaiz Aslam Mr. Raja Ghazanfar

The independent Directors' compliance to take effect when the Board is reconstituted after the expiry of its current term.

2. The Directors have confirmed that none of them is serving as a director in more than seven listed companies, including this company (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the resident Directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a Development Financial Institution (DFI) or an Non-Banking Financial Institution (NBFI) or, being a member of stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred in the Board during the Year.
5. The Company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures.
6. The Board has developed a Vision/Mission statement, overall corporate strategy and significant policies of the company. A complete record of particulars of significant policies along with the date on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment, determination of remuneration and terms and conditions of employment of the Chief Executive Officer (CEO) and other Executive Directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and in his absence, by a Director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Company has not arranged any training programs for its Directors during the year 2013.
10. The Board has approved the appointment, remuneration and terms and conditions of employment of Chief Financial Officer, Head of Internal Audit and the Company Secretary.
11. The directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by a director (on behalf of CEO who is currently abroad) and CFO before approval of the Board.
13. The directors, CEO and executive do not hold any interest in the shares of the company other than that disclosed in the pattern of shareholding.
14. The company has complied with all the corporate and financial reporting requirements of the CCG.
15. The Board has formed an audit committee. It comprises of three members, all of whom are non-Executive Directors including Chairperson.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the company and as required by the CCG. The terms of references of the committee have been formed and advised to the audit committee for compliance.
17. The Board has formed an HR and Remuneration Committee. It comprises three members, of whom two are non-Executive Directors and Chairperson of the committee is a non-Executive Director.
18. The Board has set up an internal audit function, which are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the company.
19. The statutory auditors of the company have confirmed that they have been given satisfactory rating under quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and

minor children do not hold shares of the company and that the firm all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results and business decisions, which may materially affect the market price of Company's securities, was determined and intimated to Directors, employees and stock exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. We confirm that all other material principles enshrined in the CCG have been complied with except for:
 - a. i(b) of CCG and the Board Evaluation, towards which the Company will seek compliance when the Board is reconstituted after the expiry of its current term and by the end of current accounting year respectively.
 - b. (xi) No Training Program were conducted during the year for the Directors as required by CCG.
 - c. Company Secretary position fell vacant on resignation of the Company Secretary in April 2013, and to fill the casual vacancy, CFO who is a fellow member of The Institute of Chartered Accountants of Pakistan and an associated member of The Institute of Corporate Secretaries of Pakistan was appointed as Company Secretary till the appointment of suitable person.
 - d. (xiii) Head of Internal Audit has been appointed during the year, however qualification criteria as required by CCG was not complied with.

On behalf of the Board

Peshawar: October 08, 2013

Chairman

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **FRONTIER CERAMICS LIMITED** (“the Company”) as at June 30, 2013 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 state that: -

The Company has not accounted for any provision against staff retirement benefits in terms of gratuity or provident fund or both as per the requirement of sub clause (6) of clause (12) of Schedule to The Industrial & Commercial Employment (Standing Orders) Ordinance, 1968. The estimated value of this liability in term of gratuity amounts to Rs. 15 million as at June 30, 2013.

Except for the adjustments in respect of matter stated above;

- (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;
 - (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) except for the adjustments in respect of matter stated above, in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2013 and of the loss, its comprehensive loss, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Without further qualifying our opinion, we draw attention to the following matters:

- a) Note 1.2 in the financial statements which indicates that the Company's accumulated loss exceeded its share capital by an amount Rs. 41.435 million as at June 30, 2013 and as at that date Company's current liabilities exceeded its current assets by Rs. 213.996 million. These conditions, along with other matters as set forth in Note 1.2, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.
- b) The ultimate outcome of the matter as explained in Note 22.1.1 to the accompanying financial statements cannot presently be determined and, hence, pending the resolution of the matters in question, no provision has been made by the Company in the accompanying financial statements for any liability that may arise as a result of the said matter.

ISLAMABAD

DATED: OCTOBER 08, 2013

CHARTERED ACCOUNTANTS

Engagement Partner: Iffat Hussain

FRONTIER CERAMICS LIMITED
BALANCE SHEET AS AT JUNE 30, 2013

	Note	2013 Rupees	2012 Rupees
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment			
Operating fixed assets	5	583,820,764	632,785,637
Capital work in progress	6	148,113,883	136,003,386
		<u>731,934,647</u>	<u>768,789,023</u>
Long term deposits		1,513,450	1,513,450
		<u>733,448,097</u>	<u>770,302,473</u>
CURRENT ASSETS			
Stores, spares and loose tools	7	16,685,254	12,512,447
Stock in trade	8	39,348,852	51,667,777
Trade debts	9	2,710,094	2,822,833
Advances	10	14,319,442	13,289,947
Short term prepayments		-	102,020
Tax refunds due from government	11	4,076,626	1,513,285
Taxation - net	12	3,420,187	969,833
Cash and bank balances	13	3,513,392	2,317,528
		<u>84,073,847</u>	<u>85,195,670</u>
TOTAL ASSETS		<u><u>817,521,944</u></u>	<u><u>855,498,143</u></u>
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Share capital	14	77,412,000	77,412,000
Accumulated loss		(118,847,169)	(141,190,921)
		<u>(41,435,169)</u>	<u>(63,778,921)</u>
SURPLUS ON REVALUATION OF FIXED ASSETS	15	365,215,416	386,346,422
NON CURRENT LIABILITIES			
Long term financing	16	89,180,130	89,180,130
Long term deposits		-	576,000
Deferred taxation	17	106,491,813	118,002,831
		<u>195,671,943</u>	<u>207,758,961</u>
CURRENT LIABILITIES			
Trade and other payables	18	176,938,467	204,528,910
Mark up accrued	19	2,589,775	2,101,259
Short term borrowings	20	4,415,237	4,415,237
Current portion of long term financing	21	114,126,275	114,126,275
		<u>298,069,754</u>	<u>325,171,681</u>
CONTINGENCIES AND COMMITMENTS	22	-	-
TOTAL EQUITY AND LIABILITIES		<u><u>817,521,944</u></u>	<u><u>855,498,143</u></u>

The annexed notes from 1 to 41 form an integral part of these financial statements.

Statement under section 241(2) of the Companies Ordinance, 1984 :

At the time of the meeting of the Board of Directors, the Chief Executive was not in Pakistan, as such these financial statements, as approved by the Board of Directors, have been signed by two Directors.

DIRECTOR

DIRECTOR

FRONTIER CERAMICS LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2013

	Note	2013 Rupees	2012 Rupees
Sales - net	23	302,937,997	329,253,100
Cost of sales	24	<u>281,953,656</u>	<u>282,736,013</u>
Gross profit		20,984,341	46,517,087
Distribution cost	25	3,830,275	3,472,193
Administrative expenses	26	12,952,902	12,980,927
Other operating expenses	27	<u>12,856,613</u>	<u>2,140,922</u>
Operating (loss) /profit		(8,655,449)	27,923,045
Other income		168,300	-
Finance cost	28	<u>1,889,941</u>	<u>1,964,487</u>
(Loss) / profit before taxation		(10,377,090)	25,958,558
Taxation	29	<u>8,141,146</u>	<u>6,555,406</u>
(Loss) / profit for the year		<u>(2,235,944)</u>	<u>32,513,964</u>
(Loss) /earnings per share - basic and diluted	30	<u>(0.29)</u>	<u>4.20</u>

The annexed notes from 1 to 41 form an integral part of these financial statements.

Statement under section 241(2) of the Companies Ordinance, 1984 :

At the time of the meeting of the Board of Directors, the Chief Executive was not in Pakistan, as such these financial statements, as approved by the Board of Directors, have been signed by two Directors.

DIRECTOR

DIRECTOR

FRONTIER CERAMICS LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2013

	2013	2012
	Rupees	Rupees
(Loss) / profit for the year	(2,235,944)	32,513,964
Other comprehensive income for the year	-	-
Total comprehensive (loss) / income for the year	<u>(2,235,944)</u>	<u>32,513,964</u>

Surplus arising on revaluation of assets has been reported in accordance with the requirements of the Companies Ordinance, 1984 in a separate account below equity.

The annexed notes from 1 to 41 form an integral part of these financial statements.

Statement under section 241(2) of the Companies Ordinance, 1984 :

At the time of the meeting of the Board of Directors, the Chief Executive was not in Pakistan, as such these financial statements, as approved by the Board of Directors, have been signed by two Directors.

DIRECTOR

DIRECTOR

FRONTIER CEREMICS LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2013

	2013 Rupees	2012 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) / profit before taxation	(10,377,090)	25,958,558
Adjustment for:		
Depreciation	48,964,873	53,222,179
Finance cost	1,889,941	1,964,487
Allowance for write down of inventory	9,996,363	-
	<u>60,851,177</u>	<u>55,186,666</u>
Profit before working capital changes	50,474,087	81,145,224
Changes in working capital:		
Decrease /(increase) in current assets		
Stores, spares and loose tools	(4,172,807)	(5,372,014)
Stock in trade	2,322,562	(4,995,259)
Trade debts	112,739	(2,418,226)
Advances	(1,029,495)	(5,756,086)
Short term prepayments	102,020	(29,520)
Increase/(decrease) in current liabilities		
Trade and other payables	(28,166,443)	42,319,511
	<u>(30,831,424)</u>	<u>23,748,406</u>
Cash generated from operations	19,642,663	104,893,629
Finance cost paid	(1,401,425)	(1,390,454)
Taxes paid	(4,934,877)	(4,262,364)
	<u>(6,336,302)</u>	<u>(5,652,818)</u>
Net cash generated from operating activities	13,306,361	99,240,811
CASH FLOWS FROM INVESTING ACTIVITIES		
Addition to capital work in progress	(12,110,497)	(34,730,744)
Net cash used in investing activities	(12,110,497)	(34,730,744)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long term financing	-	(66,534,643)
Short term borrowings	-	734,716
Net cash used in financing activities	-	<u>(65,799,927)</u>
Net increase / (decrease) in cash and cash equivalents	1,195,864	(1,289,860)
Cash and cash equivalents at the beginning of the year	2,317,528	3,607,388
Cash and cash equivalents at the end of the year	<u>3,513,392</u>	<u>2,317,528</u>

13

The annexed notes from 1 to 41 form an integral part of these financial statements.

Statement under section 241(2) of the Companies Ordinance, 1984 :

At the time of the meeting of the Board of Directors, the Chief Executive was not in Pakistan, as such these financial statements, as approved by the Board of Directors, have been signed by two Directors.

DIRECTOR

DIRECTOR

FRONTIER CEREMICS LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2013

	Issued, subscribed and paid up capital	Accumulated loss	Total
Note	Rupees		
Balance as at June 30, 2011	77,412,000	(200,121,835)	(122,709,835)
Total comprehensive income for the year ended June 30, 2012	-	32,513,964	32,513,964
Transfer from surplus on revaluation of fixed assets - incremental depreciation - net of deferred tax	-	26,416,950	26,416,950
15	-	26,416,950	26,416,950
Balance as at June 30, 2012	77,412,000	(141,190,921)	(63,778,921)
Total comprehensive loss for the year ended June 30, 2013	-	(2,235,944)	(2,235,944)
Transfer from surplus on revaluation of fixed assets - incremental depreciation - net of deferred tax	-	24,579,696	24,579,696
15	-	24,579,696	24,579,696
Balance as at June 30, 2013	77,412,000	(118,847,169)	(41,435,169)

The annexed notes from 1 to 41 form an integral part of these financial statements.

Statement under section 241(2) of the Companies Ordinance, 1984 :

At the time of the meeting of the Board of Directors, the Chief Executive was not in Pakistan, as such these financial statements, as approved by the Board of Directors, have been signed by two Directors.

DIRECTOR

DIRECTOR

FRONTIER CERAMICS LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2013

1 STATUS AND NATURE OF BUSINESS

- 1.1** Frontier Ceramics Limited ("the Company") was incorporated in July 1982 as a Public Limited Company with its shares quoted on Karachi and Lahore Stock Exchanges of Pakistan. The registered office of the Company is situated in 29-Industrial Estate, Jamrud Road, Peshawar. The principal activities of the company are manufacturing of ceramic tiles, sanitary wares and related ceramic products.
- 1.2** The Company's accumulated loss exceeded the issued, subscribed and paid up capital by an amount of Rs. 41.435 million. Current liabilities exceeded the current assets by Rs. 213.996 million. These conditions indicate the existence of material uncertainty which casts doubt about the Company's ability to continue as a going concern. Furthermore, the ability of the Company to continue as a going concern is dependent upon its ability to meet the repayment terms prescribed in the settlement agreement dated June 26, 2008 with its creditors.

These financial statements have been prepared on going concern basis without any adjustments to assets and liabilities. The shareholder has made a commitments not to seek repayment of long term loan within the foreseeable future. Moreover, the management have plans to increase profitability by introducing new designs and sizes of wall tiles. Further the installation of new plant in process is capable of producing different sizes of wall tiles as well as the floor tiles. In the opinion of the management future profits shall wipe out the accumulated loss and restore the equity of the Company. Accordingly, the management is confident that they will succeed in their efforts to continue the Company as a going concern.

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention and on accrual basis of accounting except:

- the cash flow statement; and
- certain fixed assets which are stated at revalued amounts.

The preparation of these financial statements in conformity with approved accounting standards requires the management to exercise its judgment in the process of applying the Company's accounting policies and use of certain critical accounting estimates. The areas involving a higher degree of judgment, critical accounting estimates and significant assumptions are disclosed in note 4.20.

2.3 Functional and presentation currency

These financial statements are presented in Pak Rupees, which is the Company's functional and presentation currency.

3 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED ACCOUNTING STANDARDS

3.1 Amendments that are effective in current year but not relevant to the Company

The Company has adopted the amendments to the following accounting standards which became effective during the year :

		Effective date (annual periods beginning on or after)
IAS 1	Presentation of Financial Statements - Amendments to revise the way other comprehensive income is presented	July 01, 2012
IAS 12	Income Taxes	January 01, 2012

3.2 Amendments not yet effective

The following amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

		Effective date (annual periods beginning on or after)
IFRS 1	First-time Adoption of International Financial Reporting Standards - Amendments for government loan with a below-market rate of interest when transitioning to IFRSs and amendments resulting from Annual Improvements 2009-2011 Cycle (repeat application, borrowing costs)	January 01, 2013

**Effective date
(annual periods
beginning on or
after)**

IFRS 7	Financial Instruments Disclosures - Amendments related to the offsetting of assets and liabilities	January 01, 2013
IFRS 7	Financial Instruments Disclosures - Deferral of mandatory effective date of IFRS 9 and amendments to transition disclosures	January 01, 2015
IFRS 9	Financial Instruments - Reissue to include requirements for the classification and measurement of financial liabilities and incorporate existing derecognition requirements	January 01, 2013
IFRS 9	Financial Instruments - Deferral of mandatory effective date of IFRS 9 and amendments to transition disclosures	January 01, 2015
IFRS 10	Consolidated Financial Statements - Amendments to transitional guidance	January 01, 2013
IFRS 10	Consolidated Financial Statements - Amendments for investment entities	January 01, 2014
IFRS 11	Joint Arrangements - Amendments to transitional guidance	January 01, 2013
IFRS 12	Disclosure of Interests in Other Entities - Amendments to transitional guidance	January 01, 2013
IFRS 12	Disclosure of Interests in Other Entities - Amendments for investment entities	January 01, 2014
IAS 1	Presentation of Financial Statements - Amendments resulting from Annual Improvements 2009-2011 Cycle (comparative information)	January 01, 2013
IAS 16	Property, Plant and Equipment - Amendments resulting from Annual Improvements 2009-2011 Cycle (servicing equipment)	January 01, 2013
IAS 19	Employee Benefits - Amended standard resulting from the post-employment benefits and termination benefits projects	January 01, 2013
IAS 27	Separate Financial Statements - Amendments for investment entities	January 01, 2014
IAS 32	Financial Instruments: Presentation - Amendments relating to the offsetting of assets and liabilities	January 01, 2014
IAS 32	Financial Instruments: Presentation - Amendments	

	resulting from Annual Improvements 2009-2011 Cycle (tax effect of equity distributions)	January 01, 2013
IAS 34	Interim Financial Reporting - Amendments resulting from Annual Improvements 2009-2011 Cycle (interim reporting of segment assets)	January 01, 2013
IAS 36	Impairment of Assets - Recoverable amount disclosures for non financial assets	January 01, 2014
IAS 39	Financial Instruments: Recognition and Measurement - Amendments for novations of derivatives	January 01, 2014

The Company expects that the adoption of the above amendments and interpretations of the standards will not affect the Company's financial statements in the period of initial

3.3 Standards or interpretations not yet effective

The following International Financial Reporting Standards or interpretations issued by IASB would be effective from the dates mentioned below against the respective standard or interpretation:

		Effective date (annual periods beginning on or after)
IFRS 9	Financial Instruments	January 01, 2013
IFRS 10	Consolidated Financial Statements	January 01, 2013
IFRS 11	Joint Arrangements	January 01, 2013
IFRS 12	Disclosure of Interests in Other Entities	January 01, 2013
IFRS 13	Fair Value Measurement	January 01, 2013
IAS 27	Separate Financial Statements	January 01, 2013
IAS 28	Investments in Associates	January 01, 2013
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	January 01, 2013
IFRIC 21	Levies	January 01, 2014

The Company expects that the adoption of the above amendments and interpretations of the standards will not have any material impact and therefore will not affect the Company's financial statements in the period of initial application.

4 SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Property, plant and equipment

a) Operating fixed assets

Operating fixed assets except for freehold land are stated at cost/revalued amount less accumulated depreciation or impairment, if any. Freehold land is stated at revalued amount.

Depreciation is charged on the basis of reducing balance at the rates given in note 6, whereby cost or revalued amount of an asset is written off over its useful life without taking into account any residual value. Full month's depreciation is charged on addition, while no depreciation is charged in the month of disposal or deletion of assets.

Major renewals and repairs are capitalized and the assets so replaced are retired. Minor renewals or replacement, maintenance and repairs are charged to income as and when incurred. Gains or losses on disposal of property, plant and equipment are accounted for as

Amount equivalent to incremental depreciation charged on revalued assets is transferred from surplus on revaluation of building net of deferred taxation to retained earnings.

The assets' residual value and useful lives are reviewed, and adjusted if significant, at each balance sheet date.

Disposal of assets is recognized when significant risks and reward incidental to the ownership have been transferred to buyers. Gain and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognized in the profit and loss accounts.

b) Capital work in progress

Capital work in progress is stated at cost. Assets are transferred to operating fixed assets when they are available for intended use.

4.2 Impairment

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

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that is largely independent from other assets and group. Impairment losses are recognized as expense in profit and loss account.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

4.3 Stores, spares and loose tools

Stores and spares are stated at cost less provision for slow moving and obsolete items. Cost is determined by using the moving average method. Items in transit are valued at cost comprising invoice value plus other charges incurred thereon.

Spare parts of capital nature which can be used only in connection with an item of property,

plant and equipment are classified as operating fixed assets under "Plant and machinery" category and are depreciated over a time period not exceeding the useful life of the related

4.4 Stock in trade

Stock in trade, except stock in transit, are valued at lower of cost and net realizable value. Cost is determined as follows:

- Raw materials - at moving average method except stock in transit
- Work in process - at cost of material plus proportionate production overheads
- Finished goods - at cost of material as above plus proportionate production overheads

Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessary to be incurred in order to make the sale.

Stock in transit is valued at cost comprising invoice value plus other charges thereon.

4.5 Trade debts

Trade debts are recognized and carried at original invoiced amount which is fair value of the consideration to be received in future. An estimated provision for doubtful debt is made when collection of the full amount is no longer probable. Debts considered irrecoverable are written-off.

4.6 Other receivables

Other receivables are recognized at nominal amount which is fair value of the consideration to be received in future.

4.7 Taxation

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

a) Current

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

b) Deferred

Deferred tax is accounted for using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting

purposes and the amounts used for taxation purposes.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available in future years to utilize deductible temporary differences, unused tax losses and tax credits.

Deferred tax is calculated based on tax rates that have been enacted or substantively enacted up to the balance sheet date and are expected to apply to the periods when the differences reverse. Deferred tax for the year is charged or credited to the profit and loss

4.8 Cash and bank balances

Cash in hand and at banks are carried at nominal amount.

4.9 Borrowings

Loans and borrowings are recorded at the proceeds received. Financial charges are accounted for on accrual basis.

Short term borrowings are classified as current liabilities unless the Company has unconditional right to defer settlement of the liability for at least twelve months after the

Borrowing cost on long term finances and short term borrowings which are specifically obtained for the acquisition of qualifying assets are capitalized as part of cost of that assets. All other borrowing costs are charged to profit and loss account in the period in which these

4.10 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 the goods and services received, whether or not billed to the Company.

4.11 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, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provisions are determined by discounting future cash flows at appropriate discount rate where ever required. Provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

4.12 Revenue recognition

Revenue comprises of the fair value of the consideration received or receivable from the sale of goods and services in the ordinary course of the Company's activities. Revenue from sale of goods is shown net of sales tax.

Revenue is recognized when it is probable that the economic benefits associated with the transactions will flow to the Company and the amount of revenue can be measured reliably. The revenue arising from different activities of the Company is recognized on the following

- Sales are recorded on dispatch of goods to customers.
- Rental income is recognized on accrual basis.

4.13 Earnings per share

The Company presents earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by weighted average number of ordinary shares outstanding during the period.

4.14 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalent comprise cash in hand and cash at bank.

4.15 Related party transactions

Transactions with related parties are based at arm's length at normal commercial rates on the same terms and conditions as applicable to third party transactions.

4.16 Dividend and apportioning to reserves

Dividend and appropriation to reserves are recognized in the financial statements in the period in which these are approved.

4.17 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. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. All financial liabilities are derecognized at the time when they are extinguished that is, when the obligation specified in the contract is discharged, cancelled, or expired. Any gain or loss on derecognition of the financial assets and financial liabilities is included in profit and loss

4.18 Offsetting of financial assets and financial liabilities

A financial asset and a financial liability is 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 a net basis or to realize the assets and settle the liability

4.19 Foreign currency translation

Transactions in foreign currencies are converted into Pak Rupees at the rates of exchange

prevailing on the dates of transactions. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the rates of exchange prevailing at the balance sheet date. Exchange gains and losses are included in the profit and loss account.

4.20 Significant accounting judgments and critical accounting estimates / assumptions

The preparation of financial statements in conformity with approved accounting standards requires the management to:-

- exercise its judgment in process of applying the Company's accounting policies, and
- use of certain critical accounting estimates and assumptions concerning the future.

Judgments have been exercised by the management in applying the Company's accounting policies in many areas. Actual results may differ from estimates calculated using these judgments and assumptions.

The areas involving critical accounting estimates and significant assumptions concerning the future are discussed below:-

a) Income taxes

The Company takes into account relevant provisions of the prevailing income tax laws while providing for current and deferred taxes as explained in note 4.7 of these financial

b) Property, plant and equipment

Management has made estimates of residual values, useful lives and recoverable amounts of certain items of property, plant and equipment. Any change in these estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with corresponding effect on the depreciation charge and impairment loss.

c) Stores and spares

Management has made estimates for realizable amount of slow moving and obsolete stores and spares items to determine provision for slow moving and obsolete items. Any future change in the estimated realizable amounts might affect carrying amount of stores and spares with corresponding affect on amounts recognized in profit and loss account as provision / reversal.

5 Property, plant and equipment

The following is the statement of operating fixed assets:

Description	Land free hold	Buildings		Plant & machinery						Furniture and fixtures	Office equipment	Computers	Vehicles	Total
		Factory	Office	Imported	Local	Electrification	Casting benches	Laboratory ware	Generators					
Rupees														
Year ended June 30, 2013														
Gross carrying value basis														
Cost / revalued amount	141,120,000	126,264,221	2,648,885	399,761,413	7,267,721	19,545,360	449,385	198,744	407,936	2,696,361	4,627,146	203,300	1,425,723	706,616,195
Accumulated depreciation	-	(13,573,404)	(1,743,304)	(93,521,184)	(3,180,354)	(2,787,657)	(121,784)	(96,987)	(178,513)	(2,366,065)	(3,981,612)	(168,439)	(1,076,128)	(122,795,431)
Net book value	141,120,000	112,690,817	905,581	306,240,229	4,087,367	16,757,703	327,601	101,757	229,423	330,296	645,534	34,861	349,595	583,820,764
Net carrying value basis														
Opening net book value (NBV)	141,120,000	125,212,019	953,243	340,266,921	5,109,208	17,639,687	364,001	127,196	286,779	412,870	806,918	49,801	436,994	632,785,637
Depreciation charge	-	(12,521,202)	(47,662)	(34,026,692)	(1,021,841)	(881,984)	(36,400)	(25,439)	(57,356)	(82,574)	(161,384)	(14,940)	(87,399)	(48,964,873)
Closing net book value	141,120,000	112,690,817	905,581	306,240,229	4,087,367	16,757,703	327,601	101,757	229,423	330,296	645,534	34,861	349,595	583,820,764
Year ended June 30, 2012														
Gross carrying value basis														
Cost / revalued amount	141,120,000	126,264,221	2,648,885	399,761,413	7,267,721	19,545,360	449,385	198,744	407,936	2,696,361	4,627,146	203,300	1,425,723	706,616,195
Accumulated depreciation	-	(1,052,202)	(1,695,642)	(59,494,492)	(2,158,513)	(1,905,673)	(85,384)	(71,548)	(121,157)	(2,283,491)	(3,820,228)	(153,499)	(988,729)	(73,830,558)
Net book value	141,120,000	125,212,019	953,243	340,266,921	5,109,208	17,639,687	364,001	127,196	286,779	412,870	806,918	49,801	436,994	632,785,637
Net carrying value basis														
Opening net book value (NBV)	117,600,000	125,751,118	1,003,414	378,074,357	6,386,510	18,568,092	404,446	158,995	358,474	516,088	1,008,647	71,144	546,242	650,447,527
Revaluation during the year	23,520,000	12,040,289	-	-	-	-	-	-	-	-	-	-	-	35,560,289
Depreciation charge	-	(12,579,388)	(50,171)	(37,807,436)	(1,277,302)	(928,405)	(40,445)	(31,799)	(71,695)	(103,218)	(201,729)	(21,343)	(109,248)	(53,222,179)
Closing net book value	141,120,000	125,212,019	953,243	340,266,921	5,109,208	17,639,687	364,001	127,196	286,779	412,870	806,918	49,801	436,994	632,785,637

Annual rate of depreciation (%)

	-	10%	5%	10%	20%	5%	10%	20%	20%	20%	20%	30%	20%
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Note
 2013 Rupees
 2012 Rupees

5.1 Depreciation has been allocated as follows:

Cost of sales	24	48,720,049	52,956,068
Distribution cost	25	122,412	133,056
Administrative expenses	26	122,412	133,055
		<u>48,964,873</u>	<u>53,222,179</u>

	Note	2013 Rupees	2012 Rupees
6 CAPITAL WORK IN PROGRESS			
Plant and machinery	6.1	136,791,943	135,819,377
Civil works	6.2	11,321,940	184,009
	6.3	<u>148,113,883</u>	<u>136,003,386</u>
6.1 Plant and machinery			
Opening balance		135,819,377	101,272,642
Additions during the year		972,566	34,546,735
Closing balance		<u>136,791,943</u>	<u>135,819,377</u>
6.2 Civil works			
Opening balance		184,009	-
Additions during the year		11,137,931	184,009
Closing balance		<u>11,321,940</u>	<u>184,009</u>
6.3			
This represents import of new plant and machinery and site preparation for production of floor and wall tiles. The plant and machinery was to be capitalized after trial production during the year which could not be carried out due to a legal case pending before the Civil Court, Peshawar which issued a stay order during the year to maintain the status quo till the decision of the Court. Matter has been further explained in note 22.1.4.			

		2013 Rupees	2012 Rupees
7 STORES, SPARES AND LOOSE TOOLS			
Stores		10,914,606	6,959,260
Spare parts and loose tools		5,770,648	5,553,187
		<u>16,685,254</u>	<u>12,512,447</u>
7.1			
Stores and spares also include items which may result in capital expenditure but are not distinguishable at the time of purchase. However, the stores and spares consumption resulting in capital expenditure are capitalized in cost of respective assets.			

	Note	2013 Rupees	2012 Rupees
8 STOCK IN TRADE			
Raw material		18,106,176	19,860,045
Work in process		3,640,851	2,809,103
Finished goods		54,681,825	56,082,266
		<u>76,428,852</u>	<u>78,751,414</u>
Less: Allowance for write down of inventory	8.1	<u>(37,080,000)</u>	<u>(27,083,637)</u>
		<u>39,348,852</u>	<u>51,667,777</u>

	Note	2013 Rupees	2012 Rupees
8.1			
Movement in provision for write down of inventory is as follows:			
		(27,083,637)	(27,083,637)
		(9,996,363)	-
	8.2	<u>(37,080,000)</u>	<u>(27,083,637)</u>

8.2 This represents write down of finished goods inventory to its Net Realizable Value.

	Note	2013 Rupees	2012 Rupees
9			
TRADE DEBTS			
Unsecured;			
	9.2	2,710,094	2,822,833
		1,331,700	1,500,000
		<u>4,041,794</u>	<u>4,322,833</u>
	9.1	<u>(1,331,700)</u>	<u>(1,500,000)</u>
		<u>2,710,094</u>	<u>2,822,833</u>

9.1 Movement in provision for write down of inventory is as follows:

		(1,500,000)	(1,500,000)
		-	-
		168,300	-
		<u>(1,331,700)</u>	<u>(1,500,000)</u>

9.2 Trade debts include an amount of Rs.2,578,043 (2012 : Rs. 2,578,043) due from Toyota Rawal Motors (Private) Limited, an associated company.

9.3 The aging of related party balances at the balance sheet date is as follows:

	2013 Rupees	2012 Rupees
Past due 0-30 days	-	-
Past due 30 days - 90 days	-	-
Above 90 days	2,578,043	2,578,043
	<u>2,578,043</u>	<u>2,578,043</u>

9.4 The maximum aggregate amount due from associated company at the end of any month during the year was Rs. 2,578,043 (2012 : Rs. 2,578,043).

	Note	2013 Rupees	2012 Rupees
10			
ADVANCES			
Unsecured considered good			
Advances :			
- to suppliers		1,820,715	7,251,972
- against expenses		20,476	30,704
- against salaries		359,208	776,577
- against vehicles	10.1	2,036,418	-
- against letter of credit and guarantee		4,750,120	4,638,820
- against letter of credit		5,332,505	591,874
		<u>14,319,442</u>	<u>13,289,947</u>
10.1	This represents advance given to Toyota Rawal Motors (Private) Limited, a related party for the lease of vehicle for their employees, This balance will be adjusted against the salaries of employees of the Company.		
		2013 Rupees	2012 Rupees
11			
TAX REFUNDS DUE FROM GOVERNMENT			
Considered good			
Income tax		<u>4,076,626</u>	<u>1,513,285</u>
12			
TAXATION - NET			
Provision for the year	29	(1,514,690)	(3,292,531)
Less : Payment / adjustment		<u>4,934,877</u>	<u>4,262,364</u>
		<u>3,420,187</u>	<u>969,833</u>
13			
CASH AND BANK BALANCES			
Cash in hand		96,302	944,388
Cash at banks - current account		<u>3,417,090</u>	<u>1,373,140</u>
		<u>3,513,392</u>	<u>2,317,528</u>
14			
SHARE CAPITAL			
14.1	Issued, subscribed and paid up capital:		
	7,741,200 (2012 : 7,741,200) ordinary shares of Rs.10/- each fully paid in cash	<u>77,412,000</u>	<u>77,412,000</u>
14.2	Authorized share capital:		
	This represents 75,000,000 (2012 : 8,000,000) ordinary shares of Rs. 10 each amounting to Rs.750,000,000 (2012 : 80,000,000).		

	2013 Rupees	2012 Rupees
15 SURPLUS ON REVALUATION OF OPERATING FIXED ASSETS		
Opening balance - restated	520,285,856	525,367,029
Add: Revaluation during the year	-	35,560,289
	520,285,856	560,927,318
Less:		
- Transferred to equity in respect of incremental depreciation charged during the year - (net of deferred tax)	24,579,696	26,416,950
- Related deferred tax liability during the year transferred to profit and loss account	13,235,221	14,224,512
	37,814,917	40,641,462
	482,470,939	520,285,856
Less:		
Related deferred tax effect :		
- Opening balance - as previously reported	133,939,434	143,949,845
- Revaluation during the year	-	4,214,101
- Effect of change in rate	(3,448,690)	-
Less Incremental depreciation charged during the year transferred to profit and loss account	(13,235,221)	(14,224,512)
	117,255,523	133,939,434
	365,215,416	386,346,422

- 15.1 The Company has revalued its freehold land and buildings on May 21, 2012 by independent valuer M/s Mughal Associates, Valuers & Consulting Engineers on the basis of market value. At the above date, the revaluation resulted in a surplus of Rs. 35,560,289.
- 15.2 Previously freehold land, building and plant and machinery were revalued on June 30, 2010 by M/S. Mughal Associates, Valuers & Consulting Engineers, independent firm of industrial valuation consultants. The revaluation was based on prevailing market price. At that date, the revaluation resulted in a surplus of Rs. 353,104,564 on these assets.
- 15.3 Previously freehold land and building was revalued on June 08, 2004 by M/S. Industrial Consultants and Machinery Linkers, independent firm of industrial valuation consultants. The revaluation was based on prevailing market price for free hold land and replacement value for building. At that date, the revaluation resulted in a surplus of Rs. 66,359,632 on these assets.
- 15.4 Previously plant and machinery was revalued on August 25, 1996 by M/s. Global Engineers (Private) Limited, independent firm of industrial valuation consultants. The revaluation was based on depreciated replacement value. At that date, the revaluation resulted in a surplus of Rs. 283,925,776 on these assets.
- 15.5 Under the requirements of the Companies Ordinance, 1984, the Company cannot use the surplus except for setting off the losses arising out of the disposal of the revalued assets, losses arising out of the subsequent revaluation of assets and to set-off any incremental depreciation arising as a result of revaluation.

15.6 Had there been no revaluation, the net book value of the specific classes of operating assets would have been as follows:

	Note	2013 Rupees	2012 Rupees
Free hold land		3,518,245	3,518,245
Factory building		33,258,273	36,953,637
Plant and machinery			
Imported		81,704,641	83,799,632
Local		2,761,669	3,452,086
Electrification		4,543,590	4,782,726
Casting benches		129,202	143,558
Laboratory ware		13,948	17,435
Generators		129,202	143,558
		89,282,252	92,338,995
		<u>126,058,770</u>	<u>132,810,877</u>

16 LONG TERM FINANCING

From financial institutions - secured	16.1	-	-
From associated person - unsecured	16.2	89,180,130	89,180,130
		<u>89,180,130</u>	<u>89,180,130</u>

16.1 Financial institutions - secured

National Bank of Pakistan	-	86,663,313
Banker's Equity Limited	-	6,046,219
Habib Bank Limited	-	1,098,380
United Bank Limited	-	620,179
Orix Investment Bank Pakistan Limited	-	5,499,864
NIB Bank Limited	-	6,920,672
Bank of Khyber	-	7,277,664
	-	<u>114,126,291</u>
Less : Current portion	-	<u>(114,126,291)</u>
	-	<u>-</u>

16.1.1 This represents interest free loan received from 10 financial institutions under settlement agreement and is repayable in 36 equal monthly installments starting from March 2009. In 2006, the Company approached The State Bank of Pakistan's Committee for Revival of Sick Industrial Units (CRSIU) for restructuring of outstanding liabilities. CRSIU arranged the meeting of all the participant financial institutions in which CRSIU directed all the financial institutions to reduce their respective loans proportionally to the forced sale value of the project of Rs. 168 million, and a settlement agreement was signed on March 05, 2009 between the parties.

16.1.2 As per agreement in case the Company fails to pay any three consecutive monthly installment amount, the write off/ waiver to be granted by the financial institutions in accordance with the decision of CRSIU dated August 19, 2006 and under the settlement agreement of certain portions of their principal outstanding amount and whole of the mark up shall become ineffective and stand revoked with Company being liable to immediately pay the total outstanding amount to the financial institutions along with all mark up, profits, compensation, charges, cost and other amounts in the same manner as it would have been if this agreement had not been entered into and a fresh cause of action shall become available to the financial institutions to recover their outstanding amounts along with all mark up etc by exercising, judicial and other legal remedies available to them.

16.1.3 The Company has provided from time to time following securities in favor of the financial institutions to secure its repayment of loans;

National Bank of Pakistan

- First charge on project assets ranking Pari Passu with NIB Bank Limited.
- First charge on stocks , book debts and other current assets.
- Hypothecation of stocks
- Pledge of stocks
- Personal guarantees of sponsors

ORIX Investment Bank Pakistan Limited

Hypothecation charge on plant, machinery, equipment and other moveable assets of the Company.

NIB Bank Limited

- First charge on all the moveable and immoveable assets of the Company ranking pari passu with the securities offered to NDFC and BEL Consortium.
- Personal guarantees of directors.

Bank of Khyber

Hypothecation of stocks, stores and spares of the Company.

Other financial institutions

- Joint charge on the assets of the Company pari passu
- Hypothecation of moveable / receivable
- Personal guarantees of the sponsors

However, in the case of ambiguity / dispute regarding securities / charges against loans / finances, the loan documents already executed in this regard between the parties shall

16.1.4 As per settlement agreement for long term financing, it is expressly agreed between the parties that the sponsor shares of the Company totaling Rs. 2,323,965 held by BEL under its pledge shall be released to and transferred by BEL to the new investors after the receipt of payment of total settlement amount to BEL and its consortium members by the Company in accordance with the agreement.

These are secured against first charge on Project assets ranking Pari Passu with NIB, first charge on stocks , book debts and other current assets, hypothecation of stocks and personal guarantees of the sponsors.

- 16.1.5 The loan has been fully repaid during the year. However full settlement and no objection certificates (NOCs) from few financial institutions are outstanding to date. The management is confident that the negotiations with the financial institutions are at advanced stage and NOCs shall be obtained subsequently in due course of time.
- 16.2 This represents interest free unsecured loan received from a shareholder of the Company, to meet the working capital requirements of the Company. The loan is not repayable before June 30, 2014. The Company in its Extra Ordinary General Meeting held on July 19, 2012 has approved the issue of right shares at 1.80/right share, whereas subsequently SECP approved right shares vide letter No. EMD/233/584/02-096 dated June 18, 2013 at the rate of Rs. 5.50/right share. Major shareholders/sponsors have refused to accept SECP's approved rate and the matter is yet under consideration.

17 DEFERRED TAXATION

Deferred tax liabilities/(assets) arising due to taxable temporary differences are as follows:

	2013	2012
	Rupees	Rupees
Accelerated depreciation	(10,763,710)	(15,936,604)
Surplus on revaluation of fixed assets	117,255,523	133,939,435
	<u>106,491,813</u>	<u>118,002,831</u>
Tax rate used	<u>34%</u>	<u>35%</u>

17.1 Deferred tax asset of Rs. 34.730 million (2012: Rs. 77.381 million) due to brought forward losses and provision for doubtful debts has not been recognized in the current financial statements, as in the opinion of the management there is no certainty regarding realisability of the amount.

17.2 In view of judgment of Sindh High Court vide ITRA No. 132 of 2011 dated May 07, 2013, the benefit of section 113 (2) (c) is no more available to the taxpayer. Accordingly minimum tax paid in previous years due to losses cannot be adjusted from the tax liability of subsequent years. Therefore the turnover tax amounting to Rs. 6.363 million has been reversed during the year.

	Note	2013 Rupees	2012 Rupees
18 TRADE AND OTHER PAYABLES			
Trade creditors		57,775,807	57,116,214
Accrued liabilities		28,771,382	23,473,457
Advances from customers		72,608,708	106,681,977
Advance rental income		213,120	213,120
Unclaimed dividend		3,189,224	3,189,224
Old labour dues	18.1	4,320,806	4,518,342
Sales tax payable		1,460,237	1,882,205
Withholding tax payable		1,122,307	974,115
Workers' profit participation fund	18.2	7,036,737	6,040,117
Workers welfare fund		440,139	440,139
		<u>176,938,467</u>	<u>204,528,910</u>

18.1 This represents labor dues of old employees which relates to prior years to acquisition by current management of the Company. The dues are recorded in the year ended June 30, 2011 due to claims lodged against Company by workmen and on receipt of notification from SECP last year.

	2013 Rupees	2012 Rupees
18.2 Workers profit participation fund		
Opening balance	6,040,117	4,011,912
Provision for the year	-	1,366,240
Interest for the year @ 16.5%	996,620	661,965
	<u>7,036,737</u>	<u>6,040,117</u>

	Note	2013 Rupees	2012 Rupees
19	MARK UP ACCRUED		
	Mark up on short term borrowing from		
	Financial institution	1,518,932	1,232,432
	Related party	1,070,843	868,827
		<u>2,589,775</u>	<u>2,101,259</u>

20 SHORT TERM BORROWINGS

Financial institutions - secured	20.1	1,910,000	1,910,000
Related parties - unsecured			
Due to associated company	20.2	1,770,521	1,770,521
Due to associated person	20.3	734,716	734,716
		<u>4,415,237</u>	<u>4,415,237</u>

20.1 This represents interest bearing loan received from Innovative Investment Bank Limited for working capital on musharika sharing basis in 2003. The loan carries mark up @ 15% per annum.

Loan is secured by way of demand promissory note, registered mortgage on residential property, registered charge on current and fixed assets of the Company.

20.2 This represents interest bearing unsecured loan received from Toyota Rawal Motors for working capital of the Company. The loan carries mark up @ one year KIBOR plus 2 % per annum.

20.3 This represents unsecured interest free loans from a share holder of the Company, repayable at the convenience of the Company on attaining financial stability.

	Note	2013 Rupees	2012 Rupees
21	CURRENT PORTION OF LONG TERM FINANCING		
	Current portion	21.1 <u>114,126,275</u>	<u>114,126,275</u>

21.1 This represents the wavier amount of long term financing to be granted by creditor banks on settlement of loans as per Settlement Agreement dated June 26, 2008. The management intends to retain the amount for write off till next year, as the management is in the process of receiving NOC from lead bank that is National Bank of Pakistan, waiting for pending approval of its board of directors.

22 CONTINGENCIES AND COMMITMENTS

22.1 CONTINGENCIES

22.1.1 As per settlement agreement with the creditor banks, no interest has been accounted for subsequent to the settlement agreement relating to long term financing in prior years. The

loan has been fully repaid, however No Objection Certificate (NOC) from National Bank of Pakistan is outstanding to date to confirm the final settlement of the loans. As no event of default has been communicated to the Company to date, the amount of default, if any, can not be accurately quantifiable.

- 22.1.2 Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. As a result of this amendment, the Company was considered to be subject to the provisions of the WWF Ordinance.

The Lahore High Court has struck down the aforementioned amendments to the WWF Ordinance. However, a three member larger bench of Sindh High Court has held that such amendments were validly made. Subsequent to this judgment, various petitions have been filed before Sindh High Court challenging the vires of such amendments and stay has been granted by a Division Bench of Sindh High Court.

Besides this, the judgment of three member larger bench of Sindh High Court has also been challenged before Supreme Court of Pakistan. Therefore, the management of the Company is of the opinion that no provision is to be made till the outcome of these petitions. Had this provision been made since July 01, 2010 it would be Rs. 519,171.

- 22.1.3 Noman Ghani vs. FCL & others:

This is the recovery suit against the Company. In this suit original claim was of Rs. 1,248,172. Later on, the petitioner submitted another application for amendment of plaint for recovery of Rs. 20 million plus 18% being current bank interest. The application was dismissed and they filled an appeal against the order in the District court. The District Judge dismissed their claim of 20 million and partially allowed the interest. The matter is still pending before the trial court. The Company has not incorporated the contingency as the management is of the view that the case will be settled in favour of the Company.

- 22.1.4 Sardar Asif vs. FCL

An ex-parte decree in favor of the Company's ex-suppliers was issued by the Civil Court, Peshawar, who proceeded on a part of Company's land against the Company in the Court. The Court decreed the suit in favour of the plaintiff, against the decreed claim of Rs. 1.450 million, for the possession of the property of the Company bearing Plot No 21, 22 and 23 situated at Peshawar. Decree holder further got the stay order to restrain the ongoing construction works on these plots, resultantly all the construction and expansion activities which were being or to be carried out at these plots are discontinued at the factory. The Case was filed during the previous management of the Company by the supplier and is now pending before the Civil Court, Peshawar to set aside the ex-parte decree. The Company is hopeful of a favorable outcome of the pending case.

- 22.1.5 Guarantee has been issued by Silk Bank Limited on behalf of the Company in the normal course of business in favour of M/s Sui Northern Gas Pipelines Limited aggregating to Rs. 20.671 million (2012: Rs. 20.453 million).

22.2 COMMITMENTS

The Company has commitments of Rs. 5.997 million (2012: Rs. 3.804 million) against import of raw materials, Rs. 3.820 million (June 30, 2012: Rs. 0.903 million) against import of stores and spares, in respect of outstanding letter of credits and telegraphic transfers and Rs. Nil (2012: Rs. 12.920 million) against construction of building.

	Note	2013 Rupees	2012 Rupees
23 SALES			
Gross sales			
Sales - Tiles		328,302,543	355,353,265
Sales - Sanitary ware		-	240,084
		328,302,543	355,593,349
Less : Sales tax		(25,364,546)	(26,340,249)
		<u>302,937,997</u>	<u>329,253,100</u>

24 COST OF SALES			
Raw material consumed	24.1	60,544,045	66,438,969
Stores, spares and loose tools consumed	24.2	44,508,540	38,367,363
Gas and electricity		96,988,489	97,343,839
Salaries , wages and other benefits		28,154,768	28,803,700
Travelling and conveyance		28,000	1,442,758
Repairs and maintenance		100,880	22,100
Depreciation	5.1	48,720,049	52,956,068
Generator rent		2,334,078	2,069,500
Miscellaneous		6,113	213,216
		<u>281,384,962</u>	<u>287,657,513</u>
Work in process			
Opening		2,809,103	2,302,237
Closing		(3,640,851)	(2,809,103)
		(831,748)	(506,866)
Finished goods			
Opening		56,082,266	51,667,632
Closing		(54,681,825)	(56,082,266)
		1,400,441	(4,414,634)
		<u>281,953,656</u>	<u>282,736,013</u>

	Note	2013 Rupees	2012 Rupees
24.1 Raw material consumed			
Opening balance		19,860,045	19,786,286
Add : Purchases		58,790,176	66,512,728
Less : Closing stock		(18,106,176)	(19,860,045)
		<u>60,544,045</u>	<u>66,438,969</u>
24.2 Stores, spares and loose tools consumed			
Opening balance		12,512,447	7,140,433
Add : Purchases		48,681,347	43,739,377
		61,193,794	50,879,810
Less : Closing stock		(16,685,254)	(12,512,447)
		<u>44,508,540</u>	<u>38,367,363</u>

25 DISTRIBUTION COST

Salaries, allowances and benefits		3,519,413	3,142,096
Traveling and conveyance		6,950	14,966
Depreciation	5.1	122,412	133,056
Rent expense		180,340	180,240
Miscellaneous		1,160	1,835
		<u>3,830,275</u>	<u>3,472,193</u>

26 ADMINISTRATIVE EXPENSES

Directors' remuneration		2,562,000	2,441,988
Salaries, allowances and benefits		8,691,318	7,490,688
Rent, rates and taxes		435,600	499,895
Utilities		292,885	877,458
Printing and stationery		346,175	129,519
Communication		102,788	294,895
Fee and subscription		217,476	650,715
Travelling and conveyance		76,234	98,283
Repair and maintenance		4,300	19,430
Vehicle running and maintenance		48,625	60,714
Vehicle rental		-	167,256
Depreciation	5.1	122,412	133,055
Entertainment		44,459	53,035
Miscellaneous		8,630	63,996
		<u>12,952,902</u>	<u>12,980,927</u>

Note	2013 Rupees	2012 Rupees
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27 OTHER OPERATING EXPENSES

Workers profit participation fund		-	1,366,240
Legal and professional charges		2,467,000	438,882
Auditors' remuneration	27.1	393,250	335,800
Allowance for write down of inventory	8.1	9,996,363	-
		<u>12,856,613</u>	<u>2,140,922</u>

27.1 Auditors' remuneration

Audit fee		275,000	250,000
Review of half year financial statements		82,500	75,000
Out of pocket expenses		35,750	10,800
		<u>393,250</u>	<u>335,800</u>

28 FINANCE COST

Mark up/interest on:			
Short term borrowings :			
- From financial institutions		286,500	286,500
- From related party		202,016	287,533
Workers' profit participation fund		996,620	661,965
Bank charges		404,805	728,489
		<u>1,889,941</u>	<u>1,964,487</u>

29 TAXATION

Provision for taxation			
Current year	29.1	1,514,690	3,292,531
Prior year		(1,593,508)	-
Deferred		<u>(8,062,328)</u>	<u>(9,847,937)</u>
		<u><u>(8,141,146)</u></u>	<u><u>(6,555,406)</u></u>

29.1 In view of tax loss for the year, provision for current year represents minimum tax payable under section 113 of the Income Tax Ordinance, 2001.

29.2 Numerical reconciliation between applicable tax rate and average effective tax rate has not been prepared as the Company was subject to minimum tax in the current and prior year.

30 (LOSS) / EARNINGS PER SHARE - BASIC AND DILUTED

There is no dilutive effect on the basic earnings per share of the Company, which is based on:

	2013 Rupees	2012 Rupees
(Loss)/profit after taxation	<u>(2,235,944)</u>	<u>32,513,964</u>
	Number of shares	
Weighted average number of ordinary shares	<u>7,741,200</u>	<u>7,741,200</u>
	Rupees	
Earnings per share - basic and diluted	<u>(0.29)</u>	<u>4.20</u>

31 FINANCIAL ASSETS AND LIABILITIES

The Company's exposure to interest rate risk on its financial assets and liabilities are summarized as follows: -

	Total 2013	Interest/mark up bearing		Sub-total	Not interest /mark up bearing
		Maturity up to one year	Maturity after one year Rupees		
Financial assets					
Loans and receivables at amortized cost					
Long term deposits	1,513,450	-	-	-	1,513,450
Trade debts	4,041,794	-	-	-	4,041,794
Advances	2,395,626	-	-	-	2,395,626
Cash and bank balances	3,513,392	-	-	-	3,513,392
	<u>11,464,262</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,464,262</u>
Financial liabilities					
Financial liabilities carried at amortized cost					
Long term financing	203,306,405	114,126,275	-	114,126,275	89,180,130
Trade and other payables	94,057,219	-	-	-	94,057,219
Mark up accrued	2,589,775	-	-	-	2,589,775
Short term borrowings	4,415,237	4,415,237	-	4,415,237	-
	<u>304,368,636</u>	<u>118,541,512</u>	<u>-</u>	<u>118,541,512</u>	<u>185,827,124</u>
On balance sheet gap	<u>(292,904,374)</u>	<u>(118,541,512)</u>	<u>-</u>	<u>(118,541,512)</u>	<u>(174,362,862)</u>
Off Balance sheet Items					
Financial commitments:	-	-	-	-	-
Letter of credits	4,707,635	-	-	-	4,707,635
Bank guarantee	20,453,052	-	-	-	20,453,052
Total Gap	<u>(318,065,061)</u>	<u>(118,541,512)</u>	<u>-</u>	<u>(118,541,512)</u>	<u>(199,523,549)</u>

	Total 2012	Interest/mark up bearing		Sub-total	Not interest /mark up bearing
		Maturity up to one year	Maturity after one year Rupees		
Financial assets					
Loans and receivables at amortized cost					
Long term deposits	1,513,450	-	-	-	1,513,450
Trade debts	4,322,833	-	-	-	4,322,833
Advances	776,577	-	-	-	776,577
Cash and bank balances	2,317,528	-	-	-	2,317,528
	<u>8,930,388</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,930,388</u>
Financial liabilities					
Financial liabilities carried at amortized cost					
Long term financing	203,306,405	114,126,275	-	114,126,275	89,180,130
Long term deposits	576,000	-	-	-	576,000
Trade and other payables	88,297,237	-	-	-	88,297,237
Mark up accrued	2,101,259	-	-	-	2,101,259
Bank over draft	4,415,237	4,415,237	-	4,415,237	-
	<u>298,696,138</u>	<u>118,541,512</u>	<u>-</u>	<u>118,541,512</u>	<u>180,154,626</u>
On balance sheet gap	<u>(289,765,750)</u>	<u>(118,541,512)</u>	<u>-</u>	<u>(118,541,512)</u>	<u>(171,224,238)</u>
Off Balance sheet Items					
Financial commitments:	-	-	-	-	-
Letter of credits	4,707,635	-	-	-	4,707,635
Bank guarantee	20,453,052	-	-	-	20,453,052
Total Gap	<u>(314,926,437)</u>	<u>(118,541,512)</u>	<u>-</u>	<u>(118,541,512)</u>	<u>(196,384,925)</u>

Effective interest rates are mentioned in the respective notes to the financial statements.

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

32.1 Risk management policies

The Company's objective in managing risks is the creation and protection of share holders' value. Risk is inherent in the Company's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Company's continuing profitability. The Company is exposed to credit risk, liquidity risk and market risk (which includes interest rate risk and price risk) arising from the financial instruments it holds.

The Company finances its operations through equity, borrowings and management of working capital with a view to maintaining an appropriate mix between various sources of finance to minimize risk.

32.2 Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fail to perform as contracted and arises principally from trade and other receivables. The Company's policy is to enter into financial contracts with reputable counter parties in accordance with the internal guidelines and regulator requirements.

Exposure to credit risk

The carrying amounts of the financial assets represent the maximum credit exposures before any credit enhancements. Out of total financial assets of Rs. 11.464 million (2012 : Rs. 8.930 million) the financial assets which are subject to credit risk amounted to Rs. 11.367 million (2012 : Rs. 7.986 million). The carrying amounts of financial assets exposed to credit risk at reporting date are as under:

	2013 Rupees	2012 Rupees
Long term deposits	1,513,450	1,513,450
Trade debts	4,041,794	4,322,833
Advances	2,395,626	776,577
Cash and bank balances	3,417,090	1,373,140
	<u>11,367,960</u>	<u>7,986,000</u>
The aging of gross trade receivables at the reporting date is:		
Past due 1-30 days	-	133,600
Past due 30-90 days	-	100,000
Past due 90 days	4,041,794	4,089,233
	<u>4,041,794</u>	<u>4,322,833</u>

All the trade debts at balance sheet date are domestic parties.

To manage exposure to credit risk in respect of trade debts, management performs credit reviews taking into account the customer's financial position, past experience and other factors. Where considered necessary, advance payments are obtained from certain parties. Sales made to certain customers are secured through letters of credit.

The exposure to banks is managed by dealing with variety of major banks and monitoring exposure limits on continuous basis.

Concentration of credit risk

Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their abilities to meet contractual obligation to be similarly affected by the changes in economic, political or other conditions.

The Company believes that it is not exposed to concentration of credit risk. However, this risk is mitigated by monitoring credit exposures.

Impaired assets

During the year no assets have been impaired.

32.3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements, if any:

	Carrying Amount	Contractual Cash Flows	Six months or less	Six to Twelve months (Rupees)	One to two years	Two to five years	Over five years
2013							
Long term financing	203,306,405	203,306,405	114,126,275	-	-	89,180,130	-
Trade and other payables	94,057,219	94,057,219	94,057,219	-	-	-	-
Mark up accrued	2,589,775	2,589,775	2,589,775	-	-	-	-
	<u>299,953,399</u>	<u>299,953,399</u>	<u>210,773,269</u>	<u>-</u>	<u>-</u>	<u>89,180,130</u>	<u>-</u>
2012							
Long term financing	203,306,405	203,306,405	114,126,275	-	-	89,180,130	-
Long term deposits	576,000	576,000	-	-	-	576,000	-
Trade and other payables	85,463,317	85,463,317	85,463,317	-	-	-	-
Mark up accrued	2,101,259	2,101,259	2,101,259	-	-	-	-
	<u>291,446,981</u>	<u>291,446,981</u>	<u>201,690,851</u>	<u>-</u>	<u>-</u>	<u>89,756,130</u>	<u>-</u>

32.4 Market risk

Market risk is the risk that changes in market price, such as foreign exchange rates, interest rates and equity prices will effect the Company's income or the value of its holdings of financial instruments.

a) Currency risk

Foreign currency risk is the risk that the value of financial asset or a liability will fluctuate due to a change in foreign exchange rates. It arises mainly where receivables and payables exist due to transactions entered into in foreign currencies. The Company believes that it is not exposed to currency risk as there are no foreign currency, financial assets or financial liabilities.

b) Interest rate risk

Interest rate risk is the risk that the fair value or 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 borrowings. At the balance sheet date the interest rate profile of the Company's interest-bearing financial instruments is:

	2013	2012	2013	2012
	Effective Rate		Carrying amount	
	(In percent)		(Rupees)	
Financial Liabilities				
<i>Fixed rate instrument</i>				
Short term borrowings	15.0%	15.0%	1,910,000	1,910,000
<i>Variable rate instrument</i>				
Short term borrowings	15% to 16.42%	15% to 16.42%	1,770,521	1,770,521

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have decreased / (increased) loss for the year by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for prior year.

	Profit and loss	
	100 bp Increase	100 bp Decrease
As at June 30, 2013		
Cash flow sensitivity - Variable rate financial liabilities	17,705	(17,705)
As at June 30, 2012		
Cash flow sensitivity - Variable rate financial liabilities	17,705	(17,705)

The sensitivity analysis prepared is not necessarily indicative of the effects on (loss) / profit for the

year and assets / liabilities of the Company.

33 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction.

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

34 CAPITAL MANAGEMENT

The Company's objectives when maintaining capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders through the optimization of the debt and equity balance.

The Company sets the amount of capital it requires in proportion to risk. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares.

The Company management believes on maintaining appropriate mix of debt and equity capital and monitors capital on the basis of the net debt to equity ratio. The net debt is defined as long and short term borrowings offset by cash and bank balances. The equity includes share capital, all types of reserves that are managed as capital.

The Company is not subject to any externally imposed capital requirements.

	2013	2012
35 PLANT CAPACITY AND PRODUCTION		
<i>Ceramic tiles</i>		
Ideal capacity in square meters	2,160,000	2,160,000
Actual production in square meters	1,007,471	1,113,346
No. of shifts worked daily	3	3
<i>Sanitary ware</i>		
Ideal capacity in tons	3,000	3,000
Actual production in tons	Nil	Nil

Reasons for under utilization of capacity

The Company could not achieve the ideal capacity of ceramic tile due to excessive load shedding of gas during winter season and political instability in the area.

Production of sanitary ware was stopped by the management since 2003, due to lack of expertise in the area.

36 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The transactions with key management personnel includes remuneration and other benefits under the terms of their employment which are as follows:

	2013				2012			
	Chief executive	Directors	Executive	Total	Chief executive	Directors	Executive	Total
	----- Rupees -----							
Managerial remuneration	1,056,000	353,100	3,686,034	5,095,134	1,161,288	414,192	3,695,136	5,270,616
Housing and utilities	864,000	288,900	3,015,846	4,168,746	638,700	227,808	2,248,104	3,114,612
	<u>1,920,000</u>	<u>642,000</u>	<u>6,701,880</u>	<u>9,263,880</u>	<u>1,799,988</u>	<u>642,000</u>	<u>5,943,240</u>	<u>8,385,228</u>
No. of persons	<u>1</u>	<u>1</u>	<u>5</u>	<u>7</u>	<u>1</u>	<u>1</u>	<u>5</u>	<u>7</u>

37 TRANSACTIONS WITH RELATED PARTIES

The related parties and associated undertakings of the Company comprise of group companies, other associate companies, directors and key management personnel. Transactions with related parties and associated undertakings are as under:

Relation with the Company	Nature of Transaction	2013 Rupees	2012 Rupees
Associated Company			
Toyota Rawal Motors (Private) Limited	Sales of tiles	-	2,500,000
	Short term financing - Mark up	202,017	270,935
	Rental for building	435,600	396,000
	Utilities	120,000	120,000
Key management personnel			
	Short term borrowings - addition	-	734,716
	Long term financing - addition	-	-
	Long term financing - repaid	-	9,105,000
	Remuneration and other benefits	9,263,880	8,385,228

38 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary for the purpose of comparison and for better presentation. Tax refund due from Government amounting to Rs. 1.513 million has been reclassified from taxation - net during the year.

39 NUMBER OF EMPLOYEES

The Company has following number of employees as at June 30, 2013 and average during the year.

	No of employees			
	June 30, 2013	June 30, 2012	Average 2013	Average 2012
No of employees	177	218	190	226

40 DATE OF AUTHORIZATION

These financial statements were authorized for issue on October 08, 2013 by the Board of Directors of the Company.

41 GENERAL

Figures have been rounded off to the nearest rupee.

Statement under section 241(2) of the Companies Ordinance, 1984 :

At the time of the meeting of the Board of Directors, the Chief Executive was not in Pakistan, as such these financial statements, as approved by the Board of Directors, have been signed by two Directors.

DIRECTOR

DIRECTOR

FRONTIER CERAMICS LIMITED

PATTERN OF SHAREHOLDINGS AS AT JUNE 30, 2013

<u>Number of Share Holders</u>	<u>Shareholdings</u>		<u>Total Shares Held</u>
	<u>From</u>	<u>To</u>	
98	1	100	6,457
606	101	500	275,009
91	501	1,000	90,400
127	1,001	5,000	328,313
21	5,001	10,000	163,700
11	10,001	20,000	176,163
14	20,001	50,000	473,600
1	50,001	100,000	174,600
1	100,001	200,000	147,500
1	200,001	300,000	260,000
2	300,001	400,000	778,000
2	400,001	500,000	985,530
1	500,001	600,000	516,805
1	600,001	1,000,000	753,100
2	1,000,001	2,000,000	2,612,023
<u>979</u>			<u>7,741,200</u>

Categories of Shareholders
As of June 30, 2013

Categories of Shareholders	Shares Held	Percentage
Directors and their spouse(s) and minor children		
Mr. Omer Khalid, CEO	261,113	3.37
Mrs. Shazia Khalid	500	0.01
Ms. Sana Khalid	521,530	6.74
Mrs. Hameeda Khalid	500	0.01
Mrs. Parvez Aslam	500	0.01
Ms. Farhat	500	0.01
Raja Ghazanfar Ali	500	0.01
	785,143	10.14
Shareholders Holding 10% or More Shares		
Mrs. Samina Durrani	1,208,195	15.61
Mrs. Amera Khalid	1,781,828	23.02
	2,990,023	38.62
Associated Companies, Undertakings and Related Parties		
	-	-
Executives		
Mr. Nadeem Khalid	753,100	9.73
Mr. Fazle Khaliq (Resigned on March 31, 2013)	1,000	0.01
Mr. M. Fayyaz Khan	500	0.01
	754,600	9.75
Public Sector Companies and Corporations		
	-	-
Banks, development finance institutions, non-banking finance companies, insurance companies, takaful, modarabas and pension funds		
BEL	5,600	0.07
PICIC	37,600	0.49
EFU Insurance	100,000	1.29
Adamjee Insurance	42,500	0.55
Modaraba Al-Tijarah	14,500	0.19
	200,200	2.59

NIT & ICP (Name Wise Detail)

National Bank (Trustee Department)	74,600	0.96
Investment Corporation of Pakistan	40,200	0.52
	114,800	1.48

General Public

a. Local	2,886,434	37.29
b. Foreign	-	-
	2,886,434	37.29

Others (to be specified):

Joint Stock Companies:

Darson Securities (Pvt) Ltd.	1,000	0.01
AWJ Securities (Pvt) Ltd.	500	0.01
Muhammad Ahmad Nadeem Securities	100	0.00
128 Securities (Pvt)	1,000	0.01
Ismail A. Shakoo Securities (Pvt) Ltd.	400	0.01
Fairtrade Capital Securities (Pvt) Ltd.	1,000	0.01
AKD Securities Ltd.	900	0.01
Highlink Capital (Pvt) Ltd.	4,000	0.05
Faikree's (SMC-PVT) Limited	1,100	0.01
	10,000	0.13

7,741,200 100.00

Shareholders holding 5% or more	Shares Held	Percentage
Mr. Nadeem Khalid	753,100	9.73
Mrs. Samina Durrani	1,208,195	15.61
Mrs. Amara Khalid	1,781,828	23.02
Ms. Sana Khalid	521,530	6.74

PROXY FORM

I/We _____ of _____ being a member(s) of FRONTIER CERAMICS LIMITED and a holder of _____ ordinary Shares as per share Register Folio No. _____ or CDC Participant ID No. Account No. _____ hereby appoint of _____ who is also member of FRONTIER CERAMICS LIMITED Vide Folio No. _____ or CDC Participant ID No. Account No. _____ or failing him/her of _____ who is also member of Frontier Ceramics limited vide folio No. _____ or CDC Participant ID No. Account No. _____ as my/our proxy in my/our absence to attend and vote for me/us and on my /our behalf at the Thirty First Annual General Meeting of the Company to be held on October 31, 2013 and at any adjournment thereof. As witness my/our hand /seal this _____ day of _____ 2013.

Signed by said _____

Witness:	_____	Witness	_____
(Signature)	_____	(Signature)	_____
Name:	_____	Name	_____
Address:	_____	Address:	_____
CNIC No:	_____	CNIC No:	_____

Please affix
Rs. 5/- (Revenue Stamp)

Signature of member(s)

Notes:

1. This proxy form duly completed and signed must be received at the Registered Office of the Company, 29-Industrial Estate, Jamrud Road, Peshawar not less than 48 hours before the time of holding the meeting.
2. No person shall act as proxy unless he himself is a member of the company, except that a corporation may appoint a person who is not a member.
3. If a member appoints more than one proxy and more than one instruments of proxy are deposited by a member with the company, all such instruments of proxy shall be rendered invalid.

FOR CDC ACCOUNT HOLDERS / CORPORATE ENTITIES

In addition to the above the following requirements have to be met:

- a) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.
- b) Attested copy of CNIC or the passport of the beneficial owners shall be furnished with the proxy form.
- c) The proxy shall produce his / her original CNIC or original passport at the time of the meeting.
- d) In case of corporate entity, the Board of Director's resolution / power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the Company.