FRONTIER CERAMICS LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2011

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.122.710 million. Current liabilities exceeded the current assets by Rs. 272.028 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 5.20.

2.3 Functional and presentation currency

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

3 CHANGE IN ACCOUNTING ESTIMATE

During the year the Company has revised its depreciation rates after comparison with normal industry practice. The said change has been accounted for as change in accounting estimates in accordance with the requirements of IAS 8 (Accounting policies, changes in accounting estimates and errors). The effect of this change has been recognized prospectively in the financial statements. Had there been no change in accounting estimate the depreciation charge for the year would have been lower by Rs. 7.446 million while carrying value of property, plant and equipment and profit would have been higher by the same amount.

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

4.1 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 32	- Financial Instruments: Presentation	February 01, 2010
IFRS 1	- First time Adoption of International Financial Reporting Standards	January/July 01, 2010
IFRS 2	- Share based Payment	January 01, 2010

In April 2009 and May 2010, International Accounting standards Board issued amendments to various accounting standards primarily with a view to removing inconsistencies and clarifying wording. These improvements are listed below:

Issued in April 2009

IAS 1	-	Presentation of Financial Statements	January 01, 2010
IAS 7	-	Cash Flows Statement	January 01, 2010
IAS 17	-	Leases	January 01, 2010
IAS 36	-	Impairment of Assets	January 01, 2010
IAS 39	-	Financial Instruments: Recognition and Measurement	January 01, 2010
IFRS 5	-	Non-current Assets Held for Sales and Discontinued Operations	January 01, 2010
IFRS 8	-	Operating Segments	January 01, 2010

Issued in May 2010

IAS 27	-	Consolidated and Separate Financial Statements	July 01, 2010
IFRS 3	-	Business Combination	July 01, 2010

The adoption of the above amendments did not have a material effect on the financial statements.

4.2 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)
IAS 1	-	Presentation of Financial Statements	July 01, 2012
IAS 12	-	Income Taxes	January 01, 2012
IAS 19	-	Employee Benefits	January 01, 2013
IAS 24	-	Related Party Disclosures	January 01, 2011
IAS 27	-	Consolidated and Separate Financial Statements	January 01, 2013
IAS 28	-	Investments in Associates	January 01, 2013

		Effective date (annual periods beginning on or after)
IFRS 1	- First time Adoption of International Financial Reporting Standards	July 1, 2011
IFRS 7	- Financial Instruments Disclosures	July 1, 2011
IFRS 9	- Financial Instruments - Classification and Measurement	January 01, 2013
IFRIC 14	- The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	January 01, 2011

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 application.

In addition to the above, amendments to various standards have also been issued by the IASB. Such interpretations are generally effective for accounting periods beginning on or after January 01, 2011. The Company expects that such improvements to the standards will not have any material impact on the Company's financial statements in the period of initial application.

5 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.

5.1 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 profit or loss for the year.

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.

5.2 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 any.

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.

5.3 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 assets.

5.4 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.

5.5 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.

5.6 Other receivables

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

5.7 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 account.

5.8 Cash and bank balances

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

5.9 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 balance sheet date.

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 are incurred.

5.10 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.

5.11 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.

5.12 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 basis:

- Sales are recorded on dispatch of goods to customers.

- Rental income is recognized on accrual basis.

5.13 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.

5.14 Cash and cash equivalents

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

5.15 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.

5.16 Dividend and apportioning to reserves

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

5.17 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 account.

5.18 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 simultaneously.

5.19 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.

5.20 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 5.7 of these financial statements.

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.