

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **FRONTIER CERAMICS LIMITED** (“the Company”) as at June 30, 2012 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.12 million as at June 30, 2012.

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, 2012 and of the profit, its comprehensive income, 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. 63.779 million as at June 30, 2012 and as at that date Company's current liabilities exceeded its current assets by Rs. 239.976 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 21.1.1 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, 2012

CHARTERED ACCOUNTANTS

Engagement Partner: Abdul Qadeer