

MIRZA SUGAR MILLS Ltd.

ANNUAL REPORT 2003

COMPANY PROFILE

DR.(MRS.) FEHMIDA MIRZA
MIR GHULAMULLAH TALPUR
MR. ARSH AD ABID ABBASI
MS FAREHA ABID KAZI
MIR FURQAN ALI TALPUR
MIRZA SAUL AT RAZA
MR. ALI JAWAD JABIR ANSARI
MR. ALI JAWAD JABIR ANSARI -
MIR GHULAMULLAH TALPUR -
MIRZA SAUL AT RAZA
MR. UMER B ASHIR
M/s.KHALIDMAJID RAHMAN SARFARAZ
RAHIM IQBAL RAFIQ & CO.
(CHARTERED ACCOUNTANTS)

BANKERS TO THE COMPANY

MUSLIM COMMERCIAL BANK LTD.
ALLIED BANK OF PAKISTAN LTD.
NATIONAL BANK OF PAKISTAN
PICIC COMMERCIAL BANK LTD.
DEHCHHAROTAPPO,LOWARISHARIFF
DISTRICT BADIN
SINDH

DIRECTORS' REPORT

Dear Shareholders,

Your directors are pleased to present the Company's Annual Audited Financial Statements with Auditors' Report thereon for the year ended September 30, 2003.

GENERAL

Periodic Quarterly Directors Reports with Unaudited Accounts of the Company have already covered a significant portion of the present report and major aspects of the operational and financial activities of the Company. Sugar Industry, the vital economic organ of the economy after Textile Industry is passing through a critical phase. Once a milching cow and a golden egg laying industry has been made to carry so much burden, that at present, only a handful of the Mills are generating profit, while the majority of the mills are suffering losses, some are incurring huge unbearable losses, which would choke their existence.

Your mill is also one of such mill which is very strongly fighting the odds.

Presently there are factors, which are affecting the Industry, borne out of Provincial considerations. In Punjab the Industry has been able to keep up with the crisis, as there is ample sugarcane crop due to water availability, higher sugar price by about Re. 1/- per kg. compared to Sindh and lower sugarcane price fixed by the Punjab Government. The shortage of sugar in Punjab has almost diminished. Previously, Sindh was a net exporter of sugar, this has not changed but the export of sugar has been limited to new Punjab areas and buying by TCP and direct/indirect exports to Afghanistan. Government of Sindh has positively responded to the problems of Sindh Sugar Industry. There were certain concessions announced by the Government during the reporting Season 2002-2003, wherein sugarcane price was fixed at Rs. 43/- with split of payment in two parts i.e. Rs. 40/- to be paid at the

Chairperson & Chief Executive
Chairman

AUDITORS :

Member
SECRETARY&C.F.O :
Auditors

MILLS

time of delivery of sugarcane and Rs. 3/- to be paid after the season was over. There were also firm commitments that mills would not be forced to pay Quality Premium; however, government had to back out on this issue due to extensive agriculture lobby out cry. The issue of Quality Premium is under litigation at Supreme Court, the Industry contending Q.P. being not payable.

The Company is also facing resistance from Banks/DFIs for recovery of their dues. All the Banks/DFIs except for ZTBL and SPCB, are in courts. However, the company has applied to the Committee for Revival of Sick Industrial Units for restructuring and also applied to all the Banks/DFIs for availing the benefits offered under SBP Circular BPD 29 of October 15, 2002. Company management is hopeful for a favourable outcome from the above forum, which would give the company substantial leverage to overcome its financial difficulties and to become a viable unit.

The District Badin has become prone to calamities. In last four years Badin has experienced floods, draughts, earthquake and cyclone. There was unprecedented floods in Badin during end July beginning August 2003. The flood was man made as Punjab had diverted its rain water and canal water into Left Bank Outfall Drain (LBOD) resulting in the banks of the rivers and canals giving way causing heavy losses to lives and properties. Your mill also suffered, however, due to adequate insurance coverage any major loss was averted.

The company has fought all odds against its existence and valiantly being able to survive. Company has arranged financial resources to operate the mills from unconventional sources and kept itself as a going concern.

PERFORMANCE REVIEW

The operating results of your company for the season are as under :-

		2002-2003	2001-2002
Season started		20-12-2002	12-11-2001
Season closed		08-04-2003	24-03-2002
Days worked		110	133
Sugarcane crushing	(Tons)	288,080	208,628
	(Maunds)	7,718,295	5,589,605
Sugar recovery	(%)	9.841	10.01
Sugar production	(Tons)	28,350	20,885
Molasses recovery	(%)	5.458	5.314
Molasses production	(Tons)	15,726	11,089

You will note that the company has been able to produce and crush more sugar and sugarcane due to availability factor. Due to flood aftermath, the ensuing season seems to be less productive.

FINANCIAL RESULTS

		2002-2003	2001-2002
Loss for the year		-84,256,531	-102,122,290
Provision for taxation		231,930	-1,676,578
Accumulated loss	forward	-84,024,601	-103,798,868
	d	-579,388,561	-475,589,693
Accumulated loss	forward	-663,413,162	-579,388,561
	d		

Financial results are better than previous year, however, loss to the entire industry emanates from the higher fixation of sugarcane support price and provision of Quality Premium (QP) at unreasonable lower Bench mark recovery factor of 8.7%. Your company is contesting the QP matter of the last season in the Supreme Court, however, provision for the Q.P. has been incorporated in the accounts.

SEASON 2003-2004

The next season is expected to commence from beginning of December 2003. There were extensive crop damages

due to flood in July-August-2003. Sugarcane crop has also suffered losses, however, we are hopeful for about the matching crushing of last year, as upper Sindh areas have benefitted from the rains.

There is also another positive factor, that of, sugar cane price which has been reduced by Rs. 2/- per maund compared to last year's Rs. 43/-. Government has also avoided to notify Q.P. which means there is realisation of the looming crisis in the Sugar Industry. Both the above factors would benefit the industry to overcome losses. TCP has also been given authorisation to procure excess quantity of sugar to facilitate in the financial difficulties of the sugar mills. These steps would prove well for the Industry.

HEALTH, SAFETY AND ENVIRONMENT

Appropriate facilities existed for safeguarding the health of employees in accordance with the Factories Act 1948 and National Environment Quality Standard (N.E.Q.S.) for Sugar Industry.

INFORMATION TECHNOLOGY

Improvement and up-gradation of the existing instruments are being continuously made to cope with the requirements of technological advancement in this field.

AUDIT REPORT

The Audit Report for the year under review contains certain qualifications, which are being addressed as follows

1. The management of the Company has initiated a program to avail the scheme under SBP Circular No. 29 of October 15, 2002 for settlement of Banks/DFIs dues. For this purpose, the company is pursuing all Banks and DFIs for making arrangements to include our company for availing the benefits. Further the management is endeavouring to mitigate the present unfavourable financial condition by arranging Rs. 30.00 million for the ensuing crushing season. The Company's ability to continue as a going concern is being watched carefully, all events affecting the going concern basis are under constant review.
2. Sugar Industry in Sindh is facing acute financial crises due to paucity of sugarcane. Furthermore, the company is operating seasonally for about 130 to 150 days in a year, depending on the availability of sugarcane and as such the plant is operating at about 50% capacity. Therefore, employees are requested to avail their accumulated absence during off season. Nevertheless, employees are laid off during off season to save employees cost. In the opinion of management, the matter as mentioned in the audit report, is not material to warrant the disclosure under IAS-19.
3. The Institute of Chartered Accountants of Pakistan and Banks/DFIs have an understanding in the matter of direct confirmation by Banks and DFIs, we cannot influence the Banks and DFIs for confirmation.

BOARD OF DIRECTORS

There has been no change so far in the Board of Directors since after its constitution through Election of Directors on February 27, 2003.

AUDITORS

The present auditors - M/s. Khalid Majid Rahman Sarfaraz Rahim Iqbal Rafiq & Co., Chartered Accountants, retire and offer their services for the ensuing year.

The Board's Audit Committee has recommended their appointment for the ensuing year.

CODE OF CORPORATE GOVERNANCE

The Company has adopted the Code of Corporate Governance promulgated by the Securities Exchange Commission of Pakistan. We have implemented the major mandatory provisions and welcome the government step to more fully disclose and monitor the corporate sector. We hope it will go a long way in confidence building of small investors and will boost corporate investment.

STATEMENT OF CORPORATE AND FINANCIAL REPORTING FRAME WORK

- a. The financial statements, prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- b. Proper books of accounts 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 judgement.

- d. International Accounting Standards, as applicable in Pakistan have been followed in preparation of financial statements and any departure therefrom has been adequately disclosed.
- e. The system of internal control, which was in place, is sound in design and has been effectively implemented and monitored. However, it is being continuously reviewed by internal audit and other officers handling such procedures. The process of review will continue and any weaknesses in controls will be removed. The function of Internal Audit has been implemented and operating successfully.
- f. The Company's ability to continue as a going concern is being watched carefully, all events affecting the going concern basis are under constant review.
- g. There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- h. Key operating and financial data for last six (6) years in summarized form is annexed.
- i. Outstanding taxes and levies are being accrued and paid as per law.
- j. Value of investments based on audited accounts of Provident Fund is Rs. 2.180 million.
- k. During the year 5 (five) meetings of the Board of Directors were held. Attendance by each Director is as follows :

Name of Director	No. of Meetings Attended
Dr. (Mrs) Fehmida Mirza	
Mir Ghulamulla Talpur	
Mr. Arshad Abid Abbasi	
Ms Fareha Abid Kazi	
Mir Furqan Ali Talpur	
Mirza Saulat Raza	
Mr. Ali Jawad Jabir Ansari	
Mr. Gul Nawaz N.I.T. (Retired)	

1. The pattern of shareholding is annexed.
- m. Because of the loss sustained by the Company during the year under review, the Company has not declared any dividend or issued bonus shares for the year.
- n. There was no trading in shares of MSML held by its directors, CEO, their spouses and minor children.
- o. The operating results as compared to last year are showing an improvement in turnover by 27.80% and the operating loss of Rs. 36.493 million has been reduced to Rs. 5.922 million. The main reason for which is increase in turnover and lower cost of sugar cane. Price of sugar was adverse.

FUTURE PROSPECTS

There are positive developments in the Government and Financial Circles. Government has realised the burden on the sugar mills and has taken the bold decision of lowering the sugarcane support price and doing away with QP for the first time since Pakistan coming into being. This is a very big boost to the Industry. This step may make most of the mills viable. The other step of allowing TCP to procure sugar for establishing a buffer would also go a long way in helping the industry from zig zag trends in sugar price.

PATTERN OF SHAREHOLDINGS

AS AT 30TH SEPTEMBER 2003

Number of Share Holders	From	Shareholding To	Total Shares Held	Percentage
321	1	100	32,100	0.23
1,127	101	500	561,530	3.98
55	501	1000	54,700	0.39
95	1001	5000	286,400	2.03
39	5001	10000	326,000	2.31
12	10001	15000	160,100	1.14
32	15001	20000	615,700	4.37
12	20001	25000	288,500	2.05
3	25001	30000	88,000	0.62
3	30001	35000	96,900	0.69
3	35001	40000	116,200	0.82
1	40001	45000	45,000	0.32
10	45001	55000	502,500	3.56
5	55001	60000	300,000	2.13
3	65001	70000	210,000	1.49
2	75001	80000	160,000	1.13
1	90001	95000	90,900	0.64
14	95001	100000	1,400,000	9.93
2	13500	140000	275,600	1.95
5	14500	150000	746,000	5.29
1	19500	200000	200,000	1.42
1	23000	235000	233,500	1.66
1	24500	250000	250,000	1.77
1	26000	265000	262,090	1.86
1	26500	270000	269,800	1.91
1	29500	300000	300,000	2.13
3	37500	380000	1,439,400	10.21
1	49500	500000	499,220	3.54
1	74500	750000	748,800	5.31
1	89500	900000	900,000	6.38
1	1260001	1265000	1,261,060	8.94
1	1375001	1380000	1,380,000	9.79
1759			14,100,000	100

Categories of Shareholders	Share Held
Directors, CEO and their Spouses and minor Children.	
Dr. (Mrs.) Fehmida Mirza (Chief Executive)	1,380,000
Mir. Ghulamullah Jaipur (Director)	200,000
Mr. Arshad Abid Abbasi (Director)	100,000
Ms. Fareha Abid Kazi (Director)	100,000
Mir Furqan Ali Jaipur (Director)	9,000
Mirza Saulat Raza (Director)	8,500
Mr. Ali Jawad Jabir Ansari	5,000
Dr. Zulfiqar Ali Mirza (Husband Dr. (Mrs.) Fehmida Mirza)	380,000
Executives	
Public sector companies and corporations	
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas and mutual funds.	
Muslim Commercial Bank Ltd.	146,000
National Bank of Pakistan (Former NDFC)	900,000
The Bank of Punjab	17,500
State Life Insurance Corp. of Pakistan	150,000
National Insurance Company Limited	100,000
EFU General Insurance Limited	15,500
Shareholders holding ten percent or more voting interest in the listed company	
Joint Stock Companies	
Asonix Ind. (Pvt) Ltd.	233,500
Sarfaraz Mahmood (Pvt) Ltd.	500
Moosa, Noor Mohd, Shahzad Co. (Pvt) Ltd.	52,500
Salman Services (Pvt) Ltd.	22,000
Javed Omer Vohra & Company Ltd.	5,500
First Capital Equities Limited	500
Aziz Fida Husain & Company (Pvt) Ltd.	2,000
Y.S. Securities & Services (Pvt) Ltd.	1,000
Zahid Latif Khan Securities (Pvt) Ltd.	5,000
Continental Capital Management (Pvt) Ltd.	2,000
Darson Securities (Pvt) Ltd.	14,500
Ace Securities (Pvt) Ltd.	9,500
Salim Chamdia Securities (Pvt) Ltd.	14,500
Munaf Sattar Securities (Pvt) Ltd.	2,000
M.S. Securities (Pvt) Ltd.	15,000
M.R.A. Securities (Pvt) Ltd.	12,500
Bawa Securities (Pvt) Ltd.	500
Zillion Capital Securities (Pvt) Ltd.	20,000
A.H.K.D. Securities (Pvt) Ltd.	5,000
Time Securities (Pvt) Ltd.	1,000
Jahangir Siddiqui Capital Mkts (Pvt) Ltd.	2,000
Others	

The Karachi Stock Exchange (G) Ltd.	30,500
Invest & Finance Securities (Pvt) Ltd.	6,000
Individual	3,462,230
TOTAL	14,100,000

SIX YEARS DATA AT A GLANCE

PARTICULARS	Rupees in Thousand						
	2003	2002	2001	2000	1999	1998	
FINANCIAL DATA							
1 Financial Position							
Paid up Capital	141,000	141,000	141,000	141,000	141,000	141,000	
Accumulated(Loss)/Profit	-663,413	-579,389	-475,590	-479,161	-279,011	-226,920	
Long term Loan	653,733	663,888	678,492	690,948	124,651	183,108	
Liabilities Against Assets subject to Finance	120	252	508	-	-	-	
Fixed Assets (At	689,013	725,219	727,055	700,841	678,222	668,360	
Accumulated Depreciation	336,439	313,955	270,284	222,068	169,342	144,200	
Long term Advance/Deposits	1,622	1,478	1,493	1,701	1,679	2,937	
Current Assets	58,273	44,976	45,180	58,574	134,651	149,646	
Current Liabilities	281,208	232,142	159,032	191,167	661,126	581,539	
2 Income							
Sales	426,298	333,546	578,710	358,882	600,130	703,543	
Gross Profit/(Loss)	-5,923	-36,494	85,785	-46,675	55,286	50,000	
Other Income	-	18,443	3,922	13	15	-	
Pre-Tax (Loss)/Profit	-84,257	(102,122)	3,952	-204,317	-47,020	-106,388	
Taxation	231	1,677	3,548	-4,168	5,071	-	
3 Statistics and Ratios							
Gross Profit/(Loss)	%	-1.39	-10.94	14.82	-13.01	9.21	7.11
Pre-tax Profit/(Los	%	-19.76	-30.62	0.68	-56.93	-7.83	-15.12
Pre-Tax Profit/(Los	%	-59.76	-72.43	2.8	-144.91	-33.35	-75.45
Current Ratio		1:4.83	1:5.16	1:3.52	1:3.26	1:4.91	1:3.89
Paid-up Value per Share		10	10	10	10	10	10
Earnings after Tax per Share		-5.96	-7.36	0.61	-14.19	(2.13)	-7.55
Cash Dividend		-	-	5,000	-	-	-
Market Value per Share		2.5	1.7	1.5	1.4	2	1.5
OPERATING DATA							
Season Started		20-12-2002	12.11.2001	08.11.2000	29.10.1999	19.11.98	07.11.97
Season Closed		08-04-2003	24.03.2002	19.03.2001	29.02.2000	10.04.99	10.04.98
Days Worked		110	133	132	124	143	155
Sugarcane Crushed		288,080	208,628	276,103	252,626	399,953	414,156
Sugarcane Crushed		7,718,295	5,589,605	7,397,402	6,768,398	10,715,621	11,096,152
Sugar Recovery	%	9.841	10.01	9.826	9.512	9.722	10.9
Sugar Production		28,350	20,885	27,122	24,033	38,919	45,045
Molasses Recover	%	5.458	5.314	5.316	4.789	5	4.86
Molasses Production		15,726	11,089	14,675	12,102	20,012	20,080

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF

CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Mirza Sugar Mills Limited to comply with the Listing Regulations No. 37 and Chapter XIII of the Karachi and Lahore Stock Exchanges where the Company is listed. The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code. As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls. Based on our review nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable for the year ended on September 30, 2003.

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 Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

17. The Board has set-up effective internal audit function.

18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme 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 and all its partners are in compliance with International Federation of Accountants (IF AC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

19. 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 IF AC guidelines in this regard.

20^As there is no related party transaction, the statement regarding Transfer Pricing, in pursuance of SECP directive as communicated by Karachi Stock Exchange (Guarantee) Ltd. vide its Notice No. KSE/N-5260 dated November 5, 2003, is not applicable to our Company.

21. We confirm that all other material principles contained in the Code have been complied with.

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of MIRZA SUGAR MILLS LIMITED as at September 30, 2003 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

1. The Company incurred a net loss of Rs. 84 million (Loss Rs. 104 million-2002) during the year and as of September 30, 2003 its accumulated loss increased to Rs. 663 million (2002: Rs. 579 million) resulting in net capital deficiency of Rs. 522 million (2002: Rs. 438 million). Suit for recovery of loan has been filed by major lender as referred to in detail in note 3.1. These factors and other matters as set forth in note-8 indicate existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern except to the extent mitigated by a favourable outcome of its assertion made in note 1.2 to the financial statements. No adjustment has been made in the financial statements that may be required should the Company be unable to continue as a going concern.
2. The company has not made a provision in the accounts in respect of compensated absences accumulated by its employees as required by the International Accounting Standard-19 "Employee Benefits". This Standard requires that an enterprise should make adequate provision in its books in respect of absences accumulated by its employees. The Company's policy is to account for these absences on payment basis. The liability of the Company in respect of these absences as at 30th September, 2003 is pending determination.
3. We did not receive direct confirmations, from lenders except PICIC, MCB and Saudi Pak Commercial Bank Limited in respect of long-term-loans.
 - (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 accounts and are further in accordance with accounting policies consistently applied, except for the change referred to in note 2.5 to the financial statements, with which we concur;
 - ii. the expenditure incurred during the year was for the purpose of the Company's business; and the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
 - (c) in our opinion and to the best of our information and according to explanations given to us, except for the matters reported in para "1", "2" and "3" above and to the extent to which these may affect the financial results of the Company, the balance sheet, profit & loss account, 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 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 September 30, 2003, and of the Loss, its cash flows and changes in equity for the year then ended; and
 - (d) in our opinion, no Zaka was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

BALANCE SHEET

	Note	2003 Rupees	2002
SHARE CAPITAL AND RESERVES			
Authorised Capital			
15,000,000 Ordinary shares			
of Rs. 10/=each		150,000,000	150,000,000
Issued, subscribed and paid up capital		141,000,000	141,000,000
14,100,000 Ordinary shares of Rs. 10/-		-663,413,162	-579,388,561
each fully paid in cash		-522,413,162	-438,388,561

Accumulated loss		653,732,547	663,887,829
LONG TERM LOANS	3	120,378	252,554
LIABILITIES AGAINST ASSETS		11,000,000	-
SUBJECT TO FINANCE LEASE	4	140,926,705	91,815,344
CURRENT LIABILITIES		125,405,301	133,858,132
Short term loan	5	3,876,578	6,468,026
Current portion of long term liabilities	6	281,208,584	232,141,502
Creditors, accrued and other liabilities	7	-	-
Taxation		412,648,347	457,893,324
CONTINGENCIES	8		

	Note	2003 Rupees	2002
FIXED CAPITAL EXPENDITURE			
Operating fixed assets	9	352,574,004	411,264,121
Capital work in progress	10	178,308	175,140
		352,752,312	411,439,261
LONG TERM LOANS	11	13,550	18,702
LONG TERM DEPOSITS	12	1,609,385	1,459,385
CURRENT ASSETS			
Stores and spares	13	6,916,941	8,548,138
Stock in trade	14	12,232,300	941,249
Trade debtors - unsecured	15	149,815	-
Loans and advances	16	17,413,266	19,665,846
Prepayments and other receivables	17	20,515,097	2,869,523
Cash and bank balances	18	1,045,681	12,951,220
		58,273,100	44,975,976
		412,648,347	457,893,324

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

	Note	2003 Rupees	2002
Sales	19	426,298,074	333,546,079
Cost of goods sold	20	432,220,966	370,040,037
Gross loss		-5,922,892	-36,493,958
Operating expenses			
Administrative and general	21	27,725,907	23,822,813
Selling and distribution	22	444,100	432,634
		-28,170,007	-24,255,447
Operating loss		-34,092,899	-60,749,405
Other Charges			
Financial	23	-54,183,405	-59,815,622
		-88,276,304	-120,565,027
Other income	24	-	18,442,737

Loss before taxation and extraordinary and unusual item		-88,276,304	-102,122,290
Unusual items	25	5,360,881	-
Extra ordinary items	26	-1,341,108	-
		-84,256,531	-102,122,290
Provision for taxation			
Current		-2,200,000	1,676,578
Prior		2,431,930	-
		231,930	-1,676,578
Loss after taxation and extraordinary and unusual item		-84,024,601	-103,798,868
Accumulated loss brought forward		-579,388,561	-475,589,693
Accumulated loss carried forward		-663,413,162	-579,388,561
Earnings per share	27	-5.96	-7.36

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

	Share Capital Rupees	Accumulated Loss Rupees	Total Rupees
Balance as at September 30, 2001	141,000,000	-475,589,693	-334,589,693
Losses for the year	-	-103,798,868	-103,798,868
Balance as at September 30, 2002	141,000,000	-579,388,561	-438,388,561
Losses for the year	-	-84,024,601	-84,024,601
Balance as at September 30, 2003	141,000,000	-663,413,162	-522,413,162

**CASH FLOW STATEMENT
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

	2003 Rupees	2002
CASH FLOW FROM OPERATING ACTIVITIES		
Profit/ (Loss) before taxation	-84,256,531	-102,122,290
Adjustment for :		
Depreciation	40,658,777	45,211,310
Financial charges	54,183,405	59,815,622
(Profit) /Loss on sale of fixed assets	-	377,045
Loss on flood damages	19,741,108	-
Provisions for bad debts	1,659,208	-
	116,242,498	105,403,977
Operating profit before working capital changes	31,985,967	3,281,687
Changes in working capital		
(Increase)/Decrease in current assets		
Stores, spares and loose tools	1,631,197	-892,801
Stock in trade	-11,291,051	175,981
Trade debtors	-149,815	-
Loans and advances	2,013,918	8,305,138
Prepayments and other receivables	-17,645,574	-276,290
Increase / (Decrease) in current liabilities		

Creditors, accrued and other liabilities	-11,090,711	31,884,451
	-36,532,036	39,196,479
Cash generated from operations	-4,546,069	42,478,166
Taxes (paid) /adjusted	-5,398,490	238,662
Financial charges paid	-4,665,650	-4,338,330
	-10,064,140	-4,099,668
Net cash generated from operating activities - carried forward	-14,610,209	38,378,498

	2003	2002
	Rupees	
Net cash generated from operating activities - brought forward	-14,610,209	38,378,498
CASH FLOW FROM INVESTING ACTIVITIES		
Fixed capital expenditure	-1,712,936	-382,140
Proceeds from disposal of fixed assets	-	125,000
Long term loans	5,152	14,964
Net cash used in investing activities	-1,707,784	-242,176
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of long term loans	-6,331,418	-25,600,556
Repayment of lease liability	-256,128	-188,124
Increase in short term borrowings	11,000,000	-
Dividend paid	-	-5,000,530
Net cash used in financing activities	4,412,454	-30,789,210
Increase in cash and bank balances	-11,905,539	7,347,112
Cash and bank balances at beginning of the year	12,951,220	5,604,108
Cash and bank balances at end of the year	1,045,681	12,951,220

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

1. STATUS AND NATURE OF BUSINESS

1.1 The Company was incorporated in Pakistan as a Public Limited Company on January 16, 1990 and its shares are quoted at Karachi and Lahore Stock Exchanges. The principal business of the Company is the manufacture and sale of white sugar. The factory is located at Deh Chharo, Tappo Lowari Shariff, District Badin, Sindh.

1.2 The Company incurred a loss of Rs. 84 million for the year thereby increasing the accumulated losses to Rs. 663 million (2002-Rs. 579 million). Thus causing a net capital deficiency of Rs. 522 million (2002 Rs. 438 million). The current liabilities have exceeded the current assets by Rs. 223

The company has filed counter suit against major lender as has been stated in note 3.1 and also applied for settlement to all the financial institutions in terms of SBP Circular No. 29 dated October 15, 2002. It has also approached Committee for revival of sick unit. All these actions are expected to bring in relief which would have an impact on reduction of accumulated losses as well as capital deficiency and enable repayment of remaining liabilities in installments from future operations. The company is making efforts to materialize these objectives as soon as possible.

For the ensuing season, the plant and machinery is well poised to start crushing. The Directors have arranged funds to the tune of Rs. 30 million to start the production and complete the season with cash generated from sale of sugar.

These financial statements have hence been prepared on going concern basis.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 Accounting convention

The financial statements have been prepared under the historical cost convention.

2.3 Employees' retirement benefits

The Company operates a Contributory Provident Fund Scheme for all its employees eligible for the scheme. The scheme has been approved under the Income Tax Ordinance, 1979. The company accounts for compensated absences accumulated by its employees on payment basis.

2.4 Taxation

Current

Provision for current taxation is based on taxable income at the current tax rates, after considering admissible tax credits, or minimum tax @ 0.5 percent of turnover, whichever is higher.

Deferred

The company accounts for deferred taxation on all significant temporary differences using liability method. The net deferred tax debit balance (Asset), if any, is however, not recognized in the accounts as a matter of prudence.

The revised IAS-12 dealing with income taxes became applicable during the current year on financial statements covering period beginning on or after January 01, 2002.

The above adoption did not have any effect on the loss after taxation for the year.

2.5 Operating fixed assets

Owned

These are stated at cost less accumulated depreciation except freehold land which is stated at cost. Depreciation charge is based on written down value method at the rates specified in note 9.

During the year the management changed the method of charging depreciation on additions and disposals of fixed assets. Under the new method, depreciation on additions is charged from the quarter in which the assets are put to use while no depreciation is charged in the quarter in which the assets are disposed. Previously, full year's depreciation was charged in the year of addition and no depreciation was charged in the year in which the assets were disposed off.

The above change would result in a more accurate allocation of depreciation expenses to the accounting period in which the depreciable assets are utilized by the Company. This change has been accounted for as a change in accounting estimates. Had this estimate not been revised the loss for the year would have been lower by Rs. 1,992,548/=.

Maintenance and normal repairs are charged to income as and when incurred; major renewals and improvements are capitalized and the assets so replaced, if any, are retired.

Gains and losses on disposal of assets are taken to profit and loss account.

Leased

Assets subject to finance lease are stated at lower of present value of minimum lease payments under the lease agreement and the fair value of the leased assets. The related obligation under the lease are accounted for as liabilities. Depreciation charge is based on written down value method at the rates used for similar class of owned assets.

The finance charge is calculated at the rate implicit in the lease.

2.6 Capital work in progress

All cost/expenditure connected with specific assets are carried under this head. The cost under this head is transferred on completion of the respective assets.

2.7 Accounting for leases

Finance

Assets subject to finance lease are stated at the lower of present value of minimum lease payments under the lease agreement and the fair value of the assets.

The company accounts for the assets acquired under finance lease by recording the asset and related liability. Financial charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation charged, at the rates specified in the related note to write off the asset over its estimated useful life in view of the certainty of ownership of the assets at the end of the lease.

Operating

Lease rentals for assets acquired under operating lease agreements are charged to profit and loss account.

2.8 Inventories

The basis of valuation has been specified against each:

Stock and spares

In hand	—	At moving average cost.
In transit	—	At cost incurred upto the balance sheet date.

Stock in trade

Sugar in process and finished sugar:

These are valued at lower of average manufacturing cost and net realizable value.

2.9 Trade debtors

Known bad debts are written off and provision is made for debts considered doubtful.

2.10 Provisions

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

Financial Instruments

Financial assets

Financial assets are loans, advances, deposits, trade debts, other receivables and cash and bank balances. These are initially recognized at its cost which represent fair value of consideration given for it and subsequent to initial recognition. Financial assets are carried at cost, if fair value is not materially different at the balance sheet date.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual agreements entered into. All financial liabilities are initially recognized at cost, which represents fair value of the consideration received at initial recognition. After initial recognition financial liabilities held for trading are carried at fair value and all other financial liabilities are measured at amortized cost.

Foreign currency translation

Foreign currency translations during the year are recorded at the exchange rate ruling on the transaction date. Foreign currency balances at the year end are translated at official rate ruling on the balance sheet date. Gain or loss on translation is taken to income currently.

Impairment of assets

The carrying amount of the Company's assets except for inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If such indication exists the assets recoverable amount is estimated in order to determine the extent of the impairment loss if any. Impairment losses are recognized as expense in profit and loss account.

Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cashflow statement, cash and cash equivalents comprise cash in hand, in transit and balances with banks.

Revenue Recognition

Sales are recorded on despatch of goods.

Borrowing costs

Borrowing costs are charged to profit and loss account as incurred.

Pakistan Industrial Credit and Investment Corporation (PICIC)

The loan is secured by:

i) First charge by way of an equitable mortgage of all its immovable properties, hypothecation of all its plant and machinery, and a floating charge on all other assets.

ii) A demand e
price.

PICIC filed a suit No. B-24 of 2003 dated June, 2003 in the High Court of Sindh at Karachi for recovery of Rs. 355.388 million due from the Company. The confirmation certificate as on 29th September, 2003 also reflects this amount. The status of the above loan in the books of the Company is as under :

	Rupees in million
a) Incorporated	
i) Principal	175.22
ii) Mark-up capitalized	27.12
iii) Frozen markup	67.42
iv) Markup accrued	3.92
	273.68
b) Not Incorporated	
i) Frozen markup	65.02
ii) Rebate	8.25
iii) Premium	1.81
iv) Excise duty	6.62
	81.7
	355.39

Against the above claim of PICIC, the Company has filed two suits No. 24 and 30 of 2003, where in the Company has claimed losses of Rs. 129.510 million on various grounds the make-up of which is given below :-

Basis of claims of the Company

	Rupees in million
Repurchases price as per repurchase agreement dated 23rd April, 1990	333.042
Less: Rebate	55.507
	277.535
Less: Paid	187.041
Balance	90.494
Less: Damages being claimed by the Company	129.51
Net receivable from PICIC	-39.02

As per letter No. GEN/Bak/2003-2004/727 dated 11th November, 2003 of M/s. Mansoor Ahmed

Khan & Co. the Company's advocates "the Company's claim stands a fair chance of successful trial".

In view of the claim and counter claim, the Company considers that no additional liability of any sort will accrue to the Company and hence has not been provided for the amount appearing in 3.1.1 (b) above. Had the amount been provided loss after tax would have been higher by Rs. 81.7 million.

Investment Corporation of Pakistan (ICP)

The Loan is secured by:

- i) First charge by way of mortgage / hypothecation on all movable and immovable properties of the Company ranking pari passu with the charge created in favour of other lenders.
- ii) Floating charge on all other assets and properties of the company ranking pari passu with the charge created in favour of other secured creditors.
- iii) A demand promissory note for the purchase price.
- iv) Personal guarantees of the directors.

Muslim Commercial Bank Limited (MCB)

The loan is secured by:

- i) Charge on the present and future fixed and current assets of the company ranking pari passu with the charge created in favour of other secured creditors.
- ii) Personal guarantees of the directors.

Penalty

Additional penal interest @ 2% per annum shall be applicable on overdue installments.

Allied Bank of Pakistan Limited (ABL)

The loan is secured by way of mortgage / hypothecation of property and assets of the Company ranking pari passu with the charge created in favour of other secured creditors.

Saudi Pak Commercial Bank Limited (SPCB)

The finance is secured by hypothecation of sugar and molasses.

Zarai Tarqiyati Bank Limited (ZTBL)

The finance is secured by a guarantee of the Company and hypothecation of sugarcane crop of the growers as the loans have actually been given to them.

Habib Bank Limited (HBL)

The loan is secured by:

- i) Legal / equitable mortgage on assets of the company ranking pari passu with the charge created in favour of other secured creditors.
- ii) Personal guarantees of the directors.
- iii) Deposit of sponsors' shares at the face value of Rs. 22 million
- iv) Deposit of title deeds in respect of machinery imported from M/s Nisho Iwai Corporation.

Penalty

In case of delay after 5 days in any repayment, markup @ 20% will be charged on overdue amount.

Rupees**LIABILITIES AGAINST ASSETS****SUBJECT TO FINANCE LEASE**

Balance as at 1st October	508,682	696,806
Payments during the year	-256,128	-188,124
	252,554	508,682
Less: Current maturity	-132,176	-256,128
	120,378	252,554

The above liabilities represent the total of minimum lease payments discounted @ 31.05% being the rate implicit in the lease.

The future minimum lease payments to which the company is committed as at September 30, 2003 are as follows:

September 30	2003	342,264
September 30	2004	142,610
		142,610
		484,874
Less: Financial Charges allocated to future period		-10,066
		132,544
Add: Security deposit adjustment		120,010
		252,554

2003**2002****Rupees**

11,000,000

SHORT TERM LOAN

This represents short term unsecured temporary loan obtained at a mark-up of 3 percent per annum and would be repaid before March, 2004.

CURRENT PORTION OF LONG TERM LIABILITES

Current maturity		
Long term loans	55,566,107	55,331,756
Liabilities against assets subject to finance Lease	132,176	256,128
	55,698,283	55,587,884
Overdue		
Long term loans	85,228,422	36,227,460
	140,926,705	91,815,344

CREDITORS, ACCRUED AND OTHER LIABILITES

Creditors		
For sugarcane	94,210,745	68,620,995
For stores and spares	9,902,046	10,338,084
	104,112,791	78,959,079
Accrued liabilities		
Accrued expenses	4,932,702	6,193,703
Mark-up / exchange risk fee on loans and finances	6,950,104	3,588,174
Road cess and octroi	1,201,722	1,201,661
	13,084,528	10,983,538
Other liabilities		
Advance from customers	439,778	26,272,472
Employees provident fund	5,285,886	4,630,827
Sales tax on sugar	274,473	10,604,566

Withholding income tax	482,972	352,274
Retention money	19,892	21,231
Others	1,704,981	2,034,145
	8,207,982	43,915,515
	125,405,301	133,858,132

CONTINGENCIES

8.1 A suit has been filed by M/s. Indian Sugar & General Industry for recovery of Rs. 14.227 million (US\$ 240,692) which represents the balance amount due and interest thereon against the import of 1,645 M. Tons of sugar made by the Company during 1996-97. The case is pending with Sindh High Court. Moreover, it is expected that no monetary adverse order will be passed against the Company. No provision has been made against this as the management do not acknowledge this as its debt. The case is not being pursued by the other party.

8.2 Petro Commodities has filed a suit in the High Court of Sindh for recovery of Rs. 98.493 million in respect of settlement regarding refined sugar jointly imported by the two Companies during 1995-96. The suit is pending with the High Court of Sindh in the opinion of the legal counsel a favourable decision is expected. No provision has been made in this aspect. No progress recorded on this account.

8.3 Some growers filed a suit in Civil Court of District Badin, Sindh, for recovery of Rs. 2.293 million allegedly outstanding against supply of sugar cane during 1997-98. The dispute has been settled by the Company, whereby the plaintiffs have agreed to withdraw the case. However, the formalities in respect of withdrawal are still under process.

8.4 The company filed a suit in the High Court of Sindh against the Sales Tax Department challenging the levy of further tax on its sales. The case was decided in favour of the Company. The Company has since stopped collecting further tax from its non-registered customers. The collectorate has filed an appeal against the decision in the Supreme Court, which is pending. No provision in this respect has been made in the accounts as the legal counsel is of the opinion that the case would be decided in favour of the Company.

8.5 Saudi Pak Commercial Bank has charged markup @ 23% per annum in the current year against the agreement @ 14% per annum. The Company is in correspondence for the adjustment of Rs. 4.38 million charged by the bank in excess of the agreement. This amount has not been incorporated by the Company.

8.6 Investment Corporation of Pakistan have filed a suit in Banking Court-1 Karachi, for recovery of Rs. 16.274 million of defaulted loans against the Company. Leave to defend has been filed on behalf of the Company.

8.7 Habib Bank Limited had filed a suit for recovery of Rs. 58.287 million of defaulted agricultural loans against the Company which was decreed for the same. The Company has filed an appeal against the decree which is pending adjudication.

	2003	2002
	Rupees	
9.1 Depreciation for the year has been allocated as under:		
Cost of goods sold	39,055,086	43,419,193

Administration and general expenses		1,603,691	1,792,116
		40,658,777	45,211,310

2003
Rupees

CAPITAL WORK IN PROGRESS

Civil work - Mosque		178,308	175,140
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LONG TERM LOANS

Secured and considered good			
Vehicle loans to employees	(1 1 . 1)	57,690	60,434
Current portion shown under current assets		-44,140	-41,732
		13,550	18,702

11.1 These are interest free loans to employees other than directors and executives of the company. The loans are secured against lien on their Provident Fund balances and are recoverable within three years from the date of disbursement.

LONG TERM DEPOSITS

Long Term Security Deposits		1,609,385	1,459,385
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STORES AND SPARES

In hand - normal		6,916,941	8,548,138
		6,916,941	8,548,138

STOCK IN TRADE

Sugar in process		824,586	915,548
Finished goods and molasses		11,407,714	25,701
		12,232,300	941,249

TRADE DEBTORS-Unsecured

Considered good		149,815	-
Considered doubtful	(15.1)	38,930,676	38,930,676
Provision for doubtful debts		-38,930,676	-38,930,676
		149,815	-

2003
Rupees

LOANS AND ADVANCES

Secured and Considered good			
Loans			
Current portion of long term vehicle loan		44,140	41,732

Unsecured and Considered good

Advances			
To suppliers		5,184,685	5,122,159
To contractors		3,402,301	3,733,153
To growers		5,141,183	5,234,601
Income tax		2,024,583	2,689,602
		15,752,752	16,779,515

Advances for expenses

Directors	-16.1	367,598	247,398
Staff		1,248,776	937,993
		1,616,374	1,185,391

Considered Doubtful

Advances			
To contractors		35,398,419	35,398,419
For expenses		220,077	220,077
To growers		8,296,038	8,296,038
		43,914,534	43,914,534
		61,327,800	61,921,172
Provision for doubtful advances		-43,914,534	-42,255,326
		17,413,266	19,665,846

PREPAYMENTS AND OTHER RECEIVABLES

Prepayments		613,500	618,077
Insurance claim	26	18,400,000	—
Other receivables		1,501,597	2,251,446
		20,515,097	2,869,523

003 **002**
Rupees

FINANCIAL CHARGES

Interest on long term loans		53,883,797	59,269,415
Others		-	320,163
CED, bank charges and other charges		213,472	64,303
Mark-up on finance lease		86,136	161,741
		54,183,505	59,815,622

OTHER INCOME

Profit/ (Loss) on sale of fixed assets		-	-377,045
Bad debt recovered		-	18,819,782
		-	18,442,737

UNUSUAL ITEMS

Surcharge on road cess			
	-25.1	5,360,881	-
		5,360,881	—

EXTRA-ORDINARY ITEMS

	Loss due to flood damage	(9.2)	-19,741,108	-
Insurance claim receivable			18,400,000	-
Net loss			-1,341,108	—

EARNINGS PER SHARE - BASIC AND DILUTED

Net profit/ (loss) after tax and extra-ordinary activities		-84,024,601	-103,798,868
Number of ordinary shares		14,100,000	14,100,000
Earnings /(Loss) per share		-5.96	-7.36

2003 **2002**
Rupees

ADMINISTRATION AND GENERAL

Salaries, bonus and staff amenities	-21.1	9,945,093	10,335,407
Directors' remuneration		1,143,000	1,595,100
Traveling and conveyance		757,473	629,545
Printing and stationery		391,746	425,643

Legal and professional		1,481,696	1,106,576
Sales Tax Penalty		2,342,067	
Auditors' remuneration	-21.2	165,000	130,000
Telephone and postage		932,201	929,162
Electricity, water and gas		529,735	893,809
Vehicle maintenance		2,084,982	1,658,526
News papers books and periodicals		39,892	
Repair and maintenance		599,074	765,832
Rent, rates and taxes		103,500	103,000
Insurance		392,791	160,519
Charity and donations	-21.3	29,200	43,625
Fees and subscription		551,067	781,124
Depreciation	-9.1	1,603,691	1,792,116
Entertainment		156,653	208,154
Sanitation charges		135,992	129,912
Shares Department expenses		213,897	
Bad debts		1,659,208	
Miscellaneous		2,467,949	2,134,763
		27,725,907	23,822,813

21.2 Auditors' remuneration

Audit fee		130,000	130,000
Half yearly review		35,000	-
		165,000	130,00

SELLING AND DISTRIBUTION

Advertisement		17,600	48,703
Loading and stacking		270,467	383,931
Others		156,033	—
		444,100	432,634

NUMBER OF EMPLOYEES

Total strength of employees at the year end was as follows;

	2003	2002
	Number	Number
Permanent	452	452
Seasonal	235	260
	687	712