

# AL-ASIF SUGAR MILLS LIMITED

## ANNUAL REPORT 2004

### DIRECTORS' REPORT

#### GENERAL

Sugarcane is the fourth largest agricultural crop after cotton, wheat and rice and Sugar Industry is the vital organ of Pakistan economy around which the financial statistics revolve. The price of sugar, depends upon demand and supply position. The position of sugar in the nineties depended largely on Sindh Sugar production, as Sindh was a net exporter of sugar to other provinces. This situation has changed. Sindh has scarce water supply and a crop like sugar cane requires a good amount of water and a larger period to grow; the farmer has thus diversified to other crops in the Province of Sindh. On the other hand Punjab cultivated improved varieties and their milling capacity has increased, which has made Punjab self-sufficient in sugar: in fact Punjab sugar has even been seen in Sindh.

The Sindh Sugar Mills financial structure has largely reversed compared to what it was a decade ago. Most of the Sindh Sugar Mills are running into losses. There is a worsening crop situation in the two lower Sindh districts of Badin and Thatta. Months are passing without irrigation water being released in the canals. The land of Thatta is being encroached by sea. The effect of last year's crop in district Thatta, specifically the area near the coast, which was inundated by floodwaters for a longer period, and which forms the main supply area of sugarcane to many mills, resulted in both losses of yield as well as recovery.

The season under report was short supply season for your mill, and the prices of sugar also remained subdued, resulting in heavy losses to the company.

The reduction in sugarcane rate has somewhat saved us from extra losses; however, due to almost no sugarcane in our area, we had to buy the same from other areas resulting in extra burden in the form of transport subsidy. By and large, management succeeded in keeping the cane cost within limit.

You are aware that the company does not have any liquidity. It generates funds through sale of molasses, advances and discounts from sugar brokers. The trend continued despite heavy liquidity positions of banks and DFI's countrywide, but do not qualify to borrow from banks. We had to sell our sugar production promptly after production to recycle and regenerate funds for working capital; due to our above exercise, we have not been able to harvest the benefits of marginal sugar price rise in the market. In the term of operational activity, we sold our product even below Rs.15/- per kg. to meet the demand of sugarcane purchasers. However, a month after the season was over, the local sugar price and molasses price jumped due to sudden shortage in neighboring country. Prices of sugar are now stabilizing around Rs.18/- per kg. but we do not have any stock.

"Allhumdulillah the management has succeeded in negotiation of loans with banks / DFI's in the light of circular No: 29 dated 2002. The SBP Committee has conveyed its decision in Oct, 2004. The final approval from individual Banks/ DFI's is awaited. In future your company will be in a position to avail credit facility from the banks and will not bear high financial cost."

Particulars		30th September 2004	30th September 2003
Season Started		10-12-03	25-12-2002
Season Closed		28-03-2004	12-04-03
No. Days Worked		109	109
Sugarcane Crushed	(M.Ton)	229,327	265,822
	(Mounds)	5,733,187	6,645,550
Sugar recovery	(%)	8.975	9.746
Sugar production	(M.Ton)	20,556	26,126

Molasses Production	(M.Ton)	11,558	13,171
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## FINANCIAL RESULTS

Particulars	30th September	30th September
	2004	2003
	Rs.	Rs.
Sale	277,905,399	407,025,797
Cost of Goods Sold	-314,703,555	-395,505,344
Gross Profit/ (Loss)	-36,798,156	11,520,453
Administrative Expenses	-20,724,507	-19,304,644
Selling & Distribution Exp	-340,913	-423,733
Financial & Other Charges	-3,230,439	-31,411,162
* Other Income	115,778,430	101,696
Profit/(Loss) before Taxation	54,684,415	-39,517,390
Provision for Taxation	-1,389,527	-2,035,129
Profit / (Loss) after Taxation	53,294,888	-41,552,519

## SEASON 2004-2005

The ensuing season is a nightmare for Sindh Sugar Industry, particularly sugar mills of Thatta. There is hardly any crop worth mentioning to harvest. Crop will have to be brought from out zone, which due to lower sugar price has become uneconomical. Government had announced the mills start-up date as October 1, 2004, which was meaningless as mills were not ready by that date. Start-up was then shifted gradually to November 1, 2004 even at that time growers could not get the harvesting started. The start-up date was announced as November 20, 2004; however, either there is inadequate sugarcane to harvest or the growers are not ready to harvest sugarcane un-harvested for price to rise, in both the cases mills are running at half the capacity. In this situation we will see many mills closing down.

The company has entered into an operating lease agreement, for a period of two years, with Dewan Sugar Mills Limited ("Dewan") whereby the company has vested exclusive right of its production facility to Dewan Sugar Mills Limited. The lease arrangement will ensure sufficient cash flow to enable the company to meet its obligations for payment of installment arising out of settlement of terms of S.B.P. circular 29. In the prevailing circumstances of price war our lease arrangement with Dewan Sugar Mills Ltd is a healthy sign and plays a vital role in the operation of Mills.

## 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.5.) for Sugar Industry. We are collaborating with Environmental Protection Agency, Government of Sindh and facilities are being developed at site to minimize the emissions to the desired standard level.

## INFORMATION TECHNOLOGY

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

## PATTERN OF SHAREHOLDING OF THE ORDINARY SHARES BY THE SHARE HOLDERS AS ON 30th SEPTEMBER, 2004

Number of Shareholder	Shareholding From	Shareholding To	Total Shares Held	Percentage
1,508	1	100	150,357	1.03
1,929	101	500	820,729	5.6

89	501	1,000	80,195	0.55
120	1,001	5,000	272,190	1.86
11	5,001	10,000	84,700	0.58
5	10,001	15,000	58,700	0.4
3	15,001	20,000	51,400	0.35
3	20,001	25,000	73,000	0.5
1	30,001	35,000	30,700	0.21
1	50,001	55,000	52,200	0.36
2	95,001	100,000	200,000	1.36
2	145,001	150,000	300,000	2.05
1	225,001	230,000	227,600	1.55
1	245,001	250,000	249,000	1.7
1	285,001	290,000	290,000	1.98
1	315,001	320,000	312,700	2.13
2	545,001	550,000	1,100,000	7.5
1	580,001	585,000	583,000	3.98
1	730,001	735,000	733,333	5
1	3,070,001	3,075,000	3,072,100	20.95
1	5,920,001	5,925,000	5,924,762	40.4
3,684			14,666,666	100

Name of Director	No. of Meetings Attended
1) Mr. Qazi Amjad Abid Abbasi	2
2) Mr. M. Arshad Mirza	4
3) Mrs. Husna Amjad Kazi	3
4) Mr. Ali Akber Junejo	1
5) Mr. Haji Sher Jamali	2
6) Mr. Shaikh Aftab Ahmed (I.D.B.P)	2
7) Mr. Kamal Shoaib (N.I.T)	2
8) Mr. Mohd. Abdul Samad (N.I.T)	3

## **FUTURE PROSPECTS**

The past was the indicator to the future and the future prospects of sugar mills in Lower Sindh especially in Thatta are bleak and cloudy unless there is improvement in the availability of water. Water shortage has turned the growers away from cultivation of sugarcane. Soil has become bitter due to flood backwater in the coastal areas. The situation is more critical in lower Sindh compared to the position in Upper and Central Sindh areas.

The future of sugar industry is dependant on the cost of raw material, increase in sugarcane support price without adequate protection to Sugar Industry in Sindh is also harming this vital economic sector of rural Sindh, however, there is least both in official circles.

The availability of liquid resources in the country should also contribute to the well being of the sector, which is still to materialize in our case. Patronage from Federal and Provincial government is necessary for the revival of the industry on sounder footing. Support price of sugar to match the increasing manufacturing cost.

## **ACKNOWLEDGEMENT**

We would like to take this opportunity to convey our deep appreciation to the shareholders, the workers, staff and officers of the Company for their patience, tolerance and forbearance, as well as the assistance and cooperation to the management during these hard days.

We would also like to thank our valued dealers, suppliers, financiers and shareholders for their cooperation and the trust reposed in our Company.

In the end, let us pray to Almighty Allah to guide us in all our pursuits of national development and for the betterment of your organization, Ameen.

#### **CATEGORYWISE SHAREHOLDING AS ON 30-09-2004**

<b>SHAREHOLDERS CATEGORY</b>	<b>NUMBER OF SHARES HELD</b>	<b>PERCENTAGE OF SHAREHOLDING</b>
<b>INDIVIDUALS</b>	3,983,071	27.16
<b>DIRECTORS, CEO &amp; THEIR SPOUSE AND MINOR CHILDREN</b>		
Mr. Qazi Amjad Abid Abbasi	5,924,762	40.4
Mr. M. Arshad Mirza	733,333	5
Mrs. Husna Amjad Kazi	24,000	0.16
Mr. Ali Akber Junejo	25,000	0.17
Mr. Haji Sher Jmali	30,700	0.21
<b>LIMITED COMPANIES</b>		
M/s. Asif Agencies	15,400	0.11
M/s. Pak Grease Mfg. Co. (Pvt.) Ltd.	9,500	0.06
M/s. General Chemical Ltd.	5,000	0.03
M/s. Valika Art Fabrics Ltd.	9,000	0.06
<b>FINANCIAL INSTITUTIONS</b>		
M/s. National Bank of Pakistan (Trustee Department)	3,072,100	20.95
M/s. Habib Bank Limited	2,000	0.01
M/s. Pakistan Industrial Credit Investment Corporation Limited	228,100	1.56
M/s. Investment Corporation of Pak.	290,000	1.98
<b>INSURANCE COMPANIES</b>		
M/s. Adamjee Insurance Co. Ltd.	1,000	0.01
<b>INVESTMENT COMPANIES</b>		
M/s. Karachi Investment Co. (Pvt) Ltd.	1,000	0.01
M/s. The Pakistan Fund	312,700	2.13

#### **SIX YEARS' REVIEW AT A GLANCE**

Description	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Trading results:				
Turnover (Net Sales)	277,905	407,025	210,680	495,684
Gross profit / (loss)	-36,798	1,152	-50,104	12,303
Operating (loss) / profit	-57,863	8,207	-68,310	-9,452
(Loss) / profit before taxation	54,684	-39,517	-152,999	-50,245
(Loss) / profit after taxation	53,294	-41,552	-154,175	-52,700
Balance Sheet:				

Shareholder equity	146,667	146,667	146,667	146,667
Surplus on Revaluation of F. Assets	90,189	96,154	186,826	186,826
Accumulated (loss) / profit	-909,023	-971,495	-955,225	-801,049
Property, plant & equipment	365,936	382,733	405,320	431,123
Other long term assets	769	769	1,409	2,034
Current assets	72,095	123,346	115,958	125,649
Current liabilities	283,524	451,128	363,406	350,289
Long term liabilities	827,444	784,394	781,013	676,074
Significant results:				
Gross profit / (loss) ratio %	-13.241	0.283	-23.78	2.48
(Loss) / profit before tax ratio %	19,677	-9.709	-72.62	-10.14
Current ratio	0.254	0.273	0.32	0.36
Earning per share	3.63	-2.83	-10.51	-3.59

## STATEMENT OF ETHICS & BUSINESS PRACTICES

The Company's policy is to conduct business with honesty and integrity and be ethical in all its dealings, showing respect for the interest of those with whom it has a relationship.

The Company complies with all laws and regulations. The Company believes in fair competition and supports appropriate competition laws.

The Company does not support any political party, not contributes to the funds of group whose activities promote party interests. Company will promote its legitimate business interest through trade associations.

The Company is committed to provide products, which consistently offer value in terms of price and quality and are safe for their intended use, to satisfy customer needs and expectations. The Company is committed to run its business in an environmentally sound and sustainable manner. The Company recognizes its social responsibility and will contribute to community activities as a good corporate citizen.

The Company believes in and fully adheres to the reliability of financial reporting and transparent transactions.

The Company recruits and promotes employees on merit, and is committed to provide safe and healthy working conditions for all its employees. It also believes in maintaining good communication with employees.

The Company is committed to preservation of the environment.

It is the responsibility of the Board to ensure that the above principles are complied with and the internal audit committee constituted by the Board will support them in the compliance.

Arrangements are being made for orientation courses for its Directors during the year to apprise them of their duties and responsibilities.

The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.

The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

The Company has complied with all the corporate and financial reporting requirements of the Code.

The Board has formed an audit committee. It comprises of 3 (three) members, of whom 2 (two) are non-executive directors including the Chairman of the Committee.

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.

The Board has set-up effective internal audit function.

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 (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

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.

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

#### **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 Al-Asif Sugar Mills Limited to comply with the Regulations No. 37 and Chapter XIII of Listing Regulations of the Karachi and Lahore Stock Exchanges respectively 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 September 30th, 2004.

## **AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed balance sheet of AL-ASIF SUGAR MILLS LIMITED as at September 30,2004 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 continued to incur operating losses and upto September 30,2004 its accumulated losses amounts to Rs. 909.023 million (2003: Rs. 971.495 million) which has resulted in the net capital deficiency of Rs. 762.356 million (2003: Rs. 824.828 million). Its current liabilities exceeds current assets by Rs. 211.428 million (2003: Rs. 327.782 million). These conditions indicate the existence of a material uncertainty, which cast significant doubt on the company's ability to continue as a going concern. The going concern assumption use in the preparation of these financial statements is dependent on the ultimate outcome of the mitigating factors mentioned in note no. 1 to the financial statements.

2. We refer to the matter of remaining long term liability of Rs. 270.122 million (2003: Rs. 276.140 million) (note 5.2.8) which is pending being under discussion with previous management for final settlement since the last six years. We have not been provided with information and explanation to ascertain the final-outcome.

3. We did not receive confirmations in respect of loans from Bankers Equity Limited, United Bank Limited, Investment Corporation of Pakistan of Pakistan Ltd., Industrial Development Bank of Pakistan Ltd., Habib Bank Limited, National Bank of Pakistan Limited and other financial institutions. (Refer note no. 5)

(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, investment 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 the explanations given to us, except for the effect of the matters stated in para 1 to 3 above and note 10 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 30,2004 and of the profit, 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.

(e) Without qualifying our opinion we draw attention to note no. 1.3 and 5.2.9 to the financial statements. The company has reversed liability of Habib Bank Limited, United Bank Limited and National Bank Limited (formerly Mehran Bank Limited) upon receipt of implementation letter from these banks and making down payment of ten percent. The income arising from this adjustment (note 22) is dependent on meeting of the conditions about payment of twelve quarterly installments on due dates by the Company as has been laid down in the letter issued by the Committee.

#### **BALANCE SHEET AS AT**

	<b>Note</b>	<b>2004 Rupees</b>	<b>2003 Rupees</b>
<b>SHARE CAPITAL</b>			
Authorised			
50,000,000 ordinary shares of Rs. 10/= each		500,000,000	500,000,000
<b>ISSUED, SUBSCRIBED AND PAID UP</b>			
14,666,666 Ordinary shares of Rs. 10/- each fully paid in	3	-909,023,026	-971,495,007
Accumulated loss		-762,356,366	-824,828,347
		90,189,710	96,154,821
<b>SURPLUS ON REVALUATION OF FIXED ASSETS</b>			
REDEEMABLE CAPITAL AND	4	759,972,791	712,820,349
LONG TERM LOANS	5	67,471,479	71,573,938
DEFERRED LIABILITIES	6		
CURRENT LIABILITIES		-	13,618,476
Short Term Borrowings	7		
Current Maturity of Redeemable Capital and Long Term Loans	8	91,854,600	130,705,421
Creditors, Accrued and Other Liabilities	9	183,357,620	299,882,501
Taxation		8,311,915	6,922,388
		283,524,135	451,128,786
<b>CONTINGENCIES AND COMMITMENTS</b>	10	438,801,749	506,849,547

#### **SEPTEMBER 30, 2004**

<b>Note</b>	<b>2004 Rupees</b>	<b>2003 Rupees</b>
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Operating Fixed Assets	11	365,936,534	382,733,817
LONG TERM SECURITY DEPOSITS		769,259	769,259
CURRENT ASSETS			
Stores and Spares		20,698,177	15,085,992
Stock-in-Trade	12	1,691,971	885,404
Trade Debtors	13	4,237	1,482,978
Advances, Deposits and Prepayments	14	48,199,800	105,783,099
Cash and Bank Balances	15	1,501,771	108,998
		72095956	123,346,471
		438,801,749	506,849,547

### PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Note	2004 Rupees	2003 Rupees
Sales	16	277,905,399	407,025,797
Cost of Goods Sold	17	-314,703,555	-395,505,344
Gross (Loss)/Pro£it		-36,798,156	11,520,453
Operating Expenses			
Administration Expenses	18	20,724,507	19,304,644
Selling and Distribution	19	340,913	423,733
		-21,065,420	-19,728,377
Operating (Loss)		-57,863,576	-8,207,924
Financial Charges	20	309,598	30,256,902
Other Charges	21	2,920,841	1,154,260
		-3,230,439	-31,411,162
		-61,094,015	-39,619,086
Other Income	22	115,778,430	101,696
Profit/(Loss) before Taxation		54,684,415	-39,517,390
Provision for Taxation - Minimum Tax			
- Current		-1,389,527	-2,035,129
- Prior		-	-
Profit/(Loss) after Taxation		53,294,888	-41,552,519
Transfer from surplus on Revaluation			
Prior period		-	19,922,264
Current period		9,177,093	5,360,125
Accumulated Loss Brought Forward		-971,495,007	-955,224,877
Accumulated Loss Carried Forward		-909,023,026	-971,495,007
Earnings/(Loss) per Share	24	3.634	-2.833

### CASH FLOW STATEMENT

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	2004 Rupees	2003 Rupees
Cash Flows from Operating Activities		
Profit/ (Loss) before taxation	54,684,415	-39,517,390

ADJUSTMENT FOR:		
Depreciation	22,765,056	23,986,141
Financial Charges	309,598	30,256,902
Provision for Gratuity	172,468	1,927,647
Other income	-114,641,053	-101,696
	-91,393,931	56,068,994
Operating Profit/(Loss) before Working Capital Changes	-36,709,517	16,551,604
Changes in Working Capital (Increase) / Decrease in Current Assets		
Stores and Spares	-5,612,185	2,832,938
Stock-in-Trade	-806,567	1,990,323
Trade Debtors	1,478,741	-
Advances, Deposits and Prepayments	57,669,568	-12,519,807
Increase / (Decrease) in Current Liabilities		
Creditors, Accrued and Other Liabilities	-102,656,822	27,138,755
	-49,927,264	19,442,209
Cash Generated from Operation	-86,636,781	35,993,812
Taxes paid	86,269	912,040
Financial Charges paid	309,598	16,532,671
Gratuity paid	1,062,947	522,877
	-1,458,814	-17,967,588
Net cash from (used in) operating activities	-88,095,595	18,026,225
Cash Flow from Investing Activities		
Fixed Capital Expenditure	-5,967,772	-1,498,497
Proceeds from Disposal of Fixed Assets	-	200,000
Deferred Cost	-	639,916
Net Cash from (used in) Investing Activities	-5,967,772	-658,581
	<b>2004</b>	<b>2003</b>
	<b>Rupees</b>	<b>Rupees</b>
Cash Flow from Financing Activities		
Long term loans chained	134,175,674	128,585,967
Repayment of Loans	-38,719,535	-146,262,115
	95,456,139	-17,676,148
Increase/(Decrease) in Cash	1,392,773	-308,504
Cash and Bank Balances at the beginning of the year	108,998	417,502
Cash and Bank Balances at the end of the year	1,501,771	108,998

**STATEMENT OF CHANGES IN EQUITY**  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	<b>Share Capital</b>	<b>Accumulated</b>	<b>Total</b>
	<b>Rupees</b>	<b>Loss</b>	<b>Rupees</b>
		<b>Rupees</b>	
Balance as at September 30, 2002	146,666,660	-955,224,877	-808,558,217
Loss for ther year Ended			
September 30, 2003	—	(16,270,130))	-16,270,130
Balance as at September 30, 2003	146,666,660	-971,495,007	-824,828,347

Profit/(Loss) for the Year Ended			
September 30, 2004	—	53,294,888	53,294,888
Transfer from surplus on revaluation of assets to unappropriated profit/doss)			
Prior period	—	—	—
Current period	—	9,177,093	9,177,093
Balance as at September 30, 2004	146,666,660	-909,023,026	-762,356,366

## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

### 1. STATUS AND OPERATION

**1.1** The Company was incorporated in Pakistan on February 25, 1984 as a Private Limited Company and was subsequently converted into a Public Limited Company on February 11, 1990. The Company is listed in Karachi and Lahore Stock Exchanges. The principal business of the Company is manufacturing and selling of refined sugar. The Mill is located at Garho, Sindh.

**1.2** The Company recommenced its operation with effect from November 24, 1998 after remaining inoperative since February 22, 1995.

The financial statements reflects accumulated losses of Rs. 909.023 million (2003: Rs. 971.495) and excess of current liabilities over current assets of Rs. 211.428 million (2003: Rs. 327.782) and operating loss of Rs. 57.864 million (2003: 8.208) for the year. During the year, the company applied to S.B.P. committee for resolution of cases for settlement of liabilities with N.B.P., U.B.L., H.B.L., and I.C.P. and B.E.L. consortium.

**1.3** Subsequent to balance sheet, the committee decided the matter of settlement of outstanding liabilities in terms of S.B.P. circular 29 on payment of an aggregate amount of Rs. 224.064 million representing the forced sale value of the project assets. The payment is to be made as per settlement would be Rs. 22.50 million to H.B.L., Rs. 5.70 million to U.B.L. and Rs. 195.864 million to the consortium of I.C.P and B.E.L. The details are mentioned in the note no. 5 to the financial statements.

In the view of the above settlement, there shall be an overall reversal of Rs. 247.961 million of principal and markup liabilities. The company has so far incorporated effects of reversal in respect of H.B.L. U.B.L. and N.B.P. upon receipt of necessary approval letter. Implementation letter from other financial institutions are also expected to be received shortly. The company shall make down payment of 10% on receipt of such letters and remaining payments in 12 quarterly installments shall be made as per repayment schedule.

**1.4** Subsequent to the balance sheet date the company has entered into an operating lease agreement, for a period of two years, with Dewan Sugar Mills Limited ("DSML"), whereby the company has vested exclusive right of use of its production facilities of DSML. The lease arrangements will ensure sufficient cashflows to enable the company to meets its obligations for payment of installment arising out of settlement in terms of S.B.P. circular 29 has disclosed in note no. 1.3 above. The company shall obtain approval of the share holder for the above in its following Annual General Meeting.

Because of the matters as stated into note 1.3 and 1.4 the company do not foresee any contingency to affect its ability to continue as a going concern. These financial statements have accordingly been prepared on going concern basis.

## **SIGNIFICANT ACCOUNTING POLICIES**

### **Statement of Compliance**

These accounts have been prepared in accordance with approved Accounting Standards as applicable in Pakistan and the requirements of Companies Ordinance, 1984. Approved accounting standards comprises 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 Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

### **Basis of preparation**

These accounts have been prepared under the "historical cost convention" except in respect of fixed assets which are stated at revalued amount.

### **Staff Retirement Benefits**

The Company operates a defined benefit plan comprising an unfunded gratuity scheme. Provision for the eligible employees is made annually in the period in which the benefit earned to cover the obligation under the scheme on the basis of salary and length of service with the company.

The company has determined its ability in respect of staff gratuity in accordance with the recommendations made by an appointed actuary. The valuation has, as at September 30, 2003, determined a transitional liability of Rs. 4.762 million which is lower than the liability amounting to Rs. 6.185 million as disclosed in financial statements as at September 30, 2003 thus resulted in reversal of excess provision amounting to Rs. 1.422 million as at October 01, 2003. The company has recognized this excess provision in the current year's profit and loss account Refer to Note 6.

### **Taxation**

#### **Current**

The Company accounts for current taxation on the basis of taxable income, if any, at the current rate of taxation after taking into account the tax credits and rebates available, if any, or 0.5 percent of the turn over whichever ever is higher.

#### **Deferred**

Deferred tax is provided using balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax assets is recognized only to the extent that it is probable that future taxable profits will be available against which the assets can be utilized. Deferred tax reduced to the extent that it

is no longer probable that the related tax benefits will be realized.

As at 30th September 2003, deferred tax assets on available losses has not been recorded in view of uncertainty about the availability of taxable profits in the foreseeable future against which such losses could be utilized. Further, deferred tax liability on revaluation of fixed assets has been recognized in view of availability of future profit.

### **Operating Fixed Assets**

Operating fixed assets are stated at cost less accumulated depreciation and impairment loss, if any, except plant and machinery, factory and non-factory buildings, furniture and fixtures, and

office equipment which are stated at revalued amounts less accumulated depreciation and impairment loss, if any. Free hold land is stated at revalued amount. Depreciation on operating fixed assets is charged to current year's profit and loss account by applying reducing balance method over estimated useful life at the rate given in note no. 11 to the financial statements. Full year's depreciation is charged on all assets including additions during the year. No depreciation is charged on assets in the year of disposal..

Incremental depreciation charged for the period on revalued assets is transferred from surplus on revaluation of fixed assets to retained earnings (accumulated losses) during the current year.

### **Stock - in - Trade**

These are valued at lower of cost and net realizable value except for molasses which is valued at net realizable value.

Cost in relation to work - in - process and finished goods consist of annual average material cost plus, direct labour and applicable factory overheads.

### **Revenue Recognition**

Sales are recorded on dispatch of goods to customers.

### **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.

### **Foreign Currency Translation**

Assets and liabilities in foreign currencies are translated into rupees at the rate of exchange prevailing at the balance sheet date except for the liabilities covered under forward exchange contracts which are translated at the contracted rates. Transactions in foreign currencies are converted into rupees at the rate of ruling on the date of transactions.

### **Trade Debts**

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

### **Financial Instruments**

#### **Financial assets**

Financial assets are loans, advances, deposits, trade debts, other receivable and cash and banks.

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. Significant financial liabilities are long-term loans, creditors, accrued and other liabilities.

Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

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 measure at amortized cost.

### ISSUED, SUBSCRIBED AND PAID UP CAPITAL

	2004 Rupees	2003 Rupees
14,666,666 (2002: 14,666,666)	146,666,660	146,666,660
Ordinary shares of Rs. 10/- each fully paid in cash	146,666,660	146,666,660

### SURPLUS ON REVALUATION OF FIXED ASSETS

Surplus on revaluation of fixed assets :	96,154,821	186,826,477
Less:	-	19,922,264
Transferred to Unappropriated profit/ (Loss)	5,965,111	5,360,125
Prior period	-5,965,111	-25,282,389
Current period	90,189,710	161,544,088
	-	65,389,267
	—	-65,389,267
Less: Adjustment for Deferred Tax	90,189,710	96,154,821

### REDEEMABLE CAPITAL AND LONG TERM LOANS

Ending balance			
Redeemable Capital	5.1	18,704,000	24,048,000
Long-term loans	5.2	741,268,791	688,772,349
		759,972,791	712,820,349
5.1 Redeemable Capital			
Non participatory Term Finance Certificate - Secured		50,768,000	50,768,000
Opening balance		50,768,000	50,768,000
Repaid during the year		5,344,000	5,344,000
Current maturity		-32,064,000	-26,720,000
Overdue installments		18,704,000	24,048,000

**LONG TERM LOANS**

	<b>Note</b>	<b>2004 Rupees</b>	<b>2003 Rupees</b>
Bank and DFIs - Secured			
BEL-LMM	5.2.1	28,889,374	28,889,374
ICP-LMM	5.2.2	19,090,366	19,558,643
IDBP - Pak Rupee Loan	5.2.2	112,159,664	118,287,332
IDBP - Frozen Markup	5.2.3	19,268,334	20,380,740
NBP - Demand Finance	5.2.4	25,021,250	25,021,250
HBL - Demand Finance	5.2.5	35,231,000	39,729,000
HBL - Frozen Markup	5.2.5	69,132,000	69,132,000
UBL - Demand Finance	5.2.6	8,337,000	8,892,000
National Bank of Pakistan - R/F	5.2.7	5,000,000	-
Others - Unsecured	5.2.8	609,804,456	609,129,546
		931,933,444	939,019,885
Less : Repayments	5.2.9	-130,874,053	-146,262,115
Current Maturity		22,982,643	24,105,994
Overdue Installments		36,807,957	79,879,427
		-59,790,600	-103,985,421

	<b>2004 Rupees</b>	<b>2003 Rupees</b>
Repayments to Banks/DFIs and Others	-	468,277
Investment Corporation of Pakistan (ICP)	-	6,127,668
Industrial Development Bank of Pakistan (IDBP)	-	1,112,406
IDBP-Frozen Mark up	-	4,498,000
Habib Bank Limited (HBL)	-	555,000
United Bank Limited (UBL)	500,000	-
National Bank of Pakistan - R/F	38,219,535	133,500,764
Others - unsecured	38,719,535	146,262,115

**DEFERRED LIABILITIES**

Staff Gratuity	5,294,195	6,184,671
Deferred Tax	62,177,284	65,389,267
	67,471,479	71,573,938

Reconciliation of Payable to Defined Benefit Plan		
Present value of defined obligation	6.4	5,186,855
Net Actuarial Losses not Recognized		107,340
		5,294,195

**6.4 Movement in net liability recognized**

Present value of the defined benefit obligation as at September 30, 2003	4,761,500	-
Interest Cost	380,920	-



Current service cost		1,214,722	-
Benefits paid during the year		-1,062,947	-
Actuarial (gain) / loss		-107,340	-
Present value of the defined benefit obligation as at September 30, 2004		5,186,855	-

		<b>2004</b>	<b>2003</b>
		<b>Rupees</b>	<b>Rupees</b>
<b>Charge for Defined Benefit Plan</b>			
Current Service Cost		1,214,722	—
Interest Cost		380,920	-
Reversal of excess provision	6.6	-1,423,171	-
		172,471	-
<b>Transitional liability</b>			
Present value of the defined benefit obligation as at September 30, 2003		4,761,500	-
Liability recognized by the company as at September 30, 2003		6,184,671	-
Transitional (asset) /liability		-1,423,171	-

#### **SHORT TERM BORROWING**

Running Finance - NBP	7.1	-	13,618,476
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		<b>2004</b>	<b>2003</b>
		<b>Rupees</b>	<b>Rupees</b>
<b>Current / Overdue Portion of Redeemable Capital and Long Term Loans</b>			
<b>Redeemable Capital</b>			
Current Portion		5,344,000	5,344,000
Overdue Installments		26,720,000	21,376,000
		32,064,000	26,720,000
<b>Long Term Loans</b>			
Current Portion		22,982,643	24,105,994
Overdue Installments		36,807,957	79,879,427
		59,790,600	103,985,421
		91,854,600	130,705,421
<b>Creditors, Accrued and Other Liabilities</b>			
<b>Creditors</b>			
- Cane Suppliers		34,818,281	45,057,288
- Store and Others		48,452,201	118,914,918
<b>Advances from Customers</b>			
Temporary book overdraft		—	49,335,104
Accrued Expenses	9.1	1,071,047	-
Deposits		16,023,717	10,942,276
Road Cess		274,960	274,960
Surcharge on Road Cess		16,664,342	13,797,739
Sales Tax Payable		2,937,529	2,937,529
Excise Duty Payable		21,656,855	14,211,198
		1,233,555	1,233,555

Accrued Markup	70,370,627	76,254,371
- Long Term Loans	-	6,493,983
- Short Term Borrowings	70,370,627	82,748,354
	3,383,465	3,271,603
Due to Employees	1,289,322	2,210,265
Other Liabilities	183,357,620	299,882,501

## OPERATING FIXED ASSETS

Particulars	COST		DEPRECIATION	
	Additions / 01-10-2003	As on (Deletion)	Rate 30-09-2004	As on %
Land-free hold	2,502,556	-	2,502,556	-
Experimental Land	807,944	-	807,944	-
Building on free hold land				
- Factory	94,415,026	-	94,415,026	10
- Non Factory	52,610,125	-	52,610,125	10
Plant and Machinery	517,800,341	4,857,790	522,658,131	5
Electric Installations	12,144,826	-	12,144,826	10
Tools and Equipment	1,947,036	174,275	2,121,310	10
Telephone Installation	859,501	-	859,501	10
Electric Equipment	3,606,846	164,150	3,770,996	10
Furniture and Fixtures	5,124,481	52,400	5,176,881	10
Office Equipment	970,862	4,850	975,712	10
Arms and Ammunitions	269,847	-	269,847	10
Computers	1,031,200	299,700	1,330,900	10
Vehicles	4,893,545	414,607	5,308,152	20
Total - 30th Sept. 2004	698,984,135	5,967,772 (240,000)	704,951,907	
Total - 30th Sept. 2003	697,725,638	1,498,497	698,984,135	

	2004 Rupees	2003 Rupees
Depreciation charge for the year has been allocated as follows:		
- Cost of Goods Manufactured	19,577,948	23,644,709
- Administration	3,187,108	3,758,709
	22,765,056	27,403,418

Revaluation was done on the following basis:

Asset	Basis
Land	Current market value
Building	Current replacement value
Plant and Machinery	Current replacement value
Furniture and Fixture	Current book value

	W.D.V.	W.D.V.
Leasehold land	2,414,253	2,414,253
Experimental Land	779,436	779,436

Building on free hold land		11,624,041	12,915,599
- Factory		5,783,254	6,425,838
- Non Factory		198,884,064	204,493,856
Plant and Machinery		2,364,663	2,627,403
Electric Installation		702,209	605,958
Tools and Equipment		212,738	236,376
Telephone Installations		958,552	900,908
Electric Equipment		1,202,481	1,283,690
Furniture and Fixture		363,190	398,694
Office Equipment		49,708	55,231
Arms and Ammunitions		874,157	671,585
Computers		1,754,857	1,778,964
Vehicles		227,967,603	235,587,791

	<b>2004</b>	<b>2003</b>
	<b>Rupees</b>	<b>Rupees</b>

#### **STOCK-IN-TRADE**

Finished Goods		—	—
Work-in-process		1,691,971	885,404
		1,691,971	885,404

#### **TRADE DEBTORS - UNSECURED**

Considered good	13.1	4,237	1,482,978
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	<b>Note</b>	<b>2004</b>	<b>2003</b>
		<b>Rupees</b>	<b>Rupees</b>

#### **ADVANCES, DEPOSITS AND PREPAYMENTS**

<b>Advances</b>			
<b>Unsecured - Considered good</b>			
- Growers		7,771,769	25,386,111
- Contractors		12,077,196	6,718,245
- Suppliers		2,814,450	1,476,062
- Employees		2,637,744	13,519,613
- Executives	14.1	242,825	717,418
- for Expenses		251,584	1,447,865
- Income Tax		114,419	28,150
		25,909,988	49,293,464
<b>Considered doubtful</b>			
- Growers		-	43,265,463
- Contractors		-	1,455,164
- Suppliers		-	18,820
- Employees		536,778	536,778
		536,778	45,276,225
		26,446,766	94,569,689
Provision against doubtful advances to growers	-		-11,931,393
		26,446,766	82,638,296
<b>Deposits</b>			
- Excise Duty	14.2	20,831,910	20,831,910
- Industrial Development Bank of Pakistan		497,467	497,467

- Others	27,631	435,911
	21,357,008	21,765,288
Prepayments	396,026	1,379,515
	48,199,800	105,783,099

	Note	2004 Rupees	2003 Rupees
<b>CASH AND BANK BALANCES</b>			
Cash in hand		796,992	16,933
Cash with Banks - in current accounts		704,779	92,065
		1,501,771	108,998

<b>SALES</b>			
Sugar		312,376,247	433,984,966
Molasses		11,535,203	17,664,127
		323,911,450	451,649,093
Less: Sales Tax		-46,006,051	-44,623,296
		277,905,399	407,025,797

<b>COST OF GOODS SOLD</b>			
Opening Stock (W.I.P.)		885,404	2,875,727
Raw Material Consumed		238,378,736	327,887,159
Manufacturing Expenses			
Salaries, Wages and Benefits		19,069,314	19,710,449
Stores and Spares Consumed		26,075,981	12,781,568
Packing Material Consumed		3,461,016	4,584,938
Water, Fuel and Power		5,070,441	4,495,148
Freight, Handling and Octroi		758,375	540,293
Insurance		1,276,838	974,254
Vehicle Running and Maintenance		1,058,346	960,626
Depreciation	11.1	19,577,948	20,415,957
Others		783,127	1,164,629
		77,131,386	65,627,862
Closing Work - in - Process (Sugar)		-1,691,971	-885,404
		314,703,555	395,505,344

	Note	2004 Rupees	2003 Rupees
<b>ADMINISTRATION EXPENSES</b>			
Salaries, Bonus & Allowances		9,983,592	10,012,999
Directors' Remuneration	-18.1	1,440,000	1,440,000
Travelling, Conveyance and Entertainment		565,950	464,376
Insurance		182,097	114,620
Postage and Telegrams		16,743	17,652
Telephone and Telex		872,753	915,413
Electricity		21,910	19,530
Printing and Stationery		393,614	408,081
Repairs and Maintenance		592,802	723,365
Auditors' Remuneration	-18.2	313,025	303,830
Directors' Meeting Fees		15,000	-
Vehicle Running and Maintenance		296,047	430,272

Rent, Rates and Taxes				181,824	181,824
Legal and Professional Charges				674,750	378,500
Fees, Subscriptions and Renewals				1,443,554	164,865
Newspapers and Periodicals				19,419	18,996
Depreciation			-11.1	3,187,108	3,570,184
Others				524,320	140,137
				20,724,507	19,304,644

	<b>2004</b>			<b>2003</b>	
Particulars	Chief Executive	Director	Total	Chief Executive	Director
Remuneration	480,000	480,000	960,000	480,000	480,000
Perquisites and other benefits	240,000	240,000	480,000	240,000	240,000
Total-Rupees	720,00	720,000	1,440,000	720,000	720,000
No. of Persons	1	1		1	1

	<b>2004</b>	<b>2003</b>
	<b>Rupees</b>	<b>Rupees</b>
Auditors' Remuneration	125,000	125,000
Annual Audit Fee	50,000	50,000
Review of Code of Corporate Governance	50,000	30,000
Half Yearly Review	-	25,000
Special Audit of other Liabilities	45,000	45,000
Cost Audit Fee	43,025	33,830
Out of Pocket Expenses	313,025	308,830

	<b>2004</b>	<b>2003</b>
	<b>Rupees</b>	<b>Rupees</b>
<b>SELLING AND DISTRIBUTION EXPENSES</b>		
Advertisement	17,199	42,824
Sugar Handling	323,714	380,909
	340,913	423,733

	<b>2004</b>	<b>2003</b>
<b>FINANCIAL CHARGES</b>		
Markup / Interest on		
- Long Term Loans	-	29,984,706
Bank Charges and Commission	309,598	272,196
	309,598	30,256,902

<b>OTHER CHARGES</b>		
Penalty on Sales Tax	862,125	409,092
Additional Sales Tax	2,058,716	745,168
	2,920,841	1,154,260

<b>OTHER INCOME</b>		
Profit of sale of Fixed Assets	—	101,696
Reversal of Mark Up of Banks	114,641,053	-
Reversal of excess provision of gratuity	1,137,377	-
	115,778,430	101,696

## PLANT CAPACITY AND PRODUCTION

Year	No. of days Mill Operated	Crushing Capacity		Actual Crushing	
		M. Ton per day	M.Ton	M.Ton	M.Ton
30-09-2004	109	3,000	327,000	229,327	
30-09-2003	109	3,000	327,000	265,822	

## EARNING/(LOSS) PER SHARE

Net profit/ (loss) after taxation	53,294,888	-41,552,519
Weighted Average Number of Ordinary Shares	14,666,666	14,666,666
Earning per Share - Basic & Diluted	3.634	-2.833

## Fair value of Financial Instruments

Fair value of all financial assets and liabilities are estimated to approximate their respective carrying amount.

## Interest/mark-up rate risk management

Interest/markup rate risk arises from the possibility that changes in interest/markup rates will effect the value of financial instruments. In respect of income earning financial assets and interest/mark-up bearing financial liabilities, the following table indicate their effective interest/markup rates at the balance sheet date and the periods in which they mature.

## Financial Assets and Liabilities

	Interest Bearing		Non Interest Bearing		Total 30-09-04 Rupees
	One month to one year Rupees	One year onwards Rupees	One year onwards Rupees	Rupees	
Financial Assets					
Long Term Deposits	-	-	-	769,259	769,259
Trade Debts	-	-	-	4,237	4,237
Advances, Deposits, Prepayments and other Receivables	-	-	-	48,199,800	48,199,800
Cash and Bank Balances	-	-	-	1,501,771	1,501,771
Total Sept. 30, 2004	-	-	-	50,475,067	50,475,067
Total Sept. 30, 2003	-	-	-	120,047,577	120,047,577
Financial Liabilities					
Redeemable Capital	32,064,000	18,704,000	-	-	50,768,000
Long Term Loans	59,790,600	-	-	741,268,620	801,059,391
Short Term Borrowings	-	-	-	-	-
Creditors, Accrued & Other Liabilities	-	-	-	183,357,620	183,357,620
Total 2004	91,854,600	18,704,000	-	924,626,411	1,035,185,011
Total 2003	144,323,903	712,820,349	-	299,832,591	1,156,976,753

## Financial risk management objective

The company's activities expose it to a variety of financial risks, including the effects of changes in foreign exchange rates, credit and liquidity risk associated with various financial assets and liabilities respectively as referred to in notes number 30 to 32. The company finances its operations through equity and management of working capital with a view to maintaining a reasonable mix between the various sources of finance to minimize risk. Taken as a whole, risk arising from the company's financial instruments is limited as there is no significant exposure to market risk in respect of such instruments.

#### **Liquidity risk management**

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facility. Company treasury aims at maintaining flexibility in handling by keeping committed credit line available.

#### **Credit Risk and Concentration of Credit Risk**

Credit risk represents the accounting loss that would be recognized at the reporting date, if counter parties failed completely to perform as contracted. To reduce exposure to credit risk the management continuously monitors the credit exposure and makes provision against those balances considered doubtful of recovery.

#### **Foreign exchange risk management**

Foreign currency risk arises mainly where receivable and payables exist due to transactions entered into foreign currencies. The company incurs foreign currency risk on purchases that are entered in current other than Pak Rupee. The company obtains foreign exchange cover, where necessary and permissible, to cover the risk.

#### **Number of Employees**

The Number of employees as at September 30,2004 are 305 (2003:350).