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# FACTO SUGAR MILLS LIMITED

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## COMPANY INFORMATION

### BOARD OF DIRECTORS

Mr. Munawar Ali Fecto  
Mr. Kaiser Mahmood Fecto  
Mr. Moin A. Haroon  
Mr. James R. Richards  
Mr. Imran Azim  
Mr. Fazlur Rehman  
Mr. Malik Iftikhar Hussain Awan

Chief Executive  
Deputy Chief Executive

### AUDIT COMMITTEE

Mr. Moin A. Haroon  
Mr. Kaiser Mahmood Fecto  
Mr. James R. Richards

Chairman  
Member  
Member

### COMPANY SECRETARY

Mr. Malik Ahmed Saeed Nasir

### AUDITORS

M/s. Rahman Sarfaraz Rahim Iqbal Rafiq  
Chartered Accountants

### SHARE REGISTRAR

M/s. Gangjees Registrar Services (Pvt) Ltd.

### BANKERS

MCB Bank Limited  
NIB Bank Limited  
My Bank Limited  
The Bank of Khyber Limited

### REGISTERED OFFICE

1st Floor, Panorama Centre  
Raja Ghazanfar Ali Khan Road  
Saddar, Karachi-75530

### ZONAL OFFICE

1st Floor, Nawa-e-Waqt House,  
4-Shahrah-e-Fatima Jinnah,  
Lahore.

### MILL

Daryakhan (District Bhakkar)

### WEBSITE

[www.fecto.com](http://www.fecto.com)

# FECTO SUGAR MILLS LIMITED

## CASH FLOW STATEMENT FOR THE YEAR ENDED SEPTEMBER 30, 2010

|   | NOTE | 2010<br>RUPEES | 2009<br>RUPEES |
|---|------|----------------|----------------|
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>                        |      |                |                |
| Loss before taxation  |      | (252,998,164)  | (86,460,995)   |
| <b>Adjustments:</b>   |      |                |                |
| Depreciation  |      | 74,546,118     | 67,478,912     |
| Amortization  |      | 45,003         | -              |
| Loss on sale of Property, Plant & Equipment                       |      | -              | 174,787        |
| Gain on sale of investment in associated Company                  |      | (88,593,720)   | -              |
| Finance costs   |      | 61,792,626     | 79,754,607     |
| Return on term deposits   |      | (666)          | (23,399)       |
| Operating cash (outflow) / inflow before working capital changes  |      | (205,208,803)  | 60,923,912     |
| <b>CHANGES IN WORKING CAPITAL:</b>                                |      |                |                |
| (Increase ) / decrease in current assets                          |      |                |                |
| Stores, spares and loose tools                                    |      | (7,427,847)    | 19,981,259     |
| Stock in trade  |      | (9,142,533)    | 31,273,868     |
| Loans, advances, deposits, prepayments and other receivables      |      | 8,006,888      | (12,086,906)   |
|   |      | (8,563,492)    | 39,168,221     |
| <b>(Decrease) / increase in current liabilities</b>               |      |                |                |
| Trade & other payables  |      | 3,816,675      | 45,941,705     |
|   |      | (209,955,620)  | 146,033,838    |
| <b>Cash (used in) / generated from operations</b>                 |      |                |                |
| Finance costs paid  |      | (57,707,115)   | (97,423,276)   |
| Income taxes paid   |      | (4,966,361)    | (3,236,032)    |
| <b>Net cash (used in) / generated from operating activities</b>   |      | (272,629,096)  | 45,374,530     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                       |      |                |                |
| Fixed capital expenditure   |      | (43,137,632)   | (6,896,549)    |
| Proceeds from sale of investment in associated Company            |      | 88,593,720     | -              |
| Proceeds from sale of Property, Plant & Equipment                 |      | -              | 12,830,000     |
| Return on deposits  |      | 666            | 23,399         |
| Long term deposits  |      | 403,400        | 1,063,267      |
| <b>Net cash generated from investing activities</b>               |      | 45,860,154     | 7,020,117      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                       |      |                |                |
| Directors' loan received  |      | 248,200,000    | -              |
| Net (repayments) / proceeds from long term finance                |      | (7,962,500)    | (18,750,000)   |
| Repayments of liabilities against assets subject to finance lease |      | (8,907,001)    | (37,070,259)   |
| Short term borrowings paid  |      | -              | (8,233,400)    |
| <b>Net cash generated from / (used in) financing activities</b>   |      | 231,330,499    | (64,053,659)   |
| <b>Net increase / (decrease) in cash and cash equivalents</b>     |      | 4,561,556      | (11,659,012)   |
| Cash and cash equivalents at the beginning of the year            |      | 4,148,578      | 15,807,590     |
| <b>Cash and cash equivalents at the end of the year</b>           | 11   | 8,710,134      | 4,148,578      |

The annexed notes 1 to 40 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

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## FECTO SUGAR MILLS LIMITED

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### PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED SEPTEMBER 30, 2010

|   | NOTE | 2010<br>RUPEES       | 2009<br>RUPEES |
|---|------|----------------------|----------------|
| Sales - net                                 | 24   | <b>1,490,206,228</b> | 1,205,361,155  |
| Cost of sales                               | 25   | <b>1,690,340,150</b> | 1,146,744,612  |
| <b>Gross (loss) / profit</b>                |      | <b>(200,133,922)</b> | 58,616,543     |
| <b>Operating expenses:</b>                  |      |                      |                |
| Distribution costs                          | 26   | <b>(2,882,311)</b>   | (3,913,207)    |
| Administrative expenses                     | 27   | <b>(75,359,961)</b>  | (66,558,496)   |
| Other operating expenses                    | 29   | <b>(1,833,635)</b>   | (1,481,500)    |
|   |      | <b>(80,075,907)</b>  | (71,953,203)   |
| <b>Operating (loss)</b>                     |      | <b>(280,209,829)</b> | (13,336,660)   |
| Finance cost                                | 30   | <b>(61,792,626)</b>  | (79,754,607)   |
| Other income                                | 31   | <b>410,571</b>       | 6,630,272      |
| Gain on disposal of associated Company      | 6    | <b>88,593,720</b>    | -              |
|   |      | <b>27,211,665</b>    | (73,124,335)   |
| <b>(Loss) before taxation</b>               |      | <b>(252,998,164)</b> | (86,460,995)   |
| Taxation                                    | 32   | <b>(16,095,015)</b>  | 7,098,894      |
| <b>(Loss) after taxation</b>                |      | <b>(269,093,179)</b> | (79,362,101)   |
| <b>Loss per share - basic &amp; diluted</b> | 33   | <b>(18.45)</b>       | (5.44)         |

The annexed notes 1 to 40 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

# PECTO SUGAR MILLS LIMITED

## BALANCE SHEET AS AT SEPTEMBER 30, 2010

|   | NOTE | 2010<br>RUPEES       | 2009<br>RUPEES |
|---|------|----------------------|----------------|
| <b>ASSETS</b>   |      |                      |                |
| <b>NON-CURRENT ASSETS</b>   |      |                      |                |
| Property, plant & equipment   | 4    | 1,375,783,253        | 1,390,635,739  |
| Intangible assets   | 5    | 855,000              | -              |
| Long term investment  | 6    | -                    | -              |
| Long term deposits  | 7    | 31,529,796           | 31,933,196     |
|   |      | <b>1,408,168,049</b> | 1,422,568,935  |
| <b>CURRENT ASSETS</b>   |      |                      |                |
| Stores, spares and loose tools  | 8    | 92,829,691           | 85,401,844     |
| Stock-in-trade  | 9    | 11,131,849           | 1,989,316      |
| Loans, advances, deposits, prepayments and other receivables                        | 10   | 53,108,576           | 61,429,526     |
| Cash and bank balances  | 11   | 8,710,134            | 4,148,578      |
|   |      | <b>165,780,250</b>   | 152,969,264    |
| <b>TOTAL ASSETS</b>   |      | <b>1,573,948,299</b> | 1,575,538,199  |
| <b>EQUITY AND LIABILITIES</b>   |      |                      |                |
| <b>SHARE CAPITAL &amp; RESERVES</b>   |      |                      |                |
| Authorized Capital<br>15,000,000 (2009:15,000,000) ordinary shares of<br>Rs.10 each |      | 150,000,000          | 150,000,000    |
| Issued, subscribed and paid up capital  | 12   | 145,862,110          | 145,862,110    |
| Accumulated losses  |      | (977,782,285)        | (739,956,548)  |
|   |      | <b>(831,920,175)</b> | (594,094,438)  |
| Surplus on revaluation of property,<br>plant & equipment                            | 13   | 582,453,915          | 613,721,357    |
| <b>NON-CURRENT LIABILITIES</b>  |      |                      |                |
| Sub-ordinated loan  | 14   | 656,000,000          | 656,000,000    |
| Director's loan   | 15   | 258,200,000          | 10,000,000     |
| Long term finances  | 16   | 253,375,000          | 292,800,000    |
| Liabilities against assets subject to finance lease                                 | 17   | 22,559,849           | 20,447,103     |
| Deferred taxation   | 18   | 220,065,490          | 220,065,490    |
| <b>CURRENT LIABILITIES</b>  |      |                      |                |
| Current portion of long term liabilities  | 19   | 87,373,427           | 49,474,673     |
| Trade & other payables  | 20   | 293,345,956          | 289,529,282    |
| Accrued finance cost  | 21   | 21,680,243           | 17,594,732     |
| Taxation - net  | 22   | 10,814,594           | -              |
|   |      | <b>413,214,220</b>   | 356,598,687    |
| <b>CONTINGENCIES &amp; COMMITMENTS</b>  | 23   | -                    | -              |
| <b>TOTAL EQUITY &amp; LIABILITIES</b>   |      | <b>1,573,948,299</b> | 1,575,538,199  |

The annexed notes 1 to 40 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

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# PECTO SUGAR MILLS LIMITED

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## DIRECTORS' REPORT TO THE MEMBERS

The Directors of your company have the pleasure in submitting their 46<sup>th</sup> report together with the audited Accounts of the company for the year ended September 30, 2010.

### OPERATIONAL PERFORMANCE

Operating results for the year under review are summarized below:

|                       |        | 2009-10           | 2008-09           |
|-----------------------|--------|-------------------|-------------------|
| Season started        |        | November 18, 2009 | November 25, 2008 |
| Season closed         |        | February 26, 2010 | March 03, 2009    |
| Crushing days         |        | 101               | 99                |
| Sugarcane crushed     | M Tons | 354,256           | 411,435           |
| Avg. crushing per day | M Tons | 3,507.49          | 4,155.90          |
| Sugar recovery        | %      | 7.05              | 8.00              |
| Sugar produced        | M Tons | 24,913            | 32,940            |
| Molasses Recovery     | %      | 4.21              | 4.37              |
| Molasses Produced     | M Tons | 14,878            | 17,993            |

The company has operated at comparatively lower level of crushing during the period under review due to less availability of sugarcane. The Crushing season commenced on November 18, 2009 and closed on February 26, 2010. The mill operated for 101 days as against 99 days operated last season. The mill crushed 354,256 M Tons as against 411,435 M Tons last year and as a result sugar produced was less than the last year. Sugar production was 24,913 M Tons as against 32,940 M Tons produced last year i.e. 24.36 % decrease over the last year. During the current year, the sugar recovery percentage also decreased from 8.00% of last year to 7.05%.

Particle Board Division has not performed well during the year under review because of less availability of bagasse due to decline in crushing. Your company has been able to produce 1.332 million sq. ft. as compared to 3.468 million sq. ft. of particle board sheets of the last year. Net sales have also reduced to Rs. 20.521 millions this year from Rs. 70.392 millions of the last year.

### FINANCIAL RESULTS

An analysis of the key financial results is given below:

|                          | 2009-10              | 2008-09   |
|--------------------------|----------------------|-----------|
|                          | (Rupees in millions) |           |
| Sales                    | 1,490.206            | 1,205.361 |
| Gross Profit/ (Loss)     | (200.134)            | 58.616    |
| Net Loss before Taxation | (252.998)            | (86.461)  |
| Net Loss after Taxation  | (269.093)            | (79.362)  |
| Loss per share           | (18.45)              | (5.44)    |

During the current year, recovery of sucrose content was lesser than last year resulting in lower quantity of sugar due to the factors beyond our control i.e. high cost of sugarcane, lower sugarcane supply etc. Company financial results remained negative and thus pre-tax loss increased to Rs. 252.998 Millions from Rs. 86.461 Millions of the last year.

### DIVIDEND

Because of the loss sustained by the company during the year under review, the Directors do not recommend any dividend or bonus shares for the year.

### GOING CONCERN

In their report, the auditors have raised doubts about the ability of the Company to continue on a going concern basis. Your Company and other sugar mills have been facing these conditions due to high sugarcane price multiplied by the maneuvering of middle men and decline in sucrose recovery, contributing towards

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# PECTO SUGAR MILLS LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2010

### 1 STATUS AND NATURE OF BUSINESS

**1.1** The Company was incorporated as a public limited Company on September 19, 1964. Its shares are listed at Karachi, Lahore and Islamabad Stock Exchanges. The registered office of the Company is situated at 1st Floor, Panorama Centre, Raja Ghazanfar Ali Khan Road, Saddar, Karachi. The Company is mainly engaged in production and sale of White Refined Sugar and Molasses. The Company also operates a Particle Board manufacturing unit.

**1.2** As of the reporting date, Company's equity is negative by Rs. 831.920 million (September 30, 2009: Rs. 594.094 million). Its accumulated loss amounted to Rs.977.782 million (2009: Rs. 739.957 million) and its current liabilities exceeded its current assets by Rs.247.434 million (September 30, 2009: Rs. 203.629 million).

These conditions indicate existence of material uncertainty which may cast significant doubt about the ability of the Company to continue on a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business.

The Company has been able to continue its operations despite the uncertainty disclosed above as its operations generated sufficient cash flows for timely repayments of short, long term loans and its creditors in due course of business. Further, the injection of funds through subordinated loans reduced the impact of the losses incurred during past years.

The management of the Company arranges necessary funds to meet its working capital requirements with commitment of funds from the directors of the Company. The financial institutions have approved a moratorium of two years during last year ended September 30, 2009 for repayments of long term loans which shall provide more space to manage the financial constraints faced by the company. The management intends to start activity for the current season and has made necessary arrangement for this purposes.

In view of the above, these financial statements have been prepared on going concern basis.

### 2. BASIS OF PREPARATION

#### 2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 have been followed.

#### 2.2 ACCOUNTING CONVENTION

##### 2.2.1 BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except that certain property, plant and equipment have been included at revalued amount.

##### 2.2.2 FUNCTIONAL AND PRESENTATION CURRENCY

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

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# PECTO SUGAR MILLS LIMITED

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## 2.2.3 SIGNIFICANT ESTIMATES

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires the management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to an accounting estimate are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of Accounting Standards, as applicable in Pakistan, that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year as follows:

|  | Note |
|--|------|
| • Useful life and residual values of Property, Plant and Equipment | 3.1  |
| • Provision for slow moving stores and spares                      | 3.5  |
| • Provision for obsolete and slow moving inventories               | 3.6  |
| • Provision for taxation   | 3.10 |
| • Impairment in respect of financial assets                        | 3.15 |

## 2.3 Standards, amendments to published approved accounting standards and interpretations effective and relevant to the Company

### Changes in accounting policies and disclosures as a result of adoption of new and amended accounting standards

- (a) Starting October 1, 2009, the Company has changed its accounting policies in the following areas:

IAS 1 (revised), 'Presentation of financial statements' (effective from January 1, 2009). The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and the statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated balance sheet as at the beginning of comparative period in addition to the current requirement to present balance sheet at the end of the current period and comparative period.

The Company has preferred to present two statements; a profit and loss account (income statement) and a statement of other comprehensive income. Comparative information has also been represented so that it is in conformity with the revised standard. As this change only impacts presentation aspects, there is no impact on profit for the year.

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IAS 36 (Amendment), 'Impairment of assets' (effective from January 1, 2009). In accordance with new requirements, disclosures equivalent to those for value-in-use calculation should be made where fair value less costs to sell is calculated on the basis of discounted cash flows. Adoption of the amendment is not expected to have any effect on the Company's financial statements.

The Company has applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7), issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments. The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorized as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level.

Furthermore, changes in valuation techniques from one period to another, including the reasons thereof, are required to be disclosed for each class of financial instruments. Further, the definition of liquidity risk has been amended and it is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. As the change in accounting policy only results in additional disclosures, there is no impact on profit for the year.

**(b) Others**

IAS 23 (amendment), 'Borrowing costs' (effective from January 1, 2009). The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing costs is removed. The Company's current accounting policy is in compliance with this amendment, and therefore there is no effect on the Company's financial statements.

**2.4 Standards, amendments to published approved accounting standards and interpretations effective but not relevant**

There are certain new standards, amendments and International Financial Reporting Interpretations Committee (IFRIC) interpretations that became effective during the year and are mandatory for accounting periods beginning on or after October 1, 2009 but are considered not to be relevant or have any significant effect on the company's operations and are, therefore, not detailed in these financial statements.

**2.5 Standards, amendments to published approved accounting standards and interpretations not yet effective**

The following standards, amendments and International Financial Reporting Interpretations Committee (IFRIC) interpretations to existing standards have been published and are not effective for financial year beginning from October 1, 2009 and have not been early adopted by the Company :

Improvements to IFRSs 2009 – Amendments to IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that the classification of the liability component of a convertible instrument as current or non-current is not affected by terms that could, at the option of the holder of the instrument, result in settlement of the liability by the issue of equity instruments. These amendments are unlikely to have an impact on the Company's financial statements.

Improvements to IFRSs 2009 – Amendments to IAS 7 Statement of Cash Flows (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that only expenditures that result in the recognition of an asset can be classified as a cash flow from investing activities. These amendments are unlikely to have a significant impact on the Company's financial statements other than increase in disclosures.



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# PECTO SUGAR MILLS LIMITED

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Improvements to IFRSs 2009 – Amendments to IAS 36 Impairment of Assets (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that the largest unit to which goodwill should be allocated is the operating segment level as defined in IFRS 8 before applying the aggregation criteria of IFRS 8. The amendments apply prospectively. The amendment is not relevant to the Company's operations.

Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 1 January 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. These amendments are unlikely to have an impact on the Company's financial statements.

IAS 24 Related Party Disclosures (revised 2009) (effective for accounting periods beginning on or after 1 January 2011). The revised IAS 24 Related Party Disclosures amend the definition of a related party and modifies certain related party disclosure requirements for government-related entities. These amendments are unlikely to have an impact on the Company's financial statements.

IFRS 7 Financial Instruments: Disclosures (effective for accounting periods beginning on or after 1 January 2011). The amendments add an explicit statement that qualitative disclosure should be made in the context of quantitative disclosure to better enable users to evaluate an entity's exposure to risk arising from financial instruments. In addition the IASB amended and removed existing disclosure requirements. These amendments would result in increase in disclosures in the financial statements of the Company.

Improvement to IFRSs 2010 - IAS 1 Presentation of Financial Statements (effective for accounting periods beginning on or after 1 January 2011). The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income is also required to be presented, but may be presented either in the statement of changes in equity or in the Notes. The amendment is not likely to have an impact on Company's financial statements other than increase in disclosure.

Improvement to IFRSs 2010 - IAS 34 Interim Financial Reporting (effective for accounting periods beginning on or after 1 January 2011). The amendments add examples to the list of events or transactions that require disclosure under IAS 34 and remove references to materiality in IAS 34 that describes other minimum disclosures. The amendment is not likely to have an impact on Company's financial statements other than increase in disclosure.

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2013).

There are a number of minor amendments in other IFRS and IAS which are part of annual improvement project published in April 2009 and May 2010(not addressed above). These amendments are unlikely to have any impact on the Company's financial statements and therefore have not been analyzed in detail.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **3.1 PROPERTY, PLANT AND EQUIPMENT**

##### **OWNED**

Operating property, plant and equipment are stated at cost or revalued amounts less accumulated depreciation and impairment loss, if any, except for freehold land which is stated at revalued amount.

Depreciation is charged on systematic basis over the useful lives of the assets using reducing balance method at the rates stated in Note 4.1.

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## PECTO SUGAR MILLS LIMITED

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Depreciation on addition is charged in the quarter in which assets are put to use, while no depreciation is charged for the quarter in which assets are disposed off.

Maintenance and normal repairs are charged to profit and loss account as and when incurred. Major renewals and improvements are capitalized and assets so replaced if any, are retired.

Profit or loss on disposal of Property, Plant & Equipment is included in current year's profit and loss accounts. When revalued assets are sold, the relevant un-depreciated surplus is transferred directly by the Company to the statement of changes in equity.

Subsequent cost are included in the asset's carrying amount or recognised as a separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

Surplus arising on revaluation is credited to surplus on revaluation of Property, Plant & Equipment account. The surplus on revaluation of Property, Plant & Equipment to the extent of incremental depreciation charged on the related assets is transferred by the company to the statement of changes in equity - net of related deferred tax thereon.

### **LEASED**

Property, Plant and Equipment held under liabilities under finance lease are stated at lower of present value of minimum lease payments under the lease agreements and the fair value of the assets at the inception of lease. The related obligations of the leases are accounted for as liabilities.

Depreciation is charged using the same basis and rates as used for similar owned operating Property, Plant and Equipment.

### **3.2 CAPITAL WORK IN PROGRESS**

Capital work in progress consist of expenditure incurred in respect of tangible assets in the course of their construction and installation including finance cost on borrowings for financing the project until such project are completed or become operational. Transfers are made to relevant assets category as and when assets are available for use.

### **3.3 INTANGIBLE ASSETS**

An-intangible asset is recognised as an asset if it is probable that the economic benefits attributable to the asset will flow to the Company and the cost of the asset can be measured reliably.

#### **Computer software**

Expenditure incurred to acquire identifiable computer software and having probable economic benefits exceeding the cost beyond one year, is recognised as an intangible asset. Such expenditure includes the purchase cost of software (license fee) and related overhead cost.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred.

Costs which enhance or extend the performance of computer software beyond its original specification and useful life is recognised as capital improvement and added to the original cost of the software.

Computer software and license costs are stated at cost less accumulated amortization and any identified impairment loss and amortized over a period of five years using the straight line method .

Amortization is charged from the quarter in which the related asset is available for use while no amortization is charged for the quarter in which such asset is disposed off.

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# PECTO SUGAR MILLS LIMITED

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## **3.4 INVESTMENTS**

### **INVESTMENTS IN EQUITY INSTRUMENTS OF ASSOCIATED COMPANY**

Associates are all entities over which the Company has significant influence but not have a control. Investments in associates are accounted for by using the equity method of accounting and are initially recognized at cost. The Company's share of its associates' post acquisition profits or losses is recognized in the profit and loss account.

When the Company's share of losses in an associate equals or exceeds its interest in the associate the Company does not recognize further losses, unless it has incurred obligation or made payments on behalf of the associate. Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates.

Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

## **3.5 STORES, SPARES AND LOOSE TOOLS**

Stores, spares and loose tools except for the items in transit, are valued at cost calculated on First in First out basis (FIFO). Items in transit are stated at invoice value plus other charges paid thereon till the date of acquisition.

Provision, if necessary, is made for slow moving and obsolete items wherever necessary and is recognised in the profit and loss account.

## **3.6 STOCK IN TRADE**

Stock in trade items comprise of White Refined Sugar, Molasses and Particle Board. Stock in trade are valued at the lower of cost or net realizable value except for molasses (by product) that is valued at net realizable value. Cost in relation to work in process consists of average material cost. Finished goods are valued at weighted average manufacturing cost. Net realizable value signifies the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to be incurred to make the sale.

## **3.7 TRADE DEBTS AND OTHER RECEIVABLES**

Trade debts and other receivables are stated initially at fair value and subsequently measured at amortised cost less provision for impairment, if any. Provision for impairment is based on a review of outstanding amounts at the balance sheet date. Trade debts and other receivables are written off when considered irrecoverable.

## **3.8 EMPLOYEE RETIREMENTS BENEFITS**

The Company operates an approved defined contributory provident fund scheme for all permanent employees who have completed the minimum qualifying period of service. Equal monthly contributions are made, by the Company and the employees to the fund.

## **3.9 BORROWING COST**

Interest, mark-up and other charges on long term loans are capitalized up to the date of commissioning of respective Property, Plant and Equipment acquired out of proceeds of such long term loans.

## **3.10 TAXATION**

Income tax expense comprises of current and deferred tax. Income tax expense is recognized in profit and loss account except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

### **Current**

Current tax is the amount of tax payable on taxable income for the year, using tax rate enacted or subsequently enacted by the reporting date, and any adjustment to

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## PECTO SUGAR MILLS LIMITED

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the tax payable in respect of previous year. Provision for current tax is based on higher of the taxable income at current rates of taxation in Pakistan after taking into account tax credits, rebates and exemptions available, if any or 1% of turnover. However, for income covered under final tax regime, taxation is based on applicable tax rates under such regime. The amount of unpaid income tax in respect of the current or prior periods is recognized as a liability. Any excess paid over what is due in respect of the current or prior periods is recognized as an asset.

### **Deferred**

Deferred tax is accounted for using the balance sheet liability method providing for all major temporary difference between the carrying amounts of assets and liabilities for financial reporting purpose and the amounts used for tax purposes. Deferred tax is measured at rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for deductible temporary differences to the extent that future taxable profits will be available against which temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is not recognized for temporary differences that are not expected to reverse and for the temporary differences arising from the initial recognition of goodwill and initial recognition of assets and liabilities in a transaction that is not a business combination and that at the time of transaction affects neither the accounting nor the taxable profit.

### **3.11 LEASES**

The Company accounts for its leases transactions as follows:

#### **FINANCE LEASES**

Leases where the company has substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance lease are initially recognised at the lower of present value of minimum lease payments under the lease agreements and the fair value of the assets. Subsequently these assets are stated at cost less accumulated depreciation and any identified impairment loss.

The related rental obligation, net of finance charges, are included in liabilities against assets subject to finance lease. These liabilities are classified as current and long term depending upon the timing of the payment.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The interest element of the rental is charged to the profit and loss account over the lease term.

Assets acquired under a finance lease are depreciated over the useful life by using the rates in Note 4.1. Depreciation on additions to leased assets is charged for the quarter in which an asset is acquired while no depreciation is charged for the quarter in which the asset is disposed off.

#### **OPERATING LEASES**

Leases where a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit and loss account on a straight-line basis over the lease term.

### **3.12 BORROWINGS**

Mark-up bearing borrowings are recognized initially at cost. Subsequent to initial recognition mark-up bearing borrowings are stated at original cost less repayment, while the difference between the cost (reduced by periodic repayment) and redemption value is recognized in the profit & loss account over the period of borrowing on an effective mark-up basis.

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**PECTO SUGAR MILLS LIMITED**

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# PECTO SUGAR MILLS LIMITED

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## **3.13 TRADE AND OTHER PAYABLE**

Liabilities for creditors and other payable are carried at cost which is the fair value of the consideration to be paid in the future for goods acquired and /or services received whether or not billed to the Company.

## **3.14 PROVISIONS**

Provisions are recognized when the company has a present legal or constructive obligation as a result of a past event, and it is probable that outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

## **3.15 IMPAIRMENT**

### **Financial assets**

A financial asset is assessed at each balance sheet date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

In case of investment in equity securities classified as available for sale and measured at fair value, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists, the cumulative loss measured as a difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized is transferred from equity and recognized in the profit and loss account. Such impairment losses are not subsequently reversed through the profit and loss account.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in profit and loss account.

### **Non Financial assets**

The carrying amount of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss, if any. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Impairment losses are recognized in profit and loss account.

## **3.16 REVENUE RECOGNITION**

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable and is recognised on the following basis:

- Sales are recorded on dispatch of goods to the customers.
- Dividend income is accounted for when the right to receive the dividend is established.
- Income from certificates of investment, Musharaka investments, Profit on bank deposits and rent is recognized on accrual basis.

## **3.17 FINANCIAL INSTRUMENTS**

Financial assets and financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument and derecognised

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# PECTO SUGAR MILLS LIMITED

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when the Company loses control of contractual rights that comprise the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of the financial assets and liabilities is included in the profit and loss account for the year.

Financial instruments carried on the balance sheet date include loans, investments, trade and other debts, cash and bank balances, borrowings, liabilities against assets subject to finance leases, trade and other payables, accrued expenses and unclaimed dividends. All financial assets and financial liabilities are initially measured at cost, which is the fair value of consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value or cost as the case may be. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

### 3.18 OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are offset and the net amount is reported in the financial statements only when there is a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis or to realize the assets and to settle the liabilities simultaneously.

### 3.19 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprises cash in hand and demand deposits that are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

### 3.20 SEGMENT REPORTING

The Company has following reportable segments on the basis of product characteristics.

#### SUGAR

Sugar segment is engaged in the manufacture and sale of sugar.

#### PARTICLE BOARD

Particle Board segment is engaged in the manufacture and sale of Chipboard which is produced from baggasse, by-product of sugar manufacturing process.

The Company records the revenue and a substantial portion of costs on a segment wise basis. However certain costs are allocated to the segments using the best available bases for apportionment.

### 3.21 DIVIDEND

Dividend distribution to the Company's shareholders is recognised as a liability in the period in which these are approved.

## 4. PROPERTY, PLANT & EQUIPMENT

|                          | Note | September 30<br>2010<br>Rupees | September 30<br>2009<br>Rupees |
|--------------------------|------|--------------------------------|--------------------------------|
| Operating fixed assets   | 4.1  | <b>1,323,051,143</b>           | 1,349,509,100                  |
| Capital work In progress | 4.2  | <b>52,732,110</b>              | 41,126,639                     |
|                          |      | <b><u>1,375,783,253</u></b>    | <b><u>1,390,635,739</u></b>    |

# PECTO SUGAR MILLS LIMITED

|                                     | September 30<br>2010<br>Rupees | September 30<br>2009<br>Rupees |
|-------------------------------------|--------------------------------|--------------------------------|
| <b>4.2 CAPITAL WORK IN PROGRESS</b> |                                |                                |
| Plant & machinery                   | 33,154,108                     | 22,628,637                     |
| Erection and installation cost      | 17,522,190                     | 16,442,190                     |
| Related borrowing cost capitalized  | 2,055,812                      | 2,055,812                      |
|                                     | <b>52,732,110</b>              | 41,126,639                     |

The capital work in progress represents cost incurred on the installations of plant & machinery for the production of Particle Boards from Medium Density Fibre plant (MDF).

## 5. INTANGIBLE ASSETS

|  |                |   |
|--|----------------|---|
| Opening net book value                                 | -              | - |
| Additions during the year                              | 900,000        | - |
| Disposals / transfers                                  | -              | - |
| Amortization   | (45,000)       | - |
| <b>Closing net book value as at September 30, 2010</b> | <b>855,000</b> | - |
| <b>As at September 30, 2010</b>                        |                |   |
| Cost   | 900,000        | - |
| Accumulated amortization                               | (45,000)       | - |
| Net book value   | 855,000        | - |
| Annual rate of amortization                            | 20%            | - |

## 6. LONG TERM INVESTMENTS

### Associates Baba Farid Sugar Mills Limited

During the current year the Company has disposed of its investment in associated Company's shares (number of shares 1,476,562 comprising 15.62% of paid up capital) at a realization of Rs. 88.594 million. The principal amount of investment was Rs.10 million, the same was totally impaired in accordance with International Accounting Standard - 28 "Investment in Associates". The amount of sale proceeds represents excess over carrying amount at the time of sale transaction which is taken to profit and loss account.

## 7. LONG TERM DEPOSITS

|                              |                   |            |
|------------------------------|-------------------|------------|
| - Utility companies          | 1,030,582         | 929,582    |
| - Central Depository Company | 3,614             | 3,614      |
| - Lease key money            | 30,495,600        | 31,000,000 |
|                              | <b>31,529,796</b> | 31,933,196 |



# FECTO SUGAR MILLS LIMITED

|  | Note | September 30<br>2010 | September 30<br>2009 |
|--|------|----------------------|----------------------|
| <b>8. STORES, SPARES &amp; LOOSE TOOLS</b>   |      |                      |                      |
| Stores   |      | 40,997,741           | 37,424,029           |
| Spare parts  |      | 50,952,840           | 47,096,322           |
| Loose tools  |      | 879,110              | 881,493              |
|  |      | <b>92,829,691</b>    | 85,401,844           |
| <b>9. STOCK IN TRADE</b>   |      |                      |                      |
| <b>Work in process</b>   |      |                      |                      |
| Sugar  |      | 5,974,120            | 898,622              |
| Molasses   |      | 368,360              | 66,480               |
| Particle board   |      | 144,606              | -                    |
|  |      | <b>6,487,086</b>     | 965,102              |
| <b>Finished goods</b>  |      |                      |                      |
| Molasses   |      | -                    | 952,848              |
| Particle board   |      | 4,644,763            | 71,366               |
|  |      | <b>11,131,849</b>    | 1,989,316            |
| <b>10. LOANS, ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES</b>  |      |                      |                      |
| Loans - unsecured - considered good  |      |                      |                      |
| Employees  | 10.1 | 1,338,220            | 1,540,321            |
| Cane growers   | 10.2 | 2,332,626            | 1,834,055            |
|  |      | <b>3,670,846</b>     | 3,374,376            |
| Advances - unsecured - considered good   |      |                      |                      |
| Against supplies   |      | 40,505,733           | 53,626,382           |
| Against expenses   |      | 1,226,212            | 1,734,470            |
|  |      | <b>41,731,945</b>    | 55,360,852           |
| Prepayments  |      | 45,402,791           | 58,735,228           |
| Deposits   |      | 5,455,785            | 1,316,975            |
| Advance tax - net  |      | 2,250,000            | 1,063,267            |
|  |      | <b>53,108,576</b>    | 61,429,526           |
| <b>10.1</b>  |      |                      |                      |
| These represent interest free loan as per Company policy. The loan is repayable / adjustable in one year against salary and benefits of employees. No amount is due against any director, chief executive officer and executives of the Company (2009: NIL). |      |                      |                      |
| <b>10.2</b>  |      |                      |                      |
| These represent interest free loans given to cane growers for the procurement of seeds and pesticides in order to enable them to protect the cane crop from damages as well as for promoting the cultivation of Cane.  |      |                      |                      |
| <b>11. CASH AND BANK BALANCES</b>  |      |                      |                      |
| Cash in hand   |      | 997,199              | 680,269              |
| Balance with banks:  |      |                      |                      |
| - Current accounts   |      | 7,712,935            | 3,468,309            |
|  |      | <b>8,710,134</b>     | 4,148,578            |

## FECTO SUGAR MILLS LIMITED

|             |  | Note        | September 30<br>2010<br>Rupees  | September 30<br>2009<br>Rupees |
|-------------|--|-------------|---|--------------------------------|
| <b>12.</b>  | <b>ISSUED, SUBSCRIBED &amp; PAID-UP CAPITAL</b>  |             |   |                                |
|             | <b>2010</b>  | <b>2009</b> |   |                                |
|             | <b>No. of shares</b>   |             |   |                                |
|             | <b>13,571,347</b>  | 13,571,347  | Fully paid ordinary shares of Rs. 10/- each issued for cash   | 135,713,470                    |
|             | <b>232,000</b>   | 232,000     | Fully paid ordinary shares of Rs. 10/- each issued for consideration other than cash  | 2,320,000                      |
|             | <b>782,864</b>   | 782,864     | Original shares of Rs. 10 each issued as bonus shares   | 7,828,640                      |
|             | <b>14,586,211</b>  | 14,586,211  |   | 145,862,110                    |
|             |  |             |   | 145,862,110                    |
| <b>13.</b>  | <b>SURPLUS ON REVALUATION OF PROPERTY, PLANT &amp; EQUIPMENT</b>   |             |   |                                |
|             |  |             | Surplus on revaluation on Property, Plant & Equipment on October 01,  | 886,043,555                    |
|             |  |             | Surplus on revaluation arises during the year   | 734,624,903                    |
|             |  |             | <b>Transferred to statement of changes in equity :</b>  | 198,594,173                    |
|             |  |             | In respect of incremental depreciation charged during the year - Net of deferred tax  | -                              |
|             |  |             | In respect of incremental depreciation charged on disposal of Property, Plant & Equipment during the year - Net of deferred tax | 31,267,442                     |
|             |  |             | Related deferred tax liability  | 25,226,974                     |
|             |  |             | Surplus on revaluation on Property, Plant & Equipment September 30,   | -                              |
|             |  |             | <b>Related deferred tax :</b>   | 8,364,792                      |
|             |  |             | Related deferred tax as on October 01,  | 16,836,315                     |
|             |  |             | Related deferred tax on surplus arises during the year  | 13,583,755                     |
|             |  |             | Less: Incremental depreciation related to deferred tax  | 48,103,757                     |
|             |  |             | Surplus on revaluation - Net of deferred tax  | 837,939,798                    |
|             |  |             | Surplus on revaluation on Property, Plant & Equipment September 30,   | 886,043,555                    |
|             |  |             | <b>Related deferred tax :</b>   |                                |
|             |  |             | Related deferred tax as on October 01,  | 272,322,198                    |
|             |  |             | Related deferred tax on surplus arises during the year  | 230,028,882                    |
|             |  |             | Less: Incremental depreciation related to deferred tax  | -                              |
|             |  |             | Surplus on revaluation - Net of deferred tax  | 55,877,071                     |
|             |  |             | Surplus on revaluation on Property, Plant & Equipment September 30,   | 13,583,755                     |
|             |  |             | <b>Related deferred tax :</b>   | 16,836,315                     |
|             |  |             | Related deferred tax as on October 01,  | 255,485,883                    |
|             |  |             | Related deferred tax on surplus arises during the year  | 272,322,198                    |
|             |  |             | Less: Incremental depreciation related to deferred tax  | -                              |
|             |  |             | Surplus on revaluation - Net of deferred tax  | 582,453,915                    |
|             |  |             | Surplus on revaluation on Property, Plant & Equipment September 30,   | 613,721,357                    |
| <b>14.</b>  | <b>SUB-ORDINATED LOANS</b>   |             |   |                                |
|             | <b>Munawar Ali facto</b>   | 14.1        | 656,000,000   | 656,000,000                    |
| <b>14.1</b> | Sub-ordinated Loan is interest free and repayable at the convenience of the Company. However, as per the agreements with the related parties, sub-ordinated loan shall be repaid, after the settlement of long term finances, as mentioned in the Note 16 to these financial statements. |             |   |                                |

## FECTO SUGAR MILLS LIMITED

|   | Note | September 30<br>2010<br>Rupees | September 30<br>2009<br>Rupees |
|---|------|--------------------------------|--------------------------------|
| <b>15. LOAN FROM DIRECTOR</b>   |      |                                |                                |
| Munawar Ali facto   | 15.1 | <b>258,200,000</b>             | 10,000,000                     |
| 15.1 This loan is interest free and is repayable at the convenience of the Company. |      |                                |                                |
| <b>16. LONG TERM FINANCES - Secured</b>   |      |                                |                                |
| From Banking Companies  | 16.1 | <b>241,537,500</b>             | 242,000,000                    |
| From other Financial Institutions   | 16.2 | <b>85,000,000</b>              | 92,500,000                     |
|   |      | <b>326,537,500</b>             | 334,500,000                    |
| Less: Current portion shown under current liabilities                               | 19   | <b>73,162,500</b>              | 41,700,000                     |
|   |      | <b>253,375,000</b>             | 292,800,000                    |

- 16.1** Financing from NIB Bank Limited and My Bank Limited carrying mark up at 3 months KIBOR rates (ASK) prevailing on first working day of each quarter plus 3.5% Bank's spread with no floor no cap and six months KIBOR + 3% with no floor on Demand finance and on Term Finance at the rate of six months KIBOR + 4% with no floor no cap.

Financing from NIB Bank Limited is secured by way of first hypothecation charge of Rs. 244 million over Plant & Machinery of the Company and is repayable in quarterly installments ending by 30 September, 2014. While those of My Bank Limited are registered by its pari passu charge on plant & machinery for Rs. 167 million and is repayable in 12 semi-annually installments with two years grace period, commencing from September, 2010 till the end by December, 2014.

- 16.2** Finance from B.R.R Guardian Modaraba (BRRGM) and Crescent Standard Modaraba (CSM) is secured by way of post dated cheques and the personal guarantee of sponsoring Directors.

Finance from BRRGM is repayable in 5 annual equal installments commencing from June, 2009. The rate of mark up on finance is based on KIBOR+4% on quarterly basis to be charged with no floor and no cap.

Finance from CSM is repayable after five years with a single bullet payment. Profit on this finance is payable on quarterly basis at the rate of 14% per annum.

### **17. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE**

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

|  | RUPEES<br>2010         |                   | RUPEES<br>2009         |               |
|--|------------------------|-------------------|------------------------|---------------|
|  | Minimum lease payments | Present value     | Minimum lease payments | Present value |
| Within one year  | 18,646,740             | 14,210,878        | 11,294,550             | 7,774,673     |
| After one year but not more than five years            | 25,542,480             | 22,559,849        | 23,248,027             | 20,447,103    |
| <b>Total minimum lease payments</b>                    | <b>44,189,220</b>      | <b>36,770,727</b> | 34,542,577             | 28,221,776    |
| Less: Amount representing finance costs                | 7,418,493              | -                 | 6,320,801              | -             |
| Present value of minimum lease payments                | 36,770,727             | 36,770,727        | 28,221,776             | 28,221,776    |
| Less: Current maturity shown under current liabilities | 14,210,878             | 14,210,878        | 7,774,673              | 7,774,673     |
|  | <b>22,559,849</b>      | <b>22,559,849</b> | 20,447,103             | 20,447,103    |

## FECTO SUGAR MILLS LIMITED

Company has entered into lease agreements with various leasing Companies and Modarabas for lease of plant & machinery and vehicles. These liabilities under the agreements with lessors are payable by year, 2013. Implicit interest rate on these leases ranges between 1.37% to 1.67% per month (2009: 0.87% to 1.38% per month). However, Company can exercise the bargain purchase option on the completion of respective lease tenure. Payment of lease rentals are secured against pledge of demand Promissory Notes and personal guarantee of sponsoring Directors. No financial restrictions has been imposed on Company by lessors during the tenure of lease.

### Finance Lease - Significant terms and conditions

| Leasing Company                | Principal  | Installments Payments | Number of Installments | Commencement Date | Implicit rate | Lease Rental |
|--------------------------------|------------|-----------------------|------------------------|-------------------|---------------|--------------|
| Orix Leasing                   | 7,445,000  | Quarterly             | 12                     | January, 2010     | 19.00%        | 745,365      |
| Orix Leasing                   | 10,010,549 | Quarterly             | 12                     | April, 2010       | 20.00%        | 1,016,545    |
| Saudi Pak Leasing Company Ltd. | 15,000,000 | Monthly               | 48                     | June, 2007        | 16.43%        | 356,705      |
| Saudi Pak Leasing Company Ltd. | 25,000,000 | Monthly               | 60                     | December, 2008    | 16.54%        | 515,595      |

|  | Note | September 30<br>2010<br>Rupees | September 30<br>2009<br>Rupees |
|--|------|--------------------------------|--------------------------------|
| <b>18. DEFERRED TAXATION</b>                                 |      |                                |                                |
| (Debit)/credit balance arising in respect of:                |      |                                |                                |
| - On unused tax losses                                       |      | <b>(162,310,630)</b>           | (212,231,203)                  |
| - Accelerated tax depreciation                               |      | <b>134,786,184</b>             | 167,130,980                    |
| - On assets under finance lease                              |      | <b>(7,895,947)</b>             | (7,156,485)                    |
| - On surplus on revaluation of property, plant and equipment |      | <b>255,485,883</b>             | 272,322,198                    |
|  |      | <b><u>220,065,490</u></b>      | <b><u>220,065,490</u></b>      |

Tax losses available for carry forward as at September 30, 2010 amounted Rs. 1,065.373 million (2009: Rs. 931 million) out of which Rs. 416.088 million (2009: Rs. 389.893 million) relates to unabsorbed depreciation upto tax year 2011. Deferred tax asset has been recognized to the extent of unabsorbed tax depreciation and a portion of carry forward tax losses, in respect of which either there is no limitation of carry forward under the Income Tax law or where management considers that it is probable such losses (including unabsorbed depreciation) will be adjustable against expected future profits. At the year end, deferred tax asset amounting to Rs. 210.571 million (2009: Rs. 140.791 million) has not been recognized on unabsorbed losses of Rs. 601.631 million (2009: Rs. 402.260 million) on account of remote possibility of recoupment in future.

Further, deferred tax asset has also not been recognised in respect of amount of minimum tax due for current year in view of reasons mentioned above.

### 19. CURRENT PORTION OF LONG TERM LIABILITIES

|   |    |                          |                          |
|---|----|--------------------------|--------------------------|
| Current maturity of :                                 |    |                          |                          |
| - Long term finances                                  | 16 | <b>73,162,500</b>        | 41,700,000               |
| - Liabilities against assets subject to finance lease | 17 | <b>14,210,927</b>        | 7,774,673                |
|   |    | <b><u>87,373,427</u></b> | <b><u>49,474,673</u></b> |

## FECTO SUGAR MILLS LIMITED

|                                       | Note | September 30<br>2010<br>Rupees | September 30<br>2009<br>Rupees |
|---------------------------------------|------|--------------------------------|--------------------------------|
| <b>20. TRADE &amp; OTHER PAYABLES</b> |      |                                |                                |
| Creditors                             |      | 199,459,644                    | 48,475,517                     |
| <b>Advance against sales :</b>        |      |                                |                                |
| -Related party                        |      | 24,617,604                     | 19,731,124                     |
| -Others                               |      | 16,693,253                     | 113,245,842                    |
| Accrued liabilities                   |      | 43,285,107                     | 28,056,030                     |
| Unclaimed dividend                    |      | 7,084,586                      | 7,084,586                      |
| <b>Other Liabilities :</b>            |      |                                |                                |
| Professional tax                      |      | 70,800                         | 70,800                         |
| Staff income tax payable              |      | 67,093                         | 46,647                         |
| Withholding tax payable               |      | 23,052                         | -                              |
| Market committee fee payable          |      | 1,216,747                      | 878,848                        |
| Sales tax payable                     |      | 49,828                         | 71,422,788                     |
| Others                                |      | 778,242                        | 517,100                        |
|                                       |      | <b>2,205,762</b>               | 72,936,183                     |
|                                       |      | <b>293,345,956</b>             | 289,529,282                    |
| <b>21. ACCRUED FINANCE COSTS</b>      |      |                                |                                |
| - On Long term finances               |      | 21,680,243                     | 17,594,732                     |
| <b>22. TAXATION</b>                   |      |                                |                                |
| Taxation - current                    | 32   | 16,032,540                     | -                              |
| Less: Advance tax                     |      | 5,217,946                      | -                              |
|                                       |      | <b>10,814,594</b>              | -                              |

**22.1** In view of availability of brought forward tax losses, the provision for current taxation has been computed based on the minimum tax payable under section 113 of the Income Tax Ordinance, 2001. Tax assessment of the company is deemed to be finalized up to Tax Year 2010 (Income year September 30, 2009).

### **23. CONTINGENCIES & COMMITMENTS**

#### **Contingencies**

The company is contesting appeals filed by the Income tax department before the income tax appellate tribunal for the assessment years 1988-89 and 1990-91 to 1993-94 against the decision of the Commissioner of Income Tax (Appeals) given in favor of the Company. The total estimated financial impact in these appeals is not more than Rs.1.5 million. The appeal is pending for hearing.

The Company is also contesting leave to appeal filed by the income tax department in Supreme Court of Pakistan in respect of assessment year 2000 - 2001.

The management has not made any provision as in the opinion of its legal counsel the Company has a strong case on merit and no liability is expected arise there from.

#### **Commitments**

The future minimum lease payments under non-cancellable leases are as follows:

|                    |   |           |
|--------------------|---|-----------|
| Less than one year | - | 1,809,085 |
|--------------------|---|-----------|

# FECTO SUGAR MILLS LIMITED

## 24. OPERATING RESULTS

|                                |       | SUGAR                | SUGAR                | PARTICLE            | PARTICLE           | TOTAL                | TOTAL                |
|--------------------------------|-------|----------------------|----------------------|---------------------|--------------------|----------------------|----------------------|
|                                |       | 2010                 | 2009                 | BOARD               | BOARD              | 2010                 | 2009                 |
|                                |       | Rupees               |                      |                     |                    |                      |                      |
| <b>SALES - net</b>             |       |                      |                      |                     |                    |                      |                      |
| Gross sales                    |       | 1,534,439,536        | 1,295,378,077        | 24,055,495          | 82,359,098         | 1,558,495,031        | 1,377,737,175        |
| Less: Sales tax & excise duty  |       | 64,753,869           | 160,409,258          | 3,534,934           | 11,966,762         | 68,288,803           | 172,376,020          |
| <b>Net Sales</b>               |       | <b>1,469,685,667</b> | <b>1,134,968,819</b> | <b>20,520,561</b>   | <b>70,392,336</b>  | <b>1,490,206,228</b> | <b>1,205,361,155</b> |
| <b>Cost of sales</b>           | 25    | <b>1,652,324,942</b> | <b>1,079,360,252</b> | <b>38,015,208</b>   | <b>67,384,360</b>  | <b>1,690,340,150</b> | <b>1,146,744,612</b> |
| <b>Gross profit</b>            |       | <b>(182,639,275)</b> | <b>55,608,567</b>    | <b>(17,494,647)</b> | <b>3,007,976</b>   | <b>(200,133,922)</b> | <b>58,616,543</b>    |
| <b>Operating expenses</b>      |       |                      |                      |                     |                    |                      |                      |
| Distribution cost              | 26    | 2,882,311            | 3,913,207            | -                   | -                  | 2,882,311            | 3,913,207            |
| Administrative expenses        | 27    | 74,476,430           | 65,596,693           | 883,531             | 961,803            | 75,359,961           | 66,558,496           |
| Other operating expenses       |       | 1,833,635            | 1,481,500            | -                   | -                  | 1,833,635            | 1,481,500            |
|                                |       | <b>79,192,376</b>    | <b>70,991,400</b>    | <b>883,531</b>      | <b>961,803</b>     | <b>80,075,907</b>    | <b>71,953,203</b>    |
| <b>Operating profit/(loss)</b> |       | <b>(261,831,651)</b> | <b>(15,382,833)</b>  | <b>(18,378,178)</b> | <b>2,046,173</b>   | <b>(280,209,829)</b> | <b>(13,336,660)</b>  |
| <b>Segment assets</b>          |       | <b>1,213,600,050</b> | <b>1,285,785,043</b> | <b>267,518,558</b>  | <b>248,626,520</b> | <b>1,481,118,608</b> | <b>1,534,411,563</b> |
| <b>Unallocated assets</b>      |       | <b>-</b>             | <b>-</b>             | <b>-</b>            | <b>-</b>           | <b>92,829,691</b>    | <b>41,126,639</b>    |
|                                |       | <b>1,213,600,050</b> | <b>1,285,785,043</b> | <b>267,518,558</b>  | <b>248,626,520</b> | <b>1,573,948,299</b> | <b>1,575,538,202</b> |
| <b>Segment liabilities</b>     |       | <b>1,806,578,245</b> | <b>1,555,911,279</b> | <b>-</b>            | <b>-</b>           | <b>1,806,578,245</b> | <b>1,555,911,279</b> |
| <b>Unallocated liabilities</b> |       | <b>-</b>             | <b>-</b>             | <b>-</b>            | <b>-</b>           | <b>-</b>             | <b>-</b>             |
|                                |       | <b>1,806,578,245</b> | <b>1,555,911,279</b> | <b>-</b>            | <b>-</b>           | <b>1,806,578,245</b> | <b>1,555,911,279</b> |
| <b>Capital expenditures</b>    |       | <b>50,213,161</b>    | <b>2,406,356</b>     | <b>-</b>            | <b>-</b>           | <b>50,213,161</b>    | <b>2,406,356</b>     |
| <b>Depreciation</b>            | 4.1.1 | <b>61,569,850</b>    | <b>57,833,095</b>    | <b>12,976,268</b>   | <b>9,645,818</b>   | <b>74,546,118</b>    | <b>67,478,913</b>    |

## 25. COST OF SALES

|                                   | NOTE | SUGAR                | SUGAR                | PARTICLE           | PARTICLE          | TOTAL                | TOTAL                |
|-----------------------------------|------|----------------------|----------------------|--------------------|-------------------|----------------------|----------------------|
|                                   |      | 2010                 | 2009                 | BOARD              | BOARD             | 2010                 | 2009                 |
|                                   |      | Rupees               |                      |                    |                   |                      |                      |
| Raw material & expenses           | 25.1 | 1,646,067,136        | 1,059,335,457        | 15,441,320         | 14,535,047        | 1,661,508,456        | 1,073,870,504        |
| Transfer of Baggasse              |      | (2,106,834)          | (8,842,900)          | 2,106,834          | 8,842,900         | -                    | -                    |
| Manufacturing expenses            | 25.2 | 125,836,917          | 111,572,388          | 25,185,057         | 21,392,215        | 151,021,974          | 132,964,603          |
|                                   |      | <b>1,769,797,219</b> | <b>1,162,064,945</b> | <b>42,733,211</b>  | <b>44,770,162</b> | <b>1,812,530,430</b> | <b>1,206,835,107</b> |
| Work-in process - opening         |      | 965,101              | 1,143,939            | -                  | -                 | 965,101              | 1,143,939            |
| - closing                         |      | (6,342,480)          | (965,102)            | (144,606)          | -                 | (6,487,086)          | (965,102)            |
|                                   |      | <b>(5,377,379)</b>   | <b>178,837</b>       | <b>(144,606)</b>   | <b>-</b>          | <b>(5,521,985)</b>   | <b>178,837</b>       |
|                                   |      | <b>1,764,419,840</b> | <b>1,162,243,782</b> | <b>42,588,605</b>  | <b>44,770,162</b> | <b>1,807,008,445</b> | <b>1,207,013,944</b> |
| Sales of by-products              |      |                      |                      |                    |                   |                      |                      |
| Molasses                          |      | 111,881,934          | 90,079,738           | -                  | -                 | 111,881,934          | 90,079,738           |
| Mud / Dust                        |      | 1,165,812            | 1,284,625            | -                  | -                 | 1,165,812            | 1,284,625            |
| Baggasse                          |      | -                    | -                    | -                  | -                 | -                    | -                    |
|                                   |      | <b>113,047,746</b>   | <b>91,364,363</b>    | <b>-</b>           | <b>-</b>          | <b>113,047,746</b>   | <b>91,364,363</b>    |
| <b>Cost of goods manufactured</b> |      | <b>1,651,372,094</b> | <b>1,070,879,419</b> | <b>42,588,605</b>  | <b>44,770,162</b> | <b>1,693,960,699</b> | <b>1,115,649,581</b> |
| Finished stock - opening          |      | 952,848              | 9,433,681            | 71,366             | 22,685,564        | 1,024,214            | 32,119,245           |
| - closing                         |      | -                    | (952,848)            | (4,644,763)        | (71,366)          | (4,644,763)          | (1,024,214)          |
|                                   |      | <b>952,848</b>       | <b>8,480,833</b>     | <b>(4,573,397)</b> | <b>22,614,198</b> | <b>(3,620,549)</b>   | <b>31,095,031</b>    |
|                                   |      | <b>1,652,324,942</b> | <b>1,079,360,252</b> | <b>38,015,208</b>  | <b>67,384,360</b> | <b>1,690,340,150</b> | <b>1,146,744,612</b> |

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**PECTO SUGAR MILLS LIMITED**

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# FECTO SUGAR MILLS LIMITED

|  | NOTE | September 30<br>2010<br>RUPEES | September 30<br>2009<br>RUPEES |
|--|------|--------------------------------|--------------------------------|
| <b>28. ESTABLISHMENT EXPENSES</b>        |      |                                |                                |
| Printing and stationery                  |      | 1,394,714                      | 1,088,403                      |
| Vehicle expenses                         |      | 10,556,482                     | 12,790,379                     |
| Conveyance and travelling                |      | 3,086,000                      | 1,771,479                      |
| Postage, telephone and fax               |      | 2,122,616                      | 1,248,216                      |
| Rent expenses                            |      | 1,157,956                      | 1,250,281                      |
| Entertainment                            |      | 929,095                        | 609,453                        |
| Gardening expenses                       |      | 78,520                         | -                              |
| Legal fees and charges                   |      | 2,625,305                      | 3,785,896                      |
| Guest house & messing expenses           |      | 1,658,404                      | 1,354,545                      |
| Newspaper and periodicals                |      | 84,641                         | 65,936                         |
| Office library                           |      | -                              | 80                             |
| Fees and subscription                    |      | 1,954,948                      | 3,254,537                      |
| Annual general meeting expenses          |      | 84,200                         | 69,080                         |
| Advertising and publicity                |      | 354,973                        | 282,540                        |
| Security guard expenses                  |      | 55,095                         | -                              |
| Sundry expenses                          |      | 476,397                        | 396,050                        |
| Sugarcane development expenses           |      | 180,000                        | -                              |
| Store written off                        |      | -                              | 10,704                         |
| Biological lab. expenses                 |      | 21,331                         | 100,859                        |
|  |      | <b>26,820,677</b>              | <b>28,078,438</b>              |
| Above expenses are allocated as follows: |      |                                |                                |
| Raw material                             | 25.1 | 4,151,174                      | 5,485,163                      |
| Manufacturing expenses                   | 25.2 | 659,721                        | 1,407,206                      |
| Distribution costs                       | 26   | 4,389                          | 4,542                          |
| Administrative expenses                  | 27   | 22,005,393                     | 21,181,527                     |
|  |      | <b>26,820,677</b>              | <b>28,078,438</b>              |

## 29. OTHER OPERATING EXPENSES

|                        | Note | SUGAR<br>2010    | SUGAR<br>2009 | PARTICLE<br>BOARD<br>2010<br>Rupees | PARTICLE<br>BOARD<br>2009 | TOTAL<br>2010    | TOTAL<br>2009 |
|------------------------|------|------------------|---------------|-------------------------------------|---------------------------|------------------|---------------|
| Charity and donation   | 29.1 | 968,840          | 806,500       | -                                   | -                         | 968,840          | 806,500       |
| Auditors' remuneration | 29.2 | 864,795          | 675,000       | -                                   | -                         | 864,795          | 675,000       |
|                        |      | <b>1,833,635</b> | 1,481,500     | -                                   | -                         | <b>1,833,635</b> | 1,481,500     |

29.1 None of the directors or their spouse had any interest in these charity and donations.

### 29.2 Auditors' remuneration

|                               |  |                |                |
|-------------------------------|--|----------------|----------------|
| Fee for:                      |  |                |                |
| Annual audit                  |  | 500,000        | 500,000        |
| Half yearly review            |  | 100,000        | 100,000        |
| Cost audit                    |  | 100,000        | -              |
| Others certification services |  | -              | 75,000         |
| Out of pocket expenses        |  | 164,795        | -              |
|                               |  | <b>864,795</b> | <b>675,000</b> |



## PECTO SUGAR MILLS LIMITED

|  | Note | September 30<br>2010<br>Rupees | September 30<br>2009<br>Rupees |
|--|------|--------------------------------|--------------------------------|
| <b>30. FINANCE COST</b>  |      |                                |                                |
| <b>Interest / Mark-up on :</b>   |      |                                |                                |
| Long term finances   |      | 56,751,103                     | 61,615,230                     |
| Short term borrowings  |      | 415,857                        | 9,230,789                      |
| Finance leases   |      | 4,002,236                      | 6,309,775                      |
| Bank charges   |      | 623,430                        | 2,598,813                      |
|  |      | <b>61,792,626</b>              | 79,754,607                     |
| <b>31. OTHER INCOME</b>  |      |                                |                                |
| <b>Income from financial assets</b>  |      |                                |                                |
| Profit on bank deposits  |      | 666                            | 23,399                         |
| <b>Income from non financial assets</b>  |      |                                |                                |
| Loss on sale of operating property, plant & equipment  |      | -                              | (174,787)                      |
| Sale of scrap  |      | 5,260                          | 149,343                        |
| Sales tax refund   |      | -                              | 6,587,857                      |
| Misc income  |      | 404,645                        | 44,460                         |
|  |      | <b>410,571</b>                 | 6,630,272                      |
| <b>32. TAXATION</b>  |      |                                |                                |
| Current  | 32.1 | 16,032,540                     | 6,484,861                      |
| Prior year   |      | 62,475                         | -                              |
| Deferred   |      | -                              | (13,583,755)                   |
|  |      | <b>16,095,015</b>              | (7,098,894)                    |
| <b>32.1 Current charge for the year</b>  |      |                                |                                |
| In view of availability of brought forward tax losses, the provision for current taxation has been computed based on the minimum tax payable under section 113 of the Income Tax Ordinance, 2001.  |      |                                |                                |
| <b>32.2 Tax charge reconciliation</b>  |      |                                |                                |
| As the current income tax provision is computed based on the requirements of section 113 of the Income Tax Ordinance, 2001. Therefore, it is impracticable to prepare the reconciliation of tax charge based on accounting profit and taxable income for the year. |      |                                |                                |
| <b>33. EARNINGS PER SHARE</b>  |      |                                |                                |
| <b>BASIC</b>   |      |                                |                                |
| Loss after taxation - Rupees   |      | (269,093,179)                  | (79,362,100)                   |
| Weighted average number of ordinary shares - Numbers   | 12   | 14,586,211                     | 14,586,211                     |
| Loss per share - Rupees  |      | (18.45)                        | (5.44)                         |
| <b>DILUTED</b>   |      |                                |                                |

There is no dilution effect on the basic earning per share of the Company as the Company has no convertible instruments in issue at the end of the reporting period.

# PECTO SUGAR MILLS LIMITED

## 34. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

| PARTICULARS     | 2010             |                  |          |                  | 2009             |                |          |                  |
|-----------------|------------------|------------------|----------|------------------|------------------|----------------|----------|------------------|
|                 | Chief Executives | Executive        | Director | Total            | Chief Executive  | Executives     | Director | Total            |
| Remuneration    | 1,140,000        | 840,000          | -        | 1,980,000        | 1,140,000        | 530,000        | -        | 1,670,000        |
| House rent      | 342,000          | 210,000          | -        | 552,000          | 342,000          | 159,000        | -        | 501,000          |
| Utilities       | 114,000          | 84,000           | -        | 198,000          | 114,000          | 53,000         | -        | 167,000          |
| Medical expense | 68,400           | 50,400           | -        | 118,800          | 68,400           | 31,800         | -        | 100,200          |
| Others          | 129,996          | 15,600           | -        | 145,596          | 129,996          | 26,200         | -        | 156,196          |
| <b>Total</b>    | <b>1,794,396</b> | <b>1,200,000</b> | <b>-</b> | <b>2,994,396</b> | <b>1,794,396</b> | <b>800,000</b> | <b>-</b> | <b>2,594,396</b> |
| No. of persons  | 1                | 1                | -        | 2                | 1                | 1              | -        | 2                |

**34.1** Chief Executive and Executives are provided with free use of Company maintained cars.

**34.2** Aggregate amount charged in these financial statements in respect of directors fee is Rs. 19,000 (2009: Rs. 18,000)

## 35. TRANSACTIONS WITH RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party and exercise significant influence over other party in making financial and operating decisions.

The related parties comprise of major shareholders, directors of the company and key management personnel and staff/workers funds. Remuneration and benefits to executives of the company are in accordance with the terms of the employment while contribution to the provident fund and gratuity are in accordance with staff service rules.

|                     |                     |
|---------------------|---------------------|
| <b>September 30</b> | <b>September 30</b> |
| <b>2010</b>         | <b>2009</b>         |
| <b>Rupees</b>       | <b>Rupees</b>       |

**Details of transactions with related parties are as follows:**

| Transactions during the year:        | Relationship | September 30 2010<br>Rupees | September 30 2009<br>Rupees |
|--------------------------------------|--------------|-----------------------------|-----------------------------|
| Sale of Molasses                     | Associate    | <b>43,413,520</b>           | 30,673,798                  |
| Contribution to staff provident fund | Other        | <b>576,032</b>              | 654,698                     |

**Balance payable as on balance sheet date are as follows:**

|                                  |           |                   |   |
|----------------------------------|-----------|-------------------|---|
| Employees' provident fund        | Other     | <b>112,178</b>    | - |
| F & B Bulk Storage (Pvt) Limited | Associate | <b>24,617,604</b> | - |

The remuneration of Chief Executive, Directors and Executive is disclosed in note 34 to the financial statements.

## PECTO SUGAR MILLS LIMITED

|   | Note    | September 30<br>2010<br>Rupees | September 30<br>2009<br>Rupees |
|---|---------|--------------------------------|--------------------------------|
| <b>36. FINANCIAL INSTRUMENTS BY CATEGORY</b>        |         |                                |                                |
| <b>FINANCIAL ASSETS</b>                             |         |                                |                                |
| Long term deposits                                  | 7       | <b>31,529,796</b>              | 31,933,196                     |
| Loans, advances, deposits, and other receivables    | 10      | <b>47,652,791</b>              | 61,429,526                     |
| Cash and bank balances                              | 11      | <b>8,710,134</b>               | 4,148,578                      |
|   |         | <b>87,892,721</b>              | 97,511,300                     |
| <b>FINANCIAL LIABILITIES</b>                        |         |                                |                                |
| Financial liabilities at amortized cost             |         |                                |                                |
| Long term finances                                  | 16 & 19 | <b>326,537,500</b>             | 334,500,000                    |
| Liabilities against assets subject to finance lease | 17 & 19 | <b>36,770,776</b>              | 28,221,776                     |
| Trade & other payables                              | 20      | <b>291,918,437</b>             | 289,529,282                    |
| Accrued finance cost                                | 21      | <b>21,680,243</b>              | 17,594,732                     |
|   |         | <b>676,906,956</b>             | 669,845,790                    |

### 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's activities expose it to a variety of financial risks: capital risk, credit risk, liquidity risk and market risk (including foreign exchange or currency risk, interest/mark-up rate risk and price risk). The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance. Overall risks arising from the Company's financial assets and liabilities are limited. The Company consistently manages its exposure to financial risk without any material change from previous period in the manner described in Notes below.

The Board of Directors has overall responsibility for the establishment and oversight of Company's risk management framework. All treasury related transactions are carried out within the parameters of these policies.

#### 37.1 Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Due to the company's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the company. To manage exposure to credit risk, Company applies credit limits and deals with credit worthy parties. It makes full provision against those balances considered doubtful by dealing with variety of major banks and financial institutions. All the balances are recoverable / deposited in Pakistan. The carrying amounts of financial assets against which the Company did not hold any collateral represent the maximum credit exposure, as specified below:

|  |    |                   |            |
|--|----|-------------------|------------|
| Long term deposits                               | 7  | <b>31,933,196</b> | 31,933,196 |
| Loans, advances, deposits, and other receivables | 10 | <b>47,652,791</b> | 61,429,526 |
| Bank balances                                    | 11 | <b>7,712,935</b>  | 3,468,309  |
|  |    | <b>87,298,922</b> | 96,831,031 |

#### 37.1.1 Impairment losses

The company believes that no impairment allowance is necessary in respect of financial assets.

# PECTO SUGAR MILLS LIMITED

|   | September 30<br>2010<br>Rupees | September 30<br>2009<br>Rupees |
|---|--------------------------------|--------------------------------|
| <b>37.1.2 Credit quality of bank balances</b> |                                |                                |
| Short term credit rating                      |                                |                                |
| -A1+  | 6,889,017                      | 1,713,364                      |
| -A1   | 50,000                         | -                              |
| -A2   | 330,283                        | 784,873                        |
| -A-1  | 48,990                         | 48,990                         |
| -A-3  | 23,916                         | 50,000                         |
| -A-1+   | 238,226                        | 821,081                        |
| -A-2  | 132,503                        | 50,000                         |
|   | <b>7,712,935</b>               | <b>3,468,308</b>               |

## 37.2 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Company could be required to pay its liabilities earlier than expected or difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The following are the contractual maturities of financial liabilities (including interest payments):

|  | 2010               |                          |                    |                       |
|--|--------------------|--------------------------|--------------------|-----------------------|
|  | Carrying Value     | Contractual<br>Cash flow | Upto one year      | More than one<br>year |
|  | RUPEES             |                          |                    |                       |
| <b>Non- Derivative Financial liabilities</b> |                    |                          |                    |                       |
| Long term finances                           | 326,537,500        | 326,537,500              | 73,162,500         | 253,375,000           |
| Finance Lease                                | 36,770,776         | 36,770,776               | 14,210,927         | 25,542,480            |
| Trade & other payables                       | 291,918,437        | 291,918,437              | 291,918,437        | -                     |
| Accrued finance cost                         | 21,680,243         | 21,680,243               | 21,680,243         | -                     |
|  | <b>350,369,456</b> | <b>350,369,456</b>       | <b>327,809,607</b> | <b>25,542,480</b>     |
|  |                    |                          |                    |                       |
|  | 2009               |                          |                    |                       |
|  | Carrying Value     | Contractual<br>Cash flow | Upto one year      | More than one<br>year |
|  | RUPEES             |                          |                    |                       |
| <b>Non- Derivative Financial liabilities</b> |                    |                          |                    |                       |
| Long term finances                           | 334,500,000        | 334,500,000              | 41,700,000         | 292,800,000           |
| Finance Lease                                | 30,334,522         | 30,334,522               | 7,774,673          | 22,559,849            |
| Trade & other payables                       | 289,529,282        | 289,529,282              | 289,529,282        | -                     |
| Accrued finance cost                         | 17,594,732         | 17,594,732               | 17,594,732         | -                     |
|  | <b>671,958,536</b> | <b>671,958,536</b>       | <b>356,598,687</b> | <b>315,359,849</b>    |

## 37.3 Market risk

Market risk means that the future cash flows of a financial instrument will fluctuate because of changes in market prices such as foreign exchange rates and interest rates. The objective is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Company's market risk may comprise of two types of risk: foreign exchange or currency risk and interest/mark up rate risk. The market risks associated with the Company's business activities are discussed as under:

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# PECTO SUGAR MILLS LIMITED

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### 37.3.1 Currency risk

Currency risk arises mainly where receivables and payables exist due to transactions entered into foreign currencies. As at the balance sheet date the company is not exposed to foreign currency risk as there is no receivable / payable or commitment other than local currency.

### 37.3.2 Interest / Mark-up rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Sensitivity to interest/mark up rate risk arises from mismatches of financial liabilities that mature or re-price in a given period. The Company manages these mismatches through risk management strategies where significant changes in gap position can be adjusted. The long-term financing have variable rate pricing that is dependent on the Karachi Inter Bank Offer Rate (KIBOR) as indicated in respective Notes. At the balance sheet date, the interest rate profile of the Company's significant interest bearing financial instruments was as follows:

| Variable rate instruments | 2010                        |                | 2009               |             |
|---------------------------|-----------------------------|----------------|--------------------|-------------|
|                           | Effective interest rate (%) |                | Carrying amount    |             |
| Long term finances        | 14% - 16.93%                | 13.92% - 19.7% | <b>326,537,500</b> | 334,500,000 |
| Finance lease             | 16.43% - 20%                | 10% - 21.69%   | <b>36,770,776</b>  | 30,334,522  |
|                           |                             |                | <b>363,308,276</b> | 364,834,522 |

The Company does not account for any fixed rate financial asset and liabilities at fair value through profit or loss. Therefore, a change in interest rate will not effect fair value of any financial instrument. For cash flow sensitivity analysis of variable rate instruments it is observed that interest/mark-up rate in terms of KIBOR has substantially been increased during the year by approximately 2%.

The following information summarizes the estimated effects of hypothetical increases and decreases in interest rates on cash flows from financial assets and liabilities that are subject to interest rate risk. It is assumed that the changes occur immediately and uniformly to each category of instrument containing interest rate risk. The hypothetical changes in market rates do not reflect what could be deemed best or worst case scenarios. Variations in market interest rates could produce significant changes at the time of early repayments. For these reasons, actual results might differ from those reflected in the details specified below. The analysis assumes that all other variables remain constant.

|   | Profit and loss 100 bp |           |
|---|------------------------|-----------|
|   | increase               | decrease  |
| <b>As at 30 September 2010</b>                            |                        |           |
| Cash flow sensitivity-Variable rate financial liabilities | <b>(5,676,540)</b>     | 5,676,540 |
| <b>As at 30 September 2009</b>                            |                        |           |
| Cash flow sensitivity-Variable rate financial liabilities | (4,750,870)            | 4,750,870 |

### 37.4 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and the fair value estimates.

Underlying the definition of fair value is the presumption that the company is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

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

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## 37.5 Capital Risk Management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure.

In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the company manages its capital risk by monitoring its debt levels and liquid assets and keeping in view future investment requirements and expectation of the shareholders. Debt is calculated as total borrowings.

There were no changes to the Company's approach to capital management during the year and the Company is not subject to externally imposed capital requirements.

The Company monitors capital using a debt equity ratio, which is net debt divided by total capital plus net debt. Equity comprises of share capital, capital and revenue reserves. During the year, the Company's strategy was to maintain leveraged gearing. The gearing ratios as at September 30, 2010 and 2009 were as follows:

|                                 | Note  | September 30<br>2010<br>Rupees | September 30<br>2009<br>Rupees |
|---------------------------------|-------|--------------------------------|--------------------------------|
| Subordinated loan               | 14    | <b>656,000,000</b>             | 656,000,000                    |
| Director's loan                 | 15    | <b>258,200,000</b>             | 10,000,000                     |
| Long term finances              | 16&19 | <b>326,537,500</b>             | 334,500,000                    |
| Obligations under finance lease | 17&19 | <b>22,559,849</b>              | 20,447,103                     |
| <b>Total debts</b>              |       | <b>1,263,297,349</b>           | 1,020,947,103                  |
| Less: Cash and bank balances    | 11    | <b>(8,710,134)</b>             | (4,148,578)                    |
| <b>Net debts</b>                |       | <b>1,254,587,215</b>           | 1,016,798,525                  |
| <b>Total Equity</b>             |       | <b>(831,920,175)</b>           | (594,094,438)                  |
| <b>Total Capital</b>            |       | <b>422,667,040</b>             | 422,704,087                    |
| <b>Gearing Ratio</b>            |       | <b>2.97</b>                    | 2.41                           |

The company finances its operations through equity, borrowings and management of working capital with a view to maintaining an appropriate mix between various sources of finance to minimize risk. The management of the Company continuing with operational and infrastructure rehabilitation program with the objective of converting the Company into profitable entity and has taken financial measures to support such rehabilitation program.

## 38. CAPACITY AND PRODUCTION

|  |                |         |
|--|----------------|---------|
| Installed crushing capacity (M. Tons based on 120 days season) | <b>600,000</b> | 600,000 |
| Actual cane crushing (M. Tons)                                 | <b>354,256</b> | 411,750 |
| Percentage of capacity attained                                | <b>59%</b>     | 69%     |
| Number of days of production                                   | <b>101</b>     | 99      |
| Production of sugar (M. Tons)                                  | <b>24,913</b>  | 32,940  |

The reason for under utilization of installed capacity is due to limited availability of Sugarcane in the area.