

CHASHMA SUGAR MILLS LIMITED

ANNUAL REPORT 2004

DIRECTORS' REPORT

The Directors are pleased to present the Annual Report along with the audited financial statements of the Company for the year ended 30 September, 2004.

SUMMARISED FINANCIAL RESULTS

The financial results of the Company for the year under review are as under:-

	2004	2003
	Rupees	
Profit/(loss) before taxation	33,199,077	(42,646,211)
Taxation		
- current year	11,000,000	3,000,000
- prior year	0	(1,487,873)
- deferred	1,102,000	(810,000)
	12,102,000	702,127
Profit/(loss) after taxation	21,097,077	(43,348,338)
Unappropriated profit- Brought forward	930.549	278.887
Profit/(loss) available for appropriation	22,027,626	(43,069,451)
Transfer (to) / from general reserve	(22,000,000)	44,000,000
Unappropriated profit- carried to balance sheet	27.626	930.549
Earnings /(loss) per share	1.1	(2.27)

GENERAL

1. SUGARCANE SEASON 2003-2004

The sugarcane crushing season commenced on 29th November, 2003 and ended on 27th April, 2004. We crushed 908,130 metric tonnes sugarcane and produced 72,918 metric tonnes of sugar at an average recovery of 8.03% as compared to the last year's 889,074 metric tonnes, 64,698 metric tonnes and 7.28% respectively. There was slight improvement in the sale prices due to the withdrawal of 3% additional sales tax in the budget 2004-05, which has improved operating results of the Company.

2. CURRENT SEASON 2004-2005

The current season started on 18th November, 2004 and we have crushed 255,626 metric tonnes of sugarcane, producing 19,795 metric tonnes of sugar at an average recovery of 7.74 % upto 02 January 2005. We are facing difficulties in procurement of sugarcane as the other sugar mills from the Punjab are purchasing sugarcane from our area through middlemen.

3. EXPORT

During the year, we exported 32,122 metric tonnes of sugar to Afghanistan earning valuable foreign exchange amounting to US \$ 8,518,352.

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed Company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the Code in the following manner:

1. The directors have confirmed that none of them is serving as a director in more than ten listed Companies including this Company.
2. All the directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or being a member of a

stock exchange, has been declared as a defaulter by that stock exchange.

3. No casual vacancies were occurred in the Board during the year.
4. The Company has prepared a "Statement of Ethics and Business Practices", which has been signed by all the directors and management employees of the Company.
5. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
6. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
7. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
8. The Directors are well conversant with the listing regulations and legal requirements and as such are fully aware of their duties and responsibilities.
9. There were no new appointments of CFO / Company Secretary during the year.
10. The Directors' Report for this year has been prepared in compliance with the requirements of the Code and it fully describes the salient matters required to be disclosed.
11. The financial statements of the Company were duly endorsed by the CEO and the CFO before approval by the Board.
12. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

There are no statutory payments on account of taxes, duties, levies and charges, which are outstanding as at 30 September, 2004 except for those disclosed in the financial statements.

During the year 4 meetings of the Board of Directors were held. Attendance by each director was as follows:-

Name of Director No. of Meetings Attended

Khan Aziz Sarfaraz Khan	4
Begum Zari Sarfaraz	4
Begum Laila Sarfaraz	2
Mr. Abbas Sarfaraz Khan	2
Ms. Zarmine Sarfaraz	1
Mr. Iskander M. Khan	4
Begum Mehmooda Salim Khan	2
Mr. Abdul Qadar Khattak	4

Leave of absence was granted to the Directors who could not attend some of the Board meetings.

- No trades in the shares of Chashma Sugar Mills Limited were carried-out by the Directors, CEO, CFO, Company Secretary and their spouses and minor children during the year ended 30 September, 2004.

12. COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

The requirements of the Code of Corporate Governance setout by the Karachi, Lahore and Islamabad Stock Exchanges in their Listing Rules, relevant to the year ended 30 September,2004 have been duly complied with. A statement to this effect is annexed with a

review report from the Auditors.

13. ROLE OF SHAREHOLDERS

The Board aims to ensure that the Company's shareholders are timely informed about the major developments affecting the Company's state of affairs. To achieve this objective, information is communicated to the shareholders through quarterly, half-yearly and annual reports. The Board encourages the shareholders' participation at the annual general meeting to ensure a high level of accountability.

14. ACKNOWLEDGEMENT

The Directors would like to express their gratitude for the hard work and dedication displayed by the Staff and Executives of the Organization and the invaluable continuing support of our Bankers.

Finally, the Board wishes to thank the valued shareholders for their patronage and confidence reposed in the Company and consistent support in the present challenging scenario.

TEN YEAR'S GROWTH AT A GLANCE

PARTICULARS	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
(RUPEES IN THOUSAND)										
Sales	1,453,370	576.598	1,286,688	712.165	11,815,891	,111,550	811.335	538.518	626.719	598.079
Cost of Sales	1,369,614	577.039	1,106,529	695.17	868.964	932.608	719.697	480.013	506.238	495.106
Operating profit/(Loss)	48.829	(29,261)	152.317	(4,886)	290.32	160.631	73.059	43.233	105.903	89.481
Profit/(Loss) before tax	33.199	(42,646)	124.183	(50,741)	224.129	88.835	11.506	(8,846)	53.054	44.376
Profit/(Loss) aftertax	21.097	(43,348)	103.47	(61,218)	224.129	87.711	212	1.93	49.911	41.385
Share capital	191.28	191.28	191.28	191.28	191.28	191.28	191.28	191.28	191.28	191.28
Shareholders' equity	457.307	436.211	479.558	414.884	476.101	347.613	298.157	297.945	296.016	255.669
Fixed assets-net	322.811	355.405	365.272	392.576	424.009	436.765	472.557	522.826	557.099	552.543
Total assets	996.908	1,014,280	628.082	780.345	678.032	774.216	809.721	691.051	643.085	668.634
Long term liabilities	263.868	-	-	-	20.186	40.594	98.485	152.71	171.394	242.661
Dividend										
Cash dividend	-	-	30%		50%	20%			5%	-
Ratios:										
Profitability (%)										
Operating profit	3.36	(5.07)	11.84	(0.69)	24.57	14.45	9	8.03	16.9	14.96
Profit before tax	2.28	(7.40)	9.65	(7.12)	18.97	7.99	1.42	(1.64)	8.47	7.42
Profit after tax	1.45	(7.52)	8.04	(8.60)	18.97	7.89	0.03	0.36	7.96	6.92
Return to Shareholders										
ROE - Before tax	7.27	(9.78)	25.9	(12.23)	47.08	25.56	3.86	(2.97)	17.92	1736
ROE-After tax	4.62	(9.94)	21.58	(14.76)	47.08	25.23	0.07	0.65	16.86	16.19
Return on Capital Employed	2.93	(9.93)	21.55	(14.75)	45.06	22.59	0.05	0.43	10.68	8.30
E. P. S. - Aftertax	1.1	(2.27)	5.41	(3.20)	11.72	4.59	0.01	0.01	2.61	2.16
Activity										
Income to total assets	1.46	0.57	2.05	0.91	1.74	1.44	1	0.78	0.97	0.89
Income to fixed assets	4.5	1.62	3.52	1.81	2.79	2.54	1.72	1.03	1.12	1.08
Liquidity/Leverage										
Current ratio	1.06	1.1	1.63	1.03	1.29	(0.80)	(0.78)	(0.66)	(0.42)	(0.49)
Break up value per share	23.91	22.8	25.07	21.69	24.89	18.17	15.59	15.58	15.48	13.37
Total Liabilities to equity (Times)	1.18	1.31	0.31	0.88	0.42	1.17	1.72	132	1.17	1.62

TEN YEAR'S REVIEW

YEAR	CANE CRUSHED METRIC TONNES	RECOVERY SUGAR PRODUCED % METRIC TONNES
1995	507.706	8.66
1996	495.543	8.02
1997	370.489	7.72
1998	744.391	8.47
1999	828.703	7.84
2000	668.578	8
2001	575.031	6.82
2002	845.048	8.07

2003	889.074	7.28	64.698
2004	908.13	8.03	72.918

4.EXTENSION PROGRAMME

Our extension program will come into line during the first week of January, 2005.

5.DIVIDEND

The Directors do not recommend any dividend due to application of funds in the ongoing plant & machinery extension program.

6.GENERAL RESERVE

A sum of Rs.22 million has been transferred to general reserve from profit & loss appropriation account.

7.STAFF

The Labour and Management relations remained cordial during the year. All employees of the Company were paid bonus equivalent to 4-1/2 months salary in addition to other amenities and statutory benefits.

8.EXTERNAL AUDITORS

The Audit Committee and Board of Directors have recommended to re-appoint M/s Hameed Chaudhri & Company, Chartered Accountants, as external Auditors for the year 2004-2005, on their confirmation to change the Partner incharge of audit of the Company subject to the exemption / permission of Securities & Exchange Commission of Pakistan under Clause XII of the Code of Corporate Governance.

9.NOTES TO ACCOUNTS NO. 11.4

On expiry of lease, the vehicles will be returned-back to the leasing companies; therefore, the lease rentals have been taken to profit & loss account.

10.PATTERN OF SHAREHOLDING

The pattern of shareholding as required under section 236 (2) (d) of the Companies Ordinance 1984 is annexed.

11. CORPORATE AND FINANCIAL REPORTING FRAMEWORK

- The financial statements of the Company, prepared by the management, present fairly its state of affairs, the results of its operations, cash flows and the changes in equity.
- Proper books of account were maintained by the Company.
- Appropriate accounting policies have been consistently applied in preparation of the financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements and departures there from have been adequately stated.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- There are no significant doubts upon the Company's ability to continue as a going concern.
- Key operating and financial data for the last six years in summarized form is annexed.

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of CHASHMA SUGAR MILLS LIMITED to

comply with the Listing Regulation No. 37 of the Karachi Stock Exchange (Guarantee) Limited, Chapter XIII of the Listing Regulations of the Lahore Stock Exchange (Guarantee) Limited and Chapter XI of the Listing Regulations of the Islamabad Stock Exchange (Guarantee) Limited where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the status of the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended 30 September, 2004.

PATTERN OF HOLDING OF THE SHARES HELD BY THE SHAREHOLDERS

AS AT 30 SEPTEMBER, 2004

Shareholders		Shareholding			Total Shares Held	
150	From	1	to	100	Shares	14.512
910	From	101	to	500	Shares	420.227
184	From	501	to	1	Shares	179.122
265	From	1.001	to	5	Shares	729.366
61	From	5.001	to	10	Shares	465.464
18	From	10.001	to	15	Shares	223.4
11	From	15.001	to	20	Shares	195.2
14	From	20.001	to	25	Shares	323.5
6	From	25.001	to	30	Shares	161.8
5	From	30.001	to	35	Shares	166.209
5	From	35.001	to	40	Shares	188.4
2	From	40.001	to	45	Shares	89.7
2	From	45.001	to	50	Shares	96
2	From	50.001	to	55	Shares	106.5
1	From	55.001	to	60	Shares	59.8
1	From	60.001	to	65	Shares	63
1	From	65.001	to	70	Shares	66
1	From	75.001	to	80	Shares	76.5
1	From	80.001	to	85	Shares	81.8
1	From	85.001	to	90	Shares	88.5
2	From	90.001	to	95	Shares	189.5
3	From	95.001	to	100	Shares	300
1	From	100.001	to	105	Shares	100.5
1	From	105.001	to	110.001	Shares	107.5
1	From	115.001	to	120	Shares	115.2
1	From	125.001	to	130	Shares	127.5
2	From	130.001	to	135	Shares	262.6
2	From	195.001	to	200	Shares	400
1	From	200.001	to	205	Shares	205
1	From	285.001	to	290	Shares	290
1	From	435.001	to	440	Shares	435.5
1	From	440.001	to	445	Shares	444.5
1	From	905.001	to	910	Shares	908.4
1	From		to	1,915,000	Shares	1,912,800

1	From	to	Above	Shares	9,534,000
1.661					19,128,000

Categories of Shareholders	Numbers	Shares Held	Percentage
Associated Companies	3	10,174,500	53.19
NTandCP	-		
Directors and Relatives	11	2,441,200	12.76
Executives			
Public Sector Companies and Corporations	39	660,926	3.46
Banks, Development Finance Institutions, Non Banking Financial Institutions, Insurance			
Companies, Moderabas and Mutual Funds	0.4	2,022,900	10.58
Individuals	1.602	3,533,474	18.47
Charitable Trusts	2	295	1.54
	1.661	19,128,000	100

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER, 2004

	2004 Rupees	2003 Rupees
CASH FLOW FROM OPERATING ACTIVITIES		
Profit / (loss) for the year before taxation and workers' welfare fund	33,199,077	(42,774,465)
Adjustments for:		
Depreciation	35,336,719	39,004,413
Gain on disposal of vehicles	0	(362,630)
Interest and profit on bank deposits	(1,728,228)	(1,123,261)
Unclaimed payable balances written-back	(1,160,691)	0
Financial charges	16,365,550	15,187,932
CASH INFLOW FROM OPERATING ACTIVITIES		
- Before working capital changes	82,012,427	9,931,989
(Increase) / decrease in current assets:		
Stores and spares	(2,633,484)	(5,466,380)
Stock-in-trade	360,805,000	(449,776,000)
Trade debtors	10,933,754	29,369,854
Advances, deposits, prepayments and other receivables	(7,495,919)	3,533,991
Increase / (decrease) in current liabilities:		
Creditors, accruals and other liabilities	152,956,564	(9,115,682)
Excise duty and sales tax payable	(3,834,496)	(1,182,472)
	510,731,419	(432,636,689)
CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES - Before ta	592,743,846	(422,704,700)
Income tax paid	(22,929,838)	(15,978,673)
NET CASH INFLOW / (OUTFLOW) FROM OPERATING		
ACTIVITIES - After taxation	569,814,008	(438,683,373)
CASH FLOW FROM INVESTING ACTIVITIES		
Fixed capital expenditure	(355,673,195)	(35,182,922)
Sale proceeds of vehicles	0	750
Interest and profit on bank deposits	1,620,989	1,249,953
Security deposits	(115,600)	(54,175)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(354,167,806)	(33,237,144)
	215,646,202	(471,920,517)
CASH FLOW FROM FINANCING ACTIVITIES		
Long term finances obtained	263,868,046	0
Lease finances - net	(396,111)	(1,084,429)
Financial charges paid	(18,901,865)	(14,486,847)
Short term finances - net	(465,041,123)	522,515,952
Dividends paid	(43,895)	(56,955,550)
NET CASH (OUTFLOW)/ INFLOW FROM FINANCING ACTIVITIES	(220,514,948)	449,989,126
DECREASE IN CASH AND CASH EQUIVALENTS	(4,868,746)	(21,931,391)
CASH AND CASH EQUIVALENTS - At the beginning of the year	16,466,964	38,398,355
CASH AND CASH EQUIVALENTS - At the end of the year	11,598,218	16,466,964
YEAR END CASH AND CASH EQUIVALENTS COMPRISED OF:		
Bank balances	18,637,504	16,466,964

Temporary bank overdraft

(7,039,286)

0

11,598,218

16,466,964

AUDITORS' REPORT TO THE MEMBERS OF CHASHMA SUGAR MILLS LIMITED

We have audited the annexed balance sheet of CHASHMA SUGAR MILLS LIMITED as at 30 September, 2004 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

(a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion:

(i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

(ii) the expenditure incurred during the year was for the purpose of the Company's business; and

(iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, except for IAS 17 (note 11.4), conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 September,

2004 and of the profit, its cash flows and changes in equity for the year then ended; and

(d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance 1980 (XVIII of 1980).

Without qualifying our opinion, we draw attention to notes 10.3 and 10.5 to the financial statements.

CHASHMA SUGAR MILLS LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER, 2004

	Share capital	General reserve	Unappro profit	Total
Balance as at 30 September, 2002	191,280,000	288,000,000	278.887	479,558,887
Loss for the year ended				
30 September, 2003	0	0	(43,348,338)	(43,348,338)
Transfer	0	(44,000,000)	44,000,000	0
Balance as at 30 September, 2003	191,280,000	244,000,000	930.549	436,210,549
Profit for the year ended				
30 September, 2004	0	0	21,097,077	21,097,077
Transfer	0	22,000,000	(22,000,000)	0
Balance as at 30 September, 2004	191,280,000	266,000,000	27.626	457,307,626

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER, 2004

1. CORPORATE INFORMATION

The Company was incorporated on 5 May, 1988 as a Public Company and it commenced commercial production from 01 October, 1992. The Company is principally engaged in manufacture and sale of white sugar. Its shares are quoted on Stock Exchanges in Pakistan. The Head Office of the Company is situated at 20-A, Markaz F-7, Islamabad and Mills at Dera Ismail Khan.

2. SIGNIFICANT ACCOUNTING POLICIES**2.1 Statement of compliance**

These financial statements, except for International Accounting Standard (IAS) 17 (Leases), have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such IAS's as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 Accounting convention

These financial statements have been prepared under the historical cost convention modified by exchange rate fluctuation adjustments on foreign currency loans as referred to in note 2.3.

2.3 Foreign currency translations

Transactions in foreign currencies are accounted for in Pak Rupees at the exchange rates prevailing on the date of transactions. Assets and liabilities in foreign currencies are translated into Pak Rupees at rates of exchange ruling on the balance sheet date. Exchange differences in respect of foreign currency loans, obtained for acquisition of fixed assets, were incorporated in the cost of relevant assets. All other exchange differences are included in income currently.

2.4 Staff retirement benefits (defined contribution plan)

The Company operates a defined contribution provident fund scheme for all its permanent employees. Equal monthly contributions at the rate of 8.25 % of the basic salary are made to the fund both by the Company and employees.

2.5 Taxation**(a) Current**

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and tax rebates available, if any, or minimum tax at the rate of 0.5% of turnover, whichever is higher.

(b) Deferred

Deferred tax is recognised using the balance sheet liability method in respect of all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilised. Deferred tax liability is based on the expected tax rates applicable at the time of reversal.

2.6 Provisions

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

2.7 Tangible fixed assets and depreciation thereon**Owned:**

Operating fixed assets are stated at cost less accumulated depreciation except freehold land and capital work-in-progress which are stated at cost.

Depreciation is charged to income applying reducing balance method to write-off the cost over estimated remaining useful life of assets. Rates of depreciation are stated in note 12.

No depreciation is provided on assets in the year of disposal whereas full year's depreciation is charged in the year of purchase. Gains / losses on disposal of fixed assets are taken to profit and loss account.

Normal repairs and replacements are taken to profit and loss account. Major improvements and modifications are capitalised and assets replaced, if any, other than those kept as stand-by are retired.

Leased:

These are stated at the lower of present value of minimum lease payments under the lease agreements and the fair value of the assets. The related obligations of lease are accounted for as liabilities. Finance charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of financial cost on the remaining balance of principal liability for each period.

Depreciation is taken to profit and loss account at the rates stated in note 12 applying reducing balance method to write-off the cost of the asset over its estimated remaining useful life in view of certainty of ownership of asset at the end of the lease period.

Financial charges and depreciation on leased assets are charged to income currently.

2.8 Stores and spares

These are valued at moving average cost. Stores-in-transit are valued at cost accumulated to the balance sheet date. Obsolete and used items are recorded at nil value.

2.9 Stock-in-trade

Basis of valuation are as follows:

Particulars	Mode of valuation
Finished goods	- At lower of cost and net realisable value.
Sugar-in-process	- At cost.
Molasses	- At net realisable value.

- Cost in relation to finished goods and sugar-in-process represents the annual average

manufacturing cost which consists of prime cost and appropriate production overheads.

- Net realisable value signifies the selling price in the ordinary course of business less cost necessary to be incurred to effect such sale.

2.10 Trade debtors

Trade debtors are carried at original invoice amount less an estimate for doubtful debtors based on review of outstanding amounts at the year-end. Bad debts are written-off when identified.

2.11 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise of cash & bank balances and temporary bank overdraft.

2.12 Revenue recognition

- Sales are recorded on dispatch of goods.

- Income on deposit/saving accounts is accounted for on "accrual basis".

2.13 Development expenditure

Expenditure incurred on development of sugar cane is expensed in the year of incurrence.

2.14 Borrowing costs

Borrowing costs incurred on finances obtained for acquisition of fixed assets are capitalised upto the date of commissioning of the respective assets. All other borrowing costs are taken to profit and loss account.

2.15 Financial assets and liabilities

All financial assets and liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortised cost or cost, as the case may be.

All purchases and sales of financial assets are recognised on the trade date.

2.16 Off setting of financial instruments

Financial assets and liabilities are off-set and the net amount reported in the balance sheet when there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.17 Related party transactions

Sales, purchases and other transactions with related parties are made at arm's length prices determined in accordance with the comparable uncontrolled price method except for the allocation of expenses relating to combined offices shared with the associated companies, which are on the actual basis.

3. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

The Premier Sugar Mills and Distillery Co. Ltd., Azlak Enterprises (Pvt.) Ltd. and Phipson & Co. Pakistan (Pvt.) Ltd. (the associated companies) held 9,534,000, 435,500 and 205,000 ordinary shares respectively as at 30 September, 2004 and 30 September, 2003.

4. LONG TERM FINANCES - Secured	Note	2004 Rupees	2003 Rupees
Term finance - Bank Altaian Ltd. (BAL)	4.1	113,868,046	
Demand finance - Muslim Commercial Bank Ltd. (MCB)	4.2	150,000,000	
		263,868,046	
5. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	Note	2004 Rupees	2003 Rupees
Minimum lease payments		337.3	813.1
Less: Financial charges allocated to future periods		14.658	94.347

	322.642	718.753
Less: Security deposit adjustable on expiry of lease term	59.75	59.75
Present value of minimum lease payments	262.892	659.003
Less: Current portion grouped under current liabilities	262.892	396.111
	0	262.892

6. DEFERRED TAXATION

Deferred taxation liability (2003: asset) comprises of temporary differences arising due to:

Credit / (debit) balances arising in respect of:	714	(217,000)
- accelerated tax depreciation allowances	128	(43,000)
- lease finances	842	(260,000)

7. SHORT TERM FINANCES

	7.1	57,474,829	522,515,952
Cash, term and running finances - secured	7.2	* 7,039,286	0
Temporary bank overdraft - unsecured		64,514,115	522,515,952

8. CREDITORS, ACCRUALS AND OTHER LIABILITIES

Note	2004 Rupees	2003 Rupees
	818.544	649.028
Due to related parties - associated companies	44,891,925	15,086,702
Creditors	1,841,000	410.881
Bills payable	10,867,099	6,584,592
Accrued expenses	232.414	232.414
Retention money		
Security deposits - interest free repayable on demand	5,610,471	317.851
Advance payments	108,671,031	566.007
Mark-up accrued on:		
- long term finances	640.638	0
- short term finances	1,405,295	4,582,248
Due to provident fund trust	398.545	111.975
Income tax deducted at source	883.411	206.517
Workers' (profit) participation fund	8.1 1,747,400	0
	178,007,773	28,748,215

8.1 Workers' (profit) participation fund (the fund)

Opening balance	0	7,904,277
Add: Interest on funds utilised in the Company's business	0	196.569
	0	8,100,846
Less:		
- Amount paid to the fund	0	6,334,681
- Amount deposited in the Government Treasury	0	1,766,165
	0	8,100,846
Add: Allocation for the year	1,747,400	0
	1,747,400	0

EXCISE DUTY AND SALES TAX PAYABLE

Excise duty on sugar	9.1	4,967,163	4,967,163
Sales tax payable		7,090,347	10,924,843
		12,057,510	15,892,006

10. PROVISION FOR TAXATION - Net

	2004 Rupees	2003 Rupees
Opening balance	7,881,704	31,044,704
Add: Provision made during the year		
- current year	11,000,000	3,000,000
- prior year	0	(1,487,873)
	11,000,000	1,512,127
	18,881,704	32,556,831
Less: Payments / adjustments made against completed assessments	1,162,266	24,675,127

9.3 The Sales Tax, Department, during the year ended 30 September 1999, raised sales tax, additional tax and penalty demands aggregating Rs. 11,668,685 on in-house consumption of bagasse as fuel during the year ended 30 September, 1997. The Company filed an appeal with the Collector of Sales Tax (Appeals), Rawalpindi against these levies, who dismissed the said appeal.

The Company afterwards filed an appeal with the Customs, Excise & Sales Tax Appellate Tribunal, Peshawar Bench, which also dismissed the Company's appeal vide its order dated 15 June, 2002; the Tribunal, however, remitted the penalty. The Company has filed an appeal with the Peshawar High Court against the Tribunal's order, which is pending adjudication.

The Company, however, paid full amount of the said demands during the year ended 30 September 2000.

10.1 Income tax assessments of the Company have been completed upto the Income Year ended 30 September, 2000 (Assessment Year 2001 -02).

10.2 The Income Tax Appellate Tribunal (ITAT) for the Assessment Year 1999-2000, vide its order dated 16 December, 2003, accepted the departmental appeal and vacated the order of the Commissioner of Income Tax (Appeals) [CIT(A)] by restoring the order of the Assessing Officer. The ITAT rejected the Company's submissions of treating the Assessment Year 1994-95 as first year of exemption. The Company has filed a reference application under section 133 of the Income Tax Ordinance, 2001 before the ITAT to refer the questions of law, arising out of the aforesaid order, to the High Court.

The Assessing Officer, while making the Company's assessment for the Income Year

ended 30 September, 2000 (Assessment Year 2001-02), denied exemption from tax under clause 118C of the Second Schedule to the repealed Income Tax Ordinance, 1979 (the repealed Ordinance) treating Assessment Year 2000-01 as last year of exemption and disallowed the Company's claim of exemption for the year. The Assessing Officer has raised income tax and workers' welfare fund demands aggregating Rs.86.432 million for the said year. The Company has filed an appeal with the CIT(A), who, subsequent to the balance sheet date vide his order dated 08 December, 2004, has declined to interfere in this matter on the grounds that the same issue has already been decided by the ITAT for the Assessment Year 1999-2000 and the ITAT has rejected the Company's submissions of treating Assessment Year 1994-95 as first year of exemption. The CIT(A), however, has allowed certain reliefs other than tax holiday exemption; effects of which are awaited.

10.4 The Additional Commissioner of Income Tax (ACIT), during the year, cancelled the original assessment for the Assessment Year 1999-2000 framed under section 62 of the repealed Ordinance. The ACIT has alleged that the Assessing Officer totally erred in allowing inadmissible expenses on account of excise duty of prior years aggregating Rs.11.294 million, therefore, the Company has defaulted in terms of section 12(9A) of the repealed Ordinance by not declaring / paying dividend in the said year. The Company, against the order of the ACIT, has filed an appeal with the ITAT, which is pending adjudication.

10.5 The Assessing Officer, for the Assessment Year 2001-02 treating it as normal period of business, has charged additional tax amounting Rs.36.365 million under section 205 of the Income Tax Ordinance, 2001 for non-payment of tax under section 54 of the repealed Ordinance. Provision against this demand has not been made in these financial statements as the Company has filed an appeal with the CIT(A), which is pending adjudication.

10.6 No numeric tax rate reconciliation is given in these financial statements as provision made during the year represents minimum tax payable under section 113 and final tax deducted at source on realisation of foreign exchange proceeds under section 154 of the Income Tax Ordinance, 2001.

10.7 The Company's return for the Tax Year 2003 has been selected for an audit in accordance with the provisions of section 177 of the Income Tax Ordinance, 2001.

11. CONTINGENCIES AND COMMITMENTS

11.1 Commitments for irrevocable letters of credit outstanding as at 30 September, 2004 were for Rs.102.227 million (2003: Nil).

11.2 Commitments for capital expenditure aggregating Rs. 104.095 million were outstanding as at 30 September, 2004 (2003: Rs.2.642 million).

11.3 The Company entered into a lease agreement with The Premier Sugar Mills & Distillery Company Limited (PSM) - an associated company during December, 1994 to acquire machinery, i.e. 4,000 K.W. Horizontal Multi Stage Turbo Alternator Set, complete with all equipment on lease at prime cost of Rs.30 million at an annual lease rent of Rs.6 million for a period of three years. PSM, during the year ended 30 September, 2001, had extended the lease period of the said machinery for a further period of three years at annual lease rentals of Rs.3.4 million. PSM, during the current year, has again extended the lease period expired on 31 December, 2003 for a further period of three years at lease rentals of Rs.3 million per annum. The agreement is secured against demand promissory note of Rs.18 million.

11.4 The Company has acquired vehicles from ORIX Leasing Pakistan Ltd. under finance lease arrangements, which have been treated as operating leases in these financial statements contrary to the requirements of IAS 17 (Leases) and the provisions of the Companies Ordinance, 1984. Commitments for rentals under the lease agreements aggregate Rs.1.768 million as at 30 September, 2004, and are payable as follows:

Financial Year	Rupees
2004-05	836.16
2005-06	575.13
2006-07	356.29
	1,767,580

12.1 Depreciation for the year has been allocated as follows:	Note	2004 Rupees	2003 Rupees
Cost of sales		33,420,895	36,964,498
Administrative and general expenses		1,915,824	2,039,915
		35,336,719	39,004,413

13. CAPITAL WORK-IN-PROGRESS

Buildings on freehold land:			
- cost of materials		39,017,162	569.827
- advance payments		5,754,327	5
		44,771,489	574.827
Plant and machinery:			
- costs	13.1	99,172,537	8,697,880
- advance payments		125,602,474	896.31
		224,775,011	9,594,190
Electric installations:			
- costs		4,198,650	965.027
- advance payments		14,661,682	0
		18,860,332	965.027
		288,406,832	11,134,044

14. STORES AND SPARES

Stores including in transit valuing - Nil (2003: Rs.256,673)		46,134,105	49,176,774
Spares		12,387,067	6,710,914
		58,521,172	55,887,688

15. STOCK-IN-TRADE

Finished goods valued at cost (2003: at net realisable value)	127,518,000	488,250,000
Sugar-in-process	1,227,000	1,300,000
	128,745,000	489,550,000

16. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Advance payments to:

- employees	744.493	688.377
- suppliers and contractors	13,719,517	12,903,400
	16.1	14,464,010
		13,591,777
Due from related parties - associated companies	16.2	1,930,627
		1,224,803
Security deposits		5,526,735
		0
Letters of credit		428.417
		0
Tax deducted at source		31,634,300
		9,866,728
Prepayments		19.5
		56.79
Profit accrued on bank deposits		213.27
		106.031
		54,216,859
		24,846,129
Less: Provision for doubtful advances		2,437,072
		2,437,072
		51,779,787
		22,409,057

16.2 Due from associated companies in respect of current account transactions:

	Note	2004 Rupees	2003 Rupees
The Frontier Sugar Mills & Distillery Ltd.		1,011,015	398,936
National Computers (Pvt.) Ltd.		293.55	235.05
Phipson and Co. Pakistan (Pvt.) Ltd.		626.062	590,817
		1,930,627	1,224,803

17. BANK BALANCES

Cash at banks on:

- current accounts	17.1	2,372,244	3,120,312
- PLS accounts		9,405,277	10,795,571
- deposit accounts		6,859,983	2,551,081
		18,637,504	16,466,964

18. SALES-Net

Turnover:

Local		1,128,601,422	682,002,356
Export		493,857,987	0
		1,622,459,409	682,002,356
Less:			
Commission		4,484,360	2,509,091
Sales tax		164,604,578	102,895,146
		169,088,938	105,404,237
		1,453,370,471	576,598,119

19. COST OF SALES

	Note	2004 Rupees	2003 Rupees
Raw materials consumed	19.1	880,265,401	903,761,941
Chemicals and stores consumed		27,093,999	23,014,372
Salaries, wages and benefits	19.2	36,212,829	32,597,831
Power and fuel		6,529,223	5,229,899
Repair and maintenance		21,125,760	20,791,791
Insurance		1,060,992	1,054,373
Machinery lease rentals	11.3	3,100,000	3,400,000
Depreciation		33,420,895	36,964,498
		1,008,809,099	1,026,814,705
Adjustment of sugar-in-process:			
Opening		1,300,000	1,100,000
Closing		(1,227,000)	(1,300,000)
		73	(200,000)
Cost of goods manufactured		1,008,882,099	1,026,614,705

Adjustment of finished goods :		
Opening stock	488,250,000	38,674,000
Closing stock	(127,518,000)	(488,250,000)
	360,732,000	(449,576,000)
	1,369,614,099	577,038,705

20. ADMINISTRATIVE AND GENERAL EXPENSES

Salaries and benefits	20.2	16,553,554	13,208,204
Travelling and conveyance:			
- directors		1,604,801	2,760,458
- others		549,306	479,473
Vehicles' running / maintenance and lease rentals		2,837,445	2,123,970
Rent, rates and taxes		745.98	553.214
Communication		1,643,808	1,549,351
Printing and stationery		1,002,919	771.45
Insurance		404.116	310.807
Repair and maintenance		726.035	1,020,288
Fees and subscription		759.948	824.82
Depreciation		1,915,824	2,039,915
Auditors' remuneration	20.3	354.7	281.55
Legal and professional charges (other than Auditors')		762.408	614.407
General		368.645	258.469
		30,229,489	26,796,376

20.3 Auditors' remuneration:

Note	2004 Rupees	2003 Rupees
- Hameed Chaudhri & Co.		
statutory audit	125	75
half yearly review	50	40
consultancy, tax services and certification charges	62.5	82.5
out-of-pocket expenses	30	44.05
	267.5	241.55
- Munawar Associates		
cost audit fee	30	30
Workers' (profit) participation fund and employees' provident fund's		
audit fees of prior years	53	0
out-of-pocket expenses	4.2	10
	87.2	40
	354.7	281.55

21. SELLING AND DISTRIBUTION EXPENSES

Loading and stacking		2,886,682	1,710,963
Salaries and benefits	21.1	526,462	313,397
Export development surcharge		1,247,236	0
Others		38	0
		4,698,380	2,024,360

22. OTHER INCOME

Interest/profit on bank deposits		1,728,228	1,123,261
Sale of press mud - net of sales tax amounting Rs.91,458 (2003:Rs.86,418)		508,099	480,101
Sale of scrap - net of sales tax amounting Rs.18,750 (2003: Rs.79,689)		104.17	442,716
Unclaimed payable balances written-back		1,160,691	0
Gain on disposal of vehicles		0	362.63
Miscellaneous		1.95	321,819
		3,503,138	2,730,527

23. FINANCIAL CHARGES

Mark-up on short term finances		16,285,861	14,799,757
Interest on:			
- lease finances		79,689	191,606
- workers' (profit) participation fund		0	196,569

Bank charges	922.472	936.838
	17,288,022	16,124,770
14. MISCELLANEOUS CHARGES		
Donations (without directors' interest)	35.2	118.9
Others	61.942	0
	97.142	118.9

25. EARNINGS / (LOSS) PER SHARE - Basic	2004	2003
	Rupees	Rupees
Profit / (loss) attributable to ordinary shareholders	21,097,077	(43,348,338)
	Number of shares	
Weighted average number of shares outstanding during the year	19,128,000	19,128,000
	R u p e e s	
Earnings / (loss) per share	1.1	(2.27)

26. NUMBER OF EMPLOYEES	2004	2003
	Number	
Total number of employees at the year-end	563	479

28. CAPACITY AND PRODUCTION	2004	2003
	----- M.Tons-----	
Rated crushing capacity (based on 150 working days)	900	900
Cane crushed	908.13	889.074
Sugar produced	72.918	64.698
Days worked	151	144

27. REMUNERATION OF CHIEF EXECUTIVE, DIRECTOR AND EXECUTIVES

Particulars	Chief Executive		Director		Executives	
	2004	2003	2004	2003	2004	2003
Managerial remuneration including bonus	1,200,000	1,200,000	75	150	883.5	3,079,239
Allowances and utilities	0	0	0	0	336	2,026,977
Contribution to provident fund	0	0	0	0	46.536	210.509
Medical expenses reimbursed	68.317	0	0	0	0	4.988
Rupees	1,268,317	1,200,000	75	150	1,266,036	5,321,713
No. of persons	1	1	1	1	1	12