# BABA FARID SUGAR MILLS LIMITED




# 35th Annual Report

2013

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# COMPANY INFORMATION

| | | |
|---|---|---|
| BOARD OF DIRECTORS: | Muhammad Sarwar | Chief Executive |
| | Mr. Shahid Mahmood Quarshi | |
| | Syed Qaissar Abbas Naqvi | |
| | Mrs. Naheed Roohi | |
| | Ms. Rafia Aslam | |
| | Mr. Mirza Maqsood-ul-Hassan | |
| | Muhammad Ashraf | |
| AUDIT COMMITTEE : | Mr. Mirza Maqsood-ul-Hassan | Chairman |
| | Syed Qaissar Abbas Naqvi | |
| | Mr. Shahid Mahmood Quarshi | |
| COMPANY SECRETARY: | Muhammad Ibrahim | |
| AUDITORS: | Sheikh & Chaudhri,<br>Chartered Accountants,<br>166-B, Upper Mall, Lahore | |
| SHARE REGISTRAR : | M/s. Corplink (Pvt.) Ltd.<br>Wing Arcade, 1-K, Commercial<br>Model Town, Lahore | |
| BANKERS: | MCB Bank Limited<br>Bank Al-Habib Limited<br>United Bank Limited<br>Habib Bank Limited | |
| REGISTERED OFFICE: | 1st Floor, Panorama Centre,<br>Raja Ghazanfar Ali Khan Road,<br>Saddar, Karachi-75530 | |
| MILLS : | 5. K.M. Faisalabad Road, Okara | |

# NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the Thirty Fifth Annual General Meeting of the members of Baba Farid Sugar Mills Limited will be held on Friday, 31st January, 2014 at 3.00 P.M at the Mills Premises, 5 K.M Faisalabad Okara Road, Okara - Punjab to transact the following business :-

**Ordinary Business**

1. To confirm the minutes of 34th Annual General Meeting held on 29th January 2013.
2. To receive, consider and adopt the Annual Audited Financial Statements of the Company for the year ended September 30, 2013 together with the Directors' and Auditors' Report thereon.
3. To appoint Auditors for the year ending September 30, 2014 and fix their remuneration. The retiring auditors, Sheikh & Chaudhry, Chartered Accountants, Lahore, being eligible, have offered themselves for re-appointment.

**Special Business**

4. To consider and, if thought fit, to pass with or without modification, the following Resolution as a Special Resolution to approve alterations in the relevant clauses of the Memorandum and Articles of Association of the Company for Increase in the Authorized Capital of the Company .

   "RESOLVED that the Authorized Capital of the Company be and is hereby increased from Rs.100,000,000 Rupees one hundred million) to Rs.600,000,000 (Rupees six hundred million) and that:

   a) Clause V of the Memorandum of Association be and is hereby amended to read as follows:

      "V. The share capital of the Company is Rs.600,000,000 (Rupees six hundred million) divided into 60,000,000 Ordinary shares of Rs.10/- (Rupees ten) each".

   b) Article 3 of the Articles of Association of the Company be and is hereby amended to read as follows :

      "The share capital of the Company is Rs.600,000,000 (Rupees six hundred million) divided into 60,000,000.

5. To consider, and if thought fit, to pass the following resolution as a Special Resolution.

   "RESOLVED that the consent of the Company in General Meeting be and is hereby accorded to issue 50,000,000 ordinary shares of Rs.10/- each, without issue of right shares, to M/s. Pattoki Sugar Mills Limited(the holding company) against their long term loan to the extent of Rs.500,000,000/- (Rupees five hundred million only) in accordance with section 86(1) of the Companies Ordinance, 1984 subject to any regulatory approval required under the law".

6. "FURTHER RESOLVED, that the Chief Executive and Company Secretary (the "Authorized Officers") of the Company, be and are hereby empowered, jointly or severally on behalf of the Company to undertake all such steps, actions, execute all such documents and do all such things, ancillary and incidental in respect of issuance of shares without issuance of right shares including taking necessary permissions for the Regulatory Authorities, if any, including seeking the approval of the Securities and Exchange Commission of Pakistan, Alterations in the Memorandum and Articles of Association of the Company and to sign, execute and amendsuch documents, papers, instruments etc., as may be necessary or expedient for the purpose of giving effect to the spirit and intent of the aforesaid resolution".

   A Statement under section 160(1)(b) of the Companies Ordinance, 1984, pertaining to the special resolution is

**Other Business**

7. To transact any other business with the permission of the Chair.

By Order of the Board.

**Muhammad Ibrahim**
Company Secretary

January 04, 2014.

Notes:

(1) The share Transfer Books of the Company will remain closed from January 24, 2014 to January 31, 2014 (both days inclusive). Transfer received at the office of Share Registrar of the Company, i.e. M/s. Corplink (Pvt.) Limited, Wings Arcade, 1-K, Commercial Model Town, Lahore, at the close of business on January 23, 2014 will be considered in time for attending of Annual General Meeting.

(2) All members should bring their original Computerized National Identity Card at the time of meeting.

(3) A member eligible to attend and vote at the Meeting may appoint another member as his / her proxy to attend speaks and vote on his/her behalf. Proxies in order to be effective must reach Company's Registered Office not less than 48 hours before the time of the meeting. Proxies of the members through CDC shall be accompanied with attested copy of their CNICs. The shareholders through CDC requested to bring original CNICs account number and participant Account Number to produce at the time of attending the meeting.

(4) In compliance with the requirement of Form-A (Annual Return), all shareholders of the Company are requested to intimate their CNIC number / passport number along-with folio number.

# Statement Under Section 160(1)(b) of the Companies Ordinance, 1984.

This statement sets out the material facts concerning the special business to be transacted at the Annual General Meeting of the Company to be held on 31st January, 2014.

1. The Company intends to issue 50,000,000 ordinary shares of Rs.10/- without issuance than as of right shares to M/s. Pattoki Sugar Mills Limited (the holding company) against the long term loan to the extent of Rs.500,000,000/- (Rupees Five hundred million) subject to approval from Securities & Exchange Commission of Pakistan (SECP).

2. The holding company i.e. Pattoki Sugar Mills Limited is charging mark-up at the rate of 3 month's KIBOR +2% which effectively comes to the tune of approximate of 11.16% to 12.27% per annum which substantially dilutes the Baba Farid Sugar Mills Limited earnings for the year. With holding company's loan being converted to equity, company's earning will be improved and consequently more profits will be available for appropriation as dividend to shareholders.

3. The shares are issued at par value i.e. Rs.10/- to Pattoki Sugar Mills Limited and the directors of Pattoki Sugar Mills Limited have given written consent for issuing shares in respect of the outstanding loan to the extent of Rs.500,000,000/-. These shares will rank pari passu in all respects with the existing shares of the company. The average market value of the share in the last 6 month's is Rs.25 while the break-up value of the share (excluding revaluation surplus) is (Rs.110.90).

4. Existing shareholding of Pattoki Sugar Mills Limited in Baba Farid Sugar Mills Limited is as follows:-

| Name | # of Shares | %age of holding |
|---|---|---|
| Pattoki Sugar Mills Limited | 7,696,072 | 81.44% |

After the issuance of shares, the revised shareholding will be as follows:-

| | | |
|---|---|---|
| Pattoki Sugar Mills Limited | 57,696,072 | 97.00% |

5. None of the directors are, in any way, interested in the resolution except to the extent of their common directorship and shareholding in Pattoki Sugar Mills Limited.

# VISION STATEMENT

Efficient organization with professional competence of top order is engaged to remain a Market leader in the sugar industry in manufacturing and marketing of white sugar.

- To ensure attractive returns to business associates and shareholders as per their expectations.

# MISSION STATEMENT

Quality objectives are designed with a view to enhance customer satisfaction and operational efficiencies.

- To be a good corporate citizen to fulfill the social responsibilities.
- Commitment to building Safe, Healthy and Environment friendly atmosphere.
- We, with our professional and dedicated team, ensure continual improvement in quality and productivity through effective implementation of Quality Management System. Be a responsibleemployer and reward employees according to their ability and performance.
- We value the social and economic well being of our partners and strive for a harmonious environment conducive to team performance.
- The quality policy also encompasses our long term Strategic Goals and Core Values, which are integral part of our business.

## STRATEGIC GOALS

- Providing Customer Satisfaction by serving with superior quality production of white sugar at lowest cost.
- Ensuring Security and Accountability by creating an environment of security and accountability for employees, production facilities and products.
- Expanding Customer Base by exploring new national and international markets and undertaking product research and development in sugar industry.
- Ensuring Efficient Resource Management by managing human, financial, technical and infrastructural resources so as to support all our strategic goals and to ensure highest possible value addition to stakeholders.

## CORE VALUES

- Striving for continuous improvement and innovation with commitment and responsibility;
- Treating stakeholders with respect, courtesy and competence;
- Practicing highest personal and professional integrity;
- Maintaining teamwork, trust and support with open and candid communication; and
- Ensuring cost consciousness in all decisions and operations.

# DIRECTOR'S REPORT TO THE MEMBERS

The Directors of your company have the pleasure in submitting their 35th annual report together with the Audited Accounts of the company for the year ended September 30, 2013.

## OPERATIONAL PERFORMANCE

Operating results for the year under review are summarized below:

| | | 2012-13 | 2011-12 |
|---|---|---|---|
| Season started | | 18-Nov-13 | 18-Nov-11 |
| Season closed | | 26-Mar-13 | 10-Mar-12 |
| Crushing days | | 129 | 114 |
| Sugarcane crushed | M.Tons | 413,485 | 342,173 |
| Sugar recovery | % | 9.14% | 9.43% |
| Sugar produced | M.Tons | 37,742 | 32,263 |
| Molasses recovery | % | 5.59% | 4.54% |
| Molasses produced | M.Tons | 23,120 | 15,515 |

The Company has operated at comparatively higher level of cursing during the period under review as compared to pervious year. The company crushed 413,485 M.Tons of sugarcane and produced 37,742 M.Tons of sugar as compared to 342,173 M.Tons of sugarcane crushed and 32,263 M.Tons of Sugar produced during the last year. As a result sugar produced in the current year was higher by 16.98% from the corresponding year. Production of molasses remained 23,120 M.Tons as against 15,515 M. Tons of last year. Sugar recovery percentage decreased from 9.43 % to 9.14% and molasses percentage increased from 4.535% to 5.594% . In its efforts to further improve its operational efficiencies and increase production volume, the company during the year had undertaken several measures involving major capital expenditures because of which improvements were witnessed in various key areas of the factory operation.

## FINANCIAL RESULTS

An analysis of the key financial results is given below:

| | 2012-13 | 2011-12 |
|---|---|---|
| | (Rupees in Million) | |
| Sales | 1,995.01 | 1,839.79 |
| Gross Profit/ (Loss) | 86.07 | 52.90 |
| Net Loss before Taxation | (135.50) | (222.92) |
| Net Loss after Taxation | (132.17) | (255.87) |
| Loss per share | (13.99) | (27.08) |

During the year under review, company has been able to increase sales to Rs. 1,995.01 (M) from 1839.79 (M) of last year an impact of 8.44%. the company earned gross profit of Rs. 86.07 (M) as compared to Rs 52.90 (M) of pervious year. Company's financial results charged to positive, and loss before tax has been decreased to Rs. 135.50 (M) from Rs. 222.92(M) of the last year. Although there was an increase in the q uantity of sugar sold the sales revenue of the Company declined by 7.85% from the corresponding period last year.

## DIVIDEND

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

## GOING CONCERN

In the Auditors Report to the Members, The Auditors have raised doubts about the Company's ability to continue as a going concern. The Sugar Industry is facing high sugar cane price multiplied by the maneuvering of middle men, contributing toward the high production cost of sugar which have affected the Company's profitability. The situation is being watched carefully by the new management and for improving the financial position of the Company, which includes continued assurance, arrangements and providing of funds by the holding Company as and when required for prompt discharging of its liabilities including financial obligations. The management has sincere believe and does not have any doubts about the Company's ability to continue as a going concern and also justify the preparation of financial statements on the going concern basis.

## FUTURE PROSPECTS.

Initial expected sugarcane crop for the season 2013-14 is 65.214 MMT, an decrease of 10 percent over the previous year due to an anticipated decrease in planting area. Minimum support price has not been increased by Government but growers are still demanding higher prices. Currently we are paying around Rs.175/- per 40 Kg of sugarcane.

Neighboring mills and middlemen have also started unhealthy competition resulting in price hike and disturbed cane supply to the mills. Your management has taken some positive measures to improve cane supply to mill. It is very important for the industry that sugarcane price is contained at the government support price and the role of middlemen be eliminated by introducing previously practiced zone based procurement system.

Research and Development is also long over due in the cultivation of good quality sugarcane to increase existing rather static average yield per hectare of 43-50 Tons/ hectare plus average sugar recovery of 9.0% to 9.5%. Thus vital work needs to be undertaken expeditiously at every level.

Continued efforts are underway led by the Pakistan Sugar Mills Association to persuade the Government of Pakistan to consider adoption of a more reliable sugarcane payment system linking the price of cane with the sugar content as being used in Australia and other countries of the world, based on cane quality, a fair deal to growers and millers as well. At present in Pakistan sugarcane is the only crop that gets paid by weight and not by quality. The system does not provide for any incentive to the grower to improve his crop particularly towers the most crucial aspect, the sugar content. Unless such mechanism is not adopted in Pakistan further expansion in the production will remain in jeopardy while all potentials exist to improve yield and recovery and utilize the already built production capacity.

The management of the company is anticipating a tough and challenging season for the sugar industry and is doing its utmost efforts to improve the profitability of the company by focusing on reduction of production cost especially financial cost and improvement in production efficiencies. We have devised a long term strategy to cope with the situation to reduce our dependence on the borrowing in the coming years.

## COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

The requirements of the Code of Corporate Governance set out by the Karachi, Lahore and Islamabad Stock Exchanges in their Listing Regulations, relevant to the year ended September 30, 2013 have been duly complied with. A statement to this effect is annexed with the review report from the auditors.

## CORPORATE AND FINANCIAL REPORTING FRAMEWORK

a) The Board of Directors hereby declares that:

- The financial statements present fairly the state of affairs of the company, the results of itsoperation, cash flows and changes in equity.
- Proper books of accounts of the company have been maintained.
- Accounting policies as stated in the notes to the financial statements have been consistently applied in preparation of the financial statements and accounting estimates are based on reasonable prudent judgment.
- International Financial Reporting Standards, as applicable in Pakistan, and the requirements of Companies Ordinance 1984 have been followed in preparation of the financial statements.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts about the company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance as detailed in the listing regulations.
- Information about taxes and levies is given in the notes to the accounts

b) A statement regarding key financial data for the last six years is annexed to this report

c) Four meetings of the Board of Directors were held during the year which was attended by the members of the Board as follows:

| Name of Director | No. of Meetings attended |
|---|---|
| Muhammad Sarwar | 3 |
| Mr. Shahid Mahmood Qureshi | 4 |
| Mrs. Naheed Roohi | 4 |
| Mrs. Rafia Aslam | 4 |
| Mr. M. Maqsood ul Hassan | 4 |
| Muhammad Ashraf | 1 |
| Sayed Qaissar Abbas Naqvi | 4 |

Leave of absence was granted to the directors who could not attend the Board Meetings.

## AUDIT COMMITTEE

The Board has constituted an audit committee consisting of three members including chairman of the committee. The committee regularly meets as per requirements of the code. The committee supervises the internal control procedures through internal audit department and review financial statements periodically, before the same are circulated. The audit committee is also responsible for recommending the appointment of auditors and ensures their independence with regard to services provided by them.

## PATTERN OF SHARHOLDING

A statement of pattern of shareholding is annexed.

No trading in the shares of the company was carried out by the Directors, CEO, and CFO, Company Secretary and their spouses and minor children during the year except those that have been duly reported as per law.

## AUDITORS

M/s. Shiekh & Chaudhri & Co. Chartered Accountants, will be retired on the date of Annual General Meeting i.e. January 31, 2014.

## ACKNOWLEDGEMENT

The Board would like to thank the shareholders and bankers for their trust and continued support extended to the company for its smooth operation. The Board would also like to place on record its appreciation for the efforts, loyalty and hard work of all the workers, staff and management team and hope that the same spirit would continue in future as well.

For and on behalf of the Board

(Muhammad Sarwar)
Chief Executive

Lahore, January 04, 2014

# SIX YEARS' REVIEW AT GLANCE

| | | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|---|
| Production | M.Tons | 37,742 | 32,263 | 28,013 | 11,249 | 17,306 | 31,579 |
| Crushing | M.Tons | 413,485 | 342,173 | 310,906 | 143,576 | 219,035 | 422,544 |
| Recovery | %age | 9.14% | 9.43% | 9.02% | 7.87% | 7.91% | 7.47% |
| Support Price | Rupees | 170 | 150 | 125 | 100 | 80 | 60 |
| **Operating results (Million)** | | | | | | | |
| Sale | | 1,955,014,141 | 1,839,791 | 950,031 | 657,510 | 579,326 | 1,147,881 |
| Gross Profit/(Loss) | | 86,070,574 | 52,895 | 101,869 | (196,077) | (26,895) | 56,941 |
| Net Profit/(Loss) after Taxation | | (132,165,503) | (255,874) | (224,089) | (316,891) | (105,919) | (3,942) |
| **Assets Employed** | | | | | | | |
| Operating assets | | 1,952,253,622 | 1,898,277 | 1,917,136 | 1,026,557 | 1,075,010 | 1,129,462 |
| Current assets | | 591,481,316 | 753,201 | 1,028,604 | 120,245 | 108,501 | 130,381 |
| Others | | 578,575 | 578,575 | 578,575 | 21,220 | 25,320 | 25,299 |
| Ratios | | | | | | | |
| Gross Profit/(Loss) | | 4.40% | 2.88% | 10.72% | -29.82% | -4.64% | 4.96% |

# STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CORPORATE GOVERNANCE FOR THE YEAR ENDED SEPTEMBER 30, 2013

The statement is being presented to comply with the Code of Corporate Governance as contained in Regulation No.35, Chapter No. XI of the Listing Regulations of the Karachi Stock Exchange, Lahore Stock Exchange and Islamabad Stock Exchange 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. Company encourages the representation of non-executive directors on its Board. At present the Board of Directors includes four independent non-executive directors.

| Category | Names |
|---|---|
| Independent Directors | Mirza Maqsood-ul - Hassan |
| Executive Directors | Muhammad Sarwar |
| | Mr. Shahid Mahmood Quershi |
| | Syed Qaisar Abbas Naqvi |
| Non Executive Directors | Mrs. Naheed Roohi |
| | Ms. Rafia Aslam |
| | Muhammad Ashraf |

2. The members of the Board have confirmed that none of them is serving as a Director in more than ten listed companies including the company.

3. All members of the Board are registered tax-payers and none of them has defaulted in payment of any loan to a banking company, a DFI or a NBFI. None of the director is a member of any stock exchange.

4. Casual vacancy occurring on the Board during the year ended September 30, 2013 was duly filled up by the Directors within 30 days thereof save as restricted by Listed Companies (Substantial Acquisition of Voting Shares and Take-overs) Ordinance, 2002.

5. The meetings of the Board is presided over by the Chairman and, in his absence by a director elected by the Board for this purpose and the Board has met at least once in every quarter. Written notices of the Board meeting, along with agenda, were circulated at least seven days before the meeting. The minutes of the meetings were appropriately recorded and circulated.

6. The Directors have been provided orientation to apprise them of their duties and responsibilities.

7. The company has prepared a "Statement of Ethics and Business Practices" which has been signed by the directors and employees of the company.

8. The company has developed a vision/mission statement, overall corporate strategy and significant policies of the Company duly approved by the Board. A complete record of particulars of significant policies, along with the dates on which they were approved or amended and has been maintained.

9. The Board has approved appointment of CFO, Company Secretary and head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by CEO.
10. The Board has set up an effective internal audit function.
11. The financial statements of the company were duly endorsed by the CEO and CFO before approval of the Board.
12. The Directors report for this year has been prepared in compliance with the requirement of the code and fully describes the salient matters required to be disclosed.
13. The Directors, CEO and executive do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the code.
15. All the powers of the Board have been fully exercised and the Board has taken decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors.
16. The Board has constituted an audit committee. It comprises three members, of whom two are non-executive directors.
17. The meeting of the audit committee were held at least once every quarter prior to approval of interim and final results of the company and as required by the code. The terms of reference of the Committee have been formed and advised to the committee for compliance.
18. The statutory auditors have confirmed that they have been given a satisfactory rating under the Quality Control Review Programme of the Institute of Chartered Accountants of Pakistan., that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on the Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors.
20. We confirm that all other material principles contained in the Code have been complied with.

On behalf of the Board

(Muhammad Sarwar)
Chief Executive

Lahore: January 04, 2014

# 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 BABA FARID SUGAR MILLS LIMITED ("the Company") to comply with the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges, where the Company is listed.

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

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges require the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended September 30, 2013.

January 4, 2014
Lahore

SHEIKH & CHAUDHRI
Chartered Accountants
Audit Engagement Partner: Muhammad Saeed Malik

# AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of BABA FARID SUGAR MILLS LIMITED ("the Company") as at September 30, 2013 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose 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

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at September 30, 2013 and of the loss, total comprehensive loss, 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 note 2 to the financial statements. During the current financial year, the Company has sustained loss before tax amounting to Rs.135,501,272 (2012: Rs.222,917,795) and at balance sheet date its accumulated losses have stood up to Rs.1,142,516,857 (2012: Rs. 1,040,822,593). Further, the Company's equity is in negative and its current liabilities have exceeded its current assets by Rs.796,618,435 (2012: Rs. 646,551,737). These conditions may cast

significant doubt on Company's ability to continue as a going concern.

January 4, 2014
Lahore

SHEIKH & CHAUDHRI
Chartered Accountants
Audit Engagement Partner: Muhammad Saeed Malik

# BALANCE SHEET AS AT SEPTEMBER 30, 2013

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| *EQUITY AND LIABILITIES* | | | |
| SHARE CAPITAL AND RESERVES | | | |
| Authorized share capital | | | |
| 10,000,000 ordinary shares of Rs.10 each | | 100,000,000 | 100,000,000 |
| Issued, subscribed and paid-up capital | 5 | 94,500,000 | 94,500,000 |
| Accumulated loss | | (1,142,516,857) | (1,040,822,593) |
| | | (1,048,016,857) | (946,322,593) |
| Surplus on revaluation of property, plant & equipment | 6 | 1,327,289,411 | 1,349,797,462 |
| NON CURRENT LIABILITIES | | | |
| Long term loans | 7 | 72,222,222 | - |
| Loan from holding company | 8 | 500,000,000 | 525,000,000 |
| Deferred liabilities | 9 | 304,140,411 | 323,838,046 |
| | | 876,362,633 | 848,838,046 |
| CURRENT LIABILITIES | | | |
| Current portion of long term liabilities | 10 | 73,409,778 | 170,632,000 |
| Short term finances | 11 | 241,314,905 | 475,809,350 |
| Due to related party | 12 | 328,966,229 | 312,744,880 |
| Trade and other payables | 13 | 611,784,247 | 218,547,341 |
| Interest and mark-up accrued | 14 | 123,884,904 | 210,753,696 |
| Provision for taxation | | 8,739,688 | 11,269,161 |
| | | 1,388,099,751 | 1,399,756,428 |
| TOTAL EQUITY & LIABILITIES | | 2,543,734,938 | 2,652,069,343 |
| Contingencies and commitments | 15 | | |
| *ASSETS* | | | |
| NON CURRENT ASSETS | | | |
| Property, plant and equipment | 16 | 1,951,666,047 | 1,898,277,077 |
| Long term deposits | 17 | 587,575 | 587,575 |
| | | 1,952,253,622 | 1,898,864,652 |
| CURRENT ASSETS | | | |
| Stores, spares and loose tools | 18 | 39,665,097 | 57,989,765 |
| Stock-in-trade | 19 | 344,810,400 | 384,157,275 |
| Trade debts | 20 | 50,259,797 | 215,954,571 |
| Advances | 21 | 98,131,538 | 59,046,334 |
| Trade deposits and short term prepayments | 22 | 22,443,056 | 29,480,399 |
| Other receivables | 23 | 4,560,159 | 4,465,031 |
| Cash and bank balances | 24 | 31,611,269 | 2,111,316 |
| | | 591,481,316 | 753,204,691 |
| TOTAL ASSETS | | 2,543,734,938 | 2,652,069,343 |

The annexed notes 1 to 44 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

# PROFIT AND LOSS ACCOUNT
# FOR THE YEAR ENDED SEPTEMBER 30, 2013

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| Sales - net | 25 | 1,955,014,141 | 1,839,791,110 |
| Cost of sales | 26 | 1,868,943,567 | 1,786,896,045 |
| Gross profit | | 86,070,574 | 52,895,065 |
| Distribution and selling expenses | 27 | 21,460,486 | 7,678,761 |
| Administrative expenses | 28 | 34,395,307 | 34,225,949 |
| Other expenses | 29 | 1,000,000 | - |
| | | 56,855,793 | 41,904,710 |
| Operating profit | | 29,214,781 | 10,990,355 |
| Other income | 30 | 9,927,886 | 1,187,970 |
| Operating profit before finance cost | | 39,142,667 | 12,178,325 |
| Finance cost | 31 | 174,643,939 | 235,096,120 |
| Loss before taxation | | (135,501,272) | (222,917,795) |
| Taxation | 32 | (3,335,769) | 32,956,401 |
| Loss for the year | | (132,165,503) | (255,874,196) |
| Loss per share - Basic and diluted | 33 | (13.99) | (27.08) |

The annexed notes 1 to 44 form an integral part of these financial statements.

CHIEF EXECUTIVE DIRECTOR

# STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED SEPTEMBER 30, 2013

| | 2013 Rupees | 2012 Rupees |
|---|---|---|
| Loss for the year | (132,165,503) | (255,874,196) |
| Other comprehensive income | - | - |
| Total comprehensive loss for the year | (132,165,503) | (255,874,196) |

The annexed notes 1 to 44 form an integral part of these financial statements.

CHIEF EXECUTIVE DIRECTOR

# CASH FLOW STATEMENT
# FOR THE YEAR ENDED SEPTEMBER 30, 2013

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash generated from operations | 34 | 709,668,214 | 467,430,482 |
| Finance cost paid | | (261,071,613) | (282,283,246) |
| Taxes paid | | (34,769,336) | (17,063,068) |
| Net cash generated / (used in) operating activities | | 413,827,265 | 168,084,168 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Fixed capital expenditure | | (116,054,216) | (45,104,478) |
| Net cash (used in) investing activities | | (116,054,216) | (45,104,478) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Long term loan | | 100,000,000 | (60,000,000) |
| Due to related party | | 16,221,349 | (387,712,448) |
| Repayment of loan from holding company | | (150,000,000) | (150,000,000) |
| Net cash (used in) from financing activities | | (33,778,651) | (597,712,448) |
| Net increase / (decrease) in cash and cash equivalents | | 263,994,398 | (474,732,758) |
| Cash and cash equivalents at the beginning of the year | | (473,698,034) | 1,034,724 |
| Cash and cash equivalents at end of the year | 35 | (209,703,636) | (473,698,034) |

The annexed notes 1 to 44 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

# STATEMENT OF CHANGES IN EQUITY
# FOR THE YEAR ENDED SEPTEMBER 30, 2013

| | Issued, subscribed and paid-up capital | Accumulated Loss | Total |
|---|---|---|---|
| | Rupees | Rupees | Rupees |
| Balance as at October 01, 2011 | 94,500,000 | (817,020,347) | (722,520,347) |
| Current year incremental depreciation - net of deferred tax | - | 32,071,950 | 32,071,950 |
| Total comprehensive loss for the year | - | (255,874,196) | (255,874,196) |
| Balance as at September 30, 2012 | 94,500,000 | (1,040,822,593) | (946,322,593) |
| Balance as at October 01, 2012 | 94,500,000 | (1,040,822,593) | (946,322,593) |
| Current year incremental depreciation - net of deferred tax | - | 30,471,239 | 30,471,239 |
| Total comprehensive loss for the year | - | (132,165,503) | (132,165,503) |
| Balance as at September 30, 2013 | 94,500,000 | (1,142,516,857) | (1,048,016,857) |

The annexed notes 1 to 44 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2013

## 1. STATUS AND NATURE OF BUSINESS

Baba Farid Sugar Mills Limited ("the Company") was incorporated in 1978 under the Companies Ordinance, 1984 as a Public Limited Company and its shares are quoted at Karachi, Lahore and Islamabad Stock Exchanges. It is engaged in manufacturing and sale of sugar including its by-product i.e. molasses and V. Filter cake. The registered office of the Company is situated at 1st Floor, Panorama Center, Raja Ghazanfar Ali Khan Road, Sadar, Karachi and its manufacturing facilities are located in the district Okara, Punjab.

## 2. GOING CONCERN ASSUMPTION

During the current financial year, the Company has sustained loss before tax amounting to Rs.135,501,272 (2012:Rs.222,917,795) and at balance sheet date its accumulated losses have stood up to Rs.1.142,516,857 (2012: Rs.1.040,822,593). Further, the Company's equity is in negative and its current liabilities have exceeded its current assets by Rs.796,618,435 (2012: Rs. 646,551,737). These conditions may cast significant doubt on Company's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. However, the management has taken various measures to improve the financial position of the Company which include the sponsors' continued assurance for arrangement of funds as and when required, prompt discharging of its liabilities including financial obligations, securing growers' commitments for availability of quality sugarcane and hiring of competent management personnel for managing Company's affairs.

The management has firm belief that the above stated measures shall mitigate the doubt about the Company's ability to continue as a going concern and also justifies the preparation of these financial statements on going concern basis.

## 3. BASIS OF PREPARATION

### 3.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of Companies Ordinance, 1984. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the CompaniesOrdinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of Companies Ordinance, 1984 or the requirements of the said directives shall prevail.

### 3.2 Basis of measurement

These financial statements have been prepared on the historical cost basis except for freehold land, buildings on freehold land and plant & machinery which are stated at revalued amounts.

### 3.3 Functional and presentation currency

These financial statements are presented in Pakistan Rupees which is also the Company's functional currency. All financial information presented in Pakistan Rupee has been rounded to the nearest rupee.

### 3.4 Use of estimates and judgments

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to make judgments, estimates and assumptions that affects the application of policies and reported amounts of assets and liabilities, incomes and expenses. The estimates and associated assumptions and judgments 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 the judgments about 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. Revision to accounting estimates arerecognized in the period in which the estimates are revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The areas where various assumptions and estimates are significant to company's financial statements or where judgments were exercised in application of accounting policies are as follows:

- Staff retirement benefits - gratuity
- Provision for taxation
- Residual values and useful lives of depreciable assets
- Provisions and contingencies

**3.5 Standards, interpretations and amendments to published approved accounting standards**

**3.5.1 New standards, amendments to approved accounting standards and interpretations, which became effective during the year ended September 30, 2013**

There are certain new standards, amendments to the approved accounting standards and new interpretations issued by the International Financial Reporting Interpretations Committee, which became effective during the year but are considered not to be relevant or have any significant effect on the Company's operations and are, therefore, not disclosed in these financial statements.

**3.5.2 New standards, amendments to approved accounting standards and new interpretations, which are not yet effective**

The following standards, amendments and interpretations of approved accounting standards are only effective for annual periods beginning from the date specified below. These standards are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements, other than increased disclosures in certain cases.

- IAS 28 (Revised), 'Associates and Joint Ventures' (effective for periods beginning on or after January 01, 2013). This standard includes the requirements for associates and joint ventures that have to be equity accounted following the issue of IFRS 11. The Company is yet to assess the full impact of IAS 28 (Revised).
- IAS 32 (Amendment), 'Financial Instruments: Presentation' (effective for periods beginning on or after January 01, 2014). This amendment updates the application guidance in IAS 32, 'Financial Instruments: Presentation', to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The amendment does not have any significant impact on the Company's financial statements.
- IFRS 9, 'Financial Instruments' (effective for periods beginning on or after January 01, 2015). IFRS 9 replaces the parts of IAS 39, 'Financial Instruments: Recognition and Measurement' that relate to classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories; those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. For financial liabilities, the standard retains most of the requirements of IAS 39. The Company is yet to assess the full impact of IFRS 9; however, initial indications are that it may not significantly affect the Company's financial assets.
- IFRS 13, 'Fair Value Measurement' (effective for periods beginning on or after January 01, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance and how it should be applied where its use is already required or permitted by other standards within IFRSs. The Company shall apply this standard from October 01, 2013 and does not expect to have a material impact on its financial statements.
- There are number of other standards, amendments and interpretations to the published standards that are not yet effective and are also not relevant to the Company and therefore have not been presented here.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set-out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 4.1 Property, plant and equipment and depreciation

**Owned assets**

Property, plant and equipment except freehold land, buildings on freehold land and plant and machinery are stated at cost less accumulated depreciation and impairment losses, if any. Buildings on freehold land and plant and machinery are stated at revalued amounts less accumulated depreciation and impairment losses, if any. Freehold land is stated at revalued amount and actual cost to date respectively.

**Subsequent cost**

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company and its cost can be measured reliably. The carrying amount of the part so replaced is derecognized. The cost of the day-to-day servicing of property, plant and equipment are recognized in profit and loss account as incurred.

**Depreciation**

Depreciation is charged to profit and loss account applying the reducing balance method over its estimated useful life at the rates specified in note 16.1 to the financial statements. Depreciation on additions to property, plant and equipment is charged from the month in which property, plant and equipment become available for use while no depreciation is charged for the month in which property, plant and equipment is disposed off.

Assets residual values, if significant and useful lives are reviewed and adjusted, if appropriate at each balance sheet date. Gains or losses on disposal of property, plant and equipment are recognized in profit and loss account.

**Surplus on revalued property, plant and equipment**

Surplus arising on revaluation is credited to surplus on revaluation of property, plant and equipment. This surplus on revaluation, to the extent of incremental depreciation, is transferred to accumulated profit, net of deferred tax.

**Impairment**

Where the carrying amount of asset exceeds its estimated recoverable amount it is written down immediately to its recoverable amount.

**Leased assets**

Leases in terms of which the company assumes substantially all the risks and rewards of ownership are classified as finance lease. Asset acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of minimum lease payments at the inception of the lease less accumulated depreciation and impairment losses, if any.

Depreciation is charged on the same basis as used for owned asset. Financial charges are allocated to accounting period in a manner so as to provide a constant rate of charge on outstanding liability.

**4.2 Stores and spares and loose tools**

Stores, spares and loose tools are valued at lower of weighted average cost and net realizable value, less provision for impairment if any. Items in transit are valued at cost comprising invoice value plus other charges incurred thereon.

Provision for obsolete and slow moving stores, spares and loose tools is determined based on management's estimate regarding their future usability.

Net realizable value signifies the estimated selling price in the ordinary course of business less the estimated costs necessary to be incurred to make the sale.

Spare parts of capital nature which can be used only in connection with an item of property, plant and equipment are classified as tangible fixed assets under the 'plant and machinery' category and are depreciated over a time period not exceeding the useful life of the related assets.

**4.3 Stock-in-trade**

These are valued at the lower of cost and net realizable value. Cost is computed applying the following basis:

| | |
|---|---|
| Raw material | - at weighted averaged cost |
| Work-in-process | - at manufacturing average cost |
| Finished goods | - at lower of cost and net realizable value |
| Molasses | - at net realizable value |

Cost in relation to finished goods and work-in-process represents the average manufacturing cost which consists of prime cost and appropriate production overheads.

Net realizable value signifies the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale.

**4.4 Trade debts and other receivables**

These are initially stated at fair value and subsequently measured at amortized cost using effective interest rate method less provisions for any uncollectible amounts. An estimate is made for doubtful receivables when collection of the amount is no longer probable. Debts considered irrecoverable are written off.

**4.5 Cash and cash equivalents**

Cash and cash equivalents are carried at cost in the balance sheet. For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand, balances with banks and short term finances.

**4.6 Staff retirement benefits (defined benefit plan)**

The Company operates an un-funded retirement gratuity scheme for its eligible employees. Provision for gratuity is made annually to cover obligation under the scheme in accordance with the actuarial recommendations. Latest actuarial valuation was conducted on September 30, 2013 on the basis of the projected unit credit method by an independent Actuary.

**4.7 Trade and other payables**

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

**4.8 Mark-up bearing borrowings**

Mark-up bearing borrowings are recognized initially at fair value, less attributable transaction cost. Subsequent to initial recognition, mark-up bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

**4.9 Taxation**

**- Current**

Provision for current year's taxation is determined in accordance with the prevailing law of taxation on income enacted or substantively enacted by the end of the reporting period and is based on current rates of taxation being applied on the taxable income for the year, after taking into account tax credits and rebates available, if any, and taxes paid under the Final Tax Regime.

**- Deferred**

Deferred tax is provided using the balance sheet liability method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted at the balance sheet date.

Deferred tax liabilities are recognized for all taxable temporary differences. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the assets can be utilized.

Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

**4.10 Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed-out in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**4.11 Revenue recognition**

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

- Local sales are recognized when goods are dispatched to customers.
- Export sales are booked on shipment of goods.
- Return on bank deposits is accounted for on 'accrual basis'.

**4.12 Provisions**

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

**4.13 Impairment**

The carrying amount of the Company's assets is reviewed at each balance sheet date to determine whether there is any objective evidence that an asset or group of assets may be impaired. If any such evidence exists, the asset or group of assets' recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account.

### 4.14 Financial instruments

**(i) Financial assets**

Significant financial assets include advances, trade debts, trade deposits and prepayments and bank balances. Loan and advances and receivables are stated at their nominal value as reduced by provision for doubtful finances and receivable, while other financial assets are stated at cost.

**(ii) Financial liabilities**

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include long term loans, lease finances, interest and mark up accrued, trade and other payables and short term finances. Markup based financial liabilities are recorded at gross proceeds received. Other liabilities are stated at their nominal value.

**(iii) Recognition and derecognition**

All the financial assets and financial liabilities are recognized at the time when the Company becomes party to the contractual provisions of the instrument. Financial assets are derecognized when the Company looses control of the contractual rights that comprise of the financial assets. Financial liabilities are derecognized when they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled or expires. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to profit and loss account.

### 4.15 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are set off and only the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognized amount and the Company intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

### 4.16 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 in Pak Rupees at the exchange rates prevailing on the balance sheet date except where forward exchange rates are booked, which are translated at the contracted rates. Exchange differences, if any, are taken to profit and loss account.

## 5. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

| | 2013<br>Rupees | 2012<br>Rupees |
|---|---|---|
| **5.1 Authorized capital** | | |
| 10,000,000 (2012: 10,000,000) ordinary shares of Rs.10 each | 100,000,000 | 100,000,000 |
| **5.2 Issued, subscribed and and paid up capital** | | |
| 6,400,000 (2012: 6,400,000) ordinary shares of Rs.10 each | 64,000,000 | 64,000,000 |
| 3,050,000 (2012: 3,050,000) bonus shares of Rs.10 each | 30,500,000 | 30,500,000 |
| | 94,500,000 | 94,500,000 |

As at the September 30, 2013 M/s Pattoki Sugar Mills Limited (the holding company) holds 7,696,072 (81.44%) shares of the Company.

## 6. SURPLUS ON REVALUATION OF PROPERTY, PLANT & EQUIPMENT

The company, during the financial year ended September 30, 2006, revalued its freehold land. Thereafter, freehold land, buildings on freehold land and plant & machinery were revalued during the financial years ended September 30, 2008 and September 30, 2011. The latest revaluation exercise was carried out by the independent valuers - Dimen Associates (Private) Limited (Approved Valuer of Pakistan Bank Association) on the basis of depreciated market value.

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| Balance at beginning of the year | | 1,349,797,462 | 1,381,869,412 |
| Add: surplus arisen on the revaluation carried-out during the year | | - | - |
| Less: transferred to accumulated loss on account of incremental depreciation for the year | | (46,168,544) | (49,341,462) |
| | | (46,168,544) | (49,341,462) |
| Less: deferred tax on: | | | |
| - surplus on revaluation of property, plant and equipment during the year | | - | - |
| - incremental depreciation | | (15,697,305) | (17,269,512) |
| | | (15,697,305) | (17,269,512) |
| Resultant adjustment due to reduction in tax rate | | 7,963,188 | - |
| | | 1,327,289,411 | 1,349,797,462 |

## 7. LONG TERM LOANS

| | | | |
|---|---|---|---|
| Bank Al Habib Limited | 7.1 | 100,000,000 | - |
| Less: Current portion | 10 | (27,777,778) | - |
| | | 72,222,222 | - |

**7.1** This represents term finance facility obtained from Bank Al Habib Limited for purchase of plant and machineryand increasing godown capacity. It shall be repaid through 36 equal monthly installments starting from December 2013. It carries mark up at the rate of average 6 month KIBOR plus 1.75% per annum, mark up shall be serviced on quarterly basis. It is secured by way of 1st exclusive charge over plant and machinery of the Company amounting to Rs. 170 million and personal guarantees of directors and corporate guarantee of M/s Pattoki Sugar Mills Limited.

## 8. LOAN FROM HOLDING COMPANY

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| Pattoki Sugar Mills Limited | | 525,000,000 | 675,000,000 |
| Less: Current portion | 10 | (25,000,000) | (150,000,000) |
| | | 500,000,000 | 525,000,000 |

8.1 The Company obtained unsecured loan from M/s Pattoki Sugar Mills Limited (PSML) - the holding company that carries mark-up at the rate of 3 month's KIBOR plus 2% per annum. The effective mark-up rate charged by PSML during the year ranged from 11.16% to 12.27% (2012: 13.91% to 15.17%) per annum.The Company and PSML have entered into a revised agreement on September 30, 2013 whereby the balance of loan as at September 30, 2013 is repayable in fourty two half-yearly instalments commencing March, 2014 and this loan is subordinate to the loan from Bank AL Habib Limited.

## 9. DEFERRED LIABILITIES

| | Note | | |
|---|---|---|---|
| Deferred taxation | 9.1 | 303,575,290 | 323,613,935 |
| Staff retirement benefits - gratuity | 9.2 | 565,121 | 224,111 |
| | | 304,140,411 | 323,838,046 |

9.1 Deferred liability on temporary differences:

| | | |
|---|---|---|
| Taxable temporary differences | | |
| Surplus on revaluation of property, plant and equipment | 255,051,108 | 278,711,601 |
| Accelerated tax depreciation | 39,849,538 | 26,504,303 |
| Finance lease arrangements | 24,248,983 | 26,656,050 |
| | 319,149,629 | 331,871,954 |
| Deductible temporary differences | | |
| Provision for gratuity | (192,141) | (78,439) |
| Unabsorbed tax depreciation | (15,042,198) | (6,595,585) |
| Provision for doubtful advances | (340,000) | - |
| Provision for obsolescence of stores, spares and loose tools | - | (1,583,995) |
| | (15,574,339) | (8,258,019) |
| | 303,575,290 | 323,613,935 |

As at September 30, 2013, deferred tax asset amounting Rs.199.858 million (2012: Rs.252.099 million) on unused tax losses has not been recognised in the financial statements on the grounds of prudence. The management intends to re-assess the recognition of deferred tax asset as at September 30, 2014.

Deferred tax liability at the respective year-end represents deferred tax on surplus on revaluation of property, plant and equipment.

**9.2 Staff retirement benefits - gratuity**

| | 2013 Rupees | 2012 Rupees |
|---|---|---|
| The amount recognized in the balance sheet is as follows: | | |
| Present value of defined benefit obligation | 565,121 | 224,111 |
| Unrecognized actuarial loss | - | - |
| Net liability at end of the year | 565,121 | 224,111 |
| Net liability at beginning of the year | 224,111 | - |
| Charge to profit and loss account | 341,010 | 224,111 |
| Payments made during the year | - | - |
| Net liability at end of the year | 565,121 | 224,111 |
| The movement in the present value of defined benefit obligation is as follows: | | |
| Opening balance | 224,111 | - |
| Current service cost | 465,272 | 194,362 |
| Interest cost | 25,773 | 3,068 |
| Unrecognized transitional liability | - | 26,681 |
| Benefits paid | - | - |
| Actuarial (gain) / loss | (150,035) | - |
| Closing balance | 565,121 | 224,111 |
| Expense recognized in profit and loss account | | |
| Current service cost | 465,272 | 194,362 |
| Interest cost | 25,773 | 3,068 |
| Unrecognized transitional liability | - | 26,681 |
| Actuarial (gain) / loss recognized | (150,035) | - |
| Charge for the year | 341,010 | 224,111 |

Comparison of present value of defined benefit obligation and experience adjustment on obligation for five years is as follows:

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| | Rupees | | | | |
| Present value of defined benefit obligation | 565,121 | 224,111 | - | - | - |
| Experience adjustment on obligation | (150,035) | - | - | - | - |

The future contribution rates of this scheme include allowance for deficit and surplus. Projected unit credit method, based on the following significant assumptions, is used for valuation:

| | 2013 | 2012 |
|---|---|---|
| - discount rate | 11.50% | 11.50% |
| - expected rate of growth per annum in future salaries | 10.50% | 10.50% |
| - average expected remaining working life time of employees | 12 years | 12 years |

## 10. CURRENT PORTION OF LONG TERM LIABILITIES

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| Long term loans | 7 | 27,777,778 | - |
| Loan from holding company | 8 | 25,000,000 | 150,000,000 |
| Liability against assets subject to finance lease - (Overdue) | 10.1 | 20,632,000 | 20,632,000 |
| | | 73,409,778 | 170,632,000 |

10.1 The company has a dispute with BRR Guardian Modarba "the leasing company" regarding the settlement of securities provided for the subject facility. The company has officially lodged a complain in Consumer Protection Department of State Bank of Pakistan against the leasing company for release of the delievery orders, return of the post dated cheques and discharge of the personal guarantee of the directors.

## 11. SHORT TERM FINANCES

| | | | |
|---|---|---|---|
| Bank ALHabib Limited | | | |
| Cash finance | 11.1 | 240,362,000 | 381,825,000 |
| Running finance | 11.2 | - | 50,000,000 |
| Foreign Documentary Bills Purchase (F.D.B.P) | 11.3 | - | 43,984,350 |
| Temporary bank overdraft | | 952,905 | - |
| | | 241,314,905 | 475,809,350 |

11.1 The Company has obtained cash finance facilities amounting to Rs. 500 million (2012: Rs. 500 million). The mark up rate applicable during the year was 3 months KIBOR plus 1.50% per annum (2012: 3 months KIBOR plus 1.50% per annum). These are secured against pledge of sugar bags of the Company, corporate guarantee of the holding Company, personal guarantee of Directors and Chief Executive of the Company, ranking charge over present and future current assets and plant and machinery of the company for Rs. 55 million and 100 million respectively.

11.2 The Company has obtained running finance facility amounting to Rs. 50 million (2012: Rs. 50 million). The mark up rates applicable during the year was 3 months KIBOR plus 1.75% per annum (2012: Rs 3 months KIBOR plus 1.75% per annum). The facility is secured against pledge of sugar bags of the Company, corporate guarantee of the holding Company, personal guarantee of Directors and Chief Executive of the Company, ranking charge over present and future current assets and plant and machinery of the company for Rs. 55 million and 100 million respectively.

11.3 The limit of this facility was Rs. 44.64 million and is available for discounting of foreign bills at the rate of 4% per annum. It was secured against lien over export documents and is repayable on realization of export proceeds.

11.4 The facilities for opening letters of credit and letters of guarantee as at September 30, 2013 available to the Company amounted to Rs.29.007 million and Rs. 7.463 million respectively (2012: Rs. 31.409 million and Rs. 7.463 million). Amounts unutilized for letters of credit and letters of guarantee as at September 30, 2013 were Rs.16.018 million and Rs.Nil respectively (2012: Rs. 2.677 million and Rs. 7.463 million). These facilities are secured against shipping documents, corporate guarantee of the holding Company, ranking charge over plant & machinery and personal guarantee of Directors and Chief Executive of the Company.

## 12. DUE TO RELATED PARTY

The Company has obtained unsecured short term loan from M/s Pattoki Sugar Mills Limited (PSML) - the holding company that carries mark-up at the rate of 3 month's KIBOR plus 2% per annum. The effective mark-up rate charged by PSML during the year ranged from 11.16% to 12.27% (2012: 13.91% to 15.17%) per annum.

| 13. TRADE AND OTHER PAYABLES | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| Trade creditors | | 137,364,368 | 41,416,578 |
| Advances from customers | | 450,195,108 | 164,345,658 |
| Accrued expenses | | 8,426,989 | 7,009,616 |
| Unclaimed dividend | | 2,597,511 | 2,597,511 |
| Taxes and duties payable | | 1,212,082 | 571,041 |
| Other payables | | 11,988,189 | 2,606,937 |
| | | 611,784,247 | 218,547,341 |

| 14. INTEREST AND MARK-UP ACCRUED | | |
|---|---|---|
| On long term loan | 2,750,904 | - |
| On loan from holding company | 106,960,229 | 194,760,750 |
| On short term finances | 14,173,771 | 15,992,946 |
| | 123,884,904 | 210,753,696 |

## 15. CONTINGENCIES AND COMMITMENTS

### Contingencies

- The LTU-FBR has preferred a reference before Income Tax Appellate (ITAT) for the assessment year 1996 - 1997 against the decision of CIT appeals. The department has also filed petition for leave to appeal before the honorable Supreme Court of Pakistan for the assessment year 1999 - 2000 and tax year 2006 against the order in the favour of the company by the honorable High Court of Sindh. In the opinion of the tax advisor the ultimate appellate decision is likely to be in Company's favour, hence no provision is made in these accounts as there will be no tax impact of the matter in view of brought forward tax losses.
- The Company has filed reference application before the Honorable High Court of Sindh against the decision of ITAT in respect of assessment year 2000 -2001, the reference application is pending before the honorable High Court Sindh. The Company has also filed the appeal before the Commissioner of income tax appeals against addition made by the assessing officer for the assessment year 2002 - 2003 which is pending for adjudication.
- In view of the favorable decision of the higher appellate forums on the like issue in prior years the management is hopeful about favorable outcome in above matters. Hence no provision is made in these account as there will be no tax impact of the matter in view of brought forward losses.
- The Company has filed an appeal before the Tribunal against the order of Commissioner Inland Revenue disallowing refund of further tax on the ground that the incidence of the tax has been passed on the consumers and the Company is not entitled to claim refund in terms of Section 3 (B) of the sales Tax Act, 1990. The management of the Company is of the view that outcome of the suit would be in favour of the company.
- Please refer to note 10.1 The company has firm belief that matter will be resolved in its favour.

### Commitments

- Letters of credit for capital expenditure amounting to Rs. 12.989 million (2012: Rs. 28.732 million).
- Counter guarantee in favour of Trading Corporation of Pakistan amounting to Rs. 20.00 million.

| 16. PROPERTY, PLANT AND EQUIPMENT | | | |
|---|---|---|---|
| Operating fixed assets | 16.1 | 1,931,400,154 | 1,872,137,706 |
| Capital work in progress | 16.2 | 20,265,893 | 26,139,371 |
| | | 1,951,666,047 | 1,898,277,077 |

10.1 Operating fixed assets

| | OWNED ASSETS | | | | | | | | | LEASED ASSETS | GRAND TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Land - Freehold | Buildings on freehold land | Plant and machinery | Electric installation | Tools | Vehicles | Furniture and fixture | Equipment | Total | Plant and machinery | |
| | RUPEES | | | | | | | | | | |
| Net carrying value as at October 01, 2012 | | | | | | | | | | | |
| Opening net book value | 840,150,000 | 148,031,847 | 774,841,008 | 626,972 | 1,340,817 | 2,146,161 | 874,081 | 4,927,478 | 1,773,345,582 | 96,792,144 | 1,870,137,70 |
| Additions | - | 896,719 | 120,425,429 | - | - | - | 32,700 | 570,800 | 121,927,694 | - | 121,927,69 |
| Depreciation for the year | - | (16,907,857) | (91,377,288) | (52,697) | (134,592) | (629,632) | (96,089) | (493,536) | (57,825,636) | (4,838,607) | (62,663,24 |
| Closing net book value | 840,150,000 | 135,452,858 | 803,889,149 | 634,275 | 1,391,325 | 2,516,529 | 810,692 | 4,394,792 | 1,836,447,617 | 91,953,537 | 1,931,400,15 |
| Gross carrying value as at September 30, 2013 | | | | | | | | | | | |
| Cost | 840,150,000 | 245,523,831 | 1,347,299,619 | 5,674,388 | 4,280,715 | 21,953,628 | 1,739,082 | 13,013,878 | 2,481,635,736 | 181,169,497 | 2,668,795,23 |
| Accumulated depreciation | - | (110,070,793) | (493,410,471) | (5,040,125) | (2,889,390) | (19,437,099) | (1,072,390) | (8,620,064) | (644,179,119) | (89,216,960) | (737,396,07 |
| | 840,150,000 | 135,452,858 | 803,888,148 | 634,275 | 1,391,325 | 2,516,529 | 810,692 | 4,394,792 | 1,836,447,617 | 91,952,537 | 1,931,400,15 |
| Net carrying value as at October 1, 2011 | | | | | | | | | | | |
| Opening net book value | 840,150,000 | 165,920,192 | 788,748,000 | 1,029,969 | 936,008 | 2,146,270 | 841,333 | 4,856,442 | 1,810,248,954 | 101,886,487 | 1,917,135,42 |
| Additions | - | 239,173 | 15,970,753 | - | 1,148,841 | 1,726,600 | 126,935 | 151,400 | 19,363,107 | - | 19,365,10 |
| Depreciation for the year | - | (18,067,498) | (40,878,297) | (192,997) | (161,132) | (724,709) | (95,557) | (498,366) | (58,869,456) | (5,094,343) | (63,963,80 |
| Closing net book value | 840,150,000 | 148,031,867 | 774,841,008 | 826,972 | 1,940,917 | 3,148,161 | 874,081 | 4,507,478 | 1,770,342,582 | 96,792,144 | 1,872,137,70 |
| Gross carrying value as at September 30, 2012 | | | | | | | | | | | |
| Cost | 840,150,000 | 244,624,900 | 1,226,874,190 | 5,674,388 | 4,280,715 | 21,953,628 | 5,896,382 | 12,444,928 | 2,365,899,042 | 181,169,497 | 2,548,968,53 |
| Accumulated depreciation | - | (92,972,968) | (452,233,187) | (5,747,423) | (2,734,798) | (18,805,467) | (5,022,301) | (7,937,340) | (585,453,484) | (84,377,353) | (674,730,83 |
| | 840,150,000 | 148,031,867 | 774,841,008 | 826,972 | 1,940,917 | 3,148,161 | 874,081 | 4,507,478 | 1,770,345,582 | 96,792,144 | 1,872,137,70 |
| Rate (% age) | N/A | 10% | 5% | 10% | 10% | 20% | 10% | 10% | | 5% | |

10.2 Had there been no revaluation the carrying value of revalued assets as at September 30, 2013 would have been as under:

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| Land | | 7,956,798 | 7,956,798 |
| Building | | 21,156,030 | 22,669,916 |
| Plant and Machinery | | 217,880,607 | 105,574,179 |
| | | 246,993,435 | 136,833,893 |

10.3 Depreciation charge for the year has been allocated as follows

| | | | |
|---|---|---|---|
| Cost of sales | 28 | 57,288,708 | 57,289,702 |
| Administrative expens | 28 | 5,374,341 | 6,674,120 |
| | | 62,665,049 | 63,963,822 |

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| 16.2 Capital work in progress | | | |
| Plant and machinery | | 18,311,995 | 25,665,653 |
| Building on freehold land | | 1,537,658 | 473,718 |
| Equipment | | 416,240 | - |
| | | 20,265,893 | 26,139,371 |
| **17. LONG TERM DEPOSITS** | | | |
| Security deposits - others | | 587,575 | 587,575 |
| **18. STORES, SPARES AND LOOSE TOOLS** | | | |
| Stores | | 16,961,993 | 25,650,317 |
| Spares | | 22,502,464 | 36,653,285 |
| Loose tools | | 200,640 | 211,863 |
| | | 39,665,097 | 62,515,465 |
| Provision for obsolescence | 18.1 | - | (4,525,700) |
| | | 39,665,097 | 57,989,765 |
| 18.1 Reconciliation of provision | | | |
| Opening balance | | 4,525,700 | 4,525,700 |
| Obsolete stock written off during the year | | (4,525,700) | - |
| Closing balance | | - | 4,525,700 |
| **19. STOCK-IN-TRADE** | | | |
| Work-in-Process | | | |
| - Sugar | | 2,791,131 | 1,069,021 |
| - Molasses | | 199,665 | 73,960 |
| | | 2,990,796 | 1,142,981 |
| Finished Goods | | | |
| - Sugar | | 339,570,066 | 381,848,383 |
| - V.F Cake | | 2,249,538 | 1,165,911 |
| | | 341,819,604 | 383,014,294 |
| | | 344,810,400 | 384,157,275 |

19.1 The entire stock of sugar is pledged as security with banks.

| | | | |
|---|---|---|---|
| **20. TRADE DEBTS** | | | |
| Unsecured and considered good | | 50,259,797 | 215,954,571 |

| 21. ADVANCES | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| Unsecured but considered good: | | | |
| Advances to cane growers | 21.1 | 34,506,731 | 37,536,608 |
| Advances to staff | | 168,140 | 780,555 |
| Advances to related parties | | 20,820,384 | - |
| Advance for store purchases | | 9,402,114 | 10,052,784 |
| Advance against expenses | | - | 942,393 |
| Advance income tax | | 33,234,169 | 9,733,994 |
| | | 98,131,538 | 59,046,334 |
| Unsecured but considered doubtful: | | | |
| Advances to cane growers | | 1,000,000 | |
| | | 99,131,538 | 59,046,334 |
| Provision for doubtful advances | 21.3 | (1,000,000) | - |
| | | 98,131,538 | 59,046,334 |

21.1 This represents provision of cane seeds, pesticide sand fertilizers to cane growers. The balance is adjustable against supply of sugarcane.

21.2 This represents advance given to Imporient Chemicals (Private) Limited against purchase of chemical.

21.3 Reconciliation of provision for doubtful advances

| | | |
|---|---|---|
| Opening balance | - | - |
| Provision made during the year | 1,000,000 | - |
| Closing balance | 1,000,000 | - |

| 22. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS | | |
|---|---|---|
| Security deposit - Lease key money | 20,632,000 | 20,632,000 |
| Prepayments | 1,759,115 | 1,333,605 |
| Bank guarantee margin | 51,941 | 7,514,794 |
| | 22,443,056 | 29,480,399 |

| 23. OTHER RECEIVABLES | | |
|---|---|---|
| Others | 41,116 | 434,176 |
| Sales tax refundable | 4,519,043 | 4,030,855 |
| | 4,560,159 | 4,465,031 |

| 24. CASH AND BANK BALANCES | | |
|---|---|---|
| At banks | | |
| - In current accounts | 30,726,194 | 2,029,912 |
| In hand | | |
| - Cash | 885,075 | 81,404 |
| | 31,611,269 | 2,111,316 |

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| **25. SALES - NET** | | | |
| Sugar - Local | | 1,047,881,580 | 1,670,922,813 |
| - Export | | 957,221,003 | 291,493,000 |
| Less: Federal excise duty | | (50,088,442) | (122,624,703) |
| | | 1,955,014,141 | 1,839,791,110 |
| **26. COST OF SALES** | | | |
| Cost of sugarcane consumed (including procurement and other costs) | | 1,824,908,269 | 1,365,161,860 |
| Salaries, wages and other benefits | 26.1 | 54,832,456 | 42,479,089 |
| Stores, spares and loose tools consumed | | 10,565,752 | 16,569,323 |
| Chemicals consumed | | 15,415,857 | 11,714,388 |
| Packing material consumed | | 15,817,718 | 12,218,135 |
| Fuel and power | | 13,125,635 | 9,843,369 |
| Repair and maintenance | | 24,308,481 | 26,128,095 |
| Vehicle running expenses | | 307,651 | 781,168 |
| Depreciation | 16.3 | 57,286,705 | 57,389,702 |
| Other factory overheads | | 7,363,153 | 3,216,275 |
| | | 2,023,931,677 | 1,545,581,404 |
| Work in process | | | |
| Opening | | 1,142,981 | 960,200 |
| Closing | | (2,990,796) | (1,142,981) |
| | | (1,847,815) | (182,781) |
| | | 2,022,083,862 | 1,545,398,623 |
| Finished goods | | | |
| Opening | | 383,014,294 | 747,059,867 |
| Closing | | (341,819,604) | (383,014,294) |
| | | 41,194,690 | 364,045,573 |
| Sale of By products | | | |
| Molasses | | (194,334,985) | (121,619,585) |
| V.F.Cake | | - | (928,566) |
| | | (194,334,985) | (122,548,151) |
| | | 1,868,943,567 | 1,786,896,045 |

26.1 Salaries, wages and other benefits include staff retirement benefits amounting to Rs. 292,657 (2012:Rs.186,895).

| | | | |
|---|---|---|---|
| **27. DISTRIBUTION AND SELLING EXPENSES** | | | |
| Salaries, wages and other benefits | 27.1 | 346,527 | 544,786 |
| Stacking, restacking and carriage | | 2,462,512 | 1,716,647 |
| Freight on sugar sale | | 550,000 | - |
| Other expenses - exports | | 17,671,769 | 5,409,912 |
| Miscellaneous | | 429,678 | 7,416 |
| | | 21,460,486 | 7,678,761 |

27.1 Salaries, wages and other benefits include staff retirement benefits amounting to Rs.19,341 (2012:Rs. 14,866)

## 28. ADMINISTRATIVE EXPENSES

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| Salaries, wages and other benefits | 28.1 | 19,650,218 | 18,193,929 |
| Traveling and conveyance | | 12,095 | 286,725 |
| Rent, rates and taxes | | 100,000 | 204,463 |
| Telephone and postage | | 196,747 | 49,385 |
| Printing and stationery | | 379,978 | 276,730 |
| Fee and subscription | | 2,795,035 | 507,405 |
| Insurance | | 1,595,487 | 1,560,550 |
| Repair and maintenance | | 133,955 | 168,700 |
| Vehicle running expenses | | 1,789,996 | 4,338,552 |
| Entertainment | | 397,076 | 54,612 |
| Advertisement expenses | | 171,080 | 221,810 |
| Auditors' remuneration | 28.2 | 640,000 | 440,000 |
| Legal and professional charges | | 255,191 | 1,001,919 |
| Donations | 28.3 | 257,000 | 191,892 |
| Depreciation | 16.3 | 5,378,541 | 6,574,120 |
| Miscellaneous | | 642,908 | 155,357 |
| | | 34,395,307 | 34,225,949 |

28.1 Salaries, wages and other benefits include staff retirement benefits amounting to Rs.29,012 (2012:Rs. 22,330)

28.2 Auditors' remuneration

| | | |
|---|---|---|
| Annual audit fee | 500,000 | 300,000 |
| Review of code of corporate governance | 10,000 | 10,000 |
| Review of half year financial statements | 50,000 | 50,000 |
| | 560,000 | 360,000 |
| Cost audit fee | 80,000 | 80,000 |
| | 640,000 | 440,000 |

28.3 The company has not paid donation to any organization in which any director or his spouse has any interest.

## 29. OTHER EXPENSES

| | | |
|---|---|---|
| Provision for doubtful advances | 1,000,000 | - |

## 30. OTHER INCOME

| | | |
|---|---|---|
| Gain on foreign currency transactions | 9,919,786 | 1,179,550 |
| Miscellaneous Income | 8,100 | 8,420 |
| | 9,927,886 | 1,187,970 |

## 31. FINANCE COST

| | Note | 2013 Rupees | 2012 Rupees |
|---|---|---|---|
| Mark up on: | | | |
| - long term loan | | 3,522,822 | 5,032,669 |
| - loan from holding company | | 112,484,479 | 187,929,809 |
| - short term finances | | 58,195,520 | 41,470,765 |
| Commission and bank charges | | 441,118 | 662,877 |
| | | 174,643,939 | 235,096,120 |

## 32. TAXATION

| | | |
|---|---|---|
| - Current | 8,739,688 | 11,269,161 |
| - Deferred | (12,075,457) | 21,687,240 |
| | (3,335,769) | 32,956,401 |

32.1No numeric tax rate reconciliation is given, as the company is liable to final tax.

## 33. LOSS PER SHARE

| | | |
|---|---|---|
| Loss for the year | (132,165,503) | (255,874,196) |
| | (Number of shares) | |
| Weighted average number of shares outstanding during the year | 9,450,000 | 9,450,000 |
| | Rupees | Rupees |
| Loss per share - basic | (13.99) | (27.08) |

33.1 Diluted loss per share has not been presented as the Company does not have any convertible instruments issue as in at September 30, 2013 and September 30, 2012,which would have any effect loss per on the share of Company the if the option to convert is exercised.

## 34. CASH GENERATED FROM OPERATIONS

| | Note | | |
|---|---|---|---|
| Loss before taxation | | (135,501,272) | (222,917,795) |
| Adjustment for non cash charges and other items: | | | |
| Depreciation on property, plant and equipment | | 62,665,246 | 63,963,822 |
| Finance costs | | 174,202,821 | 234,433,243 |
| Provision for doubtful advances | | 1,000,000 | - |
| Provision for gratuity | | 341,010 | 224,111 |
| Working capital changes | 34.1 | 606,960,409 | 391,727,101 |
| | | 845,169,486 | 690,348,277 |
| | | 709,668,214 | 467,430,482 |

34.1 Working capital changes

| | | |
|---|---|---|
| (Increase) / decrease in current assets | | |
| Stores, spares and loose tools | 18,324,668 | (21,576,169) |
| Stock-in-trade | 39,346,875 | 363,862,792 |
| Trade debts | 165,694,774 | (48,439,359) |
| Advances | (16,585,029) | (2,383,736) |
| Trade deposits and short term prepayments | 7,037,343 | (8,745,681) |
| Other receivables | (95,128) | (2,134,622) |
| Increase in current liabilities | | |
| Trade and other payables | 393,236,906 | 111,143,876 |
| | 606,960,409 | 391,727,101 |

## 35. CASH AND CASH EQUIVALENTS

| | | | |
|---|---|---|---|
| Short term finances | 11 | (241,314,905) | (475,809,350) |
| Cash and bank balances | 24 | 31,611,269 | 2,111,316 |
| | | (209,703,636) | (473,698,034) |

## 36 Financial instruments

### 36.1 Financial risk factors

The Company's activities expose it to a variety of financial risks, market risk (including currency risk, other price risk and interest rate risk), credit risk and liquidity 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.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies.

**(a) Market risk**

**(i) Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies. The Company is exposed to foreign currency exchange risk in respect of commitments against letters of credit in foreign currency. The management does not view hedging as being financially feasible.

The following significant exchange rate has been applied:

| | Average rate | | Reporting date rate | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | Rupees | Rupees | Rupees | Rupees |
| US $ to PKR | 98.88 | 94.59 | 105.85 | 95.23 |

The weakening of the PKR against US Dollar would have had an equal but opposite impact on the post tax profit / (loss).

The sensitivity analysis prepared is not necessarily indicative of the effects on profit / (loss) for the year and assets / liabilities of the Company.

**(ii) Other price risk**

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will

fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). Other price risk arises from the Company's investment in ordinary shares of listed companies. To manage its price risk arising from aforesaid investments, the Company diversifies its portfolio and continuously monitors developments in equity markets. In addition the Investment Committee actively monitors the key factors that affect stock price movement.

**(iii) Interest rate risk**

Interest rate risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Borrowings obtained at variable rates expose the Company to cash flow interest rate risk.

At the balance sheet date, the interest rate profile of the Company's interest bearing financial instruments was:

| | 2013 Rupees | 2012 Rupees |
|---|---|---|
| Floating rate instruments | | |
| Financial liabilities | | |
| Long term loans | 100,000,000 | - |
| Loan from holding company | 525,000,000 | 675,000,000 |
| Finance lease | 20,632,000 | 20,632,000 |
| Due to related party | 328,966,229 | 312,744,880 |
| Short term finances | 241,314,905 | 475,809,350 |
| | 1,215,913,134 | 1,484,186,230 |

**Fair value sensitivity analysis for fixed rate instruments**

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rate at the balance sheet date would not affect profit or loss of the Company.

**(b) Credit risk**

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Company's credit risk is primarily attributable to its trade debts and its balances at banks. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

| | | |
|---|---|---|
| Long term deposits | 587,575 | 587,575 |
| Trade debts | 50,259,797 | 215,954,571 |
| Advances | 98,131,538 | 59,046,334 |
| Bank balances | 30,726,194 | 2,029,912 |
| | 179,705,104 | 277,618,392 |

The aging of trade receivable at the reporting date is as under:

| | | |
|---|---|---|
| Not past due | 48,128,171 | 29,216,090 |
| Past due 0 - 180 days | 2,131,626 | 32,550,018 |
| Past due 181 - 365 days | - | 154,188,463 |
| Past due more than one year | 50,259,797 | 215,954,571 |

The credit quality of cash and bank balances that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rate:

| | Rating | | | |
|---|---|---|---|---|
| | Short term | Long term | | |
| Bank Al-Habib Ltd. | A1+ | AA+ | 12,077,689 | 955,071 |
| United Bank Ltd. | A-1+ | AA+ | 9,245,900 | 373,371 |
| MCB Bank Ltd. | A1+ | AAA | 5,050,409 | 5,115 |
| National Bank of Pakistan | A-1+ | AAA | 79,736 | 6,390 |
| Habib Bank Ltd. | A-1+ | AAA | 3,714,083 | 185,113 |
| Habib Metropolitan Bank Ltd. | A1+ | AA+ | 504,155 | 504,852 |
| Bank Al Falah Ltd | A1+ | AA | 54,222 | - |
| | | | 30,726,194 | 2,029,912 |

**(c)Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Company manages liquidity risk by maintaining sufficient cash and bank balances and the availability of funding through an adequate amount of committed credit facilities. At September 30, 2013, the Company had borrowing limits available from financial institutions.

The following are the contractual maturities of financial liabilities as at September 30, 2013:

| | Carrying | Less than | More than |
|---|---|---|---|
| | ---------- Rupees ---------- | | |
| Long term loans | 100,000,000 | 27,777,778 | 72,222,222 |
| Loan from holding company | 525,000,000 | 25,000,000 | 500,000,000 |
| Lease finances | 20,632,000 | 20,632,000 | - |
| Short term finances | 241,314,905 | 241,314,905 | - |
| Due to related party | 328,966,229 | 328,966,229 | |
| Trade and other payables | 611,784,247 | 611,784,247 | - |
| Interest and mark-up accrued | 123,884,904 | 123,884,904 | - |
| | 1,851,582,285 | 1,351,582,285 | 500,000,000 |

The following are the contractual maturities of financial liabilities as at September 30, 2012:

| | | | |
|---|---|---|---|
| Long term loans | - | - | - |
| Loan from holding company | 675,000,000 | 150,000,000 | 525,000,000 |
| Lease finances | 20,632,000 | 20,632,000 | - |
| Short term finances | 475,809,350 | 475,809,350 | - |
| Due to related party | 312,744,880 | 312,744,880 | - |
| Trade and other payables | 218,547,341 | 218,547,341 | - |
| Interest and mark-up accrued | 210,753,696 | 210,753,696 | - |
| | 1,913,487,267 | 1,388,487,267 | 525,000,000 |

**36.2 Fair values of financial assets and liabilities**

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

**36.3 Capital risk management**

The Company's prime objective when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders, benefits for other stakeholders and to maintain a strong capital base to support the sustained development of its business.

The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to shareholders and / or issue new shares.

There was no change to the Company's approach to capital management during the year and the Company is not subject to externally imposed capital requirements except for the maintenance of debt to equity ratio under the financing agreements.

## 37. REMUNERATION TO THE CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

37.1 The aggregate amount charged in the financial statements for the year against remuneration, including certain benefits, to the full time working directors and executives of the Company is as follows:

| | Managerial remuneration | Allowances, utilities etc | Number of persons |
|---|---|---|---|
| | ---------- Rupees ---------- | | |
| Chief Executive | | | |
| 2013 | - | - | - |
| 2012 | - | - | - |
| Directors | | | |
| 2013 | - | - | - |
| 2012 | - | - | - |
| Executives | | | |
| 2013 | 800,040 | 399,960 | 1 |
| 2012 | 800,040 | 399,960 | 1 |

37.2 The chief executive and the directors of the company have waived their right to receive meeting fee. Additionally, executive is provide with free use of cellular phone and company maintained car.

## 38. TRANSACTION WITH RELATED PARTIES

Related parties include associated companies, directors of the Company, companies where directors also hold directorship,related group companies, key management personnel and staff retirement funds. All transactions involving related parties arising in the normal course of business are conducted at commercial terms and conditions, and at prices agreed based on inter company prices using admissible valuation modes.

Detail of transactions with related parties is as follows:

| Name of related party | Nature of relationship | Basis of relationship | Nature of transaction | Amount (Rupees) |
|---|---|---|---|---|
| Imporient Chemicals (Pvt) Limited | Associate | Common directorship | Purchase of chemical | 16,329,616 |
| Pattoki Sugar Mills Limited | Associate | Holding company | Loan including markup | 960,926,458 |

38.1 Purchase of chemical are based on commercial terms and at market prices which are approved by the Board of Directors.

## 39. CAPACITY AND PRODUCTION

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Days | M.Tonnes | Days | M.Tonnes |
| Crushing capacity | 160 | 480,000 | 160 | 480,000 |
| Sugarcane crushed | 129 | 413,485 | 114 | 342,173 |
| Sugar production | - | 37,742 | - | 32,262 |

The low production was due to limited availability of raw material.

## 40. OPERATING SEGMENTS

These financial statements have been prepared on the basis of single reportable segments.

40.1 Sugar Sales represents 91% (2012: 93%) of the total sales of the company.

40.2 Company's sales relate to the customers in Pakistan as well as outside Pakistan.

40.3 All non - current assets of the company as at September 30, 2013 are located in Pakistan.

## 41. CORRESPONDING FIGURES

Corresponding figures have been rearranged/ regroupedwherevernecessary for the purposeof better comparison. Significant change made during the year is as follows:
Due torelated party previously classified under the head "Trade and other payables" (note13) has now been presented under current liabilities.

## 42. NUMBER OF EMPLOYEES

| | 2013 | 2012 |
|---|---|---|
| | Number of employees | |
| Number of persons employed as at September 30, | | |
| - permanent | 191 | 178 |
| - contractual | 182 | 164 |
| Average number of employees during the year | | |
| - permanent | 170 | 161 |
| - contractual | 99 | 106 |

## 43. EVENTS AFTER THE BALANCE SHEET DATE

There are no reportable events after balance sheet date.

## 44. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on January 04, 2013 by the Board of Directors of the Company.

CHIEF EXECUTIVE

DIRECTOR

## PATTERN OF SHAREHOLDINGS

1 Incorporation Number
2 Name Of the Company BABA FARID SUGAR MILLS LIMITED
3 Pattern of holding of shares held by shareholders as at September 30, 2013

| 4 NO. OF SHAREHOLDERS | SHAREHOLDING FROM | To | TOTAL SHARES HELD |
|---|---|---|---|
| 745 | 1 | 100 | 22,479 |
| 407 | 101 | 500 | 75,001 |
| 35 | 501 | 1,000 | 26,915 |
| 44 | 1,001 | 5,000 | 101,215 |
| 7 | 5,001 | 10,000 | 42,196 |
| 2 | 35,001 | 40,000 | 77,668 |
| 1 | 50,001 | 55,000 | 50,853 |
| 1 | 135,001 | 140,000 | 136,995 |
| 1 | 440,001 | 450,000 | 441,601 |
| 1 | 915,001 | 920,000 | 916,000 |
| 1 | 7,555,001 | 7,560,000 | 7,559,077 |
| 1,249 | | | 9,450,000 |

| 5 Categories of Shareholders | Shares Held | Percentage |
|---|---|---|
| 5.1 Directors,ChiefExecutiveOfficers,and their spouse and minor children | 1,419,284 | 15.0189% |
| 5.2 Associated Companies, undertakings and related parties | 7,696,072 | 81.4399% |
| 5.3 NIT and ICP | 1,000 | 0.0106% |
| 5.4 Bank Development Financial Institutions, Non Banking Financial Institutions | 100 | 0.0011% |
| 5.5 Insurance Companies | 0 | 0.0000% |
| 5.6 Modarabas and Mutual Funds | 0 | 0.0000% |
| 5.7 Share holders holding 10% | 7,696,072 | 81.4399% |
| 5.8 General Public | | |
| a) Local | 332,937 | 3.5231% |
| b) Foreign | 0 | 0.0000% |
| 5.9 Others (to be specified) | | |
| Joint Stock Companies | 607 | 0.0064% |

6 Signature of Company Secretary

| | |
|---|---|
| 7 Name Of Signatory | Muhammad Ibrahim Raza |
| 8 Designation | Company Secretary |
| 9 NIC Number | 35201-8459576-7 |
| 10 Date | 30-Sep-13 |

## Categories Of Shareholding Required Under Code Of Corporate Governance (Ccs)
## As On September 30, 2013

| Sr. NO | Name | No. Of Shares Held | Percentage |
|---|---|---|---|
| Associated Companies, Undertakings and Related Parties (Names Wise Detail): | | | |
| Mutual Funds (Name Wise Detail) | | | - |
| Directors and their Spouse and Minor Children (Name wise Detail): | | | |
| 1 | Muhammad Sarwar (CEO) | 47,593 | 0.5036 |
| 2 | Mrs. Naheed Roohi | 2,500 | 0.0265 |
| 3 | Miss. Rafia Aslam | 2,500 | 0.0265 |
| 4 | M. Maqsood ul Hassan | 441,601 | 4.6730 |
| 5 | Muhammad Ashraf | 2,500 | 0.0265 |
| 6 | Mr. Shahid Mahmood Quershi | 2,500 | 0.0265 |
| 7 | Sayeed Qaissar Abbas Naqvi | 4,090 | 0.0433 |
| 8 | Muhammad Aslam H/O Mrs. Naheed Roohi | 916,000 | 9.6931 |
| Executives: | | | |
| Public Sector Companies & Corporations: | | | |
| Banks, Development Finance Institutions, Non Banking Finance Companies, Insurance Companies, Takaful, Modarabas and Pension Funds: | | 100.00 | 0.0011 |
| Shareholders holding five percent or more voting interest in the listed company (Name wise Detail) | | | |
| 1 | M/S Pattoki Sugar Mills LTD. | 7,696,072 | 81.4399 |
| 2 | Muhammad Aslam | 916,000 | 9.6931 |

All traders in the share of the listed company, carried out by its Directors, Executives and their spouses and minor children shall be disclosed:

| Sr. NO | Name | Sales | Purchase |
|---|---|---|---|
| 1 | Mr. Shahid Mahmood Quershi | - | 2,500 |
| 2 | Sayeed Qaissar Abbas Naqvi | - | 4,090 |

# FORM OF PROXY

"I/We, _____ being member of Baba Farid Sugar Mills Limited, holder of _____ ordinary Shares as per Share Register. Filo No._____ands / or CDC participant I.D. No. _____ Account No_____ hereby appoint _____ of _____ who is also member of Baba Farid Sugar Mills Limited vide Folio No._____ or CDC participant I.D. No._____ Account No._____ or failing him / her _____" of_____ who is also member of Baba Farid Sugar Mills Limited vide Filo No._____ "or CDC participant I.D. No. _____ Account No. _____ as my /our proxy to attend, speak and vote for me / us and on my / our behalf at the Annual General meeting of the company to be held on 31st January, 2014 and at any adjoumment thereof."

ou r handt h i s_ ___ ____ _____ dayof _____ __ _____ 2014.

Signed by the said _____

in the presence of _____.

Signature on Rs. 5/- Revenue Stamps

Notes:

1) "The Proxy is in order to be valid must be duly stamped, signed and witnessed and be deposited with the Company not later than 48 hours before the time of holding of meeting."
2) The proxy must be a member of the Company.
3) "Signature should agree with the specimen signature, registered with the Company."
4) "CDC Shareholders entitled to attend and vote at this meeting, must bring with them their National Identity Card / Passport in original to prove his / her identity, and in case of Proxy must enclose an attested copy of his/ her NIC or Passport."
5) Representative of corporate members should bring the usual documents required for such purpose.