# annual report 2013

## CHASHMA SUGAR MILLS LIMITED

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# CHASHMA SUGAR MILLS LIMITED

## Company Profile

Chashma Sugar Mills Limited (the Company) was incorporated on 05 May, 1988 as a Public Company and its shares are quoted on Islamabad, Lahore and Karachi Stock Exchanges. The Company is principally engaged in manufacturing and sale of white sugar including the following:

a) The exclusive object for which the Company established is to set up and operate an industrial undertaking at, Dera Ismail Khan in the Khyber Pakhtoon Khawa province to manufacture, produce, process, compound, prepare and sell sugar and other allied compounds, intermediates and by products thereto.

b) To appoint agents, sub-agents, attorneys, consultants, brokers, and contractors and connection with the exclusive object but not to act as managing agents.

c) To receive money on loan and borrow or raise money in such manner as the Company shall think fit in pursuance of the exclusive object, and in particular by the issue of debentures, or debenture stock (perpetual or otherwise) and to secure the repayment of any money borrowed raised or owing by mortgage, charge or lien upon all or any of the property or assets of the Company (both present and future), and also by a similar mortgage, charge or lien to secure and guarantee the performance by the Company or any other person or company of any obligation undertaken by the Company or any other person or company as the case may be, but not to act as a finance or banking company.

d) To purchase and import equipment, machinery, spare parts, or other articles and chemicals of use required by the Company for the purpose of carrying on the exclusive object and to export the products of the Company.

e) To employ and remunerate managers and other officers, employees and servants of the Company or any person or firm or company rendering services to the Company upon such terms as the Company may determine.

f) To accept or give security, including but not limited to promissory notes, indemnity bonds, guarantees, assignments, receipts, bailments pledges, hypothecations, liens, mortgages and charges, against the credit extended or moneys borrowed in connection with the exclusive object of the Company.

g) To open, close and operate banking accounts of the Company with any bank or banks, financial institutions or co-operative societies and to draw, make, accept, endorse, discount, execute and issue promissory notes bills of exchange, bill of lading, warrants, debentures and other negotiable or transferable instruments, but not to act as a finance or banking Company.

## CHASHMA SUGAR MILLS LIMITED

## COMPANY INFORMATION

**Board of Directors**

Mr. Aziz Sarfaraz Khan
Chairman / Chief Executive
Begum Laila Sarfaraz
Mr. Abbas Sarfaraz Khan
Ms. Zarmine Sarfaraz
Ms. Najda Sarafaraz
Mr. Iskander M. Khan
Mr. Baber Ali Khan
Mr. Abdul Qadar Khattak
Mr. Sher Ali Jafar Khan

**Company Secretary**

Mr. Mujahid Bashir

**Chief Financial Officer**

Mr. Rizwan Ullah Khan

**Auditors**

M/s. Hameed Chaudhri & Co.,
Chartered Accountants

**Cost Auditors**

M/s. Munawar Associates
Chartered Accountants

**Tax Consultants**

M/s. Hameed Chaudhri & Co.,
Chartered Accountants

**Legal Advisor**

Mr. Tariq Mehmood Khokhar
Barrister-at-Law, Advocate

**Bankers**

Bank Al-Habib Limited
The Bank of Khyber
MCB Bank Limited
The Bank of Punjab
Bank Al-Falah Limited
Dubai Islamic Bank Pakistan Limited
Faysal Bank Limited
National Bank of Pakistan
Habib Bank Limited
Silk Bank Limited

## Management Committees

**Executive Committee**

| | |
|---|---|
| Mr. Abbas Sarfaraz Khan<br>(Non-Executive Director) | Chairman |
| Mr. Baber Ali Khan<br>(Non-Executive Director) | Member |
| Mr. Abdul Qadar Khattak<br>(Executive Director) | Member |

Executive Committee is involved in day to day operations of the Company and is authorized to conduct every business except the businesses to be carried out by Board of Directors as required by section 196 of the Companies Ordinance, 1984. Executive Committee meets periodically to review operating performance of the Company against pre-defined objectives, commercial business decisions, investments and funding requirements.

**Audit Committee**

| | |
|---|---|
| Mr. Iskander M.<br>(Non-Executive Director) | Chairman |
| Ms. Najda Sarfaraz<br>(Non-Executive Director) | Member |
| Mr. Baber Ali Khan<br>(Non-Executive Director) | Member |
| Mr. Mujahid Bashir | Secretary |

The terms of reference of the Audit Committee have been derived from the Code of Corporate Governance applicable to listed companies. Thereby Audit Committee shall, among other things, be responsible for recommending to the Board of Directors the appointment of external auditors by the Company's shareholders and shall consider any questions of resignation or removal of external auditors, audit fees and provision by external auditors of any service to the Company in addition to audit of its financial statements. In the absence of strong grounds to proceed otherwise, the Board of Directors shall act in accordance with the recommendations of the Audit Committee in all these matters.
The terms of reference of the Audit Committee also include the following:

a) Determination of appropriate measures to safeguard the Company's assets;
b) Review of preliminary announcements of results prior to publication;
c) Review of quarterly, half-yearly and annual financial statements of the Company, prior to their approval by the Board of Directors, focusing on:

- Major judgmental areas;
- Significant adjustments resulting from the audit;
- The going-concern assumption;
- Any changes in accounting policies and practices;
- Compliance with applicable accounting standards; and
- Compliance with listing regulations and other statutory and regulatory requirements.

d) Facilitating the external audit and discussion with external auditors of major observations arising form interim and final audits and any matter that the auditors may wish to highlight ( in the absence of management, where necessary);

e) Review of management letter issued by external auditors and management's response thereto;

f) Ensuring coordination between the internal and external auditors of the Company;

g) Review of the scope and extent of internal audit and ensuring that the internal audit function has adequate resources and is appropriately placed within the Company;

h) Consideration of major findings of internal investigations and management's response thereto;

i) Ascertaining that the internal control system including financial and operational controls, accounting system and reporting structure are adequate and effective;

j) Review of the Company's statement on internal control systems prior to endorsement by the Board of Directors;

k) Instituting special projects, value for money studies or other investigations on any matte specified by the Board of Directors, in consultation with the Chief Executive and to consider remittance of any matter to the external auditors or to any other external body;

l) Determining of compliance with relevant statutory requirements;

m) Monitoring compliance with the best practices of Corporate Governance and identification of significant violations thereof; and

n) Consideration of any other issue or matter as may be assigned by the Board of Directors.

**Human Resource and Remuneration Committee**

| | |
|---|---|
| Mr. Abbas Sarfaraz Khan<br>(Non-Executive Director) | Chairman |
| Mr. Iskander M. Khan<br>(Non-Executive Director) | Member |
| Mr. Abdul Qadar Khattak<br>(Executive Director) | Member |
| Mr. Mujahid Bashir | Secretary |

The Committee is responsible for:

i) The overall system of remuneration and benefits for senior management and functional heads.

ii) Succession and career development within the senior management.

iii) The size and composition of the Board including the "mix" of Executive and Non-Executive Directors.

iv) Selection and nomination of Non-Executive Directors to the Board and the terms & conditions, wherever applicable and if any, on which Non-Executive Directors are appointed and hold office, for the ultimate approval of the shareholders.

# CHASHMA 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 optimizing the shareholders value 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 fulfil the social responsibilities.

- Commitment to building, Safe, Healthy and Environment friendly atmosphere.

- We with professional and dedicated team, ensure continual improvement in quality and productivity through effective implementation of Quality Management System. Be a responsible employer and reward employees according to their ability and performance.

- The quality policy 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 and industrial alcohol 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 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 decision and operations.

## CHASHMA SUGAR MILLS LIMITED

## Code of Conduct

Chashma Sugar Mills Limited has built a reputation for conducting its business with integrity in accordance with high standards of ethical behavior and in compliance with the laws and regulations that govern our business. This reputation is among our most valuable assets and ultimately depends upon the individual actions of each of our employees all over the country.

The Company Code of Conduct has been prepared to assist each of us in our efforts to not only maintain but enhance this reputation. It provides guidance for business conduct in a number of areas and references to more detailed corporate policies for further direction. The adherence of all employees to high standards of integrity and ethical behavior is mandatory and benefits all stakeholders including our customers, our communities, our shareholders and ourselves.

The Company carefully checks for compliance with the Code by providing suitable information, prevention and control tools and ensuring transparency in all transactions and behaviors by taking corrective measures if and as required.

The Code of Conduct applies to all affiliates, employees and others who act for us countrywide, within all sectors, regions, areas and functions.

The Code of Conduct of the Company includes the policies in respect of followings:

- Standard of Conduct;
- Obeying the law;
- Human Capital;
- Consumers;
- Shareholders;
- Business Partners;
- Community involvement;
- Public activities;
- The environment;
- Innovation;
- Competition;
- Business integrity;
- Conflicts of interests; and
- Compliance, monitoring and reporting.

**General Principles**

- Compliance with the law, regulations, statutory provisions, ethical integrity and fairness is a constant commitment and duty of all the employees and characterizes the Conduct of the organization.

- The Company's business and activities have to be carried out in a transparent, honest and fair way, in good faith and in full compliance. Any form of discrimination, corruption, forced or child labor is rejected. Particular attention is paid to the acknowledgment and safeguarding of the dignity, freedom and equality of human beings.

- All employees, without any distinction or exception whatsoever, respect the principles and contents of the Code in their actions and behaviors while performing their functions according to their responsibilities, because compliance with the Code is fundamental for the quality of their working and professional performance. Relationships among employees, at all levels, must be characterized by honesty, fairness, cooperation, loyalty and mutual respect.
- The belief that one is acting in favor or to the advantage of the Company can never, in any way, justify-not even in part any behavior that conflict with the principles and content of the Code.
- The Code of Conduct aims at guiding the Company with respect to standards of conduct expected in areas where improper activities could result in adverse consequences to the Company, harm its reputation or diminish its competitive advantage.
- Every employee is expected to adhere to, and firmly inculcate in his/her everyday conduct; this mandatory framework; any contravention or deviation will be regarded as misconduct and may attract disciplinary action in accordance with the Company service rules and relevant laws.

**Statement of Ethical Practices**

It is the basic principle of Chahma Sugar Mills Limited to obey the law of the land and comply with its legal system. Accordingly every director and employee of the Company shall obey the law. Any director and employee guilty of violation will be liable to disciplinary consequences because of the violation of his / her duties.

Employees must avoid conflicts of interest between their private financial activities and conduct of Company business.

All business transactions on behalf of the Company must be reflected accordingly in the accounts of the Company. The image and reputation of the Company is determined by the way each and every of us acts and conducts him / her at all times.

We are an equal opportunity employer. Our employees are entitled to a safe and healthy workplace.

Every manager and supervisor shall be responsible to see that there is no violation of laws within his / her area of responsibility which proper supervision could have prevented. The manager and supervisor shall still be responsible if he / she delegates particular tasks.

# CHASHMA SUGAR MILLS LIMITED

## TEN YEARS PERFORMANCE AT A GLANCE

| PARTICULARS | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|
| (RUPEES IN THOUSAND) | | | | | | | | | | |
| Sales | 6,673,731 | 5,848,891 | 5,882,738 | 6,362,700 | 3,968,673 | 2,579,812 | 1,638,595 | 1,187,913 | 1,250,551 | 1,453,370 |
| Cost of sales | 6,173,254 | 5,702,814 | 5,186,437 | 5,597,467 | 3,595,629 | 2,233,798 | 1,709,629 | 1,132,589 | 1,023,674 | 1,369,614 |
| Operating profit/(Loss) | 481,250 | 97,323 | 612,225 | 647,940 | 297,935 | 270,343 | (128,111) | 12,327 | 180,256 | 48,878 |
| Profit/(Loss) before tax | 56,728 | (239,067) | 165,491 | 347,799 | (140,786) | (57,172) | (377,451) | (71,919) | 138,086 | 33,246 |
| Profit/(Loss) After tax | 32,972 | (218,971) | 140,610 | 283,794 | (217,910) | (63,163) | (358,007) | (32,338) | 80,472 | 21,144 |
| Share capital | 286,920 | 286,920 | 286,920 | 286,920 | 286,920 | 286,920 | 191,280 | 191,280 | 191,280 | 191,280 |
| Shareholders' equity | 2,524,899 | 1,397,464 | 1,645,127 | 423,572 | 66,712 | 203,438 | 128,232 | 486,239 | 537,705 | 457,355 |
| Fixed assets - net | 5,014,393 | 3,171,414 | 3,103,002 | 2,335,101 | 2,515,056 | 2,723,775 | 1,850,560 | 893,731 | 934,125 | 322,811 |
| Total assets | 7,485,951 | 5,835,443 | 5,647,181 | 2,975,098 | 3,535,462 | 4,509,239 | 3,460,459 | 2,422,106 | 1,444,253 | 996,908 |
| Long term liabilities | 2,270,940 | 1,451,512 | 1,357,532 | 1,059,164 | 1,229,686 | 1,464,166 | 949,167 | 1,245,000 | 370,833 | 263,868 |
| Dividend | | | | | | | | | | |
| Cash dividend | | 0 | 10% | 10% | 0 | 0 | 0 | 0 | 10% | - |
| Ratios: | | | | | | | | | | |
| Profitability (%) | | | | | | | | | | |
| Operating profit | 7.21 | 1.66 | 10.41 | 10.18 | 7.51 | 10.48 | (4.34) | 4.66 | 18.14 | 3.36 |
| Profit/ (Loss) before tax | 0.85 | (4.09) | 2.81 | 5.47 | (3.55) | (2.22) | 23.04 | (4.90) | 11.04 | 2.29 |
| Profit/(Loss) after tax | 0.49 | (3.74) | 2.39 | 4.46 | (5.49) | (2.45) | 21.85 | (2.72) | 6.43 | 1.45 |
| Return to Shareholders | | | | | | | | | | |
| ROE - Before tax | 2.25 | (17.11) | 10.06 | 82.11 | (211.04) | (28.10) | (294.35) | (11.99) | 25.68 | 7.27 |
| ROE - After tax | 1.31 | (15.67) | 8.55 | 67.00 | (326.64) | (31.05) | (279.19) | (6.65) | 14.96 | 4.62 |
| Return on Capital Employed | 6.21 | (6.21) | 4.68 | 15.03 | (14.23) | (3.79) | (187.16) | (0.16) | 8.85 | 2.93 |
| E. P. S. - After tax | 1.15 | (7.63) | 4.90 | 9.89 | (7.59) | (2.20) | (18.72) | (1.69) | 4.2 | 1.11 |
| Activity | | | | | | | | | | |
| Income to total assets | 0.89 | 1.00 | 1.36 | 2.14 | 1.12 | 0.57 | 10.34 | (0.01) | 0.86 | 1.46 |
| Income to fixed assets | 1.33 | 1.84 | 2.16 | 2.72 | 1.58 | 0.95 | 18.79 | (0.02) | 1.34 | 4.50 |
| Liquidity/Leverage | | | | | | | | | | |
| Current ratio | 0.92 | 0.87 | 0.96 | 0.87 | 0.92 | 0.93 | 1.53 | 1.07 | 1.1 | 1.06 |
| Break up value per share | 88.00 | 48.71 | 5.73 | 14.76 | 2.33 | 7.09 | 0.67 | 25.42 | 28.11 | 23.91 |
| Total Liabilities to equity (Times) | 1.96 | 3.17 | 2.43 | 6.02 | 20.06 | 21.17 | 25.66 | 3.98 | 1.69 | 1.18 |

## TEN YEARS REVIEW

| YEAR | CANE CRUSHED TONS | RECOVERY % | SUGAR PRODUCED TONS |
|---|---|---|---|
| 2004 | 908,130 | 8.03 | 72,918 |
| 2005 | 695,884 | 8.03 | 55,888 |
| 2006 | 579,512 | 7.64 | 44,295 |
| 2007 | 1,277,817 | 8.09 | 102,496 |
| 2008 | 1,466,133 | 7.60 | 111,330 |
| 2009 | 1,050,807 | 8.20 | 85,234 |
| 2010 | 1,046,061 | 8.42 | 88,086 |
| 2011 | 1,353,553 | 8.69 | 117,474 |
| 2012 | 1,196,202 | 8.65 | 103,478 |
| 2013 | 1,326,905 | 9.18 | 121,771 |

## CHASHMA SUGAR MILLS LIMITED

## Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that 26th Annual General Meeting of the shareholders of **Chashma Sugar Mills Limited** will be held on 31 January, 2014 at 11:30 a.m., at the Registered Office of the Company at Nowshera Road, Mardan for transacting the following business: -

(1) To confirm the minutes of the last Annual General Meeting held on 31 January, 2013.

(2) To receive, consider and approve the Audited Financial Statements of the Company together with the Directors' and Auditors' Reports for the year ended 30 September, 2013.

(3) To appoint the Auditors and to fix their remuneration for the financial year ending 30 September, 2014. The present auditors M/s Hameed Chaudhri & Co. Chartered Accountants retire and being eligible offer themselves for re-appointment.

(4) To transact any other business of the Company as may be permitted by the Chair.

The share transfer books of the Company will remain closed from 21 January to 31 January, 2014 (Both days inclusive).

**BY ORDER OF THE BOARD**

Mardan:
03 January, 2014

**(Mujahid Bashir)**
Company Secretary

N.B:

1. Members, unable to attend in person, may kindly send proxy form attached with the Balance Sheet signed and witnessed to the Company at least 48 hours before the time of the meeting. No person shall act, as proxy unless he is entitled to be present and vote in his own right.

2. Members are requested to notify the Shares Registrar of the Company of any change in their addresses immediately.

3. C.D.C shareholders desiring to attend the meeting are requested to bring their original Computerized National Identity Cards (CNIC), Account and participants I.D numbers, for identification purpose, and in case of proxy, to enclose an attested copy of his/her CNIC.

4. In case of proxy for an individual beneficial owner of CDC, attested copies of beneficial owner's CNIC or passport, account and participants ID numbers must be deposited along with the form of proxy. Representative of corporate members should bring the usual documents required for such purpose.

# CHASHMA SUGAR MILLS LIMITED

## DIRECTORS' REPORT

The Directors of Chashma Sugar Mills Limited are pleased to present Directors' Report of the Company together with the audited financial statements for the year ended 30 September, 2013

**SUMMARISED FINANCIAL RESULTS**

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

| | **2013** | 2012 |
|---|---|---|
| | **( Rupees in thousands )** | |
| Profit / (Loss) before taxation | **56,728** | (239,067) |
| Taxation | | |
| - Current | **69,144** | 30,688 |
| - Prior | **(902)** | 98 |
| - Deferred | **(44,486)** | (50,882) |
| | **23,756** | (20,096) |
| Profit / (Loss) after taxation | **32,972** | (218,971) |
| | ---------- **(Rupees)** ---------- | |
| Earnings / (Loss) / per share | **1.15** | (7.63) |

**1. REVIEW OF OPERATIONS**

The sugarcane crushing season 2012-13 commenced on 30 November, 2012 and continued till 28 March, 2013. The Mills crushed 1,326,905 tons (2012: 1,196,202 tons) of sugarcane and produced 121,771 tons (2012: 103,478 tons) of sugar. The Government increased the sugar can support price from Rs. 150/- to Rs. 170/- per 40 kg during the year. This has encouraged the farmers to bring additional area under cultivation.

**2. CURRENT SEASON 2013-2014**

The sugarcane crushing season started on 27 November, 2013 and the Mills have crushed 402,226 tons of sugarcane, producing 31,313 tons of sugar at average recovery of 7.96 % up to 29 December, 2013.

**3. SUGAR PRICE**

The GoP allowed the export of 1.20 million tons of sugar for the crushing season 2012-13, by April 2013, the sugar mills had completed the exports of 1.20 M. Tons and requested GoP to allow further export of 500,000 M. Tons, the GoP delayed this decision till October 2013, due to this, Company's finances remained under pressure because of the inventory holding cost coupled with the depressed sugar prices throughout the year adversely affecting our profitability.

## 4. ETHANOL FUEL PLANT AT UNIT-II

The installation of Ethanol fuel plant of 125,000 Liters / day is in final stages and it is expected to start operation during the month of February 2014.

## 5. STAFF

The Management and Labor relations remained cordial during the year. Bonus to employees was paid at the rate of 03 months salary during the year.

## 6. PATTERN OF SHAREHOLDING

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

## 7. CORPORATE AND FINANCIAL REPORTING FRAMEWORK

- The financial statements, prepared by the management of Chashma Sugar Mills Limited present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of account have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements.
- The system of internal controls is sound in design and has been effectively implemented and monitored.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- There are no significant doubts upon Chashma Sugar Mills Limited's ability to continue as a 'going concern'.
- Key operating and financial data for the last ten years in a summarized form is annexed.
- There are no statutory payments on account of taxes, duties, levies and charges which are outstanding as at 30 September, 2013, except for those disclosed in the financial statements.
- The Directors, CEO, CFO, Company Secretary and their spouses and minor children have made no transactions in the Company's shares during the year other than disclosed in the pattern of shareholding.
- The value of investments of staff provident fund, based on audited accounts, was Rs. 33.2 million as at 30 September, 2012.
- During the year five (05) meetings of the Board of Directors were held.

- Attendance by each Director is as follow:-

| | Name of Directors | No. of Meetings Attended |
|---|---|---|
| - | Mr. Aziz Sarfaraz Khan | 4 |
| - | Begum Laila Sarfaraz | 5 |
| - | Mr. Abbas Sarfaraz Khan | 3 |
| - | Ms. Zarmine Sarfaraz | 4 |
| - | Ms. Najda Sarfaraz | 4 |
| - | Mr. Iskander M Khan | 5 |
| - | Mr. Baber Ali Khan | 3 |
| - | Mr. Abdul Qadar Khattak | 4 |
| - | Mr. Sher Ali Jafar Khan | 2 |

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

## 8. ROLE OF SHAREHOLDERS

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

## 9. DIVIDEND

The Directors do not recommend any dividend due to application of funds in the installation of Ethanol Fuel Plant.

## 10. EXTERNAL AUDITORS

The Audit Committee and Board of Directors have recommended to re-appoint M/s Hameed Chaudhri & Co., Chartered Accountants, Lahore as External Auditors for the financial year 2013-2014. The Board has recommended to approve the minimum audit fee as required by ATR-14 (Revised) issued by the ICAP..

## 11. STATUS OF THE COMPANY

In the light of the directions of the Securities and Exchange Commission of Pakistan, the Company has been treated a subsidiary of The Premier Sugar Mills & Distillery Company Limited with effect from the financial year 2010.

## 12. COMPLIANCE WITH THE 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 Rules, relevant for the year ended 30 September, 2013 have been duly complied with. A statement to this effect is annexed with the report.

**13. ACKNOWLEDGEMENT**

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

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

ON BEHALF OF THE BOARD

Mardan
03 January, 2014

**( AZIZ SARFARAZ KHAN)**
CHAIRMAN/CHIEF EXECUTIVE

## Shareholders' Information

**Registered Office**
Nowshera Road Mardan, Khyber Pakhtunkhwa
Tel # 92 937 862051-52
Fax # 92 937 862989

**Shares Registrar**
Hameed Majeed Associates (Pvt.)Limited,
HM House, 7-Bank Square, Lahore.
Tel # 92 42 37235081-2
Fax # 92 42 37358817

M/s. Hameed Majeed Associates (Pvt.) Limited is managed by a well-experienced team of professionals and is equipped with the necessary infrastructure in terms of computer facilities and comprehensive set of systems and procedures for conducting the Registration function.

The Shares Registrar has online connectivity with Central Depository Company of Pakistan Limited. It undertakes activities pertaining to dematerialization of shares, share transfers, transmissions, issue of duplicate/re-validated dividend warrants, and issue of duplicate/replaced share certificates, change of address and other related matters.

**Listing on Stock Exchanges**
Chashma Sugar Mills Limited Compay's equity shares are listed on Lahore Karachi and Islamabad Stock Exchanges.

**Listing Fees**
The annual listing fee for the financial year 2013-14 has been paid to the stock exchanges within the prescribed time limit.

**Statutory Compliance**
During the year, the Company has complied with all applicable provisions, filed all returns/forms and furnished all the relevant particulars as required under the Companies Ordinance, 1984 and allied rules, the Securities and Exchange Commission of Pakistan (SECP) Regulations and the listing requirements.

**Stock Code**
The stock code for dealing in equity shares of Chashma Sugar Mills Limited at KSE, LSE and ISE is Chas.

**Book Closure Dates**
The Register of Members and Share Transfer books of the Company will remain closed from 21.01.2014 to 31.01.2014

**Web Presence**
Updated information regarding the Company can be accessed at the website, www.chashmasugarmills.com. The website contains the latest financial results of the Company together with Company's profile.

# CHASHMA SUGAR MILLS LIMITED

## FORM - 34

## PATTERN OF SHAREHOLDING OF THE SHARES HELD BY THE SHAREHOLDERS AS AT 30 SEPTEMBER, 2013

| SHARE HOLDERS | SHAREHOLDING | | | | | TOTAL SHARESHELD |
|---|---|---|---|---|---|---|
| 138 | From | 1 | to | 100 | Shares | 10,576 |
| 543 | From | 101 | to | 500 | Shares | 242,635 |
| 132 | From | 501 | to | 1,000 | Shares | 125,147 |
| 157 | From | 1,001 | to | 5,000 | Shares | 408,627 |
| 34 | From | 5,001 | to | 10,000 | Shares | 259,800 |
| 12 | From | 10,001 | to | 15,000 | Shares | 154,500 |
| 10 | From | 15,001 | to | 20,000 | Shares | 179,206 |
| 9 | From | 20,001 | to | 25,000 | Shares | 206,264 |
| 5 | From | 25,001 | to | 30,000 | Shares | 140,500 |
| 3 | From | 30,001 | to | 35,000 | Shares | 102,000 |
| 4 | From | 35,001 | to | 40,000 | Shares | 148,400 |
| 2 | From | 40,001 | to | 60,000 | Shares | 99,500 |
| 1 | From | 60,001 | to | 70,000 | Shares | 69,000 |
| 2 | From | 70,001 | to | 80,000 | Shares | 148,500 |
| 1 | From | 80,001 | to | 85,000 | Shares | 81,800 |
| 6 | From | 85,001 | to | 125,000 | Shares | 652,486 |
| 3 | From | 125,001 | to | 200,000 | Shares | 497,934 |
| 3 | From | 200,001 | to | 310,000 | Shares | 872,000 |
| 4 | From | 310,001 | to | 450,000 | Shares | 1,489,964 |
| 6 | From | 625,001 | to | 2,000,000 | Shares | 5,461,686 |
| 2 | From | 2,000,001 | to | above | Shares | 17,341,475 |
| **1,077** | | | | | | **28,692,000** |

| Categories of Shareholders | Numbers | Shares Held | Percentage |
|---|---|---|---|
| Associated Compaines | 4 | 19,111,834 | 67.50 |
| NIT and ICP | 1 | 24,264 | 0.08 |
| Directors & Relatives | 12 | 4,175,719 | 14.55 |
| Public Sector Companies & Corporation | 12 | 253,534 | 0.89 |
| Banks, Development Finance Institutions, Non Banking Financial Institutions, Insurance Companies, Modarabas and Mutal Funds | 4 | 1,117,121 | 3.89 |
| Individuals | 1,042 | 3,714,528 | 12.05 |
| Charitable Trusts | 2 | 295,000 | 1.03 |
| | **1,077** | **28,692,000** | **100.00** |

| Categories of Shareholders | Numbers | | Shares Held | | Percentage of Paid-up Capital |
|---|---|---|---|---|---|
| **Associated Companies, Undertakings and Related Parties** | **4** | | **19,111,834** | | **67.50** |
| Phipson & Co. (Pak) (Pvt.) Limited | | 307,500 | | 1.07 | |
| Azlak Enterprises (Pvt) Limited | | 1,717,250 | | 5.99 | |
| The Premier Sugar Mills & Distillery Co., Ltd. | | 13,751,000 | | 47.93 | |
| Syntronics Limited | | 3,590,475 | | 12.51 | |
| **NIT and ICP** | **1** | | **24,264** | | **0.08** |
| **Directors & Relatives** | **12** | | **4,175,719** | | **14.55** |
| **Public Sector Companies and Corporations** | **12** | | **253,534** | | **0.89** |
| M/s Asif Mushtaq & Company | | 1,500 | | 0.01 | |
| M/s Neelum Taxtlile Mills (Pvt) Ltd. | | 12,400 | | 0.04 | |
| M/s Shakil Express (Pvt) Limited | | 17,700 | | 0.06 | |
| Amer Cotton Mills (Pvt) Ltd | | 300 | | 0.00 | |
| S.H Bukhari Securities (Pvt) Limited | | 400 | | 0.00 | |
| Mohd Ahmed Nadeem Sec (Pvt) Ltd | | 300 | | 0.00 | |
| Mazhar Hussain Securities (Pvt) Limited | | 2,500 | | 0.01 | |
| Mehran Sugar Mills Limited | | 197,934 | | 0.69 | |
| CMA Securities (Pvt) Ltd. | | 10,000 | | 0.03 | |
| AWJ Securities (Pvt) Limited | | 2,500 | | 0.02 | |
| Fikrees (SMC-Pvt) Limited | | 3,000 | | 0.01 | |
| Trustees Moosa Lawal Foundation | | 5,000 | | 0.02 | |
| **Banks, Development Finance Instituions, Non Banking Financial Instituitions, Insurance Companies, Modarabas and Mutual Funds** | **4** | | **1,117,121** | | **3.89** |
| National Bank of Pakistan. | | 89,694 | | 0.31 | |
| National Bank of Pakistan, trustee Deptt. | | 942,227 | | 3.28 | |
| State Life Insurance Corporatian of Pakistan | | 81,800 | | 0.29 | |
| IDBP (ICP Unit) | | 3,400 | | 0.01 | |
| **Individuals** | **1,042** | | **3,714,528** | | **12.05** |
| **Charitable Trusts** | **2** | | **295,000** | | **1.03** |
| Sarfaraz District Hospital Charity Fund | | 290,000 | | 1.01 | |
| Trustees Moosa Lawari Foundation | | 5,000 | | 0.02 | |
| | **1,077** | | **28,692,000** | | **100.00** |
| **Shareholders holding 10% or more voting Intesrest in the Company** | | | | | |
| The Premier Sugar Mills & Distillery Co., Ltd | | 13,751,000 | | 47.93 | |
| Syntronics Limited | | 3,590,475 | | 12.51 | |

# CHASHMA SUGAR MILLS LIMITED
## STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE

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

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

1. The Company encourages representation of independent Non-Executive Directors and Directors representing minority interests on its board of Directors. At present the Board includes:

| **Category** | **Names** |
|---|---|
| Independent Director | Mr. Sher Ali Jaffar Khan. |
| Executive Directors | Mr. Aziz Sarfaraz Khan, Mr. Abdul Qadar Khattak |
| Non-Executive Directors | Mr. Abbas Sarfaraz Khan, Begum Laila Sarfaraz, Ms. Zarmine Sarfaraz, Ms. Najda Sarfaraz, Mr. Iskander M. Khan, Mr. Baber Ali Khan. |

2. The Directors have confirmed that none of them is serving as a director in more than seven listed companies including this Company.

3. All the Directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a Development Financial Institution or a Non-Banking Financial Institution or he/she, being a member of a stock exchange has been declared as a defaulter by that stock exchange.

4. No casual vacancy has occurred in the Board during the year.

5. The Company has prepared a “Code of Conduct” and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures

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

7. All the powers of the Board have been duly exercised and the Board has taken decisions on material transactions.

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

9. There was no new appointment of Company Secretary and CFO. New Appointment of Head of Internal Audit Department was made during the year.

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

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

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

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

14. The Board has formed an Audit Committee, which is composed of non-executive directors.

15. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the Committee have been formulated and advised to the Committee for compliance.

16. The Board ensures arrangement of orientation courses for its Directors to apprise them of their duties and responsibilities and to keep them informed of the enforcement of new laws, rules and regulations and amendments thereof.

17. The Board has formed an HR and Remuneration Committee. It comprises 3 members, of whom one as executive director and the chairman of the Committee is a non-executive director.

18. The Board has set-up an effective internal audit function.

19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by ICAP.

20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Company's securities, was determined and intimated to directors, employees and stock exchange (s).

22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange (s).

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

**For and on behalf of the Board**

**Islamabad**
03 January, 2014

**(AZIZ SARFARAZ KHAN)**
CHIEF EXECUTIVE

## CHASHMA SUGAR MILLS LIMITED
## REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE
## WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

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

**HAMEED CHAUDHRI & CO.,**
**CHARTERED ACCOUNTANTS**
Audit Engagement Partner: Nafees ud din

**LAHORE;**
**04 January, 2014**

# CHASHMA SUGAR MILLS LIMITED

## AUDITORS' REPORT TO THE MEMBERS

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

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

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

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

**(b)** in our opinion:

- **(i)** the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
- **(ii)** the expenditure incurred during the year was for the purpose of the Company's business; and
- **(iii)** the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

**(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, 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 profit, its cash flows and changes in equity for the year then ended; and

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

**HAMEED CHAUDHRI & CO.,**
**CHARTERED ACCOUNTANTS**
Audit Engagement Partner: Nafees ud din

**LAHORE;**
**04 January, 2014**

# CHASHMA SUGAR MILLS LIMITED

## BALANCE SHEET AS AT 30 SEPTEMBER, 2013

| | | 2013 | 2012 |
|---|---|---|---|
| **Assets** | **Note** | **(Rupees in thousand)** | |
| **Non-current Assets** | | | |
| Property, plant and equipment | 7 | **5,010,389** | 3,167,380 |
| Intangible assets | 8 | **0** | 100 |
| Security deposits | | **4,004** | 3,934 |
| | | **5,014,393** | 3,171,414 |
| **Current Assets** | | | |
| Stores and spares | 9 | **461,159** | 177,166 |
| Stock-in-trade | 10 | **1,318,668** | 1,347,663 |
| Trade debts | 11 | **319,517** | 681,660 |
| Loans and advances | 12 | **154,341** | 124,787 |
| Prepayments and other receivables | 13 | **88,166** | 3,321 |
| Investments | 14 | **0** | 202,154 |
| Sales tax refundable | | **25,754** | 0 |
| Income tax refundable, advance tax and tax deducted at source | | **76,829** | 58,605 |
| Bank balances | 15 | **27,124** | 68,673 |
| | | **2,471,558** | 2,664,029 |
| **Total Assets** | | **7,485,951** | 5,835,443 |
| **Equity and Liabilities** | | | |
| **Share Capital and Reserves** | | | |
| Authorised capital 50,000,000 (2012: 50,000,000) ordinary shares of Rs.10 each | | **500,000** | 500,000 |
| Issued, subscribed and paid-up capital 28,692,000 (2012: 28,692,000) ordinary shares of Rs.10 each | 16 | **286,920** | 286,920 |
| General reserve | | **327,000** | 327,000 |
| Accumulated loss | | **(69,526)** | (188,853) |
| **Shareholders' Equity** | | **544,394** | 425,067 |
| **Surplus on Revaluation of Property, Plant and Equipment** | 17 | **1,980,505** | 972,397 |
| **Non-current Liabilities** | | | |
| Long term financing | 18 | **911,845** | 544,578 |
| Loans from related parties | 19 | **437,000** | 439,687 |
| Liabilities against assets subject to finance lease | 20 | **8,970** | 9,304 |
| Deferred taxation | 21 | **913,125** | 457,943 |
| | | **2,270,940** | 1,451,512 |
| **Current Liabilities** | | | |
| Trade and other payables | 22 | **275,689** | 819,694 |
| Accrued mark-up | 23 | **120,236** | 98,838 |
| Short term borrowings | 24 | **1,999,468** | 1,710,005 |
| Current portion of non-current liabilities | 25 | **225,575** | 323,453 |
| Sales tax payable | | **0** | 3,789 |
| Taxation | 26 | **69,144** | 30,688 |
| | | **2,690,112** | 2,986,467 |
| **TOTAL LIABILITIES** | | **4,961,052** | 4,437,979 |
| **TOTAL EQUITY & LIABILITIES** | | **7,485,951** | 5,835,443 |
| **Contingencies and Commitments** | 27 | | |

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

**AZIZ SARFARAZ KHAN**
**CHIEF EXECUTIVE**

**ISKANDER M KHAN**
**DIRECTOR**

# CHASHMA SUGAR MILLS LIMITED
## PROFIT AND LOSS ACCOUNT
## FOR THE YEAR ENDED 30 SEPTEMBER, 2013

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **Sales** | 28 | **6,673,731** | 5,848,891 |
| **Cost of Sales** | 29 | **6,173,254** | 5,702,814 |
| **Gross Profit** | | **500,477** | 146,077 |
| **Distribution Cost** | 30 | **89,830** | 15,586 |
| **Administrative Expenses** | 31 | **157,038** | 118,728 |
| **Other Expenses** | 32 | **4,297** | 275 |
| **Other Income** | 33 | **(231,938)** | (85,835) |
| | | **19,227** | 48,754 |
| **Profit from Operations** | | **481,250** | 97,323 |
| **Finance Cost** | 34 | **424,522** | 336,390 |
| **Profit / (Loss) before Taxation** | | **56,728** | (239,067) |
| **Taxation** | 35 | **23,756** | (20,096) |
| **Profit / (Loss) after Taxation** | | **32,972** | (218,971) |
| **Other Comprehensive Income** | | **0** | 0 |
| **Total Comprehensive Income / (Loss)** | | **32,972** | (218,971) |
| | | ------- Rupees ------- | |
| **Earnings / (Loss) per Share** | 36 | **1.15** | (7.63) |

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

**AZIZ SARFARAZ KHAN**
**CHIEF EXECUTIVE**

**ISKANDER M KHAN**
**DIRECTOR**

# CHASHMA SUGAR MILLS LIMITED
# CASH FLOW STATEMENT
## FOR THE YEAR ENDED 30 SEPTEMBER, 2013

| | 2013 | 2012 |
|---|---|---|
| **Cash flow from operating activities** | **(Rupees in thousand)** | |
| Profit / (loss) for the year - before taxation | **56,728** | (239,067) |
| Adjustments for non-cash charges and other items: | | |
| Depreciation | **261,793** | 287,673 |
| Amortisation of intangible assets | **100** | 100 |
| Profit on deposit accounts | **(4,575)** | (4,936) |
| Fair value gain on re-measurement of investments | **0** | (11,501) |
| Gain on redemption of investments | **(16,556)** | (32,262) |
| Gain on disposal of operating fixed assets | **(774)** | (548) |
| Finance cost | **420,738** | 333,783 |
| **Profit before working capital changes** | **717,454** | 333,242 |
| **Effect on cash flow due to working capital changes** | | |
| (Increase) / decrease in current assets: | | |
| Stores and spares | **(283,993)** | (7,800) |
| Stock-in-trade | **28,995** | 621,628 |
| Trade debts | **362,143** | (642,928) |
| Loans and advances | **(29,554)** | (49,577) |
| Prepayments and other receivables | **(84,845)** | (1,397) |
| Sales tax refundable - net | **(29,543)** | (12,228) |
| (Decrease) / increase in trade and other payables | **(543,998)** | 549,332 |
| | **(580,795)** | 457,030 |
| **Cash generated from operations** | **136,659** | 790,272 |
| Income tax paid | **(48,010)** | (92,808) |
| Security deposits | **(70)** | (225) |
| **Net cash generated from operating activities** | **88,579** | 697,239 |
| **Cash flow from investing activities** | | |
| Purchase of property, plant and equipment | **(512,396)** | (356,312) |
| Insurance claim / sale proceeds of operating fixed assets | **2,499** | 900 |
| Investments redeemed | **218,710** | 20,649 |
| Profit on bank deposits received | **4,575** | 4,936 |
| **Net cash used in investing activities** | **(286,612)** | (329,827) |
| **Cash flow from financing activities** | | |
| Long term finances - net | **310,509** | 234,789 |
| Loans from related parties repaid | **(45,500)** | (20,000) |
| Lease finances - net | **1,359** | 5,160 |
| Short term borrowings - net | **233,099** | (195,095) |
| Dividend paid | **(7)** | (28,327) |
| Finance cost paid | **(399,340)** | (360,393) |
| **Net cash generated from / (used in) financing activities** | **100,120** | (363,866) |
| **Net (decrease) / increase in cash and cash equivalents** | **(97,913)** | 3,546 |
| **Cash and cash equivalents** - at beginning of the year | **68,673** | 65,127 |
| **Cash and cash equivalents** - at end of the year | **(29,240)** | 68,673 |
| **Cash and cash equivalents comprised of:** | | |
| Bank balances | **27,124** | 68,673 |
| Temporary bank overdrafts | **(56,364)** | 0 |
| | **(29,240)** | 68,673 |

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

**AZIZ SARFARAZ KHAN**
**CHIEF EXECUTIVE**

**ISKANDER M KHAN**
**DIRECTOR**

## CHASHMA SUGAR MILLS LIMITED
## STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 30 SEPTEMBER, 2013

| | Share capital | General reserve | Accumulated loss | Total |
|---|---|---|---|---|
| | --------------- Rupees in thousand | | | ---------------- |
| Balance as at September 30, 2011 | 286,920 | 327,000 | (35,687) | 578,233 |
| Transaction with owners:<br>Final cash dividend for the year ended September 30, 2011 at the rate of Re.1 per share | 0 | 0 | (28,692) | (28,692) |
| Total comprehensive loss for the year ended September 30, 2012 | 0 | 0 | (218,971) | (218,971) |
| Transfer from surplus on revaluation of property, plant and equipment on account of incremental depreciation for the year -net of deferred taxation | 0 | 0 | 94,497 | 94,497 |
| Balance as at September 30, 2012 | 286,920 | 327,000 | (188,853) | 425,067 |
| Total comprehensive income for the year ended September 30, 2013 | 0 | 0 | 32,972 | 32,972 |
| Transfer from surplus on revaluation of property, plant and equipment on account of incremental depreciation for the year -net of deferred taxation | 0 | 0 | 86,355 | 86,355 |
| **Balance as at September 30, 2013** | **286,920** | **327,000** | **(69,526)** | **544,394** |

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

**AZIZ SARFARAZ KHAN**
**CHIEF EXECUTIVE**

**ISKANDER M KHAN**
**DIRECTOR**

# CHASHMA SUGAR MILLS LIMITED
# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 SEPTEMBER, 2013

## 1. CORPORATE INFORMATION

1.1 Chashma Sugar Mills Limited (the Company) was incorporated on May 05, 1988 as a Public Company and it commenced commercial production from October 01, 1992. The Company is principally engaged in manufacture and sale of white sugar. Its shares are quoted on all Stock Exchanges in Pakistan. The Head Office of the Company is situated at King's Arcade, 20-A, Markaz F-7, Islamabad and the Mills are located at Dera Ismail Khan.

1.2 The Premier Sugar Mills & Distillery Company Limited (PSM) directly and indirectly controls / beneficially owns more than fifty percent of the Company's paid-up capital and also has the power to elect and appoint more than fifty percent of the Company's directors; accordingly, the Company has been treated a Subsidiary of PSM with effect from the financial year ended September 30, 2010.

## 2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the approved accounting standards as applicable in Pakistan. 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 Ordinance. Wherever, the requirements of the Ordinance or directives issued by the SECP differ with the requirements of these standards, the requirements of the Ordinance or requirements of the said directives have been followed.

## 3. BASIS OF MEASUREMENT

### 3.1 Accounting convention

These financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies.

### 3.2 Functional and presentation currency

These financial statements are presented in Pak Rupees, which is the functional currency of the Company. All financial information presented in Pak Rupees has been rounded-off to the nearest thousand, unless otherwise stated.

## 4. NEW STANDARDS, AMENDMENTS TO APPROVED ACCOUNTING STANDARDS AND NEW INTERPRETATIONS

### 4.1 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.

## 4.2 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.

**(a)** 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).

**(b)** 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.

**(c)** 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.

**(d)** 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.

**(e)** 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.

## 5. 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.

## 5.1 Property, plant and equipment and depreciation

### Owned assets

These, other than freehold land, buildings & roads and plant & machinery, are stated at cost less accumulated depreciation and any identified impairment loss. Freehold land is stated at revalued amount whereas buildings & roads and plant & machinery are stated at revalued amounts less accumulated depreciation and any identified impairment loss. Capital work-in-progress is stated at cost. Cost of some items of plant & machinery consists of historical cost and exchange fluctuation effects on foreign currency loans capitalised during prior years.

Depreciation is charged to income applying reducing balance method to write-off the cost and capitalised exchange fluctuations over estimated remaining useful life of assets. Rates of depreciation are stated in note 7.1. Depreciation on additions is charged from the month in which the asset is put to use and on disposals up to the month of disposal. The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which these are incurred.

Gains / losses on disposal of property, plant and equipment are taken to profit and loss account.

### Assets subject to finance lease

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

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

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

Depreciation on assets subject to finance lease is charged to income at the rate stated in note 7.1 applying reducing balance method to write-off the cost of the asset over its estimated remaining useful life in view of certainty of ownership of assets at the end of lease period.

Depreciation on additions to leased assets is charged from the month in which an asset is acquired while no depreciation is charged for the month in which the asset is disposed-off.

Finance cost and depreciation on leased assets are charged to income currently.

**5.2 Intangible assets and amortisation thereon**

Expenditure incurred to acquire computer software are capitalised as intangible assets and stated at cost less accumulated amortisation. Amortisation is charged to income applying straight-line method to amortise the cost of intangible assets over their estimated useful life. Rate of amortisation is stated in note 8.1.

**5.3 Stores and spares**

Stores and spares are stated at the lower of cost and net realisable value. The cost of inventory is based on moving average cost. Items in transit are stated at cost accumulated upto the balance sheet date. The Company reviews the carrying amount of stores and spares on a regular basis and provision is made for identified obsolete and slow moving items.

**5.4 Stock-in-trade**

Basis of valuation are as follows:

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

- Cost in relation to finished goods and sugar-in-process represents the annual average manufacturing cost, which consists of prime cost and appropriate production overheads.
- Net realisable value signifies the estimated selling price in the ordinary course of business less cost necessary to be incurred to effect such sale.

**5.5 Trade debts and other receivables**

Trade debts are initially recognised at original invoice amount, which is the fair value of consideration to be received in future and subsequently measured at cost less provision for doubtful debts, if any. Carrying amounts of trade debts and other receivables are assessed at each reporting date and a provision is made for doubtful debts and receivables when collection of the amount is no longer probable. Debts and receivables considered irrecoverable are written-off.

**5.6 Short term investments** (at fair value through profit or loss)

Investments at fair value through profit or loss are those which are acquired for generating a profit from short-term fluctuation in prices. All investments are initially recognised at cost, being fair value of the consideration given. Subsequent to initial recognition, these investments are re-measured at fair value (quoted market price). Any gain or loss from a change in the fair value is recognised in income.

**5.7 Cash and cash equivalents**

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

**5.8 Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently measured at amortised cost using the effective interest rate method. Borrowings are classified as current liabilities unless the Company has an unconditional / contractual right to defer settlement of the liability for at least twelve months after the balance sheet date.

**5.9 Staff retirement benefits** (defined contribution plan)

The Company is operating a provident fund scheme for all its permanent employees; equal monthly contribution to the fund is made at the rate of 8.25% of the basic salaries both by the employees and the Company.

**5.10 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.

**5.11 Taxation**

**Current and prior year**

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. The tax charge also includes adjustments, where necessary, relating to prior years which arise from assessments finalised during the year.

**Deferred**

Deferred tax is recognised using the balance sheet liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts appearing in the financial statements. Deferred tax liability is recognised for all taxable temporary differences. Deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that temporary differences will reverse in the future and taxable income will be available against which the temporary differences can be utilised.

Deferred tax asset and liability is measured at the tax rate that is expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date.

**5.12 Dividend and appropriation to reserves**

Dividend distribution to the Company's shareholders and appropriation to reserves are recognised in the period in which these are approved.

**5.13 Development expenditure**

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

**5.14 Provisions**

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

### 5.15 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.

### 5.16 Financial instruments

Financial assets and financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument and derecognised when the Company loses control of contractual rights that comprise the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of financial assets and financial liabilities is included in the profit and loss account for the year.

Financial instruments carried on the balance sheet include security deposits, trade debts, loans & advances, other receivables, investments, bank balances, long term financing, loans from related parties, liabilities against assets subject to finance lease, trade & other payables, accrued mark-up and short term borrowings. All financial assets and liabilities are initially measured at cost, which is the fair value of consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value or cost as the case may be. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

### 5.17 Off-setting of financial assets and liabilities

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

### 5.18 Revenue recognition

Revenue is recognised 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:

- Sales are recorded on dispatch of goods.
- Income on deposit / saving accounts is accounted for on 'accrual basis'.

### 5.19 Impairment loss

The carrying amounts of the Company's assets are reviewed at each balance sheet date to identify circumstances indicating occurrence of impairment loss or reversal of provisions for impairment losses. If any indications exist, the recoverable amounts of such assets are estimated and impairment losses or reversals of impairment losses are recognised in the profit and loss account. Reversal of impairment loss is restricted to the original cost of the asset.

### 5.20 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.

## 6. ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectation of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Company's financial statements or where judgment was exercised in application of accounting policies are as follows:

### a) Property, plant and equipment

The Company reviews appropriateness of the rates of depreciation, useful lives and residual values for calculation of depreciation on an on-going basis. Further, where applicable, an estimate of recoverable amount of asset is made if indicators of impairment are identified.

### b) Stores & spares and stock-in-trade

The Company estimates the net realisable value of stores & spares and stock-in-trade to assess any diminution in the respective carrying values. Net realisable value is determined with reference to estimated selling price less estimated expenditure to make sale.

### c) Provision for impairment of trade debts

The Company assesses the recoverability of its trade debts if there is objective evidence that the Company will not be able to collect all the amount due according to the original terms. Significant financial difficulties of the debtors, probability that the debtor will enter bankruptcy and default or delinquency in payments are considered indications that the trade debt is impaired.

### d) Taxation

In making the estimate for income taxes payable by the Company, the management looks at the applicable law and decisions of appellate authorities on certain issues in the past.

### e) Contingencies

The Company reviews the status of all the legal cases on a regular basis. Based on the expected outcome and legal advisors' judgments, appropriate provision is made.

## 7. PROPERTY, PLANT AND EQUIPMENT

| | Note | **2013** | 2012 |
|---|---|---|---|
| | | **(Rupees in thousand)** | |
| Operating fixed assets - tangible | **7.1** | **4,112,223** | 2,727,325 |
| Capital work-in-progress | **7.6** | **896,121** | 277,588 |
| Stores held for capital expenditure | | **2,045** | 162,467 |
| | | **5,010,389** | 3,167,380 |

## 7.1 **Operating fixed assets** - tangible

| | Owned | | | | | | | | Leased | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Freehold land | Buildings and roads | Plant and machinery | Electric installati-ons | Office equip-ment | Farm equip-ment | Furniture and fixtures | Vehicles | Vehicles | Total |
| | ---- Rupees in thousand ---- | | | | | | | | | |
| **As at September 30, 2011** | | | | | | | | | | |
| **Cost / revaluation** | 162,989 | 591,916 | 2,239,720 | 162,479 | 24,241 | 1,017 | 17,411 | 39,488 | 6,310 | 3,245,571 |
| **Accumulated depreciation** | 0 | 95,859 | 38,455 | 73,600 | 10,759 | 137 | 9,921 | 23,551 | 269 | 252,551 |
| **Book value as at September 30, 2011** | 162,989 | 496,057 | 2,201,265 | 88,879 | 13,482 | 880 | 7,490 | 15,937 | 6,041 | 2,993,020 |
| **Year ended September 30, 2012:** | | | | | | | | | | |
| **Additions** | 330 | 0 | 0 | 1,210 | 2,849 | 0 | 1,364 | 4,262 | 12,315 | 22,330 |
| **Disposals:** | | | | | | | | | | |
| **-cost** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (1,279) | 0 | (1,279) |
| **-depreciation** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 927 | 0 | 927 |
| **Depreciation charge for the year** | 0 | 49,606 | 220,126 | 8,934 | 1,525 | 88 | 845 | 3,809 | 2,740 | 287,673 |
| **Book value as at September 30, 2012** | 163,319 | 446,451 | 1,981,139 | 81,155 | 14,806 | 792 | 8,009 | 16,038 | 15,616 | 2,727,325 |
| **Year ended September 30, 2013:** | | | | | | | | | | |
| **Additions** | 30,298 | 0 | 0 | 1,442 | 4,641 | 0 | 1,250 | 11,431 | 5,223 | 54,285 |
| **Revaluation adjustments:** | | | | | | | | | | |
| **- cost / revaluation** | 86,037 | 21,009 | 840,280 | 0 | 0 | 0 | 0 | 0 | 0 | 947,326 |
| **- depreciation** | 0 | 190,110 | 456,695 | 0 | 0 | 0 | 0 | 0 | 0 | 646,805 |
| **Disposals:** | | | | | | | | | | |
| **- cost** | 0 | 0 | 0 | 0 | 0 | (55) | 0 | (2,580) | 0 | (2,635) |
| **- depreciation** | 0 | 0 | 0 | 0 | 0 | 16 | 0 | 894 | 0 | 910 |
| **Depreciation charge for the year** | 0 | 44,645 | 198,114 | 8,166 | 1,768 | 79 | 870 | 4,750 | 3,401 | 261,793 |
| **Book value as at September 30, 2013** | **279,654** | **612,925** | **3,080,000** | **74,431** | **17,679** | **674** | **8,389** | **21,033** | **17,438** | **4,112,223** |
| **As at September 30, 2012** | | | | | | | | | | |
| **Cost / revaluation** | 163,319 | 591,916 | 2,239,720 | 163,689 | 27,090 | 1,017 | 18,775 | 42,471 | 18,625 | 3,266,622 |
| **Accumulated depreciation** | 0 | 145,465 | 258,581 | 82,534 | 12,284 | 225 | 10,766 | 26,433 | 3,009 | 539,297 |
| **Book value** | 163,319 | 446,451 | 1,981,139 | 81,155 | 14,806 | 792 | 8,009 | 16,038 | 15,616 | 2,727,325 |
| **As at September 30, 2013** | | | | | | | | | | |
| **Cost / revaluation** | 279,654 | 803,035 | 3,536,695 | 165,131 | 31,731 | 962 | 20,025 | 51,322 | 23,848 | 4,912,403 |
| **Accumulated depreciation** | 0 | 190,110 | 456,695 | 90,700 | 14,052 | 288 | 11,636 | 30,289 | 6,410 | 800,180 |
| **Book value** | **279,654** | **612,925** | **3,080,000** | **74,431** | **17,679** | **674** | **8,389** | **21,033** | **17,438** | **4,112,223** |
| **Depreciation rate (%)** | **0** | **10** | **10** | **10** | **10** | **10** | **10** | **20** | **20** | |

**7.2** Revaluation surplus on each class of assets, as a result of latest revaluation as detailed in note 17.2, has been determined as follows:

| **Particulars** | **Freehold land** | **Buildings & roads** | **Plant & machinery** | **Total** |
|---|---|---|---|---|
| | **------------ Rupees in thousand ------------** | | | |
| Cost / revaluation as at September 30, 2013 | 193,617 | 591,916 | 2,239,720 | 3,025,253 |
| Accumulated depreciation to September 30, 2013 | 0 | 190,110 | 456,695 | 646,805 |
| Book value before revaluation adjustments as at September 30, 2013 | 193,617 | 401,806 | 1,783,025 | 2,378,448 |
| Revalued amount | 279,654 | 612,925 | 3,080,000 | 3,972,579 |
| **Revaluation surplus** | **86,037** | **211,119** | **1,296,975** | **1,594,131** |

7.3 Had the aforementioned revalued fixed assets of the Company been recognised under the cost model, the carrying values of these assets would have been as follows:

| | 2013 | 2012 |
|---|---|---|
| | (Rupees in thousand) | |
| - freehold land | **71,685** | 41,387 |
| - buildings & roads | **197,984** | 219,982 |
| - plant and machinery | **809,280** | 899,200 |
| | **1,078,949** | 1,160,569 |

**7.4 Depreciation for the year has been allocated as follows:**

| | 2013 | 2012 |
|---|---|---|
| Cost of sales | **251,004** | 278,754 |
| Administrative expenses | **10,789** | 8,919 |
| | **261,793** | 287,673 |

**7.5 Disposal of operating fixed assets**

| Particulars | Cost | Accumulated depreciation | Book value | Sale proceeds | Gain | Mode of disposal | Particulars of buyers |
|---|---|---|---|---|---|---|---|
| | ------- Rupees in thousand ------- | | | | | | |
| Farm equipment | 55 | 16 | 39 | 55 | 16 | Negotiation | Muhammad Ibrahim, Village Quyyum Nagar Dera Ismail Khan. |
| Vehicles: | | | | | | | |
| Suzuki Jeep | 324 | 313 | 11 | 405 | 394 | - do - | Mr. Mumtaz Bahadar, Village Tambulak, Mardan. |
| Suzuki Jeep | 255 | 253 | 2 | 185 | 183 | - do - | Mr. Aurangzeb, Village Par Hoti, Mardan. |
| Suzuki Khyber | 242 | 240 | 2 | 95 | 93 | - do - | Muhammad Hanif, House No. 624, Street No. 2, Sector G-9/2, Islamabad. |
| Toyota Corolla | 1,759 | 88 | 1,671 | 1,759 | 88 | Insurance claim received | IGI Insurance Ltd Lahore. |
| | 2,580 | 894 | 1,686 | 2,444 | 758 | | |
| | **2,635** | **910** | **1,725** | **2,499** | **774** | | |

### 7.6 Capital work-in-progress

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| Freehold land - advance payments | | **421** | 421 |
| Buildings on freehold land | | **174,336** | 48,956 |
| Plant and machinery | | **643,263** | 209,700 |
| Electric installations | | **43,440** | 12,040 |
| Office equipment | | **297** | 0 |
| Furniture and fixtures | | **111** | 0 |
| Vehicle | | **1,014** | 0 |
| Un-allocated capital expenditure | **7.7** | **33,239** | 6,471 |
| | | **896,121** | 277,588 |

### 7.7 Un-allocated capital expenditure

| | | |
|---|---|---|
| Salaries and benefits | **7,134** | 861 |
| Fee for soil testing | **750** | 750 |
| Consultancy fee for Ethanol Fuel Plant and other charges | **5,229** | 4,651 |
| Mark-up on long term financing | **15,157** | 0 |
| Others | **4,969** | 209 |
| | **33,239** | 6,471 |

### 8. INTANGIBLE ASSETS - Computer softwares

| | | |
|---|---|---|
| Cost as at September 30, | **6,592** | 6,592 |
| Less: amortisation: | | |
| - at beginning of the year | **6,492** | 6,392 |
| - charge for the year | **100** | 100 |
| - at end of the year | **6,592** | 6,492 |
| Book value as at September 30 , | **0** | 100 |

**8.1** Amortisation is charged to income applying the straight-line method at the rate of 33.33% per annum.

### 9. STORES AND SPARES

| | | |
|---|---|---|
| Stores including in-transit inventory valuing Rs.239.987 million (2012: Rs.40.002 million) | **431,708** | 150,887 |
| Spares | **29,451** | 26,279 |
| | **461,159** | 177,166 |

| | | | 2013 | 2012 |
|---|---|---|---|---|
| **10.** | **STOCK-IN-TRADE** | **Note** | **(Rupees in thousand)** | |
| | Finished goods | | **1,314,744** | 1,340,572 |
| | Sugar-in-process | | **3,924** | 7,091 |
| | | | **1,318,668** | 1,347,663 |

**11. TRADE DEBTS** - Unsecured, considered good

Year-end balance of trade debts includes a debt amounting Rs.32.300 million, which is overdue since September 30, 2011. To secure this debt, the Company has executed a sale deed with the debtor whereby commercial property owned by him will be transferred to the Company if he fails to meet his commitment.

**12. LOANS AND ADVANCES**

| | Note | 2013 | 2012 |
|---|---|---|---|
| Advance payments to: | | | |
| - employees | | **3,329** | 3,998 |
| - suppliers and contractors | **12.1** | **128,652** | 121,876 |
| Due from an Associated Company | **12.2** | **19** | 793 |
| Letters of credit | | **24,778** | 557 |
| | | **156,778** | 127,224 |
| Less: provision for doubtful advances | | **2,437** | 2,437 |
| | | **154,341** | 124,787 |

**12.1** These are unsecured and considered good except for Rs.2.437 million (2012: Rs.2.437 million), which have been fully provided for in the books of account.

**12.2** This represents due from Syntron Limited (2012: The Frontier Sugar Mills & Distillery Ltd.) in respect of current account transactions.

**12.3** **(a)** The Company has related party relationship with its Holding Company and Associated Companies, its directors and key management personnel. Transactions with related parties are carried-out on arm's length basis. There were no transactions with key management personnel other than under the terms of employment. Aggregate transactions with the Holding Company and Associated Companies during the year were as follows:

| | 2013 | 2012 |
|---|---|---|
| **The Holding Company** | | |
| - sale of goods | **4,990** | 4,832 |
| - sale of stores | **4,838** | 1,734 |
| - mark-up expensed | **31,730** | 45,195 |
| - dividend paid | **0** | 13,751 |
| **Associated Companies** | | |
| - purchase of goods | **35,403** | 53,980 |
| - mark-up expensed | **18,323** | 23,933 |
| - dividend paid | **0** | 5,361 |

**(b)** Maximum aggregate debit balance of the Holding Company and Associated Companies at any month-end during the year was Rs.8.587 million (2012: Rs.7.547 million).

| | Note | **2013** | 2012 |
|---|---|---|---|
| **13. PREPAYMENTS AND OTHER RECEIVABLES** | | **(Rupees in thousand)** | |
| Prepayments | | **2,846** | 2,754 |
| Sugar export subsidy receivable | **13.1** | **84,833** | 0 |
| Others | | **487** | 567 |
| | | **88,166** | 3,321 |

**13.1** This represents subsidy receivable from the Ministry of Commerce, Government of Pakistan (GoP). The GoP, vide public notice dated February 08, 2013, has decided to compensate inland freight cost to exporters of 0.895 million metric tones of sugar at the rate of Rs.1.75 per kg.

**14. INVESTMENTS** - At fair value through profit or loss

| | **2013** | 2012 |
|---|---|---|
| Pakistan Cash Management Fund - Nil Units (2012: 2,347,097 Units) | **0** | 112,423 |
| Askari Sovereign Fund - Nil Units (2012: 841,240 Units) | **0** | 78,230 |
| | **0** | 190,653 |
| Add: adjustment arising from re-measurement to fair value | **0** | 11,501 |
| | **0** | 202,154 |

**15. BANK BALANCES**

| | Note | **2013** | 2012 |
|---|---|---|---|
| Cash at banks on: | | | |
| - current accounts | **15.1** | **21,144** | 44,260 |
| - PLS accounts | **15.2** | **5,751** | 24,324 |
| - deposit accounts | **15.2** | **229** | 89 |
| | | **27,124** | 68,673 |

**15.1** These include dividend account balance of Rs.1.722 million (2012: Rs.1.723 million).

**15.2** These carry profit at the rate of 6% (2012: 6%) per annum.

## 16. SHARE CAPITAL

| | | 2013 | 2012 |
|---|---|---|---|
| | | (Number of shares) | |
| Ordinary shares held by the related parties at the year-end are as follows: | | | |
| **Holding Company** | | | |
| - The Premier Sugar Mills & Distillery Co. Ltd. | | **13,751,000** | 13,751,000 |
| **Associated Companies** | | | |
| - Azlak Enterprises (Pvt.) Ltd. | | **1,462,859** | 1,462,859 |
| - Phipson & Co. Pakistan (Pvt.) Ltd. | | **307,500** | 307,500 |
| - Syntronics Ltd. | | **3,590,475** | 3,590,475 |
| | | **19,111,834** | 19,111,834 |

## 17. SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT - Net

**17.1** The Company had revalued its freehold land, building & roads and plant & machinery of its Unit - I on March 31, 2008, which resulted in revaluation surplus aggregating Rs.957.702 million. The Company as at September 30, 2011 had also revalued the aforementioned fixed assets of its both Units, which resulted in revaluation surplus aggregating Rs.880.755 million. These fixed assets were revalued by independent Valuers on the basis of replacement value / depreciated market values.

**17.2** The Company as at September 30, 2013, has again revalued the aforementioned fixed assets of its both Units. The revaluation exercise has been carried-out by Independent Valuers - K.G. Traders (Pvt.) Ltd., Clifton Centre, Khayaban-e-Roomi, Clifton, Karachi. Freehold land has been revalued on the basis of current market value whereas buildings & roads and plant & machinery have been revalued on the basis of depreciated market values. The appraisal surplus arisen on latest revaluation aggregating Rs. 1.594 billion has been credited to this account to comply with the requirements of section 235 of the Companies Ordinance, 1984. The year-end balance has been arrived at as follows:

| | | 2013 | 2012 |
|---|---|---|---|
| Opening balance | | **1,430,340** | 1,575,719 |
| Add: surplus arisen on revaluation carried-out during the year | 7.2 | **1,594,131** | 0 |
| Less: transferred to accumulated loss on account of incremental depreciation for the year | | **(130,841)** | (145,379) |
| | | **2,893,630** | 1,430,340 |
| Less: deferred tax on: | | | |
| - opening balance of surplus | | **457,943** | 508,825 |
| - surplus on revaluation carried-out during the year | | **512,752** | 0 |
| - incremental depreciation for the year | | **(44,486)** | (50,882) |
| | | **926,209** | 457,943 |
| | | **1,967,421** | 972,397 |
| Resultant adjustment due to reduction in tax rate | | **13,084** | 0 |
| Closing balance | | **1,980,505** | 972,397 |

| | | | 2013 | 2012 |
|---|---|---|---|---|
| **18.** | **LONG TERM FINANCING** - Secured | **Note** | **(Rupees in thousand)** | |
| | From banking companies | | | |
| | **Bank Alfalah Limited:** (BAL) | | | |
| | - Term finance - II | **18.1** | **40,000** | 80,000 |
| | - Term finance - III | **18.2** | **250,000** | 242,939 |
| | | | **290,000** | 322,939 |
| | **Bank Al-Habib Limited:** (BAH) | | | |
| | - Term finance - I | **18.3** | **30,000** | 120,000 |
| | - Term finance - II | **18.4** | **70,000** | 140,000 |
| | - Fixed loan | **18.5** | **55,230** | 0 |
| | - Long term finance [(LTFF) - SBP] | **18.5** | **172,713** | 0 |
| | | | **327,943** | 260,000 |
| | **Silkbank Limited:** | | | |
| | - Term finance | **18.6** | **0** | 30,000 |
| | **Soneri Bank Limited:** (SBL) | | | |
| | - Term finance | **18.7** | **2,292** | 0 |
| | - LTFF (ERF) | **18.7** | **24,325** | 0 |
| | | | **26,617** | 0 |
| | **The Bank of Punjab:** (BoP) | | | |
| | - Demand finance | **18.8** | **92,472** | 0 |
| | - LTFF | **18.8** | **215,800** | 0 |
| | | | **308,272** | 0 |
| | **The Bank of Khyber:** (BoK) | | | |
| | - Demand finance | **18.9** | **179,130** | 208,514 |
| | | | **1,131,962** | 821,453 |
| | Less: current portion grouped under current liabilities (2012 balance included an overdue instalment of Rs.30 million, which was repaid on October 10, 2012) | | **220,117** | 276,875 |
| | | | **911,845** | 544,578 |

**18.1** Term finance facilities utilised from BAL aggregated Rs.400 million. The outstanding balance of term finance-I was fully repaid during October, 2011. Term finance-II carries mark-up at the rate of 6-months KIBOR plus 2%; the effective mark-up rate during the year ranged from 11.06% to 14% (2012: 13.95% to 15.80%) per annum. Term finance-II is repayable in 10 equal half-yearly instalments commenced from January, 2010. Term finance-II and term finance-III are secured against first registered joint pari passu charge on present and future fixed assets of the Company for Rs.533.334 million.

**18.2** These finances have been obtained against a term finance facility of Rs.250 million for purchase of plant & machinery and are repayable in 10 equal half-yearly instalments commencing September, 2014. These finances are secured against the securities as detailed in note 18.1 and carry mark-up at the rates detailed in note 18.1.

**18.3** Term finance facility utilised from BAH aggregated Rs.300 million; the facility has been obtained for establishment of Unit - 2 and is secured against joint pari passu charge over fixed assets of the Company; BAH's share amounts to Rs.866.667 million. This finance facility, during the year, has carried mark-up at the rates ranging from 10.96% to 13.84% (2012: 13.81% to 15.59%) per annum and is repayable in 9 equal half-yearly instalments commenced from February, 2010.

**18.4** Term finance facility utilised from BAH aggregated Rs.350 million; the facility has also been obtained for establishment of Unit - 2 and is secured against the securities as stated in note 18.3. This finance facility, during the year, has carried mark-up at the rates ranging from 11.16% to 14.04% (2012: 14.01% to 15.79%) per annum and is repayable in 9 equal half-yearly instalments commenced from May, 2010.

**18.5** Fixed loan and LTFF (SBP) finance facilities available from BAH aggregate Rs.500 million and are being utilised for establishment of ethanol plant. The finance facilities tenor is seven years with two years grace period from the date of first disbursement and are secured against the securities as detailed in note 18.3. Fixed loan carries mark-up at the rate of 6-months average KIBOR; the effective mark-up rates during the year ranged from 10.52% to 11.12% per annum. LTFF (SBP) finance facility carries mark-up at SBP rate + 3%; the effective mark-up rate during the year was 11.40% per annum.

**18.6** Term finance facility utilised from Silk Bank Ltd. aggregated Rs.150 million; the facility was obtained to finance the acquisition of plant and machinery for Unit-2 and was secured against joint pari passu charge over fixed assets of the Company for Rs.200 million. This finance facility carried mark-up at the rate of 6-months KIBOR plus 2%; the effective mark-up rate during the year ranged from 11.38% to 14.06% (2012: 14.02% to 15.78%) per annum. The outstanding balance of this finance facility was fully repaid during the year.

**18.7** Term finance and LTFF (ERF) facilities available from SBL aggregate Rs.500 million and have been obtained to finance plant and machinery. The finance facilities tenor is 7 years with two years grace period and are secured against joint pari passu charge of Rs.666.667 million over present and future fixed assets of the Company. Term finance carries mark-up at the rate of 6-months KIBOR + 1.75%; the effective mark-up rate during the year was 10.92% per annum. LTFF (ERF) carries mark-up at SBP rate + 3%; the effective mark-up rate during the year was 11.40% per annum.

**18.8** Demand finance and LTFF finance facilities available from BoP aggregate Rs.500 million and have been obtained to finance distillery / ethanol plant being established by the Company. The finance facilities tenor is 7 years with two years grace period and are secured against joint pari passu hypothecation charge over fixed assets of the Company for Rs.666.670 million. Demand finance carries mark-up at the rate of 6-months KIBOR + 1.3%; the effective mark-up rate during the year ranged from 10.16% to 10.89% per annum. LTFF carries mark-up at SBP rate + 3%; the effective mark-up rate during the year was 11.40% per annum.

**18.9** Demand finance facility available from BoK for purchase of plant & machinery amounts to Rs.250 million and carries mark-up at the rate of 6-months KIBOR plus 200 bps with no floor and no cap; the effective mark-up rate during the year ranged from 11.06% to 14% (2012: 13.95% to 14.01%) per annum. The finance facility is repayable in 16 equal quarterly instalments commenced from January, 2013 and is secured against first registered pari passu charge for Rs.350 million over all present and future fixed assets of the Company.

## 19. LOANS FROM RELATED PARTIES - Secured

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| **Holding Company** | | | |
| The Premier Sugar Mills & Distillery Co. Ltd. **(PSM)** | **19.1** | **279,500** | 302,500 |
| **Associated Companies** | | | |
| Premier Board Mills Ltd. **(PBM)** | **19.2** | **113,750** | 130,000 |
| Arpak International Investments Ltd. **(AIIL)** | **19.3** | **43,750** | 50,000 |
| | | **437,000** | 482,500 |
| Less: current portion grouped under current liabilities | | **0** | 42,813 |
| | | **437,000** | 439,687 |

**19.1** The Company and PSM have entered into a loan agreement on May 20, 2008 whereby PSM has advanced amounts aggregating Rs.322.500 million to the Company. The loan carries mark-up at the rate of one month KIBOR+1.25% per annum; the effective mark-up rate charged by PSM during the year ranged from 10.53% to 11.68% (2012: 13.42% to 15.17%) per annum. As per the previous loan agreement, the loan was repayable in 8 equal half-yearly instalments with effect from August, 2013; however, the Company had made repayments aggregating Rs.43 million upto September 30, 2013. The Company and PSM have entered into a revised agreement on September 30, 2013 whereby the balance of loan as at September 30, 2013 is repayable in seven half-yearly instalments commencing February, 2017. The loan is secured against a promissory note of Rs.397.810 million.

**19.2** The Company and PBM have entered into a loan agreement on May 20, 2008 whereby PBM has advanced amounts aggregating Rs.130 million to the Company. The loan carries mark-up at the rate of one month KIBOR+1.25% per annum; the effective mark-up rate charged by PBM during the year ranged from 10.26% to 11.54% (2012: 11.72% to 14.69%) per annum. As per the previous loan agreement, the loan was repayable in 8 equal half-yearly instalments with effect from May, 2013. The Company and PBM have entered into a revised agreement on September 30, 2013 whereby the balance of loan as at September 30, 2013 is repayable in seven half-yearly instalments commencing February, 2017. The loan is secured against a promissory note of Rs.268.031 million.

**19.3** The Company and AIIL have entered into a loan agreement on May 20, 2008 whereby AIIL has advanced amounts aggregating Rs.50 million to the Company. The loan carries mark-up at the rate of one month KIBOR+1.25% per annum; the effective mark-up rate charged by AIIL during the year ranged from 10.26% to 11.54% (2012: 11.72% to 14.69%) per annum. As per the previous loan agreement, the loan was repayable in 8 equal half-yearly instalments with effect from May, 2013. The Company and AIIL have entered into a revised agreement on September 30, 2013 whereby the balance of loan as at September 30, 2013 is repayable in seven half-yearly instalments commencing February, 2017. The loan is secured against a promissory note of Rs.55.615 million.

## 20. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE - Secured

| Particulars | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | **Upto one year** | **From one to five years** | **Total** | Upto one year | From one to five years | Total |
| | ------------------- Rupees in thousand ------------------- | | | | | |
| Minimum lease payments | **6,821** | **12,556** | **19,377** | 5,291 | 12,752 | 18,043 |
| Less: finance cost allocated to future periods | **1,363** | **1,187** | **2,550** | 1,526 | 1,652 | 3,178 |
| | **5,458** | **11,369** | **16,827** | 3,765 | 11,100 | 14,865 |
| Less: security deposits adjustable on expiry of lease terms | **0** | **2,399** | **2,399** | 0 | 1,796 | 1,796 |
| Present value of minimum lease payments | **5,458** | **8,970** | **14,428** | 3,765 | 9,304 | 13,069 |

**20.1** The Company has entered into lease agreements with Bank Al-Habib Ltd. for lease of vehicles. The liabilities under the lease agreements are payable in monthly instalments by August, 2017 and are subject to finance cost at the rates ranging from 9.16% to 11.76% (2012: 11.43% to 11.76%) per annum. The Company intends to exercise its option to purchase the leased vehicles upon completion of the respective lease terms. These lease finance facilities are secured against title of the leased vehicles in the name of lessor and demand promissory notes.

## 21. DEFERRED TAXATION - Net

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | **(Rupees in thousand)** | |
| This is composed of the following: | | | |
| Taxable temporary differences arising in respect of: | | | |
| - accelerated tax depreciation allowances | | **229,831** | 254,610 |
| - surplus on revaluation of property, plant and equipment | | **913,125** | 457,943 |
| - gain on re-measurement of investments to fair value | | **0** | 1,438 |
| - lease finances | | **208** | 891 |
| | | **1,143,164** | 714,882 |
| Deductible temporary differences arising in respect of: | | | |
| - provision for doubtful advances | | **(829)** | (853) |
| - unused tax losses | **21.1** | **(13,931)** | (76,359) |
| - minimum tax recoverable against normal tax charge in future years | | **(215,279)** | (179,727) |
| | | **(230,039)** | (256,939) |
| | | **913,125** | 457,943 |

**21.1** As at September 30, 2013, deferred tax asset amounting Rs.176.020 million (2012: Rs.137.605 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.

## 22. TRADE AND OTHER PAYABLES

| | Note | **2013** | 2012 |
|---|---|---|---|
| | | **(Rupees in thousand)** | |
| Creditors | | **137,174** | 121,122 |
| Due to Associated Companies | **22.1** | **0** | 15,121 |
| Accrued expenses | | **37,767** | 30,043 |
| Retention money | | **9,034** | 4,948 |
| Security deposits - interest free repayable on demand | | **732** | 763 |
| Advance payments | | **70,050** | 630,577 |
| Income tax deducted at source | | **627** | 414 |
| Workers' (profit) participation fund | **22.2** | **3,046** | 2,023 |
| Workers' welfare fund | **22.3** | **11,633** | 10,475 |
| Unclaimed dividends | | **3,276** | 3,283 |
| Due to employees | | **2,350** | 925 |
| | | **275,689** | 819,694 |

**22.1** 2012 balance represented amounts due to:

| | 2013 | 2012 |
|---|---|---|
| - Syntronics Ltd. | **0** | 12,591 |
| - Syntron Ltd. | **0** | 2,530 |
| | **0** | 15,121 |

**22.2 Workers' (profit) participation fund**

| | 2013 | 2012 |
|---|---|---|
| Opening balance | **2,023** | 8,888 |
| Add: interest on funds utilised in the Company's business | **0** | 752 |
| | **2,023** | 9,640 |
| Less: payments made during the year | **2,023** | 7,617 |
| | **0** | 2,023 |
| Add: allocation for the year | **3,046** | 0 |
| Closing balance | **3,046** | 2,023 |

**22.3 Workers' welfare fund**

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| Opening balance | | **10,475** | 10,475 |
| Add: allocation for the year | | **1,158** | 0 |
| Closing balance | | **11,633** | 10,475 |

## 23. ACCRUED MARK-UP

| | | | |
|---|---|---|---|
| Mark-up accrued on: | | | |
| - long term financing | | **28,473** | 27,503 |
| - loans from related parties | | **11,714** | 12,272 |
| - lease finances | | **48** | 0 |
| - short term borrowings | | **80,001** | 59,063 |
| | | **120,236** | 98,838 |

## 24. SHORT TERM BORROWINGS

| | | | |
|---|---|---|---|
| Secured | **24.1** | **1,943,104** | 1,710,005 |
| Un-secured | **24.2** | **56,364** | 0 |
| | | **1,999,468** | 1,710,005 |

**24.1** Short term finance facilities available from various commercial banks under mark-up arrangements aggregate Rs.4.150 billion (2012: Rs.3.850 billion) and, during the year, carried mark-up at the rates ranging from 10.22% to 12.95% (2012: 11.39% to 15.17%) per annum. Facilities available for opening letters of credit aggregate Rs.625 million (2012: Rs.25 million). These facilities are secured against hypothecation charge over the Company's fixed and current assets, pledge of stock-in-trade and banks' lien over import documents. These facilities are expiring on various dates by September 30, 2014.

**24.2** These temporary bank overdrafts have arisen due to issuance of cheques for amounts in excess of balances in the bank accounts.

## 25. CURRENT PORTION OF NON-CURRENT LIABILITIES

| | | | |
|---|---|---|---|
| Long term financing | **18** | **220,117** | 276,875 |
| Loans from related parties | **19** | **0** | 42,813 |
| Liabilities against assets subject to finance lease | **20** | **5,458** | 3,765 |
| | | **225,575** | 323,453 |

## 26. TAXATION - Net

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| Opening balance | | **30,688** | 79,594 |
| Add: provision / (reversal) made during the year for: | | | |
| - current year | 26.2 | **69,144** | 30,688 |
| - prior years | | **(902)** | 98 |
| | | **68,242** | 30,786 |
| | | **98,930** | 110,380 |
| Less: payments / adjustments made against completed assessments | | **29,786** | 79,692 |
| | | **69,144** | 30,688 |

**26.1** Returns filed by the Company for Tax Years 2004 to 2013, except for Tax Years 2009, 2011 and 2012, have been assessed under the self assessment scheme envisaged in section 120 of the Income Tax Ordinance, 2001 (the Ordinance).

**26.2** No numeric tax rate reconciliation is given in these financial statements as provisions made during the current year mainly represent minimum tax payable under section 113 and tax on export proceeds under section 154 of the Ordinance (2012: provision represented minimum tax payable under section 113 of the Ordinance).

**26.3** A tax reference for the Assessment Year 1999-2000, filed by the Income Tax Department (the Department), is pending before the Peshawar High Court (PHC); the issue involved is taxation of accumulated profit under section 12(9A) of the repealed Income Tax Ordinance, 1979.

**26.4** A tax reference for the Assessment Year 2002-03, filed by the Department, is pending before the PHC. The amount of revenue involved in the tax reference is Rs.2.993 million, which was initially assessed by the Assessing Officer and later-on annulled by the Commissioner Inland Revenue - Appeals [CIR(A)].

**26.5** A reference for the Tax Year 2006, filed by the Department, is pending before the PHC; the issue involved is regarding deletion of tax amounting Rs.9.082 million under sections 161/205 of the Ordinance by the Appellate Tribunal Inland Revenue (ATIR).

**26.6** A writ petition, filed by the Company, is pending before the Islamabad High Court regarding deduction of tax under sections 231A (cash withdrawals from bank) and 235 (electricity consumption) of the Ordinance.

**26.7** The Company's writ petition filed before the PHC against its selection for the tax audit of the Tax Year 2009 is pending adjudication.

**26.8** The Department has selected the Company's case for the Tax Year 2011 for audit under section 214C of the Ordinance.

**26.9** The Company's appeal for the Tax Year 2012, whereby workers' welfare fund of Rs.3.310 million has been assessed, is pending before the CIR(A).

**26.10** The Department has issued a show cause notice under sections 161/205 of the Ordinance for the Tax Year 2012. The Company has challenged the said show cause notice before the Federal Tax Ombudsman, who, after hearing the complaint, treated the impugned show cause notice as unlawful proceedings and recommended dropping it. The Department has challenged these findings before the President of Pakistan, who has accepted the representation vide order dated December 06, 2013. The Department has created no demand as it was only a show cause notice. The Company, against the Presidential order, is contemplating to file a writ petition.

## 27. CONTINGENCIES AND COMMITMENTS

**27.1** Commitments for irrevocable letters of credit outstanding at the year-end aggregated Rs.543.482 million (2012: Rs.10.420 million).

**27.2** Two commercial banks, on behalf of the Company, have issued guarantees aggregating Rs.40.904 million in favour of Trading Corporation of Pakistan (Pvt.) Ltd. to ensure due performance of the contracts for supply of 15,750 metric tons of sugar. These guarantees will expire on various dates by June 19, 2014.

**27.3** The Company, during the period from July, 2008 to September, 2010, had paid special excise duty (the duty) on sugar at value higher than the value fixed by the Federal Board of Revenue vide SRO. No. 564(I)/2006 dated June 05, 2006. This resulted in excess payment of duty amounting Rs.35.825 million. The refund application was submitted to the Deputy Commissioner (DC), who had rejected the application. The Company had filed an appeal before the Commissioner Inland Revenue - Appeals [CIR(A)] against the impugned order. The CIR(A), during the year, has upheld the order of DC. The Company, thereafter, has filed an appeal before the Appellate Tribunal Inland Revenue, Peshawar Bench, which has heard and reserved the judgment on June 19, 2013. The Company's legal Advisors are of the opinion that in view of highly meritorious arguments placed before the Tribunal, the Company's refund claim shall be sanctioned.

**27.4** Refer contents of taxation notes.

## 28. SALES - Net

| | 2013 | 2012 |
|---|---|---|
| | (Rupees in thousand) | |
| Turnover: | | |
| Local | **4,648,317** | 6,245,157 |
| Export | **2,300,606** | 51,361 |
| | **6,948,923** | 6,296,518 |
| Less: sales tax | **275,192** | 447,627 |
| | **6,673,731** | 5,848,891 |

## 29. COST OF SALES

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| Raw materials consumed | | **5,422,077** | 4,425,426 |
| Chemicals and stores consumed | | **124,510** | 92,516 |
| Salaries, wages and benefits | **29.1** | **239,060** | 192,095 |
| Power and fuel | | **23,262** | 21,113 |
| Repair and maintenance | | **74,156** | 64,586 |
| Insurance | | **7,987** | 5,982 |
| Machinery lease rentals | | **2,203** | 714 |
| Depreciation | **7.4** | **251,004** | 278,754 |
| | | **6,144,259** | 5,081,186 |
| Adjustment of sugar-in-process: | | | |
| Opening | | **7,091** | 8,629 |
| Closing | | **(3,924)** | (7,091) |
| | | **3,167** | 1,538 |
| Cost of goods manufactured | | **6,147,426** | 5,082,724 |
| Adjustment of finished goods : | | | |
| Opening stock | | **1,340,572** | 1,960,662 |
| Closing stock | | **(1,314,744)** | (1,340,572) |
| | | **25,828** | 620,090 |
| | | **6,173,254** | 5,702,814 |

**29.1** These include Rs.2.700 million (2012: Rs.2.370 million) in respect of contribution to staff provident fund.

## 30. DISTRIBUTION COST

| | Note | 2013 | 2012 |
|---|---|---|---|
| Salaries and benefits | **30.1** | **5,358** | 2,875 |
| Commission | | **3,592** | 6,333 |
| Loading and stacking | | **20,025** | 6,250 |
| Export development surcharge | | **6,290** | 128 |
| Freight expenses on export of sugar | | **29,266** | 0 |
| Other expenses on export of sugar | | **25,299** | 0 |
| | | **89,830** | 15,586 |

**30.1** These include Rs.50 thousand (2012: Rs.46 thousand) in respect of contribution to staff provident fund.

## 31. ADMINISTRATIVE EXPENSES

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| Salaries and benefits | **31.1** | **109,861** | 80,567 |
| Travelling and conveyance: | | | |
| - directors' | | **4,218** | 3,267 |
| - others | | **3,003** | 2,716 |
| Vehicles' running / maintenance and lease rentals | | **7,089** | 6,012 |
| Rent, rates and taxes | | **2,025** | 1,958 |
| Communication | | **3,733** | 2,866 |
| Printing and stationery | | **3,515** | 2,516 |
| Insurance | | **991** | 1,022 |
| Repair and maintenance | | **6,659** | 5,341 |
| Fees and subscription | | **1,377** | 949 |
| Depreciation | **7.4** | **10,789** | 8,919 |
| Amortisation of intangible assets | **8** | **100** | 100 |
| Auditors' remuneration | **31.2** | **1,337** | 1,291 |
| Legal and professional charges (other than Auditors) | | **1,798** | 984 |
| General | | **543** | 220 |
| | | **157,038** | 118,728 |

**31.1** **(a)** These include Rs.1.088 million (2012: Rs.1.019 million) in respect of contribution to staff provident fund.

**(b)** The Group management, during the year, has transferred gratuity benefits of the Resident Director aggregating Rs.10 million accrued in the books of The Premier Sugar Mills & Distillery Co. Ltd. (the Holding Company) to the Company as the Resident Director is rendering his services to the Company since incorporation. The board of directors of both the Companies have passed necessary resolutions in this regard. The balance of benefits transferred to the Company aggregating Rs.10 million have been accounted for in these financial statements under the head of salaries and benefits.

| | | Note | 2013 | 2012 |
|---|---|---|---|---|
| | | | (Rupees in thousand) | |
| **31.2** | **Auditors' remuneration:** | | | |
| | Hameed Chaudhri & Co. | | | |
| | - statutory audit | | **1,000** | 1,000 |
| | - half yearly review | | **100** | 150 |
| | - consultancy and certification charges | | **83** | 67 |
| | - out-of-pocket expenses | | **110** | 19 |
| | | | **1,293** | 1,236 |
| | Munawar Associates | | | |
| | - cost audit fee | | **35** | 35 |
| | - provident fund's audit fee | | **0** | 5 |
| | - workers' (profit) participation fund's audit fee | | **0** | 5 |
| | - out-of-pocket expenses | | **9** | 10 |
| | | | **44** | 55 |
| | | | **1,337** | 1,291 |
| **32.** | **OTHER EXPENSES** | | | |
| | Donations (without directors' interest) | | **93** | 275 |
| | Workers' (profit) participation fund | | **3,046** | 0 |
| | Workers' welfare fund | | **1,158** | 0 |
| | | | **4,297** | 275 |
| **33.** | **OTHER INCOME** | | | |
| | **Income from financial assets** | | | |
| | Profit on deposit accounts | | **4,575** | 4,936 |
| | Fair value gain on re-measurement of investments | **14** | **0** | 11,501 |
| | Gain on redemption of investments | | **16,556** | 32,262 |
| | **Income from other than financial assets** | | | |
| | Sale of press mud - net of sales tax amounting Rs.275 thousand (2012: Rs.247 thousand) | | **1,716** | 1,547 |
| | Gain on disposal of operating fixed assets | **7.5** | **774** | 548 |
| | Seed sales net of expenses | | **123,484** | 35,041 |
| | Sugar export subsidy | **13.1** | **84,833** | 0 |
| | | | **231,938** | 85,835 |
| **34.** | **FINANCE COST** | | | |
| | Mark-up on: | | | |
| | - long term financing | | **84,887** | 96,387 |
| | - loans from related parties | | **50,053** | 69,128 |
| | - short term borrowings | | **284,207** | 165,820 |
| | Lease finance charges | | **1,591** | 1,696 |
| | Interest on workers' (profit) participation fund | | **0** | 752 |
| | Bank charges | | **3,784** | 2,607 |
| | | | **424,522** | 336,390 |

## 35. TAXATION

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | (Rupees in thousand) | |
| Current: | | | |
| - for the year | 26 | 69,144 | 30,688 |
| - for prior years | 26 | (902) | 98 |
| | | 68,242 | 30,786 |
| Deferred: | | | |
| - resultant adjustment due to reduction in tax rate | 17.2 | 13,084 | 0 |
| - on account of temporary differences | | (57,570) | (50,882) |
| | | (44,486) | (50,882) |
| | | 23,756 | (20,096) |

## 36. EARNINGS / (LOSS) PER SHARE

| | 2013 | 2012 |
|---|---|---|
| Profit / (loss) after taxation attributable to ordinary shareholders | 32,972 | (218,971) |
| | No. of shares | |
| Weighted average number of shares outstanding during the year | 28,692,000 | 28,692,000 |
| | -------- Rupees -------- | |
| Earnings / (loss) per share | 1.15 | (7.63) |

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

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

| Particulars | Chief Executive | | Directors | | Executives | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| | ------------------------------ Rupees in thousand ------------------------------ | | | | | |
| **Managerial** remuneration including bonus | 1,200 | 1,200 | 13,960 | 0 | 30,548 | 13,573 |
| Allowances and utilities | 0 | 0 | 0 | 0 | 10,926 | 12,651 |
| Contribution to provident fund | 0 | 0 | 0 | 0 | 840 | 707 |
| Medical expenses reimbursed | 358 | 174 | 143 | 154 | 0 | 0 |
| | 1,558 | 1,374 | 14,103 | 154 | 42,314 | 26,931 |
| No. of persons | 1 | 1 | 4 | 4 | 18 | 16 |

**37.1** The Chief Executive and all the Executives have been provided with free use of the Company maintained cars. Eighteen (2012: thirteen) of the Executives have also been provided with free housing (with the Company's generated electricity, telephone and certain household items in the residential colony within the factory compound).

**37.2** Refer contents of note 31.1(b).

## 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### 38.1 Financial Risk Factors

The Company's activities expose it to a variety of financial risks: market risk (including interest rate risk and currency risk), credit risk and liquidity risk. The Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried-out by the Company's finance department under policies approved by the board of directors. The Company's finance department evaluates financial risks based on principles for overall risk management as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity, provided by the board of directors.

### 38.2 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types of risks:

**(a) Currency risk**

Foreign currency risk arises mainly where receivables and payables exist due to transactions entered into in foreign currencies. The Company is exposed to currency risk on import of plant & machinery and stores & spares mainly denominated in U.S.$, Euro and Japanese Yen. The Company's unfunded exposure to foreign currency risk at the year-end is as follows:

| | **2013** | 2012 |
|---|---|---|
| | **(Rupees in thousand)** | |
| Outstanding letters of credit | **194,177** | 10,420 |

The Company is not exposed to currency risk at the year-end as it has no funded foreign currency liabilities as at September 30, 2013 and September 30, 2012.

**(b) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of change in market interest rates. At the reporting date, the interest rate profile of the Company's interest bearing financial instruments is as follows:

| | **2013** | 2012 | **2013** | 2012 |
|---|---|---|---|---|
| | **Effective rate** | | **Carrying amount** | |
| | **%** | **%** | **(Rupees in thousand)** | |
| **Fixed rate instruments** | | | | |
| **Financial assets** | | | | |
| Bank balances | **6** | 6 | **5,980** | 24,413 |
| **Variable rate instruments** | | | | |
| **Financial liabilities** | | | | |
| Long term financing | **10.16 to 14.06** | 13.81 to 15.80 | **1,131,962** | 821,453 |
| Loans from related parties | **10.26 to 11.68** | 11.72 to 15.17 | **437,000** | 482,500 |
| Liabilities against assets subject to finance lease | **9.16 to 11.76** | 11.43 to 11.76 | **14,428** | 13,069 |
| Short term borrowings | **10.22 to 12.95** | 11.39 to 15.17 | **1,943,104** | 1,710,005 |

**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 reporting date would not affect profit or loss of the Company.

**Cash flow sensitivity analysis for variable rate instruments**

At September 30, 2013, if interest rate on variable rate financial liabilities had been 1% higher / lower with all other variables held constant, profit after taxation for the year would have been Rs.35.265 million lower / higher mainly as a result of higher / lower interest expense on variable rate financial liabilities (2012: loss would have been higher / lower by Rs.30.270 million).

**(c) Price risk**

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instruments or its issuer or factors affecting all similar financial instruments traded in the market. The Company is not exposed to any significant price risk as at September 30, 2013.

**38.3 Credit risk exposure and concentration of credit risk**

Credit risk represents the risk of a loss if the counter party fails to discharge its obligation and cause the other party to incur a financial loss. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the credit worthiness of counterparties.

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their abilities to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Company's performance to developments affecting a particular industry.

Credit risk primarily arises from trade debts, loans & advances, other receivables and balances with banks. To manage exposure to credit risk in respect of trade debts, management performs credit reviews taking into account the customer's financial position, past experience and other relevant factors. Where considered necessary, advance payments are obtained from certain parties. The management has set a maximum credit period of 30 days to reduce the credit risk. Credit risk on bank balances is limited as the counter parties are banks with reasonably high credit ratings.

In respect of other counter parties, due to the Company's long standing business relationship with them, management does not expect non-performance by these counter parties on their obligations to the Company.

**Exposure to credit risk**

The maximum exposure to credit risk as at September 30, 2013 along with comparative is tabulated below:

| | **2013** | 2012 |
|---|---|---|
| | **(Rupees in thousand)** | |
| Security deposits | **4,004** | 3,934 |
| Trade debts | **319,517** | 681,660 |
| Loans and advances | **126,234** | 120,232 |
| Other receivables | **85,320** | 567 |
| Investments | **0** | 202,154 |
| Bank balances | **27,124** | 68,673 |
| | **562,199** | 1,077,220 |

The management does not expect any losses from non-performance by these counter parties.

The ageing of trade debts, all of which are domestic parties, at the year-end was as follows:

| | | |
|---|---|---|
| Not past due | **284,267** | 646,807 |
| Past due 61-90 days | **525** | 0 |
| Past due 91-120 days | **1,065** | 1,094 |
| Past due 121-365 days | **33,660** | 33,759 |
| | **319,517** | 681,660 |

Based on past experience, the Company's management believes that no impairment loss allowance is necessary in respect of trade debts as debts aggregating Rs.268.851 million have been realised subsequent to the year-end and for other trade debts there are reasonable grounds to believe that the amounts will be realised in short course of time.

### 38.4 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to ensure, as far as possible, to always have sufficient liquidity to meet its liabilities when due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and ensuring the availability of adequate credit facilities. The Company's treasury department aims at maintaining flexibility in funding by keeping committed credit lines available.

Financial liabilities in accordance with their contractual maturities are presented below:

| | **2013** | | | | |
|---|---|---|---|---|---|
| | **Carrying amount** | **Contractual cash flows** | **Less than 1 year** | **Between 1 to 5 years** | **5 years and above** |
| | **----------------- Rupees in thousand -----------------** | | | | |
| Long term financing | **1,131,962** | **4,400,390** | **270,057** | **3,855,805** | **274,528** |
| Loans from related parties | **437,000** | **661,514** | **45,591** | **414,738** | **201,185** |
| Liabilities against assets subject to finance lease | **14,428** | **14,428** | **5,458** | **8,970** | **0** |
| Trade and other payables | **50,809** | **50,809** | **50,809** | **0** | **0** |
| Accrued mark-up | **120,236** | **120,236** | **120,236** | **0** | **0** |
| Short term borrowings | **1,999,468** | **2,066,608** | **2,066,608** | **0** | **0** |
| | **3,753,903** | **7,313,985** | **2,558,759** | **4,279,513** | **475,713** |

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Carrying amount | Contractual cash flows | Less than 1 year | Between 1 to 5 years | 5 years and above |
| | ----------------- Rupees in thousand ----------------- | | | | |
| Long term financing | 821,453 | 1,042,016 | 364,723 | 677,293 | 0 |
| Loans from related parties | 482,500 | 643,140 | 103,353 | 539,787 | 0 |
| Liabilities against assets subject to finance lease | 13,069 | 13,069 | 3,765 | 9,304 | 0 |
| Trade and other payables | 54,158 | 54,158 | 54,158 | 0 | 0 |
| Accrued mark-up | 98,838 | 98,838 | 98,838 | 0 | 0 |
| Short term borrowings | 1,710,005 | 1,742,688 | 1,742,688 | 0 | 0 |
| | 3,180,023 | 3,593,909 | 2,367,525 | 1,226,384 | 0 |

The contractual cash flows relating to the above financial liabilities have been determined on the basis of interest / mark-up rates effective at the respective year-ends. The rates of interest / mark-up have been disclosed in the respective notes to these financial statements.

**38.5 Fair values of financial instruments and hierarchy**

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

At September 30, 2013, the carrying values of all financial assets and liabilities reflected in the financial statements approximate to their fair values except for loans to employees, which have been valued at their original costs less repayments.

## 39. 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.

## 40. CAPACITY AND PRODUCTION

| | **2013** | 2012 |
|---|---|---|
| | --------- **M.Tons** --------- | |
| Rated crushing capacity (based on 150 working days) | **2,700,000** | 2,700,000 |
| Cane crushed | **1,326,905** | 1,196,202 |
| Sugar produced | **121,771** | 103,478 |
| | --------- **Number** --------- | |
| Days worked: | | |
| Unit - I | **115** | 113 |
| Unit - II | **120** | 110 |

## 41. OPERATING SEGMENTS

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

**41.1** Sugar sales represent 92% (2012: 94%) of the total sales of the Company.

**41.2** 66.89% (2012: 99.12%) of the Company's sales relate to customers in Pakistan.

**41.3** All non-current assets of the Company as at September 30, 2013 are located in Pakistan.

**41.4** The Company sells sugar to commission agents. Sugar sales to five (2012: five) of the Company's customers during the year aggregated Rs.4.082 billion (2012: Rs.4.577 billion) constituting 63.95% (2012: 78.25%) of the total sugar sales. Three (2012: three) of the Company's customers individually exceeded 10% of the sugar sales.

| | | 2013 | 2012 |
|---|---|---|---|
| **42.** | **NUMBER OF EMPLOYEES** | | |
| | Number of persons employed as at September 30, | | |
| | - permanent | **495** | 459 |
| | - contractual | **375** | 360 |
| | Average number of employees during the year | | |
| | - permanent | **256** | 245 |
| | - contractual | **216** | 213 |

**43. PROVIDENT FUND RELATING DISCLOSURES**

The Company operates funded contributory provident fund scheme for all its permanent and eligible employees. The following information is based on the un-audited financial statements of the provident fund for the year ended September 30, 2013 and audited financial statements of the provident fund for the year ended September 30, 2012:

| | 2013 | 2012 |
|---|---|---|
| | **(Rupees in thousand)** | |
| Size of the fund - total assets | **49,263** | 45,960 |
| Cost of investments made | **37,803** | 33,666 |
| Percentage of investments made | **76.74%** | 73.25% |
| Fair value of investments made | **48,621** | 45,096 |

**43.1** The break-up of fair value of investments is as follows:

| | 2013 | 2012 | | |
|---|---|---|---|---|
| | ----------- % ----------- | | | |
| Saving account in a scheduled bank | 19.75% | 1.03% | **9,603** | 466 |
| Deposit certificates | 58.00% | 73.62% | **28,200** | 33,200 |
| Accrued profit | 22.25% | 25.35% | **10,818** | 11,430 |
| | 100.00% | 100.00% | **48,621** | 45,096 |

**43.2** Investments out of the provident fund have been made in accordance with the requirements of section 227 of the Companies Ordinance, 1984 and the rules formulated for this purpose.

**44. DATE OF AUTHORISATION OF ISSUE**

These financial statements were authorised for issue on January 03, 2014 by the board of directors of the Company.

**45. FIGURES**

Corresponding figures have been re-arranged and re-classified, wherever necessary, for the purpose of comparison. However, no material re-arrangements and re-classifications have been made in these financial statements.

**AZIZ SARFARAZ KHAN**
**CHIEF EXECUTIVE**

**ISKANDER M KHAN**
**DIRECTOR**

**CHASHMA SUGAR MILLS LIMITED**
Nowshera Road, Mardan.

# PROXY FORM

I/We..................................................................................of..........................being a member of

**Chashma Sugar Mills Limited** and holding .................ordinary shares entitled to vote or votes

hereby appoint..................................................................of.......................................................

or failing him.....................................................................of.......................................................

as my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 31 January, 2014 and at any adjournment thereof.

As witness my/our hand this .........................day of ........................ 2014.

Signed by the said
In the presence of

Address.........................................
.....................................................
.....................................................

Revenue
Stamp

(Rs. 5.00)

Signature

**Note:** Proxies, in order to be effective, must reach the Company's Registered Office not less than 48 hours before the time for holding the meeting and must be duly stamped, signed and witnessed. Proxies of the Members through CDC shall be accompanied with attested copies of their CNIC.