

Bawany Sugar Mills Limited  
Annual Report 2003

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COMPANY PROFILE

BOARD OF DIRECTORS	MR. MUHAMMAD DIN	Chief Executive
	MR. QAZI AMJAD ABID ABBASAI	Director
	MR. M. ARSHAD MIRZA	Director
	MRS. HUSNA AMJAD QAZI	Director
	MR. SHAMAS-UD-DIN KHAWAJA	Director
	MR. ABDUL HUSSAIN BULEDI	Director
	MR. MUHAMMAD ASHIQ	Director
	MR. ANSAR HUSSAIN	Director (S.L.I.C.)
	MR. MUHAMMAD ABDUL SAMAD	Director (N.I.T.)

AUDIT COMMITTEE	MR. M. ARSHAD MIRZA	Chairman
	MR. MUHAMMD ASHIQ	Member
	MRS. HUSNA AMJAD QAZI	Member

CHIEF FINANCIAL OFFICER & COMPANY SECRETARY	MR. MUHAMMAD BAQIR JAFFERI
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AUDITORS	M/S. HYDER BHIMJI & CO. CHARTERED ACCOUNTANTS
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COST AUDITORS	M. ISHAQUE & COMPANY COST & MANAGEMENT ACCOUNTANT, KARACHI.
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LEGAL ADVISOR	MR. MUHAMMAD SALIM THEPDAWALA & CO.
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REGISTERED OFFICE	BANK HOUSE NO. 1, 3RD FLOOR, HABIB SQUARE, M. A. JINNAH ROAD, P.O.BOX NO. 4178, KARACHI-74000
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FACTORY	AHMED NAGAR TALHAR: (DISTT. BADIN) SINDH.
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NOTICE OF MEETING

Notice is hereby given that the 39th Annual General Meeting of the Company will be held on

Wednesday, 28th January 2004 at 12.00 noon at the Registered Office at 3rd Floor, Bank House No. 1, Habib Square, M.A. Jinnah Road, Karachi to transact the following business:-

1. To confirm the minutes of the 38th Annual General Meeting held on 05-03-2003.
2. To receive, consider and adopt the Director's Report, Audited Accounts of the Company and Auditor's Report thereon for the year ended 30th September 2003.
3. To appoint Auditors and fix their remuneration. Present auditors M/s. Hyder Bhimji & Co.

Chartered Accountant, retire and did not offer for re-appointment in view of rotation requirements of Code of Corporate Governance being part of listing regulation of Karachi Stock Exchange. Audit Committee have, recommended the name of M/s. Gardezi & Co. Chartered Accountant for appointment in place of retiring auditors, for consideration in the A.G.M.

4. To transact any other business that may be brought forward with permission of the Chairman.

BY ORDER OF THE BOARD

(MUHAMMAD BAQIR JAFFER)

Company Secretary

Karachi the Dated 31st December 2003

NOTES:

1. The Share Transfer Books of the Company will remain closed from 20-01 -2004 to 28-01-2004 (both days inclusive).
2. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote on his behalf. Form of proxies in order to be valid must be received at registered office of the company 48 hours before the time of the meeting. A proxy must be a member of the company.
3. Shareholders are requested to notify any change in address immediately.
4. Kindly quote your folio number in all correspondence with the Company.

DIRECTORS' REPORT

In The Name of Allah, The Most Gracious, The Most Merciful.  
Dear Members Assalam-e-Alekum,

On the behalf of the Board of Directors, it is my privilege to present 39th Annual Report and Audited Financial Statements together with auditors report thereon for the year ended 30th September 2003.

GENERAL

Periodic Quarterly Directors Reports with Unaudited / Reviewed Accounts of the Company have already covered a significant portion of the present report and major aspects of the operational and financial activities of the Company.

By virtue of it is being wholly agro-based sugar industry is destined to play a role of catalyst in growth and development of the economy. Now this industry is passing through a critical phase. At present, only a handful of the Mills are generating profit, while the majority of the mills are suffering losses, some are incurring huge unmanageable losses, which would choke their existence.

Your mill is also one of the Mills, which is very strongly fighting the odds.

Sugar Industry in passing through critical situation however in Punjab the Industry has been able to keep up with the crisis, as there is ample sugarcane crop due to water availability, higher sugar price by about Re. 1/- per kg compared to Sindh and lower sugarcane price fixed by the Punjab Government. The shortage of sugar in Punjab has almost diminished Previously, Sindh was a net exporter of sugar, this has not changed but the export of sugar has been limited to new Punjab areas and buying

by TCP and direct/indirect exports to Afghanistan. Government of Sindh has positively responded to the problems of Sindh Sugar Industry. There were certain concessions announced by the Government during the reporting Season 2002-2003, wherein sugarcane price was fixed at Rs. 43/- with split of payment in two parts i.e. Rs. 40/- to be paid at the time of delivery of sugarcane and Rs. 3/- to be paid after the season was over. The issue of Quality Premium is under litigation at Supreme Court, the Industry contesting Q.P. being not payable.

The Company is also facing litigation with Banks/DFIs. However, the company has applied to the Committee for Revival of Sick Industrial Units for restructuring and also applied to all the Banks/DFIs for availing the benefits offered under SBP Circular BPD 29 of October 15, 2002. Company's management is hopeful for a favourable outcome from the above forums, which would give the company substantial leverage to overcome its financial difficulties and to become a viable unit.

The District Badin has become prone to calamities. In last four years Badin has experienced floods, draughts, earthquake and cyclone. There was an unprecedented flood in Badin during end July beginning August 2003. Which caused heavy losses to lives and properties.

The company has fought all difficulties against its existence and valiantly being able to survive. Company has arranged financial resources to operate the mill from unconventional sources and kept itself as a going concern.

#### PERFORMANCE REVIEW

The operating results of your Company for the season are as under:

		2002-2003	2001-2002
Season started		22-12-2002	30-08-2001
Season closed		13-04-2003	28-03-2002
Days worked		113	179
Sugarcane crushing	(Tons)	399,158	214,211
	(Maunds)	9,978,950	5,355,275
Sugar recovery	(%)	9.53	8
Sugar production	(Tons)	38,017	23,972
Molasses recovery	(%)	5.1	5.251
Molasses production	(Tons)	20,345	10,938

You will note that the company has been able to produce more sugar due to availability factor. Due to flood aftermath and late start of season, the ensuing season seems to be less productive.

#### FINANCIAL RESULTS

	2003	2002
	Rupees	Rupees
Sales	587,304,047	425,600,433
Less: Cost of Sales	546,607,859	541,089,124
Gross Profit/(Loss)	40,696,188	-115,488,691
Establishment and Other Expenses	28,059,750	32,744,733
Selling and Distribution Expenses	529,450	549,331
	28,589,200	33,294,064
Operating Profit/(Loss)	12,106,988	-148,782,755
Other Income	13,785,294	577,557
	25,892,282	-148,205,198
Financial Expenses	72,581,172	85,175,421
Other charges	25,099,273	24,347,254
	97,680,445	109,522,675
Loss before taxation	-71,788,163	-257,727,873
Provision for Taxation	7,663,480	5,928,394
Loss after Taxation	-64,124,683	-251,799,479

Financial results are better than previous year, your mills earned operating profit of Rs. 12.106 million as compare to last season operating loss of Rs. 148.782 million. Management is confident to get even better figures from ensuing season.

#### SEASON 2003-2004

This season started in the third week of December 2003. However, we are hopeful for about the matching crushing of last year,

as upper sindh areas have benefited from the rains.

There is also another positive factor, that of, sugarcane price, which has been reduced by Rs. 11- per Maund, compared to last year's Rs. 43/- Government has also avoided notifying Q.P., which means there is realization of the crisis in the Sugar Industry.

Both the above factors would benefit the industry to overcome losses.

TCP has also been given authorization to procure excess quantity of sugar to facilitate in the financial difficulties of the sugar mills. These steps would prove well for the Industry.

#### HEALTH, SAFETY AND ENVIRONMENT

Appropriate facilities existed for safeguarding the health of employees in accordance with the Factories Act 1948 and National Environment Quality Standard (N.E.Q.S.) for Sugar Industry.

#### INFORMATION TECHNOLOGY

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

#### AUDIT REPORT

The Audit Report for the year under review contains certain qualifications, which are being addressed as follows:

1. We have achieved satisfactory production results for the year ended 30th September 2003. Mills earned the gross profit of Rs., 40.696 million & operating profit of Rs. 12.106 million but due to debt servicing of huge financial & other charges of Rs. 97.680 million mills suffered the net loss of Rs. 64.124 million, we are in the process of negotiation with the financial institutions for rescheduling of liabilities and some amicable terms of repayment. If we gets fruitful results of these negotiations, which resulting a sufficient reductions in financials charges & vice versa increase the profitability of the Company. The Banks and DFIs takes into account our liquidity problem. Thus we are hopeful for the withdrawal of litigation by the Banks and DFIs.
2. The trade debts are collectable from a party M/s. Aebros (Pvt) Ltd. We have started recovery and have collected Rs. 680.00million in the current financial year as reflected in note no. 18 of these financial statements. We are optimistic to recover the entire amount.
3. The other receivables represent amount recoverable from M/s. Ebramin (Pvt) Ltd. and M/s. Kotri Trading Company. We have started the recovery and have collected Rs. 7.2 million in the current financial year. We would hopefully collect substantial amount from these parties in the ensuing season.
4. We provided mark-up according to loan agreements with Banks and DFIs. The difference of mark-up occurs due to excessive rates and mark-up on mark-up charged by the banks as to exaggerate their claim in the court of law. The difference would be settled by our negotiation, which is in process, or by the court. Besides as regards the confirmations from Banks and DFIs, it is stated that usually when suit is filed the lender avoids issuing confirmation and the company cannot influence Banks and DFIs in this matter.
5. The company faced serious financial constraint in 1998 and came to position of shut down. The management was and is determined to keep the wheel running. None of the financial institutions were cooperating in those crises. To overcome the then financial problem, the company used the provident fund balance with the connivance of Trustees and employees and destined to payoff the liability as soon as the liquidity position is improved. However, the company is adequately compensating the fund for its utilization as reflected in note no. 27 of these financial statements.

#### BOARD OF DIRECTORS

There has been no change so far in the Board of Directors since after 30th September, 2002.

#### AUDITORS

The present auditors - M/s. Hyder Bhimji & Co. Chartered Accountants, retire and had completed their tenure of five years as per clause no. 37(Xi) of Code of Corporate Governance so they are not eligible for reappointment. M/s. Gardazi & Co. Chartered Accountant, Karachi has offered their services for the financial year 2003-2004.

The Board's Audit Committee has recommended their appointment for the ensuing year.

## CODE OF CORPORATE GOVERNANCE

The Company has adopted the Code of Governance promulgated by the Securities Exchange Commission of Pakistan. We have implemented the all mandatory provisions and welcome the government step to more fully disclose and monitor the corporate sector. We hope it will go a long way in confidence building of small investors and will boost corporate investment.

## STATEMENT OF CORPORATE AND FINANCIAL REPORTING FRAME WORK

- a. The financial statements prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- b. Proper books of accounts of the company have been maintained.
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgement.
- d. International Accounting Standards, as applicable in Pakistan have been followed in preparation of financial statements and any departure therefrom has been adequately disclosed.
- e. The system of internal control, which was in place, is sound in design and has been effectively implemented and monitored. However, internal auditor and other officers handling such procedures are continuously reviewing it. The process of review will continue and any weaknesses in controls will be removed. The function of Internal Audit has been implemented and operating successfully.
- f. The Company's ability to continue as a going concern is being watched carefully, all events affecting the going concern basis are under constant review.
- g. There has been no material departure from the best practices of corporate governance, as detailed in the Using regulations,
- h. Key operating and financial data for last six (6) years in summarized form is annexed.
- i. Outstanding taxes and levies are being accrued and paid as per law.
- j. During the year 4 (Four) meetings of the Board of Directors were held. Attendance by each Directors is as follows:

Name of Directors	No. of Meeting Attended
Mr. Muhammad Din	3
Mr. Qazi Amjad Abid Abbasi	2
Mr. Muhammad Arshad Mirza	3
Mrs. Husna Amjad Qazi	2
Mr. Shams-ud-Din Khawaja	4
Mr. Abdul Hussain Buledi	4
Mr. Muhammad Ashiq	1
Mr. Ansar Hussain	4
Mr. Muhammad Abdul Samad	4

- k. The pattern of shareholding is annexed.

1. Because of the loss sustained by the Company during the year under review, the Company has not declared any dividend or issued bonus shares for the year.

- m. There was no trading in shares of BSML held by its directors, CEO, their spouses and minor children.

n. The operating results as compared to last year are showing an improvement in turnover by 37.99% and the operating loss of Rs. 148.782 million has been reduced to Rs. 160.888 million. The main reason for which is increase in turnover and lower cost of sugar cane, price of sugar was adverse.

## FUTURE PROSPECTS

The Government of Pakistan has to assess the situation well in advance to prevent a later hour rush in rescue of the sugar industry in an effort for enabling it a sustainable existence. There are positive developments in the Government and Financial

Circles.

a) Government has realized the burden on the sugar mills and has taken the bold decision of lowering the sugarcane support price and doing away with QP for the first time since Pakistan coming into being. This is a very big boost to the Industry. This step may make most of the mills viable.

b) The other step of allowing TCP to procure sugar for establishing a buffer would also go a long way in helping the industry from zigzag trends in sugar price.

c) In the financial sector State Bank of Pakistan (SBP) has encouraged the Banks and DFIs to reschedule and restructure the non-performing loans liberally vis-a-vis, offer of entire payment in three years based on Forced Sale Value (FSV) of the project.

Taking a bird eye view of the whole scenario it can be reasonably ascertained that after realisation of the difficulties by the concerned quarters, a way for bailing out the Industry would follow.

#### ACKNOWLEDGEMENT

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

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

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

On behalf of the Board

Karachi:

(Mohammad Din)

December 31, 2003

Chief Executive

#### Pattern of Shareholding as at 30th September, 2003

No. of Shareholders	Holding From	To	Total Shares Held	Percentage
1,243	1	100	28,753	0.33
402	101	500	104,959	1.2
244	501	1,000	150,609	1.73
226	1,001	5,000	500,861	5.74
42	5,001	10,000	293,282	3.36
15	10,001	15,000	180,418	2.07
2	15,001	20,000	31,115	0.36
6	20,001	25,000	139,090	0.59
4	25,001	30,000	112,170	0.29
2	30,001	35,000	63,837	0.73
4	35,001	40,000	152,097	0.74
4	40,001	45,000	166,330	0.91
2	50,001	55,000	102,878	0.18
7	55,001	60,000	407,770	4.67
2	60,001	65,000	127,421	1.46
1	65,001	70,000	65,857	0.75
2	70,001	75,000	144,446	1.66
2	75,001	80,000	156,162	1.79
1	80,001	85,000	82,624	0.95
1	85,001	90,000	87,867	1.01
3	90,001	95,000	277,287	3.18
1	110,001	115,000	110,715	1.27
4	115,001	120,000	467,123	5.35
2	120,001	125,000	243,545	2.79

2	125,001	130,000	255,948	2.93
2	135,001	140,000	271,870	3.12
1	140,001	145,000	144,220	1.65
4	150,001	155,000	610,000	6.99
1	155,001	160,000	158,055	1.81
1	185,001	190,000	188,007	2.15
1	190,001	195,000	193,574	2.22
2	240,001	245,000	481,225	5.52
1	455,001	460,000	458,478	5.26
1	550,001	555,000	551,825	6.32
1	570,001	575,000	570,918	6.54
1	640,001	645,000	643,255	7.37
2,240			8,724,591	100

## CATEGORYWISE SHAREHOLDING AS ON 30-09-2003

SHAREHOLDERS	NUMBER OF	PERCENTAGE
CATEGORY	SHARES HELD	OF
INDIVIDUALS		SHAREHOLDING
DIRECTORS, CEO & THEIR SPOUSE AND MINOR CHILDREN	4,350,211	49.86
Mr. Mohammad Din	5,000	0.06
Mr. Mohammad Ashiq	5,000	0.06
Mr. Shamas-ud-din Khawaja	5,000	0.06
Mr. Abdul Hussain Buledi	5,000	0.06
Mr. Qazi Amjad Abid Abbasi	5,000	0.06
Mrs. Husna Amjad Qazi	5,000	0.06
Mr. M. Arshad Mirza	5,000	0.06
	35,000	0.4

SHAREHOLDERS	NUMBER OF	PERCENTAGE
CATEGORY	SHARES HELD	OF
INVESTMENT COMPANIES:		SHAREHOLDING
Investment Corporation of Pakistan	462,757	5.3
National Bank of Pakistan	1,036,873	11.88
-do-	"	-
	1,499,630	17.19
INSURANCE COMPANIES:		
Pakistan Insurance Corporation	55,174	0.63
State Life Insurance Corporation of Pakistan	570,918	6.54
Adamjee Insurance Co. Ltd.	154,352	1.77
Eastern Federal Union Insurance Co. Ltd.	9	0
The United Insurance Co. of Pak. Ltd.	578	0.01
The New Jubilee Insurance Co. Ltd.	150,015	1.72
Premier Insurance Co. of Pakistan Ltd.	6,002	0.07
Reliance Insurance Co. Ltd.	42,151	0.48
	979,199	11.22
JOINT STOCK COMPANIES:		
Aebros (Pvt.) Limited	35,000	0.4
Mohd. Amin Noor Mohd. & Co.	785	0.01
Sind Management (Pvt) Ltd.	136,333	1.56
Zam Zam (Pvt) Ltd.	6	0
M/s. Bafz (PA*) Ltd.	1,073	0.01
Ebramin (Pvt) Limited	146,345	1.68
M/s. O. A. Trading Co. (Pvt) Ltd.	28,405	0.33
M/s. Aurangzab Impex	10,028	0.11
Bawany Air Products Ltd.	40,024	0.46
Saudi Pak Industrial & Agriculture Inv. Ltd.	38,352	0.44
M/s. Naeem's Securities Limited	538	0.01
Karachi Investment Company	23	0

M/s Sarfarac Mahmood (Pvt) Ltd.	68	0
Madina Rstates & Properties	43,094	0.49
Bear Stearns Jahangir Siddiqui Ltd.	27	0
B.F. Modaraba	188,007	2.15
	668,108	7.66
FINANCIAL INSTITUTIONS:		
Pakistan Industrial Development Cor. (Pvt) Ltd.	792,844	9.09
Habib Bank Limited	316	0
j United Bank Limited	538	0.01
	793,698	9.1
CHARITABLE INSTITUTIONS:		
Bawany Madina Foundation	135,537	1.55
(A/c. Siddiq Ahmed Bawany Memorial Fund)	115,043	1.32
H.B.L. A/c. Mohammad Amin Wakf Estates	6,604	0.08
A. A. Bawany Foundation	76,906	0.88
Saeeda Amin Wakf	2,191	0.03
Ebrahim Bawany Foundation	55,414	0.64
	391,695	4.49
GOVERNMENT ORGANISATIONS:		
The Administrator Abandon Property of East		
Pakistan Domicile	7,029	0.08
Mr. Haider AH	20	0
Corporate Law Authority of Pakistan	1	0
	7,050	0.08
	8,724,591	100

## VISION AND MISSION STATEMENT

### OUR VISION

Our vision is to emerge as a quality sugar manufacturer with a global recognition and to be recognized as responsible corporate citizen

### OUR MISSION

- To overcome financial crises and meet the expectations of stakeholders
- To join hands in the best efforts in industrialization process
- To empower the agriculture sector
- To build the image of nation by promoting self reliance
- To promote best use and development of human talent in safe environment as an equal opportunity employer

- To adopt modern technology for efficient and cost reduction operations
- To ensure the preservation of environment

### STATEMENT OF ETHICS & BUSINESS PRACTICES

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

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

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

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

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



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

The Company is committed to preservation of the environment.

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

#### SIX YEARS' REVIEW AT A GLANCE

Description	2003	2002	2001	2000	1999	1998
Trading results:						
Turnover (Net Sales)	587,304	425,600	577,926	330,096	830,032	954,080
Gross profit / (loss)	40,696	-115,489	-63,984	-80,506	48,876	60,768
Operating profit / (loss)	12,107	-148,783	-95,891	-133,385	-19,398	7,668
(Loss) / profit before taxation	-71,788	-257,728	-183,710	-222,530	-132,201	68,416
(Loss) / profit after taxation	-64,125	-260,199	-186,600	-224,200	-136,401	-52,435
Balance Sheet:						
Shareholder equity	87,246	87,246	87,246	87,246	87,236	83,901
Reserves	2,500	2,500	168,245	168,245	168,245	172,400
Accumulated (loss) / profit	-749,626	-685,202	-599,448	-412,848	-188,648	-52,247
Property, plant & equipment	266,483	285,500	316,321	348,626	384,406	395,174
Other long term assets	44,612	110,113	122,797	8,748	12,638	51,456
Current assets	170,808	242,168	423,625	388,974	446,011	262,609
Current liabilities	1,109,935	1,198,936	1,134,541	794,582	624,500	271,853
Long term liabilities	31,949	43,000	72,157	109,123	151,711	234,142
Significant results:						
Gross profit / (loss) ratio %	6.93	-27.14	-11.07	-24.39	5.89	6.37
(Loss) / profit before tax ratio %	-12.22	-60.56	-31.79	-67.41	-15.93	7.17
Current ratio	0.15	0.2	0.37	0.49	0.71	0.97
Earning per share	-7.35	-29.82	-21.39	-25.7	-15.63	-6.31
Dividends	-	-	-	-	-	4,155

#### STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CORPORATE GOVERNANCE

(See clause XIV)

Name of Company : BAWANY SUGAR MILLS LIMITED

Year Ended : 30th September, 2003

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 37 and Chapter XIII of listing regulations of Karachi Stock Exchange (Guarantee) Limited and Lahore Stock Exchange (Guarantee) Limited respectively 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 Board comprises nine directors, including the CEO. The company encourages representation of independent non-executive directors on its Board. Presently there are three non-executive directors on the Board.
- 2) The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this company.
- 3) All the resident directors of the company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DPI or an NBF1 or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
- 4) No casual vacancy occurred in the Board during the current year.
- 5) The company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all concerned.

- 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 decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board.
- 8) The meetings of the Board were presided over by the Chief Executive 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 and working papers, were circulated at least seven days before the meetings. The minutes of the meeting were appropriately recorded and circulated.
- 9) Orientation courses has been carried out for its Directors during the year to apprise them of their duties and responsibilities.
- 10) The Board has ratified appointments of the Chief Financial Officer, the Company Secretary and the Head of Internal Audit.
- 11) The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient
- 12) The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
- 13) The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
- 14) The Company has complied with all the corporate and financial reporting requirements of the Code.
- 15) The Board has formed an audit committee. It comprises of three members, and all are non-executive directors including the Chairman of the committee.
- 16) The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
- 17) The Board has set-up an effective internal audit function and personnel involved are considered suitable, qualified and experienced for the purpose and are conversant with the policies and procedures of the company and they are involved in the internal audit function on full time basis.
- 18) The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
- 19) The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
- 20) We confirm that all other material principles contained in the Code have been complied with.

MUHAMMAD DIN  
Chief Executive

#### 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 in the Code of Corporate Governance prepared by the Board of Directors of Bawany Sugar Mills Limited to comply with the Regulations No. 37 and Chapter XIII of Listing Regulations of the Karachi and Lahore Stock Exchange respectively where the Company is listed.

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

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient

to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

With the exception of non-compliance of matter fully explained in paragraph 20 of Statement of compliance with the Code of Corporate Governance, 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.

Karachi:

HYDER BHIMJI & CO.

31 st December, 2003

Chartered Accountants

#### AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed Balance Sheet of M/s. BAWANY SUGAR MILLS LTD. as at September 30, 2003 and the related Profit and loss account, cash flow statement and statements of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- 1) The Company's Financial arrangement in respect of Redeemable Capital, long term loans short term finances and leasing arrangement from Banks, Financial Institutions and Leasing Companies have expired and not being renewed. Accordingly the outstanding principal balances and accrued mark-up including penal mark-up and liquidity damages have become payable immediately. The lenders have invoked their respective rights of foreclosure and initiated recovery proceeding through Banking courts. Additionally the lenders have not issued confirmations regarding outstanding balance claimed by them (refer to note 11 (a)-(3)(4)(7)(10)&(11)), despite sending reminder. Furthermore the Company have incurred net loss amounting to Rs. 64.124 million during the year and its accumulated loss stood at Rs. 749.626 million, beside its total Liabilities exceeds its total Assets by Rs. 659.880 Million. Additionally the Company is unable to settle its current liabilities including payments to its employees in normal course. Though the company has approached its lenders to renegotiate the terms of financing which is still in process, these conditions indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in normal course of business. These Financial statements and notes thereto do not fully disclose these facts.
- 2) The Company's trade debts amounting to Rs. 24.846 million are outstanding since past many years without any movement. The debtors have not confirmed the balances directly to us. The Company have not initiated any recovery proceedings to realize the debt. In view of these facts these trade debts appear doubtful of recovery and require adequate provisioning which have not been made in the accounts..
- 3) The Company's other receivables as reflected in note i 9.02 amounted to Rs. 111.194 Million which are outstanding since long. The Company was expecting a recovery of Rs. 50 Million

in the year under review as disclosed in note no. 19.2 of the preceding year's Financial Statements and classified the same amount as receivable in next 12 months. However the

Company could not realise any sum in respect of this during the year and continue to classify the whole balance as current receivable. In our view the pace of recovery is very slow and the Company may fall short of realising the whole amount. Necessary provisions as well as classification as long term receivable have not been made in this accounts.

4) The Company has not made provision for Mark-up penal mark-up & liquidity demeges/leasing arrangement on its borrowing according to laid down rate in view of ongoing litigation with the lending banks and financial institution as claimed by its lenders/lessors [refer to note 1 I(a)-(3)(4)(7)(10)(I 1)]. In the absence of confirmation from the lenders it is doubtful that the provision for mark-up made during the year amounting to Rs. 72.222 million is accurately worked out.

5) The Company has not kept provident fund balance of Rs. 91.581 Million in accordance with section 227 of the Companies Ordinance, 1984;

Subject to effect of above, we report that:

a) In our opinion, proper books of accounts 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 except for the change as stated in note 3.05 to the financial statements with which we concur;

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) Except for the effects of above reservations, 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 & 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, except for the effects of above reservations give a true and fair view of the state of the Company's affairs as at September 30, 2003, and of the loss, its cash flows and changes in equity for the year ended; and

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

Karachi: HYDER BHIMJI & CO.

24th December, 2003 Chartered Accountants

#### BALANCE SHEET

	Notes	30th September 2003	30th September 2002 (Restated)
		RUPEES	RUPEES
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised			
15, 000,000 Ordinary Shares of Rs. 10/-Each		150,000,000	150,000,000
Issued, Subscribed and Paid-up capital	4	87,245,910	87,245,910
Reserves	5	2,500,000	168,245,430

Accumulated(Loss)		-749,626,367	-685,501,684
		-659,880,457	-595,755,774
<b>NON CURRENT LIABILITIES</b>			
Long Term Loans	6	7,949,500	-
Deferred Liabilities	7	24,000,000	34,600,000
<b>CURRENT LIABILITIES</b>			
Current Maturity of Redeemable Capital and Long Term Loans	8	189,742,413	180,692,913
Short Term Running Finance utilised under markup Arrangements	9	154,192,951	199,110,112
Creditors, Accrued, and Other Liabilities	10	744,415,873	799,515,691
Provision for Taxation		21,583,415	19,617,565
		1,109,934,652	1,198,936,281
<b>CONTINGENCIES AND COMMITMENTS</b>	11		•
		482,003,695	637,780,507

Note: The Annexed notes form an integral part of these accounts.

Karachi:

		30th September 2003	30th September 2002 (Restated)
	Notes	RUPEES	RUPEES
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Operating Assets	12	266,483,106	285,500,273
Investments(Available for sale)	13	399,000	399,000
Long-Term Receivable	14	36,048,704	101,548,704
Long Term Deposits	15	8,164,546	8,164,546
<b>CURRENT ASSETS</b>			
Stores	16	25,233,656	29,998,258
Stock-in-Trade	17	1,125,941	911,930
Trade Debts	18	24,846,666	92,846,666
Loans, Advances & Other Receivables	19	118,385,239	117,459,087
Cash and Bank Balances	20	1,316,837	952,043
		170,908,339	242,167,984
		482,003,695	637,780,507

**PROFIT AND LOSS ACCOUNT FOR THE YEAR  
ENDED 30TH SEPTEMBER, 2003**

		2003	2002 (Restated)
	Notes	RUPEES	RUPEES
Sales	21	587,304,047	425,600,433
Less: Cost of Sales	22	546,607,859	541,089,124
<b>GROSS PROFIT/(LOSS)</b>		40,696,188	-115,488,691
Establishment and Other Expenses	23	28,059,750	32,744,733
Selling and Distribution Expenses	24	529,450	549,331
		28,589,200	33,294,064
Operating PMfit/(Loss)		12,106,988	-148,782,755
Other Income	25	13,785,294	577,557
		25,892,282	-148,205,198
Financial Expenses	26	72,581,172	85,175,421
Other charges	27	25,099,273	24,347,254
		97,680,445	109,522,675
Loss before Taxation		-71,788,163	-257,727,873
Provision for Taxation	28	7,663,480	5,928,394
Loss after Taxation		-64,124,683	-251,799,479
Transfer from reserve is surplus			
General Reserve		—	165,745,430
Accumulated Loss brought forward		-685,501,684	-599,447,635

Accumulated Loss Carried Forward		-749,626,367	-685,501,684
Earning Per Share	29	-7.35	-28.86

CASH FLOW STATEMENT FOR THE YEAR  
ENDED 30TH SEPTEMBER, 2003

	2003	2002
	RUPEES	RUPEES
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Loss before Taxation	-71,788,163	-257,727,873
Add: Item not effecting funds:		
Depreciation	29,689,685	31,851,091
Financial Charges	72,581,172	100,358,433
Mark-up provision written back	-13,515,755	—
Loss on fair value of investment	—	183,986
	16,966,939	-125,334,363
<b>(INCREASE)/DECREASE IN CURRENT ASSETS</b>		
Stores	4,764,602	4,446,744
Stock-in-Trade	-214,011	143,624,165
Trade Debts	68,000,000	9,000,000
Loans, Advances and Other Receivables	-926,152	24,450,372
	71,624,439	181,521,281
<b>INCREASE/(DECREASE) IN CURRENT LIABILITIES</b>		
Creditors, Accrued and Other Liabilities	-103,424,461	-127,870,914
Tax paid	-970,670	—
	-104,395,131	-127,870,914
Net cash inflow/(outflow) from operating activities	-15,803,753	-71,683,996
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Fixed Operating Assets Including Capital Work-in-Progress	-10,672,518	-1,030,248
Long Term-Receivable	65,500,000	12,500,000
	54,827,482	11,469,752
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Financial Charge Paid	-4,424,774	74,293,785-
Payment of long Term Loan	-3,100,000	—
Increase/(Decrease) in Short-term Borrowings	-31,134,161	-14,015,293
Net cash out flow from financing activities	-38,658,935	60,278,492
Net increase/(decrease) in cash and cash equivalents	364,794	64,248
Cash and cash equivalents at the beginning of the year	952,043	887,795
Cash and cash equivalent at the year ended	1,316,837	952,043

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30TH SEPTEMBER, 2003

	Shares Capital	Reserves	Accumulated Profit/(Loss)	Total
Balance as at 1st October 2001 as previously reported	87,245,910	168,245,430	-599,447,635	-343,956,295
General Reserve Transferred	—	-165,745,430	165,745,430	—
Net (Loss) for the year 2002 (Restated)	—	—	-251,799,479	-251,799,479
Balance as at 30th September 2002 (Restated)	87,245,910	2,500,000	-685,501,684	-595,755,774
Net (Loss) for the year 2003	—	—	-64,124,683	-64,124,683
Balance as at 30th September 2003	87,245,910	2,500,000	-749,626,367	-659,880,457

NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 30TH SEPTEMBER, 2003

1. STATUS AND NATURE OF BUSINESS

The company was incorporated in Pakistan on 16th December 1964, as a Public Limited Company and its shares are quoted on Karachi and Lahore Stock Exchanges. Principal activity of the Company is the

manufacture and sale of sugar.

## 2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the approved accounting standards applicable in Pakistan and requirement of the Companies ordinance, 1984. Approved Accounting Standards comprise of such International Accounting Standards (IASs) as notified under the provisions of the Companies Ordinance, 1984 or directives issued by the Security and Exchange Commission of Pakistan (SECP) wherever the requirement of the Companies Ordinance, 1984 or directives issued by the SECP differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.01 ACCOUNTING CONVENTION

The accounts of the company have been prepared under the historical cost convention.

### 3.02 GOING CONCERN

The accounts have been prepared on going concern basis despite the fact that the Company incurred loss after tax amounting to Rs. 64.124 million during the year and its accumulated loss stood at Rs. 749.626 million, adverse current ratio and subsequent operational and financial results are also not positive. However the going concern basis is valid as : The conditions are not permanent and would reverse. The company managed financial affairs, re-arranged/restructured its financial liabilities. The sponsors of the company are committed to continue operation and plans are afoot to improve the Company's operational results.

### 3.03 DEFINED BENEFIT GRATUITY SCHEME

The defined benefits gratuity scheme was discontinued, however determined liability upto the date of cessation of benefit scheme ie 31-12-1994 is shown in note # 10.2 to the accounts.

### 3.04 DEFINED CONTRIBUTION PROVIDENT FUND SCHEME

The company operates defined contribution provident scheme for all its eligible employees. Equal monthly contributions are made, both by company and the employees to the fund, however the company utilized the provident fund for its operations whereon interest @ 15% is charged.

### 3.05 TAXATION:

- Current

The provision for current taxation is calculated in accordance with the provision of the Income Tax Ordinance 2001.

- Deferred

Deferred tax is provided on major temporary timing differences using the liability method excluding the tax effects of those temporary differences which are not likely to reverse in the foreseeable future.

- Change in Accounting Policy

From current year, the company has adopted the policy of recognizing deferred tax in accordance with the revised International Accounting Standard (IASs) - 12 "Income Taxes" which became applicable to financial statements covering period beginning on or after January 1, 2002. In accordance with the Benchmark treatment prescribed in IAS-8 "Net Profit or Loss for the period, Fundamental Error and changes in Accounting Policies", the effect of these change has been recognized retrospectively. The comparative financial statements for 2002 have been restated to conform to the changed policy. The effect of change has resulted in recognizing a deferred tax assets of Rs. 10,600,000/- for the current year and deferred tax assets of Rs. 8,400,000/- for the previous year.

Hence profit after taxation in the above two years shows change by the above amounts.

### 3.06 TANGIBLE FIXED ASSETS AND DEPRECIATION:

These are stated at cost less accumulated depreciation except free hold land and capital work in progress, which are stated at cost.

Depreciation is charged, on systematic basis over the use full life of the Assets, to income Applying reducing balance method, which reflects the patron in which the Asset's economic benefits are consumed by the enterprise. Addition of fixed assets are depreciated quarterly irrespective of date of purchase while no depreciation is charged on fixed assets dispose off during the quarter.

Maintenance and normal repairs are charged to income, when incurred Major renewas and improvements are capitalized and assets so replaced, if any, are retired. Profit and Loss on disposal of fixed assets is included in current year's income.

### 3.07 BORROWING COSTS:

The borrowing costs including interests are normally charged off to profit and loss account in the year in which they are incurred.

In the case of borrowing costs incurred for the purchase/import of plant and machinery, these are added to the cost of plant and machinery until their installation is completed.

### 3.08 LONG TERM INVESTMENT - AVAILABLE FOR SALE

The Company classified its investment is available for sale category in non current asset unless management has the intention of holding the investment for less than 12 month period from the balance sheet date in which case the investment is included in current assets. All purchases and sales are recognized on trade date. Realized and unrealized gain or loss arising from change in fair value of available for sale investment are included in the profit & loss account in the period in which they arises.

### 3.09 STORES AND SPARES:

Stores and Spares are valued at weighted average cost.

Stores-in-transit are stated at actuals and comprise of invoice value and importing charges.

### 3.10 STOCK-IN-TRADE:

Stock of sugar is valued at lower of average manufacturing cost and net realisable value.  
Stock-in-process at average material cost and Molasses at contract price.

The cost of Sugar in Process includes cost of sugarcane and proportionate manufacturing expenses. Net realisable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred to make the sale.

### 3.11 TRADE DEBTS:

Debts considered irrecoverable are written off and no provision is made for debts considered doubtful, if any.

### 3.12 REVENUE RECOGNITION:

Sales are recorded on despatch of goods to customers. Dividend from investment is recorded when right to receive the same is established.

### 3.13 FOREIGN CURRENCY TRANSACTION

Transaction in foreign currencies are translated into Pak rupees at the exchange rate prevailing on the date of transactions. Assets and liabilities in foreign currencies are translated into Pak rupees



at the rate of exchange which approximate those ruling on the balance sheet date. Exchange difference are taken in profit and loss accounts.

### 3.14 PROVISIONS

Provisions are recognized when Company has a present obligations legal or constructive as a result past event and it is probable that an outflow of resources will be required to settle the obligation and the reliable estimate of the amount can be made.

### 3.15 RELATED PARTY TRANSACTIONS

All transactions between the Company and related party are recorded at arm's length prices determined in accordance with Comparable Uncontrolled Price Method.

### 3.16 FINANCIAL INSTRUMENTS

All the financial Assets and financial Liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument. Any gain or loss on the derecognizing of the financial assets and financial liabilities is taken to profit and loss account currently

### 3.17 OFF-SETTING

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

			2003 RUPEES	2002 RUPEES
4.	ISSUED, SUBSCRIBED AND PAID-UP CAPITAL			
2003	2002			
1,500,000	1,500,000	Ordinary shares of Rs. 10/-each fully paid-up issued for cash	15,000,000	15,000,000
7,124,591	7,124,591	Ordinary shares of Rs. 10/-each fully paid up issued for Bonus Shares	71,245,910	71,245,910
100,000	100,000	Ordinary shares of Rs. 10/-each fully paid-up issued to debenture- holders pursuant to Conversion option of Debenture Trust Deed	1,000,000	1,000,000
8,724,591	8,724,591		87,245,910	87,245,910
<b>RESERVE - REVENUE</b>				
Dividend Equalization Reserve			2,500,000	2,500,000
			2,500,000	2,500,000
<b>LONG TERM LOANS - (SECURED)</b>				
Muslim Commercial Bank Limited				
Long Term Loan - Principal Balance (6.01)			12,683,000	—
Accrued Mark-up restructured & capitalized			6,316,000	—
Reschedule amount			18,999,000	—
Less: Current Maturity			11,049,500	—
			—	7,949,500

6.01 The above loan was overdue and restructured by the bank under the compromise agreement recorded

before the banking Court-III, Karachi whereby down payment of Rs. 3.1 million was paid and the 1st Installment amount is determined at Rs. 3.10 (M) payable by 28 June 2003 and balance in 4 half yearly installment of Rs. 3.975 (m) payable by July 2005. It is agreed that mark-up for the intervening period will remain frozen.

	2003	2002
	RUPEES	RUPEES
<b>7. DEFERRED LIABILITIES</b>		
Deferred Taxation		(Restated)
Tax credit due to accelerated depreciation	55,275,501	59,824,215
Tax debit arises due to doubtful growers loan	-10,391,732	-10,391,732
Tax debit arises due to Tax losses	-20,883,769	-14,832,482
	24,000,000	34,600,000
<b>8. CURRENT MATURITY OF REDEEMABLE CAPITAL, LONG-TERM LOAN &amp; LEAS RENTALS</b>		
Redeemable Capital - NBP (Formerly NDFC) (Secured) (8.1)	137,695,917	137,695,917
Long Term Loan - NBP (Formerly NDFC) (Secured) (8.2)	33,113,928	33,113,928
Long Term Loan - MCB (Secured) (8.3)	11,049,500	—
Overdue Lease Rentals (Secured) (8.4)	7,883,068	9,883,068
	189,742,413	180,692,913

(8.1) Includes Overdue Installments amounting Rs. 137,695,9177- (Since 1999-2000)

(8.2) Includes Overdue Installments amounting Rs. 33,113,9287- (Since 1999-2000)

(8.3) Includes Overdue Installments amounting Rs. 11,049,9287- (Since June-2003)

(8.4) These represents overdue Lease Rentals payable since 1999. The matter was subjudice as reflected in note no. 11.7 & 11.10, however the agreement for settlement of amount presently in process. In anticipation the Company have made down payment of Rs. 2 million during the year.

#### 9. SHORT TERM RUNNING FINANCE (SECURED)

Utilised under mark-up Arrangements

From Banks

Cash Finance (9.1)	29,192,951	74,110,112
Agricultural Loans (9.2)	125,000,000	125,000,000
	154,192,951	199,110,112

9.1 The Aggregate cash finance facilities of Rs. 29,192,951 (2002 - Rs. 74,110,112) have been arranged from various commercial & investment banks. These are secured against pledge of stock in trade, store & spares and personal guarantees of Directors. This is repayable on demand. The Finance Mark-up carries at 50 paisa per thousand rupees per day payable quarterly.

9.2 The company arranged short-term agriculture finance facilities from banks on mark-up basis' of Rs. 125 million (2002 - Rs. 125 million) advance by banks to cane growers of the mills for seeds, fertilizers, tractors etc., under the personal guarantee of the directors. The rate of mark-up is charged at 45 paisa per thousand rupees per day payable quarterly.

9.3 The above short term finance are payable to the banks and financial institutions and are overdue and not been renewed and are in the proceedings before Banking Courts of Karachi.

	2003	2002
	RUPEES	RUPEES
<b>10. Creditors, Accrued and Other Liabilities</b>		
Creditors	92,464,952	146,946,212
Accrued Expenses	61,113,166	54,466,248
Mark-up accrued on:		
- Redeemable Capital	195,603,766	152,198,117
- Long term loans	22,108,276	17,349,692
- Short term running finance	126,423,788	126,263,378
Advances from Customers	57,995,786	138,839,572

Road cess and Surcharge	33,482,148	28,492,655
Sales Tax Payables	61,165,788	44,790,549
Workers Profit Participation Fund (10.1)	662,359	586,159
Determined Liability For Gratuity (10.2)	361,541	8,858,324
Employees Provident Fund Payable (10.3)	91,581,235	79,311,728
Unclaimed Dividend	823,490	823,490
Others	629,578	589,568
	744,415,873	799,515,691
<b>10.1 WORKERS' (PROFIT) PARTICIPATION FUND</b>		
Balance as per last Balance Sheet	586,159	518,725
Interest accrued fund utilised for company's business shown under other charges (see note 27)	76,200	67,434
	662,359	586,159
<b>10.2 DETERMINED LIABILITY FOR GRATUITY</b>		
Opening Balance	8,858,324	8,955,566
Less: Paid during the year	-8,496,783	-97,242
Determined Liability for Gratuity	361,541	8,858,324
<b>10.3 EMPLOYEES PROVIDENT FUND PAYABLE</b>		
Opening Balance	54,116,150	46,758,972
Contribution for the year	4,845,722	7,357,178
Less: Paid During the Year	1,235,214	-
	57,726,658	54,116,150
Add: Intrest Provided upto the current year (28)	33,854,577	25,195,578
	91,581,235	79,311,728

**Note:**

The Company in view of its fund requirements has utilize funds of Employees Provident Fund Trust for discharge of workers liability on which interest @ 15% (2002 - @ 15%) has been provided at the prevailing Bank investment rate by the Company.

**11. CONTINGENCIES & COMMITMENTS****a) Contingent liabilities in respect of:-**

1) A demand of Rs. 1,146,158 together with interest Rs. 2,427,132 by Assistant commissioner, Badin was raised on of compensation of factory free-hold land. The company has not acknowledged the claim was raised and has filed a petition in the High Court of Sindh. The company has deposited with the High Court Rs. 3,573,290 as security. (See Note No. 15 as Long Term Deposits)

2) Claim by National Investment Trust Limited for issue of 6,600 Bonus shares and Rs. 40,500 as dividend thereon against shares of the value of Rs. 400,000 issued to N.I.T., upon exercise of conversion option in 1976-77. The claim of N.I. T. is not acknowledged as debt by the company and the suit filed in the High Court of Sindh, Karachi by N.I.T., is being defended by the company.

3) As the NBP (Formerly NDFC) has gone into litigation and filed a suit for recovery of the sum of Rs. 486.689 Million as against the balance recorded by the Company at Rs. 388.251 Million. The Company disputes the suit and claims it to be unreasonable and unjustified as it includes penal mark-up. The suit is pending before High Court of Sindh at Karachi under Banking Companies Act 1997.

4) National Bank of Pakistan has gone into litigation and filed a suit for the recovery of the sum of Rs. 25.00 Million plus mark-up at the rate of 0.54 paise per thousand on daily product basis as against the balance recorded by the Company at Rs. 48.794 Million. The Company disputes the suit and claim it to be unreasonable and unjustified. The suit is pending before the Banking Court No. 1 at Hyderabad under the Financial Institutions (Recovery of Finance) Ordinance, 2001. The management is confident that the ultimate verdict will be in its favour.

5) Pioneer Cable Limited has gone into litigation and filed a suit bearing No. 882/02 in the High Court for the outstanding amount Rs. 769,777. 15 as principal plus markup of Rs. 551,135/-. The Company has recorded the above outstanding balance at Rs. 769,777- only as the supply do not envisage levy of mark-up. The company have counter claimed for defective supply. The suit is pending before High Court of Sindh at Karachi. The management is confident that the ultimate verdict will be in its favour.

already succeeded at the first stage of appeals but is being contested in appeals at the second stage by the Tax department. No provision for disputed tax liability is being made in accounts as in the opinion of the Company's management, which is supported by the Tax advisor thus it has a good legal case.

7) The Orix Leasing Pakistan Limited has gone in to litigation and filed a suit under section 9(3) of the banking companies, before the banking court No. 1 (Recovery of loans, advances, credit and finances) for recovery of sum at Rs. 11.763 million together with the additional lease rentals for defaulted rentals, as against the balance recorded by company at Rs. 6.020 million. The company disputes the suit and claims it to be unreasonable and unjustified. The suit is pending before the Banking Court at Karachi.

The management has settled this case after negotiation and subsequently without additional Lease Rentals sum of Rs. 2.0 million has been paid as down payment and balance amount will be paid on agreed terms and conditions.

8) As the Reliance Insurance Company Limited has gone into litigation and filed a suit (case # 158/2002) for recovery of Insurance premium of several policies utilized by the company and there is no record available for the same nor the insurer could produce any documentary proof in support of its alleged claim. The suit is pending before the court. The management is hopeful for favourable out come.

9) Through the Sindh Finance(Amendment) Act 1995, the Provincial Government made an amendment in Sindh. Finance Act, 1964 enhancing the rate of sugarcane development cess from 14 paisas to 75 paisas per 40 kgs for Mills and from 14 paisas to 25 paisas for the growers. On the appeal of Chairman (PSMA) to Chief Minister Sindh, who referred the matter to the committee consisting of Secretaries of Agriculture. Finance and Industry under the chairmanship of the Advisor Finance to the Chief Minister of Sindh. The committee with agreement to the Chief Secretary recommended to reduce the rate of cess from Re. 1 to 50 paisas per 40 kgs to be equally shared by Mills and growers which also approved by the Sindh Cabinet. However applicable notification that is not yet been issued.

10) Banker's Equity has file a suit for recovery Rs. 5,566,8437- claiming as additional charge on lease for late payment, against unrecorded liability of Lease payable Rs. 1,637,8107- . This case is proceeding before the Banking Court # 1, & Case # 1684/2000. The management is confident for favorable out come.

11) Saudi Pak Industrial an Agricultural Investment Company has filed a suit for recovery Rs. 15.442 million against the Company's short term finance of Rs. 15.198 million as on 30-09-2003. This case is proceeding before the Banking Court. The Management is confident for favourable out come.

#### b) Commitments in respect of:-

1) The over dues Rentals under operating lease agreement in respect of equipments and vehicles as on 30-09-2003 were Rs.7,883,068/-.

#### 12. TANGIBLE FIXED ASSET S

PARTICULARS	C	O	S	T	Rate of Dep	DEPRECIATION		for the year	30-09-2003	Written Down
						01-10-2002	Deletion			Value 30-09-2003
Factory Land-Freehold	1,017,901	.	.	1,017,901	.	-	-	.	.	1,017,901

Factory Building- on Freehold Land	105,843,150	-	105,843,150	10%	73,638,374	-	3,220,478	76,858,852	28,984,298
Non-Factory Building- on Freehold Land	12,623,242	-	12,623,242	10%	10,328,938	-	229,430	10,558,368	2,064,874
Plant and Machinery	582,080,488	10,256,700	592,337,188	10%	337,846,414	-	25,449,077	363,295,491	229,041,697
Agricultural Vehicle	2,751,178	-	2,751,178	20%	2,188,439	-	112,548	2^00,987	450,191
Transport Vehicles	4,349,500	-	4,349,500	20%	3,170,282	-	235,844	3,406,126	943374
Electrical And Air-conditioning Installation	2,519,960	50,366	2,570,326	10%	2,059,860	-	51,047	2,110,907	459,419
Weigh Bridge Installation	591,164	-	591,164	10%	82,621	-	50,854	133,475	457,689
Furniture and Fixtures	2,571,264	-	2,571,264	10%	1,990,239	-	58,102	2,048,342	522,922
Office Equipments, Tools and Other Equipments	5,830,714	365,452	6,196,166	10%	3,373,121	-	282,305	3,655,425	2,540,741
2003-Rupees	720,178,561	10,672,518	730,851,079		434,678,288	-	29,689,685	464,367,973	266,483,106
2002-Rupees i	719,148,313	1,030,248	720,178,561		402,827,197	-	31,851,091	434,678,288	285,500,273

2003  
RUPEES

2002  
RUPEES

12.01 Depreciation charge for the year has been allocated as follows:-

Cost of Sales	2See Note 22)	28,884,004	30,844,597
Establishment and Other Expmses	(SeeJiote.23)-.	805,681	-1,006,494-
		29,689,685	31,851,091

2003  
RUPEES

2002  
RUPEES

### 13. INVESTMENTS (AVAILABLE FOR SALE)

Name of Investee company	Class of Shares	Number of Fully paid Shares	Fair Value	2003 RUPEES	2002 RUPEES
Faran Sugar Mills Ltd.	Ordinary	79,800	399,000	399,000	399,000
			399,000	399,000	

### 14. LONG-TERM RECEIVABLES (SECURED)

14.1 The above Long Term receivables represents an amount of Rs. 36.048 Million (2002 - Rs. 101.548 Million) outstanding from M/s. Ebramin (Pvt) Ltd., jointly and secured against continuining Guarantee on recurring and revolving basis by associated undertaking M/s. Al-Asif Sugar Mills Limited which becomes payable within 16 years in the light of Company's Cashflow.

### 15. LONG-TERM DEPOSITS

Security Deposits (Leases)	4,591,256	4,591,256
Deposit with High Court (See Note 11 (a)(l))	3,573,290	3,573,290
	8,164,546	8,164,546

### 16. STORES, SPARES AND LOOSE TOOLS

Stores	8,032,402	11,340,162
Spare and Loose tools	17,201,254	22,686,799
Less: Provision for obsolescence	—	-4,028,703
	25,233,656	29,998,258

The Company have written off spares and loose tools valuing at Rs. 4,028,703/- against which a provision has been made as technical evaluation whereof justifies the value.

### 17. STOCK-IN-TRADE

Sugar-in-Process	989,740	797,680
Molasses	136,201	114,250
	1,125,941	911,930
18. TRADE DEBTS: (UN-SECURED) - Considered Good	24,846,666	92,846,666

2003  
RUPEES

2002  
RUPEES

### 19. LOANS ADVANCES & OTHER RECEIVABLES

(Unsecured - Consider Good)

Advances to staff and workers, against Salaries and Wages(19.1)	4,231,509	4,117,639
Advances to cane haulage and other contractors	10,500	10,500
Advances against supplies	1,870,572	1,870,572
Advances to cane growers against cane supplies:-		
Considered good	29,983,247	29,983,247
Less: Provision for doubtful Growers Loans	-29,490,664	-29,490,664
	492,583	492,583
Excise duty (Sugar) Current Account Balance	585,120	585,120
Other receivables (19.2)	111,194,955	110,382,673
	118,385,239	117,459,087

19.1 Advance to employees given to non-executive staff are for a period of less than a year. The advance is interest free and secured against retirement's benefits.

19.2 Other receivables includes Kotri Trading Company in respect of this Company received amount Rs. 7.2 million for the year and management is confident to recover substantial amount in the Year 2003-2004.

## 20. CASH AND BANK BALANCES

Cash in Hand	433,322	11,481
Balance with Banks on Current Accounts	883,515	940,562
	1,316,837	952,043

## 21. SALES

Sugar	650,943,562	479,404,856
Molasses	26,473,954	13,641,115
	677,417,516	493,045,971
Less: Sales Tax	-90,113,469	-67,445,538
	587,304,047	425,600,433

2003	2002
RUPEES	RUPEES

## 22. COST OF SALES

Sugar cane consumed (including procurement and quality development expenses)	431,246,573	197,584,500
Sugar Cane Subsidy to cane growers	10,796,392	78,264,914
Road Cess and Surcharge	2,494,738	1,556,857
Salaries, Wages and Benefits (22.1)	40,168,059	43,424,311
Manufacturing Stores and Spares	11,940,049	7,738,525
Water, fuel and power	7,365,903	19,657,286
Repairs and Maintenance	11,980,757	16,919,892
Insurance	723,342	204,326
Operational Transport and handling	666,137	552,034
Other Manufacturing Expenses	555,916	717,717
Depreciation (Note 12.01)	28,884,004	30,844,597
	546,821,870	397,464,959

Add: Opening Stock

Sugar	—	7,981,737
Sugar-in-Process	797,680	9,041,654
Raw Sugar	—	125,805,149
Molasses	114,250	1,707,555
"---	911,930	144,536,095
	547,733,800	542,001,054

Less: Closing Stock

Sugar-in-Process	989,740	797,680
Molasses	136,201	114,250
	1,125,941	911,930
Total cost of goods sold	546,607,859	541,089,124

22.1 These includes employees retirement's benefits amounting to Rs. 1,252,7307- (2002-Rs. 1,215,148

## 23. ESTABLISHMENT AND OTHER EXPENSES

Administration Salaries and Bonuses (23.1)	19,298,863	18,530,695
Office and Other Expenses	638,181	488,112

Travelling and Conveyance	436,787	541,817
Legal fees and Professional charges	553,657	673,810
Postage and Telephone Expenses	766,171	870,248
Vehicles Expenses	1,073,254	549,503
Doubtful Growers Loan	—	6,033,614
Printing and Stationery	417,584	437,596
Electricity and Rep. Maint. Expenses	2,066,658	1,928,824
Employees Welfare Expenses	358,414	288,285
Director's Remuneration (32)	1,440,000	1,220,400
Auditor's Remuneration (23.02)	204,500	175,335
Depreciation (Note 12.01)	805,681	1,006,494
	28,059,750	32,744,733

23.1 These includes employees retirement's benefits amounting to Rs. 536,8847- (2002-Rs. 515,945).

	2003 RUPEES	2002 RUPEES
23.2 Auditors Remuneration		
Audit Fee	130,000	100,000
Cost Audit Fee	50,000	50,000
Out of Pocker Expense	24,500	25,335
	204,500	175,335
24. SELLING AND DISTRIBUTION EXPENSES		
Advertisement Expenses	10,000	36,000
Sugar Handling and Storage Expenses	519,450	513,331
	529,450	549,331
25. OTHER INCOME		
Dividend Income	—	160,000
Miscellaneous Receipt	269,539	417,557
Mark-up provision written back (25.1)	13,515,755	—
	13,785,294	577,557

25.1 The amount of mark-up payable to Ma<sup>h</sup> Bank Pakistan Limited previously Crescent Investment Bank Limited has been written back upon final settlement and compromise of amount rendered with the Bank.

26. FINANCIAL EXPENSES		
Mark-up on short term cash/running finance	24,058,004	36,793,072
Mark-up on Redeemable Capital	38,392,301	38,392,301
Mark-up on Long-term Loan	9,771,932	9,771,932
Bank Commission and Charges	358,935	218,116
	72,581,172	85,175,421
27. OTHER CHARGES		
Additional Sales Tax	3,136,284	3,984,082
Sales Tax Penalty (27.01)	13,224,790	966,871
Provision for obsolescence	—	4,028,703
Diminution in the value of Investment	—	183,986
Interest on P.F. Contribution (10.3)	8,658,999	15,115,578
Interest on Workers Participation Fund(IO.I)	76,200	67,434
Panelty To SECP for late filing	3,000	600
	25,099,273	24,347,254

27.1 Sales Tax penalty is levied @ 30% of payable amount of Sales Tax at the end of financial year. However Company has field appeal before the appellat authority for its waiver.

28. PROVISION FOR TAXATION		
Current year (Note 28.01)	2,936,520	2,128,002
Prior year adjustment	—	343,604
Deferred Tax (28.2)	-10,600,000	-8,400,000
	-7,663,480	-5,928,394

28.01 Since the company incurred loss is hence provision for current taxation is based on minimum of

income tax u/s 113 of Income tax Ordinance, 2001

28.02 Company has recognized deferred tax debit to the extent of unabsorbed tax depreciation, while impact of tax losses have been ignored due to this reason that the Company may not be able to utilize the benefit of losses due to period limitation.

## 29. EARNING PER SHARE (EPS)

### 29.1 Basic earning per share

Profit/(Loss) after (64,124,683))	-251,799,479
Weighted average #####	8,724,591
Basic earning per	-7.35
	-28.86

### 29.2 Diluted earning per share

There is no dilution effect on the basic earning per share of the Company as the Company has no commitments in respect of share capital.

## 30. FINANCIAL ASSETS AND LIABILITIES

	Mark-up Bearing			Non-Mark-up Bearing			Total (a+b)
	Less than One Year	One year and onward	Sub-Total at	Less than One Year	One year and onward	Sub-Total b	
Financial Assets:							
Long term Investment	-	-	-	-	399,000	399,000	399,000
Trade Debtors	-	-	-	24,846,666	-	24,846,666	24,846,666
Loans, Advances & Other Receivables	-	-	-	115,919,047	-	115,919,047	115,919,047
Cash & Bank Balances	-	-	-	-	1,316,837	1,316,837	1,316,837
Rupees 2002-2003	.	-	-	140,765,713	1,715,837	142,481,550	142,481,550
Rupees 200 1-2002	-	-	-	210,305,753	1,351,043	211,656,796	211,656,796
Financial Liabilities:							
Long term Loans	11,049,500	7,949,500	18,999,000	-	-	-	18,999,000
Running Finance Creditor's Accrued &	154,192,951	-	154,192,951	-	-	-	154,192,951
				683,250,085		683,250,085	683,250,085
Rupees 2002-2003	165,242,451	7,949,500	173,191,951	683,250,085		683,250,085	856,442,036
Rupees 200 1-2002	369,919,957	-	369,919,957	809,398,759	-	809,398,759	1,179,318,716
Net gap - 2002-2003	-165,242,451	-7,949,500	-173,191,951	-542,484,372	1,715,837	-540,768,535	-713,960,486
Net gap -200 1-2002	-369,919,957	-	-369,919,957	-599,093,006	1,351,043	-597,741,963	-967,661,920

## 31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### Effective interest rates

Long term loan as specified in note no 6.01

Short term finance 45-50 paisa per day per thousand per quarter

### Liquidity risk

The Company applied prudent risk management policies by maintaining sufficient cash and Bank balances

and by keeping committed credit lines.

### Foreign currency risk management

Foreign currency risk arise where financial instruments contains receivables and payable in foreign currency. Liabilities are covered through forward foreign exchange contracts where as the receivables have limited risk due to exchange rate control.

### Concentration of credit risk



Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fails completely to perform as contracted. The Company applies credit limits to its customers and does not have significant exposure to any individual customer.

#### Interest rate risk

Since the Company borrows funds usually at fixed interest / markup rates thus the risk arising is minimal.

#### Fair values of financial instruments

Fair values is the amount for which an assets could be exchanged, or a liabilities settled, between knowledgeable willing parties in an arm's length transaction.

As at September 30, 2003 the net fair value of our financial instruments has been based on the valuation methodology unlimed below.

#### a) Long Term Deposits

These do not carry any rate of return. The fair value of these have been taken at book values as these are not considered materially different.

#### f) Other Financial instruments

The fair value of all other financial instruments are considered to approximate there book values as they are short term in nature.

Underlying the definition of fair value is the presumption that the Company is a going concern without any intention or requirements to curtail materially the scale of its operations are to undertake a transactions on adverse terms.

### 32. DETAILS OF PAYMENT TO DIRECTORS, CHIEF EXECUTIVE.

The aggregate amount charged in the accounts for the year remuneration including benefits to the Chief Executive, Directors and Executive of the company were as follows:

Particulars	2003				2002			
	Chief Executive	Directors	Executives	Total	Chief Executive	Directors	Executives	Total
Fees	-	27,000	-	27,000	-	6,000	-	6,000
Managerial								
Remuneration & Bonus	480,000	480,000	1,311,555	2,271,555	-	864,810	1,215,084	2,079,894
Housing Allowance	192,000	192,000	316,980	700,980	-	355,590	285,415	641,005
Utilities & Other Allowances	48,000	48,000	411,204	507,204	-	-	320,154	320,154
Retirement Benefits	-	-	193,074	193,074	-	-	150,250	150,250
Total Rupees	720,000	747,000	2,232,813	3,699,813	-	1,226,400	1,970,903	3,197,303
No. of persons (Other than for fees)	1	1	8		-	1	7	

### 33. TRANSACTION WITH ASSOCIATED COMPANIES

Receipts on account during the year - 739,310

### 34. CAPACITY AND PRODUCTION

Year	Crushing Capacity		Actual Crushing	
	No. of days Mill operated	M. Ton per day	Total crushing on the basis of No. of days Mill operated M. Ton	M. Ton
2003	113	9,000	1,017,000	399,158

2002	179	9,000	1,611,000	191,613
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The sugar production plant capacity is based on crushing sugar cane on daily basis and the sugar production is dependent on certain factors which include sucrose recovery percentage. The actual production of sugar is as under

Production

Year	M. Ton
2003	38,017
2002	23,972

Reason for Low Crushing:

The crushing has been lower due to lesser availability of sugar cane.

35. DATE OF AUTHORIZATION FOR ISSUE:

These financial statements have been authorized for issue on December 31st 2003, by the Board of Director of the company.

36. NUMBER OF EMPLOYEES

Total average of employees (including Permanent, Seasonal and Temporary) for the year 595 (2002-701)

37. COMPARATIVE FIGURES

- Have been rounded off to nearest rupee.

Cheif Executive

Director