annual report

2012

CHASHMA SUGAR MILLS LIMITED

CONTENTS

CHASHMA SUGAR MILLS LIMITED

COMPANY INFORMATION

BOARD OF DIRECTORS	
CHAIRMAN/CHIEF EXECUTIVE	KHAN AZIZ SARFARAZ KHAN
DIRECTORS	BEGUM LAILA SARFARAZ MR. ABBAS SARFARAZ KHAN MS. ZARMINE SARFARAZ MS. NAJDA SARFARAZ MR. ISKANDER M KHAN MR. BABER ALI KHAN MR. ABDUL QADAR KHATTAK
BOARD AUDIT COMMITTEE	MS. NAJDA SARFARAZ MR. ISKANDER M KHAN MR. BABER ALI KHAN
COMPANY SECRETARY	MR. MUJAHID BASHIR
CHIEF FINANCIAL OFFICER	MR. RIZWAN ULLAH KHAN
AUDITORS	MESSRS HAMEED CHAUDHRI & CO. CHARTERED ACCOUNTANTS
COST AUDITORS	MESSRS MUNAWAR ASSOCIATES CHARTERED ACCOUNTANTS
TAX CONSULTANTS	MESSRS HAMEED CHAUDHRI & CO. CHARTERED ACCOUNTANTS
LEGAL ADVISORS	MR. TARIQ MEHMOOD KHOKHAR Barrister -at-Law, Advocate
SHARES REGISTRAR	MESSRS HAMEED MAJEED ASSOCIATES, (PVT.) LIMITED, H.M HOUSE, 7-BANK SQUARE, LAHORE
BANKERS	NATIONAL BANK OF PAKISTAN HABIB BANK LIMITED MCB BANK LIMITED THE BANK OF KHYBER BANK AL-FALAH LIMITED BANK AL-HABIB LIMITED SILK BANK LIMITED THE BANK OF PUNJAB FAYSAL BANK LIMITED DUBAI ISLAMIC BANK PAKISTAN LIMITED
REGISTERED OFFICE	NOWSHERA ROAD, MARDAN
HEAD OFFICE	KING'S ARCADE 20-A, MARKAZ F-7, ISLAMABAD PHONE: 051-2650805-7 FAX: 051-2651285-6
FACTORY	DERA ISMAIL KHAN (KHYBER PAKHTOONKHAWA) PHONE: 0966-750090, 750091 FAX: 0966-750092

CHASHMA SUGAR MILLS LIMITED

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that 25th Annual General Meeting of the shareholders of **Chashma Sugar Mills Limited** will be held on 31 January, 2013 at 11.00 AM at the Registered Office of the Company at Nowshehra Road, Mardan for transacting the following business: -

(1) To confirm the minutes of the last Annual General Meeting held on 31 January, 2012.

(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, 2012.

(3) To appoint the Auditors and to fix their remuneration for the financial year ending 30 September, 2013. 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 30 January, 2013 (Both days inclusive).

BY ORDER OF THE BOARD

Mardan:
04 January, 2013

(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 National Identity Cards, Account and participants I.D numbers, for identification purpose, and in case of proxy, to enclose an attested copy of his/her Computerized National Identity Card (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, 2012.

SUMMARISED FINANCIAL RESULTS

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

	2012	2011
	(Rupees in thousands)	
(Loss) / Profit before taxation	**(239,067)**	165,491
Taxation		
Current	**30,688**	58,844
Prior	**98**	(10,947)
Deferred	**(50,882)**	(23,016)
	(20,096)	24,881
(Loss) / Profit after taxation	**(218,971)**	140,610
	---------- (Rupees) ----------	
(Loss) / Earnings per share	**(7.63)**	4.90

GENERAL

1. SUGARCANE SEASON 2011-2012

The sugarcane crushing season commenced on 30 November, 2011, and continued till 21 March, 2012. The mills crushed 1,196,202 tons (2010-11: 1,353,553 tons) of sugarcane and produced 103,478 tons (2011: 117,474) of sugar at an average recovery of 8.65 % (2010-11: 8.69 %). The Company suffered losses due to low prices of sugar, as Trading Corporation of Pakistan (TCP) offloaded its buffer stock in the market, instead of holding sugar stocks to meet the shortages in the country, if any.

2. CURRENT SEASON 2012-2013

The sugarcane crushing season started on 30 November, 2012 and the mills crushed 378,112 tons of sugarcane producing 32,060 tons of sugar with an average recovery of 8.5% up to 25 December, 2012. The Government has increased the sugarcane support price from Rs.150/- to Rs.170/- per 40 kg.

3. SUGAR PRICE

The sugar prices have remained depressed throughout the year and the prevailing sugar price does not cover the sugar production cost. The Government allowed export of surplus stock of sugar and because of this, we are expecting reasonable sugar prices for the current season.

4. STAFF

The Management and Labour relations remained cordial during the year.

5. PATTERN OF SHAREHOLDING

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

6. 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'.

- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.

- Key operating and financial data for the last six 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, 2012, 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.31.400 million as at 30 September, 2011.

- During the year six (6) meetings of the Board of Directors were held.

- Attendance by each Director is as follow:-

	Name of Directors	No. of Meetings Attended
-	Khan Aziz Sarfaraz Khan	6
-	Begum Laila Sarfaraz	5
-	Mr. Abbas Sarfaraz Khan	3
-	Ms. Zarmine Sarfaraz	5
-	Ms. Najda Sarfaraz	4
-	Mr. Iskander M Khan	6
-	Mr. Baber Ali Khan	4
-	Mr. Abdul Qadar Khattak	2

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

7. ROLE OF SHAREHOLDERS

The Board of Directors aim is 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.

8 DIVIDEND

The Directors do not recommend any dividend due to losses suffered by the Company.

9. 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 of the Company for the financial year 2012-13. The Board has recommended to approve the minimum audit fee as per ATR-14 (Revised) issued by the ICAP.

10. 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.

11. 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, 2012 have been duly complied with. A statement to this effect is annexed with the report.

12. ACKNOWLEDGEMENT

TThe 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
04 January, 2013

(KHAN AZIZ SARFARAZ KHAN)
CHAIRMAN/CHIEF EXECUTIVE

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 shareholders as per their expectations.

MISSION STATEMENT

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

To be a good corporate citizen to fulfill the social responsibilities.

Commitment to building Safe, Healthy and Environment friendly atmosphere.

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

We value the social and economic well being of our partners and strive for a harmonious environment conducive to team performance.

The quality policy also encompasses our long term **Strategic Goals** and **Core Values**, which are integral part of our business.

STRATEGIC GOALS

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

CORE VALUES

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

For and on behalf of the Board of Directors

(KHAN AZIZ SARFARAZ KHAN)
CHAIRMAN/CHIEF EXECUTIVE

CHASHMA SUGAR MILLS LIMITED

STATEMENT OF ETHICS AND BUSINESS PRACTICES

The articulation of this statement is based on following points: -

- Elimination of improper payments or use of the Company's assets.
- Elimination of political contributions.
- Elimination of reporting violations.
- Accuracy of books and records of the Company and its safe custody.
- Authentic and genuine payment of amounts due to customers, agents or suppliers.
- Respect of employees, suppliers, agents, customers and shareholders.
- Integrity and scrupulous dealings.
- Health and safety environments.
- Conflicts of interests.
- Strict observance of the laws of the country.
- Respect of basic human rights.
- Teamwork, trust, determination and delegation of powers.
- Our dealings with all stakeholders, especially with the government and financial institutions, are based on honesty and equality. Our accounting & finance policies are guided by prevailing corporate regulations, Companies Ordinance, 1984, and the Code of Corporate Governance. Further, we aim to fully comply with International Accounting Standards (IAS) in the preparation of financial statements whereas any departure therefrom is adequately disclosed.

Chashma Sugar Mills Limited is committed to ensure that this Statement of Ethics and Business Practices is understood and implemented by all concerned individuals in letter and spirit.

For and on behalf of the Board of Directors

(KHAN AZIZ SARFARAZ KHAN)
CHAIRMAN/CHIEF EXECUTIVE

CHASHMA SUGAR MILLS LIMITED

FORM - 34

PATTERN OF SHAREHOLDING OF THE SHARES HELD BY THE SHAREHOLDERS AS AT 30 SEPTEMBER, 2012

NUMBER OF SHAREHOLDERS	SHAREHOLDING					TOTAL SHARES HELD
132	FROM	1	to	100	Shares	10,969
559	FROM	101	to	500	Shares	250,596
135	FROM	501	to	1,000	Shares	126,600
179	FROM	1,001	to	5,000	Shares	471,683
45	FROM	5,001	to	10,000	Shares	351,023
11	FROM	10,001	to	15,000	Shares	138,746
9	FROM	15,001	to	20,000	Shares	160,400
10	FROM	20,001	to	25,000	Shares	231,463
4	FROM	25,001	to	30,000	Shares	105,506
4	FROM	30,001	to	35,000	Shares	130,881
4	FROM	35,001	to	40,000	Shares	148,400
3	FROM	40,001	to	50,000	Shares	146,462
2	FROM	50,001	to	60,000	Shares	115,801
1	FROM	60,001	to	65,000	Shares	65,000
2	FROM	65,001	to	75,000	Shares	141,000
1	FROM	75,001	to	80,000	Shares	76,500
1	FROM	80,001	to	85,000	Shares	81,800
1	FROM	85,001	to	95,000	Shares	94,005
1	FROM	95,001	to	130,000	Shares	129,500
1	FROM	130,001	to	135,000	Shares	131,000
2	FROM	135,001	to	160,000	Shares	300,000
1	FROM	160,001	to	165,000	Shares	162,917
3	FROM	165,001	to	320,000	Shares	878,300
1	FROM	320,001	to	325,000	Shares	323,000
1	FROM	325,001	to	370,000	Shares	334,650
1	FROM	370,001	to	465,000	Shares	394,589
1	FROM	465,001	to	470,000	Shares	469,823
2	FROM	470,001	to	805,000	Shares	1,276,975
1	FROM	805,001	to	945,000	Shares	942,227
2	FROM	945,001	to	2,000,000	Shares	3,160,709
2	FROM	2,000,001	to	above	Shares	17,341,475
1122						28,692,000

Categories of Shareholders	Numbers	Shares Held	Percentage
Associated Companies	4	19,111,834	66.61
NIT and ICP	1	24,264	0.09
Directors & Relatives	11	4,175,219	14.56
Executives			
Public Sector Companies & Corporations	13	640,034	2.23
Banks, Development Finance Institutions, Non Banking Financial Institutions, Insurance Companies,Modarabas and Mutal Funds	4	1,117,144	- 3.89
Individuals	1087	3,328,505	11.59
Charitable Trusts	2	295,000	1.03
	1122	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**	**66.61**
The Premier Sugar Mills & Distillery Co. Limited		13,751,000		
Syntronics Limited.		3,590,475		
Azlak Enterprises (Pvt) Limited		1,462,859		
Phipson & Co. Pakistan (Pvt.) Limited		307,500		
NIT and ICP	**1**		**24,264**	**0.09**
Directors & Relatives	**11**		**4,175,219**	**14.56**
Public Sector Companies and Corporations	**13**		**640,034**	**2.23**
Asif Mushtaq & Company		1,500		
Neelum Textile Mills (Pvt) Limited		12,400		
Shakil Express (Pvt) Limited		17,700		
Saphire Agencies (Pvt) Limited		35,000		
Mehran Sugar Mills Ltd		469,934		
Ameer Cotton Mills (Pvt) Limited		59,800		
S.H Bukhari Securities (Pvt) Limited		400		
Muhammad Ahmed Naeem Securities (Pvt) Ltd		300		
ZHV securities (Pvt) Limited		3,000		
Mazhar Hussain Securities (Pvt) Limited		2,500		
CMA Securities Limited		30,000		
AWJ Ssecurities (Pvt) Limited		2,500		
Mohammad Salim Kasmani Securities		5,000		
Banks, Development Finance Institutions, Non Banking Financial Institutions, Insurance Companies, Modarabas and Mutual Funds	**4**		**1,117,144**	**3.89**
National Bank of Pakistan		89,717		
National Bank of Pakistan-Trustee Depart		942,227		
IDBP (ICP Unit)		3,400		
StateLife Insurance Corporation of Pakistan		81,800		
Individulals	**1087**		**3,328,505**	**11.59**
Charitable Trusts	**2**		**295,000**	**1.03**
Sarfaraz District Hospital		290,000		
Trustees Moosa Lawani Foundation		5,000		
	1122		**28,692,000**	**100.00**

Shareholders holding 10% or more voting intesrest in the Company

The Premier Sugar Mills & Distillery Co, Limited	13,751,000	47.93
Syntronics Limited	3,590,475	12.51

CHASHMA SUGAR MILLS LIMITED

TEN YEARS PERFORMANCE AT A GLANCE

PARTICULARS	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
	(R U P E E S I N T H O U S A N D)									
Sales	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	576,598
Cost of sales	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	577,039
Operating profit/(Loss)	97,323	612,225	647,940	297,935	270,343	(128,111)	12,327	180,256	48,878	(29,261)
Profit/(Loss) before tax	(239,067)	165,491	347,799	(140,786)	(57,172)	(377,451)	(71,919)	138,086	33,246	(42,646)
Profit/(Loss) After tax	(218,971)	140,610	283,794	(217,910)	(63,163)	(358,007)	(32,338)	80,472	21,144	(43,348)
Share capital	286,920	286,920	286,920	286,920	286,920	191,280	191,280	191,280	191,280	191,280
Shareholders' equity	1,397,464	1,645,127	423,572	66,712	203,438	128,232	486,239	537,705	457,355	436,211
Fixed assets - net	3,171,414	3,103,002	2,335,101	2,515,056	2,723,775	1,850,560	893,731	934,125	322,811	355,405
Total assets	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	1,014,280
Long term liabilities	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	1.66	10.41	10.18	7.51	10.48	(4.34)	4.66	18.14	3.36	(5.07)
Profit/ (Loss) before tax	(4.09)	2.81	5.47	(3.55)	(2.22)	23.04	(4.90)	11.04	2.29	(7.40)
Profit/(Loss) after tax	(3.74)	2.39	4.46	(5.49)	(2.45)	21.85	(2.72)	6.43	1.45	(7.52)
Return to Shareholders										
ROE - Before tax	(17.11)	10.06	82.11	(211.04)	(28.10)	(294.35)	(11.99)	25.68	7.27	(9.78)
ROE - After tax	(15.67)	8.55	67.00	(326.64)	(31.05)	(279.19)	(6.65)	14.96	4.62	(9.94)
Return on Capital Employed	(6.21)	4.68	15.03	(14.23)	(3.79)	(187.16)	(0.16)	8.85	2.93	(9.93)
E. P. S. - After tax	(7.63)	4.90	9.89	(7.59)	(2.20)	(18.72)	(1.69)	4.2	1.11	(2.27)
Activity										
Income to total assets	1.00	1.36	2.14	1.12	0.57	10.34	(0.01)	0.86	1.46	0.57
Income to fixed assets	1.84	2.16	2.72	1.58	0.95	18.79	(0.02)	1.34	4.50	1.62
Liquidity/Leverage										
Current ratio	0.87	0.96	0.87	0.92	0.93	1.53	1.07	1.1	1.06	1.10
Break up value per share	48.71	5.73	14.76	2.33	7.09	0.67	25.42	28.11	23.91	22.80
Total Liabilities to equity (Times)	6.02	2.43	6.02	20.06	21.17	25.66	3.98	1.69	1.18	1.31

TEN YEARS REVIEW

YEAR	CANE CRUSHED TONS	RECOVERY %	SUGAR PRODUCED TONS
2003	889,074	7.28	64,698
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

CHASHMA SUGAR MILLS LIMITED

STATEMENT OF COMPLAINCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

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

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

1. The Company encourages representation of independent non-executive directors; at present the Board includes one independent non-executive director.

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

4. No casual vacancies were occurred in the Board during the year.

5. The Company has prepared a “Statement of Ethics and Business Practices”, which has been signed by all the directors and employees of the Company.

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 decision on material transactions.

8. The meetings of the Board were presided over by the Chairman when he was present, 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. Directors are well conversant with the listing Regulations and legal requirements and as such are fully aware their duties and responsibilities.

10. There was no new appointment of CFO and no new appointment of Company Secretary during the year.

11. 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.

12. The financial statements of the Company were duly endorsed by the CEO and the CFO before approval by 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 share-holding.

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

15. The Board has formed an Audit Committee, which comprises of three members, of whom one is non-executive director.

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 formulated and advised to the Committee for compliance.

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

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 (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.

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. The related party transactions have been placed before the audit committee and approved by the Board of Directors to comply with requirements of listing regulations of the Karachi Stock Exchange (Guarantee) Limited.

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

For and on behalf of the Board

Mardan
04 January, 2013

(KHAN AZIZ SARFARAZ KAHN)
CHAIRMAN/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 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.

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 30 September, 2012.

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

LAHORE;
05 January, 2013

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 30 September, 2012 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 30 September, 2012 and of the loss, its cash flows and changes in equity for the year then ended; and

(d) in our opinion, zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

HAMEED CHAUDHRI & CO.,
CHARTERED ACCOUNTANTS
Engagement Partner: Nafees ud Din

LAHORE;
05 January, 2013

CHASHMA SUGAR MILLS LIMITED

BALANCE SHEET AS AT 30 SEPTEMBER, 2012

	Note	2012	2011
		(Rupees in thousand)	
Equity and Liabilities			
Share Capital and Reserves			
Authorised capital 50,000,000 ordinary shares of Rs.10 each		500,000	500,000
Issued, subscribed and paid-up capital 28,692,000 ordinary shares of Rs.10 each fully paid in cash	7	286,920	286,920
General reserve		327,000	327,000
Accumulated loss		(188,853)	(35,687)
		425,067	578,233
Surplus on Revaluation of Property, Plant and Equipment	8	972,397	1,066,894
Non-current Liabilities			
Long term financing	9	544,578	340,000
Loans from related parties	10	439,687	502,500
Liabilities against assets subject to finance lease	11	9,304	6,207
Deferred taxation	12	457,943	508,825
		1,451,512	1,357,532
Current Liabilities			
Trade and other payables	13	819,694	269,997
Accrued mark-up	14	98,838	125,448
Short term borrowings	15	1,710,005	1,905,100
Current portion of non-current liabilities	16	323,453	248,366
Sales tax and federal excise duty payable		3,789	16,017
Taxation	17	30,688	79,594
		2,986,467	2,644,522
Contingencies and Commitments	18		
		5,835,443	5,647,181

	Note	2012	2011
		(Rupees in thousand)	
Assets			
Non-current Assets			
Property, plant and equipment	19	3,167,380	3,099,093
Intangible assets	20	100	200
Security deposits		3,934	3,709
		3,171,414	3,103,002
Current Assets			
Stores and spares	21	177,166	169,366
Stock-in-trade	22	1,347,663	1,969,291
Trade debts	23	681,660	38,732
Loans and advances	24	124,787	75,210
Prepayments and other receivables	25	3,321	1,924
Investments	26	202,154	179,040
Income tax refundable, advance tax and tax deducted at source		58,605	45,489
Bank balances	27	68,673	65,127
		2,664,029	2,544,179
		5,835,443	5,647,181

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, 2012

	Note	2012	2011
		(Rupees in thousand)	
Sales	28	**5,848,891**	5,882,738
Cost of Sales	29	**5,702,814**	5,186,437
Gross Profit		**146,077**	696,301
Distribution Cost	30	**15,586**	13,154
Administrative Expenses	31	**118,728**	98,492
Other Operating Expenses	32	**275**	12,591
Other Operating Income	33	**(85,835)**	(40,161)
		48,754	84,076
Profit from Operations		**97,323**	612,225
Finance Cost	34	**336,390**	446,734
(Loss) / Profit before Taxation		**(239,067)**	165,491
Taxation			
Current	17	**30,688**	58,844
Prior years'	17	**98**	(10,947)
Deferred	8	**(50,882)**	(23,016)
		(20,096)	24,881
(Loss) / Profit after Taxation		**(218,971)**	140,610
Other Comprehensive Income		**0**	0
Total Comprehensive (Loss) / Income		**(218,971)**	140,610
		------- Rupees -------	
(Loss) / Earnings per Share	35	**(7.63)**	4.90

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, 2012

	2012	2011
Cash flow from operating activities	**(Rupees in thousand)**	
(Loss) / profit for the year - before taxation	**(239,067)**	165,491
Adjustments for non-cash charges and other items:		
Depreciation	**287,673**	219,657
Amortisation of intangible assets	**100**	353
Profit on deposit accounts	**(4,936)**	(1,613)
Fair value gain on re-measurement of investments	**(11,501)**	(14,448)
Gain on redemption of investments	**(32,262)**	(11,245)
Gain on disposal of vehicles	**(548)**	(356)
Finance cost	**333,783**	444,709
Profit before working capital changes	**333,242**	802,548
Effect on cash flow due to working capital changes		
(Increase) / decrease in current assets:		
Stores and spares	**(7,800)**	(24,751)
Stock-in-trade	**621,628**	(1,712,633)
Trade debts	**(642,928)**	40,802
Loans and advances	**(49,577)**	(19,747)
Prepayments and other receivables	**(1,397)**	(83)
Increase / (decrease) in current liabilities:		
Trade and other payables	**549,332**	(47,442)
Sales tax and federal excise duty payable	**(12,228)**	(10,814)
	457,030	(1,774,668)
Cash generated from / (used in) operations	**790,272**	(972,120)
Income tax paid	**(92,808)**	(51,925)
Security deposits	**(225)**	(25)
Net cash generated from / (used in) operating activities	**697,239**	(1,024,070)
Cash flow from investing activities		
Purchase of property, plant and equipment	**(356,312)**	(103,058)
Insurance claim / sale proceeds of vehicles	**900**	520
Purchase of intangible assets	**0**	(300)
Investments made	**20,649**	(126,739)
Profit on bank deposits received	**4,936**	1,626
Net cash used in investing activities	**(329,827)**	(227,951)
Cash flow from financing activities		
Long term finances - net	**234,789**	(203,334)
Loan from a related party repaid	**(20,000)**	0
Lease finances - net	**5,160**	7,909
Short term borrowings - net	**(195,095)**	1,905,100
Dividend paid	**(28,327)**	(28,270)
Finance cost paid	**(360,393)**	(410,054)
Net cash (used in) / generated from financing activities	**(363,866)**	1,271,351
Net increase in cash and cash equivalents	**3,546**	19,330
Cash and cash equivalents - at beginning of the year	**65,127**	45,797
Cash and cash equivalents - at end of the year	**68,673**	65,127

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, 2012

	Share capital	General reserve	Accumulated loss	Total
	------------------ Rupees in thousand ------------------			
Balance as at 30 September, 2010	286,920	327,000	(190,348)	423,572
Transaction with owners:				
Final cash dividend for the year ended 30 September, 2010 at the rate of Re.1 per share	0	0	(28,692)	(28,692)
Total comprehensive income for the year	0	0	140,610	140,610
Transfer from surplus on revaluation of property, plant and equipment on account of incremental depreciation for the year -net of deferred taxation	0	0	42,743	42,743
Balance as at 30 September, 2011	286,920	327,000	(35,687)	578,233
Transaction with owners:				
Final cash dividend for the year ended 30 September, 2011 at the rate of Re.1 per share	0	0	(28,692)	(28,692)
Total comprehensive loss for the year	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 30 September, 2012	**286,920**	**327,000**	**(188,853)**	**425,067**

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, 2012

1. CORPORATE INFORMATION

1.1 Chashma Sugar Mills Limited (the Company) was incorporated on 05 May, 1988 as a Public Company and it commenced commercial production from 01 October, 1992. The Company is principally engaged in manufacture and sale of white sugar. Its shares are quoted on 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 30 September, 2010.

2. STATEMENT OF COMPLIANCE

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

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. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED ACCOUNTING STANDARDS

4.1 Amended standards that are effective in the current year and are relevant to the Company

The following amendments to the approved accounting standards are mandatory for the periods beginning on or after 01 October, 2011 and are relevant to the Company:

(a) IFRS 7 (Amendment), 'Financial Instruments: Disclosures'. The amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with the financial instruments. The amendment has only resulted in additional disclosures with respect to financial instruments, which have been duly incorporated in these financial statements.

(b) IAS 1 (Amendment), 'Presentation of Financial Statements'. The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The application of the revised standard has no material impact on the Company's financial statements.

(c) IAS 24 (Revised), 'Related Party Disclosures', issued in November, 2009 supersedes IAS 24 'Related Party Disclosures' issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The application of the revised standard has no material impact on the Company's financial statements.

(d) IAS 34 (Amendment), 'Interim Financial Reporting'. This amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around the circumstances likely to affect fair values of financial instruments and their classification, transfers of financial instruments between different levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. The amendment pertains to interim reporting and was duly incorporated in the Company's condensed interim financial information for the period of six months ended 31 March, 2012.

4.2 New accounting standards, amendments to approved accounting standards and interpretations that are effective in current financial year but are not relevant to the Company

There are other new standards, amendments to approved accounting standards and interpretations that are mandatory for the periods beginning on or after 01 October, 2011; however, these are currently not considered to be relevant to the Company or do not have any impact on the Company's financial statements and therefore have not been detailed in these financial statements.

4.3 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

The following amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 01 October, 2012 and have not been early adopted by the Company:

(a) IFRS 7 (Amendments), 'Financial Instruments: Disclosures' (effective for the periods beginning on or after 01 January, 2013). The amendments contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement. This amendment is only expected to result in additional disclosures and will not impact the Company's financial results.

(b) IFRS 9, 'Financial Instruments' (effective for the periods beginning on or after 01 January, 2015). This is the first standard issued as part of a wider project to replace IAS 39 (Financial Instruments: Recognition and Measurement). IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets at (i) amortised cost and (ii) fair value. The basis of classification depends on entity's business model and the contractual cash flow characteristics of the financial asset. 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.

(c) IFRS 13, 'Fair Value Measurement' (effective for the periods beginning on or after 01 January, 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. It is unlikely that this standard will have a significant affect on the Company's financial statements.

(d) IAS 1 (Amendments), 'Presentation of Financial Statements' (effective for the periods beginning on or after 01 July, 2012).The main change resulting from these amendments is a requirement for the entities to group items presented in other comprehensive income (OCI) on the basis of whether they can be potentially reclassified to profit or loss subsequently (reclassification adjustments). Since, the Company currently does not have any items of OCI, the amendments are not expected to have an affect on the Company's financial statements.

There are other new accounting standards, amendments to approved accounting standards and interpretations that are not yet effective; however, they are currently not considered to be relevant to the Company and therefore have not been detailed in these financial statements.

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 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.

5.2 **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.

5.3 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.

5.4 Taxation

(a) 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.

(b) 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.

5.5 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.

5.6 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 19.1. 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 leases. Assets subject to finance lease are initially recognised at the lower of present value of minimum lease payments under the lease agreements and the fair value of 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 19.1 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.

5.7 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 20.1.

5.8 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.

5.9 Stock-in-trade

Basis of valuation are as follows:

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

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

5.10 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.

5.11 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.

5.12 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise of cash & bank balances and temporary bank overdrafts.

5.13 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.

5.14 Development expenditure

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

5.15 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.

5.16 Foreign currency translations

Transactions in foreign currencies are accounted for in Pak Rupees at the exchange rates prevailing on the date of transactions. Assets and liabilities in foreign currencies are translated into 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.

5.17 Financial instruments

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

5.18 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.

5.19 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:

(a) Sales are recorded on dispatch of goods.

(b) Income on deposit / saving accounts is accounted for on `accrual basis'.

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) 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.

b) 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.

c) 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.

d) 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.

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. SHARE CAPITAL

	2012	2011
	(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

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

8.1 The Company had first revalued its freehold land, buildings & roads and plant & machinery of its Unit - I on 31 March, 2008, which resulted in revaluation surplus aggregating Rs.957.702 million. These fixed assets were revalued by Independent Valuers on the basis of replacement value / depreciated market values.

8.2 The Company, as at 30 September, 2011, has again revalued its freehold land, buildings & roads and plant & machinery of its both Units. The revaluation exercise has been carried-out by Independent Valuers - Harvester Services (Pvt.) Ltd., Lahore. 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.880.755 million 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:

	2012	2011
	(Rupees in thousand)	
Opening balance	**1,575,719**	760,723
Add: surplus arisen on revaluation carried-out during the preceding year	**0**	880,755
Less: transferred to accumulated loss on account of incremental depreciation for the year	**(145,379)**	(65,759)
	1,430,340	1,575,719
Less: deferred tax on:		
- opening balance of surplus	**508,825**	230,157
- surplus on revaluation carried-out during the preceding year	**0**	301,684
- incremental depreciation for the year	**(50,882)**	(23,016)
	457,943	508,825
Closing balance	**972,397**	1,066,894

9. LONG TERM FINANCING - Secured

From banking companies	Note	2012	2011
		(Rupees in thousand)	
Bank Alfalah Limited: (BAL)			
- Term finance - I	9.1	0	16,664
- Term finance - II	9.1	80,000	120,000
- Term finance - III	9.2	242,939	0
		322,939	136,664
Bank Al-Habib Limited: (BAH)			
- Term finance - I	9.3	120,000	180,000
- Term finance - II	9.4	140,000	210,000
		260,000	390,000
Silkbank Limited: (SBL)			
- Term finance	9.5	30,000	60,000
The Bank of Khyber: (BoK)			
- Demand finances	9.6	208,514	0
		821,453	586,664
Less: current portion grouped under current liabilities including an overdue instalment of Rs.30 million (2011: Rs.30 million), which has been repaid on 10 October, 2012 (2011: 12 October, 2011)		276,875	246,664
		544,578	340,000

9.1 Term finance facilities utilised from BAL aggregated Rs.400 million. The outstanding balance of term finance-I was fully repaid during October, 2011 and during the year it carried mark-up at the rate of 15.80% (2011: at the rates ranging from14.35% to 15.80%) per annum. 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 13.95% to 15.80% (2011: 14.35% 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.

9.2 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 January, 2015. These are secured against the securities as detailed in note 9.1.

9.3 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 13.81% to 15.59% (2011: 14.17% to 15.59%) per annum. This finance facility is repayable in 9 equal half-yearly instalments commenced from February, 2010.

9.4 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 9.3. This finance facility, during the year, has carried mark-up at the rates ranging from 14.01% to 15.79% (2011: 14.37% to 15.79%) per annum. This finance facility is repayable in 9 equal half-yearly instalments commenced from May, 2010.

9.5 Term finance facility utilised from SBL aggregated Rs.150 million; the facility has been obtained to finance the acquisition of plant and machinery for Unit-2 and is secured against joint pari passu charge over fixed assets of the Company for Rs.200 million. This finance facility carries mark-up at the rate of 6-months KIBOR plus 2%; the effective mark-up rate during the year ranged from 14.02% to 15.78% (2011: 14.37% to 15.78%) per annum. The year-end outstanding balance of this finance facility is repayable in 2 equal half-yearly instalments ending April, 2013.

9.6 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 13.95% to 14.01% per annum. The finance facility is repayable in 16 equal quarterly instalments commencing 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.

10. LOANS FROM RELATED PARTIES - Secured

		2012	2011
Holding Company	**Note**	**(Rupees in thousand)**	
The Premier Sugar Mills & Distillery Co. Ltd. **(PSM)**	**10.1**	**302,500**	322,500
Associated Companies			
Premier Board Mills Ltd. **(PBM)**	**10.2**	**130,000**	130,000
Arpak International Investments Ltd. **(AIIL)**	**10.3**	**50,000**	50,000
		482,500	502,500
Less: current portion grouped under current liabilities		**42,813**	0
		439,687	502,500

10.1 The Company and PSM have entered into a loan agreement on 20 May, 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 13.42% to 15.17% (2011: 15.07% to 15.54%) per annum. The loan is repayable in 8 equal half-yearly instalments commencing August, 2013; however, the Company has made premature repayment amounting Rs.20 million during September, 2012. The loan is secured against a promissory note of Rs.397.810 million.

10.2 The Company and PBM have entered into a loan agreement on 20 May, 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 11.72% to 14.69% (2011: 13.92% to 14.87%) per annum. The loan is repayable in 8 equal half-yearly instalments commencing May, 2013 and is secured against a promissory note of Rs.268.031 million.

10.3 The Company and AIIL have entered into a loan agreement on 20 May, 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 11.72% to 14.69% (2011: 13.92% to 14.87%) per annum. The loan is repayable in 8 equal half-yearly instalments commencing May, 2013 and is secured against a promissory note of Rs.55.615 million.

11. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE - Secured

Particulars	2012			2011		
	Upto one year	**From one to five years**	**Total**	Upto one year	From one to five years	Total
	Rupees in thousand					
Minimum lease payments	**5,291**	**12,752**	**18,043**	2,756	8,705	11,461
Less: finance cost allocated to future periods	**1,526**	**1,652**	**3,178**	1,054	1,589	2,643
	3,765	**11,100**	**14,865**	1,702	7,116	8,818
Less: security deposits adjustable on expiry of lease terms	**0**	**1,796**	**1,796**	0	909	909
Present value of minimum lease payments	**3,765**	**9,304**	**13,069**	1,702	6,207	7,909

11.1 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 April, 2016 and are subject to finance cost at the rates ranging from 11.43% to 11.76% (2011: 15.23% to 15.75%) 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.

12. DEFERRED TAXATION - Net

	Note	2012	2011
		(Rupees in thousand)	
This is composed of the following:			
Taxable temporary differences arising in respect of:			
- accelerated tax depreciation allowances		**254,610**	273,674
- surplus on revaluation of property, plant and equipment		**457,943**	508,825
- gain on re-measurement of investments to fair value		**1,438**	1,156
- lease finances		**891**	0
		714,882	783,655
Deductible temporary differences arising in respect of:			
- lease finances		**0**	(653)
- provision for doubtful advances		**(853)**	(853)
- unused tax losses		**(76,359)**	(122,592)
- minimum tax recoverable against normal tax charge in future years		**(179,727)**	(150,732)
		(256,939)	(274,830)
		457,943	508,825

12.1 As at 30 September, 2012, deferred tax asset amounting Rs.137.605 million (2011: Rs.47.358 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 30 September, 2013.

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

13. TRADE AND OTHER PAYABLES

	Note	2012	2011
Due to Associated Companies	13.1	**15,121**	10,572
Creditors		**121,122**	85,007
Bills payable		**0**	5,730
Accrued expenses		**30,043**	32,605
Retention money		**4,948**	4,024
Security deposits - interest free repayable on demand		**763**	713
Advance payments		**630,577**	108,517
Income tax deducted at source		**414**	497
Workers' (profit) participation fund	13.2	**2,023**	8,888
Workers' welfare fund		**10,475**	10,475
Unclaimed dividends		**3,283**	2,918
Due to employees		**925**	51
		819,694	269,997

		2012	2011
13.1	The balance represents amounts due to:	**(Rupees in thousand)**	
	- Syntronics Ltd.	**12,591**	0
	- Syntron Ltd.	**2,530**	10,290
	- Phipson & Co. Pakistan (Pvt.) Ltd.	**0**	18
	- Azlak Enterprises (Pvt.) Ltd.	**0**	264
		15,121	10,572
13.2	**Workers' (profit) participation fund**		
	Opening balance	**8,888**	18,679
	Add: interest on funds utilised in the Company's business	**752**	1,739
		9,640	20,418
	Less: payments made during the year	**7,617**	20,418
		2,023	0
	Add: allocation for the year	**0**	8,888
	Closing balance	**2,023**	8,888

14. ACCRUED MARK-UP

	2012	2011
Mark-up accrued on:		
- long term financing	**27,503**	23,551
- loans from related parties	**12,272**	30,274
- short term borrowings	**59,063**	71,623
	98,838	125,448

15. SHORT TERM BORROWINGS - Secured

Short term finance facilities available from various commercial banks under mark-up arrangements aggregate Rs.3.850 billion (2011: Rs.3.400 billion) and, during the year, carried mark-up at the rates ranging from 11.39% to 15.17% (2011: 14.50% to 16.03%) per annum. Facility available for opening letters of credit amounts to Rs.25 million (2011: Rs.25 million). These facilities are secured against hypothecation charge over the Company's present and future fixed and current assets, pledge of stock-in-trade and banks' lien over import documents. These facilities are expiring on various dates by 30 April, 2013.

16. CURRENT PORTION OF NON-CURRENT LIABILITIES

	Note	2012	2011
		(Rupees in thousand)	
Long term financing	9	**276,875**	246,664
Loans from related parties	10	**42,813**	0
Liabilities against assets subject to finance lease	11	**3,765**	1,702
		323,453	248,366

17. TAXATION - Net

	Note	2012	2011
Opening balance		**79,594**	63,664
Add: provision / (reversal) made during the year for:			
- current year	17.7	**30,688**	58,844
- prior years		**98**	(10,947)
		30,786	47,897
		110,380	111,561
Less: payments / adjustments made against completed assessments		**79,692**	31,967
		30,688	79,594

17.1 Returns filed by the Company for Tax Years 2004 to 2012, except for Tax Year 2009, have been assessed under the self assessment scheme envisaged in section 120 of the Income Tax Ordinance, 2001 (the Ordinance). The Company has not received any notice from the Tax Department for selection of its cases for detailed scrutiny.

17.2 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.

17.3 A tax reference for the Assessment Year 2002-03, filed by the Department, is also pending before the PHC on the issuance of acceptance of fresh evidence by the Commissioner of Income Tax (Appeals) under section 128(5) of the Ordinance.

17.4 A reference for the tax year 2006, filed by the Department, is pending before 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.

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

17.6 The Company, during the preceding year, has filed a writ petition before the PHC against its selection for tax audit of Tax Year 2009; the petition is pending adjudication.

17.7 No numeric tax rate reconciliation is given in these financial statements as provisions made during the current and preceding years mainly represent minimum tax payable under section 113 of the Ordinance.

18. CONTINGENCIES AND COMMITMENTS

18.1 Commitments for irrevocable letters of credit outstanding at the year-end aggregated Rs.10.420 million (2011: Rs.nil).

18.2 The Bank of Khyber (BoK), on behalf of the Company, has issued guarantees aggregating Rs.73.520 million in favour of Trading Corporation of Pakistan (Pvt.) Ltd. to ensure due performance of the contracts for supply of 31,310 metric tons of sugar. These guarantees will expire on various dates by 13 February, 2013. BoK has extended these guarantees by capping the cash finance limit available to the Company.

18.3 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 05 June, 2006. This resulted in excess payment of duty amounting to Rs.35.825 million. The refund application has been submitted to the Department, which was rejected. The Company, however, has filed an appeal before the Commissioner Inland Revenue (Appeals) against the impugned order; the appeal is pending adjudication.

18.4 Refer contents of taxation notes.

19. PROPERTY, PLANT AND EQUIPMENT

	Note	2012	2011
		(Rupees in thousand)	
Operating fixed assets - tangible	19.1	2,727,325	2,993,020
Capital work-in-progress	19.5	277,588	76,218
Stores held for capital expenditure		162,467	29,855
		3,167,380	3,099,093

19.1 Operating fixed assets - tangible

	Owned								Leased	
	Freehold land	Buildings and roads	Plant and machinery	Electric installations	Office equipment	Farm equipment	Furniture and fixtures	Vehicles	Vehicles	Total
	---- Rupees in thousand ----									
Cost / Revaluation										
Balance as at 30 September, 2010	144,188	591,916	2,237,463	159,946	20,666	1,017	16,666	37,830	0	3,209,692
Additions during the year	0	0	2,257	2,533	3,575	0	745	2,769	6,310	18,189
Revaluation surplus	18,801	0	0	0	0	0	0	0	0	18,801
Disposals during the year	0	0	0	0	0	0	0	(1,111)	0	(1,111)
Balance as at 30 September, 2011	162,989	591,916	2,239,720	162,479	24,241	1,017	17,411	39,488	6,310	3,245,571
Balance as at 30 September, 2011	162,989	591,916	2,239,720	162,479	24,241	1,017	17,411	39,488	6,310	3,245,571
Additions during the year	330	0	0	1,210	2,849	0	1,364	4,262	12,315	22,330
Disposals during the year	0	0	0	0	0	0	0	(1,279)	0	(1,279)
Balance as at 30 September, 2012	163,319	591,916	2,239,720	163,689	27,090	1,017	18,775	42,471	18,625	3,266,622
Depreciation										
Balance as at 30 September, 2010	0	146,831	645,593	63,826	9,432	39	9,123	20,951	0	895,795
Charge for the year	0	44,509	159,335	9,774	1,327	98	798	3,547	269	219,657
Elimination of accumulated depreciation upon revaluation	0	(95,481)	(766,473)	0	0	0	0	0	0	(861,954)
Charge on disposals	0	0	0	0	0	0	0	(947)	0	(947)
Balance as at 30 September, 2011	0	95,859	38,455	73,600	10,759	137	9,921	23,551	269	252,551
Balance as at 30 September, 2011	0	95,859	38,455	73,600	10,759	137	9,921	23,551	269	252,551
Charge for the year	0	49,606	220,126	8,934	1,525	88	845	3,809	2,740	287,673
Charge on disposals	0	0	0	0	0	0	0	(927)	0	(927)
Balance as at 30 September, 2012	0	145,465	258,581	82,534	12,284	225	10,766	26,433	3,009	539,297
Book value as at 30 September, 2011	162,989	496,057	2,201,265	88,879	13,482	880	7,490	15,937	6,041	2,993,020
Book value as at 30 September, 2012	163,319	446,451	1,981,139	81,155	14,806	792	8,009	16,038	15,616	2,727,325
Depreciation rate (%)		10	10	10	10	10	10	20	20	

19.2 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:

	2012	2011
	(Rupees in thousand)	
- freehold land	**41,387**	41,057
- buildings and roads	**219,982**	244,424
- plant and machinery	**899,200**	999,112
	1,160,569	1,284,593

19.3 Depreciation for the year has been allocated as follows:	Note	2012 (Rupees in thousand)	2011
Cost of sales		**278,754**	213,716
Administrative expenses		**8,919**	5,941
		287,673	219,657

19.4 Disposal of vehicle

Particulars	Cost	Accumu-lated deprec-iation	Book value	Insurance claim	Gain	Insurance claim received from:
	------------ Rupees in thousand ------------					
Toyota Corolla	1,279	927	352	900	548	IGI Insurance Ltd.

19.5 Capital work-in-progress	Note	2012	2011
Freehold land - advance payments		**421**	421
Buildings on freehold land		**48,956**	14,988
Plant and machinery		**209,700**	56,803
Electric installations		**12,040**	1,088
Vehicles		**0**	2,918
Un-allocated capital expenditure	**19.6**	**6,471**	0
		277,588	76,218

19.6 Un-allocated capital expenditure		2012	2011
Salaries and benefits		**861**	0
Fee for soil testing		**750**	0
Consultancy fee for Ethanol Fuel Plant and other charges		**4,651**	0
Others		**209**	0
		6,471	0

20. INTANGIBLE ASSETS - Computer softwares

	Note	2012	2011
		(Rupees in thousand)	
Cost at beginning of the year		**6,592**	6,292
Additions during the year		**0**	300
Cost at end of the year		**6,592**	6,592
Less: amortisation:			
- at beginning of the year		**6,392**	6,039
- charge for the year		**100**	353
-at end of the year		**6,492**	6,392
Book value as at 30 September,		**100**	200

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

21. STORES AND SPARES

	Note	2012	2011
Stores including in-transit inventory valuing Rs.40.002 million (2011: Rs.6.666 million)		**150,887**	148,646
Spares		**26,279**	20,720
		177,166	169,366

22. STOCK-IN-TRADE

	Note	2012	2011
Finished goods		**1,340,572**	1,960,662
Sugar-in-process		**7,091**	8,629
		1,347,663	1,969,291

23. TRADE DEBTS - Unsecured, considered good

Year-end balance of trade debts includes a debt amounting Rs.32.300 million, which was overdue as at 30 September, 2012 and 30 September, 2011. To secure this debt, the Company has executed a sale deed with him whereby commercial property owned by him will be transferred to the Company if he fails to meet his commitment.

24. LOANS AND ADVANCES

	Note	2012	2011
Advance payments to:			
- employees		**3,998**	2,006
- suppliers and contractors	**24.1**	**121,876**	72,607
Due from an Associated Company	**24.2**	**793**	856
Letters of credit		**557**	2,178
		127,224	77,647
Less: provision for doubtful advances		**2,437**	2,437
		124,787	75,210

24.1 These are unsecured and considered good except for Rs.2.437 million (2011: Rs.2.437 million), which have been fully provided for in the books of account.

24.2 This represents due from The Frontier Sugar Mills & Distillery Ltd. (an Associated Company) in respect of current account transactions.

24.3 **(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:

	2012	2011
	(Rupees in thousand)	
The Holding Company		
- sale of goods	**4,832**	8,976
- sale of stores	**1,734**	1,975
- mark-up expensed	**45,195**	49,655
- dividend paid	**13,751**	13,751
Associated Companies		
- purchase of goods	**53,980**	60,802
- sale of a vehicle	**0**	150
- mark-up expensed	**23,933**	26,171
- dividend paid	**5,361**	5,361

(b) Maximum aggregate debit balance of the Holding Company and Associated Companies at any month-end during the year was Rs.7.547 million (2011: Rs.8.631 million).

25. PREPAYMENTS AND OTHER RECEIVABLES

Prepayments	**2,754**	1,674
Other receivables	**567**	250
	3,321	1,924

26. INVESTMENTS - At fair value through profit or loss

Pakistan Cash Management Fund - 2,347,097 (2011: 1,336,395) Units	**112,423**	60,000
Askari Sovereign Fund - 841,240 Units	**78,230**	0
ABL Cash Fund - Nil Units (2011: 6,199,485 Units)	**0**	55,592
UBL Liquidity Plus Fund - Nil Units (2011: 496,524 Units)	**0**	49,000
	190,653	164,592
Add: adjustment arising from re-measurement to fair value	**11,501**	14,448
	202,154	179,040

27. BANK BALANCES

	Note	2012	2011
		(Rupees in thousand)	
Cash at banks on:			
- current accounts	27.1	**44,260**	30,782
- PLS accounts	27.2	**24,324**	34,177
- deposit accounts	27.2	**89**	168
		68,673	65,127

27.1 These include dividend account balance of Rs.1,723 thousand (2011: Rs.915 thousand).

27.2 These carry profit at the rate of 6% (2011: 5%) per annum.

28. SALES - Net

Turnover:		
Local	**6,245,157**	6,204,315
Export	**51,361**	0
	6,296,518	6,204,315
Less:		
Sales tax	**447,627**	300,186
Federal excise duty	**0**	21,391
	447,627	321,577
	5,848,891	5,882,738

29. COST OF SALES

	Note		
Raw materials consumed		**4,425,426**	6,350,570
Chemicals and stores consumed		**92,516**	79,684
Salaries, wages and benefits	29.1	**192,095**	162,469
Power and fuel		**21,113**	21,278
Repair and maintenance		**64,586**	64,765
Insurance		**5,982**	6,588
Machinery lease rentals		**714**	0
Depreciation		**278,754**	213,716
		5,081,186	6,899,070
Adjustment of sugar-in-process:			
Opening		**8,629**	8,853
Closing		**(7,091)**	(8,629)
		1,538	224
Cost of goods manufactured		**5,082,724**	6,899,294
Adjustment of finished goods :			
Opening stock		**1,960,662**	247,805
Closing stock		**(1,340,572)**	(1,960,662)
		620,090	(1,712,857)
		5,702,814	5,186,437

29.1 These include Rs.2,370 thousand (2011: Rs.2,236 thousand) in respect of staff retirement benefits.

	Note	2012	2011
		(Rupees in thousand)	
30. DISTRIBUTION COST			
Salaries and benefits	**30.1**	**2,875**	2,188
Commission		**6,333**	6,019
Loading and stacking		**6,250**	4,947
Export development surcharge		**128**	0
		15,586	13,154

30.1 These include Rs.46 thousand (2011: Rs.40 thousand) in respect of staff retirement benefits.

31. ADMINISTRATIVE EXPENSES

	Note	2012	2011
Salaries and benefits	**31.1**	**80,567**	67,319
Travelling and conveyance:			
- directors'		**3,267**	1,127
- others		**2,716**	1,603
Vehicles' running / maintenance and lease rentals		**6,012**	6,195
Rent, rates and taxes		**1,958**	1,222
Communication		**2,866**	3,193
Printing and stationery		**2,516**	3,155
Insurance		**1,022**	871
Repair and maintenance		**5,341**	4,410
Fees and subscription		**949**	1,058
Depreciation		**8,919**	5,941
Amortisation of intangible assets		**100**	353
Auditors' remuneration	**31.2**	**1,291**	1,220
Legal and professional charges (other than Auditors)		**984**	670
General		**220**	155
		118,728	98,492

31.1 These include Rs.1,019 thousand (2011: Rs.828 thousand) in respect of staff retirement benefits.

31.2 Auditors' remuneration:

	Note	2012	2011
Hameed Chaudhri & Co.		**(Rupees in thousand)**	
- statutory audit		**1,000**	1,000
- half yearly review		**150**	100
- consultancy and certification charges		**67**	50
- out-of-pocket expenses		**19**	19
		1,236	1,169
Munawar Associates			
- cost audit fee		**35**	35
- provident fund's audit fee		**5**	5
- workers' (profit) participation fund's audit fee		**5**	5
- out-of-pocket expenses		**10**	6
		55	51
		1,291	1,220

32. OTHER OPERATING EXPENSES

Donations (without directors' interest)		**275**	326
Workers' (profit) participation fund		**0**	8,888
Workers' welfare fund		**0**	3,377
		275	12,591

33. OTHER OPERATING INCOME

Income from financial assets			
Profit on deposit accounts		**4,936**	1,613
Fair value gain on re-measurement of investments	**26**	**11,501**	14,448
Gain on redemption of investments		**32,262**	11,245
Income from other than financial assets			
Sale of press mud - net of sales tax amounting Rs.247 thousand (2011: Rs.263 thousand) and excise duty amounting Rs.nil (2011: Rs.17 thousand)		**1,547**	1,547
Sale of scrap (2011: net of sales tax amounting Rs.1,605 thousand)		**0**	9,997
Gain on disposal of vehicles		**548**	356
Seed sales net of expenses		**35,041**	955
		85,835	40,161

34. FINANCE COST

	2012	2011
	(Rupees in thousand)	
Mark-up on:		
- long term financing	96,387	102,465
- loans from related parties	69,128	75,826
- short term borrowings	165,820	264,476
Lease finance charges	1,696	203
Interest on workers' (profit) participation fund	752	1,739
Bank charges	2,607	2,025
	336,390	446,734

35. (LOSS) / EARNINGS PER SHARE

	2012	2011
(Loss) / profit after taxation attributable to ordinary shareholders	(218,971)	140,610
	No. of shares	
Weighted average number of shares outstanding during the year	28,692,000	28,692,000
	-------- Rupees --------	
(Loss) / earnings per share	(7.63)	4.90

35.1 Diluted (loss) / earnings per share has not been presented as the Company does not have any convertible instruments in issue as at 30 September, 2012 and 30 September, 2011, which would have any effect on the (loss) / earnings per share of the Company if the option to convert is exercised.

36. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

Particulars	Chief Executive		Directors		Executives	
	2012	2011	2012	2011	2012	2011
	------------------------------ Rupees in thousand ------------------------------					
Managerial remuneration including bonus	1,200	1,200	0	0	13,573	9,584
Allowances and utilities	0	0	0	0	12,651	6,345
Contribution to provident fund	0	0	0	0	707	595
Medical expenses reimbursed	174	34	154	142	0	0
	1,374	1,234	154	142	26,931	16,524
No. of persons	1	1	4	5	16	11

36.1 The Chief Executive and all the Executives have been provided with free use of the Company maintained cars. Thirteen (2011: seven) 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. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

37.1 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.

37.2 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: currency risk, interest rate risk and price risk.

(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 stores & spares mainly denominated in Euro. The Company's exposure to foreign currency risk is as follows:

	2012	2011
	(Rupees in thousand)	
Bills payable	**0**	5,730
Outstanding letters of credit	**10,420**	0
Net exposure	**10,420**	5,730

The following significant exchange rates have been applied:

	Average rate		**Balance sheet date rate**	
	2012	2011	**2012**	2011
Euro to Rupee	**-**	120.22	**-**	122.30

The Company is not exposed to currency risk at the year-end as it has no foreign currency liabilities as at 30 September, 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:

	2012	2011	**2012**	2011
	Effective rate		**Carrying amount**	
	%	**%**	**(Rupees in thousand)**	
Fixed rate instruments				
Financial assets				
Bank balances	**6**	5	**24,413**	34,345
Variable rate instruments				
Financial liabilities				
Long term financing	**13.81 to 15.80**	14.17 to 15.80	**821,453**	586,664
Loans from related parties	**11.72 to 15.17**	13.92 to 15.54	**482,500**	502,500
Liabilities against assets subject to finance lease	**11.43 to 11.76**	15.23 to 15.75	**13,069**	7,909
Short term borrowings	**11.39 to 15.17**	14.50 to 16.03	**1,710,005**	1,905,100

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 30 September, 2012, if interest rate on variable rate financial liabilities had been 1% higher / lower with all other variables held constant, loss after taxation for the year would have been Rs.30,270 thousand higher / lower mainly as a result of higher / lower interest expense on variable rate financial liabilities (2011: profit would have been lower / higher by Rs.30,022 thousand).

(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. Price risk arises from the Company's investments in Units of Mutual Funds. To manage its price risk arising from aforesaid investments, the Company diversifies its portfolio and continuously monitors developments in the market. In addition, the Company actively monitors the key factors that affect price movements.

A 10% increase / decrease in redemption value of Units of Mutual Funds would decrease / increase loss before taxation for the year by Rs.20,215 thousand (2011: profit would have increased / decreased by Rs.17,904 thousand).

The sensitivity analysis prepared is not necessarily indicative of the effects on profit and loss account and investments of the Company.

37.3 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, investments 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 crediting 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 30 September, 2012 along with comparative is tabulated below:

	2012	2011
	(Rupees in thousand)	
Security deposits	**3,934**	3,709
Trade debts	**681,660**	38,732
Loans and advances	**120,232**	71,026
Other receivables	**567**	250
Investments	**202,154**	179,040
Bank balances	**68,673**	65,127
	1,077,220	357,884

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	**646,807**	6,351
Past due	**34,853**	32,381
	681,660	38,732

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.357.261 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.

37.4 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:

	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	**175,280**	**175,280**	**175,280**	**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**
	3,301,145	**3,715,031**	**2,488,647**	**1,226,384**	**0**

	2011				
	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 to 5 years	5 years and above
	----------------------- Rupees in thousand -----------------------				
Long term financing	586,664	705,870	313,897	391,973	0
Loans from related parties	502,500	766,682	74,171	626,748	65,763
Liabilities against assets subject to finance lease	7,909	7,909	1,702	6,207	0
Trade and other payables	141,569	141,569	141,569	0	0
Accrued mark-up	125,448	125,448	125,448	0	0
Short term borrowings	1,905,100	1,975,669	1,975,669	0	0
	3,269,190	3,723,147	2,632,456	1,024,928	65,763

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.

37.5 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 30 September, 2012, 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.

The following table shows the fair value measurements of the financial instruments carried at fair value by level of the following fair value measurement hierarchy:

Level:1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level:2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level:3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The Company's investments in Mutual Funds have been measured at fair value using year-end Net Assets Value as computed by the respective Assets Management Companies. Fair value of these investments falls within level 2 of fair value hierarchy as mentioned above.

38. 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.

39. CAPACITY AND PRODUCTION

	2012	2011
	--------- M.Tons ---------	
Rated crushing capacity (based on 150 working days)	**2,700,000**	2,700,000
Cane crushed	**1,196,202**	1,353,553
Sugar produced	**103,478**	117,474
	--------- Number ---------	
Days worked:		
Unit - I	**113**	122
Unit - II	**110**	124

40. OPERATING SEGMENTS

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

40.1 Sugar sales represent 94% (2011: 92%) of the total sales of the Company.

40.2 99.12% (2011: 100%) of the Company's sales relate to customers in Pakistan.

40.3 All non-current assets of the Company as at 30 September, 2012 are located in Pakistan.

40.4 The Company sells sugar to commission agents. Sugar sales to five (2011: five) of the Company's customers during the year aggregated Rs.4.577 billion (2011: Rs.5.397 billion) constituting 78.25% (2011: 99.74%) of the total sugar sales. Three (2011: three) of the Company's customers individually exceeded 10% of the sugar sales.

41. DATE OF AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorised for issue on 04 January, 2013 by the board of directors of the Company.

42. FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. However, no material rearrangements and reclassifications 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, 2013 and at any adjournment thereof.

As witness my/our hand this ....day of .... 2013.

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.