CRESCENT SUGAR MILLS & DISTILLERY LIMITED
ANNEX TO THE COST AUDITORS' REPORT TO THE DIRECTORS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

1. CAPACITY (CANE CRUSHING)

a. Licensed, installed and utilized capacities are

	2008	2007
Installed capacity per day (M. Tons)	**3,000.000**	3,000.000
No. of days worked	**146**	156
Total available capacity (M. Tons)	**438,000.000**	468,000.000
Utilized capacity	**348,333.210**	346,328.230
%age utilization of available capacity	**80%**	74%

b. Other production activities of the company

The company is also engaged in manufacturing and sale of distillate and yarn. The Company has also setup an embroidery unit.

2. COST ACCOUNTING SYSTEM

Subject to our observations, the cost accounting system operated by the company provides the information that could be used to determine the cost of products but certain information is scattered and not readily available.

The company maintains records on the basis of actual cost incurred.

3. PRODUCTION

a. Production in quantities of each type of product under reference is as under:

Particulars	**2008**	2007
Main product:		
White sugar (M. Tons)	**25,376.500**	25,035.000
By products:		
Molasses (M. Tons)	**16,850.000**	16,904.043
Bagasse (M. Tons)	**103,942.630**	108,670.872
Press cake (M. Tons)	**8,708.330**	8,658.205

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b. Percentage of production compared with installed capacity

	2008	2007
Installed capacity (M. Tons)	**31,886.400**	33,836.400
Actual production (M. Tons)	**25,376.500**	25,035.000
Actual production in % of installed capacity	**80%**	74%

c. Addition to production capacity

There is no addition to the production capacity during the year under review or in the immediately preceding two years, though there has been addition to plant and machinery.

4. RAW MATERIAL

a. Raw material (sugarcane) consumption

	2008	2007
Quantity (M. Tons)	**348,333.210**	346,328.230
Value (Rs.)	**544,074,197**	604,174,742
Rate per M. Ton (Rs.)	**1,562**	1,744

The cost of transport is born by suppliers (growers). However, a small proportion has been born by the company that can be seen in Annexure-3 (being insignificant, it is not shown here).

b. Consumption of raw material per unit of production

	2008	2007	2006
Raw material consumed (Rs.)	**544,074,197**	604,174,742	544,946,535
White sugar produced (M. Tons)	**25,376.500**	25,035.000	20,487.000
Consumption per M. Tons (Rs.)	**21,440**	24,133	26,600

c. Explanation for variances in the consumption of raw material as compared to proceeding two years and standards

Consumption of raw material per M. Ton of production depends mainly on cost of raw material and recovery percentage. The reason of the decrease in expense is that reduced growers' subsidy is given in this season.

The cost per M. Ton of raw material purchased in current and previous two years is as under:

YEAR	RATE PER M. TONS (RS.)
2008	**1,562**
2007	1,744
2006	1,905

The recovery percentage for the current and previous two years is as under:

YEAR	RECOVERY %
2008	**7.280**
2007	7.230
2006	7.180

- Recovery percentage depends on many factors including quality of sugarcane, timing of crushing and efficiency of production staff.

- The mill is situated in the area where sugar cane of good quality is not available.

d. Comments on method of accounting for sugarcane

In our opinion, the method of accounting followed by the company for recording the quantities and values for receipts of sugarcane, being sole raw material, directly used in production is suitably designed to provide information for the purpose of Annexure-1. Sugarcane purchased is directly put to crushing and thus treated as issued.

5. WAGES AND SALARIES	**2008**	2007
a. Wages and salaries paid	**Rupees**	Rupees
i & ii) Direct and indirect labour cost on production	**34,974,397**	32,644,735
iii) Employees cost on administration	**19,695,767**	17,877,900
iv) Employees cost on selling and distribution	**267,350**	263,273
v) Total employees cost (Total of i to iv)	**54,937,514**	50,785,908

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Though the salary sheets are prepared on departmental basis but the data has not been maintained on the departmental basis from salary sheets. That is why, it is not possible to distinguish direct labour cost on production and indirect employees cost on production. Therefore total amount has been shown under serial No (i) & (ii). Similarly per unit labour cost at paragraph No 5(e) has been calculated on the same basis.

b. Salaries and perquisites of Directors and Chief Executive Officer

For the year under review these are Rs. 9,790,876/= (2007: Rs. 9,004,260/=). Further the aggregate amount charged in the accounts for the year for fee to 5 directors in respect of 9 meetings is Rs. 125,000.00 (2007: Rs. 100,000.00 to 5 directors for 9 meetings). In addition, they have been provided free maintained vehicles and their personal utility bills have been paid off by the company.

c. Total man-days of direct labour available and actually work for the period.

	2008	2007
Total man days of labour available	**146**	156
Stoppages	**20**	45
Total man days of labour actually worked	**126**	111

d. Avg. number of workers employed for the year

Officers	**79**	80
Workers	**308**	354
	387	434

e. Direct and indirect labour cost per unit of output

On the basis of total production wages and salaries (both direct and indirect) cost per M. Ton is as follows:

(Rs.)	**1,378**	1,304

f. Brief explanations for variances as compared to the previous two years

Total direct and indirect cost of production and cost per unit increased in current year as compared to previous year due to increase in minimum wage rate.

g. Comments on the incentive scheme

There was no incentive scheme in operation during the year under review.

6. STORES AND SPARE PARTS

a. Expenditure per M. Ton of white Sugar Produced

	2008	2007
White sugar produced (M. Tons)	**25,376.500**	25,035.000
Stores, spares and lubricants (Rs.)	**16,038,668**	10,605,304
Expenditure per M. Ton (Rs.)	**632**	424

b. Brief explanations for variances as compared to the previous two years

The expense per M. Ton increased during the year significantly due to general inflation and heavy repair and maintenance of the manufacturing facilities of the company.

c. Comments on method of accounting for stores and spare parts

The company operates a computerized system of receipt, issuance and balance of store items, both in quantity and value. The stores are valued on moving average basis. The system generates stores consumption on cost center basis.

7. DEPRECIATION

a) Depreciation on additions is charged from the date when the asset is available for use and on deletions up to the date when the asset is disposed off.

b) No record on departmental basis is maintained. Therefore no allocation of depreciation to departments has been made. However depreciation has been allocated between production and administration on the basis of identification of assets.

c) Depreciation related to manufacturing assets has been charged to cost of production. Depreciation related to non-manufacturing assets has been treated as period cost and not included in cost of production.

8. OVERHEADS

a. The total amount of overheads and break-up thereof

Please refer to the relevant cost statements annexed to this report.

b. Reasons for variances

The reasons for major variances as compared to last two years are as under:

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Factory overheads

There are no major variances as compared to last two years in factory overheads.

Administrative overheads

i. Salaries, wages and other benefits: The amount in current year is increased due to increments, increased benefits as compared to previous year. The amount of medical expenses in current year is increased due to medical treatment of the director.

ii. Vehicle running expenses: Vehicle running expenses has increased due to hike in fuel cost.

Selling overheads

iii. Loading and unloading expenses: The amount in current year is increased due to increase in basic wage rate.

Financial overheads

iv. Mark up: The amount in current year is increased due to increase in mark up rates. The rates in the current year increased from (Year 2007: 10% - 11%) to (Year 2008: 14% - 15%).

c. Basis of allocation of overheads

Absorption cost method is adopted in which fixed overheads like depreciation, insurance etc. are included in cost of production. Administrative and selling overheads are not treated as part of cost of product. Rather they are treated as period cost.

d. Cost of packing material	**2008**	2007
Total cost (Rs.)	**6,486,132**	5,253,667
No of bags produced	**507,530**	500,700
Cost per bag (Rs.)	**12.78**	10.49

Increase is due to rise in purchase price of packing material.

9. ROYALTY / TECHNICAL AID PAYMENTS

Royalty / Technical aid payments are not applicable to the company.

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10. ABNORMAL AND NON- RECURRING FEATURE

a) The management is of the view that no abnormal events like strikes lock outs, major break downs in the plant, substantial power cuts, serious accidents etc. occurred during the year under review. Also no information about such events came to our knowledge during the process of audit.

b) No special expenditures were allocated to the product under reference during the year under review.

11. COST OF PRODUCTION	**2008**	2007
Total cost of bagged sugar (Rs.) (as per No.20 of annexure-1)	**564,361,581**	638,617,767
Production – M. Tons	**25,376.500**	25,035.000
Cost of production per M. Ton (Rs.)	**22,240**	25,509

The main reason of decrease in the cost of production is reduction in cost of raw material and fuel consumption in the current year.

12. SALES	**2008**	2007
a. Sales		
Quantity - (M. Tons)	**24,956.800**	24,710.850
Net Sales realization (Rs.)	**544,153,067**	613,595,475
Net Sales realization Per M. Ton (Rs.)	**21,804**	24,831
b. Exports	**NIL**	NIL

13. (LOSS) / PROFITABILITY (Gross) Rs.	**2008**	2007
Net sales realization per M. Ton (as per para-12 above)	**21,804**	24,831
Avg. cost of sales (As per no. 23 of annex-1)	**22,391**	25,805
(Loss) / Profit per M. Ton	**(587)**	(974)

Sale price of sugar in current year has not increased in proportion to cost of production; resultantly the company is facing gross loss.

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14. COST AUDITORS OBSERVATRIONS AND CONCLUSIONS

a. OBSERVATIONS

i Non maintenance of records on departmental basis

The company does not maintain records on departmental basis. Due to lack of information the prescribed annexure are not properly filled in. This is evidenced from the followings instances.

- Direct labour cost per unit of output and indirect employees cost per unit of output cannot be segregated as required by paragraph no.5 (a) i & ii of this report.
- The company has paid utility bills of directors and executives and has provided them free maintained vehicles. The expense on account of these overheads has not been charged to wages and salaries.
- No allocation of overheads like printing and stationery, entertainment, traveling and conveyance, vehicle running etc. has been made to factory overheads (see annexure-9).

ii. Wrong allocation of inter segment expenses

- Common expenses have not been apportioned among different divisions of the company. The detail of major instances is as under:
    - Production overheads
- No allocation of gas and power utilized by distillery division has been made.
- During the year additions to plant and machinery has been made but no salaries and wages have been capitalized. Such expenditure has been charged to expense during the year.

a. Cases where the company's funds have been used in negligent or inefficient manner

None

b. Factors, which could have been controlled, but have not been done resulting in increase in the cost of production

None

c. i. The adequacy or otherwise of budgetary control system, if any, in vogue in the company

The company has implemented budgetary control system.

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c. ii. The scope and performance of internal audit, if any

The management has established an independent internal audit department as well as audit committee as required by the Code of Corporate Governance.

e. Suggestions for improvements in performance

i. Rectification of general imbalance in production facilities

We have not identified any general imbalance in production facilities.

ii. Fuller utilization of installed capacity

Full utilization of installed capacity is possible subject to easy availability of sugarcane.

iii. Comments on areas offering scope for improvement

a) Key limiting factor causing production bottlenecks is non availability of sugarcane. The mill has been surrounded by urban arrears and there are problems in getting sugarcane. However, stoppages due to no cane have decreased from 610 hours in 2007 to 233 hours in 2008. The company should take measures to improve availability of sugar cane.

b) The company should establish cost department, maintain record on departmental basis, set budgets and targets, and make variance analysis.

f. State of technology

Defection Melt Phosphatation process is in use.

g. Plant condition at the time of installation

The plant, when installed, was all new.

15. RECONCILIATION WITH FINANCIAL ACCOUNTS

The reconciliation statements for cost of sales, administrative expenses and selling and distribution expenses with financial accounts are annexed to the report.

16. COST STATEMENTS

The cost statements prescribed by the Securities and Exchange Commission of Pakistan under clause (e) of subsection (1) of section 230 of the Companies Ordinance 1984, as mentioned in SRO 97 (1) 2001 dated Feb.13, 2001 are being annexed herewith.

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17. MISCELLANEOUS`

- Comparative figures have been rearranged / reclassified wherever necessary for the purpose of better comparison. However, no material rearrangement / reclassification have been made.

- Figures have been rounded off to the nearest rupee unless otherwise stated.