

ANNUAL REPORT 2006

6



Shakarganj Mills Limited

Quality Policy

Our quality policy stems from our vision and is to maintain industry leadership and customer satisfaction through production of high quality sugar, yarn and allied products at lowest cost, using environment friendly technology and safe working conditions.

We run our business with integrity and professionalism and believe in continual improvement and a fair deal for our investors, customers, suppliers and employees.

Vision, Mission & Values

To gain and maintain leadership in the industries it competes in by producing the best quality products with lowest possible cost.

To give the best returns to shareholders by optimal allocation of resources to the products and markets the company competes in.

To provide the best value products and services to its customers through investment in technology, human resources, operational systems and processes.

To provide the best working environment to its employees and provide opportunities to them for enhancing their skills.

To work with its farmers, suppliers and distributors as partners developing their expertise and profitability.

To pursue environment friendly policies and effectively and efficiently use all energy resources aiming for zero waste and a clean healthy environment in its vicinity.

To be a socially responsible corporate citizen supporting education, health, environment and socio economic development of the society.

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Company Information



From Left to Right: Khalid Bashir, Muhammad Arshad, Muhammad Anwar, Mazhar Karim, Ahsan M. Saleem, Gul Nawaz, Muhammad Asif

Board of Directors

Chairman	Mazhar Karim
Chief Executive	Ahsan M. Saleem
Non-Executive Director	Gul Nawaz
Non-Executive Director	Khalid Bashir
Non-Executive Director	Muhammad Anwar
Non-Executive Director	Muhammad Arshad
Non-Executive Director	Muhammad Asif

Audit Committee

Chairman	Muhammad Anwar
	Khalid Bashir
	Muhammad Asif

Company Secretary

Tariq Aleem





Management Committees

Business Strategy Committee

Ahsan M. Saleem
Anjum M. Saleem
Dr. Wasim Azhar
Muhammad Asghar Qureshi
Pervaiz Akhter
Manzoor Hussain Malik
Shahid Hamid Mir

Executive Committee

Ahsan M. Saleem
Anjum M. Saleem
Muhammad Asghar Qureshi

System & Technology Committee

Muhammad Awais Qureshi
Ashraf Khan Afridi
Saad Akhtar Jaffery

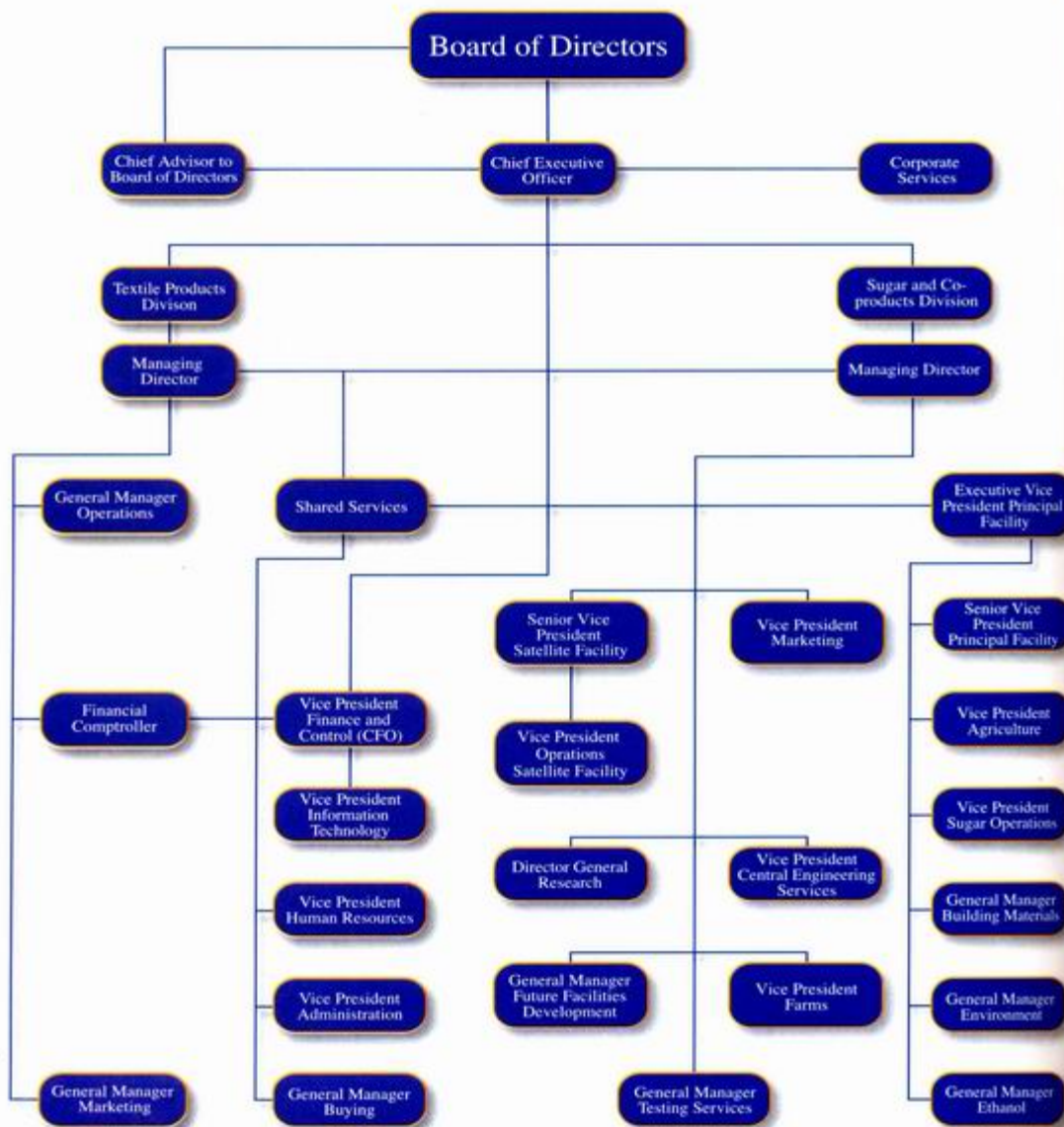
Investment Committee

Ahsan M. Saleem
Anjum M. Saleem

Human Resource Committee

Muhammad Asghar Qureshi
Muhammad Awais Qureshi
Ashraf Khan Afridi
Hameedullah Awan

Management Structure



The Management



Muhammad Asghar Qureshi
Managing Director
Sugar & Co. Products *1999



Anjum M. Saleem
Managing Director
Textile *1996



Muhammad Awan Qureshi
Executive Vice President
Principal Facility *1980



Pervaiz Akhter
Senior Vice President
Principal Facility *1981



Ashraf Khan Afridi
Senior Vice President
Satellite Facility *2003



Manzoor Hussain Malik
Vice President Agriculture
*1980



Aatif Ali
General Manager Finance
*1996



Hameedullah Awan
Vice President Administration
*2001



Dr. Shahid Afghan
Director General Research
*1987



Masood Bhatti
Vice President Operations
Satellite Facility *1986



Shahid Hussain
Manager Quality Control
& Testing *2001



Langer Khan
Vice President Farms
*2004



Amjad Farooq
Head of Internal Audit
*2004



In most households around the world, biscuits are a popular snack. In fact, families sit together in the morning dipping biscuits into their cups of tea and contemplating on the day ahead.

Shareholders' Information

Stock Exchange Listing

Shakarganj Mills Limited is a listed company and its shares are traded on all the three stock exchanges of Pakistan. Daily quotes on the company's stock can be obtained from leading newspapers. Shakarganj is listed under 'Sugar and Allied'

Public Information

Financial analysts, Stock brokers, interested investors and financial media desiring information about "Shakarganj" should contact Tariq Aleem at Company's registered Office, Lahore.

Tel: +92-42-5783830 & 33 +92-42-5783827-29

Email: tariqaleem@shakarganj.com.pk

Shareholders' Information

Inquiries concerning lost stock certificates, dividend payment, change of address, verification of transfer deeds and share transfers should be directed to Shareholder Services Department at the Registered Office at Lahore.

Tel: +92-42-5783830 & 33 +92-42-5783827-29

Fax: +92-42- 5875916

E-mail: tariqaleem@shakarganj.com.pk

Products

- Ethanol
- Particle Board
- Sugar
- Yarn

Legal Advisor

Hassan & Hassan Advocates, Lahore.

Auditors

A. F. Ferguson & Co.
Chartered Accountants

Bankers

- ABN Amro Bank
- Allied Bank Limited
- Askari Commercial Bank Limited
- Bank Alfalah Limited
- Crescent Commercial Bank Limited
- Faysal Bank Limited
- Meezan Bank Limited





The word halwa is originally derived from the Arabic root hulw (sweet) and is used to describe many distinct types of sweet confection, across the Middle East, Central Asia, Pakistan and India.

Shareholders' Information

- MCB Bank Limited
- National Bank of Pakistan Limited
- The Bank of Punjab
- United Bank Limited
- Standard Chartered Bank (Pakistan) Limited

Works

Principal Facility

Management House, Toba Road Jhang, Pakistan.
Tel: +92-47-7629337-41
Tlx: 43471CJP PK Fax: +92-47-7620272
E-mail: ssugar@shakarganj.com.pk

Satellite Facility

63 K.M. Jhang Sargodha Road, Bhone.
Tel: +92-47-7223016, 223075
Fax: +92-47-7223017

Website

www.shakarganj.com.pk

Registered Office

Crescent Standard Tower,
10-B Block E 2, Gulberg III, Lahore, Pakistan
Tel: +92-42-5783827-29
Fax: +92-42-5875916

Principal Office

10th Floor, Crescent Standard Tower,
10-B Block E 2, Gulberg III, Lahore, Pakistan
Tel: +92-42-5783801-2
Fax: +92-42-5870357

Karachi Office

Sidco Avenue Centre, 264 R.A. Lines, Karachi.
Tel: +92-21-5688149

Faisalabad Office

Nishatabad, New Lahore Road, Faisalabad
Tel: +92-41-8753037

Annual General Meeting

The 39th Annual General Meeting of Shakarganj Mills Limited will be held on Thursday, March 29, 2007 at 11:30 a.m. at Qasr-e-Noor, 9 E 2 Main Boulevard, Gulberg III, Lahore.



Production Data

Season	Duration Season (Days)	Cane Crushed (M. Tons)	Raw Sugar Processed (M. Tons)	Sugar Produced (M. Tons)	Recovery (Percent)	Process Losses (Percent)	Molasses (M. Tons)	Ethanol (Litres)	Building Material (Cubic Meter)
2005-6	170	1,288,547.76	92,968.40	178,934.00	6.97	2.54	71,008.00	27,625,611	1,477.47
2004-05	160	1,324,509.67	67,930.40	177,679.15	8.63	2.17	66,189.59	33,245,964	3,583.66
2003-04	159	1,614,539.00	-	136,813.00	8.48	2.41	81,953.00	35,408,000	5,141.00
2002-03	196	1,675,370.00	-	127,060.00	7.58	2.36	84,277.00	26,233,000	1,667.76
2001-02	195	1,704,812.00	-	128,000.00	7.53	2.42	91,890.00	15,800,156	5,669.90
2000-01	161	1,054,992.00	27,811.59	105,550.00	7.50	2.31	53,601.00	10,469,000	1,570.96
1999-00	144	524,376.688		39,965.000	7.63	2.20	24,243	4,967,000	497.480
1998-99	157	1,350,118.540		101,479.000	7.51	2.23	61,756	5,324,756	1,921.688
1997-98	163	1,434,389.418		112,430.000	7.85	2.38	73,477	6,350,000	2,784.438
1996-97	176	1,036,955.123		79,740.000	7.69	2.50	54,711	6,015,000	-
1995-96	151	763,316.236		60,285.000	7.92	2.65	39,397	2,573,700	2,117.539
1994-95	157	1,057,035.578		86,075.000	8.11	2.77	53,172	5,460,000	5,299.260
1993-94	196	1,203,371.201		88,116.500	7.34	2.65	60,150	5,250,076	4,334.770
1992-93	161	691,838.635		54,055.000	7.85	2.68	35,980	4,887,020	1,662.757
1991-92	174	746,506.346		63,985.500	8.57	2.53	37,710	4,525,900	3,360.000
1990-91	204	866,552.129		65,536.800	7.56	2.59	47,135	3,422,204	642.940
1989-90	187	708,632.495		57,912.000	8.17	2.31	33,180	3,030,217	
1988-89	170	446,324.860		36,366.800	7.70	2.44	22,410		
1987-88	193	698,604.856		55,726.000	7.98	2.61	38,740	308,494	
1986-87	149	333,601.075		27,898.600	8.36	2.24	15,060	1,855,809	
1985-86	113	237,601.670		20,625.000	8.66	2.29	11,470	20,239	
1984-85	168	441,717.765		39,522.600	8.96	2.38	22,580		
1983-84	173	427,169.490		35,501.200	8.31	2.40	21,860		
1982-83	173	361,291.485		29,440.000	8.16	2.44	16,255		
1981-82	207	466,040.000		39,474.000	8.47	2.48	21,255		
1980-81	187	287,723.000		25,562.000	8.89	2.42	13,373		
1979-80	112	61,206.625		5,619.300	8.95	2.25	2,358		
1978-79	114	107,106.070		9,267.300	8.80	2.27	4,147		
1977-78	177	319,960.400		27,620.000	8.61	2.44	14,103		
1976-77	166	308,987.443		26,085.600	8.45	2.67	15,228		
1975-76	157	246,393.593		18,864.880	7.61	2.68	11,424		
1974-75	107	104,069.161		8,252.618	8.30	2.75	4,182		
1973-74	101	87,824.720		5,476.830	6.28	3.57	4,726		

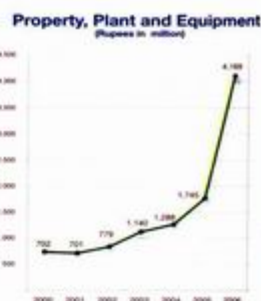
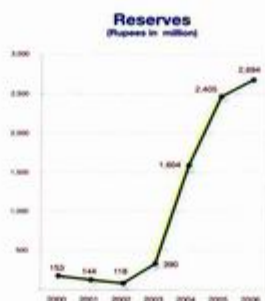
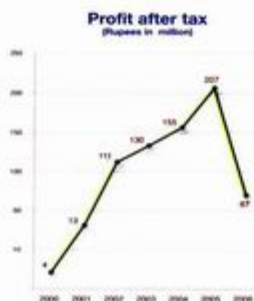
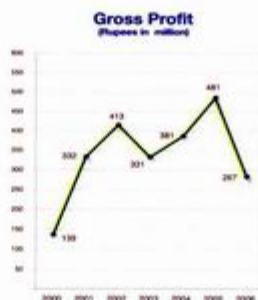
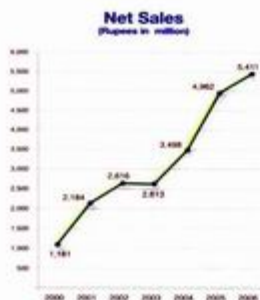


Financial Highlights

		2006	2005 Restated	2004	2003	2002	2001	2000
Operating Results:								
Net Sales	(Rs 000)	5,410,521	4,962,460	3,498,163	2,612,999	2,615,804	2,183,827	1,180,681
Cost of Sales	(Rs 000)	5,143,938	4,481,071	3,117,624	2,282,487	2,203,240	1,851,686	1,041,975
Gross Profit	(Rs 000)	266,583	481,389	380,539	330,512	412,564	332,141	138,706
Operating Profit	(Rs 000)	405,853	459,144	345,076	210,899	333,079	254,646	92,216
Profit after tax	(Rs 000)	66,639	207,381	155,495	129,578	110,650	13,495	4,314
Dividends	(Rs 000)	—	—	67,975	43,929	43,929	21,965	—
Per Share Results and Return:								
Earnings Per Share	(Rupees)	1.25	4.32	4.12	3.34	3.78	0.46	0.15
Cash Dividend per Share	(Rupees)	—	—	1.75	1.50	1.50	0.75	—
Dividend yield ratio	(%)	—	—	3.36	4.76	14.63	7.14	—
Dividend pay out ratio	(%)	—	—	43.72	33.90	39.70	162.76	—
Market Price Per Share	Rupees	25.65	47.50	52.10	31.50	10.25	10.50	6.10
Price Earning Ratio	(Times)	20.52	11.00	13.01	9.44	2.71	22.83	40.67
Financial Position								
Reserves	(Rs 000)	2,694,008	2,405,203	1,604,083	390,426	118,106	144,244	152,742
Current Assets	(Rs 000)	5,244,222	4,541,391	3,172,014	1,559,353	753,172	675,554	567,276
Current Liabilities	(Rs 000)	6,761,064	4,897,890	2,400,159	1,707,407	776,258	968,488	736,766
Net Current Assets / (Liabilities)	(Rs 000)	(1,516,842)	(356,499)	771,855	(148,054)	(23,086)	(292,934)	(169,490)
Property, plant and equipment	(Rs 000)	4,168,832	1,744,787	1,287,761	1,140,175	779,251	700,568	701,690
Total Assets	(Rs 000)	11,718,890	10,086,660	6,193,218	3,196,491	1,815,615	1,849,787	1,433,551
Long-Term Debt	(Rs 000)	1,966,387	2,291,537	1,772,257	660,233	642,685	670,158	329,110
Long-Term Debt to Equity Ratio	(Times)	0.59	0.74	0.88	0.79	1.22	1.53	0.74
Shareholders' Equity	(Rs 000)	3,356,562	3,102,264	2,009,602	835,233	526,590	437,132	445,602
Share Capital	(Rs 000)	579,365	540,537	388,430	388,430	292,860	292,860	292,860
Break-up Value per Share	(Rupees)	62.77	76.00	51.52	21.50	17.98	14.93	15.22
Financial Ratios:								
Current Ratio	(Times)	0.78	0.93	1.32	0.91	0.97	0.70	0.77
Long-Term Debt to Capitalization	(%)	36.94	42.48	46.86	44.15	54.96	60.52	42.48
Total Debt to Total Assets	(%)	71.36	69.24	58.44	73.87	71.00	76.37	68.92
Return on Average Assets Employed	(%)	4.42	6.77	3.67	5.17	6.04	0.82	0.27
Return on Average Equity	(%)	26.50	37.55	16.46	19.03	22.96	3.06	0.97
Gross Profit Ratio	(%)	4.93	9.70	10.88	12.65	15.77	15.21	11.75
Net Profit Margin	(%)	1.23	4.18	4.45	4.96	4.23	0.62	0.37
Interest Coverage	(Times)	0.84	1.78	2.55	1.97	2.10	1.23	1.07
Average Collection Period	(Days)	15	24	12	9	14	9	7
Debtor's turnover ratio	(Times)	19.85	22.32	29.95	31.53	33.95	57.62	47.02
Inventory Turnover	(Times)	2.82	4.76	6.71	3.43	10.01	5.52	23.31
Fixed Assets Turnover	(Times)	1.22	2.45	2.71	1.75	3.02	2.66	1.46
Total Assets Turnover	(Times)	0.54	0.60	0.66	0.82	1.44	1.18	0.82
Other Data:								
Depreciation & Amortization	(Rs 000)	313,234	169,131	135,308	100,968	71,835	67,347	67,861
Capital Expenditure	(Rs 000)	2,732,941	602,993	288,071	294,850	146,838	58,640	19,130

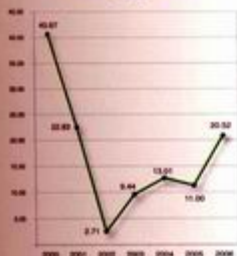


Financial Highlights

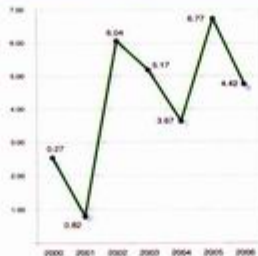


Financial Highlights

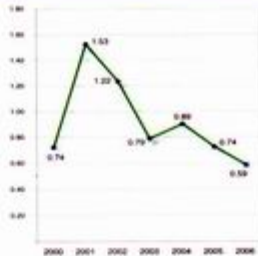
Price Earning Ratio
Times



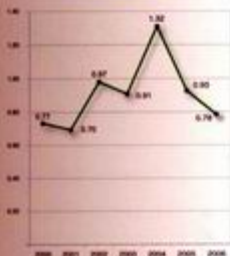
Return on Average Assets Employed
%



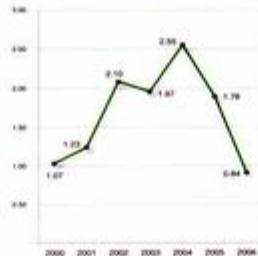
Long Term Debt to Equity Ratio
Times



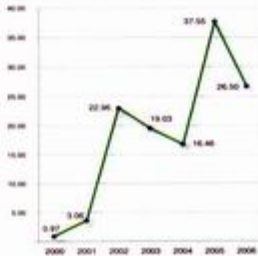
Current Ratio
Times



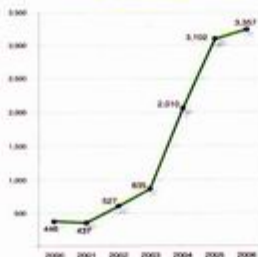
Interest Coverage
Times



Return on Average Equity
%

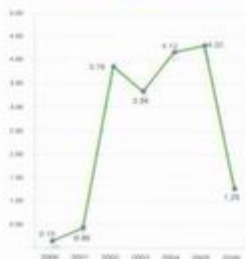


Shareholder's Equity
(Rupees in million)

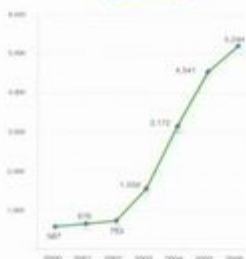


Financial Highlights

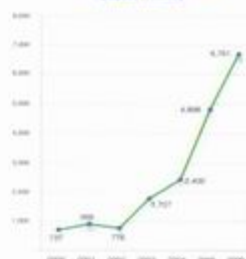
Earnings Per Share
(Rupees)



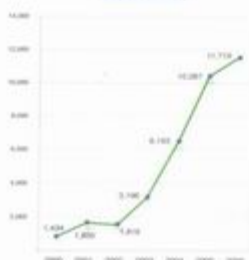
Current Assets
(Rupees in million)



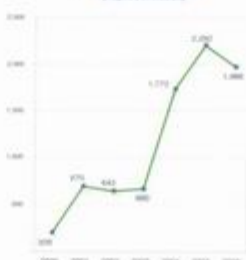
Current Liabilities
(Rupees in million)



Total Assets
(Rupees in million)



Long Term Debt
(Rupees in million)



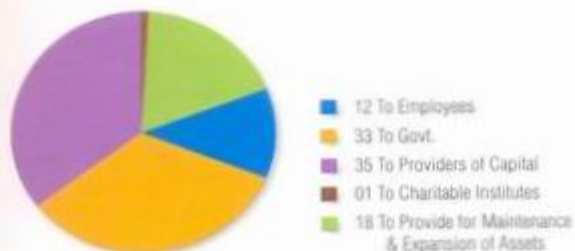
Total Debt to Total Assets
(%)

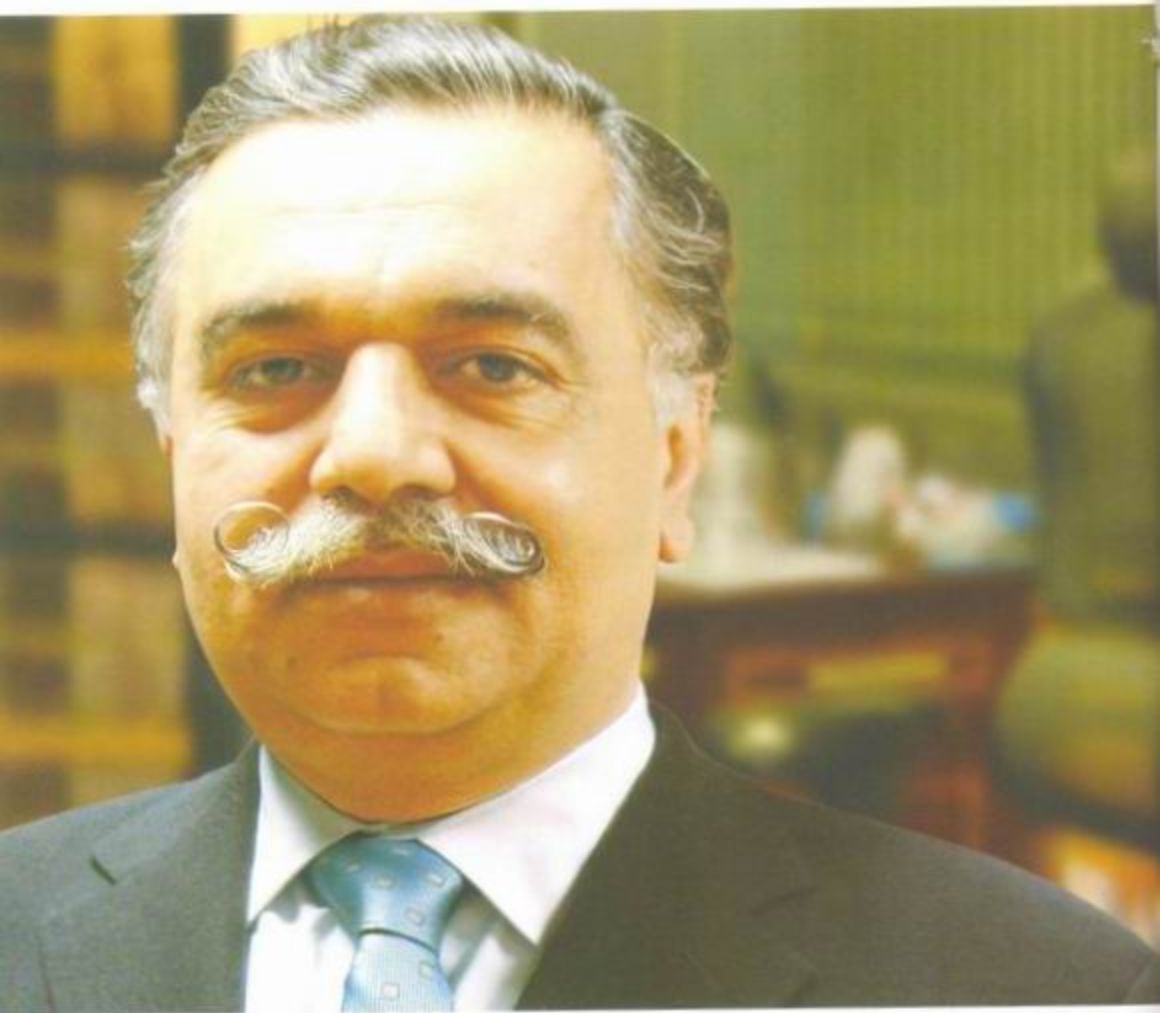


Statement of Value Addition

	2006		2005	
	(Rs in Million)	%age	(Rs in Million)	%age
Wealth Generated				
Sales Revenue (Gross)	5,411		4,962	
Other Receipts	608		202	
	6,018		5,164	
Less: Materials & Services	4,027		3,602	
Value Added	1,991	100	1,562	100
Wealth Distributed				
To Employees				
Salaries, Wages and Related Costs	237	12	172	11
To Government				
Income Tax, Sales Tax and Other Taxes	665	33	711	46
To Providers of Capital				
Finance Charges on Loans and Advances	702	35	279	18
	1,603	81	1,163	75
To Charitable Institutions	8	1	23	1
To Provide for Maintenance & Expansion of Assets				
Depreciation / Amortization	313	15	169	11
	67	3	207	13
Profit Retained	308	18	377	24
	1,991	100	1,562	100.00

Wealth Distribution for 2006





Shakarganj is committed to follow the highest social standards in every conduct of business.

The Company's involvement in the social sector is reflected in various community programmes on health, education, agricultural best practices and environment.

Future plans include even greater involvement in community development and upgradation.

Anjum M. Saleem
Managing Director
Textile

"There is never any compromise on being anything less than an exemplary corporate citizen"

Shakarganj Sugar Research Institute

Board of Governors

- Mr. Mohammad Asghar Qureshi
Chairman
- Mr. Mohammad Awaiz Qureshi
Member
- Mr. Malik Manzoor Hussain
Member
- Dr. Shahid Afghan
Director General

Principal functions of Shakarganj Sugar Research Institute (SSRI)

- 1 Sugarcane breeding to evolve high yielding, early maturing, disease resistant, biotic and abiotic stresses tolerant varieties.
- 2 To investigate the agronomic problem of sugarcane production.
- 3 Research and development on utilization of biomass from sugar industry. Effluents and its use for sustainable agriculture.
- 4 To study soils in sugarcane producing areas and to relate these to crop management.
- 5 To use tissue culture propagation for rapid multiplication of elite clones.
- 6 To study and monitor the pests and diseases of sugarcane and to develop appropriate control measures.
- 7 To conduct research on germination of sugarcane sets, sucrose production, translocation, storage and environmental influences on these processes.
- 8 To advice on the use of fertilizers and other agricultural chemicals, irrigation and drainage, diseases and pests control, the use of machines

and equipments land and water management, and other aspects of crop planting, production and management.

- 9 To publish and disseminate information on all aspects of sugarcane production.
- 10 To conduct educational courses in various aspects of sugarcane growing for cane development staff and growers.



- 11 To collaborate and exchange information and material with Research Organizations in Pakistan and abroad.
- 12 To improve technology of sugarcane production inside the sugar factories by improving process and milling efficiency.

The primary objective of Shakarganj Sugar Research Institute (SSRI) is to contribute to profitability of SML through developing improved sugarcane varieties. This report summarizes research and development activities being conducted at SSRI with emphasis on main goals that were achieved during the year 2005-2006. SSRI has made expanding and intensifying development, releasing new high yielding, early maturing and



Sadia Rizwana has joined Shakarganj as Trainee Bio Control after completing her Masters in Zoology. She has always believed that sincere and earnest work is always positively rewarded.

Research and Development are essential at Shakarganj that is why the Company has set up the Shakarganj Research Institute which encourages many researchers like Sadia Rizwana to find creative and innovative ideas for crop protection, disease prevention and better crop yield.

Sadia Rizwana
Asst. Manager Bio Control
Shakarganj Sugar Research Institute

"Working professionally adds to a woman's confidence."

disease resistant varieties for profitable cultivation of sugarcane crop. The institute is also involved in dissemination of production technology with teamwork of allied departments of SML. The major achievements of SSRI in multifarious areas of R & D during the year under report are briefly described below:

A. Current Projects

- 1 Sugarcane variety development
- 2 Biological control of borers and pyrrilla
- 3 Tissue culture propagation of elite clones
- 4 Studies on disease tolerance
- 5 Agronomic trials
- 6 Soil and water advisory service
- 7 Organic sugar project
- 8 Botanic garden
- 9 Research publications & training courses
- 10 Publication of Pakistan Sugar Journal
- 11 Library

B. New Projects

- 1 Establishment of Nematology Lab
- 2 ELISA Test for screening of sugarcane mosaic virus

1 Sugarcane variety development

Main objective of this project is to develop cane varieties with better sugar content than the existing commercial varieties. Research work on development of new cane varieties continued at the same level of priority.

a. Registration of NSG-Series cane varieties- A big achievement

Three clones of NSG-Series NSG-06, NSG-311 and NSG-555 have been registered at Federal Seed Certification Department (FSCD) Govt. of

Pakistan. Hopefully, these would be approved for commercial cultivation during the year 2007.



b. Promising clones at final stage

Two clones of CSSG- Series and one of HoSG- Series are at final stage. Biometric traits are given in table-I and cane yield with sugar recovery % cane are elaborated in fig.1. CSSG-668, CSSG-676 and HoSG-259 are high yielding, early maturing, good ratooner, non-lodging and resistant to major pests.



Hafiz Dil Meer joined Shakarganj in 1972 and has been with the Company since the last 35 years. He joined as a helper and has now become a mechanical engineer. He has always believed in honesty, hard work and making personal contribution to achieve overall company growth.

At Shakarganj, over 1000 professionals like Hafiz Dil Meer combine individual strengths and expertise in their respective fields to achieve exemplary results for themselves as well as for the Company.

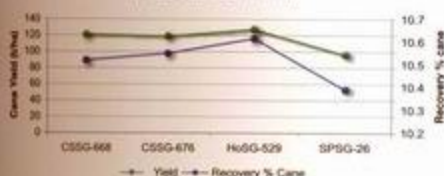
Hafiz Dil Meer Khan
Mechanical Engineer
Shakarganj Mills Ltd.

“Personal experiences and expertise
contribute to organizational growth.”

Table-1 Biometric traits of final clones (pooled mean 2003-06)

Clones	Germ-ination %	Tillers plant-1	Millable canes (000 ha)	Cane weight (kg)	Maturity trend	Ratoon-ability	Disease reaction
CSSG-668	61	2.2	102	1.20	Early	Excellent	Resistant
CSSG-676	60	2.1	118	1.01	Early	Good	Resistant
HoSG-529	65	2.0	104	1.22	Early	Excellent	Resistant
SPSG-26	64	1.71	97	1.00	Early	Poor	Resistant

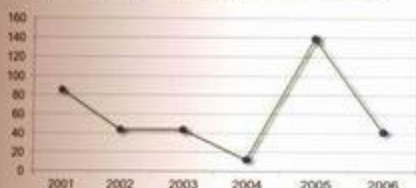
Fig.1 Biometric traits of final stage clones (Pooled means 2003-06)



c. Semi-final trials

Promising clones selected for semi-final trials were 43 of S2000-02 HoSG, CPSG, and CSSG-Series. Semi-final clones were selected on the basis of germination capacity, tillering potential, cane yield, early maturity trend and disease reaction. These clones will be further evaluated for ratoonability, abiotic and biotic stresses. Status of semi-final selections from 2001-06 is given in Fig.2.

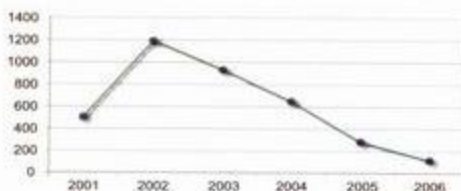
Fig.2 Year wise selection of semifinal clones



d. Advanced clones

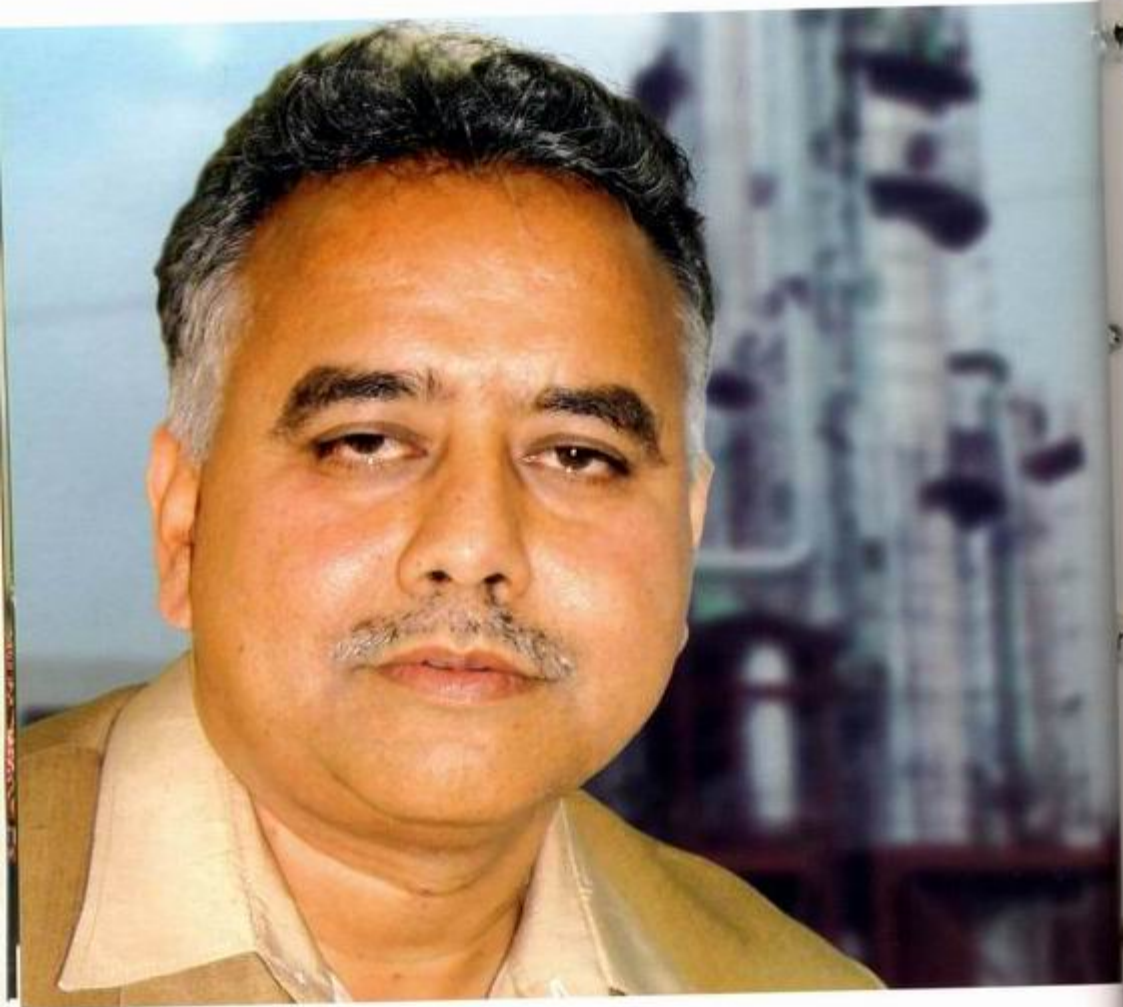
Clones advanced during the year under report were 103 from S2003HoSG Series out of 291 advanced lines of previous year. These clones were planted on 2 acres. Selection was done on the basis of plant height, cane girth, tillering, Millable canes, cane yield, sugar recovery % cane and disease reaction. Promising clones advanced from 2001-06 is given in Fig.3.

Fig.3 Year wise selection of advance clones



e. Progeny clones

Progeny clones selected were 813 from 50852 original seedlings of S2004 CPSG and CSSG-Series. Plantation was completed during autumn 2006. Selection of progenies was done on the basis of growth, lodging, sprouting, pithiness, cane girth, periodic brix % cane and disease reaction. These progenies were planted at 5 acres. Year wise



Presently working as the Plant Manager at one of the Shakarganj plants, Asif Hayat places great importance on extensive and continuous learning. That is one of the reasons why he is always full of new and innovative ideas.

At Shakarganj, such employees are not only welcomed but encouraged to present any ideas to add to the Company's dynamism, enthusiasm and enterprise.

Asif Hayat Khan
Plant Manager, Mechanical
Shakarganj Mills Ltd.

"Innovative ideas are always welcomed."

selections of progeny clones from 2001-06 are given in Fig.4.

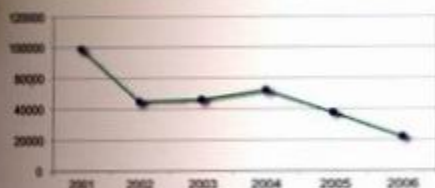
Fig.4 Year wise selection of progeny clones



f. Original seedlings

Cane fuzz of 25 bi-parental crosses was purchased from CanaVialis, Brazil. Poly-crosses of 15 progenitors were collected from National Sugar Crops Research Institute (NSCRI) Thatta, Pakistan. Original seedlings germinated were 20,888. Seedlings would be transplanted as single stools at 2 x 5 feet spacing during spring 2007. Status of original seedlings raised from 2001-06 is given in Fig.5.

Fig.5 Year wise selection of original seedling

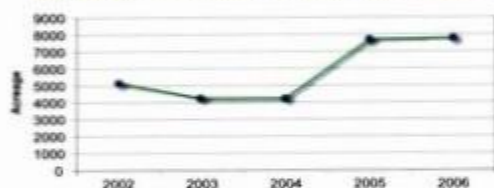


2. Biological control

a. Biological control of borer's complex

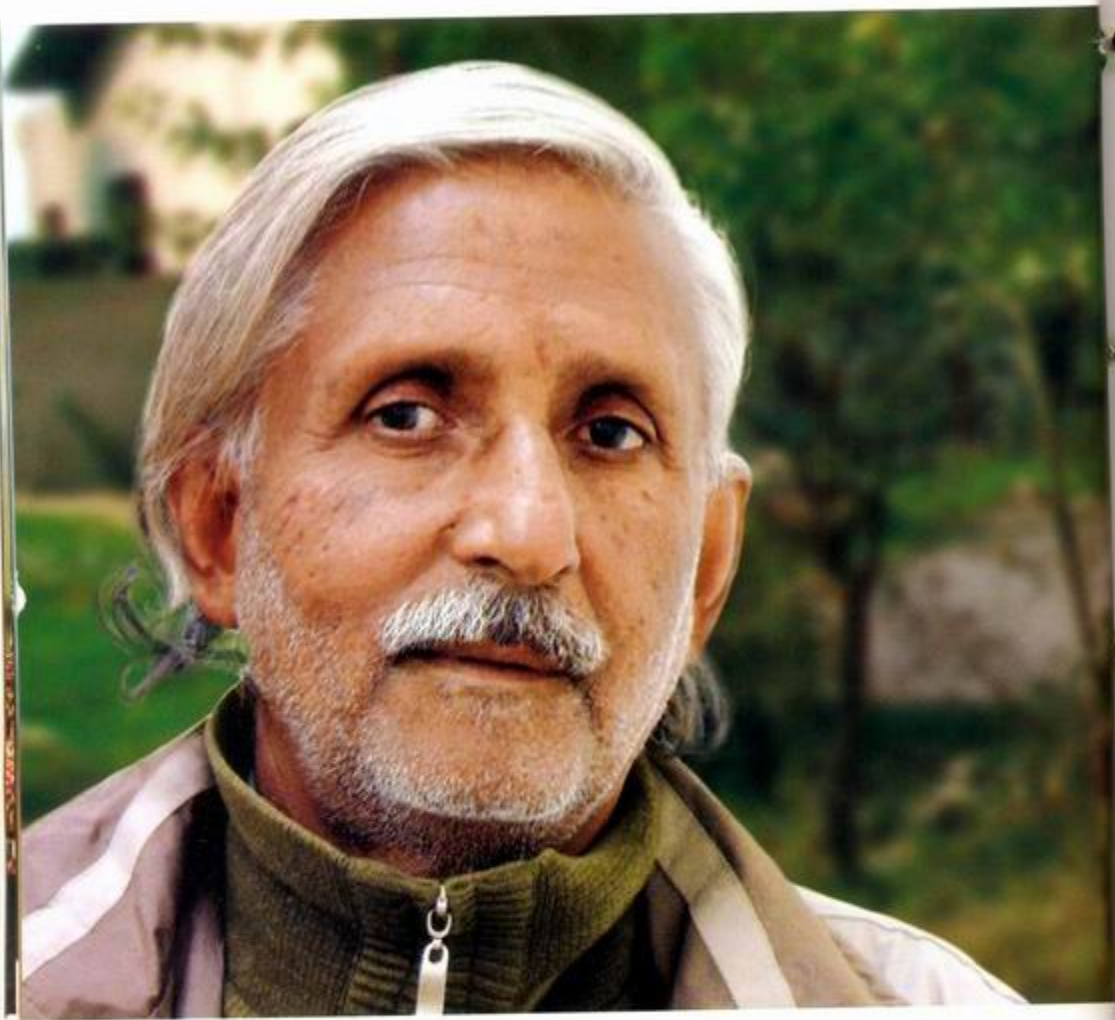
Trichogramma, an egg parasite of borer complex has shown its efficacy being released regularly in cane fields since 1996. A total of 311638 trichocards were produced during 2006 covering 78391 acres of sugarcane in various circles of SML. The parasitized Trichogramma cards were provided at a highly subsidized price of Rs.4/- per card to cane growers of SML. Detail of acreage covered by release of Trichogramma cards during last five years (2002-06) is given in fig.6.

Fig.6 Acreage covered by release of tricho-cards



b. Biological Control of Pyrilla

Main objective to start artificial rearing of Green lacewing (*Chrysoperla carnea*) during 2003 was to control infestation of pyrilla perpusilla in cane fields of SML. About 1362 sheets have shown an effective predation on eggs and nymphs of Pyrilla. In addition, *Chrysoperla* is equally efficient for borers of sugarcane, rice, maize and cotton. This facility will be expended up to 2000 sheets annually from next fiscal year. Year-wise production of *Chrysoperla* sheets is given in fig.7.



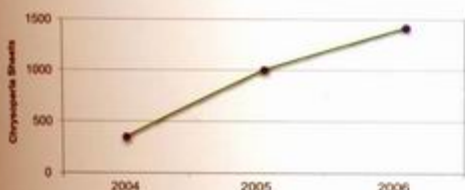
Qalb-e-Hussain belongs to Kot Essa Shah and has some fields in Shah Jewna. His association with Shakarganj is as old as the Company itself.

When Shakarganj started its factory in Bhone, the Company and several committed locals like Qalb-e-Hussain set out to change the conditions of the area. With a firm belief to contribute positively to the communities where it operates, the Company set up schools and mobile dispensaries while the farmers and factory workers worked hard at giving their very best. The result was phenomenal success on both the business and social fronts.

S.M. Qalb-e-Hussain Bukhari
Farmer

"Shakarganj brought a deserted place to life."

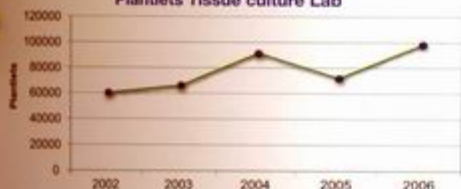
Fig.7 Year-wise Production of Chrysoperla Sheets



3. Tissue culture Propagation of elite clones

Sugarcane clones tissue cultured were S98CSSG-668, S98CSSG-676 and CPF-243 during the year under report. New clone included in the programme comprised S99HoSG-529. The stuff of 30196 plantlets was shifted in the field on an area of 3.5 acres during autumn 2006. Production of plantlets in tissue culture lab from 2002-06 is given in Fig.8. Studies on direct regeneration would be initiated for production of more number of plantlets at low cost.

Fig.8 Year Wise Production of Plantlets Tissue culture Lab



4. Studies on disease tolerance

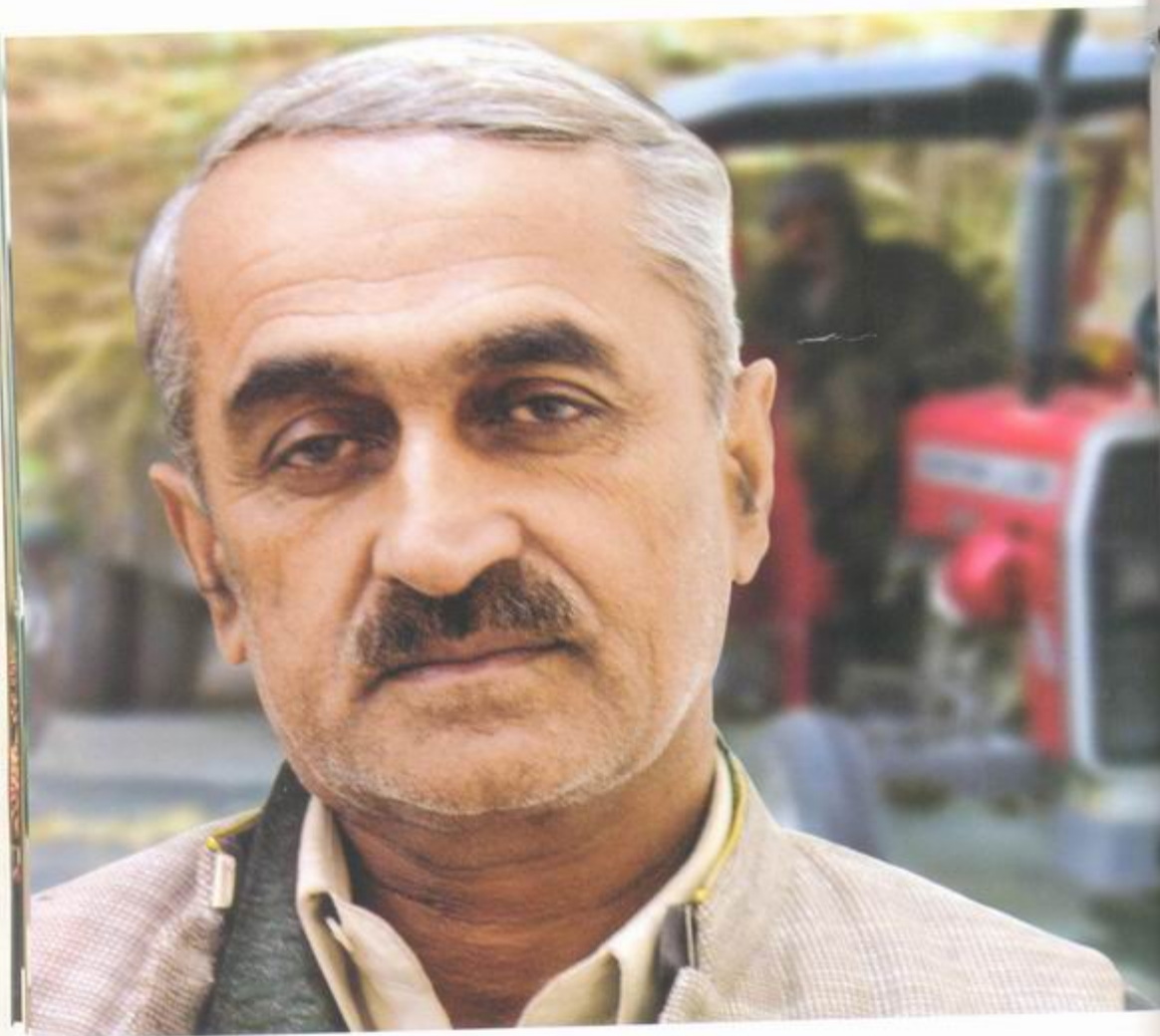
Nursery of different selection stages of promising clones was grown to screen against red rot, rust, pokha boeng and smut (table-2). Inoculation of pathogenicity tests was conducted from Dec. 05 to Sep. 06. Resistance against major diseases was recorded. It is encouraging to know that 964 clones have shown combine resistance out of 3410.

Table-2 Screening of germplasm under various selection series for combined resistance against major diseases (2005-06)

Sr. No.	Series	No. of Clones	Resistance				
			Red rot	Rust	P. Boeng	Smut	Combined
1	S98CSSG	2	2	2	2	2	2
2	S99HoSG	3	3	3	3	2	3
3	S2000HoSG	10	10	10	10	10	10
4	S2001HoSG	84	22	63	64	72	22
5	S2002HoSG	39	11	27	28	25	11
6	S2003HoSG	291	103	211	213	184	103
7	S2004CSSG/CPSG	2981	813	1120	1751	2175	813
Total		3410	964	1436	2071	2470	964

5. Agronomic trials

Objective of this programme is to provide technical guidance on production technology, biometric traits of varieties, integrated pest management, judicious use of fertilizer and irrigation water. This has helped enhanced yield and quality of cane crop of SML cane growers. The agronomic trials conducted on promising clones comprised seed rate, row spacing, fertilizer application, irrigation coefficients, weed control and post harvest losses.



Malik Imtiaz is a forward looking and hardworking farmer who believes in using agricultural best practices to increase yield and improve crop quality.

From the time the seeds are sowed to the time the crop is cut, Shakarganj Sugar Research Institute shares its discoveries with Imtiaz Ahmed and many other progressive farmers on a regular basis to ensure collective growth.

Malik Imtiaz Ahmed
Farmer

"I've learnt a lot of new things
about farming."

6. Soil and water advisory service

The facility developed at the institute is useful for cane growers of SML. Soil and water analysis services are done free of cost. The service is beneficial for the cane growers to know and correct fertility of soils and fitness status of water for judicious use of fertilizer and irrigation water resources. Analysis of soil and water samples done was 1027 and 527, respectively during the year under report.

7. Organic sugar project

Certification for organic sugar was completed on October 23rd, 2006 from Control Union International, Netherlands. Registered growers of the project were 37, fermenters constructed were 67 and plantations of organic sugarcane were on 399 acres during the year under report.

8. Botanic garden

This project was started on July 2004 with an aim to conserve national flora as cultural and scientific heritage. This is the first Botanic garden of its kind in sugar industry. About 360 species were collected, which comprised mainly trees followed by shrubs, herbs, climbers, cactus and gymnosperms. Status of flora at SML during 2004-06 is given in table-3.

Table-3 Status of flora at botanic garden

Flora	Species (2004-05)	Species (2004-05)
(Angiosperms)	115	135
Shrubs	45	54
Herbs	112	112
Climbers	21	21
Cactus	25	31
Gymnosperms	07	07
Total	326	360

9. Research publications and training courses

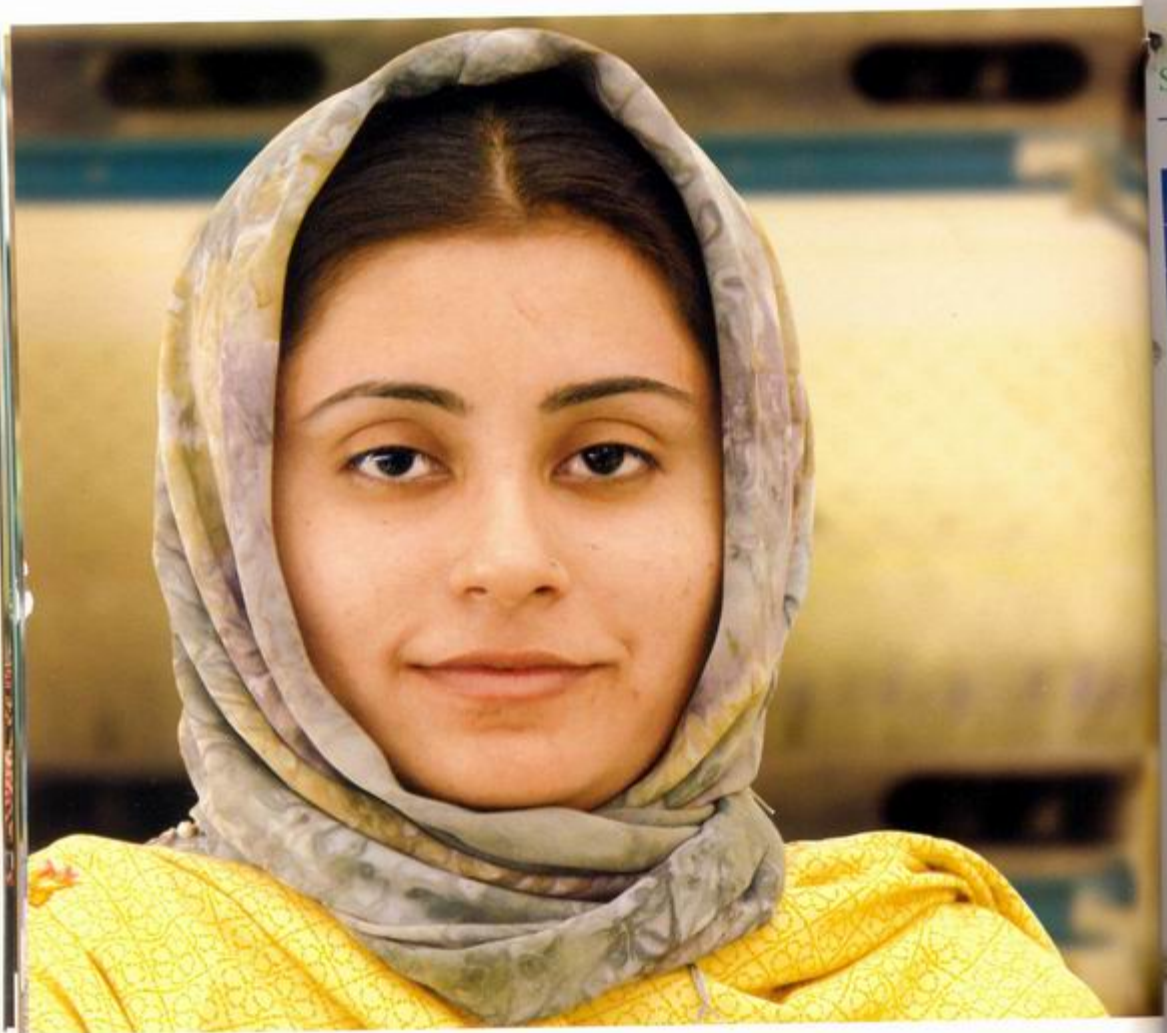
Two research papers of SSRI were published in Sugar Cane International UK and two papers were presented in International conferences in Pakistan. Three scientists of the institute have attended international training courses, symposiums and workshops on multifarious aspects of biotechnology of sugarcane crop.

10. Publication of Pakistan Sugar Journal (PSJ)

Six issues of PSJ were published on bimonthly basis with the patronage of SSRI. Thirty research papers were published during the year under report. Some papers received from Bangladesh were included in various issues of the journal. About 150 printed copies of each issue were distributed to various research organization, universities, sugar mills in the country and abroad.

11. Library

SSRI library having devi-decimal classification was established in 1990. It provides excellent reading material to the members. Latest stuff has touched figure of 5552. This has covered books, manuals, proceedings, research journals and audio-video aid. Facilities would be available to users with on line asses for issuance of available material. Summery of the material during the year under report is given in table-4.



Palvasha Khanum joined Shakarganj after graduating in Plant Breeding and Genetics. She has always believed in herself and dared to achieve her education and start a career in an area where women are not generally encouraged to do either.

As an equal opportunity employer, Shakarganj provides promising career opportunities to well-educated and well-trained males and females who are now inspiring several others in the community to gain education and contribute constructively to society.

Palvasha Khanum
Asst. Manager, Tissue Culture
Shakarganj Sugar Research Institute

“Women education and career development can take the country forward.”

Table-4 Status of the at library during last five years (2002-2006)

Sr. No.	Description	2001-02	2002-03	2003-04	2004-05	2005-06
1.	Books	4513	4679	4780	5000	5025
2.	Proceedings	268	268	270	270	275
3.	Journals	40	29	29	29	30
4.	Video cassettes	118	118	118	118	119
5.	Audio cassettes	79	79	79	79	79
6.	DVDs	--	--	--	--	6
7.	CDs	--	--	--	--	18
	Total	4581	5173	5276	5496	5552

B. New Projects

1. Establishment of Nematology Lab

A new project has been approved for the establishment of a Nematology lab at SSRI. Initially, survey and identification of beneficial and harmful nematodes of sugarcane crop would be completed. Finally, Biopesticides of entomopathogenic nematodes would be developed for major infesting pest of sugarcane crop.

2. Enzyme Linked Immuno Sorbent Assay

Sugarcane Mosaic Virus (SCMV) is amongst major diseases of sugarcane in Pakistan. ELISA (Enzyme - Linked Immuno Sorbent Assay) would be employed for the screening of promising clones to SCMV. This would help improve efficiency of screening against the disease.



Fond of literature and arts, Aslam Afaq works as the Director of the Jhang Art Gallery. He started the Gallery with an exhibition of a few paintings and calligraphic works from various artists. This attracted local people in general and aspiring artists in particular.

From the very start, Shakarganj and Aslam Afaq have worked together towards projecting the artists of the area on a national level. Today, people eagerly wait for the Company's Annual Art Exhibition with anticipation.

Aslam Afaq Janjua
Art Director
Jhang Art Gallery

“Zara numm ho toh yeh mit
Badi zarkhez hai saaqi



Falooda is an exotic Pakistani milk-based drink flavoured with rose syrup (sharbat gulab) and named for the strands of cornflour vermicelli that float in it.

Our Governing Principles

“As a responsible corporate citizen, we always aim to act in a socially responsible manner at all times.



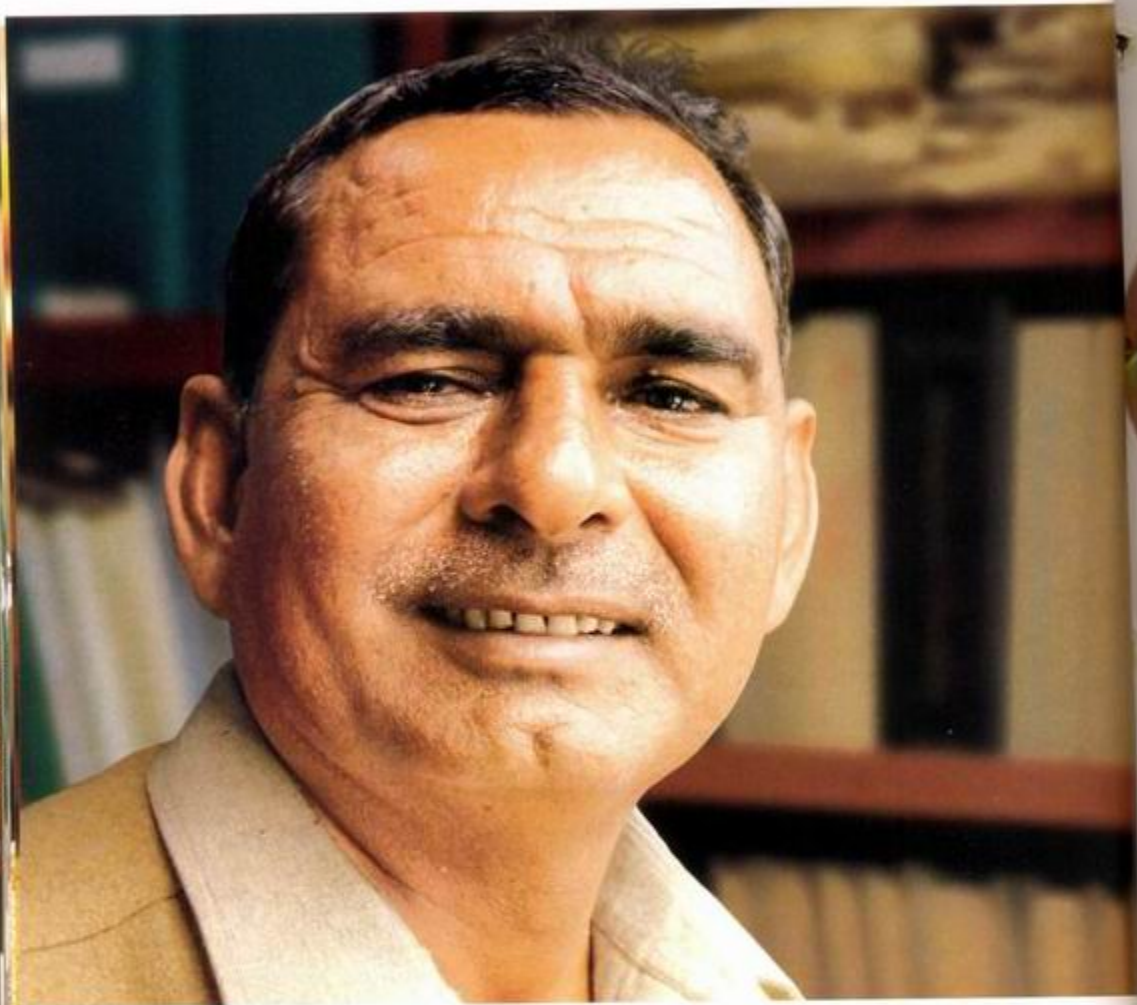
Purpose and value of business

Shakarganj Mills Limited is a sugar and sugar co-products, food and textiles manufacturing company with annual sales of Rs.5.4 billion and over 2,100 employees.

Shakarganj is one of the largest sugar and co-products manufacturer in Pakistan with a wide range of products. With an increasingly strong emphasis on research and technology, we are turning natural products into white crystalline sugar for general consumption, specialty sugars for food and pharmaceutical industry, retail package sugars, alternate energy resources, building materials and inputs for value-added textiles.

Our emphasis is to concentrate our energies and expertise on segments of the market where we can establish a





Ghulam Mohammad Ghous has been with Shakarganj since the last six years. He has always highly valued respect and works hard to earn it on all levels. Ever since joining the Company, he knew he had not only joined a team but a family.

Shakarganj has always believed in openly acknowledging the efforts of its employees in any field where they contribute positively and make a difference. That is perhaps why the Company has been able to retain most of its employees, suppliers and farmers.

Ghulam Mohammad Ghous
Deputy General Manager, Farm
Shakarganj Mills Ltd.

"Shakarganj treats its employees like family members."



Cocoa, from which chocolate is created, is said to have originated in the Amazon at least 4,000 years ago.

Our Governing Principles

leading position. As a company we are always searching for better, more efficient and more profitable ways to manufacture our products and ways to employ our technology and knowledge base in other related sectors.

As a responsible corporate citizen, we always aim to act in a socially responsible manner at all times. In a decentralized organization structure our business divisions devise procedures appropriate to and compliant



with the local laws, culture and operating conditions which are always within the following minimum governing principles:

Employees

Our employees are our most crucial resource and therefore we abide by the following principles;

- **Equal Opportunities** – We are committed to offering equal opportunities to all people in their recruitment, training and career development, having regard for their particular aptitudes and abilities. Full and fair consideration is given to applicants with disabilities and every effort is made to provide an opportunity for retraining any person becoming disabled whilst employed by Shakarganj.





Proud owner of a 1300 cc car, Zahid Mehmood still remembers the time when he used to ride to his Shakarganj office on a bicycle. Prospering at every step and moving ahead purely on merit, Zahid soon became an integral member of the Shakarganj team and has been so for the last twenty years now.

Shakarganj has a dynamic team of over 1000 employees, most of whom have started their careers with the Company and grown from strength to strength as the Company moved from one milestone to the next.

Zahid Mehmood
General Manager, E&T
Shakarganj Mills

"The Company shares its growth
with its people"

Our Governing Principles

- **Health and safety** — we consider health and safety to be as important as any other function of the company and its business objectives. Top tier management of each business division is directly responsible for health and safety in our locations of operations. We seek to provide a safe and healthy workplace and system of work in line with all local laws and regulations, to protect all our employees, visitors and the public where they come into

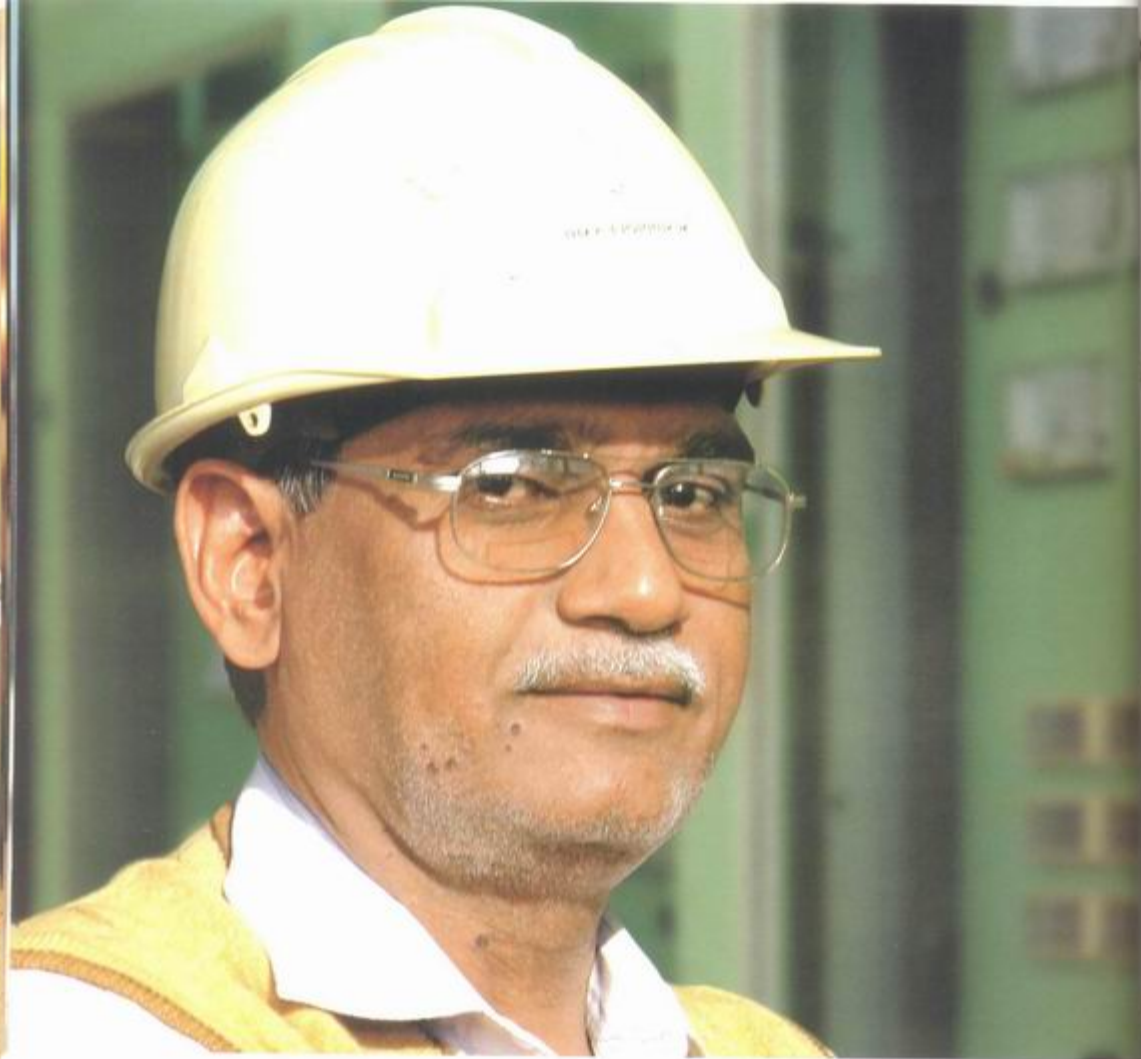


History has the first recorded mention of cheesecake, as being served to the athletes during the first Olympic Games held in 776 B.C.

contact with foreseeable work hazards. Our employees are required to adopt a proactive attitude towards this end. A Health and Safety committee continues to develop awareness of work hazards and safety amongst all employees. The committee also manages and measures health and safety performance on a continuous basis.

- **Harassment and discrimination** — we will not tolerate mental, physical or sexual harassment in the workplace. We will not allow any form of discrimination on basis of sex, race, creed language, religion or colour. We expect our employees to report any incident of harassment or discrimination to the appropriate human resource department which shall conduct an independent inquiry into all such reports and take action in light of the results of the inquiry.





Mohammad Siddique joined Shakarganj in 1991 after serving a large power plant in Saudi Arabia for ten years. When he decided to come back to his homeland and settle down permanently in Pakistan, he was looking for a company that matched his ideals of professionalism and excellence.

Shakarganj has always believed in equipping its people and plants with the most modern technologies and procedures. That is why the Company does not only produce quality products but also quality professionals who excel at whatever they do.

Mohammad Siddique Sal
GM Power Plant
Shakarganj Mills Ltd.

"I wanted to join a world-class
company."

Our Governing Principles

- **Human rights** – managers are required to take account of the core International Labour Organization conventions and to strive to observe the United Nations Declaration on Human Rights, by respecting the rights of our employees. They are required to observe the following in particular:
Universal respect for an observance of human rights and fundamental freedoms for all without any discrimination.



The early method of making sweet cake was by adding sugar and other ingredients to a portion of bread dough.

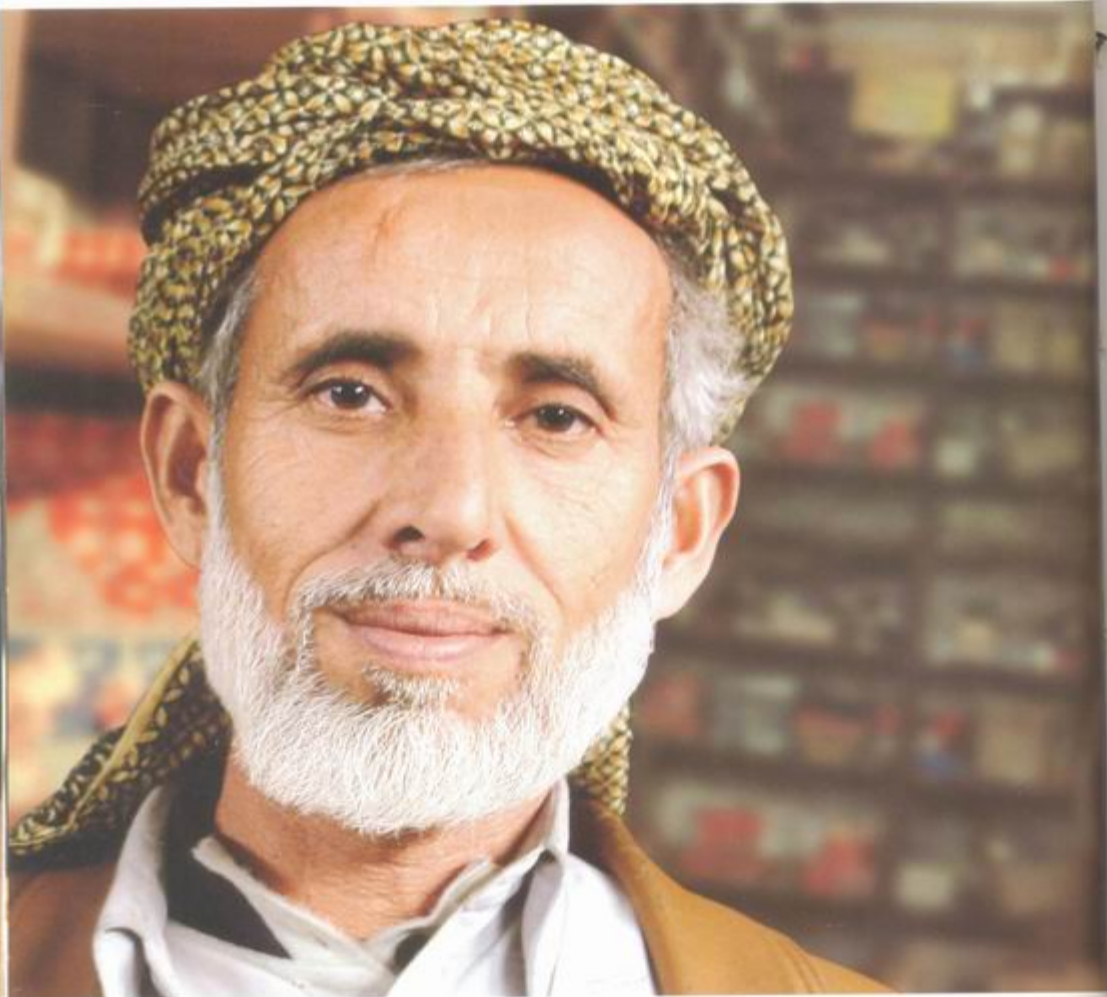
We remunerate fairly with respect to skills, performance, our peers and local conditions.

We brief our employees and their representatives on all relevant matters on regular basis.

Ethical Business Practices

- **Competition** – we are committed to free and fair competition and will compete strongly but honestly complying with all relevant laws.
- **Bribery** – Shakarganj will not condone the offering or receiving of bribes or other such facilitating payments or gifts to any person or entity for the





Naseer Ahmed joined Shakarganj in 1978 and has grown to become one of the Senior Store Keepers. He had always dreamt of going for pilgrimage to Macca and was overwhelmed with joy when this wish came true in 1986. Through a draw, his name was amongst those selected by the Company to be sent for Hajj.

The Shakarganj Hajj Scheme annually facilitates many others like Naseer Ahmed to perform Hajj.

Naseer Ahmed
Senior Store Keeper
Shakarganj Mills Ltd.

"Going for Hajj was my biggest dream"

Our Governing Principles

purpose of obtaining or retaining business for Shakarganj or influencing political decisions.

- **Political donations** – financial donations are not permitted to any political party or for furthering any political cause.
- **Confidentiality and accuracy of information** – the confidentiality of information received in the course of business will be respected and never be

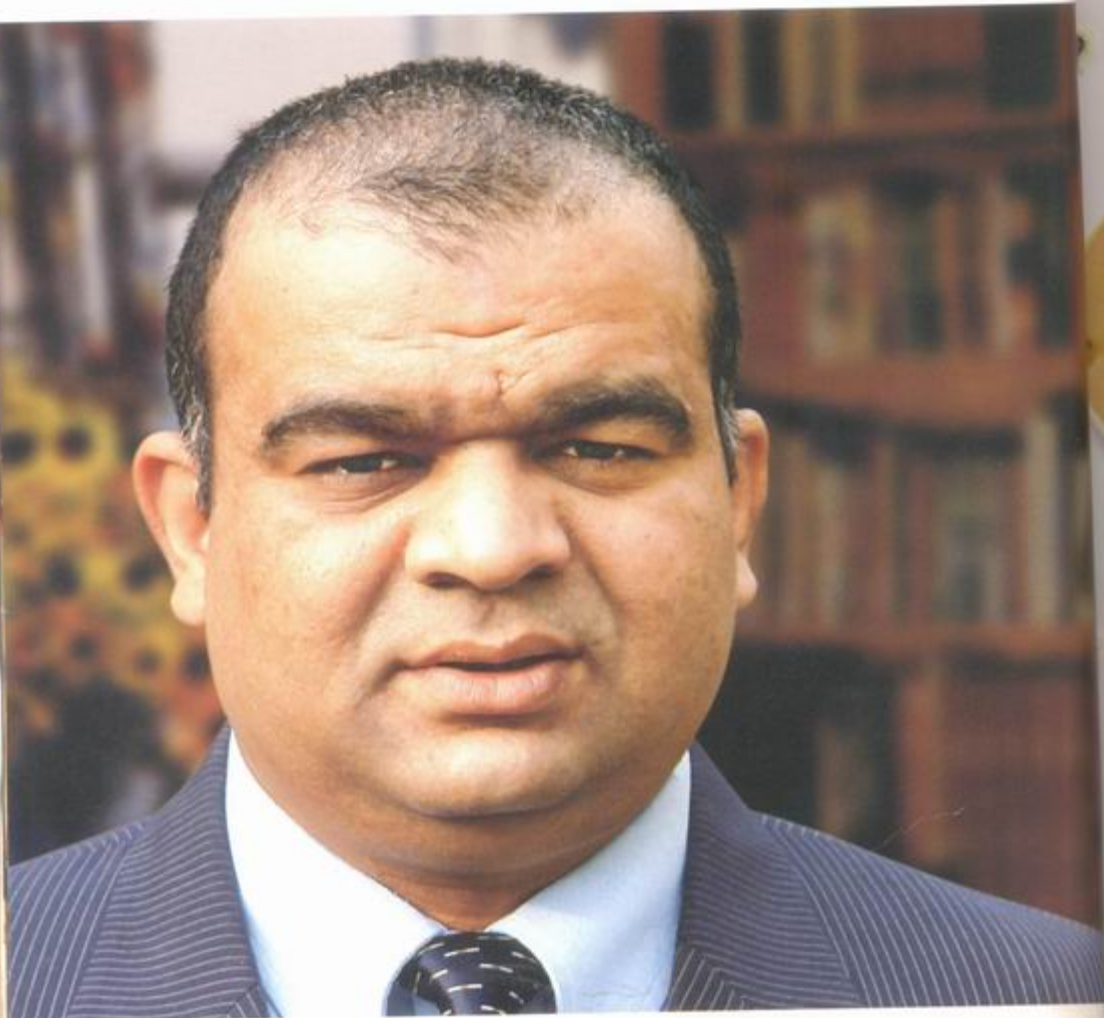


No special occasion is complete without Laddoo. It gets its name, Motichoor, from the word Moti which means bead or pearl.

used for personal gain. False information will not be given in the course of any commercial negotiation or transaction.

- **Conflict of interest** – any personal interest, which may prejudice or which may reasonably be deemed to be prejudice, by others, the impartiality of employees must be formally declared to senior management. This includes, but is not limited to, owning shares in business partners, trading in company shares and personal or family involvement in commercial transactions with the company.
- **Business gifts and hospitality** – gifts other than items of very small intrinsic value are not accepted. Employees who receive hospitality must not allow themselves to reach a position where they may be deemed to have been influenced in making a business





Babar Shafeeq joined Shakarganj in 1989 during his Intermediate. He then left for further studies and returned after doing his MBA. He is currently working as the Inventory Manager also responsible for managing and maintaining ISO 9001 and SA 8000 Social Accountability standards.

Shakarganj believes in stringent quality policies and procedures. Together, Babar Shafeeq and the Company make sure that product quality meets international standards.

Mohammad Babar Shafeeq
Manager, Inventory
Shakarganj Mills Ltd.

"Shakarganj is not just a company
It is also a learning institute."



The idea of ice cream cake came from desserts composed of cream and cookies or cake called trifles, which first turned up in the Renaissance.

Our Governing Principles

decision as a consequence. Giving and receiving of reasonable business products, marketing materials and entertainment are permitted.

- **Food safety standards** – Shakarganj recognizes that quality and safety of our products used in food as a primary product or an ingredient, is essential for our customers. High priority is placed on all aspects of food safety. Food safety systems are regularly reviewed to ensure their



effectiveness. Economic considerations are never put before food safety.

Board of Directors

The business and management of the company are the responsibility of the whole board. There is a formal schedule of matters reserved for board decision. These include approval of annual and interim results, the company's strategic plans, annual budget, larger capital expenditure and investment proposals and overall system of internal control and risk management.

The directors have a legal responsibility to prepare financial statements for each financial year which give





Khalid Shabbir did his Masters in Chemistry from the University of Agriculture, Faisalabad. He then joined a college as an instructor. But, he was more inclined towards research than he was towards teaching. His inquisitive mind and analytical skills brought him to Shakarganj as one of the Trainee Chemists.

Khalid and many other researchers are currently busy in working together to win ISO 17025 Laboratory Standardization and Certification for the Company. It is expected that this will be yet another achievement for Shakarganj.

Mohammad Khalid Shabbir
Shakarganj Mills Ltd

"I sincerely recommend Shakarganj to any individual who wants to grow."

Our Governing Principles

a true and fair view of the state of affairs of the company and of its profit and loss for that period. In preparation of these statements the directors are required to;

- Select suitable accounting policies and then apply them consistently.
- Make estimates and judgments that are reasonable and prudent.



- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue its business.

The directors are responsible to ensure that proper accounting records are kept which disclose with reasonable accuracy the financial position of the company. They have the general responsibility for taking steps to safeguard the assets of the company.

Other specific responsibilities are delegated to board committees which operate within clearly

Rich and flavorsome, Amratris are a popular treat because of their somewhat chewy texture with a crystallised sugary crunch.





Abdul Abad
General Manager, Textile Division

Abdul Abad joined one of the Group companies as ASM and is currently working as General Manager. This personal success is largely due to his commitment to extensive and continuous self-improvement, grooming and learning.

Shakarganj has always valued such devoted individuals who are willing to polish themselves. Several employees are sent to leading professional colleges as well as local and international seminars and training courses. This is generally because the Company is as willing to learn and try new technology and procedures as are the people working for it.

"Shakarganj has given
4-dimensional growth - personal,
financial, social and educational



A wholesome perfect breakfast generally includes healthy items like cereals or yogurt, and fruit jelly which have the right combination of carbohydrates and proteins to start the day.

Our Governing Principles

defined terms of reference and report regularly to the board.

Within the overall guiding principles set out above the key objectives of the board are;



- The agreement of strategy
- The agreement of detailed set of objectives and policies that facilitate the achievement of strategy
- Monitoring the performance of executive management in delivery of objectives and strategy
- Monitoring and safeguarding the financial position of the Company to ensure that objectives and strategy can be delivered.
- Approval of all capital expenditure, other expenditure which is not part of the defined objectives or strategic plan.
- Approving corporate transactions – this includes any potential acquisition or disposal.
- Delegating clear levels of authority to the executive management team. This is represented by the defined system of internal controls which is reviewed by the audit committee.





Mumtaz Begum had a tough life when she was young. Her quest for education is the force that kept her going. She took a train to her school every morning and return by train late in the evening.

She joined Shakarganj School at Jhang as its School Incharge. Her personal wish combined with Shakarganj's commitment to the educational sector is bringing changes in the lives of several hundred students.

Mumtaz Begum
Shakarganj School
Shakarganj Adopted School

"I wish to make education accessible to all."

Our Governing Principles

- Providing appropriate framework of support and remuneration structures to encourage and enable executive management to deliver the objectives and strategy of the Company.
- Monitoring the risks being entered into by the Company and ensuring all of these are properly evaluated.



The melting point of cocoa butter is just below the human body temperature which is why it literally melts in your mouth. Or your hands!

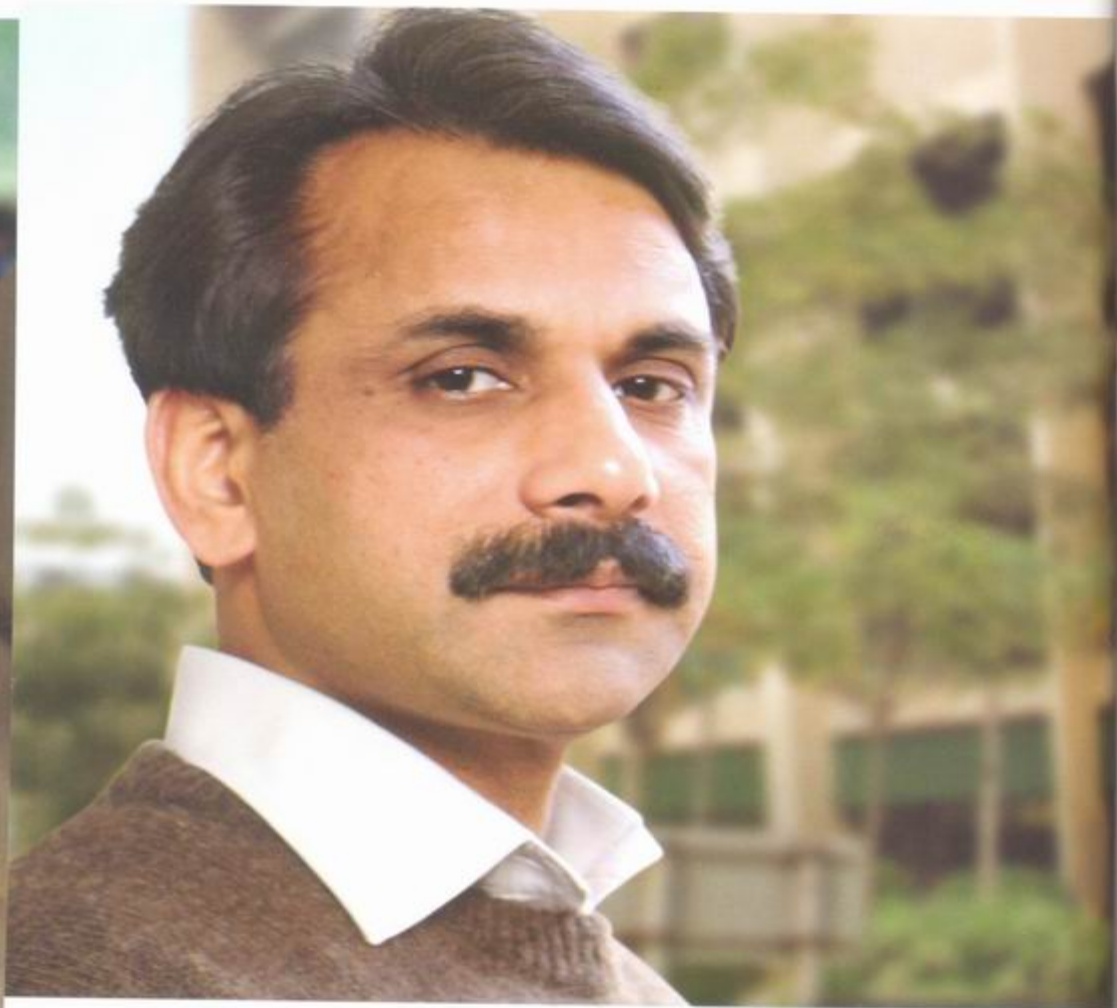


Code of Conduct

The board of directors has adopted a code of conduct for its members, executive management and staff members, specifying the business standards and ethical considerations in conducting its business. The code includes:

- Corporate governance
- Relationship with employees, customers and regulators.
- Confidentiality of information.
- Trading in company shares.
- Environmental responsibilities.





Mr. Nisar belongs to a reputable business family which is well-respected in the area. He has been associated with Shakarganj since the last twenty years now.

Together, Mr. Nisar and Shakarganj are following best business practices to become exemplary businesses in their respective divisions.

Shaikh Hamid

"Working with a prestigious company adds to one's own prestige."



A speciality of northern India, Gajak is a dry sweet, made of sesame seeds or 'til' as they are known in Hindi. It's 'til' cooked in sugar syrup and set in thin layers, that can be stored for months.

Our Governing Principles

Responsibility to stakeholders

Shakarganj is committed to operate with the primary responsibility of increasing shareholder value. However the principal responsibility to all stakeholders is never underrated.

Shareholders – the company places significant importance on communications with shareholders. We



will communicate our achievements and prospects to our shareholders in a timely manner. Apart from the annual general meeting the company communicates with its shareholders by way of the annual report and accounts, the half yearly and quarterly financial statements and at www.shakarganj.com.pk, the company's website. Significant matters requiring shareholders' approval are brought to extraordinary general meetings of shareholders. The company secretariat has a designated officer to deal with all queries of shareholders.

Customers – we seek to be honest and fair in our relationships with our customers. We always endeavor to provide the standards of products and services that have been agreed whilst at the same time offering value for money. At all times we take all reasonable steps to





Dr. Asim Qayyum is a Jhang local who has earned his degree in medicine from Russia. He is one of the many doctors on the Shakarganj panel of Mobile Dispensaries Program.

At the moment, Shakarganj is running 18 mobile dispensaries providing basic medical care to some 160 patients on a daily basis.

Dr. Asim Qayyum
Duty Medical Officer
Shakarganj Health Program

"Our mission is to make Jhang
a disease-free zone."



If you like your espresso coffee sweet, you should use granulated sugar, which dissolves more quickly, rather than sugar cubes; white sugar rather than brown sugar or candy; and real sugar rather than sweeteners which alter the taste of the coffee.

Our Governing Principles

ensure the safety and quality of goods and services that we produce.

Suppliers – we will carry out our business honestly, ethically and with respect for the rights and interests of our suppliers. We will settle our bills promptly as they fall due. We will co-operate with our suppliers to improve quality and efficiency. We seek to develop relationship with suppliers consistent with these basic principles



especially with respect to human rights and conditions of employment.

The wider community- we recognize our responsibilities as a member of the communities in which we operate. We strongly believe in contributing to the well being of wider Shakarganj community. We emphasize our efforts in community service on education, adult literacy, healthcare, environmental issues and protection of local culture and heritage.

These business principles apply to all our employees and are the minimum standard for their behavior. The operating business divisions may have additional standards. Failure to comply with our principles may lead to disciplinary action. Shakarganj encourages open



Mohammad Nazim was a local Jhang resident who joined Shakarganj right after his diploma. He did an apprenticeship course at Shakarganj for three years.

The Company believes in training its employees on an on-going basis and that is why Shakarganj today has one of the most dynamic team of individuals.

Mohammed Nazim Tabas
Asst. Fitter, Mechanical Production
Shakarganj Mills

"This company does not only build
careers. It builds lives."

Our Governing Principles



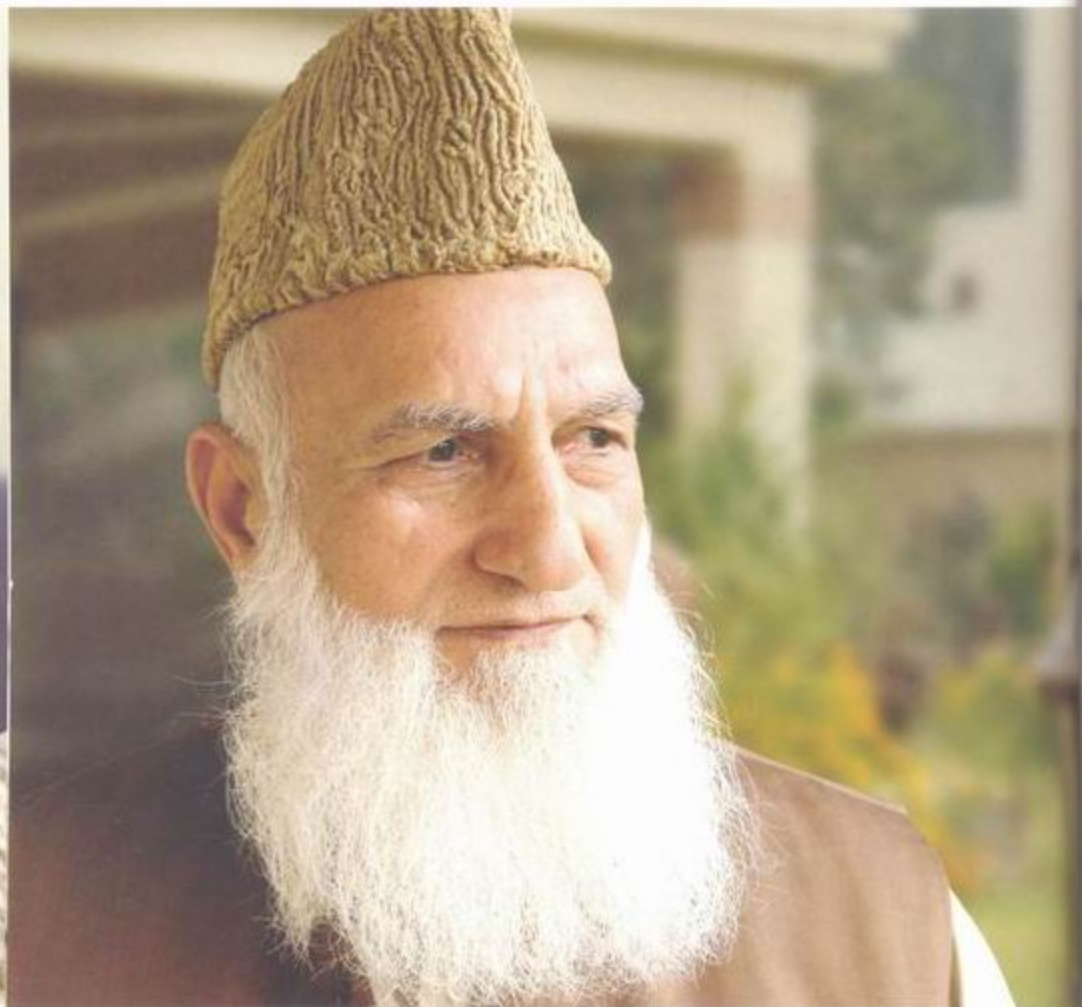
A sweet and colourful dessert, gola gunda is the local variation of icicles. It is a popular summer treat across Pakistan.

culture in all its dealings between employees and people with whom it comes in contact with. We believe effective communication is essential for dealing with any malpractice and wrongdoing. We will make all efforts to protect the confidentiality of any person including our employees, raising any concern.



“We strongly believe in contributing to the well-being of the wider Shakarganj community.”





Haji Bashir Ahmed is a well-respected businessman who has been associated with the industry since 1962 and with Shakarganj since 1980. He saw many ups and downs in business as sugar mills were nationalised and privatized according to prevailing policies. But, Haji Bashir never lost hope nor faith.

Today he is one of the many valuable distributors for Shakarganj and together the company and Haji Bashir are contributing to the overall growth of the sugar industry.

Haji Bashir Ahmed

"One must always have faith in himself"

Director's Report

Dear Shakarganj Shareholder:

The directors of the Company have pleasure in submitting their report together with the audited accounts of the Company for the year ended September 30, 2006:


Financial Results

The financial results of the company are summarized below:

	2006 (Rupees in Thousand)	2005
(Loss)/ Profit before Tax	(295,836)	179,697
Taxation	362,475	27,684
Profit for the year	66,639	207,381
Bonus Shares	-	15%
Earnings per share (Rupees)	1.25	4.32

Statement on Corporate and financial reporting framework

1. These financial statements, prepared by the management of the company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
2. Proper books of accounts of the company have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements except for the changes as stated in Note 5.7. Accounting estimates are based on reasonable and prudent judgment.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of



**Plump jelly gum drops burst
with assorted flavors with a
coating of sugar on top!
They are most popular
amongst kids.**



Shazia Ishfaq has been with the Institute for the last 6 years and has been heading it for the last 3 years now. She believes in quality education for the teachers so that they can pass on the same to their students.

Together, Shakarganj and the Teacher Training & Resource Center have trained over 890 teachers and continue to train more and more individuals with zeal and commitment.

Shazia Ishfaq
Institute

Shakarganj Teacher Training & Resource Center

"There is always room for
improvement"

Director's Report



Gulab jamun is a popular Pakistani sweet dish comprised of fried dough balls in a sugar syrup flavoured with cardamom seeds and rosewater or saffron.

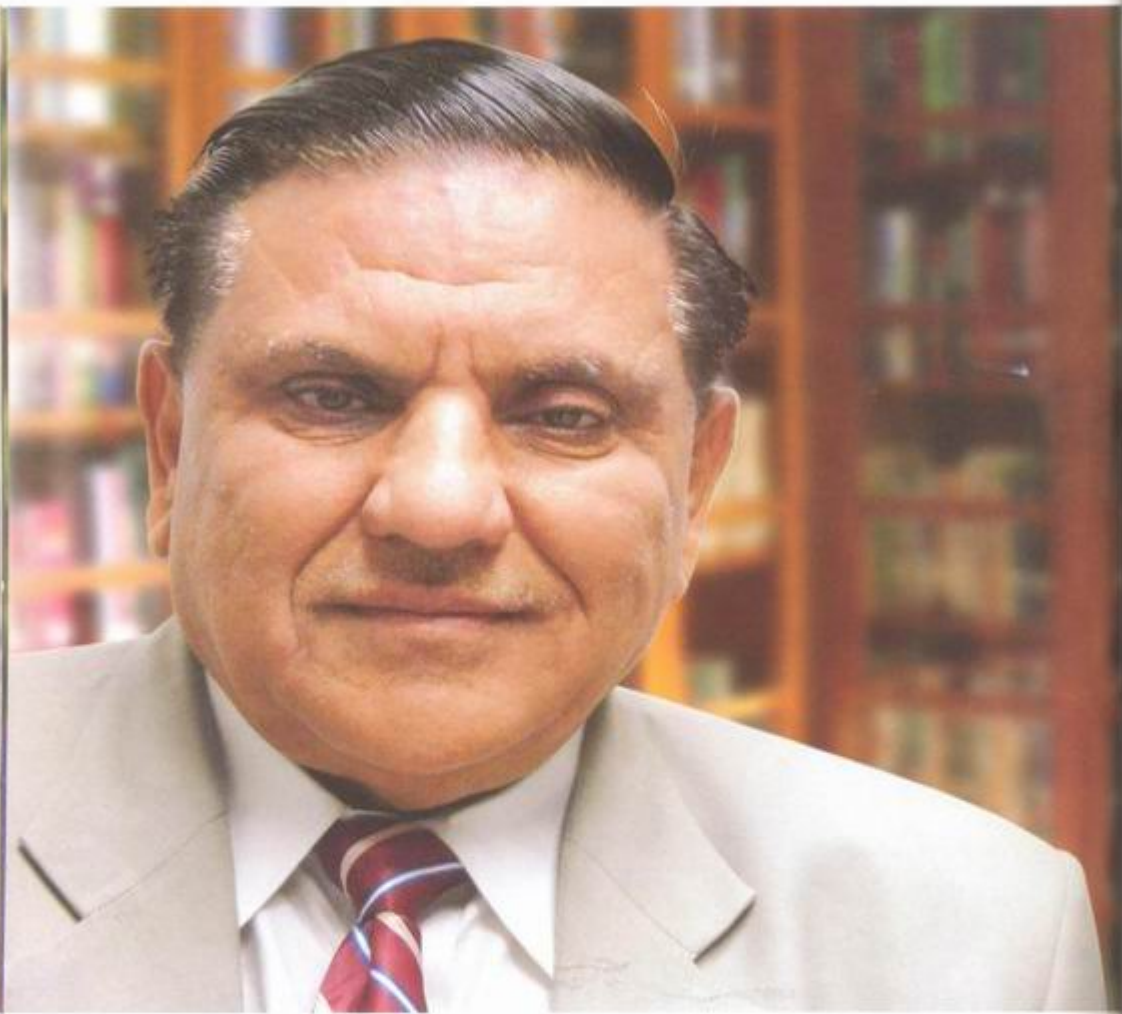
financial statements and any departure there from has been adequately disclosed.

5. The system of internal control and other such procedures, which are in place, are being continuously reviewed by the internal audit function. The process of review will continue and any weakness in controls will be removed.
6. There are no significant doubts upon the Company's ability to continue as a going concern.
7. There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
8. Details of significant improvements in the Company's operations during the current year are stated in the Chief Executive's Review.
9. Key operating and financial data for the last seven years in summarized form is annexed on Page 09
10. Information about taxes and levies is given in the notes to the financial statements.
11. Total number of employees at the end of the year was 2,147 (2005: 1,470).
12. Following is the value of investments based on audited accounts for the year ended 30 September 2004:

Provident fund	Rs. 71.34 M
Gratuity fund	Rs. 22.11 M
Pension fund	Rs. 82.36 M

Auditors

The auditors M/s A. F. Ferguson & Co., Chartered Accountants, will retire and are eligible for re-appointment as auditors of the company for the next year. The Audit Committee of the board has



Mohammad Yar Rahi has been associated with Shakarganj since 1977. He had joined the Company in the Finance Department and later moved on to become the General Manager Social Action Program.

Shakarganj is involved in several social initiatives in the education, health and environment sector with a firm commitment to make a positive contribution to the country and the community.

Mohammad Yar Rahi
General Manager, Social Action Program
Shakarganj Mills

“We have worked day and night
to make a difference”



In 1908, George Smith claimed to be the first to invent the modern lollipop. Smith applied an idea of putting hard candies on a stick to make them easier to eat. He decided to name the treat after his favorite racing horse, Lolly Pop, and later trademarked the name.

Director's Report

recommended the re-appointment of M/s A. F. Ferguson & Co., Chartered Accountants for the year ending September 30, 2007.

Meetings of the Board of Directors

During the year 5 Board Meetings were held and detail of attendance by each Director is as follows:

Name of Director	No. of Meetings	
	Held	Attended
Mr. Mazhar Karim	5	1
Mr. Ahsan M. Saleem (CEO) (Co-opted as Director on 28-01-2006)	5	5
Mr. Anjum M. Saleem (Resigned on 28-01-2006)	2	2
Mr. Gul Nawaz	5	5
Mr. Khalid Bashir	5	4
Mr. Muhammad Anwar	5	3
Mr. Muhammad Arshad	5	2
Mr. Muhammad Asif	5	5

Pattern of Shareholding

The pattern of shareholding as per Section 236 of the Companies Ordinance, 1984 is attached separately on page 194.

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

Directors

During the year Mr. Anjum M. Saleem resigned from the position of Director of the company and in order to fill up the casual vacancy occurred thereof the Board of Directors co-opted Mr. Ahsan M. Saleem as



Residential Block, Shakarganj

Shakarganj believes in providing its employees with the best possible

Director's Report

Director for the remainder of term of Mr. Anjum M. Saleem with effect from 28-01-2006. The other directors are the same. The present term of Directors will expire on May 01, 2008.

Financial Statements

The financial statements of the Company have been duly audited and approved without qualification by the auditors of the Company, M/s. A. F. Ferguson & Co., Chartered Accountants and their report is attached with the financial statements.


No material changes and commitments affecting the financial between the end of the financial year to which this balance Sheet relates and the date of the Directors Report.

By Order of the Board



Ahsan M. Saleem
Chief Executive

Lahore, February 03, 2007



Fruit syrup has the texture of maple syrup and is fruit flavored, specifically of blueberry or strawberry. It is used to top off french toast and ice cream.



Shakarganj Mill's Social Action Programme delivers a variety of social services in our extended community under the banner of "Sukh Char Programme". These services include Education, Healthcare, promotion of Arts and protection of our cultural heritage.

Ahsan M.
Chief
Shakarganj

"We aim to play a positive role in the communities in which we operate."

Chief Executive's Review

Operationally our performance was well up to the mark. However by Shakarganj standards, financial results were rather disappointing. The strong headwinds we had forewarned about in the last review, assumed gale force intensity, directly affecting our profitability.

Unfavorable weather wrecked havoc on the sugarcane crop in central Punjab, resulting in acute shortfall of raw material and drastic reduction in recoveries. This adverse factor was further exacerbated by arbitrary escalation of cane prices to unreasonable levels by some sugar manufacturers to a point where it became uneconomical to produce cane sugar.

Short production and rising price of sugar resulted in market intervention by Government of Pakistan but unfortunately this intervention was in an ad-hoc manner and resulted in disruption in market mechanism and unrealistic price control measures.

Global sugar and ethanol market saw erratic movement due to the reform of European Union sugar regime and vagaries in the cane crop of Brazil which is a major influence on International market.

Our new satellite facility at Bhone came into operation this year. As reported earlier a new sugar manufacturing facility normally takes two to three years to achieve full operational capacity due to the time required for fully developing the supply chain of sugarcane. This gestation period is always required for a new plant to achieve full operational capacity and positive economic returns. Our costs in this fiscal increased substantially, and were primarily related to the satellite facility.

Textile business has been in turmoil for most part of fiscal '06. The global change in textile business after WTO reforms has had a major effect on Pakistani textile business. Our textile unit felt the effects of these global

market conditions and was unable to make a positive contribution towards our results this year.

In year 2002/2003 a long term strategic vision for Shakarganj was approved by the board and subsequently its salient features have been presented to the shareholders at our annual meetings. This well thought out policy has been followed in our strategic business decisions.



It would be pertinent to recap on the main points of this long term business plan;

- Sugar business: Shakarganj plans to be the largest sugar and co-products manufacturing company in Pakistan. This plan is based on realignment of our existing manufacturing site at Jhang, establishing a large new facility at Bhone and a smaller facility at a third location. This would enable us to leverage our extensive research and development work done for sugarcane cultivation. The footprint of these three facilities will extend to the core area where we focused our development efforts.



Prime Mover for Sugarcane Mills

This equipment is used to operate cane crushing mills in a tandem

Chief Executive's Review

- **Farming Business:** Shakarganj plans to continue to increase its farming operations by acquisition and leasing of additional farmland where best agricultural practices are used and can be demonstrated to other members of the Shakarganj farming community.

- **Textile Business:** Shakarganj plans to retain the present capacity of its textile business, however the facility would be constantly upgraded to keep with the quality and consistency required by the customers. At the same time reasonable investments will be made to generate higher operational efficiencies, reducing costs and to produce more value-added products.

- **New Business:** Shakarganj will expand and diversify its manufacturing base to other agriculture based businesses. The initial focus of this diversification will be dairy farming, milk processing, nectars and juices and confectionery and snack foods.

Business strategies planned in 2002/2003 have now been implemented. Satellite project at Bhone has commenced its full operations. The third facility has been planned and basic infrastructure work has started. Machinery for this project has been identified and we may be able to complete this project by year 2008. The company's wholly owned subsidiary Shakarganj Food Products Limited (SFPL) has a running milk plant. SFPL currently has milk processing capacity of 75,000 (seventy five thousand) liters per day which is planned to be increased to 300,000 (three hundred thousand) liters per day by 2008. SFPL launched its brand of milk "Good Milk" in June 2006 and has been well received in the market. SFPL is also operating a small juice concentrate plant with a citrus and a tropical line. During the year under review this plant produced around 900 metric tons of citrus concentrate majority of which was

exported to Europe. From next year the tropical line for mango will be in operation and at the same time citrus capacity will be enhanced and a carrot concentrate line added to this plant.

The investment portfolio of the company is under the process of reconfiguration and realignment and in this connection subsequent to the close of fiscal 2006 the



company has disposed off its investment in International Housing Finance Limited. Negotiations with prospective buyers are in advanced stage for disposal of investments in PICIC and Crescent Leasing Corporation Limited. Moreover the company has reduced its exposure in Altern Energy Limited to Rs. 213 million as against planned limit of Rs. 493 million. Liquidity generated by sale of these investments will be utilized to reduce higher cost borrowings and investments in productive assets of the company in line with our long term vision. Some cash resources will be used towards overall reconfiguration and strengthening of the investment portfolio by adding quality stocks having lucrative payout stream and potential of higher capital gains in order to ensure handsome returns to the shareholders of the company.



Vacuum Filters used in Clarification Process
Filters are used to separate suspended solids from the treated juice

Chief Executive's Review

During the year under review the stock market has been tumultuous to say the least. Rapidly changing global scenario also had a mixed effect on the share prices of different companies. Shakarganj's large investment portfolio performed very well in comparison to the performance of market index during the year. Where most of our investments had a handsome increase in the underlying values a few also had diminution in the underlying values. We have made adequate provision amounting to Rs. 159 million against these stocks. We have also made a provision of Rs 30 million against our deposits placed with a financial institution which may not be able to meet its obligations in full.

Concerns about inflation in the economy and resulting surge in the cost of finance have a dampening effect on investments in the economy generally. However, strong fundamental indicators, especially for industrial growth and good overall performance in agriculture sector should enable us to continue to perform well. Supply of sugarcane, raw material for our core business, has been affected by a less than adequate crop throughout the country. However we have been able to face this shortage rather well due to our long term supply chain management strategy. Shakarganj treats its cane suppliers as an integral part of the Shakarganj family and has a close working relationship with the vast number of growers on its rolls.

Review of Operations

Shakarganj is a leading manufacturer of renewable food products, ingredients and textiles. All our products are made from renewable crops and by-products. We transform renewable agriculture crops, sugarcane and cotton, into value added products for customers in the sugar, food, beverage, pharmaceutical, fuel and power, cosmetics, building and textile industries. Some of our ingredients from renewable sources often replace

synthetic and petrochemical alternatives. This operating review provides a broader perspective of our business to enable you to make an informed judgment about our performance and prospects. It contains updated sections included in our previous reports as well as some new information.



Sugar business

Refined sugar is primarily produced from sugarcane or raw sugar in Shakarganj. The product range includes, crystalline white sugar of coarse and fine grains, pharmaceutical and beverage grade sugars and specialty products like brown, caster and icing sugars as well as retail packages. These products are used for providing natural sweetness, texture and flavour across a full range of foods and drinks.

The sugarcane crop for this crushing season was again less than the previous season and recovery was also less than previous year due to low quality of sugarcane. We were well aware of the potential problem of lesser cane availability for sugar production and had made necessary arrangements to make available the imported





Sugar Refining Centrifugal Station
White sugar centrifugals operate through electric motors

raw sugar for processing in case of lesser supply of sugarcane. Efficient energy management and fuel conservation measures ensured that adequate cheap energy sources were available to profitably refine this additional quantity.

We crushed 1.29 million metric tons of sugarcane compared to 1.32 million metric tons last year. Recovery was 8.97 percent compared to 8.63 percent last year. Thus the sugar production from cane in fiscal 2006 was 89,201 metric tons against 114,358 metric tons last year. We also processed 92,968 metric tons of raw sugar which yielded us 89,751 metric tons of refined sugar. The total production of refined sugar during the fiscal 2006 was 178,953 metric tons.

Ethanol and alternate energy business

Ethanol is primarily produced from molasses, which is a by-product of sugar manufacturing or refining process. Molasses offers various benefits as animal feed, a raw material for fermentation and is also used in a diverse range of other industrial processes. At Shakarganj the molasses produced is used as raw material for ethanol production. Ethanol is a form of alcohol, which can be used in the manufacture of vinegar, in cosmetics and pharmaceutical products, in industrial products such as paint and varnishes. It can also be blended with gasoline and used as fuel. The Government of Pakistan has allowed blending of ethanol with gasoline thus bringing bright prospects for ethanol business in view of high cost of fuel in the country. Shakarganj produces a complete range of ethanol grades for these usages.

In order to produce ethanol to its plant capabilities Shakarganj has to rely on buying molasses in addition to its own molasses production. Due to very high demand of molasses within the country and internationally, its availability was rather limited during fiscal 2006. The

number of distilleries operating in Pakistan has been increased and combined with higher international demand the molasses price saw a sharp upward trend during the year. The relative quality of bought 'in' molasses was also poorer, giving lesser yield in the



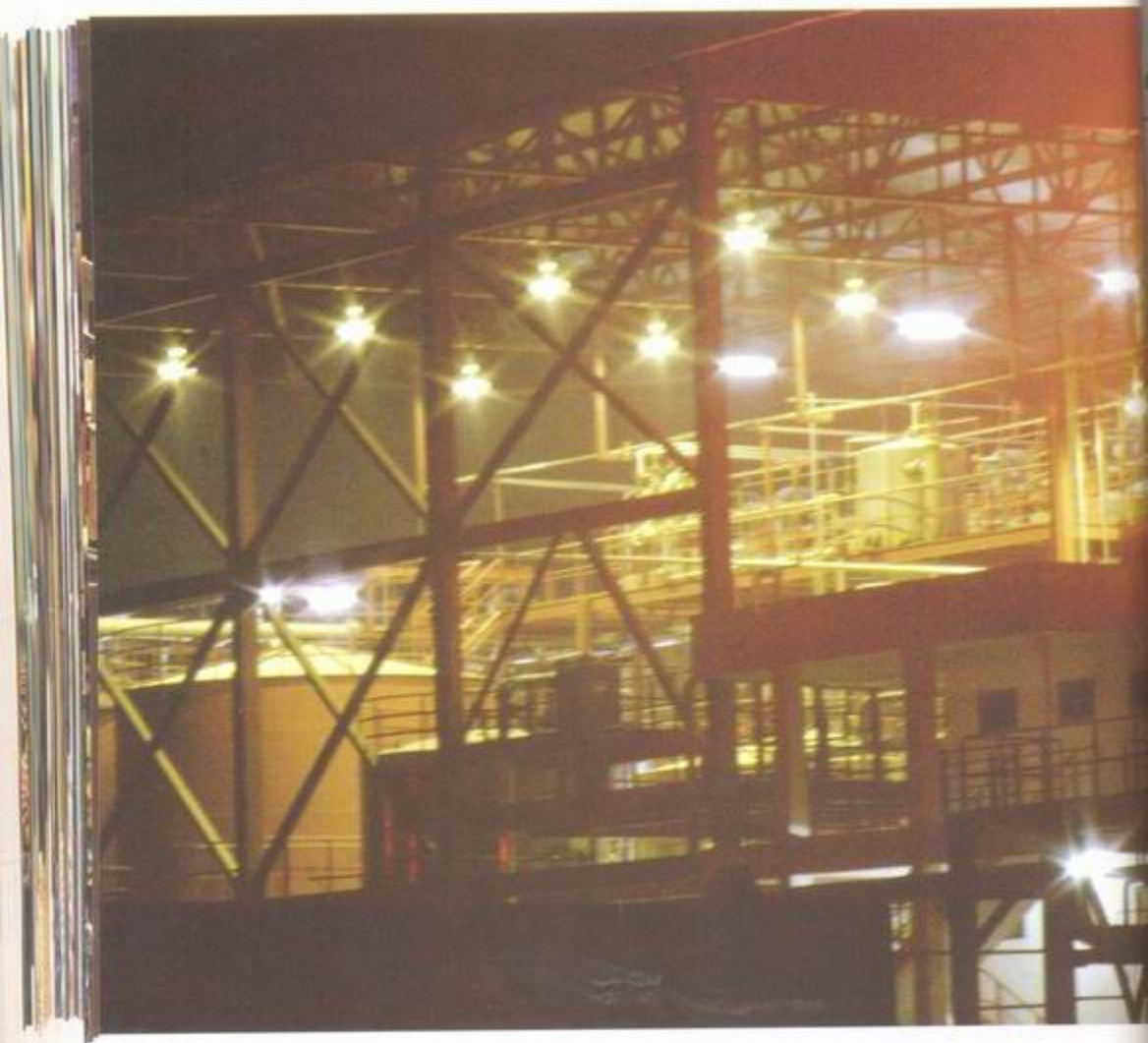
current year. The production was therefore lower at 27.7 million litres compared to 33.2 million litres last year.

Almost 80 percent of ethanol produced by Shakarganj is exported, making a positive contribution towards country's foreign exchange earnings. However, international ethanol market is facing stiff competition due to excessive supply at lower prices by leading ethanol producing country Brazil. In order to cope up with this situation your company has identified a bright potential of using ethanol as alternate fuel within the country in addition to exports.

Building Materials Business

Bagasse is a natural by-product of sugar manufacturing. This consists of residual pulp and fibrous material of sugarcane after extraction of juice. This material is primarily used as a fuel source in the factory boilers for steam and power generation used in the manufacturing





Boiling House of Satellite Fa

Clarification, evaporation and crystallization processes are installed in this

Chief Executive's Review

process. At Shakarganj innovative fuel conservation measures coupled with economies of scale result in production of surplus bagasse. We process this surplus with binding agents and high pressure compression to produce particle board sheets. These sheets are commonly used as an alternative to wood in the furniture and building industry.

Shakarganj produced 1,477 cubic meters of particle board compared to 3,584 cubic meters last year. The decrease in production is due to lesser quantity of cane crushed during the year and additional fuel used for refining of raw sugar. The market for particle board remained buoyant due to sustained activity in the building industry.

Textile Business

Cotton is an indigenous agriculture crop in Pakistan. The cotton plant produces a number of flowers which upon maturity yield cotton fibre which is separated from the seed, cleansed and ginned to produce staple cotton. This is then further processed in spinning mills to produce spun cotton yarn. The yarn is sold to knitting and weaving mills to produce fabric. Crescent Mills, our spinning facility, production was at its maximum operable capacity of 6.5 million kilograms of spun yarn, as compared to 5.4 million kilograms in previous year. Less than targeted production of cotton crop in the country resulted in higher prices of raw material and cotton was procured at relatively higher prices in the current year as compared to corresponding year. The yarn prices did not increase in the same proportion as cotton prices due to which gross profit margin was significantly affected. The operating costs were kept well under control. A major portion of this reduction is attributable to economies due to integration with Shakarganj.

Farming business

A good sugarcane crop is always critical to our core operations as sugarcane is a perishable agricultural produce open to risks of adverse weather and climatic conditions, shortage and availability of water and pest attacks. We have a large family of sugarcane growers who supply us our raw material. At the core of our



supply chain management is the belief that our growers should get optimal financial returns for their untiring efforts to produce sugarcane. As an extension of this principle, we are endeavoring to establish best farming practices and provide the farmers with the latest technology. Our farming business is a testing ground for developing this technology and broadening the knowledge base on best practices. We lead by example and demonstrate to our family of farmers how a profitable and environmentally balanced farm is run and managed. We have further increased the area under cultivation in our farming business to increase our footprint in the areas where our suppliers are located and to provide synergy with our research and development activities of Shakarganj Sugar Research Institute.



Ethanol Distillation Co
Double effect Vacuum Distillation Columns are used in ethanol manufa

Chief Executive's Review

Research and development

Transfer of efficient, environment friendly and economically rewarding technology for sugarcane agriculture is the mainstay of our supply chain management strategy. Shakarganj funds advanced research in sugarcane technology through Shakarganj Sugar Research Institute. SSRI is a unique private sector initiative in Pakistan. We have successfully bred a number of proprietary sugarcane varieties which increase the yield for our farmers and improve sugar content of the produce. At the same time low cost, effective and environment friendly biological pest control systems are also made available by the institute. All research results and benefits are open and available to the stakeholders without cost as a national service. This annual report includes a separate detailed report on the activities of the institute.

Contribution to economy

Being a responsible member of the corporate community Shakarganj always contributes substantially towards the national economy on account of taxes and other government levies. During this year your company's contribution to federal, provincial and local taxes was to the tune of Rs. 664,584 million. We spent Rs. 701,689 million as cost of financing and share of workers compensation was Rs. 237,125 million. During the last ten years, your company has made a consolidated contribution of Rs. 3,962 billion in shape of Federal, provincial and local taxes.

Human resource development

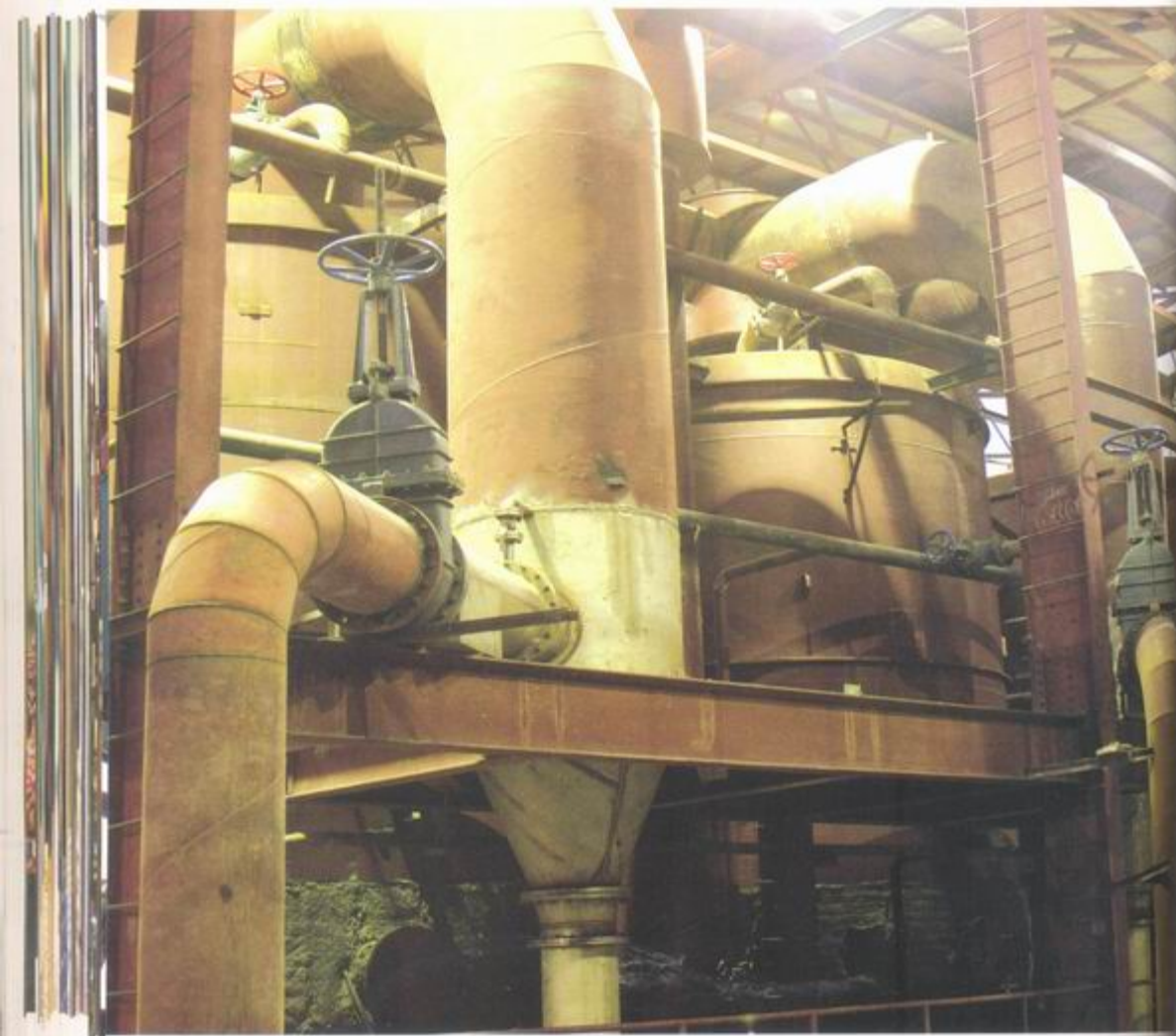
A major priority for the business is to capture value through development of exceptional people, processes and technology. Our ability to attract and retain highly skilled and committed people is fundamental to our

success. Our company wide talent management system identifies, develops and sustains the flow of talent to ensure we have the right people in the right job at the right time. We endeavor to have suitable career development plans and opportunities in place for our employees.



We expect to see exceptional performances by motivating, developing and rewarding our leadership team to create a culture of continuous improvement. We are working hard to infuse specific leadership skills into the business, adding an edge to the considerable know-how that our people already have. As we build up our capacities, we are also working hard to build capability. One key area of focus has been the pursuit of manufacturing excellence. We recognize that building a winning culture, characterized by leadership, manufacturing excellence and accountability, and rewarding people for success is a foundation stone of our business development and expansion.

Extensive in-house training and development programmes are one of the tools used for development of our winning team. Ever-growing library and subscription to all relevant professional and technical journals ensures that knowledge-base is updated regularly.



Vapour Condensation System

This system enables the industry to boil sugar solutions at low temperatures, which in turn avoids sugar crystals turning brown during boiling.

Chief Executive's Review

We regularly offer external opportunities at our cost to our employees for career development and attendance at short and long courses and seminars at various institutions of excellence within and outside Pakistan.

Compensation plans at Shakarganj take account of the financial needs and economic well being of our employees on a longer term basis. All employees not covered in mandatory social security benefits are provided family health insurance cover by the company. Incentive benefits include gratuity and provident fund and company funded pension plans.

Social responsibility

There is never any compromise at Shakarganj on being anything less than an exemplary corporate citizen. We are committed to follow the highest social standards in every way we conduct our business. We aim to play a positive role in the communities in which we operate. Our community involvement policy is one of the core components underpinning our ethical behavior. Our programmes involve building long term relationships with local communities to deliver our shared objective: nurturing strong, safe, healthy and educated communities by investing time and resources into projects that directly address local needs.

Our Social Action Programme delivers a variety of social services in our extended community under the name of "Sakh Char Programme". These services include Education, Healthcare, promotion of Arts and protection of our cultural heritage.

In our education programme we provide proactive support to higher education through our contribution to Lahore University of Management Sciences and National Textile University. Our school adoption initiative provides support to 30 local girls' schools that includes provision

of clean drinking water, nutrition supplements, books, uniforms, maintenance of infrastructure and building additional facilities where required. Over 27,300 students enter the gates of these upgraded schools into a pleasant school environment every day. Shakarganj



also provides support to education programme of The Citizen's Foundation. To provide backbone support to the education initiative a purpose built teachers training institute is operating at Shakarganj premises as a public service. So far 891 teachers have successfully completed training at this facility.

Shakarganj funded special incentives for school children include recognition of high achievers in school exams with scholarships and awards, sports competitions for school children and inter-school handwriting competitions for school children and teachers.

The company has so far established 73 adult literacy centers in its vicinity, of which 66 are for females. The results have been very encouraging. 1,637 participants have so far been taught under this programme out of which 1,524 are females. Shakarganj Healthcare initiative delivers primary medical facilities at the doorsteps of our extended community. Three teams of qualified





Juice Clarification Process

The treated juice is stored in these clarifiers to allow precipitation of suspended solids.

Chief Executive's Review

ctors, paramedical staff and mobile dispensaries served over 55,000 patients during the year. Diagnostic facilities, preventive treatment and free medicines are provided through this programme.

For efficient delivery of our "Sukh Char" programme a chain of community centers have been built in 18 locations. These centers, known as Kisan Markaz, serve as a hub of activities for the social programme in each sub-community. 10 more centers are planned to be built over the next two years.

In addition to delivering the "Sukh Char" programme at doorsteps, Kisan markaz also serves as a first contact point for our farmers. Each fully staffed markaz helps in transfer of farming technology and facilitating supplies to Shakarganj.

We provide support to the promising local talent in improving their artistic skills in a structured training programme at the School of Art and Calligraphy. A display centre exhibiting the works of these artists and promotion of cultural heritage is also maintained by Shakarganj at the School.

Safety, health and environment

As we always aim to be an exemplary corporate citizen, health and safety and environmental concerns are always among our key focal points. We are committed to providing clean, healthy and safe conditions for our employees, contractors and visitors. In providing a good working environment there is no higher priority than safety and we target continuous improvement to reduce recordable injury and accident times to zero.

Nearly five hundred members of Team Shakarganj have participated in a structured program to obtain professional training and certification in first aid, in collaboration

with Pakistan Red Crescent Society - Punjab. Preventive action and training and timely response procedures to deal with potential accidents have resulted in minimizing recordable injuries and accidents.

Environmental protection issues are always considered on a higher priority than profit concerns. Shakarganj produces all its products from renewable crops and raw



materials and does not believe in making profits at the cost of damage to our environment. We proactively fund and support environmental protection activities in our communities in particular and on national level generally. Energy conservation and aiming for 'zero' waste are our key environment friendly policies. Using sugar by-products in our production lines substantially reduces use of fossil fuels and waste disposal problems. Distillery spent-wash is the ultimate waste product in our production process. This is now biologically treated to produce biogas as fuel and water which is safe to use for irrigation. In addition to this we encourage and promote biological pest control, organic farming techniques and return of all natural nutrients to the soil that are brought with supply of sugar cane to the mills. We strongly support the activities of Worldwide Fund for Nature, run regular



Vacuum System at Ethanol Dehydration Plant

The vacuum system is used to dehydrate ethyl alcohol at low temperature.

Chief Executive's Review

training and education programmes for water management and participate in tree plantation campaigns twice every year.

Information technology initiatives

Information technology is considered as the backbone of our production and management policies. Dealings with such a large number of suppliers of raw materials can only be conducted in a fair manner with the help of strong IT systems. We have a custom designed system of supply chain management which integrates with our financial systems to ensure smooth flow of raw materials and timely and fair payment to suppliers.

The production facilities and our offices in different locations are connected through dedicated communication channels. Similarly our field offices located in more than thirty locations are being linked with the central facilities by a wide area network. Eight of these field stations are already online and the rest will be online by the end of next year.

Presently the IT system is custom designed for the company on Oracle & Linux platform. This has now been upgraded to an integrated ERP solution. In order to support the rapidly growing Shakarganj business operations the company has deployed high-end server machines with Fiber Optic supported LAN and WAN solutions. The salient feature of the WAN connectivity is a direct Radio Link of approximately 64 Km between two Shakarganj sugar units which is considered the 1st successful Radio link in the Central Punjab, for such a long distance. This change in the infrastructure has helped the company in meeting its integration and consolidation needs for geographically fragmented Shakarganj business units. With the introduction of the Paperless environment and new technologies supported by modern gadgets with closely netted Shakarganj

business processes have actually brought cultural change in the company, during the year 2005-2006.

In our drive towards adopting best corporate practices together with technology leverage for all business units and the group as a whole, we are planning to acquire the world's leading Enterprise System. We hope that the system under consideration would help the company in establishing accurate and speedier strategic controls.

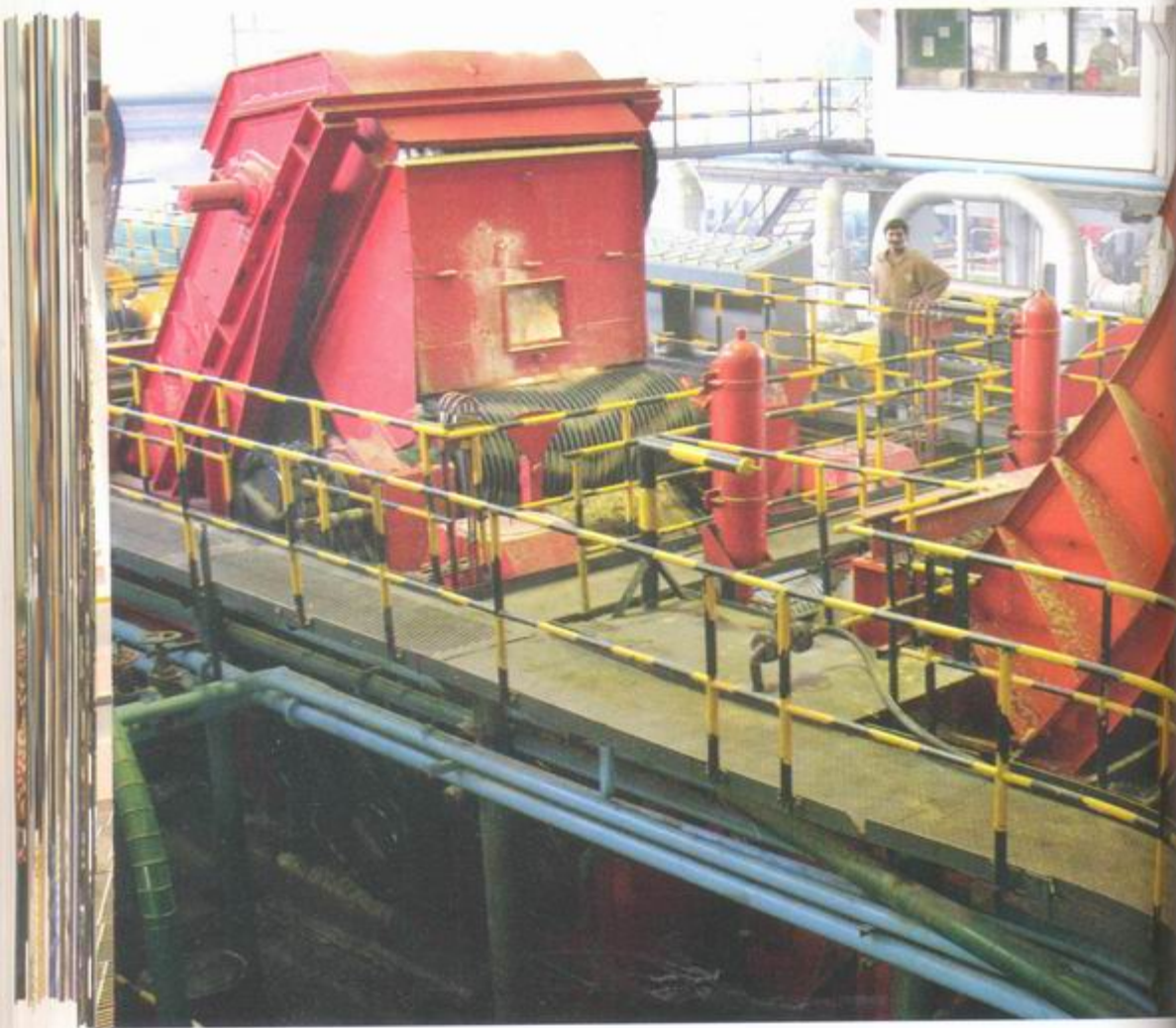


This would certainly improve the decision-making process, ensuring better profits for shareholder.

Corporate governance

Good governance for us is not an exercise to comply with regulatory requirements. We aim to go beyond what is required of us in rules and regulations. Corporate governance is a constant review and evaluation of all aspects of our operations, our strategy and the way we conduct our business. A separate, more detailed report on our role as a responsible corporate citizen is included in this annual report.





Juice Extraction

The sugarcane after shredding is passed through series of milling to extract maximum sugar juice from the sugarcane.

Chief Executive's Review

Management Committees

The Executive Committee devises long term policies and visions for the company with the sole object of ensuring the best returns to shareholders by optimal allocation of resources.

Business Strategy Committee is responsible for keeping pace with the developments and trends in the industry which helps the company in planning for future investments and growth.

The HR Committee has been constituted to address and improve the area of Human Resource Development. The main aim of the committee is to guide the management in formulating an overall strategic plan for HR and to provide the best working environment.

The Information Technology committee keeps all information systems of the company updated in a fast changing environment.

The Investment Committee helps to maintain a balanced portfolio of investments and maximize returns while keeping risk at a desirable low level.

Excellence Awards

The company is proud to win the Best Corporate Report Award for third year in a row on producing an outstanding annual report. Instituted by ICAP and ICMAP this award is given to the companies for clear financial performance, reporting and presentation.

Your company's substantial contribution to the national exchequer was recognized by the Central Board of Revenue and hence your company won the Central Board of Revenue Award for being the 'largest taxpayer' in its industrial sector.

Your company's contribution to the community was recognized by Pakistan Centre for Philanthropy. The company was given an award for 'Corporate Giving' by Prime Minister Shaukat Aziz.



The Company was also awarded the Best Export Performance Award 2004-2005 by the Federation of Pakistan Chambers of Commerce and Industry. Annual trophy for the highest exports of Ethanol from Pakistan during that fiscal was awarded to Shakarganj in Islamabad by honorable President of Pakistan General Pervez Musharraf.

Outlook

With expanded production capacity due to commencement of operations of satellite facility at Bhone we are confident of achieving better results in the fiscal 07. However, we expect some challenges that sugar industry may face in times to come, which may affect the overall results of your company also. Despite better anticipated sugarcane crop, the price war for procurement of sugarcane started in previous year is likely to continue this year also. In order to mitigate this situation we



Ethanol Manufacturing Process

Pipeline network is used for providing steam energy for heating purposes

Chief Executive's Review

have already taken some firm steps for sugarcane development in the vicinity of newly commenced mill facility, which would ensure availability of material at competitive price. However we feel that current production targets will be met and we will continue to augment our production by refining raw sugar in the coming year.

Government's decision of allowing blending of Ethanol with gasoline fuel has brought good prospects for ethanol in local markets as it could now be marketed locally at attractive prices. Textile trade is expected to have stiff competition due to global reduction in cotton production and increased demand for raw materials, both natural and man-made. The cotton crop will also be lower than last year which will result in higher raw material prices but we expect a rise in yarn prices to meet these additional costs.

The interest rates are expected to be on higher side hence in order to cope up with this situation and decrease our dependence on borrowing in the coming years we have devised a strategy to realign our investment portfolio.

The liquidity generated by realignment of portfolio and liquidation of stocks which have reached to the saturation level will not only be used for financing the expansion plan of the company but also aid the retirement of costly borrowing. We expect that the additional capacity will also generate the required extra cash resources and realignment of investment portfolio will decrease our dependence on borrowing and resultantly there will be a decrease in financial cost.

General

The Directors are always a source of guidance and support for the management and we appreciate their commitment to your company's progress and prosperity. The Directors would also like to express their appreciation for the dedicated efforts, loyalty and hard work of the

workers, staff and members of the management team. Our sugarcane farmers are the backbone of our industry and we thank them for their continued support.



By Order of the Board

Ahsan M. Saleem
Chief Executive

Lahore, February 3, 2007

Statement of Compliance with Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance as contained in Regulation No.37 of the Listing Regulations of the Karachi Stock Exchange and Chapter XIII of Listing Regulations of Lahore Stock Exchange and Chapter XI of Listing Regulations of Islamabad Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

1. The company encourages representation of independent non-executive directors. At present six Directors are independent non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this company.
3. All the resident directors of the company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or NBFC. None of them is a member of a stock exchange.
4. A casual vacancy was occurred during the year ended September 30, 2006, which was duly filled-up by the Board of Directors.
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 alongwith the dates

on which they were approved or amended has been maintained.

7. Significant policies are formally approved by the Board, however, the overall corporate strategy is in the process of being formulated for Board's approval.
8. All the powers of the Board have been duly exercised appointment and terms and conditions of employment of the Chief Executive Officer (CEO) have been taken by the Board.
9. The meetings of the Board were presided over by the Chairman and, in his absence by a director elected by the Board for this purpose and the Board met once in every quarter during the year ended September 30, 2006. Written notices of the Board Meetings, alongwith agenda and working papers were circulated at least seven days before the meetings. The Minutes of the meetings were appropriately recorded and circulated.
10. The members of Board have attended orientation course to apprise them of their duties and responsibilities.
11. The board has approved appointment of CEO, Company Secretary and the head of Internal Audit including their remuneration and terms and conditions of employment, as recommended by CEO.
12. The Director's Report for the year ended September 30, 2006 has been prepared in compliance with the requirements of the Code and it fully describes the salient matters required to be disclosed.
13. The financial statements of the company were duly endorsed by the CEO and CFO before approval by the Board.



Statement of Compliance with Code of Corporate Governance

18. The Directors, CEO and executives do not hold any interest in the shares of the company, other than that disclosed in the pattern of shareholding.

19. The company has complied with all the corporate and financial reporting requirements of the Code.

20. The Board has formed an audit committee, non-executive directors including the Chairman of the Committee. The Audit Charter of the Company requires that at least two members of the Audit Committee must be financially literate.

21. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

22. The Board has set-up an effective internal audit function by appointing a full-time Head of Internal Audit. The day to day operations of this function have been outsourced to M/s. Riaz Ahmad & Company who are considered suitably qualified and experienced.

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

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

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

By order of the Board.



Ahsan M. Saleem
Chief Executive Officer

Lahore, February 03, 2007



Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance

A. F. Ferguson & Co.
Chartered Accountants
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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 Shakarganj Mills Limited to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange, Chapter XIII of the Lahore Stock Exchange and Chapter XI of the Islamabad Stock Exchange, 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. Based on our review, nothing has come to our attention, which causes us to believe that the

Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the company for the year ended September 30, 2006.

Chartered Accountants

Lahore, February 03, 2007

Auditors' Report to the Members

We have audited the annexed balance sheet of Shikarganj Mills Limited as at September 30, 2006 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, to 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 consideration, we report that:

(i) In our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;

(ii) In our opinion:

(a) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied,

except for the change as stated in note 5.7 with which we concur;

(ii) the expenditure incurred during the year was for the purpose of the company's business; and

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at September 30, 2006 and of the profit, 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.

Chartered Accountants

Lahore, February 03, 2007

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Balance Sheet

As at September 30, 2006

	Note	2006 (Rupees in thousand)	2005 (Rupees in thousand)
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised capital			
- 80,000,000 (2005: 80,000,000) ordinary shares of Rs 10 each		800,000	800,000
- 50,000,000 (2005: 50,000,000) preference shares of Rs 10 each		500,000	500,000
		<u>1,300,000</u>	<u>1,300,000</u>
Issued, subscribed and paid up capital	6	579,365	54,000
Reserves		2,694,008	2,430,000
Unappropriated profit		<u>83,189</u>	<u>180,000</u>
		<u>3,356,562</u>	<u>3,114,000</u>
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT	7	3,157	1,000
NON-CURRENT LIABILITIES			
Long term finances	8	1,459,203	1,000,000
Long term advances	9	-	0
Liabilities against assets subject to finance lease	10	131,727	80,000
Employees' retirement benefits	11	2,353	0
Deferred income	12	<u>4,824</u>	<u>0</u>
		<u>1,598,107</u>	<u>1,080,000</u>
CURRENT LIABILITIES			
Current portion of long term liabilities	13	579,175	40,000
Short term borrowings - secured	14	5,580,721	1,000,000
Trade and other payables	15	341,699	200,000
Accrued finance cost	16	<u>259,469</u>	<u>10,000</u>
		<u>6,761,064</u>	<u>1,250,000</u>
CONTINGENCIES AND COMMITMENTS	17		
		<u>11,718,890</u>	<u>11,000,000</u>



Balance Sheet

As at September 30, 2006

			Restated
	Note	2006	2005
		(Rupees in thousand)	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	18	4,168,832	1,744,787
Assets subject to finance lease	19	277,341	278,643
Capital work-in-progress	20	633,758	2,602,768
Biological assets	21	7,413	12,393
Investments - related parties	22	844,170	694,946
Long term loan and deposits	23	153,576	204,532
Deferred taxation	24	389,578	7,200
		6,474,668	5,545,269
CURRENT ASSETS			
Biological assets	21	184,586	110,394
Stores, spares and loose tools	25	99,644	76,326
Stock-in-trade	26	1,823,806	941,516
Trade debts	27	217,227	330,843
Investments	28	2,446,277	2,791,926
Loans, advances, deposits, prepayments and other receivables	29	282,347	270,653
Cash and bank balances	30	190,335	19,733
		5,244,222	4,541,391
		11,718,890	10,086,660

The annexed notes 1 to 49 form an integral part of these financial statements.


Chief Executive


Chairman

Balance Sheet

As at September 30, 2006

			Restated
	Note	2006 (Rupees in thousand)	2005
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised capital			
- 80,000,000 (2005: 80,000,000) ordinary shares of Rs 10 each		800,000	800,000
- 50,000,000 (2005: 50,000,000) preference shares of Rs 10 each		500,000	500,000
		<u>1,300,000</u>	<u>1,300,000</u>
Issued, subscribed and paid up capital	6	579,365	540,537
Reserves		2,694,008	2,405,203
Unappropriated profit		83,189	156,524
		<u>3,356,562</u>	<u>3,102,264</u>
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT	7	3,157	3,183
NON-CURRENT LIABILITIES			
Long term finances	8	1,459,203	1,884,783
Long term advances	9	-	8,872
Liabilities against assets subject to finance lease	10	131,727	183,529
Employees' retirement benefits	11	2,353	267
Deferred income	12	4,824	5,872
		<u>1,598,107</u>	<u>2,083,323</u>
CURRENT LIABILITIES			
Current portion of long term liabilities	13	579,175	482,807
Short term borrowings - secured	14	5,580,721	3,988,858
Trade and other payables	15	341,699	274,421
Accrued finance cost	16	259,469	151,804
		<u>6,761,064</u>	<u>4,897,890</u>
CONTINGENCIES AND COMMITMENTS	17		
		<u>11,718,890</u>	<u>10,086,660</u>



Profit and Loss Account

For the year ended September 30, 2006

	Note	2006 (Rupees in thousand)	2005
Sales	31	5,410,521	4,962,460
Cost of sales	32	(5,143,938)	(4,481,071)
Gross profit		266,583	481,389
Administrative expenses	33	(211,754)	(127,016)
Distribution and selling costs	34	(73,581)	(58,170)
Other operating expenses	35	(183,082)	(39,165)
Other operating income	36	607,687	202,106
Profit from operations		405,853	459,144
Finance cost	37	(701,689)	(279,447)
(Loss) / profit before tax		(295,836)	179,697
Taxation	38	362,475	27,684
Profit for the year		66,639	207,381
Earnings per share - basic	Rupees	39	1.25
			4.32

The annexed notes 1 to 49 form an integral part of these financial statements.


Chief Executive


Chairman

Statement of Changes in Equity

For the year ended September 30, 2006

Share capital	CAPITAL RESERVE			
	Balancing and modernization	Research and development	Share premium	Fair value reserve

Balance as on September 30, 2004 as previously reported	388,430	15,000	5,000	23,464	932,510
Restatement in opening balance of fair value reserves due to correction of error (Note 5)	—	—	—	—	(37,006)
Balance as on September 30, 2004 - restated	388,430	15,000	5,000	23,464	895,504
Final dividend for the year ended September 30, 2004	—	—	—	—	—
Transfer from surplus on revaluation of property, plant and equipment on account of incremental depreciation	—	—	—	—	—
Transferred to reserves	—	—	—	—	—
Preference shares (note 6.1)	152,107	—	—	—	—
Fair value gain during the year	—	—	—	—	—
Profit for the year	—	—	—	—	838,126
Balance as on September 30, 2005 - restated	540,537	15,000	5,000	23,464	1,733,630
Transfers to General Reserve	—	—	—	—	—
Fair value loss during the year	—	(15,000)	(5,000)	—	—
Premium on conversion of preference shares (note 6.1)	—	—	—	—	(71,013)
Bonus Shares issued during the year	(126,705)	—	—	126,705	—
Right shares issued during the year	62,074	—	—	(62,074)	—
Transfer from surplus on revaluation of property, plant and equipment on account of incremental depreciation	103,459	—	—	155,187	—
Profit for the year	—	—	—	—	—
Balance as on September 30, 2006	579,365	—	—	243,282	1,662,617

The annexed notes 1 to 49 form an integral part of these financial statements.


Chief Executive

(Rupees in thousand)

(Rupees in thousand)

R E S E R V E S			REVENUE RESERVE				Total	Unappropriated profit / (loss)	Total
Difference of capital under scheme of arrangement of merger	Sub-total	General	Dividend equalization	Equity investment market value equalization	Sub-total				
155,930	1,131,904	262,479	22,700	83,000	368,179	1,500,083	121,089	2,009,602	
-	(37,006)	-	-	-	-	(37,006)	-	(37,006)	
155,930	1,094,898	262,479	22,700	83,000	368,179	1,463,077	121,089	1,972,596	
-	-	-	-	-	-	-	(67,975)	(67,975)	
-	-	-	-	-	-	-	29	29	
-	-	104,000	-	-	104,000	104,000	(104,000)	-	
-	-	-	-	-	-	-	-	152,107	
-	838,126	-	-	-	-	838,126	-	838,126	
-	-	-	-	-	-	-	207,381	207,381	
155,930	1,933,024	366,479	22,700	83,000	472,179	2,405,203	156,524	3,102,264	
-	(20,000)	160,000	-	-	160,000	140,000	(140,000)	-	
-	(71,013)	-	-	-	-	(71,013)	-	(71,013)	
-	126,705	-	-	-	-	126,705	-	-	
-	(62,074)	-	-	-	-	(62,074)	-	-	
-	155,187	-	-	-	-	155,187	-	258,646	
-	-	-	-	-	-	-	26	26	
-	-	-	-	-	-	-	66,639	66,639	
155,930	2,061,829	526,479	22,700	83,000	632,179	2,694,008	83,189	3,356,562	


Chairman

Notes to the Financial Statements

For the year ended September 30, 2006

1. Legal status and nature of business

The company is incorporated in Pakistan and is listed on Karachi, Lahore and Islamabad Stock Exchanges. It is principally engaged in manufacture, purchase and sale of sugar, ethanol, building material and yarn. The registered office of the company is situated in Lahore.

2. Basis of preparation

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

2.2 Standards, Interpretations and amendments to published approved accounting standards that are not yet effective

The following amendments to existing standards have been published that are applicable to the company's financial statements covering annual periods, beginning on or after the following dates:

	Effective from
i) IAS 19 - (Amendments) - Employee benefits	October 1, 2006
ii) IAS 1 - Presentation of financial statements - capital disclosure	October 1, 2007
iii) IFRS 3 - Business combinations	October 1, 2007

Adoption of the above amendments would result in an impact on the nature and extent of disclosures made in the future financial statements of the company.

3. Basis of measurement

- 3.1 These financial statements have been prepared under the historical cost convention except for recognition of certain employees' retirement benefits at present value as referred to in note 5.2, revaluation of certain property, plant and equipment as referred to in note 5.3, valuation of biological assets at fair value as referred to in note 5.5 and revaluation of certain financial instruments at fair value as referred to in note 5.7

- 3.2 The preparation of financial statements in conformity with the above requirements 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. The matters involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in the respective notes to the financial statements.

3.3 Change in accounting estimate

In pursuance of revised International Accounting Standard (IAS) 16 "Property, Plant and Equipment" which is applicable for accounting years beginning on or after January 1, 2005, the company has revised the following accounting estimates:



Notes to the Financial Statements

For the year ended September 30, 2006

The company now charges depreciation on all additions to property, plant and equipment and assets subject to finance lease from the month in which an asset is acquired or capitalized while no depreciation is charged for the month in which the asset is disposed off. Previously, full year's depreciation was charged on all assets acquired or capitalized during the year while no depreciation was charged on the assets disposed off during the year. Such a change has been accounted for as a change in an accounting estimate in accordance with International Accounting Standard (IAS) 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

Had there been no change in the accounting estimate, the loss after taxation for the year ended September 30, 2006 would have been higher by Rs 36.16 million, carrying value of property, plant and equipment would have been lower by Rs 47.312 million and carrying value of assets subject to finance lease would have been lower by Rs 1.374 million. Consequential effect on profit after taxation for future periods is not considered to be material.

4. The company, as at September 30, 2004 and in periods subsequent to that date incorrectly recorded its shares held in Safeway Mutual Fund Limited, an investment classified as available for sale, resulting in an overstatement of fair value gain as on September 30, 2004 and subsequent reporting periods.

This error has been corrected retrospectively during the current year in accordance with International Accounting Standard (IAS) 8 "Accounting Policies, Changes in Accounting Estimates and Errors". Consequently, the fair value reserve and carrying value of investments decreased by Rs 37.006 million and Rs 44.288 million as at September 30, 2004 and September 30, 2005 respectively.

5. Significant accounting policies

5.1 Taxation

Current

Provision of current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

Notes to the Financial Statements

For the year ended September 30, 2006

5.2 Employees' retirement benefits

5.2.1 Defined benefit plans

The main feature of the schemes operated by the company for its employees of sugar and allied divisions are as follows:

All permanent employees who are in the management cadre of the company participate in an approved funded defined benefit pension plan. In addition, there is an approved funded defined benefit gratuity scheme for all permanent employees, who are in the management cadre of the company subject to a minimum qualifying period of service according to the terms of employment. Monthly contributions are made to these funds on the basis of actuarial recommendation at the rate of 20% per annum of basic salary for pension and 8.33% per annum of basic salary for gratuity. Actuarial valuation for the schemes was carried out as at September 30, 2006.

Actual returns on plan assets during the year were Rs 16,819 million and Rs 3,294 million for pension and gratuity funds respectively. The actual returns on plan assets represent the difference between the fair value of plan assets at the beginning of the year and as at the end of the year after adjustments for contributions made by the company as reduced by benefits paid during the year.

The future contribution rates of these plans include allowances for deficit and surplus. Projected unit credit method using the following significant assumptions, is used for valuation of these schemes:

Discount rate	9%
Expected increase in eligible pay	8%
Expected rate of return on plan assets	10%

The company policy with regard to actuarial gains/losses is to follow minimum recommended approach under IAS 19 (revised 2000).

5.2.2 Defined contribution plans

There is an approved contributory provident fund for all permanent employees. Equal monthly contributions are made by the company and employees to the fund in accordance with the fund rules.

Interest @ 7-8% per annum is payable to the fund on the balances utilized by the company which is charged to profit.

Retirement benefits are payable to staff on completion of prescribed qualifying period of service under these schemes.

5.3 Property, plant and equipment

Freehold land, buildings and plant and machinery as at September 30, 1979 have been revalued by an independent valuer as of that date and are shown at net revalued figures less accumulated depreciation and any identified impairment loss. Additions subsequent to that date are stated at cost less accumulated depreciation and any identified impairment loss. All other property, plant and equipment are stated at cost less accumulated depreciation and any identified impairment loss. Costs in relation to certain property, plant and equipment comprises of historical cost, revalued amount and borrowing costs referred to in note 5.19.



Notes to the Financial Statements

For the year ended September 30, 2006

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to surplus on revaluation of property, plant and equipment. Decreases that offset previous increases of the same assets are charged against this surplus, all other decreases are charged to income. Each year the difference between depreciation based on revalued carrying amount of the asset (the depreciation charged to the income) and depreciation based on the assets' original cost is transferred from surplus on revaluation of property, plant and equipment to unappropriated profit. All transfers to/from surplus on revaluation of property, plant and equipment are net of applicable deferred taxation.

Major repairs and improvements are capitalized. Minor repairs and renewals are charged to income. The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as income or expense.

Depreciation on all property, plant and equipment, except land is charged to profit on the reducing balance method so as to write off the cost of an asset over its estimated useful life at the annual rates given in note 18 after taking into account the impact of their residual values, if considered significant.

The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant. The company's estimate of the residual value of its property, plant and equipment as at September 30, 2006 has not required any adjustment as its impact is considered insignificant.

Depreciation on additions to property, plant and equipment is charged from the month in which the asset is acquired or capitalized, while no depreciation is charged for the month in which the asset is disposed off.

The company assesses at each balance sheet date whether there is any indication that property, plant and equipment may be impaired. If such indication exists, the carrying amount of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment is recognized in income currently. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. Where an impairment loss is recognized, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

Subsequent costs are included in the asset's carrying amount or recognized 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 the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense.

5.4 Capital work-in-progress

Capital work-in-progress is stated at cost less any identified impairment loss.



Notes to the Financial Statements

For the year ended September 30, 2006

5.5 Biological assets

Biological assets comprise of standing crops and livestock. These are stated at fair value less estimated point-of-sale costs, with any resultant gain or loss recognized in the profit and loss account. The fair value of standing crops is based on the support price fixed by the Government and other factors such as the estimated crop yield and area under cultivation. Fair value of livestock is estimated on the basis of market prices of livestock of similar age, breed and genetic merit. Point-of-sale costs include all costs that would be necessary to sell the assets, excluding costs necessary to get the assets to the market.

5.6 Leases

The company is the lessee:

5.6.1 Finance leases

Leases where the company has substantially all the risks and rewards of ownership are classified as finance leases. At inception, finance leases are capitalized at the lower of present value of minimum lease payments under the lease agreements and the fair value of the assets.

The related rental obligations, net of finance cost, are included in liabilities against assets subject to finance lease as referred to in note 10. The liabilities are classified as current and non-current depending upon the timing of the payment.

Each lease payment is allocated between the liability and finance cost 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.

Assets acquired under a finance lease are depreciated over the useful life of the asset on reducing balance method at the rates given in note 19. Depreciation on leased assets is charged to the profit and loss account.

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.

5.6.2 Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit on a straight-line basis over the lease term.

5.7 Investments

Held to maturity

Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held to maturity and are initially measured at cost and at subsequent reporting dates measured at amortized cost using the effective yield method.



Notes to the Financial Statements

For the year ended September 30, 2006

Available for sale

Investments classified as available for sale, including investments in associated undertakings, are initially measured at cost, being the fair value of consideration given. At subsequent reporting dates, these investments are remeasured at fair value, unless fair value cannot be reliably measured. Unrealized gains and losses arising from the changes in the fair value are included in fair value reserve in the period in which they arise.

Investments intended to be held for less than twelve months from the balance sheet date or to be sold to raise operating capital, are included in current assets, all other investments are classified as non-current. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

The company, upto previous year, classified investments in equity instruments of associated undertakings, including those where the company had significant influence, as available for sale and unrealized gains/losses arising from changes in fair value were directly recognised in equity in the period in which these arose and cumulative gains and losses arising from changes in fair value were included in net profit or loss for the period in which an investment was derecognized. In accordance with the revised International Accounting Standard (IAS) 28 "Investments in Associates", which is applicable on the company for accounting years beginning on or after January 1, 2005, the company, while presenting its interim financial statements, changed its accounting policy in respect of equity instruments of associated undertakings where the company has significant influence and which are not expected to be disposed off within twelve months from the balance sheet date and accounted for them using the equity method of accounting.

However, the company acquired 100% shares of Shakarganj Food Products Limited on September 30, 2006 and is required to issue consolidated financial statements alongwith its separate financial statements, in accordance with the requirements of IAS 27 "Consolidated and Separate Financial Statements". Consequently, investments in associated undertakings where the company has significant influence are being classified as 'available for sale' with unrealized gains/losses arising from changes in fair value being recognized directly in equity in the period in which these arise. Investments in such associated undertakings, in the consolidated financial statements, are being accounted for using the equity method. There is no impact of this change on current or previous year's reported figures.

Held for trading

Investments that are acquired principally for the purpose of generating a profit from short term fluctuations in price are classified as trading investments and included in current assets. These are initially measured at cost and at subsequent reporting dates, these investments are remeasured at fair value. Realized and unrealized gains and losses arising from changes in fair value are included in net profit or loss for the period in which they arise.

The fair value of publicly traded securities is based on market prices quoted on Karachi Stock Exchange at the balance sheet date. The investments for which a quoted market price is not available, are measured at cost as it is not practical to apply any other valuation methodology.

All purchases and sales of investments are recognized on the trade date which is the date that the company commits to purchase or sell the investment. Cost of purchase includes transaction cost.

Notes to the Financial Statements

For the year ended September 30, 2006

At each balance sheet date, the company reviews the carrying amounts of the investments to assess whether there is any indication that such investments have suffered an impairment loss. If any such indication exists, the recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment losses are recognized as expense. Where an impairment loss subsequently reverses, the carrying amount of the investment is increased to the revised recoverable amount but limited to the extent of initial cost of the investment.

5.8 Stores, spares and loose tools

Usable stores and spares are valued principally at moving average cost, while items considered obsolete are carried at nil value. Items in transit are valued at cost comprising invoice value plus other charges paid thereon.

5.9 Stock-in-trade

Stock of raw materials, except for those in transit, work-in-process and finished goods are valued principally at the lower of weighted average cost and net realizable value. Cost of work-in-process and finished goods comprises cost of direct materials, labour and appropriate manufacturing overheads. Cost of own produced molasses, a by product, is determined on the basis of monthly average cost of molasses purchased from third parties.

Materials in transit are stated at cost comprising invoice values plus other charges paid thereon.

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

5.10 Financial assets and liabilities

Financial assets and financial liabilities are recognized when the company becomes a party to the contractual provisions of the instrument. 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 measurement methods adopted are disclosed in the individual policy statements associated with each item.

5.11 Offsetting of financial assets and financial liabilities

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

5.12 Trade debts

Trade debts are carried at original invoice amount less an estimate made for doubtful receivable balances based on review of outstanding amounts at the year end. Bad debts are written off when identified.

Notes to the Financial Statements

For the year ended September 30, 2006

5.13 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 cash in hand, demand deposits, other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

5.14 Borrowings

Loans and borrowings are recorded at the proceeds received. In subsequent periods, borrowings are stated at amortized cost using the effective yield method. Preference shares, which are redeemable on a specific date at the option of the holder, are classified as liabilities. The dividend on these preference shares is recognized in the profit and loss account as finance cost. Preference share are classified as equity to the extent there is conclusive evidence that these will not result in an outflow of another financial asset or exchange of financial assets or liabilities under conditions that are potentially unfavorable to the company.

Finance cost is accounted for on an accrual basis.

5.15 Creditors, accruals and provisions

Liabilities for creditors and other amounts payable are carried at cost, which is the fair value of the consideration to be paid in future for the goods and/or services received, whether or not billed to the company.

Provisions are recognized when the company has a present legal or constructive obligation as a result of past events, it is probable will result in an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at year end and adjusted to reflect the current best estimate.

5.16 Deferred income

Deferred income represents excess of sale proceeds in relation to the carrying amount of the asset acquired under sale and lease back arrangement. Deferred income is amortized on a straight line basis over the period of lease term.

5.17 Derivative financial instruments

These are initially recorded at cost and are remeasured at fair value at subsequent reporting dates.

5.18 Foreign currencies

All monetary assets and liabilities in foreign currencies are translated into rupees at exchange rates prevailing at the balance sheet date. Transactions in foreign currencies are translated into rupees at the spot rate. All non-monetary items are translated into rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined.

All exchange differences are charged to the profit and loss account.

Notes to the Financial Statements

For the year ended September 30, 2006

5.19 Finance cost

Mark-up, interest and other charges on borrowings are capitalized upto the date of commissioning of the respective property, plant and equipment, acquired out of the proceeds of such borrowings. All other mark-up, interest and other charges are charged to profit.

5.20 Revenue recognition

Revenue from sales is recognized on dispatch of goods to customers.

Dividend on equity investments is recognized as income when the right of receipt is established.

Return on deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

5.21 Business segments

The company is divided into four business segments:

- Sugar division - manufacture and sale of sugar;
- Distillery division - manufacture and sale of ethanol;
- Particle board division - manufacture and sale of particle boards; and
- Textile division - manufacture and sale of yarn

All these business segments are located in approximately the same geographical area.

5.21.1 Segment assets and liabilities

The assets of a segment include all operating assets used by a segment and consists principally of operating cash, receivables, inventories and property, plant and equipment, net off allowances and provisions.

Segment liabilities include all operating liabilities consisting principally of deferred liabilities, other payables and accrued liabilities.

The carrying amount of identifiable assets and liabilities are directly attributed to respective segments. The carrying amount of jointly used assets and liabilities of sugar and allied segments is classified as unallocated assets and liabilities.

5.21.2 Allocation of segment expenses

All identifiable expenses are directly attributed to the respective segments. The jointly incurred expenses of sugar and allied segments are allocated on the basis of segment revenues.

Notes to the Financial Statements

For the year ended September 30, 2006

6. Issued, subscribed and paid up capital

2006 (Number of shares)	2005		2006 (Rupees in thousand)	2005
		Ordinary		
23,544,798	13,198,995	Ordinary shares of Rs 10 each fully paid in cash	235,448	131,990
21,544,516	15,337,034	Ordinary shares of Rs 10 each issued as fully paid bonus shares	215,445	153,370
12,847,184	10,307,000	Ordinary shares of Rs 10 each issued as fully paid for consideration other than cash	128,472	103,070
57,936,498	38,843,029		579,365	388,430
		Preference		
-	15,210,691	Preference shares of Rs 10 each fully paid in cash	-	152,107
57,936,498	54,053,720		579,365	540,537

Ordinary shares of the company held by associated undertakings as at year end are as follows:

	2006 (No. of shares)	2005
Asian Stock Fund Limited	2,023,500	1,800,000
Crescent Commercial Bank Limited	115	100
Crescent Jute Products Limited	192,280	167,200
Crescent Standard Business Management (Private) Limited	-	7,103
Crescent Steel and Allied Products Limited	4,646,082	2,772,202
Crescent Sugar Mills & Distillery Limited	2,681,692	1,915,496
Safeway Mutual Fund Limited	2,513,341	1,572,601
The Crescent Textile Mills Limited	4,522,907	3,230,648
Premier Insurance Company of Pakistan Limited	44,500	50,000
Pakistan Industrial Credit & Investment Corporation Limited	-	325,444
	16,624,417	11,840,794

- 6.1 During the year the company has converted 15,210,691 preference shares into 2,540,184 ordinary shares of Rs 10 each in the ratio stated in note 8.3 through an offer to preference shareholders effectively at a premium of Rs 49.88 per ordinary share aggregating to Rs 126.705 million.

Notes to the Financial Statements

For the year ended September 30, 2006

7. Surplus on revaluation of property, plant and equipment

Freehold land, buildings and plant and machinery were revalued by an independent valuer as at September 30, 1979 and stated in note 18 at appreciated value. The revaluation surplus is net of applicable deferred income taxes.

	2006 (Rupees in thousand)	2005
Revaluation - net of deferred tax	3,183	3,212
Surplus transferred to unappropriated profit on account of incremental depreciation - net of tax	26	29
	<u>3,157</u>	<u>3,183</u>

- 7.1 Incremental depreciation represents the difference between the actual depreciation on buildings and plant and machinery and the equivalent depreciation based on the historical cost of buildings and plant and machinery.

8. Long term finances

		2006 (Rupees in thousand)	2005
Term finance certificates - secured	- note 8.1	-	79,952
Long term loans - secured	- note 8.2	1,620,632	1,865,830
Redeemable preference shares (non-voting) - unsecured	- note 8.3	345,755	345,755
		<u>1,966,387</u>	<u>2,291,537</u>
Less: Current portion shown under current liabilities			
- Term finance certificates - secured		-	79,952
- Long term loans - secured		<u>507,184</u>	<u>326,802</u>
		<u>507,184</u>	<u>406,754</u>
		<u>1,459,203</u>	<u>1,884,783</u>

- 8.1 These have been repaid during the year

Notes to the Financial Statements

For the year ended September 30, 2006

8.2 Long term loans - secured

Loan	Lender	2006 (Rupees in thousand)	2005	Rate of mark-up per annum	Number of instalments outstanding	Mark-up payable
1	Pakistan Industrial Credit and Investment Corporation Limited	4,638	6,982	9.00%	7 quarterly installments ending May 2008	Quarterly
2	MCB Bank Limited	93,750	100,000	*Base rate + 2% subject to floor of 7%	15 quarterly installments ending May 2010	Quarterly
3	MCB Bank Limited	5,500	16,500	7.50%	1 semi-annual installment ending February 2007	Quarterly
4	MCB Bank Limited	75,000	75,000	*Base rate subject to floor of 5%	Payable in lump sum in September 2007	Quarterly
5	MCB Bank Limited	11,625	19,375	*Base rate subject to floor of 5%	3 semi-annual installments ending September 2007 (including 1 overdue installment amounting to Rs. 3,875 m)	Quarterly
6	Atlas Investment Bank Limited	20,000	30,000	**Base rate + 3.5% subject to floor of 5.5%	4 semi annual installments ending September 2008	Semi annual
7	National Bank Limited	125,000	187,500	**Base rate + 3.5%	4 semi annual installments ending July 2008	Semi annual
8	International Housing Finance Limited	5,534	7,423	*Base rate + 4.25%	28 monthly installments ending January 2009	Monthly
9	Orix Investment Bank Pakistan Limited	6,000	9,000	***Base rate + 2% subject to floor of 7.5% and cap of 15%	4 semi annual installments ending May 2008	Semi annual
10	Pakistan Kuwait Investment Company (Private) Limited	20,000	30,000	***Base rate + 2% subject to floor of 7.5% and cap of 13%	4 semi annual installments ending August 2008	Semi annual
11	Syndicate term loan	945,000	1,050,000	**Base rate + 3% subject to floor of 5.25%	9 semi annual installments ending October 2010	Semi annual
12	Askari Commercial Bank Limited	16,303	24,454	*Base rate + 2% subject to floor of 6%	4 quarterly installments ending November 2007	Quarterly
13	MCB Bank Limited	245,000	245,000	*Base rate + 2% subject to floor of 8%	8 equal semi annual installments commencing March 2007	Quarterly
14	Meezan Bank Limited	47,282	64,596	*Base rate + 2% subject to floor of 8%	15 quarterly installments ending November 2010	Quarterly
		<u>1,620,632</u>	<u>1,865,830</u>			

* Base rate: Average ask rate of six-month Karachi Inter Bank Offer Rate ("KIBOR") reset for each mark-up period

** Base rate: Cut-off yield of the last auction of the 6-months Government of Pakistan Treasury Bills.

*** Base rate: SBP Discount rate to be set for each mark-up period

Notes to the Financial Statements

For the year ended September 30, 2006

The company has Rs 100 million undrawn borrowing facility as at September 30, 2006 which is available upto May 24, 2010. This facility has been arranged to finance the working capital needs of distillery unit.

Security

Loan 1 to 7

These are secured against first charge on property, plant and equipment of the company ranking pari passu with other creditors.

Loan 8

It is secured against equitable mortgage on immovable property financed through the loan.

Loan 9 and 10

These are secured by way of hypothecation charge over plant and machinery of the textile division.

Loan 11

The loan is secured by first charge by way of hypothecation over all moveable assets of the company and equitable mortgage charge over plant and machinery of the satellite facility

Loan 12 to 14

These are secured against specific charges on plant and machinery financed through the respective loans.

8.3 Redeemable preference shares (non-voting) - unsecured

Redeemable Preference shares (non-voting) were issued in 2005 to the shareholders of the company in the ratio of 85 preference shares for every 100 ordinary shares held as on October 22, 2004 and to certain institutional investors in equal proportion. These shares are listed on Lahore and Karachi Stock Exchanges. The conversion option is not binding either on the company or the preference shareholders except in case of the conversion upon maturity, where the preference shareholders opts for conversion, subsequent to the company's failure to pay preferred dividend during the entire tenure.

Terms of redemption

Preference shareholders may convert preference shares into ordinary shares of the company at the end of every financial year or the company may convert these preference shares into ordinary shares in whole or in part through a tender offer. The conversion is set in the ratio of 167 ordinary shares for every 1,000 preference shares at a face value of Rs 10 each.

The preference shares will be redeemed after five years of the issuance if the conversion option is not offered by the company to preference shareholders or the preference shareholders do not opt for the conversion option.

Rate of dividend

The preference shareholders have a preferred right of dividend @ 8.5% per annum on a cumulative basis.

Notes to the Financial Statements

For the year ended September 30, 2006

8.3.1 Preference shares of the company held by associated undertakings as at year end are as follows:

	2006 (No. of shares)	2005 (No. of shares)
Asian Stock Fund Limited	180,000	180,000
Crescent Commercial Bank Limited	1,000,000	1,000,000
Crescent Steel and Allied Products Limited	2,999,396	2,999,396
The Crescent Textile Mills Limited	2,746,050	2,746,050
Premier Insurance Company of Pakistan Limited	53,125	53,125
	<u>6,978,571</u>	<u>6,978,571</u>

9. Long term advances

	2006 (Rupees in thousand)	2005 (Rupees in thousand)
Total advance from leasing companies	–	10,674
Less: Current portion shown under current liabilities	<u>–</u>	<u>1,802</u>
	<u>–</u>	<u>8,872</u>

These have been transferred to liabilities against assets subject to finance lease during the year, on receipt of respective assets.

10. Liabilities against assets subject to finance lease

	2006 (Rupees in thousand)	2005 (Rupees in thousand)
Present value of minimum lease payments	203,718	257,780
Less: Current portion shown under current liabilities	<u>71,991</u>	<u>74,251</u>
	<u>131,727</u>	<u>183,529</u>

The minimum lease payments have been discounted at an implicit interest rate ranging from 6.69% to 17.53% to arrive at their present value. Rentals are paid in monthly/quarterly/semi-annual installments and in case of default in any payment, an additional charge at the rate of 3% to 20% shall be paid. The lessee has the option to purchase the assets after expiry of the lease term.

Taxes, repairs and insurance costs are to be borne by the company. In case of early termination of lease, the lessee shall pay entire amount of rentals for unexpired period of lease agreement.

Notes to the Financial Statements

For the year ended September 30, 2006

The amount of future payments of the lease and the period in which these payments will become due are as follows:

	Minimum Lease payments	Future finance cost	Present value of lease liability	
			2006	2005
			(Rupees in thousand)	
Not later than one year	88,865	16,874	71,991	74,251
Later than one year and not later than five years	145,709	13,982	131,727	183,529
	234,574	30,856	203,718	257,780

11. Employees' retirement benefits

Note 2006 2005
(Rupees in thousand)

The amounts recognized in the balance sheet are as follows:

Pension fund	- note 11.1	4,951	2,232
Gratuity fund	- note 11.2	(2,598)	(1,965)
		2,353	267

11.1 Pension fund

Present value of defined benefit obligations	109,038	105,657
Fair value of plan assets	(116,759)	(99,831)
Non vested (past service) cost to be recognized in later periods	(8,595)	(10,028)
Unrecognized actuarial gains	21,267	6,434
Liability as at September 30	4,951	2,232
Liability as at October 1	2,232	3,278
Charge to profit and loss account	5,963	5,465
Contribution by the company	(3,244)	(6,511)
Liability as at September 30	4,951	2,232

Fair value of plan assets include Term Finance Certificates and Preference Shares of the company whose fair values as at September 30, 2006 are Rs 0.505 million (2005: Rs 1.517 million) and Rs 3.5 million (2005: Rs 2.75 million) respectively.



Notes to the Financial Statements

For the year ended September 30, 2006

11.2 Gratuity fund

	2006 (Rupees in thousand)	2005
Present value of defined benefit obligations	23,172	22,668
Fair value of plan assets	(30,235)	(25,087)
Unrecognized actuarial gains	4,465	454
Asset as at September 30	(2,598)	(1,965)
Asset as at October 1	(1,965)	(1,712)
Charge to profit and loss account	1,629	1,120
Contribution by the company	(2,262)	(1,373)
Asset as at September 30	(2,598)	(1,965)

Fair value of plan assets include Term Finance Certificates and Preference Shares of the company whose fair values as at September 30, 2006 are Rs 0.169 million (2005: Rs 0.507 million) and Rs 0.5 million (2005: Rs 1.65 million) respectively.

11.3 Charge to profit and loss account for the year comprises:

	Pension fund		(Rupees in thousand) Gratuity fund	
	2006	2005	2006	2005
Current service cost	5,004	4,573	2,098	1,687
Interest cost for the year	9,509	7,439	2,040	1,694
Expected return on plan assets	(9,983)	(7,980)	(2,509)	(2,261)
Recognition of past service cost	1,433	1,433	—	—
	5,963	5,465	1,629	1,120

12. Deferred income

This represents the unamortized balance of excess of sale proceeds over carrying amount of plant and machinery on sale and lease back transaction with financial institutions.

The deferred income is being amortized each year over the respective period of the lease term. The amount credited to the profit and loss account during the year was Rs 2.413 million (2005: Rs 2.116 million).

Notes to the Financial Statements

For the year ended September 30, 2006

		2006	2005
		(Rupees in thousand)	
13.	Current portion of long term liabilities		
	Long term finances	- note 8	507,184
	Long term advances	- note 9	—
	Liabilities against assets subject to finance lease	- note 10	71,991
			74,251
		<u>579,175</u>	<u>482,807</u>
14.	Short term borrowings - secured		
	Short term running finances	- note 14.1	3,939,188
	Export refinance	- note 14.2	350,688
	Short term finances	- note 14.3	1,290,845
		<u>5,580,721</u>	<u>3,988,858</u>

14.1 Short term running finances

Running finances available from a consortium of commercial banks under mark-up arrangements amount to Rs 4,814 million (2005: Rs 4,544 million). The rate of mark-up range from Re 0.2795 to Re 0.3849 per Rs 1,000 per diem on the outstanding balance or part thereof. The aggregate running finances are secured against pledge of stock-in-trade and marketable securities and registered hypothecation charge on current assets of the company.

14.2 Export refinance

The company has obtained export finance facilities aggregating to Rs 350 million (2005: Rs 289 million). The rates of mark-up range from Re 0.1921 to Re 0.2055 per Rs 1,000 per diem or part thereof. The aggregate export and import finances are secured against lien on export contracts and ranking charge on current assets of the company.

14.3 Short term finances

Short term finance facilities available from a consortium of commercial banks under mark-up arrangements amount to Rs 1,500 million (2005: Rs 557 million). The rates of mark-up range from Re 0.1584 to Re 0.3652 per Rs 1,000 per diem on the balance outstanding. These are secured against registered charge on current assets of the company.

Of the aggregate facility of Rs 350 million (2005: Rs 116.778 million) for opening letters of credit and Rs 90.50 million (2005: Rs 89.996 million) for guarantees, the amount utilized at September 30, 2006 was Rs 44.778 million (2005: Rs 22.135 million) and Rs 89.996 million (2005: 89.996 million) respectively. The aggregate facilities of letter of credits are secured against lien over shipping/import documents. The aggregate facilities for guarantees are secured against margin deposits referred to in note 29, pledge of marketable securities and charge on current assets of the company.

Notes to the Financial Statements

For the year ended September 30, 2006

		2006 (Rupees in thousand)	2005 (Rupees in thousand)
15. Trade and other payables			
Trade creditors	- note 15.1	196,101	162,940
Advances from customers		9,658	10,090
Security deposits	- note 15.2	2,220	1,738
Accrued liabilities		49,486	34,211
Workers' profit participation fund	- note 15.3	90	9,517
Sales tax payable		25,097	-
Unclaimed dividend		1,740	1,779
Others	- note 15.4	57,307	54,146
		<u>341,699</u>	<u>274,421</u>

15.1 Trade creditors include amount due to related parties Rs 2.636 million (2005: Rs 1.206 million).

15.2 These are interest free and refundable on completion of contracts.

		2006 (Rupees in thousand)	2005 (Rupees in thousand)
15.3 Workers' profit participation fund			
As at October 1		9,517	11,308
Interest charged during the year		257	412
Provision for the year		-	9,479
		<u>9,774</u>	<u>21,199</u>
Less: Payments made during the year		9,684	11,682
As at September 30		<u>90</u>	<u>9,517</u>

15.4 Included in other liabilities are provisions amounting to Rs 32.334 million (2005: Rs 32.334 million) in respect of probable loss from pending litigation of the company against Sales tax authorities and the Excise department. There has been no movement in these provisions during the year.

		2006 (Rupees in thousand)	2005 (Rupees in thousand)
16. Accrued finance cost			
Accrued mark-up on:			
- Long term finances		93,523	83,985
- Liabilities against assets subject to finance leases		1,884	1,734
- Short term borrowings		164,062	66,085
		<u>259,469</u>	<u>151,804</u>

Notes to the Financial Statements

For the year ended September 30, 2006

17. Contingencies and commitments

Contingencies

The company has issued following guarantees:

- Bank guarantee of Rs 86.50 (2005: Rs 86.50) million in favour of Sui Northern Gas Pipelines Limited against performance of contracts.
- Bank guarantee in favour of The Administrator of Zila Council, Jhang against Exit tax payable to Zila Council amounting to Rs 3.125 (2005: 3.125) million.
- Other bank guarantees aggregating to Rs 0.371 (2005: 0.371) million.
- Cross corporate guarantee in favour of Allied Bank Limited to secure long term finance facility availed by the company's subsidiary, Shakarganj Food Products Limited of Rs 467 million (2005: Nil).

Commitments

The company has the following commitments in respect of

- Letters of credit other than capital expenditure Rs 2.507 (2005: Rs 2.393) million.
- Contract for capital expenditure amounting to Rs 132.484 (2005: Rs 161.722) million.

18. Property, plant and equipment

	Cost/re-valued amount as at September 30, 2005	Additions/ (deletions)	Cost/re-valued amount as at September 30, 2006	Accumulated depreciation September 30, 2005	Depreciation charge/ (deletions) for the year	Accumulated depreciation September 30, 2006	Book value as at September 30, 2006	Rate of depreciation %
Freehold land	194,989	42,350	237,339	—	—	—	237,339	—
Buildings and roads on freehold land	243,958	162,768	406,726	115,908	16,490	132,398	274,328	5-7.5
Plant and machinery	2,408,306	2,254,969 (12,994)	4,650,281	1,098,250	204,631 (7,184)	1,295,697	3,354,584	5-7.5
Tools and equipment	29,803	14,143	43,946	20,291	6,937	27,228	16,718	10-40
Water, electric and weighbridge equipment	62,642	199,891 (17)	262,516	27,265	38,411 (17)	65,659	196,857	10-20
Furniture and fixtures	30,541	5,490 (133)	35,898	15,872	3,387 (88)	19,171	16,727	10-20
Office equipment	28,650	5,985 (89)	34,546	19,451	4,226 (89)	23,588	10,958	10-40
Vehicles	59,542	42,519 (20,506)	81,555	25,250	10,203 (4,476)	30,977	50,578	20
Laboratory Equipment	12,699	4,426	17,125	5,769	2,131	7,900	9,225	5-40
Arms and ammunition	98	—	98	78	2	80	18	10
Library books	9,580	400 (13)	9,967	7,887	588 (8)	8,467	1,500	30
2006	3,080,808	2,732,941 (33,752)	5,779,997	1,336,021	287,006 (11,862)	1,611,165	4,168,832	
2005	2,486,583	606,288 (12,063)	3,080,808	1,198,822	143,335 (6,136)	1,336,021	1,744,787	

- 18.1 The carrying amount of freehold land, buildings and plant and machinery would have been Rs 234.510 (2005: Rs 192.610 million), Rs 274.155 (2005: Rs 136.667 million) and Rs 3,354.429 (2005: Rs 1,323.222 million) respectively, had there been no revaluation.

Notes to the Financial Statements

For the year ended September 30, 2006

		2006 (Rupees in thousand)	2005 (Rupees in thousand)
18.2	The depreciation charge for the year has been allocated as follows:		
	Capital work-in-progress - unallocated expenditure	- note 20.2	185
	Cost of sales (including depreciation of Rs 21.745 million during the trial run period of new facility capitalized during the year)	- note 32	121,469
	Administrative expenses	- note 33	20,212
		<u>287,006</u>	<u>143,335</u>

18.3 Disposal of property, plant and equipment

		(Rupees in thousand)				
Particulars of assets	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
Plant and Machinery	Outside party - Tritex Cotton Mills Limited	12,994	7,184	5,810	980	Negotiation
Vehicles	Leasing companies - sale and lease back					
	First National Bank Modaraba	5,500	1,100	4,400	5,500	Negotiation
	First National Bank Modaraba	5,198	-	5,198	5,198	- do -
	Faysal Bank	2,280	265	2,015	2,280	- do -
	Faysal Bank	2,034	-	2,034	2,034	- do -
	Subsidiary company					
	Shakarganj Food Products Limited	575	58	517	611	Negotiation
	Shakarganj Food Products Limited	491	208	283	516	- do -
	Employees					
	Kashif Raza Kazmi	161	81	80	110	Negotiation
	Mukhtar Ahmad	181	93	88	158	- do -
	Imtiaz Ahmad	330	186	144	193	- do -
	Abdul Wasi Farooqi	402	262	140	275	- do -
	Gulraiz Ahmad	355	204	151	194	- do -
	Nusrat Ali	572	325	247	405	- do -
	Zia Ahmed	393	327	66	82	- do -
	Zahid Mujtaba	393	315	78	271	- do -
	Outside party - Muhammad Yousaf	739	545	194	265	- do -
Other assets having book value below Rs. 50,000		1,154	709	445	1,185	
		<u>33,752</u>	<u>11,862</u>	<u>21,890</u>	<u>20,255</u>	

19. Assets subject to finance lease

		(Rupees in thousand)						
	Cost as at September 30, 2005	Additions/ (transfers/ deletions)	Cost as at September 30, 2006	Accumulated depreciation September 30, 2005	Depreciation charge/ (transfers) for the year	Accumulated depreciation September 30, 2006	Book value as at September 30, 2006	Rate of depreciation %
Plant and machinery	271,431	45,523 (38,000)	278,954	34,870	15,958 (6,824)	44,004	234,950	5-7.5
Vehicles	66,741	15,892 (11,228)	71,405	24,659	10,270 (5,915)	29,014	42,391	20
2006	338,172	61,415 (49,228)	350,359	59,529	26,228 (12,739)	73,018	277,341	
2005	284,113	60,494 (6,435)	338,172	36,873	25,796 (3,140)	59,529	278,643	

Notes to the Financial Statements

For the year ended September 30, 2006

		2006	2005
		(Rupees in thousand)	
19.1	The depreciation charge for the year has been allocated as follows:		
	Capital work-in-progress - unallocated expenditure	- note 20.2	-
	Cost of sales	- note 32	1,791
	Administrative expenses	- note 33	20,740
			3,265
		<u>26,228</u>	<u>25,796</u>

20. Capital work-in-progress

	Civil works		84,179	244,811
	Plant and Machinery	- note 20.1	228,075	1,697,986
	Unallocated expenditure	- note 20.2	35,979	115,925
	Advances for land, plant and machinery and vehicles		285,525	544,046
			<u>633,758</u>	<u>2,602,768</u>

20.1 It includes an amount of Rs Nil (2005: Rs 101 million) being the cost of machinery financed by leasing companies.

20.2 It includes depreciation on property, plant and equipment and leased assets of Rs 0.186 million (2005: Rs 1.654 million) and Rs Nil (2005: Rs 1.791 million) respectively.

20.3 Aggregate balance of capital work in progress includes finance costs of Rs 15.857 million (2005: Rs 154.668 million).

		2006	2005
		(Rupees in thousand)	
21.	Biological assets		
	Sugarcane		
	Mature	174,929	104,297
	Immature	7,413	12,393
		<u>182,342</u>	<u>116,690</u>
	Rice - mature	7,487	6,097
	Livestock - mature	2,170	
		<u>191,999</u>	<u>122,787</u>
	Non - current	7,413	12,393
	Current	184,586	110,394
		<u>191,999</u>	<u>122,787</u>

Notes to the Financial Statements

For the year ended September 30, 2006

- 21.1 The value of sugarcane crops is based on estimated yield of 784 (2005: 783) mounds per acre on cultivated area of 7,623 (2005: 6,602) acres. The value of rice crops is based on the estimated yield of 22 (2005: 27) mounds per acre on cultivated area of 1,143 (2005: 624) acres. As at September 30, 2006, 972 (2005: 3,049) acres are under preparation for wheat cultivation.

	2006 (Rupees in thousand)
21.2 Movement during the year	
Biological assets as at October 1	122,787
Increase due to purchases/costs incurred	227,133
Gain arising from changes in fair value less estimated point of sale costs	1,029
Decreases due to harvest / sales	(158,950)
Biological assets as at September 30	191,999

- 21.2.1 Biological assets were recognized for the first time during 2005. Comparative information is not presented as it is impractical to reasonably determine the amount of the assets as on October 1, 2004

	2006 (Rupees in thousand)	2005
22. Investments - related parties		
Available for sale - note 22.1	494,170	694,946
Advance against purchase of shares in subsidiary company Shakarganj Food Products Limited	350,000	-
	844,170	694,946

22.1. Available for sale

Subsidiary company	- at cost	- note 22.1.1	100	-
Associated companies	- at cost	- note 22.1.2	438,091	423,572
Others	- at cost	- note 22.1.3	2,200	-
			440,391	423,572
Add: Cumulative fair value gain			93,170	271,374
Less: Impairment loss recognized during the year			(39,391)	-
Fair value gain			53,779	271,374
			494,170	694,946

Notes to the Financial Statements

For the year ended September 30, 2006

22.1.1 Subsidiary company - unquoted

Shakarganj Food Products Limited

10,000 (2005: Nil) fully paid ordinary shares of Rs 10 each
Equity held 100% (2005: Nil)

100	—
-----	---

2006 2005
(Rupees in thousand)

22.1.2 Associated companies

Quoted

Crescent Commercial Bank Limited

5,058,126 (2005: 7,287,626) fully paid ordinary shares of Rs 10 each

50,988 73,463

Crescent Steel and Allied Products Limited

1,922,134 (2005: 1,185,397) fully paid ordinary shares of Rs 10 each

35,722 15,735

Crescent Jute Products Limited

536,817 (2005: 536,817) fully paid ordinary shares of Rs 10 each

— —

Safeway Mutual Fund Limited

17,429,914 (2005: 16,912,012) fully paid ordinary shares of Rs 10 each

140,239 140,232

Asian Stock Fund Limited

18,716,500 (2005: 18,716,500) fully paid ordinary shares of Rs 10 each

184,185 184,185

Unquoted

Crescent Standard Business Management (Private) Limited

1,000,000 (2005: 1,000,000) fully paid ordinary shares of Rs 10 each

9,957 9,957

Central Depository Company of Pakistan Limited

130,000 (2005: Nil) fully paid ordinary shares of Rs 10 each

14,000 —

Crescent Standard Telecommunications Limited

300,000 (2005: Nil) fully paid ordinary shares of Rs 10 each

3,000 —

438,091 423,572

22.1.3 Others

Unquoted

Crescent Group Services (Private) Limited

220,000 (2005: Nil) fully paid ordinary shares of Rs 10 each

2,200 —

2,200 —



Notes to the Financial Statements

For the year ended September 30, 2006

22.2 Investments with face value of Rs 323,606 (2005: Rs 213,07 million) are pledged as security against short term borrowings referred to in note 14.

22.3 5,010,705 shares in Crescent Commercial Bank Limited with a face value of Rs 50,107 million are pledged in a separate CDC account with the State Bank of Pakistan as per SBP's requirement for granting of license to Crescent Commercial Bank Limited.

		2006	2005
		(Rupees in thousand)	
23. Long term loan and deposits			
Loans - considered good to:			
Shakarganj Food Products Limited	- note 23.1	59,420	-
Asian Capital Management Fund Limited			
- related party	- note 23.2	10,000	10,000
Sui Northern Gas Pipelines Limited	- note 23.3	4,140	4,140
		73,560	14,140
Less: Current portion shown under short term advances	- note 29	414	-
		73,146	14,140
Advance to Creek Marina (Private) Limited:	- note 23.4	38,487	150,000
Prepayments		6,160	-
Security deposits		35,783	40,392
		153,576	204,532

23.1 This represents an unsecured, interest free loan to Shakarganj Food Products Limited, a 100 % owned subsidiary of the company to meet its working capital needs. This is repayable on demand, however, it is not expected to be repaid in the ensuing year and consequently this has been classified as a long term asset.

23.2 This is an unsecured, interest free loan extended to Asian Capital Management Fund Limited (ACMF) to meet its working capital requirements. The company intends to utilize this amount to invest in the shares of ACMF pursuant to a planned merger between ACMF and another company, Safeway Fund Limited, which is pending due to relevant regulatory approvals. Consequently, this has been classified as a long term asset.

23.3 This represents an un-secured loan given to Sui Northern Gas Pipelines Limited for the development of infrastructure for supply of natural gas to the plant at Bhone. Mark-up is charged at 1.5% per annum and is receivable annually. This amount is receivable in 10 equal annual installments commencing May, 2007.

23.4 This represents payment for two apartments in the Creek Marina Project pursuant to a Settlement Agreement entered into by the company and Crescent Standard Investment Bank Limited (CSIBL) whereby, principally, in lieu of the amount of Rs 150 million owed by CSIBL to the company, the company received 2,165,625 shares in Altern Energy Limited (AEL), a listed company, at an aggregate value of Rs 17,325 million, assignment of share deposit money of CSIBL in AEL amounting to Rs 93,737 million and two apartments in the Creek Marina Project valued at a total of Rs 40 million.

Notes to the Financial Statements

For the year ended September 30, 2006

	2006	2005
	(Rupees in thousand)	
24. Deferred taxation		
The deferred tax asset comprises temporary differences relating to:		
Accelerated tax depreciation	(671,122)	(280,700)
Surplus on revaluation of property, plant and equipment	(176)	(191)
Employee retirement benefits	726	83
Unused tax losses	1,039,881	288,008
Diminution in value of investments	20,269	-
	<u>389,578</u>	<u>7,200</u>

25. Stores, spares and loose tools

Stores (including in transit Rs 0.899 million 2005: Nil)	74,311	42,758
Spares	24,761	33,841
Loose tools	2,072	1,227
	<u>101,144</u>	<u>77,826</u>
Less: Provision for obsolete items	1,500	1,500
	<u>99,644</u>	<u>76,326</u>

25.1 Stores and spares include items which may result in fixed capital expenditure but are not distinguishable.

26. Stock-in-trade

	2006	2005
	(Rupees in thousand)	
Raw materials	170,605	574,125
Work-in-process	20,982	22,521
Finished goods	1,632,219	344,870
	<u>1,823,806</u>	<u>941,516</u>

26.1 Raw materials and finished goods amounting to Rs. 1,802.824 million (2005: Rs 849.408 million) are pledged with lenders as security against short term borrowings as referred to in note 14.

27. These are unsecured and considered good.

Notes to the Financial Statements

For the year ended September 30, 2006

		2006	2005
		(Rupees in thousand)	
28.	Investments		
	Available for sale	- note 28.1	2,246,006
	Held for trading	- note 28.2	88,811
	Held to maturity	- note 28.3	111,460
			2,446,277
28.1	Available for sale		
	Related parties - at cost	- note 28.1.1	4,816
	Others - at cost	- note 28.1.2	725,914
			730,730
	Add: Cumulative fair value gain		1,569,447
	Less: Impairment loss recognized during the year		(54,171)
			1,515,276
			2,246,006
28.1.1	Related parties		
	Associated companies - quoted		
	Pakistan Industrial Credit & Investment Corporation Limited		
	Nil (2005: 30,169,136) fully paid ordinary shares of Rs 10 each	-	620,502
	The Premier Insurance Company of Pakistan Limited		
	66,307 (2005: 48,155) fully paid ordinary shares of Rs 5 each	44	44
	Altern Energy Limited		
	476,008 (2005: 1,500,000) fully paid ordinary shares of Rs 10 each	4,772	19,425
	Associated companies - unquoted		
	Crescent Group Services (Private) Limited		
	Nil (2005: 220,000) fully paid ordinary shares of Rs 10 each	-	2,200
		4,816	642,171

Notes to the Financial Statements

For the year ended September 30, 2006

	2006	2005
	(Rupees in thousand)	
28.1.2 Others		
Quoted		
Pakistan Industrial Credit & Investment Corporation Limited 29,110,463 (2005: Nil) fully paid ordinary shares of Rs 10 each	498,940	-
Crescent Leasing Corporation Limited 6,752,257 (2005: 6,752,257) fully paid ordinary shares of Rs 10 each	88,542	88,542
Crescent Standard Investment Bank Limited 10,270,249 (2005: 10,164,749) fully paid ordinary shares of Rs 10 each	75,412	74,342
Crescent Standard Modaraba 2,041,500 (2005: 2,034,500) fully paid ordinary shares of Rs 10 each	20,240	20,206
International Housing Finance Limited 1,687,500 (2005: 1,500,000) fully paid ordinary shares of Rs 10 each	18,750	18,750
Jubilee Spinning and Weaving Mills Limited 15,584 (2005: 15,584) fully paid ordinary shares of Rs 10 each	-	-
Prudential Discount & Guarantee House Limited Nil (2005: 12,000) fully paid ordinary shares of Rs 10 each	-	168
Pakistan Strategic Allocation Fund Limited 203,000 (2005: 3,340,000) fully paid ordinary shares of Rs 10 each	2,030	33,400
Unquoted		
Central Depository Company of Pakistan Limited Nil (2005: 100,000) fully paid ordinary shares of Rs 10 each	-	14,000
Crescent Standard Telecommunications Limited Nil (2005: 300,000) fully paid ordinary shares of Rs 10 each	-	3,000
Crescent Standard Brokerage and Investment Services Limited 880,000 (2005: Nil) fully paid ordinary shares of Rs 10 each	22,000	-
	725,914	252,408

Investments with a face value of Rs 406,510 million (2005: Rs 338,814 million) are pledged as security against short term running finances referred to in note 14.



Notes to the Financial Statements

For the year ended September 30, 2006

		2006 (Rupees in thousand)	2005 (Rupees in thousand)
28.2	Held for trading		
	Related parties	- note 28.2.1	29,322
	Others	- note 28.2.2	59,489
			121,303
			206,481

		2006 (Rupees in thousand)	2005 (Rupees in thousand)
--	--	------------------------------	------------------------------

28.2.1 Related parties

Associated companies - quoted

Pakistan Industrial Credit & Investment Corporation Limited

Nil (2005: 1,205,916) fully paid ordinary shares of Rs 10 each

- 83,329

Crescent Commercial Bank Limited

2,171,987 (2005: 150,960) fully paid ordinary shares of Rs 10 each

29,322 1,849

29,322 85,178

28.2.2 Others

Quoted

Al- Meezan Mutual Fund Limited

Nil (2005: 450,080) fully paid ordinary shares of Rs 10 each

- 4,681

Bank of Punjab Limited

65,000 (2005: Nil) fully paid ordinary shares of Rs 10 each

5,580 -

Bosicor Pakistan Limited

Nil (2005: 50,000) fully paid ordinary shares of Rs 10 each

- 832

Crescent Leasing Corporation Limited

1,822,188 (2005: 1,746,188) fully paid ordinary shares of Rs 10 each

14,578 24,447

Dewan Farooq Motors Limited

Nil (2005: 225,000) fully paid ordinary shares of Rs 10 each

- 5,490

Dewan Salman Fiber Limited

Nil (2005: 200,000) fully paid ordinary shares of Rs 10 each

- 3,170

D. G. Khan Cement Company Limited

10,000 (2005: Nil) fully paid ordinary shares of Rs 10 each

960 -

Fauji Fertilizer Company Limited

Nil (2005: 30,000) fully paid ordinary shares of Rs 10 each

- 3,907

Hub Power Company Limited

Nil (2005: 1,030,000) fully paid ordinary shares of Rs 10 each

- 30,179

C/F

21,118 72,706

Notes to the Financial Statements

For the year ended September 30, 2006

	2006 (Rupees in thousand)	2005
B/F	21,181	72,706
International Housing Finance Limited 1,347,250 (2005: 1,106,000) fully paid ordinary shares of Rs 10 each	11,047	10,618
Indus Motors Company Limited Nil (2005: 50,000) fully paid ordinary shares of Rs 10 each	-	6,650
Lucky Cement Company Limited Nil (2005: 50,000) fully paid ordinary shares of Rs 10 each	-	2,620
Nishat Chunian Limited 600 (2005: Nil) fully paid ordinary shares of Rs 10 each	31	-
Oil and Gas Development Corporation of Pakistan 25,000 (2005: Nil) fully paid ordinary shares of Rs 10 each	3,196	-
Pakistan Industrial Credit & Investment Corporation Limited 1,799 (2005: Nil) fully paid ordinary shares of Rs 10 each	131	-
PICIC Commercial Bank Limited Nil (2005: 155,750) fully paid ordinary shares of Rs 10 each	-	6,300
Pakistan International Airlines Corporation Limited Nil (2005: 125,000) fully paid ordinary shares of Rs 10 each	-	994
Pakistan PTA Limited Nil (2005: 215,000) fully paid ordinary shares of Rs 10 each	-	1,591
Pak Suzuki Motors Company Limited Nil (2005: 63,130) fully paid ordinary shares of Rs 10 each	-	9,533
PICIC Insurance Company Limited 1,251,486 (2005: Nil) fully paid ordinary shares of Rs 10 each	23,966	-
Telecards Limited Nil (2005: 200,000) fully paid ordinary shares of Rs 10 each	-	2,460
TRG Pakistan Limited Nil (2005: 300,000) fully paid ordinary shares of Rs 10 each	-	3,270
Tripack Films Limited Nil (2005: 100,800) fully paid ordinary shares of Rs 10 each	-	4,561
	59,489	121,303



Notes to the Financial Statements

For the year ended September 30, 2006

		2006 (Rupees in thousand)	2005
28.3	Held to maturity		
	Musharika Investment	- note 28.3.1	17,934
			56,407
	Certificate of deposits	- note 28.3.2	159,228
			172,203
			177,162
			228,610
	Less: Impairment loss recognized during the year	(65,702)	-
		111,460	228,610

28.3.1 This represents investment under musharika arrangement with Crescent Standard Modaraba on profit and loss sharing basis. Consequent to consistent failure of the Musharika to pay profits and in view of the rapidly deteriorating financial position of the Musharika, the company has assessed its recoverable amount at Nil and consequently, full carrying amount of the investment has been considered impaired and charged to the profit and loss account.

28.3.2 These represents certificates of investment issued by Crescent Standard Investment Bank Limited (CSIBL) and carry mark-up at the rate of 8.65% payable quarterly. In a press release issued on August 20, 2006, the Securities and Exchange Commission of Pakistan (SECP) stated that an 'Administrator' had been appointed, consequent to investigations into the bank's affairs which revealed financial irregularities and violations of legal requirements, to protect the interests of the depositors and stakeholders and to safeguard the assets of the bank. Payment of profits has been suspended by the bank.

Based on the latest available un-audited financial statements issued by the bank through its Administrator, the bank has negative equity and its aggregate liabilities exceed its total assets by Rs 1,687 million. The exact amount of loss is not ascertainable at this stage, however, in view of the foregoing, the company has considered it prudent to recognize impairment loss of approximately 30% in the investment.

Notes to the Financial Statements

For the year ended September 30, 2006

		2006 (Rupees in thousand)	2005
29. Loans, advances, prepayments and other receivables			
Loans to employees - considered good		714	1,085
Current portion of long term loan receivable from Sui Northern Gas Pipelines Limited		414	-
Advances - considered good			
- to suppliers and contractors	- note 29.1	42,851	51,828
- to sugarcane growers	- note 29.2	31,259	40,661
- Altern Energy Limited	- note 29.3	115,365	-
		189,475	92,489
Advances to sugarcane growers - considered doubtful		2,000	2,000
Due from related parties - unsecured			
- considered good	- note 29.4	1,206	81,789
- considered doubtful	- note 29.4	28,699	-
		29,905	81,789
Dividend receivable from related parties			
- considered good		865	-
- considered doubtful		1,096	-
		1,961	-
Claims recoverable from government			
- Income tax		26,483	17,304
- Sales tax		-	23,036
		26,483	40,340
Prepayments		41,957	30,769
Margins against bank guarantees		1,114	1,115
Others		20,119	23,066
		314,142	272,653
Less: provision against doubtful receivables	- note 29.5	(31,795)	(2,000)
		282,347	270,653

29.1 These relate to normal business of the company and are interest free.

29.2 These relate to normal business of the company and carry mark-up ranging from 9.25% to 10.16% per annum.



Notes to the Financial Statements

For the year ended September 30, 2006

- 29.3 Advance to Altern Energy Limited was given as unsecured sponsor loan and carries markup at the rate of 8.162 % per annum. Subsequent to the year end, consequent to a Share Purchase Agreement of the company with Descon Engineers Limited for partial divestment of the company in AEL, the advance along with the markup thereon has been refunded to the company and has thus been classified as a short term asset.

	2006 (Rupees in thousand)	2005
29.4 Due from related parties		
Considered good		
Crescent Sugar and Distillery Limited	108	-
Crescent Steel and Allied Products Limited	774	135
Crescent Standard Business Management (Private) Limited	324	245
Crescent Standard Investment Bank Limited	-	81,409
	<u>1,206</u>	<u>81,789</u>
Considered doubtful		
Crescent Standard Investment Bank Limited	28,699	-
	<u>29,905</u>	<u>81,789</u>

- 29.5 Provision against doubtful advances

As at October 1	2,000	2,000
Provision during the year	29,795	-
As at September 30	<u>31,795</u>	<u>2,000</u>

30. Cash and bank balances

At banks on:		
- Saving accounts	- note 30.1	
- Pak rupees	99,883	134
- Foreign currency	377	370
	<u>100,260</u>	<u>504</u>
- Current accounts	87,053	17,694
	<u>187,313</u>	<u>18,198</u>
In hand	3,022	1,535
	<u>190,335</u>	<u>19,733</u>

- 30.1 Profit on balances in saving accounts ranges from 0.25% to 7.25% (2005: 0.25% to 6.2 %) per annum.
- 30.2 Foreign currency accounts include US Dollars 5,306 (2005: 5,292) and Euros 710 (2005: 758).

Notes to the Financial Statements

For the year ended September 30, 2006

31. Sales

	(Rupees in thousand)									
	Sugar		Distillery		Particle Board		Textile		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Gross sale										
- Local	4,518,598	4,408,438	138,483	130,181	7,707	35,780	615,169	625,582	5,279,957	5,199,981
- Export	-	-	641,354	415,835	-	-	73,406	-	714,760	415,835
- By-products	-	22	-	-	-	-	19,222	15,570	19,222	15,592
- Inter-segment	348,564	275,932	-	-	-	-	-	-	-	-
	4,867,162	4,684,392	779,837	546,016	7,707	35,780	707,797	641,152	6,013,939	5,631,408
Less: Commission to selling agents	7,815	9,868	272	-	300	1,517	3,354	2,475	11,741	13,860
Sales tax	572,626	572,474	18,063	16,980	988	4,660	-	60,974	591,677	655,088
	580,441	582,342	18,335	16,980	1,288	6,177	3,354	63,449	603,418	668,948
Net sales	4,286,721	4,102,050	761,502	529,036	6,419	29,603	704,443	577,703	5,410,521	4,962,460

31.1 Inter-segment sales have been eliminated from total figures.

32. Cost of sales

Inter-segment	-	-	315,809	259,596	3,201	6,740	29,554	9,596	-	-
Raw materials consumed	4,316,562	2,833,483	214,333	299,532	-	-	487,265	386,459	5,018,160	3,519,474
	4,316,562	2,833,483	530,142	599,128	3,201	6,740	516,819	396,055	5,018,160	3,519,474
Salaries, wages and other benefits - note 32.2	106,814	73,412	10,382	9,503	2,838	3,248	42,818	34,763	162,852	120,926
Stores and spares consumed	99,917	82,477	6,213	4,574	635	1,864	11,134	14,062	117,899	102,977
Dyes and chemicals	27,656	22,878	15,246	14,839	1,867	4,247	-	-	44,769	41,964
Packing material consumed	47,294	42,688	-	-	-	-	8,942	7,779	56,236	50,467
Fuel and power	313,159	172,048	12,941	11,785	256	143	41,116	63,080	367,472	247,056
Repairs and maintenance	25,712	17,426	1,624	2,352	586	72	1,920	1,693	29,842	21,543
Insurance	8,303	2,799	1,186	682	46	52	3,141	3,328	12,676	6,861
Vehicle running and maintenance	5,129	6,041	-	-	132	187	-	-	5,261	6,228
Traveling and conveyance	812	752	182	182	41	62	1,077	1,580	2,112	2,576
Printing and stationery	737	788	64	73	3	3	-	-	804	864
Rent, rates and taxes	940	568	-	-	-	-	213	220	1,153	788
Sugarcane research and development note 32.2	10,117	15,315	-	-	-	-	-	-	10,117	15,315
Staff training and development	920	2,032	-	-	-	-	-	-	920	2,032
Depreciation on:										
- property, plant and equipment	214,826	76,247	33,948	34,112	851	920	11,776	10,190	261,401	121,469
- leased assets	9,045	11,568	3,181	1,947	-	-	6,093	7,225	18,319	20,740
Other expenses	24,936	16,230	2,236	2,950	381	1,598	1,357	256	28,910	21,034
	5,212,879	3,376,752	617,345	642,127	10,837	19,136	646,406	540,231	6,138,903	4,302,314
Opening work-in-process	17,682	1,535	-	-	-	2,188	4,839	6,245	22,521	9,968
Less: Closing work-in-process	(16,952)	(17,682)	-	-	-	-	(4,030)	(4,839)	(20,982)	(22,521)
	730	(16,147)	-	-	-	2,188	809	1,406	1,539	(12,553)
Cost of goods produced	5,213,609	3,360,605	617,345	642,127	10,837	21,324	647,215	541,637	6,140,442	4,289,761
Opening stock of finished goods	248,473	326,824	62,433	9,510	321	5,170	33,643	14,564	344,870	356,068
Less: Closing stock of finished goods	(1,524,730)	(248,473)	(76,706)	(62,433)	(6,212)	(3,211)	(24,571)	(33,643)	(1,632,219)	(344,870)
	(1,276,257)	78,351	(14,273)	(52,923)	(5,891)	4,849	9,072	(19,079)	(1,287,349)	11,198
	3,937,352	3,438,956	603,072	589,204	4,946	26,173	656,287	522,558	4,853,093	4,300,959
Cost of sales - goods purchased for resale	337,726	181,450	-	-	-	-	-	-	337,726	181,450
Less: Net expenses of trial run Capitalized	(46,881)	-	-	-	-	-	-	-	(46,881)	-
Less: Own goods Capitalized	-	-	-	-	-	(1,338)	-	-	-	(1,338)
	4,228,197	3,620,406	603,072	589,204	4,946	24,835	656,287	522,558	5,143,938	4,481,071



Notes to the Financial Statements

For the year ended September 30, 2006

32.1 Inter-segment purchases have been eliminated from total figures.

	2006	2005
	(Rupees in thousand)	
32.2 Salaries, wages and other benefits and sugarcane research and development include following in respect of retirement benefits:		
Pension fund	3,109	3,150
Gratuity fund	894	615
Provident fund	2,444	2,182
	<u>6,447</u>	<u>5,947</u>

33. Administrative expenses

Salaries, wages and other benefits	- note 33.1	70,778	49,352
Repairs and maintenance		9,808	4,091
Insurance		5,958	3,499
Vehicle running and maintenance		7,883	4,081
Traveling and conveyance		7,305	10,186
Printing and stationary		2,954	2,439
Electricity and gas		2,044	1,416
Telephone, postage and telegram		4,543	3,088
Legal and professional charges	- note 33.2	5,854	6,458
Consultancy and advisory services		14,324	7,377
Rent, rates and taxes		2,016	2,755
Staff training and development		188	128
Entertainment		2,203	414
Subscriptions		7,862	4,412
Advertisements		441	622
Registered office expenses		726	726
Provision against doubtful receivables		29,795	-
Bad debts and advances written off		2,311	-
Depreciation on:			
- property, plant and equipment		25,420	20,212
- leased assets		7,909	3,265
Others		1,432	2,495
		<u>211,754</u>	<u>127,016</u>

33.1 Salaries, wages and other benefits include following in respect of retirement benefits:

Pension fund	2,854	2,315
Gratuity fund	735	505
Provident fund	1,003	1,116
	<u>4,592</u>	<u>3,936</u>

Notes to the Financial Statements

For the year ended September 30, 2006

	2006	2005
	(Rupees in thousand)	
33.2 Professional services		
The charges for professional services include the following in respect of auditors' services for:		
- Statutory audit	750	425
- Half yearly review	150	150
- Certification charges	60	199
- Out of pocket expenses	27	99
	<u>987</u>	<u>873</u>

34. Distribution and selling costs

Salaries, wages and other benefits	- note 34.1	2,387	3,310
Freight and forwarding		55,474	45,992
Handling and distribution		1,465	1,143
Loading and unloading charges		6,420	4,427
Sales promotion expenses		596	1,226
Insurance		6,798	2,072
Others		441	-
		<u>73,581</u>	<u>58,170</u>

34.1 Salaries, wages and other benefits include provident fund contribution of Rs 0.098 million (2005: Rs 0.086 million) by the company.

	2006	2005
	(Rupees in thousand)	
35. Other operating expenses		
Workers Profit Participation Fund	-	9,479
Workers Welfare Fund	572	-
Loss on sale of property, plant and equipment	3,000	-
Impairment losses on:		
- Available for sale investments:		
classified as long term	- note 22.1	39,391
classified as short term	- note 28.1	54,171
- Held to maturity investments	- note 28.3	65,702
Merger expenses	-	579
Social action program expenses	4,071	8,884
Net exchange loss	12,083	4,995
Donations	3,922	13,993
Others	- note 35.1	170
	<u>183,082</u>	<u>39,165</u>

35.1 None of the directors and their spouses had any interest in any of the donees.



Notes to the Financial Statements

For the year ended September 30, 2006

	2006	2005
	(Rupees in thousand)	
36. Other operating income		
Income from financial assets		
Profit on sale of investments	385,384	32,297
Realized gain on investments held to maturity	1,482	23,527
Unrealized gain on investments held for trading	7,666	24,128
Dividend income from:		
- related parties	585	44,188
- others	149,703	15,178
Underwriting commission	1,600	-
Liability written back	395	467
Return on bank deposits	240	460
	<u>547,055</u>	<u>140,245</u>
Income from non-financial assets		
Scrap sales	25,907	16,136
Agricultural income	30,013	22,344
Profit on sale of property, plant and equipment	-	16,068
Rental income	94	83
Commission on sale of fertilizer	85	41
Amortization of deferred income	2,413	2,116
Others	2,120	5,073
	<u>60,632</u>	<u>61,861</u>
	<u>607,687</u>	<u>202,106</u>
36.1 Agricultural income		
Gain arising on changes in fair value / initial recognition of fair value of biological assets less estimated point-of-sale costs	1,029	122,787
Fair value of biological assets harvested less estimated point of sales cost	187,934	44,369
	<u>188,963</u>	<u>167,156</u>
Less: costs of biological assets harvested	158,950	144,812
	<u>30,013</u>	<u>22,344</u>
37. Finance cost		
Interest and mark-up on:		
- Long term finances	168,051	90,585
- Short term borrowings	497,202	161,389
- Workers' profit participation fund	257	412
- Finance lease	22,768	20,047
Bank charges, commission and excise duty	10,493	6,429
Others	2,918	585
	<u>701,689</u>	<u>279,447</u>

Notes to the Financial Statements

For the year ended September 30, 200

37.1 This includes preferred dividend of Rs 32.805 million (2005: 25.973 million).

37.2 This includes penalties aggregating to Rs. 1.6 million levied by leasing companies due to delayed payments.

	2006	2005
	(Rupees in thousand)	
38. Taxation		
For the year		
- Current	34,700	28,000
- Deferred	(324,182)	(3,538)
	(289,482)	24,462
Prior year		
- Current	(14,797)	2,000
- Deferred	(58,196)	(54,146)
	(72,993)	(52,146)
	(362,475)	(27,684)

38.1 In view of the available tax losses, the provision for current taxation represents the minimum tax due under section 113 of the Income Tax Ordinance, 2001. Such minimum tax is available for set off against normal tax liability that may arise in five succeeding tax years.

For purposes of current taxation the tax losses available for carry forward as at September 30, 2006 are estimated approximately at Rs 2,971 million (2005: Rs 907 million), including assessed tax losses of Rs 907 million (2005: Rs 628 million).

	2005
	% age
38.2 Tax charge reconciliation	
Numerical reconciliation between the average effective tax rate and the applicable tax rate	
Applicable tax rate	35.00
Tax effect of amounts that are:	
- Chargeable to tax at lower rates	(9.91)
- Exempt for tax purposes	(10.99)
- Not deductible for tax purposes	8.47
Tax effect under presumptive regime and others	(8.96)
Effect of change in prior years tax	(29.02)
	(50.41)
Average effective tax rate charged to profit and loss account	(15.41)

38.2.1 Since the company is in losses, the current tax provision represents the tax under section 113 of the Income Tax Ordinance, 2001, therefore it is impracticable to prepare the tax charge reconciliation for the year.



Notes to the Financial Statements

For the year ended September 30, 2006

		2006	Restated 2005
39. Earnings per share			
39.1 Basic earnings per share			
(Loss) / profit for the year	Rupees	66,639,000	207,381,000
Weighted average number of ordinary shares in issue during the year	Numbers	53,477,810	48,007,699
Earnings per share - basic	Rupees	1.25	4.32
39.2 Diluted earnings per share			
There is no dilution of the basic earnings per share of the company as the effect of company's commitment to convert 1,000 preference shares into 167 ordinary shares of Rs 10 each is anti-dilutive.			
		2006	2005
		(Rupees in thousand)	
40. Cash used in operating activities			
(Loss)/profit before taxation		(295,836)	179,697
Add: Adjustment for:			
Depreciation on property, plant and equipment		287,006	143,335
Depreciation on leased assets		26,228	25,796
Amortization of deferred income		(2,413)	(2,116)
Liability written back		(395)	-
Loss / (profit) on sale of property, plant and equipment		3,000	(16,068)
Impairment losses on investments		159,264	-
Gain on sale of investments		(385,384)	-
Provision against doubtful receivables		29,795	-
Bad debts and advances written off		2,311	-
Unrealized gain on investments held for trading		(7,666)	(24,128)
Provision for employees' retirement benefits		7,592	6,585
Dividend income		(150,288)	(59,366)
Fair value gain on recognition of biological assets		(30,013)	(22,344)
Finance cost		701,689	279,447
		640,726	331,141
Profit before working capital changes		344,890	510,838
Effect on cash flow due to working capital changes:			
(Increase) in stores and spares		(23,318)	(28,459)
(Increase) in stock-in-trade		(882,290)	(476,926)
(Increase) in biological assets		(39,199)	(100,443)
Decrease / (increase) in trade debts		113,616	(214,048)
(Increase) in loans, advances, prepayments and other receivables		(33,342)	(195,829)
(Increase) in investments		-	(324,283)
Increase / (decrease) in trade and other payables		67,712	(237,295)
		(796,821)	(1,577,283)
		(451,931)	(1,066,445)

Notes to the Financial Statements

For the year ended September 30, 2006

41. Remuneration of Chief Executive, Directors and Executives

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

	Director		Executives	
	2006 (Rupees in thousand)	2005	2006 (Rupees in thousand)	2005
Managerial remuneration	900	1,200	17,910	15,735
Contribution to provident fund, gratuity and pension funds	311	75	5,501	2,703
Production incentives	–	–	180	–
House rent	405	540	6,507	5,983
Utilities	90	120	1,761	1,573
Reimbursable expenses	210	2,705	552	865
Others	–	57	1,061	1,036
	<u>1,916</u>	<u>4,697</u>	<u>33,472</u>	<u>27,895</u>
Number of persons	1	1	13	13

- 41.2 The Company also provides some of its executives with company maintained cars.

- 41.3 Aggregate amount charged in the financial statements for the year for fee to 8 directors (2005: 8 directors) was Rs 160,000 (2005: Rs 160,000).



Notes to the Financial Statements

For the year ended September 30, 2006

42. Related Party Disclosures

The related parties comprise associated undertakings, other related companies and key management personnel. The company in the normal course of business carries out transactions with various related parties. Amounts due from and due to related parties are shown under receivables and payables and remuneration of the key management personnel is disclosed in note 41. Other significant transactions with related parties are as follows:

		2006	2005
		(Rupees in thousand)	
Relationship with the company	Nature of transactions		
i. Associated Undertakings	Purchase of goods and services	66,591	720
	Sale of goods and services	65,379	24,940
	Share of common expenses	726	5,083
	Lease rentals paid	1,233	8,312
	Dividend income	585	44,188
	Insurance premium paid	-	2,294
	Repayment of long term loan	-	2,190
	Finance cost paid	-	663
ii. Other related parties	Expenses incurred on behalf of the company	3,879	1,420
	Receipt of funds on behalf of the company	150,930	425,837
	Payments made to/on behalf of the company	177,407	168,177
	Purchase of marketable securities	17,325	-
	Sale of property, plant and equipment	1,127	-
	Share deposit money given	350,000	-
	Interest free loan given	59,420	-
iii. Post employment benefit plans	Expense charged in respect of retirement benefit plans	11,137	9,969

All transactions with related parties have been carried out on commercial terms and conditions.

Notes to the Financial Statements

For the year ended September 30, 2006

		2006	2005
43. Capacity and production			
Sugar			
Rated crushing capacity -			
On the basis of 140 days (2005: 160 days)	M. Tons	2,240,000	1,600,000
Actual cane crushed	M. Tons	1,288,547	1,324,510
The low crushing was due to shortage of sugarcane due to impact of frost attack in January 2006 and unsuitable weather conditions			
Distillery			
On the basis of 270 days (2005: 270 days) working	Liters	43,200,000	43,200,000
Actual production	Liters	27,625,611	33,245,964
The low production of ethanol was due to shortage of raw materials and lack of available orders from customers			
Particle board			
On the basis of 100 days (2005: 200 days) working	Cubic meter	3,000	6,000
Actual production	Cubic meter	1,477	3,584
The low production of particle board was due to shortage of bagasse.			
Textile			
Capacity (converted in 20s counts)	Kgs	8,899,263	8,899,263
Actual production (converted in 20s counts)	Kgs	7,819,205	7,952,951
The low production of yarn was due to stoppages in electricity supply and shut-down of plant for major maintenance works.			
44. Number of employees			
The company employed 2,147 employees as at September 30, 2006 (2005: 1,470).			



Notes to the Financial Statements

For the year ended September 30, 2006

45. Business segments information

		(Rupees in thousand)									
		Sugar		Distillery		Particle Board		Textile		Total	
		2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Net sales	- note 31	4,286,721	4,102,050	761,502	529,036	6,419	29,603	704,443	577,703	5,410,521	4,962,460
Segment expenses											
- Cost of sales	- note 32	4,228,197	3,620,406	603,072	589,204	4,946	24,835	656,287	522,558	5,143,938	4,481,071
Gross profit/(loss)		58,524	481,644	158,430	(60,168)	1,473	4,768	48,156	55,145	266,583	481,389
- Administrative expenses	- note 33	158,146	90,433	28,090	12,504	237	700	25,278	23,379	211,754	127,016
- Distribution and selling costs	- note 34	11,960	11,347	57,588	45,416	18	19	4,072	1,388	73,581	58,170
		170,049	101,780	85,681	57,920	255	719	29,350	24,767	285,335	185,186
Segment results		(111,525)	379,864	72,749	(118,088)	1,218	4,049	18,806	30,378	(18,752)	296,203
45.1 Inter-segment sales and purchases											
Inter-segment sales and purchases have been eliminated from total figures.											
45.2 Segment assets		4,634,550	3,225,809	1,030,809	915,997	16,919	12,168	650,453	499,304	6,332,731	4,653,278
Unallocated assets										5,386,159	5,433,382
										11,718,890	10,086,660
45.3 Segment liabilities		1,256,541	6,401	252,504	3,020	22	76	456,501	271,501	1,965,568	280,998
Unallocated liabilities										9,753,322	9,805,662
										11,718,890	10,086,660
45.4 Capital expenditure		2,173,109	171,697	390,462	268,813	-	898	54,213	51,309	2,617,784	492,717
Unallocated										176,572	174,065
										2,794,356	666,782
45.5 Depreciation/Amortization		223,871	87,815	37,129	36,059	851	920	17,869	17,415	279,720	142,209
Unallocated										33,514	26,922
										313,234	169,131
45.6 Secondary reporting format											
Segment revenue from external customers by geographical areas is as follows:											
Distillery export sales - Europe											
		-	-	641,354	415,835	-	-	-	-	641,354	415,835
Export sales - Others											
		-	-	-	-	-	-	73,406	-	73,406	-
Local sales											
		3,938,157	3,826,118	120,148	113,201	6,419	29,603	631,037	577,703	4,695,761	4,546,625
		3,938,157	3,826,118	761,502	529,036	6,419	29,603	704,443	577,703	5,410,521	4,962,460

Notes to the Financial Statements

For the year ended September 30, 2006

46. Financial assets and liabilities

	(Rupees in thousand)									
	Interest / mark-up bearing			Non-interest bearing			Total		Credit Risk	
	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total	2006 Total	2005 Total	2006	2005
Financial assets										
Long term loan and deposits	—	3,726	3,726	—	105,203	105,203	108,929	44,532	108,929	44,532
Trade debts	—	—	—	217,227	—	217,227	217,227	330,843	217,227	330,843
Loans, advances and other receivables	115,779	—	115,779	24,018	—	24,018	139,797	297,716	139,797	297,716
Investments	—	—	—	2,446,277	844,170	3,290,447	3,290,447	3,454,152	3,290,447	3,454,152
Cash and bank balances	100,260	—	100,260	90,075	—	90,075	190,335	19,733	187,313	18,198
	216,039	3,726	219,765	2,777,597	949,373	3,726,970	3,946,735	4,146,976	3,943,713	4,145,441
Off balance sheet	—	—	—	—	—	—	—	—	—	—
Total	216,039	3,726	219,765	2,777,597	949,373	3,726,970	3,946,735	4,146,976	3,943,713	4,145,441
Financial liabilities										
Long term finances	507,184	1,459,203	1,966,387	—	—	—	1,966,387	2,291,537		
Long term advances	—	—	—	—	—	—	—	10,674		
Liabilities against assets subject to finance lease	71,991	131,727	203,718	—	—	—	203,718	257,780		
Employees' retirement benefits	—	—	—	—	—	—	—	267		
Short term borrowings	5,580,721	—	5,580,721	—	—	—	5,580,721	3,988,858		
Trade and other payables	—	—	—	306,822	—	306,822	306,822	242,952		
Accrued finance cost	259,469	—	259,469	—	—	—	259,469	151,804		
	6,419,365	1,590,930	8,010,295	306,822	—	306,822	8,317,117	6,943,872		
Off balance sheet										
Contracts for capital expenditure	—	—	—	132,484	—	132,484	132,484	161,722		
Guarantees	—	—	—	89,996	—	89,996	89,996	89,996		
Letters of credit other than for capital expenditure	—	—	—	2,507	—	2,507	2,507	2,393		
	—	—	—	224,987	—	224,987	224,987	254,111		
Total	6,419,365	1,590,930	8,010,295	531,809	—	531,809	8,542,104	7,197,983		
On balance sheet gap	(6,203,326)	(1,587,204)	(7,790,530)	2,470,775	949,373	3,420,148	(4,370,382)	(2,796,896)		
Off balance sheet gap	—	—	—	(224,987)	—	(224,987)	(224,987)	(254,111)		

The effective interest/mark-up rates for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements.



Notes to the Financial Statements

For the year ended September 30, 2006

46.1 Financial risk management objectives

The company finances its operations through equity, borrowings and management of working capital with a view to maintaining a reasonable mix between the various sources of finance to minimize risk. Taken as a whole, risks arising from the company's financial instruments is limited as there is no significant exposure to market risk in respect of such instruments. The company manages its exposure to financial risk in the following manner:

(a) Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The company's credit risk primarily attributable to its trade debts and its balances at banks. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. Out of the total financial assets of Rs 3,946 million (2005: Rs 4,147 million), the financial assets which are subject to credit risk amount to Rs 3,943 million (2005: Rs 4,145 million). The company believes that it is not exposed to major concentration of credit risk as exposure is spread over a large number of counter parties in case of trade debts. To manage exposure to credit risk, the company applies credit limits to its customers.

(b) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises mainly where receivables and payables exist due to transactions with foreign buyers and suppliers. The company believes that it is not exposed to major foreign exchange risk.

(c) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The company borrows at fixed and market based rates and as such the risk is minimized. Significant interest rate risk exposures are primarily managed by a mix of borrowings at fixed and variable interest rates and contracting floor and cap of interest rates as referred to in note 8.

(d) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. The company follows an effective cash management and planning policy to ensure availability of funds. The company also aims at maintaining flexibility in funding by keeping committed credit lines available.

46.2 Fair value of financial assets and liabilities

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

47. Date of authorization of issue

These financial statements were authorized for issue on February 03, 2007 by the board of directors of the company.

Notes to the Financial Statements

For the year ended September 30, 2006

48. Events after the balance sheet date


The Board has recommended to issue bonus shares in proportion of Nil (2005: 15) bonus shares for every 100 ordinary shares held.

49. Corresponding figures

Previous year's figures have been rearranged, wherever necessary for the purposes of comparison. Significant re-arrangements made are as follows:

	(Rupees in thousand)
Classified from Loans, advances, deposits, prepayments and other receivables to Long term loans and deposits	
- Advance to Creek Marina	150,000
Classified from Investments to Long term loans and deposits	
- Asian Capital Management Fund	10,000
Classified from Cash and bank to Loans, advances, deposits, prepayments and other receivables	
- Balance with Crescent Standard Investment Bank Limited	81,409

The above figures have been re-arranged as the re-classification made is considered more appropriate for the purpose of presentation.


Chief Executive


Chairman



Consolidated Financial Statements
For the Year Ended September 30, 2006





Auditors' Report to the Members

A. F. Ferguson & Co.
Chartered Accountants
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We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Shakarganj Mills Limited and its subsidiary company as at September 30, 2006 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. We have also expressed separate opinion on the financial statements of Shakarganj Mills Limited except for the financial statements of its subsidiary company, Shakarganj Food Products Limited (Formerly A. M. Fruit Products (Private) Limited), which were reviewed in accordance with International Standard on Auditing applicable to review engagements by another firm of auditors, whose report has been furnished to us and our opinion, in so far as it relates to the amounts included for such company, is based solely on the review report of such other auditors. These financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with the International Standards on Auditing and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

Group's share of income from associated companies of Rs 27.882 million shown in the consolidated profit and loss account and in note 23.1 to the consolidated financial statements is based on unaudited financial statements of these associated companies.

Except for the effect, if any, of the matter referred to in the preceding paragraph, in our opinion the consolidated financial statements present fairly the financial position of Shakarganj Mills Limited and its subsidiary company as at September 30, 2006 and the results of their operations for the year then ended.

Chartered Accountants

Lahore, February 03, 2007

Consolidated Balance Sheet

As at September 30, 2006

	Note	2006 (Rupees in thousand)	2005 (Rupees in thousand)
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised capital			
- 80,000,000 (2005: 80,000,000) ordinary shares of Rs 10 each		800,000	800,000
- 50,000,000 (2005: 50,000,000) preference shares of Rs 10 each		500,000	500,000
		<u>1,300,000</u>	<u>1,300,000</u>
Issued, subscribed and paid up capital	5	579,365	540,537
Reserves		2,629,575	2,257,435
Unappropriated profit		<u>255,259</u>	<u>332,494</u>
		3,464,199	3,130,466
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT	6	3,157	3,183
NON-CURRENT LIABILITIES			
Long term finances	7	1,860,203	1,884,783
Long term advances	8	-	8,872
Liabilities against assets subject to finance lease	9	131,727	183,529
Employees' retirement benefits	10	3,656	267
Deferred income	11	4,824	5,872
		<u>2,000,410</u>	<u>2,083,323</u>
CURRENT LIABILITIES			
Current portion of long term liabilities	12	596,175	482,807
Short term borrowings - secured	13	5,655,200	3,988,858
Trade and other payables	14	479,877	274,421
Accrued finance cost	15	281,528	151,804
		<u>7,012,780</u>	<u>4,897,890</u>
CONTINGENCIES AND COMMITMENTS	16		
		<u>12,480,546</u>	<u>10,114,862</u>




Consolidated Balance Sheet

As at September 30, 2006

	Note	2006 (Rupees in thousand)	2005
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	17	4,961,084	1,744,787
Intangible assets	18	11,943	-
Assets subject to finance lease	19	277,341	278,643
Capital work-in-progress	20	643,797	2,602,768
Goodwill	21	79,706	-
Biological assets	22	7,413	12,393
Investments - related parties	23	614,412	689,931
Long term loan and deposits	24	94,156	204,532
Deferred taxation	25	376,873	7,200
		<u>7,066,725</u>	<u>5,540,254</u>
CURRENT ASSETS			
Biological assets	22	184,586	110,394
Stores, spares and loose tools	26	121,833	76,326
Stock-in-trade	27	1,886,061	941,516
Trade debts	28	220,741	330,843
Investments	29	2,446,277	2,825,143
Loans, advances, deposits, prepayments and other receivables	30	363,786	270,653
Cash and bank balances	31	190,537	19,733
		<u>5,413,821</u>	<u>4,574,608</u>
		<u>12,480,546</u>	<u>10,114,862</u>

The annexed notes 1 to 52 form an integral part of these financial statements.


Chief Executive


Chairman

Consolidated Profit and Loss Account

For the year ended September 30, 2006

	Note	2006 (Rupees in thousand)	2005
Sales	32	5,410,521	4,962,460
Cost of sales	33	(5,143,938)	(4,481,071)
Gross profit		266,583	481,389
Administrative expenses	34	(211,754)	(127,016)
Distribution and selling costs	35	(73,581)	(58,170)
Other operating expenses	36	(145,891)	(39,165)
Other operating income	37	607,687	199,143
Profit from operations		443,044	456,181
Finance cost	38	(701,689)	(279,447)
(Loss)/income from associated companies		(27,882)	62,556
(Loss) / profit before tax		(286,527)	239,290
Taxation			
- Group	39	349,770	27,684
- Associated companies		(504)	(3,725)
		349,266	23,959
Profit for the year attributable to equity holders of parent		62,739	263,249
Combined earnings per share - basic	40	1.17	5.48

The annexed notes 1 to 52 form an integral part of these financial statements.


Chief Executive


Chairman

Consolidated Cash Flow Statement

For the year ended September 30, 2006

	Note	2006 (Rupees in thousand)	2005
Cash flows from operating activities			
Cash used in operations	41	(510,731)	(1,036,803)
Finance cost paid		(594,024)	(168,949)
Taxes paid		(29,701)	(30,594)
Employees' retirement benefits paid		(5,506)	(7,884)
Net (increase) in long term deposits		109,962	(3,713)
Net cash used in operating activities		(1,030,000)	(1,247,943)
Cash flows from investing activities			
Fixed capital expenditure		(783,639)	(1,837,687)
Investment made		(1,365,413)	-
Proceeds from sale / maturity of investment		1,744,705	-
Acquisition of subsidiary SFPL, net of cash acquired		101	-
Investments in associated companies		(19,994)	(25,916)
Repayment / (Disbursement) of long term loan to SNGPL		-	(4,140)
Dividend received		149,423	80,000
Proceeds from sale of property, plant and equipment		5,243	21,995
Net cash used in investing activities		(269,574)	(1,765,748)
Cash flows from financing activities			
Proceeds from long term finances		-	931,912
Proceeds from issue of share capital		258,646	-
Repayment of long term finances		(325,150)	(285,696)
Sale proceeds from sale and lease back transaction		15,012	-
Long term advances		-	(48,999)
Net increase in short term borrowings - secured		1,591,863	2,497,761
Payment of finance lease liabilities		(69,954)	(21,980)
Dividend paid		(39)	(67,855)
Net cash from financing activities		1,470,378	3,005,143
Net (decrease)/increase in cash and cash equivalents		170,804	(8,548)
Cash and cash equivalents at the beginning of the year		19,733	28,281
Cash and cash equivalents at the end of the year	31	190,537	19,733

The annexed notes 1 to 52 form an integral part of these financial statements.


Chief Executive


Chairman

Consolidated Statement of Changes in Equity

For the year ended September 30, 2006

	Share capital	CAPITAL RESERVE				
		Balancing and modernization	Research and development	Share premium	Share in fair value reserve of associates	Fair value reserve
Balance as on September 30, 2004	388,430	15,000	5,000	23,464	39,067	825,643
Final dividend for the year ended September 30, 2004	-	-	-	-	-	-
Transfer from surplus on revaluation of property, plant and equipment on account of incremental depreciation	-	-	-	-	-	-
Transferred to reserves	-	-	-	-	-	-
Preference shares (note 5.1)	152,107	-	-	-	-	-
Fair value gain during the year	-	-	-	-	-	696,713
Share in fair value reserve of associated companies	-	-	-	-	24,439	-
Profit for the year	-	-	-	-	-	-
Balance as on September 30, 2005	540,537	15,000	5,000	23,464	63,506	1,522,356
Transfers to General Reserve	-	(15,000)	(5,000)	-	-	-
Fair value loss during the year	-	-	-	-	-	65,623
Share in fair value reserve of associated companies	-	-	-	-	(53,301)	-
Premium on conversion of preference shares (note 5.1)	(126,705)	-	-	126,705	-	-
Bonus Shares issued during the year	62,074	-	-	(62,074)	-	-
Right shares issued during the year	103,459	-	-	155,187	-	-
Transfer from surplus on revaluation of property, plant and equipment on account of incremental depreciation	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	-
Balance as on September 30, 2006	579,365	-	-	243,282	10,205	1,587,979

The annexed notes 1 to 52 form an integral part of these financial statements.



Chief Executive



R E S E R V E S

(Rupees in thousand)

	Difference of capital under scheme of arrangement of merger	Sub-total	REVENUE RESERVE				Total	Unappropriated profit / (loss)	Total
			General	Dividend equalization	Equity investment market value equalization	Sub-total			
	155,930	1,064,104	262,479	22,700	83,000	368,179	1,432,283	241,191	2,061,904
	-	-	-	-	-	-	-	(67,975)	(67,975)
	-	-	-	-	-	-	-	29	29
	-	-	104,000	-	-	104,000	104,000	(104,000)	-
	-	-	-	-	-	-	-	-	152,107
	-	696,713	-	-	-	-	696,713	-	696,713
	-	24,439	-	-	-	-	24,439	-	24,439
	-	-	-	-	-	-	-	263,249	263,249
	155,930	1,785,256	366,479	22,700	83,000	472,179	2,257,435	332,494	3,130,466
	-	(20,000)	160,000	-	-	160,000	140,000	(140,000)	-
	-	65,623	-	-	-	-	65,623	-	65,623
	-	(53,301)	-	-	-	-	(53,301)	-	(53,301)
	-	126,705	-	-	-	-	126,705	-	-
	-	(62,074)	-	-	-	-	(62,074)	-	-
	-	155,187	-	-	-	-	155,187	-	258,646
	-	-	-	-	-	-	-	26	26
	-	-	-	-	-	-	-	62,739	62,739
	155,930	1,997,396	526,479	22,700	83,000	632,179	2,629,575	255,259	3,464,199


Chairman

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

1. Legal status and nature of business

Shakarganj Mills Limited (the parent company) and its subsidiary, Shakarganj Food Products Limited (together, 'the group') are engaged in the following business:

- manufacture, purchase and sale of sugar, ethanol, building material and yarn through the holding company, Shakarganj Mills Limited; and

- manufacture and sale of juices, dairy products and other allied products, through the subsidiary company, Shakarganj Food Products Limited (formerly A. M. Fruit Products (Private) Limited).

2. Basis of preparation

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

- 2.2 Standards, Interpretations and amendments to published approved accounting standards that are not yet effective

The following amendments to existing standards have been published that are applicable to the group's financial statements covering annual periods, beginning on or after the following dates:

	Effective from
i) IAS 19 - (Amendments) - Employee benefits	October 1, 2006
ii) IAS 1 - Presentation of financial statements - capital disclosure	October 1, 2007
iii) IFRS 3 - Business combinations	October 1, 2007

Adoption of the above amendments would result in an impact on the nature and extent of disclosures made in the future financial statements of the group.

3. Basis of measurement

- 3.1 These financial statements have been prepared under the historical cost convention except for recognition of certain employees' retirement benefits at present value as referred to in note 4.3, revaluation of certain property, plant and equipment as referred to in note 4.4, valuation of biological assets at fair value as referred to in note 4.8 and revaluation of certain financial instruments at fair value as referred to in note 4.10
- 3.2 The preparation of financial statements in conformity with the above requirements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The matters involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in the respective notes to the financial statements.



Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

3.3 Change in accounting estimate

In pursuance of revised International Accounting Standard (IAS) 16 "Property, Plant and Equipment" which is applicable for accounting years beginning on or after January 1, 2005, the group has revised the following accounting estimates:

The group now charges depreciation on all additions to property, plant and equipment and assets subject to finance lease from the month in which an asset is acquired or capitalized while no depreciation is charged for the month in which the asset is disposed off. Previously, full year's depreciation was charged on all assets acquired or capitalized during the year while no depreciation was charged on the assets disposed off during the year. Such a change has been accounted for as a change in an accounting estimate in accordance with International Accounting Standard (IAS) 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

Had there been no change in the accounting estimate, the loss after taxation for the year ended September 30, 2006 would have been higher by Rs 36.16 million, carrying value of property, plant and equipment would have been lower by Rs 47.312 million and carrying value of assets subject to finance lease would have been lower by Rs 1.374 million. Consequential effect on profit after taxation for future periods is not considered to be material.

4. Significant accounting policies

4.1 Principles of consolidation

The consolidated financial statements include Shakarganj Mills Limited and all companies in which it directly or indirectly controls, beneficially owns or holds more than 50% of the voting securities or otherwise has power to elect and appoint more than 50% of its directors. Subsidiaries are consolidated as from the date of acquisition using the purchase method. Under this method, the cost of an acquisition is measured at the fair value of assets given, equity instruments issued and liabilities assumed at the date of the exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of cost of acquisition over the fair value of the group's share of the identifiable net assets is recorded as goodwill. If the cost of acquisition is less than the fair value of net assets of the subsidiary acquired, the difference is recognized directly in profit and loss account.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Details of the subsidiaries are given in note 51. Investments in associated companies, where the group has significant influence, are accounted for by the equity method.

Minority interests are that part of the net results of operations and of net assets of subsidiaries attributable to interests which are not owned by the parent company.

4.2 Taxation

Current

Provision of current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

Provision is not made for taxation which would become payable if retained profits of subsidiaries were distributed to the parent company, as it is not the intention to distribute more than the dividends, the tax on which is included in the financial statements.

4.3 Employees' retirement benefits

The main feature of the schemes operated by the Group for its employees are as follows:

4.3.1 Defined benefit plans

Parent

All permanent employees who are in the management cadre of the group participate in an approved funded defined benefit pension plan. In addition, there is an approved funded defined benefit gratuity scheme for all permanent employees, who are in the management cadre of the group subject to a minimum qualifying period of service according to the terms of employment. Monthly contributions are made to these funds on the basis of actuarial recommendation at the rate of 20% per annum of basic salary for pension and 8.33% per annum of basic salary for gratuity. Actuarial valuation for the schemes was carried out as at September 30, 2006.

Actual returns on plan assets during the year were Rs 16.819 million and Rs 3.294 million for pension and gratuity funds respectively. The actual returns on plan assets represent the difference between the fair value of plan assets at the beginning of the year and as at the end of the year after adjustments for contributions made by the group as reduced by benefits paid during the year.

The future contribution rates of these plans include allowances for deficit and surplus. Projected unit credit method using the following significant assumptions, is used for valuation of these schemes:

Discount rate	9%
Expected increase in eligible pay	8%
Expected rate of return on plan assets	10%

The parent company policy with regard to actuarial gains/losses is to follow minimum recommended approach under IAS 19 (revised 2000).



Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

Subsidiary

The subsidiary company operates an unfunded gratuity scheme covering all permanent employees who complete prescribed qualifying period of service. The obligations under gratuity scheme is calculated on the basis of last drawn salary and length of service of the employee.

4.3.2 Defined contribution plans

Parent

There is an approved contributory provident fund for all permanent employees. Equal monthly contributions are made by the group and employees to the fund in accordance with the fund rules.

Interest @ 7-8% per annum is payable to the fund on the balances utilized by the group which is charged to profit.

Retirement benefits are payable to staff on completion of prescribed qualifying period of service under these schemes.

4.4 Property, plant and equipment

Freehold land, buildings and plant and machinery of the parent company, as at September 30, 1979 have been revalued by an independent valuer as of that date and are shown at net revalued figures less accumulated depreciation and any identified impairment loss. Additions subsequent to that date are stated at cost less accumulated depreciation and any identified impairment loss. All other property, plant and equipment are stated at cost less accumulated depreciation and any identified impairment loss. Costs in relation to certain property, plant and equipment comprises of historical cost, revalued amount and borrowing costs referred to in note 4.17.

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to surplus on revaluation of property, plant and equipment. Decreases that offset previous increases of the same assets are charged against this surplus, all other decreases are charged to income. Each year the difference between depreciation based on revalued carrying amount of the asset (the depreciation charged to the income) and depreciation based on the assets' original cost is transferred from surplus on revaluation of property, plant and equipment to unappropriated profit. All transfers to/from surplus on revaluation of property, plant and equipment are net of applicable deferred taxation.

Major repairs and improvements are capitalized. Minor repairs and renewals are charged to income. The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as income or expense.

Depreciation on all property, plant and equipment, except land is charged to profit on the reducing balance method so as to write off the cost of an asset over its estimated useful life at the annual rates given in note 17 after taking into account the impact of their residual values, if considered significant.

The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant. The group's estimate of the residual value of its property, plant and equipment as at September 30, 2006 has not required any adjustment as its impact is considered insignificant.

Depreciation on additions to property, plant and equipment is charged from the month in which the asset

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

is acquired or capitalized, while no depreciation is charged for the month in which the asset is disposed off. The group assesses at each balance sheet date whether there is any indication that property, plant and equipment may be impaired. If such indication exists, the carrying amount of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment is recognized in income currently. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. Where an impairment loss is recognized, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

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

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense.

4.5 Intangible assets

Expenditure incurred on registration of Trade marks, copy rights and new brand development activities are capitalized as intangible assets and stated at cost less accumulated amortization and any identified impairment loss. Intangible assets are amortized using the straight line method over a period of five years.

The Group assesses at each balance sheet date whether there is any indication that intangible asset may be impaired. If such indication exists, the carrying amount of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in income currently. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognised, the amortisation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

Expenditure incurred for promotional activities is charged to the profit and loss account for the period in which these are incurred.

4.6 Capital work-in-progress

Capital work-in-progress is stated at cost less any identified impairment loss.

4.7 Goodwill

Goodwill (being the difference between consideration paid for new interest in Group companies and associated companies and the fair value of the Group's share of their net assets at the date of acquisition) is capitalised and amortised over its estimated useful life at an annual rate of 20 %.

4.8 Biological assets

Biological assets comprise of standing crops and livestock. These are stated at fair value less estimated point-of-sale costs, with any resultant gain or loss recognized in the profit and loss account. The fair value of standing crops is based on the support price fixed by the Government and other factors such as the estimated crop yield and area under cultivation. Fair value of livestock is estimated on the basis of market prices of livestock of similar age, breed and genetic merit. Point-of-sale costs include all costs that would be necessary to sell the assets, excluding costs necessary to get the assets to the market.



Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

4.9 Leases

The group is the lessee:

4.9.1 Finance leases

Leases where the group has substantially all the risks and rewards of ownership are classified as finance leases. At inception, finance leases are capitalized at the lower of present value of minimum lease payments under the lease agreements and the fair value of the assets.

The related rental obligations, net of finance cost, are included in liabilities against assets subject to finance lease as referred to in note 9. The liabilities are classified as current and non-current depending upon the timing of the payment.

Each lease payment is allocated between the liability and finance cost 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.

Assets acquired under a finance lease are depreciated over the useful life of the asset on reducing balance method at the rates given in note 19. Depreciation on leased assets is charged to the profit and loss account.

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.

4.9.2 Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit on a straight-line basis over the lease term.

4.10 Investments

4.10.1 Investments in equity instruments of associated companies

Associates are all entities over which the Group has significant influence but not control. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

4.10.2 Other investments

Held to maturity

Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held to maturity and are initially measured at cost and at subsequent reporting dates measured at amortized cost using the effective yield method.

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

Available for sale

Investments classified as available for sale, including investments in associated undertakings where the group does not have significant influence, are initially measured at cost, being the fair value of consideration given. At subsequent reporting dates, these investments are remeasured at fair value, unless fair value cannot be reliably measured. Unrealized gains and losses arising from the changes in the fair value are included in fair value reserve in the period in which they arise.

Investments intended to be held for less than twelve months from the balance sheet date or to be sold to raise operating capital, are included in current assets, all other investments are classified as non-current. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

Held for trading

Investments that are acquired principally for the purpose of generating a profit from short term fluctuations in price are classified as trading investments and included in current assets. These are initially measured at cost and at subsequent reporting dates, these investments are remeasured at fair value. Realized and unrealized gains and losses arising from changes in fair value are included in net profit or loss for the period in which they arise.

The fair value of publicly traded securities is based on market prices quoted on Karachi Stock Exchange at the balance sheet date. The investments for which a quoted market price is not available, are measured at cost as it is not practical to apply any other valuation methodology.

All purchases and sales of investments are recognized on the trade date which is the date that the group commits to purchase or sell the investment. Cost of purchase includes transaction cost.

At each balance sheet date, the group reviews the carrying amounts of the investments to assess whether there is any indication that such investments have suffered an impairment loss. If any such indication exists, the recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment losses are recognized as expense. Where an impairment loss subsequently reverses, the carrying amount of the investment is increased to the revised recoverable amount but limited to the extent of initial cost of the investment.

4.11 Stores, spares and loose tools

Usable stores and spares are valued principally at moving average cost, while items considered obsolete are carried at nil value. Items in transit are valued at cost comprising invoice value plus other charges paid thereon.

4.12 Stock-in-trade

Stock of raw materials, except for those in transit, work-in-process and finished goods are valued principally at the lower of weighted average cost and net realizable value. Cost of work-in-process and finished goods comprises cost of direct materials, labour and appropriate manufacturing overheads. Cost of own produced molasses, a by product, is determined on the basis of monthly average cost of molasses purchased from third parties.

Materials in transit are stated at cost comprising invoice values plus other charges paid thereon.

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



Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

4.13 Financial assets and liabilities

Financial assets and financial liabilities are recognized when the company becomes a party to the contractual provisions of the instrument. 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 measurement methods adopted are disclosed in the individual policy statements associated with each item.

4.14 Offsetting of financial assets and financial liabilities

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

4.15 Trade debts

Trade debts are carried at original invoice amount less an estimate made for doubtful receivable balances based on review of outstanding amounts at the year end. Bad debts are written off when identified.

4.16 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 cash in hand, demand deposits, other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of change in value.

4.17 Borrowings

Loans and borrowings are recorded at the proceeds received. In subsequent periods, borrowings are stated at amortized cost using the effective yield method. Preference shares, which are redeemable on a specific date at the option of the holder, are classified as liabilities. The dividend on these preference shares is recognized in the profit and loss account as finance cost. Preference share are classified as equity to the extent there is conclusive evidence that these will not result in an outflow of another financial asset or exchange of financial assets or liabilities under conditions that are potentially unfavorable to the company.

Finance cost is accounted for on an accrual basis.

4.18 Creditors, accruals and provisions

Liabilities for creditors and other amounts payable are carried at cost, which is the fair value of the consideration to be paid in future for the goods and/or services received, whether or not billed to the group.

Provisions are recognized when the group has a present legal or constructive obligation as a result of past events, it is probable will result in an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at year end and adjusted to reflect the current best estimate.

4.19 Deferred income

Deferred income represents excess of sale proceeds in relation to the carrying amount of the asset acquired under sale and lease back arrangement. Deferred income is amortized on a straight line basis over the period of lease term.

4.20 Derivative financial instruments

These are initially recorded at cost and are remeasured at fair value at subsequent reporting dates.

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

4.21 Foreign currencies

All monetary assets and liabilities in foreign currencies are translated into rupees at exchange rates prevailing at the balance sheet date. Transactions in foreign currencies are translated into rupees at the spot rate. All non-monetary items are translated into rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined.

All exchange differences are charged to the profit and loss account.

4.22 Finance cost

Mark-up, interest and other charges on borrowings are capitalized upto the date of commissioning of the respective property, plant and equipment, acquired out of the proceeds of such borrowings. All other mark-up, interest and other charges are charged to profit.

4.23 Revenue recognition

Revenue from sales is recognized on dispatch of goods to customers.

Dividend on equity investments is recognized as income when the right of receipt is established. Return on deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

4.24 Business segments

The group is divided into following business segments:

- Sugar division - manufacture and sale of sugar;
- Distillery division - manufacture and sale of ethanol;
- Particle board division - manufacture and sale of particle boards;
- Textile division - manufacture and sale of yarn; and
- Fruit and dairy division - manufacture and sale of fruit and dairy products.

All these business segments are located in approximately the same geographical area.

4.24.1 Segment assets and liabilities

The assets of a segment include all operating assets used by a segment and consists principally of operating cash, receivables, inventories and property, plant and equipment, net off allowances and provisions.

Segment liabilities include all operating liabilities consisting principally of deferred liabilities, other payables and accrued liabilities.

The carrying amount of identifiable assets and liabilities are directly attributed to respective segments. The carrying amount of jointly used assets and liabilities of sugar and allied segments is classified as unallocated assets and liabilities.

4.24.2 Allocation of segment expenses

All identifiable expenses are directly attributed to the respective segments. The jointly incurred expenses of sugar and allied segments are allocated on the basis of segment revenues.

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

5. Issued, subscribed and paid up capital

2006 (Number of shares)	2005		2006 (Rupees in thousand)	2005
		Ordinary		
23,544,798	13,198,995	Ordinary shares of Rs 10 each		
		fully paid in cash	235,448	131,990
21,544,516	15,337,034	Ordinary shares of Rs 10 each issued as fully		
		paid bonus shares	215,445	153,370
12,847,184	10,307,000	Ordinary shares of Rs 10 each issued as fully		
		paid for consideration other than cash	128,472	103,070
57,936,498	38,843,029		579,365	388,430
		Preference		
-	15,210,691	Preference shares of Rs 10 each fully		
		paid in cash	-	152,107
57,936,498	54,053,720		579,365	540,537

Ordinary shares of the company held by associated undertakings as at year end are as follows:

	2006 (No. of shares)	2005
Asian Stock Fund Limited	2,023,500	1,800,000
Crescent Commercial Bank Limited	115	100
Crescent Jute Products Limited	192,280	167,200
Crescent Standard Business Management (Private) Limited	-	7,103
Crescent Steel and Allied Products Limited	4,646,082	2,772,202
Crescent Sugar Mills & Distillery Limited	2,681,692	1,915,496
Safeway Mutual Fund Limited	2,513,341	1,572,601
The Crescent Textile Mills Limited	4,522,907	3,230,648
Premier Insurance Company of Pakistan Limited	44,500	50,000
Pakistan Industrial Credit & Investment Corporation Limited	-	325,444
	16,624,417	11,840,794

- 5.1 During the year the parent company converted 15,210,691 preference shares into 2,540,184 ordinary shares of Rs 10 each in the ratio stated in note 7.4 through an offer to preference shareholders effectively at a premium of Rs 49.88 per ordinary share aggregating to Rs 126.705 million.

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

6. Surplus on revaluation of property, plant and equipment

Freehold land, buildings and plant and machinery of the parent company were revalued by an independent valuer as at September 30, 1979 and stated in note 17 at appreciated value. The revaluation surplus is net of applicable deferred income taxes.

	2006 (Rupees in thousand)	2005
Revaluation - net of deferred tax	3,183	3,212
Surplus transferred to unappropriated profit on account of incremental depreciation - net of tax	26	29
	<u>3,157</u>	<u>3,183</u>

- 6.1 Incremental depreciation represents the difference between the actual depreciation on buildings and plant and machinery and the equivalent depreciation based on the historical cost of buildings and plant and machinery.

7. Long term finances

		2006 (Rupees in thousand)	2005
Term finance certificates - secured	- note 7.1	-	79,952
Long term loans - secured	- note 7.2	2,038,632	1,865,830
Redeemable preference shares (non-voting) - unsecured	- note 7.3	345,755	345,755
		<u>2,384,387</u>	<u>2,291,537</u>
Less: Current portion shown under current liabilities			
- Term finance certificates - secured		-	79,952
- Long term loans - secured		524,184	326,802
		<u>524,184</u>	<u>406,754</u>
		<u>1,860,203</u>	<u>1,884,783</u>

- 7.1 These have been repaid during the year



Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

7.2 Long term loans - secured

Loan	Lender	2006 (Rupees in thousand)	2005	Rate of mark-up per annum	Number of instalments outstanding	Mark-up payable
1	Pakistan Industrial Credit and Investment Corporation Limited	4,688	6,982	9.00%	7 quarterly instalments ending May 2008	Quarterly
2	MCB Bank Limited	93,750	100,000	*Base rate + 2% subject to floor of 7%	15 quarterly instalments ending May 2010	Quarterly
3	MCB Bank Limited	5,500	16,500	7.50%	1 semi-annual instalment ending February 2007	Quarterly
4	MCB Bank Limited	75,000	75,000	*Base rate subject to floor of 5%	Payable in lump sum in September 2007	Quarterly
5	MCB Bank Limited	11,625	19,375	*Base rate subject to floor of 5%	3 semi-annual instalments ending September 2007 (including 1 overdue instalment amounting to Rs. 3,875 m)	Quarterly
6	Atlas Investment Bank Limited	20,000	30,000	**Base rate + 3.5% subject to floor of 5.5%	4 semi annual instalments ending September 2008	Semi annual
7	National Bank Limited	125,000	187,500	**Base rate + 3.5%	4 semi annual instalments ending July 2008	Semi annual
8	International Housing Finance Limited	5,534	7,423	*Base rate + 4.25%	28 monthly instalments ending January 2009	Monthly
9	Orix Investment Bank Pakistan Limited	6,000	9,000	***Base rate + 2% subject to floor of 7.5% and cap of 15%	4 semi annual instalments ending May 2008	Semi annual
10	Pakistan Kuwait Investment Company (Private) Limited	20,000	30,000	***Base rate + 2% subject to floor of 7.5% and cap of 13%	4 semi annual instalments ending August 2008	Semi annual
11	Syndicate term loan	945,000	1,050,000	**Base rate + 3% subject to floor of 5.25%	9 semi annual instalments ending October 2010	Semi annual
12	Askari Commercial Bank Limited	16,303	24,454	*Base rate + 2% subject to floor of 6%	4 quarterly instalments ending November 2007	Quarterly
13	MCB Bank Limited	245,000	245,000	*Base rate + 2% subject to floor of 8%	8 equal semi annual instalments commencing March 2007	Quarterly
14	Meezan Bank Limited	47,282	64,596	*Base rate + 2% subject to floor of 8%	15 quarterly instalments ending November 2010	Quarterly
15	Allied Bank of Pakistan Limited	350,000	-	*Base rate + 2%	10 semi annual instalments commencing April 2010 August 2007	Semi annual
16	Industrial Development Bank of Pakistan	68,000	-	Refer note 7.3	10 semi annual instalments ending April 2010	(note 7.3)
		<u>2,038,632</u>	<u>1,865,830</u>			

* Base rate: Average ask rate of six-month Karachi Inter Bank Offer Rate ("KIBOR") reset for each mark-up period.

** Base rate: Cut-off yield of the last auction of the 6-months Government of Pakistan Treasury Bills.

*** Base rate: SBP Discount rate to be set for each mark-up period.

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

- 7.3 This represents the loan taken from Industrial Development Bank of Pakistan Limited and was originally repayable in 10 semi annual installments commencing November 2002. The repayment of loan was extended by three years by the State Bank of Pakistan's 'Committee for Revival of Sick Industrial Units' and now is repayable by April 2010. No markup is chargeable during the currency of the extended period of loan.

- 7.1 The group has Rs 100 million undrawn borrowing facility as at September 30, 2006 which is available upto May 24, 2010. This facility has been arranged to finance the working capital needs of distillery unit.

Security

Loan 1 to 7

These are secured against first charge on property, plant and equipment of the company ranking pari passu with other creditors.

Loan 8

It is secured against equitable mortgage on immovable property financed through the loan.

Loan 9 and 10

These are secured by way of hypothecation charge over plant and machinery of the textile division.

Loan 11

The loan is secured by first charge by way of hypothecation over all moveable assets of the company and equitable mortgage charge over plant and machinery of the satellite facility

Loan 12 to 14

These are secured against specific charges on plant and machinery financed through the respective loans.

Loan 15

The loan is secured by way of first charge over the assets of the Juice division of the subsidiary company.

Loan 16

The loan is secured by way of first charge over property, plant and equipment, including land, building and plant and machinery, of the dairy division of the subsidiary company, a ranking charge over all assets of the subsidiary company and a cross corporate guarantee of the parent company.

7.4 Redeemable preference shares (non-voting) - unsecured

Redeemable Preference shares (non-voting) were issued in 2005 to the shareholders of the parent company in the ratio of 85 preference shares for every 100 ordinary shares held as on October 22, 2004 and to certain institutional investors in equal proportional. These shares are listed on Lahore and Karachi Stock Exchanges. The conversion option is not binding either on the parent company or the preference shareholders except in case of the conversion upon maturity, where the preference shareholders opts for conversion, subsequent to the company's failure to pay preferred dividend during the entire tenure.

Terms of redemption

Preference shareholders may convert preference shares into ordinary shares of the parent company at the end of every financial year or the parent company may convert these preference shares into ordinary shares in whole or in part through a tender offer. The conversion is set in the ratio of 167 ordinary shares for every 1,000 preference shares at a face value of Rs 10 each.



Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

The preference shares will be redeemed after five years of the issuance if the conversion option is not offered by the parent company to preference shareholders or the preference shareholders do not opt for the conversion option.

Rate of dividend

The preference shareholders have a preferred right of dividend @ 8.5% per annum on a cumulative basis.

- 7.4.1 Preference shares of the parent company held by associated undertakings as at year end are as follows:

	2006 (No. of shares)	2005 (No. of shares)
Asian Stock Fund Limited	180,000	180,000
Crescent Commercial Bank Limited	1,000,000	1,000,000
Crescent Steel and Allied Products Limited	2,999,396	2,999,396
The Crescent Textile Mills Limited	2,746,050	2,746,050
Premier Insurance Company of Pakistan Limited	53,125	53,125
	<u>6,978,571</u>	<u>6,978,571</u>

8. Long term advances

	2006 (Rupees in thousand)	2005 (Rupees in thousand)
Total advance from leasing companies	-	10,674
Less: Current portion shown under current liabilities	-	1,802
	<u>-</u>	<u>8,872</u>

These have been transferred to liabilities against assets subject to finance lease during the year, on receipt of respective assets.

9. Liabilities against assets subject to finance lease

	2006 (Rupees in thousand)	2005 (Rupees in thousand)
Present value of minimum lease payments	203,718	257,780
Less: Current portion shown under current liabilities	71,991	74,251
	<u>131,727</u>	<u>183,529</u>

The minimum lease payments have been discounted at an implicit interest rate ranging from 6.69% to 17.53% to arrive at their present value. Rentals are paid in monthly/quarterly/semi-annual installments and in case of default in any payment, an additional charge at the rate of 3% to 20% shall be paid. The lessee has the option to purchase the assets after expiry of the lease term.

Taxes, repairs and insurance costs are to be born by the company. In case of early termination of lease, the lessee shall pay entire amount of rentals for unexpired period of lease agreement.

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

The amount of future payments of the lease and the period in which these payments will become due are as follows:

	Minimum Lease payments	Future finance cost (Rupees in thousand)	Present value of lease liability	
			2006	2005
Not later than one year	88,865	16,874	71,991	74,251
Later than one year and not later than five years	145,709	13,982	131,727	183,529
	<u>234,574</u>	<u>30,856</u>	<u>203,718</u>	<u>257,780</u>

10. Employees' retirement benefits

Note 2006 2005
(Rupees in thousand)

The amounts recognized in the balance sheet are as follows:

Pension fund	- note 10.1	4,951	2,232
Gratuity fund	- note 10.2	(2,598)	(1,965)
Unfunded gratuity of subsidiary company		1,303	-
		<u>3,656</u>	<u>267</u>

10.1 Pension fund

2006 2005
(Rupees in thousand)

Present value of defined benefit obligations	109,038	105,657
Fair value of plan assets	(116,759)	(99,831)
Non vested (past service) cost to be recognized in later periods	(8,595)	(10,028)
Unrecognized actuarial gains	21,267	6,434
Liability as at September 30	<u>4,951</u>	<u>2,232</u>
Liability as at October 1	2,232	3,278
Charge to profit and loss account	5,963	5,465
Contribution by the company	(3,244)	(6,511)
Liability as at September 30	<u>4,951</u>	<u>2,232</u>

Fair value of plan assets include Term Finance Certificates and Preference Shares of the parent company whose fair values as at September 30, 2006 are Rs 0.505 million (2005: Rs 1.517 million) and Rs 3.5 million (2005: Rs 2.75 million) respectively.

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

10.2 Gratuity fund

	2006 (Rupees in thousand)	2005
Present value of defined benefit obligations	23,172	22,668
Fair value of plan assets	(30,235)	(25,087)
Unrecognized actuarial gains	4,465	454
Asset as at September 30	(2,598)	(1,965)
Asset as at October 1	(1,965)	(1,712)
Charge to profit and loss account	1,629	1,120
Contribution by the company	(2,262)	(1,373)
Asset as at September 30	(2,598)	(1,965)

Fair value of plan assets include Term Finance Certificates and Preference Shares of the company whose fair values as at September 30, 2006 are Rs 0.169 million (2005: Rs 0.507 million) and Rs 0.5 million (2005: Rs 1.65 million) respectively.

10.3 Charge to profit and loss account for the year comprises:

	Pension fund		(Rupees in thousand) Gratuity fund	
	2006	2005	2006	2005
Current service cost	5,004	4,573	2,098	1,687
Interest cost for the year	9,509	7,439	2,040	1,694
Expected return on plan assets	(9,983)	(7,980)	(2,509)	(2,261)
Recognition of past service cost	1,433	1,433	-	-
	5,963	5,465	1,629	1,120

11. Deferred income

This represents the unamortized balance of excess of sale proceeds over carrying amount of plant and machinery on sale and lease back transaction with financial institutions.

The deferred income is being amortized each year over the respective period of the lease term. The amount credited to the profit and loss account during the year was Rs 2.413 million (2005: Rs 2.116 million).

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

12. Current portion of long term liabilities

		2006 (Rupees in thousand)	2005
Long term finances	- note 7	524,184	406,754
Long term advances	- note 8	-	1,802
Liabilities against assets subject to finance lease	- note 9	71,991	74,251
		<u>596,175</u>	<u>482,807</u>

13. Short term borrowings - secured

Short term running finances	- note 13.1	4,008,667	3,496,543
Export refinance	- note 13.2	355,688	100,439
Short term finances	- note 13.3	1,290,845	391,876
		<u>5,655,200</u>	<u>3,988,858</u>

13.1 Short term running finances

Running finances available from a consortium of commercial banks under mark-up arrangements amount to Rs 4,989 million (2005: Rs 4,544 million). The rate of mark-up range from Rs 0.2795 to Rs 0.3849 per Rs 1,000 per diem on the outstanding balance or part thereof. The aggregate running finances are secured against pledge of stock-in-trade and marketable securities and registered hypothecation charge on current assets of the group.

13.2 Export refinance

The group has obtained export finance facilities aggregating to Rs 355 million (2005: Rs 289 million). The rates of mark-up range from Rs 0.1921 to Rs 0.2055 per Rs 1,000 per diem or part thereof. The aggregate export and import finances are secured against lien on export contracts and ranking charge on current assets of the group.

13.3 Short term finances

Short term finance facilities available from a consortium of commercial banks under mark-up arrangements amount to Rs 1,500 million (2005: Rs 557 million), the rates of mark-up range from Rs 0.1584 to Rs 0.3652 per Rs 1,000 per diem on the balance outstanding. These are secured against registered charge on current assets of the group.

Of the aggregate facility of Rs 350 million (2005: Rs 116,778 million) for opening letters of credit and Rs 90.50 million (2005: Rs 89,996 million) for guarantees, the amount utilized at September 30, 2006 was Rs 44,778 million (2005: Rs 22,135 million) and Rs 89,996 million (2005: 89,996 million) respectively. The aggregate facilities of letter of credits are secured against lien over shipping/import documents. The aggregate facilities for guarantees are secured against margin deposits referred to in note 30, pledge of marketable securities and charge on current assets of the group.

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

		2006	2005
		(Rupees in thousand)	
14.	Trade and other payables		
	Trade creditors	- note 14.1	326,299
	Advances from customers		162,940
	Security deposits	- note 14.2	9,658
	Accrued liabilities		10,090
	Workers' profit participation fund	- note 14.3	2,220
	Sales tax payable		1,738
	Unclaimed dividend		57,347
	Others	- note 14.4	34,211
			90
			25,097
			1,740
			1,779
			54,146
			479,877
			274,421

14.1 Trade creditors include amount due to related parties Rs 2,636 million (2005: Rs 1,206 million).

14.2 These are interest free and refundable on completion of contracts.

		2006	2005
		(Rupees in thousand)	
14.3	Workers' profit participation fund		
	As at October 1	9,517	11,308
	Interest charged during the year	257	412
	Provision for the year	-	9,479
		9,774	21,199
	Less: Payments made during the year	9,684	11,682
	As at September 30	90	9,517

14.4 Included in other liabilities are provisions amounting to Rs 32,334 million (2005: Rs 32,334 million) in respect of probable loss from pending litigation of the company against Sales tax authorities and the Excise department. There has been no movement in these provisions during the year.

		2006	2005
		(Rupees in thousand)	
15.	Accrued finance cost		
	Accrued mark-up on:		
	- Long term finances	112,506	83,985
	- Liabilities against assets subject to finance leases	1,884	1,734
	- Short term borrowings	167,138	66,085
		281,528	151,804

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

16. Contingencies and commitments

Contingencies

The company has issued following guarantees:

- Bank guarantee of Rs 86.50 (2005: Rs 86.50) million in favour of Sui Northern Gas Pipelines Limited against performance of contracts.
- Bank guarantee in favour of The Administrator of Zila Council, Jhang against Exit tax payable to Zila Council amounting to Rs 3.125 (2005: 3.125) million.
- Other bank guarantees aggregating to Rs 0.371 (2005: 0.371) million.
- Cross corporate guarantee in favour of Allied Bank Limited to secure long term finance facility availed by the company's subsidiary, Shakarganj Food Products Limited of Rs 467 million (2005: Nil).

Commitments

The company has the following commitments in respect of

- Letters of credit other than capital expenditure Rs 2.507 (2005: Rs 2.393) million.
- Contract for capital expenditure amounting to Rs 132.484 (2005: Rs 161.722) million.

17. Property, plant and equipment

	(Rupees in thousand)									
	Cost/re-valued amount as at September 30, 2005	Additions/ (deletions)	Acquisition of subsidiary	Cost/re-valued amount as at September 30, 2006	Accumulated depreciation September 30, 2005	Depreciation charge/ (deletions) for the year	Acquisition of subsidiary	Accumulated depreciation September 30, 2006	Book value as at September 30, 2006	Rate of depreciation %
Freehold land	194,989	42,350	14,474	251,813	-	-	-	-	251,813	-
Buildings and roads on freehold land	243,958	162,768	47,347	454,073	115,908	16,490	2,386	134,784	319,289	5-7.5
Plant and machinery	2,408,306	2,254,969 (12,994)	745,111	5,395,392	1,098,250	204,631 (7,184)	26,607	1,322,304	4,073,088	5-7.5
Tools and equipment	29,803	14,143	710	44,656	20,291	6,937	40	27,268	17,388	10-40
Water, electric and weighbridge equipment	62,642	199,891 (17)	6,668	269,184	27,265	38,411 (17)	379	66,038	203,146	10-20
Furniture and fixtures	30,541	5,490 (133)	1,287	37,185	15,872	3,387 (88)	80	19,251	17,934	10-20
Office equipment	28,650	5,985 (89)	1,396	35,942	19,451	4,226 (89)	71	23,659	12,283	10-40
Vehicles	59,542	42,519 (20,506)	4,667	86,222	25,250	10,203 (4,476)	513	31,490	54,732	20
Laboratory Equipment	12,699	4,426	687	17,812	5,769	2,131	42	7,942	9,870	5-40
Arms and ammunition	96	-	24	122	78	2	1	81	41	10
Library books	9,580	400 (13)	-	9,967	7,887	588 (8)	-	8,467	1,500	30
2006	3,080,808	2,732,941 (33,752)	822,371	6,602,368	1,336,021	287,006 (11,862)	30,119	1,641,284	4,961,084	
2005	2,486,583	606,288 (12,063)	-	3,080,808	1,198,822	143,335 (6,136)	-	1,336,021	1,744,787	

- 17.1 The carrying amount of freehold land, buildings and plant and machinery would have been Rs 248.984 (2005: Rs 192.610) million, Rs 319.116 (2005: Rs 136.667) million and Rs 4,072.993 (2005: Rs 1,323.222) million respectively, had there been no revaluation.

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

2006
(Rupees in thousand)

2005

17.2 The depreciation charge for the year has been allocated as follows:

Capital work-in-progress - unallocated expenditure	- note 20.2	185	1,654
Cost of sales (including depreciation of Rs 21,745 million during the trial run period of new facility capitalized during the year)	- note 33	261,401	121,469
Administrative expenses	- note 34	25,420	20,212
		<u>287,006</u>	<u>143,335</u>

17.3 Disposal of property, plant and equipment

		(Rupees in thousand)				
Particulars of assets	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
Plant and Machinery	Outside party - Trilex Cotton Mills Limited	12,994	7,184	5,810	980	Negotiation
Vehicles	Leasing companies - sale and lease back					
	First National Bank Modaraba	5,500	1,100	4,400	5,500	Negotiation
	First National Bank Modaraba	5,198	-	5,198	5,198	- do -
	Faysal Bank	2,280	265	2,015	2,280	- do -
	Faysal Bank	2,034	-	2,034	2,034	- do -
	Related parties					
	Shakarganj Food Products Limited	575	58	517	611	Negotiation
	Shakarganj Food Products Limited	491	208	283	516	- do -
	Employees					
	Kashif Raza Kazmi	161	81	80	110	Negotiation
	Mukhtar Ahmad	181	93	88	158	- do -
	Imtiyar Ahmad	330	186	144	193	- do -
	Abdul Wasi Farooqi	402	262	140	275	- do -
	Gulraiz Ahmad	355	204	151	194	- do -
	Nusrat Ali	572	325	247	405	- do -
	Zia Ahmed	393	327	66	82	- do -
	Zahid Mujtaba	393	315	78	271	- do -
	Outside party - Muhammad Yousaf	739	545	194	265	- do -
Other assets having book value below Rs. 50,000		1,154	709	445	1,185	
		<u>33,752</u>	<u>11,862</u>	<u>21,890</u>	<u>20,255</u>	

18. Intangible assets

	Cost as at September 30, 2005	Acquisition of subsidiary	Cost as at September 30, 2006	Accumulated amortisation September 30, 2005	Acquisition of subsidiary	Accumulated amortisation September 30, 2006	Book value as at September 30, 2006	Rate of amortisation %
Patents, copy rights, trade marks and brand development	-	12,774	12,774	-	831	831	11,943	20
2006	-	12,774	12,774	-	831	831	11,943	
2005	-	-	-	-	-	-	-	

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

19. Assets subject to finance lease

	Cost as at September 30, 2005	Additions/ (transfers/ deletions)	Cost as at September 30, 2006	Accumulated depreciation September 30, 2005	Depreciation charge/ (transfers) for the year	Accumulated depreciation September 30, 2006	Book value as at September 30, 2006	Rate of depreciation %
Plant and machinery	271,431	45,523 (38,000)	278,954	34,870	15,958 (6,824)	44,004	234,950	5-7.5
Vehicles	66,741	15,892 (11,228)	71,405	24,659	10,270 (5,915)	29,014	42,391	20
2006	338,172	61,415 (49,228)	350,359	59,529	26,228 (12,739)	73,018	277,341	
2005	284,113	60,494 (6,435)	338,172	36,873	25,796 (3,140)	59,529	278,643	

2006 2005
(Rupees in thousand)

19.1 The depreciation charge for the year has been allocated as follows:

Capital work-in-progress - unallocated expenditure	- note 20.2	-	1,791
Cost of sales	- note 33	18,319	20,740
Administrative expenses	- note 34	7,909	3,265
		<u>26,228</u>	<u>25,796</u>

20. Capital work-in-progress

Civil works		88,187	244,811
Plant and Machinery	- note 20.1	234,106	1,697,986
Unallocated expenditure	- note 20.2	35,979	115,925
Advances for land, plant and machinery and vehicles		285,525	544,046
		<u>643,797</u>	<u>2,602,768</u>

20.1 It includes an amount of Rs Nil (2005: 101 million) being the cost of machinery financed by leasing companies.

20.2 It includes depreciation on property, plant and equipment and leased assets of Rs 0.186 million (2005: Rs1.654 million) and Rs Nil (2005: 1.791 million) respectively.

20.3 Aggregate balance of capital work in progress includes finance costs of Rs 15.857 million (2005: Rs 154.668 million).



Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

		2006 (Rupees in thousand)	2005
21. Goodwill			
Balance as at October 1		-	-
Acquisition of subsidiary	- note 50	79,706	-
		<u>79,706</u>	-
Amortization for the year		-	-
Balance as at September 30		<u>79,706</u>	-
22. Biological assets			
Sugarcane			
Mature		174,929	104,297
Immature		<u>7,413</u>	<u>12,393</u>
		182,342	116,690
Rice - mature		7,487	6,097
Livestock - mature		<u>2,170</u>	-
		<u>191,999</u>	<u>122,787</u>
Non - current		7,413	12,393
Current		<u>184,586</u>	<u>110,394</u>
		<u>191,999</u>	<u>122,787</u>

- 22.1 The value of sugarcane crops is based on estimated yield of 784 (2005: 783) mounds per acre on cultivated area of 7,623 (2005: 6,602) acres. The value of rice crops is based on the estimated yield of 22 (2005: 27) mounds per acre on cultivated area of 1,143 (2005: 624) acres. As at September 30, 2006, 972 (2005: 3,049) acres are under preparation for wheat cultivation.

	2006 (Rupees in thousand)
22.2 Movement during the year	
Biological assets as at October 1	122,787
Increase due to purchases/costs incurred	227,133
Gain arising from changes in fair value less estimated point of sale costs	1,029
Decreases due to harvest / sales	(158,950)
Biological assets as at September 30	<u>191,999</u>

- 22.2.1 Biological assets were recognized for the first time during 2005. Comparative information is not presented as it is impractical to reasonably determine the amount of the assets as on October 1, 2004

		2006 (Rupees in thousand)	2005
23. Investments - related parties			
In equity instruments of associated companies	- note 23.1	530,892	589,585
Available for sale	- note 23.3	<u>83,520</u>	<u>100,346</u>
		<u>614,412</u>	<u>689,931</u>

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

	2006 (Rupees in thousand)	2005 (Rupees in thousand)
23.1 In equity instruments of associated companies		
Cost	373,103	350,109
Brought forward amounts of post acquisition reserves and profits and negative goodwill recognized directly in profit and loss account	239,476	159,169
	612,579	509,278
Share of movement in reserves during the year	(53,301)	24,439
Share of profit for the year		
- before taxation	(27,882)	62,556
- provision for taxation	(504)	(3,725)
	(28,386)	58,831
	530,892	592,548
Less: dividends received during the year	-	(2,963)
Balance as on September 30	530,892	589,585
	- note 23.2.	
	2006 (Rupees in thousand)	2005 (Rupees in thousand)
23.2 In equity instruments of associated companies		
Quoted		
Crescent Steel and Allied Products Limited		
1,922,134 (2005: 1,185,397) fully paid ordinary shares of Rs 10 each	128,429	76,932
Equity held: 4.12 % (2005: 4.07 %)		
Safeway Mutual Fund Limited		
17,429,914 (2005: 14,524,512) fully paid ordinary shares of Rs 10 each	237,393	291,023
Equity held: 32.01 % (2005: 32.01 %)		
Asian Stock Fund Limited		
18,716,500 (2005: 18,716,500) fully paid ordinary shares of Rs 10 each	137,126	188,573
Equity held: 20.80 % (2005: 20.80 %)		
Aljadeed Textile Mills Limited		
1,360,000 (2005: Nil) fully paid ordinary shares of Rs 10 each	-	-
Equity held: 45.33 % (2005: Nil)		
Unquoted		
Crescent Standard Business Management (Private) Limited		
1,000,000 (2005: 1,000,000) fully paid ordinary shares of Rs 10 each	27,944	33,057
Equity held: 29.60 % (2005: 29.60 %)		
Crescent Standard Telecommunications Limited		
300,000 (2005: Nil) fully paid ordinary shares of Rs 10 each	-	-
Equity held: 24.88 % (2005: Nil)		
	- note 23.2.1	
	530,892	589,585

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

Investments in associates include goodwill amounting to Rs 26,442 million.

23.2.1 Financial Statements of Crescent Standard Telecommunications Limited (CSTL) have been drawn upto June 30, 2005 only, which shows a negative equity of Rs 0.3 million. In the parent company's separate financial statements, these have been fully impaired and consequently, the carrying value of the investment in the consolidated financial statements is also reduced to Nil.

23.2.2 The group's share of the results of its principal associates, all of which are incorporated in Pakistan, and its share of the assets (including goodwill and liabilities) are as follows:

Name	Percentage interest held	Assets	Liabilities	Revenues	Profit/(loss)
2005					
Crescent Steel and Allied Products Limited	4.07%	105,036	28,010	104,457	11,824
Safeway Mutual Fund Limited	32.01%	295,641	4,617	18,879	35,813
Asian Stock Fund Limited	20.80%	186,943	2,075	(955)	(1,165)
Crescent Standard Business Management (Private) Limited	29.60%	43,324	18,516	3,379	9,396
		630,944	53,218	125,760	55,868
2006					
Crescent Steel and Allied Products Limited	4.12%	168,482	58,995	88,689	(6,562)
Safeway Mutual Fund Limited	32.01%	244,819	7,431	20,384	1,304
Asian Stock Fund Limited	20.80%	133,409	3,715	(15,030)	(18,656)
Aljadeed Textile Mills Limited	45.33%	-	14,104	-	-
Crescent Standard Business Management (Private) Limited	29.60%	43,324	18,516	3,216	(1,473)
Crescent Standard Telecommunications Limited	24.88%	-	-	-	(3,000)
		590,034	102,761	97,259	(28,387)

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

The group's investment in Crescent Steel and Allied Products Limited is less than 20% but it is considered to be associate as per the requirements of IAS 28 'Investments in Associates' because the group has significant influence over the financial and operating policies of the company.

23.3. Available for sale

			2006 (Rupees in thousand)	2005
Associated companies	- at cost	- note 23.3.1	64,988	73,463
Others	- at cost	- note 23.3.2	2,200	-
			67,188	73,463
Add: Cumulative fair value gain			18,532	26,883
Less: Impairment loss recognized during the year			(2,200)	-
Fair value gain			16,332	26,883
			83,520	100,346

23.3.1 Associated companies

Quoted

Crescent Commercial Bank Limited				
5,058,126 (2005: 7,287,626) fully paid ordinary shares of Rs 10 each			50,988	73,463
Crescent Jute Products Limited				
536,817 (2005: 536,817) fully paid ordinary shares of Rs 10 each			-	-
Central Depository Company of Pakistan Limited				
130,000 (2005: Nil) fully paid ordinary shares of Rs 10 each			14,000	-
			64,988	73,463

23.3.2 Others

Quoted

Crescent Group Services (Private) Limited				
220,000 (2005: Nil) fully paid ordinary shares of Rs 10 each			2,200	-
			2,200	-

These are associated companies under the Companies Ordinance, 1984, however, for the purpose of measurement, these have been classified as 'available for sale' as the group does not have a significant influence over their operations.

Investments with face value of Rs 323,606 (2005: Rs Nil) are pledged as security against short term borrowings referred to in note 13.



Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

5,010,705 shares in Crescent Commercial Bank Limited with a face value of Rs 50.107 million are pledged in a separate CDC account with the State Bank of Pakistan as per SBP's requirement for granting of license to Crescent Commercial Bank Limited.

		2006	2005
		(Rupees in thousand)	
24. Long term loan and deposits			
Loans - considered good to:			
Asian Capital Management Fund Limited			
- related party	- note 24.1	10,000	10,000
Sui Northern Gas Pipelines Limited	- note 24.2	4,140	4,140
		14,140	14,140
Less: Current portion shown under short term advances	- note 30	414	-
		13,726	14,140
Advance to Creek Marina (Private) Limited:			
	- note 24.3	38,487	150,000
Prepayments		6,160	-
Security deposits		35,783	40,392
		94,156	204,532

- 24.1 This is an unsecured, interest free loan extended to Asian Capital Management Fund Limited (ACMF) to meet its working capital requirements. The company intends to utilize this amount to invest in the shares of ACMF pursuant to a planned merger between ACMF and another company, Safeway Fund Limited, which is pending due to relevant regulatory approvals. Consequently, this has been classified as a long term asset.
- 24.2 This represents an un-secured loan given to Sui Northern Gas Pipelines Limited for the development of infrastructure for supply of natural gas to the plant at Bhoone. Mark-up is charged at 1.5% per annum and is receivable annually. This amount is receivable in 10 equal annual installments commencing May, 2007.
- 24.3 This represents payment for two apartments in the Creek Marina Project pursuant to a Settlement Agreement entered into by the company and Crescent Standard Investment Bank Limited (CSIBL) whereby, principally, in lieu of the amount of Rs 150 million owed by CSIBL to the company, the company received 2,165,625 shares in Altern Energy Limited (AEL), a listed company, at an aggregate value of Rs 17,325 million, assignment of share deposit money of CSIBL in AEL amounting to Rs 93,737 million and two apartments in the Creek Marina Project valued at a total of Rs 40 million.

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

	2006	2005
	(Rupees in thousand)	
25. Deferred taxation		
The deferred tax asset comprises temporary differences relating to:		
Accelerated tax depreciation	(671,122)	(280,700)
Surplus on revaluation of property, plant and equipment	(176)	(191)
Employee retirement benefits	726	83
Unused tax losses	1,039,881	288,008
Diminution in value of investments	20,269	-
Investments in associated companies	(12,705)	-
	<u>376,873</u>	<u>7,200</u>

26. Stores, spares and loose tools

Stores (including in transit Rs 0.899 million 2005: Nil)	93,168	42,758
Spares	28,093	33,841
Loose tools	<u>2,072</u>	<u>1,227</u>
	123,333	77,826
Less: Provision for obsolete items	<u>1,500</u>	<u>1,500</u>
	<u>121,833</u>	<u>76,326</u>

26.1 Stores and spares include items which may result in fixed capital expenditure but are not distinguishable.

	2006	2005
	(Rupees in thousand)	
27. Stock-in-trade		
Raw materials	170,605	574,125
Work-in-process	21,701	22,521
Finished goods	<u>1,693,755</u>	<u>344,870</u>
	<u>1,886,061</u>	<u>941,516</u>

27.1 Raw materials and finished goods amounting to Rs. 1,812.925 million (2005: Rs 849.408 million) are pledged with lenders as security against short term borrowings as referred to in note 13.

28. These are unsecured and considered good.



Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

			2006	2005
			(Rupees in thousand)	
29.	Investments			
	Available for sale	- note 29.1	2,246,006	2,390,052
	Held for trading	- note 29.2	88,811	206,481
	Held to maturity	- note 29.3	111,460	228,610
			<u>2,446,277</u>	<u>2,825,143</u>
29.1	Available for sale			
	Related parties	- at cost		
	Others	- at cost		
		- note 29.1.1	4,816	642,171
		- note 29.1.2	725,914	252,408
			<u>730,730</u>	<u>894,579</u>
	Add: Cumulative fair value gain		1,569,447	1,495,473
	Less: Impairment loss recognized during the year		(54,171)	-
			<u>1,515,276</u>	<u>1,495,473</u>
			<u>2,246,006</u>	<u>2,390,052</u>

			2006	2005
			(Rupees in thousand)	
29.1.1	Related parties			
	Associated companies - quoted			
	Pakistan Industrial Credit & Investment Corporation Limited			
	Nil (2005: 30,169,136) fully paid ordinary shares of Rs 10 each		-	620,502
	The Premier Insurance Company of Pakistan Limited			
	66,307 (2005: 48,155) fully paid ordinary shares of Rs 5 each		44	44
	Altern Energy Limited			
	476,008 (2005: 1,500,000) fully paid ordinary shares of Rs 10 each		4,772	19,425
	Associated companies - unquoted			
	Crescent Group Services (Private) Limited			
	Nil (2005: 220,000) fully paid ordinary shares of Rs 10 each		-	2,200
			<u>4,816</u>	<u>642,171</u>

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

	2006	2005
	(Rupees in thousand)	
29.1.2 Others		
Quoted		
Pakistan Industrial Credit & Investment Corporation Limited 29,110,463 (2005: Nil) fully paid ordinary shares of Rs 10 each	498,940	-
Crescent Leasing Corporation Limited 6,752,257 (2005: 6,752,257) fully paid ordinary shares of Rs 10 each	88,542	88,542
Crescent Standard Investment Bank Limited 10,270,249 (2005: 10,164,749) fully paid ordinary shares of Rs 10 each	75,412	74,342
Crescent Standard Modaraba 2,041,500 (2005: 2,034,500) fully paid ordinary shares of Rs 10 each	20,240	20,206
International Housing Finance Limited 1,687,500 (2005: 1,500,000) fully paid ordinary shares of Rs 10 each	18,750	18,750
Jubilee Spinning and Weaving Mills Limited 15,584 (2005: 15,584) fully paid ordinary shares of Rs 10 each	-	-
Prudential Discount & Guarantee House Limited Nil (2005: 12,000) fully paid ordinary shares of Rs 10 each	-	168
Pakistan Strategic Allocation Fund Limited 203,000 (2005: 3,340,000) fully paid ordinary shares of Rs 10 each	2,030	33,400
Unquoted		
Central Depository Company of Pakistan Limited Nil (2005: 100,000) fully paid ordinary shares of Rs 10 each	-	14,000
Crescent Standard Telecommunications Limited Nil (2005: 300,000) fully paid ordinary shares of Rs 10 each	-	3,000
Crescent Standard Brokerage and Investment Services Limited 880,000 (2005: Nil) fully paid ordinary shares of Rs 10 each	22,000	-
	<u>725,914</u>	<u>252,408</u>

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Investments with a face value of Rs 406.510 million (2005: Rs 551.884 million) are pledged as security against short term running finances referred to in note 13.

		2006 (Rupees in thousand)	2005
29.2	Held for trading		
	Related parties	- note 29.2.1	29,322
	Others	- note 29.2.2	59,489
		<u>88,811</u>	<u>206,481</u>
29.2.1	Related parties		
	Associated companies - quoted		
	Pakistan Industrial Credit & Investment Corporation Limited		
	Nil (2005: 1,205,916) fully paid ordinary shares of Rs 10 each	-	83,329
	Crescent Commercial Bank Limited		
	2,171,987 (2005: 150,960) fully paid ordinary shares of Rs 10 each	29,322	1,849
		<u>29,322</u>	<u>85,178</u>

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

	2006 (Rupees in thousand)	2005
29.2.2 Others		
Quoted		
Al- Meezan Mutual Fund Limited Nil (2005: 450,080) fully paid ordinary shares of Rs 10 each	-	4,681
Bank of Punjab Limited 65,000 (2005: Nil) fully paid ordinary shares of Rs 10 each	5,580	-
Bosicor Pakistan Limited Nil (2005: 50,000) fully paid ordinary shares of Rs 10 each	-	832
Crescent Leasing Corporation Limited 1,822,188 (2005: 1,746,188) fully paid ordinary shares of Rs 10 each	14,578	24,447
Dewan Farooq Motors Limited Nil (2005: 225,000) fully paid ordinary shares of Rs 10 each	-	5,490
Dewan Salman Fiber Limited Nil (2005: 200,000) fully paid ordinary shares of Rs 10 each	-	3,170
D. G. Khan Cement Company Limited 10,000 (2005: Nil) fully paid ordinary shares of Rs 10 each	960	-
Fauji Fertilizer Company Limited Nil (2005: 30,000) fully paid ordinary shares of Rs 10 each	-	3,907
Hub Power Company Limited Nil (2005: 1,030,000) fully paid ordinary shares of Rs 10 each	-	30,179
International Housing Finance Limited 1,347,250 (2005: 1,106,000) fully paid ordinary shares of Rs 10 each	11,047	10,618
Indus Motors Company Limited Nil (2005: 50,000) fully paid ordinary shares of Rs 10 each	-	6,650
Lucky Cement Company Limited Nil (2005: 50,000) fully paid ordinary shares of Rs 10 each	-	2,620
Nishat Chunian Limited 600 (2005: Nil) fully paid ordinary shares of Rs 10 each	31	-
Oil and Gas Development Corporation of Pakistan 25,000 (2005: Nil) fully paid ordinary shares of Rs 10 each	3,196	-
C/F	35,392	92,594



Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

		2006 (Rupees in thousand)	2005
	B/F	35,392	92,594
Pakistan Industrial Credit & Investment Corporation Limited			
1,799 (2005: Nil) fully paid ordinary shares of Rs 10 each		131	—
PICIC Commercial Bank Limited			
Nil (2005:155,750) fully paid ordinary shares of Rs 10 each		—	6,300
Pakistan International Airlines Corporation Limited			
Nil (2005: 125,000) fully paid ordinary shares of Rs 10 each		—	994
Pakistan PTA Limited			
Nil (2005: 215,000) fully paid ordinary shares of Rs 10 each		—	1,591
Pak Suzuki Motors Company Limited			
Nil (2005: 63,130) fully paid ordinary shares of Rs 10 each		—	9,533
PICIC Insurance Company Limited			
1,251,486 (2005: Nil) fully paid ordinary shares of Rs 10 each		23,966	—
Telecards Limited			
Nil (2005: 200,000) fully paid ordinary shares of Rs 10 each		—	2,460
TRG Pakistan Limited			
Nil (2005: 300,000) fully paid ordinary shares of Rs 10 each		—	3,270
Tripack Films Limited			
Nil (2005: 100,800) fully paid ordinary shares of Rs 10 each		—	4,561
		<u>59,489</u>	<u>121,303</u>

2006
(Rupees in thousand)

29.3 Held to maturity

Musharika Investment	- note 29.3.1	17,934	56,407
Certificate of deposits	- note 29.3.2	159,228	172,203
		<u>177,162</u>	<u>228,610</u>
Less: Impairment loss recognized during the year		(65,702)	—
		<u>111,460</u>	<u>228,610</u>

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

29.3.1 This represents investment under musharika arrangement with Crescent Standard Modaraba on profit and loss sharing basis. Consequent to consistent failure of the Musharika to pay profits and in view of the rapidly deteriorating financial position of the Musharika, the group has assessed its recoverable amount at Nil and consequently, full carrying amount of the investment has been considered impaired and charged to the profit and loss account.

29.3.2 These represents certificates of investment issued by Crescent Standard Investment Bank Limited (CSIBL) and carry mark-up at the rate of 8.65% payable quarterly. In a press release issued on August 20, 2006, the Securities and Exchange Commission of Pakistan (SECP) stated that an 'Administrator' had been appointed, consequent to investigations into the bank's affairs which revealed financial irregularities and violations of legal requirements, to protect the interests of the depositors and stakeholders and to safeguard the assets of the bank. Payment of profits has been suspended by the bank.

Based on the latest available un-audited financial statements issued by the bank through its Administrator, the bank has negative equity and its aggregate liabilities exceed its total assets by Rs 1,687 million. The exact amount of loss is not ascertainable at this stage, however, in view of the foregoing, the group has considered it prudent to recognize impairment loss of approximately 30% in the investment.

	2006	2005
	(Rupees in thousand)	
30. Loans, advances, prepayments and other receivables		
Loans to employees - considered good	1,212	1,085
Current portion of long term loan receivable from Sui Northern Gas Pipelines Limited	414	-
Advances - considered good		
- to suppliers and contractors	- note 30.1 100,062	51,828
- to sugarcane growers	- note 30.2 31,259	40,661
- Altern Energy Limited	- note 30.3 115,365	-
	246,686	92,489
Advances to sugarcane growers - considered doubtful	2,000	2,000
Due from related parties - unsecured		
- considered good	- note 30.4 1,206	81,789
- considered doubtful	- note 30.4 28,699	-
	29,905	81,789
Dividend receivable from related parties		
- considered good	865	-
- considered doubtful	1,096	-
	1,961	-
Claims recoverable from government		
- Income tax	25,272	17,304
- Sales tax	22,255	23,036
	47,527	40,340
Prepayments	42,763	30,769
Margins against bank guarantees	1,114	1,115
Security deposits	1,880	-
Others	20,119	23,066
	395,581	272,653
Less: provision against doubtful receivables	- note 30.5 (31,795)	(2,000)
	363,786	270,653

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

- 30.1 These relate to normal business of the group and are interest free.
- 30.2 These relate to normal business of the group and carry mark-up ranging from 9.25% to 10.16% per annum.
- 30.3 Advance to Altern Energy Limited was given as unsecured sponsor loan and carries markup at the rate of 8.162 % per annum. Subsequent to the year end, consequent to a Share Purchase Agreement of the company with Descon Engineers Limited for partial divestment of the company in AEL, the advance along with the markup thereon has been refunded to the group and has thus been classified as a short term asset.

	2006	2005
	(Rupees in thousand)	
30.4 Due from related parties		
Considered good		
Crescent Sugar and Distillery Limited	108	—
Crescent Steel and Allied Products Limited	774	135
Crescent Standard Business Management (Private) Limited	324	245
Crescent Standard Investment Bank Limited	—	81,409
	1,206	81,789
Considered doubtful		
Crescent Standard Investment Bank Limited	28,699	—
	29,905	81,789

30.5 Provision against doubtful advances

As at October 1	2,000	2,000
Provision during the year	29,795	—
As at September 30	31,795	2,000

31. Cash and bank balances

At banks on:		
- Saving accounts	- note 31.1	
- Pak rupees	99,883	134
- Foreign currency	- note 31.2	370
	100,260	504
- Current accounts	87,090	17,694
	187,350	18,198
In hand	3,187	1,535
	190,537	19,733

- 31.1 Profit on balances in saving accounts ranges from 0.25% to 7.25% (2005: 0.25% to 6.2 %) per annum.
- 31.2 Foreign currency accounts include US Dollars 5,306 (2005: 5,292) and Euros 710 (2005: 758).

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

32. Sales

	(Rupees in thousand)									
	Sugar		Distillery		Particle Board		Textile		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Gross sale										
- Local	4,518,998	4,408,438	138,483	130,181	7,707	35,780	615,169	625,582	5,279,957	5,199,981
- Export	-	-	641,354	415,835	-	-	73,406	-	714,760	415,835
- By-products	-	22	-	-	-	-	19,222	15,570	19,222	15,592
- Inter-segment	348,564	275,932	-	-	-	-	-	-	-	-
	4,867,162	4,684,392	779,837	546,016	7,707	35,780	707,797	641,152	6,013,939	5,631,408
Less: Commission to selling agents	7,815	9,668	272	-	300	1,517	3,354	2,475	11,741	13,860
Sales tax	572,626	572,474	18,063	16,980	988	4,660	-	60,974	591,677	655,088
	580,441	582,342	18,335	16,980	1,288	6,177	3,354	63,449	603,418	668,948
Net sales	4,286,721	4,102,050	761,502	529,036	6,419	29,603	704,443	577,703	5,410,521	4,962,460

32.1 Inter-segment sales have been eliminated from total figures.

33. Cost of sales

Inter-segment	-	-	315,809	259,596	3,201	6,740	29,554	9,596	-	-
Raw materials consumed	4,316,562	2,833,483	214,333	299,532	-	-	487,265	386,459	5,018,160	3,519,474
	4,316,562	2,833,483	530,142	559,128	3,201	6,740	516,819	396,055	5,018,160	3,519,474
Salaries, wages and other benefits - note 33.2	106,814	73,412	10,382	9,503	2,838	3,248	42,818	34,763	162,852	120,926
Stores and spares consumed	99,917	82,477	6,213	4,574	635	1,864	11,134	14,062	117,899	102,977
Dyes and chemicals	27,656	22,878	15,246	14,839	1,867	4,247	-	-	44,769	41,964
Packing material consumed	47,294	42,688	-	-	-	-	8,942	7,779	56,236	50,467
Fuel and power	313,159	172,048	12,941	11,785	256	143	41,116	63,080	367,472	247,096
Repairs and maintenance	25,712	17,426	1,624	2,352	586	72	1,920	1,693	29,842	21,543
Insurance	8,303	2,799	1,186	682	46	52	3,141	3,328	12,676	6,861
Vehicle running and maintenance	5,129	6,041	-	-	132	187	-	-	5,261	6,228
Traveling and conveyance	812	752	182	182	41	62	1,077	1,580	2,112	2,576
Printing and stationery	737	788	64	73	3	3	-	-	804	864
Rent, rates and taxes	940	568	-	-	-	-	-	-	-	-
Sagunare research and development note 33.2	10,117	15,315	-	-	-	-	213	220	1,153	788
Staff training and development	920	2,032	-	-	-	-	-	-	920	2,032
Depreciation on:										
- property, plant and equipment	214,826	76,247	33,948	34,112	851	920	11,776	10,190	261,401	121,469
- leased assets	9,045	11,568	3,181	1,947	-	-	6,093	7,225	18,319	20,740
Other expenses	24,936	16,230	2,236	2,950	381	1,598	1,357	256	28,910	21,034
	5,212,879	3,376,752	617,345	642,127	10,837	19,136	646,406	540,231	6,138,903	4,302,314
Opening work-in-process	17,682	1,535	-	-	-	2,188	4,839	6,245	22,521	9,968
Less: Closing work-in-process	(16,952)	(17,682)	-	-	-	-	(4,030)	(4,839)	(20,982)	(22,521)
	730	(16,147)	-	-	-	2,188	809	1,406	1,539	(12,553)
Cost of goods produced	5,213,609	3,360,605	617,345	642,127	10,837	21,324	647,215	541,637	6,140,442	4,289,761
Opening stock of finished goods	248,473	326,824	62,433	9,510	321	5,170	33,643	14,564	344,870	356,068
Less: Closing stock of finished goods	(1,524,730)	(248,473)	(76,706)	(62,433)	(6,212)	(321)	(24,571)	(33,643)	(1,632,219)	(344,870)
	(1,276,257)	78,351	(14,273)	(52,923)	(5,891)	4,849	9,072	(19,079)	(1,287,349)	11,198
	3,937,352	3,438,956	603,072	589,204	4,946	26,173	656,287	522,558	4,853,093	4,300,959
Cost of sales - goods purchased for resale	337,726	181,450	-	-	-	-	-	-	337,726	181,450
Less: Net expenses of trial run Capitalized	(46,881)	-	-	-	-	-	-	-	(46,881)	-
Less: Own goods Capitalized	-	-	-	-	-	(1,338)	-	-	-	(1,338)
	4,228,197	3,620,406	603,072	589,204	4,946	24,835	656,287	522,558	5,143,938	4,481,071



Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

33.1 Inter-segment purchases have been eliminated from total figures.

2006
2005
(Rupees in thousand)

33.2 Salaries, wages and other benefits and sugarcane research and development include following in respect of retirement benefits:

Pension fund	3,109	3,150
Gratuity fund	894	615
Provident fund	2,444	2,182
	<u>6,447</u>	<u>5,947</u>

34. Administrative expenses

Salaries, wages and other benefits	- note 34.1	70,778	49,352
Repairs and maintenance		9,808	4,091
Insurance		5,958	3,499
Vehicle running and maintenance		7,883	4,081
Traveling and conveyance		7,305	10,186
Printing and stationary		2,954	2,439
Electricity and gas		2,044	1,416
Telephone, postage and telegram		4,543	3,088
Legal and professional charges	- note 34.2	5,854	6,458
Consultancy and advisory services		14,324	7,377
Rent, rates and taxes		2,016	2,755
Staff training and development		188	128
Entertainment		2,203	414
Subscriptions		7,862	4,412
Advertisements		441	622
Registered office expenses		726	726
Provision against doubtful receivables		29,795	-
Bad debts and advances written off		2,311	-
Depreciation on:			
- property, plant and equipment		25,420	20,212
- leased assets		7,909	3,265
Others		1,432	2,495
		<u>211,754</u>	<u>127,016</u>

34.1 Salaries, wages and other benefits include following in respect of retirement benefits:

Pension fund	2,854	2,315
Gratuity fund	735	505
Provident fund	1,003	1,116
	<u>4,592</u>	<u>3,936</u>

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

		2006	2005
		(Rupees in thousand)	
34.2	Professional services		
	The charges for professional services include the following in respect of auditors' services for:		
	- Statutory audit	750	425
	- Half yearly review	150	150
	- Certification charges	60	199
	- Out of pocket expenses	27	99
		<u>987</u>	<u>873</u>
35.	Distribution and selling costs		
	Salaries, wages and other benefits - note 35.1	2,387	3,310
	Freight and forwarding	55,474	45,992
	Handling and distribution	1,465	1,143
	Loading and unloading charges	6,420	4,427
	Sales promotion expenses	596	1,226
	Insurance	6,798	2,072
	Others	441	-
		<u>73,581</u>	<u>58,170</u>
35.1	Salaries, wages and other benefits include provident fund contribution of Rs 0.098 million (2005: Rs 0.086 million) by the company.		
36.	Other operating expenses		
	Workers Profit Participation Fund	-	9,479
	Workers Welfare Fund	572	-
	Loss on sale of property, plant and equipment	3,000	-
	Impairment losses on:		
	- Available for sale investments:		
	classified as long term - note 23.3	2,200	-
	classified as short term - note 29.1	54,171	-
	- Held to maturity investments - note 29.3	65,702	-
	Merger expenses	-	579
	Social action program expenses	4,071	8,884
	Net exchange loss	12,083	4,995
	Donations - note 36.1	3,922	13,993
	Others	170	1,235
		<u>145,891</u>	<u>39,165</u>
36.1	None of the directors and their spouses had any interest in any of the donees.		



Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

	2006	2005
	(Rupees in thousand)	
37. Other operating income		
Income from financial assets		
Profit on sale of investments	385,384	32,297
Realized gain on investments held to maturity	1,482	23,527
Unrealized gain on investments held for trading	7,666	24,128
Dividend income from:		
- related parties		
- others	585	41,225
Underwriting commission	149,703	15,178
Liability written back	1,600	-
Return on bank deposits	395	467
	240	460
	547,055	137,282
Income from non-financial assets		
Scrap sales	25,907	16,136
Agricultural income	30,013	22,344
Profit on sale of property, plant and equipment	-	16,068
Rental income	94	83
Commission on sale of fertilizer	85	41
Amortization of deferred income	2,413	2,116
Others	2,120	5,073
	60,632	61,861
	607,687	199,143
37.1 Agricultural income		
Gain arising on changes in fair value / initial recognition of fair value of biological assets less estimated point-of-sale costs	1,029	122,787
Fair value of biological assets harvested less estimated point of sales cost	187,934	44,369
	188,963	167,156
Less: costs of biological assets harvested	158,950	144,812
	30,013	22,344
38. Finance cost		
Interest and mark-up on:		
- Long term finances	168,051	90,585
- Short term borrowings	497,202	161,389
- Workers' profit participation fund	257	412
- Finance lease	22,768	20,047
Bank charges, commission and excise duty	10,493	6,429
Others	2,918	585
	701,689	279,447

38.1 This includes preferred dividend of Rs 32.805 million (2005: 25.973 million).

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

	2006	2005
	(Rupees in thousand)	
39. Taxation		
For the year		
- Current	34,700	28,000
- Deferred	(317,106)	(3,538)
	(282,406)	24,462
Prior year		
- Current	(14,797)	2,000
- Deferred	(52,567)	(54,146)
	(67,364)	(52,146)
	(349,770)	(27,684)

- 39.1 In view of the available tax losses, the provision for current taxation represents the minimum tax due under section 113 of the Income Tax Ordinance, 2001. Such minimum tax is available for set off against normal tax liability that may arise in five succeeding tax years.

For purposes of current taxation the tax losses available for carry forward as at September 30, 2006 are estimated approximately at Rs 2,971 million (2005: Rs 907 million), including assessed tax losses of Rs 907 million (2005: Rs 628 million).

- 39.2 Since the company is in losses, the current tax provision represents the tax under section 113 of the Income Tax Ordinance, 2001, therefore it is impracticable to prepare the tax charge reconciliation for the year.

	2006	Restated 2005
40. Combined earnings per share		
40.1 Combined basic earnings per share		
Profit for the year	Rupees 62,739,000	263,249,000
Weighted average number of ordinary shares in issue during the year	Numbers 53,477,810	48,007,699
Earnings per share - basic	Rupees 1.17	5.48

40.2 Combined diluted earnings per share

There is no dilution of the basic earnings per share of the parent company as the effect of parent company's commitment to convert 1,000 preference shares into 167 ordinary shares of Rs 10 each is anti-dilutive.



Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

41. Cash used in operating activities

	2006 (Rupees in thousand)	2005
(Loss)/profit before taxation	(286,527)	239,290
Add: Adjustment for:		
Depreciation on property, plant and equipment	287,006	143,335
Depreciation on leased assets	26,228	25,796
Share of loss / (income) from associated companies	28,386	(58,831)
Amortization of deferred income	(2,413)	(2,116)
Liability written back	(395)	-
Loss / (profit) on sale of property, plant and equipment	3,000	(16,068)
Impairment losses on investments	122,073	-
Gain on sale of investments	(385,384)	-
Provision against doubtful receivables	29,795	-
Bad debts and advances written off	2,311	-
Unrealized gain on investments held for trading	(7,666)	(24,128)
Provision for employees' retirement benefits	7,592	6,585
Dividend income	(150,288)	(56,403)
Fair value gain on recognition of biological assets	(30,013)	(22,344)
Finance cost	701,689	279,447
	<u>631,921</u>	<u>275,273</u>
Profit before working capital changes	<u>345,394</u>	<u>514,563</u>
Effect on cash flow due to working capital changes:		
(Increase) in stores and spares	(23,318)	(28,459)
(Increase) in biological assets	(39,199)	(100,443)
(Increase) in stock-in-trade	(882,290)	(476,926)
Decrease / (increase) in trade debts	113,616	(214,048)
(Increase) in loans, advances, prepayments and other receivables	(33,227)	(195,829)
(Increase) in investments	-	(298,366)
Increase / (decrease) in trade and other payables	8,293	(237,295)
	<u>(856,125)</u>	<u>(1,551,366)</u>
	<u>(510,731)</u>	<u>(1,036,803)</u>

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

42. Remuneration of Chief Executive, Directors and Executives

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

	Director		Executives	
	2006	2005	2006	2005
	(Rupees in thousand)		(Rupees in thousand)	
Managerial remuneration	900	1,200	24,630	15,735
Contribution to provident fund, gratuity and pension funds	311	75	6,336	2,703
Production incentives	–	–	180	–
House rent	405	540	8,907	5,983
Utilities	90	120	2,661	1,573
Reimbursable expenses	210	2,705	804	865
Others	–	57	1,061	1,036
	1,916	4,697	44,579	27,895
Number of persons	1	1	19	13

- 42.2 The Company also provides some of its executives with company maintained cars.

- 42.3 Aggregate amount charged in the financial statements for the year for fee to 8 directors (2005: 8 directors) was Rs 160,000 (2005: Rs 160,000).



Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

42. Related Party Disclosures

The related parties comprise associated undertakings, other related companies and key management personnel. The company in the normal course of business carries out transactions with various related parties. Amounts due from and due to related parties are shown under receivables and payables and remuneration of the key management personnel is disclosed in note 41. Other significant transactions with related parties are as follows:

		2006	2005
		(Rupees in thousand)	
Relationship with the company	Nature of transactions		
i. Associated Undertakings	Purchase of goods and services	66,591	720
	Sale of goods and services	65,379	24,940
	Share of common expenses	726	5,083
	Lease rentals paid	1,233	8,312
	Dividend income	585	44,188
	Insurance premium paid	-	2,294
	Repayment of long term loan	-	2,190
	Finance cost paid	-	663
ii. Other related parties	Expenses incurred on behalf of the company	3,879	1,420
	Receipt of funds on behalf of the company	150,930	425,837
	Payments made to/on behalf of the company	177,407	168,177
	Purchase of marketable securities	17,325	-
	Sale of property, plant and equipment	1,127	-
	Share deposit money given	350,000	-
	Interest free loan given	59,420	-
iii. Post employment benefit plans	Expense charged in respect of retirement benefit plans	11,137	9,969

All transactions with related parties have been carried out on commercial terms and conditions.

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

		2006	2005
43. Capacity and production			
Sugar			
Rated crushing capacity -			
On the basis of 140 days (2005: 160 days)	M. Tons	2,240,000	1,600,000
Actual cane crushed	M. Tons	1,288,547	1,324,510
The low crushing was due to shortage of sugarcane due to impact of frost attack in January 2006 and unsuitable weather conditions			
Distillery			
On the basis of 270 days (2005: 270 days) working	Liters	43,200,000	43,200,000
Actual production	Liters	27,625,611	33,245,964
The low production of ethanol was due to shortage of raw materials and lack of available orders from customers			
Particle board			
On the basis of 100 days (2005: 200 days) working	Cubic meter	3,000	6,000
Actual production	Cubic meter	1,477	3,584
The low production of particle board was due to shortage of baggase.			
Textile			
Capacity (converted in 20s counts)	Kgs	8,899,263	8,899,263
Actual production (converted in 20s counts)	Kgs	7,819,205	7,952,951
The low production of yarn was due to stoppages in electricity supply and shut-down of plant for major maintenance works.			
Dairy			
Capacity	Liters per day	120,000	-

45. Number of employees

The company employed 2,472 employees as at September 30, 2006 (2005: 1,470).



Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

46. Business segments information

		(Rupees in thousand)											
		Sugar		Distillery		Particle Board		Textile		Dairy and fruit products		Total	
		2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Net sales	- note 31	4,288,721	4,302,090	761,502	529,036	6,419	29,603	704,443	577,703	-	-	5,410,521	4,962,400
Segment expenses													
- Cost of sales	- note 32	4,228,097	3,620,406	603,072	589,204	4,946	24,835	656,287	527,558	-	-	5,143,938	4,481,071
Gross profit/loss		59,524	481,644	158,430	(60,168)	1,473	4,768	48,156	55,145	-	-	266,583	481,329
- Administrative expenses	- note 33	158,146	90,433	28,093	12,504	237	700	25,278	23,379	-	-	211,754	127,016
- Distribution and selling costs	- note 34	11,903	11,347	57,508	45,416	18	19	4,072	1,388	-	-	73,501	58,170
		170,049	101,780	85,601	57,920	255	719	29,350	24,767	-	-	285,335	185,186
Segment results		(111,525)	379,864	72,749	(118,088)	1,218	4,049	18,806	30,378	-	-	(18,752)	296,203
46.1 Inter-segment sales and purchases													
Inter-segment sales and purchases have been eliminated from total figures.													
46.2 Segment assets													
Unallocated assets													
46.3 Segment liabilities													
Unallocated liabilities													
46.4 Capital expenditure													
Unallocated													
46.5 Depreciation/Amortization													
Unallocated													
46.6 Secondary reporting format													
Segment revenue from external customers by geographical area is as follows:													
Distillery export sales - Europe													
Export sales - Others													
Local sales													

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

47. Financial assets and liabilities

	(Rupees in thousand)								
	Interest / mark-up bearing			Non-interest bearing			Total		Credit Risk
	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total	2006 Total	2005 Total	2006 2005
Financial assets									
Long term loan and deposits	-	3,726	3,726	-	45,783	45,783	49,509	44,532	49,509 44,532
Trade debts	-	-	-	220,741	-	220,741	220,741	330,843	220,741 330,843
Loans, advances and other receivables	115,779	-	115,779	24,516	-	24,516	140,295	297,716	140,295 297,716
Investments	-	-	-	2,446,277	614,412	3,060,689	3,060,689	3,454,152	3,060,689 3,454,152
Cash and bank balances	100,260	-	100,260	90,277	-	90,277	190,537	19,733	187,350 18,998
	216,039	3,726	219,765	2,781,811	660,195	3,442,006	3,661,771	4,146,976	3,658,584 4,145,441
Off balance sheet	-	-	-	-	-	-	-	-	-
Total	216,039	3,726	219,765	2,781,811	660,195	3,442,006	3,661,771	4,146,976	3,658,584 4,145,441
Financial liabilities									
Long term finances	534,184	1,880,203	2,384,387	-	-	-	2,384,387	2,291,537	
Long term advances	-	-	-	-	-	-	-	10,674	
Liabilities against assets subject to finance lease	71,991	131,727	203,718	-	-	-	203,718	257,780	
Employees' retirement benefits	-	-	-	-	-	-	-	267	
Short term borrowings	5,655,200	-	5,655,200	-	-	-	5,655,200	3,988,858	
Trade and other payables	-	-	-	445,000	-	445,000	445,000	242,952	
Accrued finance cost	281,528	-	281,528	-	-	-	281,528	151,804	
	6,532,903	1,991,930	8,524,833	445,000	-	445,000	8,969,833	6,943,872	
Off balance sheet									
Contracts for capital expenditure	-	-	-	132,484	-	132,484	132,484	161,722	
Guarantees	-	-	-	89,996	-	89,996	89,996	89,996	
Letters of credit other than for capital expenditure	-	-	-	2,507	-	2,507	2,507	2,393	
	-	-	-	224,987	-	224,987	224,987	254,111	
Total	6,532,903	1,991,930	8,524,833	669,987	-	669,987	9,194,820	7,197,983	
On balance sheet gap	(6,316,864)	(1,988,204)	(8,305,068)	2,336,811	660,195	2,997,006	(5,308,062)	(2,796,896)	
Off balance sheet gap	-	-	-	(224,987)	-	(224,987)	(224,987)	(254,111)	

The effective interest/mark-up rates for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements.



Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

47.1 Financial risk management objectives

The company finances its operations through equity, borrowings and management of working capital with a view to maintaining a reasonable mix between the various sources of finance to minimize risk. Taken as a whole, risks arising from the company's financial instruments is limited as there is no significant exposure to market risk in respect of such instruments. The company manages its exposure to financial risk in the following manner:

(a) Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The company's credit risk primarily attributable to its trade debts and its balances at banks. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. Out of the total financial assets of Rs 3,662 million (2005: Rs 4,147 million), the financial assets which are subject to credit risk amount to Rs 3,659 million (2005: Rs 4,145 million). The company believes that it is not exposed to major concentration of credit risk as exposure is spread over a large number of counter parties in case of trade debts. To manage exposure to credit risk, the company applies credit limits to its customers.

(b) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises mainly where receivables and payables exist due to transactions with foreign buyers and suppliers. The company believes that it is not exposed to major foreign exchange risk.

(c) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The company borrows at fixed and market based rates and as such the risk is minimized. Significant interest rate risk exposures are primarily managed by a mix of borrowings at fixed and variable interest rates and contracting floor and cap of interest rates as referred to in note 7.

(d) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. The company follows an effective cash management and planning policy to ensure availability of funds. The company also aims at maintaining flexibility in funding by keeping committed credit lines available.

47.2 Fair value of financial assets and liabilities

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

48. Date of authorization of issue

These financial statements were authorized for issue on February 03, 2007 by the board of directors of the company.

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

49. Events after the balance sheet date

The Board has recommended to issue bonus shares in proportion of Nil (2005: 15) bonus shares for every 100 ordinary shares held.

50. Business combination

On September 30, 2006, 100% shares in Shakarganj Food Products Limited (Formerly A.M. Fruit Products (Private) Limited) were acquired by Shakarganj Mills Limited resulting in formation of the Shakarganj Group. Details of net assets acquired and goodwill are as follows:

	(Rupees in thousand)
Purchase consideration (in cash)	100
Fair value of net liabilities acquired	(79,606)
Goodwill	<u>79,706</u>

The goodwill is attributable to the high anticipated profitability of the acquired business.

The assets and liabilities arising from acquisition are as follows:

Property, plant and equipment	792,252
Capital work in progress	10,039
Intangible assets	11,943
Stores and spares	22,189
Stock in trade	62,255
Trade debts	3,514
Advances, deposits, prepayments and other receivables	82,765
Cash and bank balances	201
Share deposit money	(350,000)
Long term finances	(401,000)
Deferred liabilities - gratuity	(1,303)
Short term borrowings	(74,479)
Current portion of long term finances	(17,000)
Trade and other payables	(197,597)
Accrued finance cost	(22,059)
Provision for taxation	(1,326)
Net asset	<u>(79,606)</u>

50.1 The carrying value of assets and liabilities acquired approximate their fair values.



Notes to the Consolidated Financial Statements


For the year ended September 30, 2006

51. Detail of subsidiary

Name of subsidiary	Accounting year end	Percentage of holding	Country of incorporation
Shakarganj Food Products Limited (Formerly A. M. Fruit Products (Private) Limited)	June 30, 2006	100%	Pakistan

52. Corresponding figures

Previous year's figures represent that of the parent and the associated companies only as the subsidiary was acquired during the year.


Chief Executive


Chairman

Pattern of Shareholding
For the year ended September 30, 2006

Form 34

No. of Shareholders	Shareholding	Total Shares held
	From To	
243	1	7,887
315	101	96,325
247	501	192,392
300	1,001	663,445
48	5,001	348,975
40	10,001	508,546
9	15,001	153,003
10	20,001	232,990
7	25,001	188,878
9	30,001	295,797
7	35,001	253,133
6	40,001	258,353
6	45,001	282,564
5	50,001	264,116
4	55,001	232,530
3	60,001	184,078
4	70,001	285,526
1	75,001	78,810
3	80,001	243,113
1	85,001	89,832
3	90,001	279,684
1	95,001	100,000
2	100,001	202,382
1	105,001	106,406
2	120,001	245,492
1	130,001	131,705
1	150,001	151,000
1	155,001	158,500
1	185,001	185,950
2	190,001	386,997
2	195,001	400,000
1	210,001	213,500
3	215,001	654,281
1	235,001	239,621
1	245,001	250,000
2	270,001	550,000
1	295,001	300,000
1	305,001	308,537
1	310,001	314,344
1	340,001	345,000
1	435,001	436,713
1	445,001	449,747
1	450,001	451,836
2	455,001	913,861
1	545,001	546,844
1	555,001	559,396
1	660,001	661,463
1	845,001	847,983
1	995,001	1,000,000
1	1,145,001	1,150,000
1	1,495,001	1,500,000
2	1,995,001	4,000,000
1	2,020,001	2,023,500
1	2,375,001	2,376,100
1	2,510,001	2,513,341
1	2,680,001	2,681,692
1	4,095,001	4,100,000
1	4,520,001	4,522,907
1	4,645,001	4,646,082
1	12,170,001	12,171,340
1,319		57,936,497



Pattern of Shareholding

For the year ended September 30, 2006

	Categories of Shareholders	Shares Held	% age
5.1	Directors, Chief Executive Officer, Their Spouse and Children		
	Chief Executive		
	Mr. Ahsan M. Saleem	439,621	0.76
	Directors		
	Mr. Khalid Bashir	3,525	0.01
	Mr. Mazhar Karim	458,244	0.79
	Mr. Muhammad Anwar	6,496	0.01
	Mr. Muhammad Arshad	94,063	0.16
	Directors Spouse and Their Children		
	Mrs. Abida Mazhar	10,903	0.02
	Mrs. Shahmar A. Saleem	17,565	0.03
	Mrs. Tanveer Khalid Bashir	90,722	0.16
		1,121,139	1.94
	Executives	163,823	0.28
5.2	Associated Companies, Undertakings & Related Parties		
	Asian Stock Fund Limited	2,023,500	3.49
	Crescent Commercial Bank Limited	115	0.00
	Crescent Jute Products Limited	192,280	0.33
	Crescent Steel And Allied Products Ltd.	4,646,082	8.02
	Crescent Sugar Mills & Distillery Limited	2,681,692	4.63
	P I C I C	455,617	0.79
	Safeway Mutual Fund Limited	2,513,341	4.34
	The Crescent Textile Mills Limited	4,522,907	7.81
	The Premier Insurance Co. of Pakistan Ltd	44,500	0.08
		17,080,034	29.48
5.3	NIT & ICP (Name Wise Detail)		
	Investment Corporation of Pakistan Limited	37,544	0.06
	National Bank of Pakistan, Trustee Deptt.	12,171,340	21.01
		12,208,884	21.07
5.4	Banks, DFT's, NBFT's	7,765,645	13.40
5.5	Insurance Companies	139	0.00
5.6	Modaraba and Mutual Funds	2,165	0.00
5.7	Other Companies	7,240,326	12.50
5.8	Non Resident	180	0.00
5.9	General Public	12,354,162	21.32
		57,936,497	100.00
	Shareholders holding more than 10.00% of the issued share		
	National Bank of Pakistan, Trustee Deptt. (CDC)	12,171,340	21.01

Notice of Annual General Meeting

NOTICE is hereby given that the 39th Annual General Meeting of the Shareholders of SHAKARGANJ MILLS LIMITED (the "Company") will be held on Thursday, 29 March 2007 at 11.30 a.m. at Qasr-e-Noor, 9 E 2 Main Boulevard, Gulberg-III, Lahore to transact the following business:

1. To confirm the minutes of Extraordinary General Meeting held on January 20, 2007.
2. To receive, consider and adopt the Audited Accounts together with Directors' and Auditor's reports thereon for the year ended 30 September 2006.
3. To appoint auditors and fix their remuneration.
4. To discuss any other business with the permission of the Chair.

BY ORDER OF THE BOARD

Tariq Aleem
Company Secretary
Lahore
February 3, 2007

1. Participation in the Annual General Meeting

A member entitled to attend and vote at this meeting may appoint any other member as his/her proxy to attend and vote.

The instrument appointing a proxy and the power of attorney or other authority under which it is signed or a notorially attested copy of the power of attorney must be deposited at the Registered Office of the Company at least 48 hours before the time of Meeting.

Members, who have deposited their shares into Central Depository Company of Pakistan Limited, are being advised to bring their National Identity Cards along with CDC Participant ID and account number at the meeting venue.

If any proxies are granted by any such shareholders, the same must be accompanied with attested copies of the National Identity Cards of the grantors and the signatures on the proxy form should be the same as that appearing on the National Identity Cards.

2. Book Closure Notice for Ordinary Shares

The Share Transfer Books of Ordinary Shares of the Company will remain closed from 22 March 2007 to 29 March 2007 (both days inclusive). Physical transfers/CDS Transaction Ids received in order at the Registered Office of the Company upto the close of business on 21 March 2007 will be considered in time for the determination of entitlement of shareholders to attend and vote at the meeting.

3. Book Closure Notice for Preference Shares for the 2nd Year Ended September 30, 2006

The Share Transfer Books of Preference Shares (Non-Voting) of the Company will remain closed for entitlement of 8.5% Preferred Dividend (Rs. 0.85 per Preference Share) from 22 March 2007 to 29 March 2007 (both days inclusive). Physical transfers/CDS Transaction Ids received in order at the Registered Office of the Company upto the close of business on 21 March 2007 will be considered in time for entitlement of Preferred Dividend. The Preferred Shareholders are not entitled to attend the meeting.

4. Shareholders are requested to immediately notify the change in address, if any.



