

**Annual Report 2003**



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## Company Information

### Board Of Directors

Chairman	Mazhar Karim
	Gul Nawaz (NTT)
	Khalid Bashir
	Muhammad Anwar
	Muhammad Arshad
	Muhammad Bilal Sheikh (PICIC)
	Muhammad Asif (NTT)

### Chief Executive

Ahsan M. Saleem

### Company Secretary

Tariq Aleem

### Audit Committee

Chairman	Muhammad Anwar
	Khalid Bashir
	Muhammad Asif

### The Management

Chief Advisor	Muhammad Asghar Qureshi *1999
Executive Vice President & Chief Operating Officer	Muhammad Awaiz Qureshi *1980
Vice President - Agriculture	Manzoor Hussain Malik *1980
Vice President - Finance & Chief Financial Officer	Omer Ashraf *2003
Vice President - Operations	Prevaiz Akhtar *1981
General Manager Production	Maqsood Ahmad *1986
Director Research	Dr. Shahid Afghan *1987
Internal Auditor	Asif Ali *1996

\* year joined Company

## Company and Investors' 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: 042-5870361-5.

Email: tariqaleem@hotmail.com

### Shareholder Information

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

Tel: 92-042-5712036 & 5877087 Fax: 92-042-5877325

E-mail: crescent\_business@yahoo.com

### Products

- Sugar
- Ethanol
- Particle Board

### Annual General Meeting

36th Annual General Meeting of Shakarganj Mills Limited will be held on Thursday, January 29, 2004 at 11:00 a.m. at Pearl Continental Hotel Lahore.

### Mills

Management House, Toba Road  
Jhang, Pakistan.

Tel: 92-0471-614971-614973

Tlx: 43471CJP PK Fax: 92-0471-620272

E-mail: ssugar@jng.paknet.com.pk

### Registered Office

Unit # 6, Happy Homes,

38-A-3 Main Gulberg, Lahore, Pakistan

Tel: 92-042-5712036 & 5877087

Fax: 92-042-5877325

### Legal Advisors

Hassan & Hassan Advocates, Lahore.

### Bankers

- Muslim Commercial Bank Ltd.
- United Bank Ltd.
- Union Bank Ltd.
- Bank Alfiah Ltd.
- Faysal Bank Ltd.
- Askari Commercial Bank Ltd.
- National Bank of Pakistan Ltd.
- Meezan Bank Ltd.
- Soneri Bank Ltd.

## Seven Years Financial Summary

(Rupees in thousand, except amounts per share)

	2003	2002	2001	2000	1999	1998	1997
<b>Operating Results</b>							
Net Sales	2,118,843	2,615,804	2,183,827	1,180,681	1,864,677	1,816,421	1,398,384
Cost of Sales	1,843,613	2,203,240	1,851,686	1,041,975	1,627,251	1,657,492	1,233,714
Selling, General and Admin Expenses	94,618	79,485	77,495	46,490	79,351	47,160	43,735
Interest Expenses	122,587	173,675	223,067	161,479	179,395	179,744	189,290
Other Income, Net	117,275	46,634	129,914	80,141	32,682	46,815	66,131
Pre-Tax Profit/(Loss)	156,231	124,673	25,193	10,217	10,505	(21,830)	(3,037)
Taxation	27,191	14,023	11,698	5,903	9,210	8,441	6,155
Net-Income	129,040	110,650	13,495	4,314	1,295	(30,271)	(9,192)

**Per Share Results and Return**

Earning Per Share	4.41	3.78	0.46	0.15	0.04	(1.03)	(0.35)
Dividend/ Stock Dividend per Share	1.50	1.50	0.75	-	-	-	1.10
Net Income Sales Percent	6.09	4.23	0.62	0.37	0.07	(1.67)	(0.66)
Return on Average Assets Percent	5.84	6.04	0.82	0.27	0.07	(1.69)	(0.55)
Return on Average Equity Percent	21.33	21.96	2.98	0.97	0.29	(6.65)	(1.94)

**Financial Position**

Current Assets	1,303,710	753,172	675,554	567,276	863,642	826,450	821,965
Current Liabilities	1,418,202	776,258	968,488	736,766	962,678	950,180	1,023,355
Operating Fixed Assets	947,401	779,251	700,568	701,690	745,879	727,120	768,703
Total Assets	2,605,926	1,815,615	1,849,787	1,433,551	1,757,592	1,785,026	1,790,570
Long-Term Debt	755,233	642,685	670,158	329,110	407,537	429,361	462,621
Shareholders' Equity	683,321	570,519	459,097	445,602	441,288	439,993	470,264
Break-up Value per Share	23.33	19.48	15.68	15.22	15.07	15.02	17.66

**Financial Ratios**

Current Liabilities to Current Assets	1.09	1.03	1.43	1.30	1.11	1.15	1.25
Long-Term Debt to Capitalization Percent	52.50	52.97	59.35	42.48	48.01	49.39	49.59
Total Debt to Total Assets Percent	73.78	68.58	75.18	68.92	74.89	75.35	73.74
Interest Coverage (Times)	2.18	2.10	1.23	1.07	1.06	0.88	0.98
Average Collection Period (Days)	11.17	13.91	9.10	6.61	5.65	1.39	6.90
Inventory Turnover (Times)	3.34	10.01	5.52	23.31	4.96	3.90	3.67
Fixed Assets Turnover (Times)	1.81	3.02	2.66	1.46	2.20	2.22	1.71
Total Assets Turnover (Times)	0.81	1.44	1.18	0.82	1.06	1.02	0.78

**Other Data**

Depreciation & Amortization	85,828	71,835	67,347	67,861	72,547	90,478	91,100
Capital Expenditure	251,409	146,838	58,640	19,130	81,599	59,332	54,086



# Production Data 1974-2003

Season	Duration of Season (Days)	Tons					Percent Losses (Percent)	Mudmats (Kilograms)	Shrimp (Kilograms)	Purifier Bowl (Cubic Meters)
		Catch (Kilograms)	Raw Sugar Processed (Kilograms)	Sugar Produced (Kilograms)	Recovery (Percent)	Process (Percent)				
2002-2003	196	1,675,570.56	-	127,000.00	7.58	2.56	84,277	26,233,000	1,667.76	-
2001-2002	195	1,704,812.00	-	128,000.00	7.53	2.42	91,890	15,800,156	5,669.96	-
2000-2001	161	1,054,992.27	-	79,126.30	7.50	2.31	55,601	10,469,000	1,370.96	-
2000-2001	-	-	27,811.59	26,623.70	-	-	-	-	-	-
1999-2000	144	524,376.60	-	39,965.00	7.63	2.20	24,245	4,967,000	497.48	-
1998-1999	157	1,590,118.54	-	101,679.00	7.51	2.23	41,756	5,324,756	1,921.69	-
1997-1998	165	1,434,589.42	-	112,430.00	7.85	2.38	73,477	6,350,000	2,784.44	-
1996-1997	176	1,036,955.12	-	79,740.00	7.69	2.50	54,711	6,015,000	-	-
1995-1996	151	703,316.24	-	60,285.00	7.92	2.65	39,597	2,573,700	2,117.54	-
1994-1995	157	1,057,035.58	-	86,075.00	8.11	2.77	53,172	5,460,000	5,299.26	-
1993-1994	196	1,203,571.20	-	88,116.50	7.34	2.65	60,150	5,280,076	4,334.77	-
1992-1993	161	891,838.64	-	54,095.00	7.85	2.68	35,980	4,807,020	1,662.76	-
1991-1992	174	746,506.35	-	63,985.50	8.57	2.53	37,710	4,525,900	3,500.00	-
1990-1991	204	866,552.13	-	65,536.80	7.56	2.59	47,135	3,422,204	642.94	-
1989-1990	187	708,632.50	-	57,912.00	8.17	2.51	33,180	3,030,217	-	-
1988-1989	170	446,324.86	-	36,366.80	7.70	2.44	22,410	-	-	-
1987-1988	193	698,604.86	-	55,726.00	7.98	2.61	38,740	308,494	-	-
1986-1987	149	335,601.08	-	27,808.60	8.36	2.24	15,660	1,855,809	-	-
1985-1986	115	257,601.67	-	20,625.00	8.66	2.29	11,470	20,239	-	-
1984-1985	168	441,717.77	-	39,522.60	8.96	2.38	22,580	-	-	-
1983-1984	173	427,169.49	-	35,501.20	8.31	2.40	21,860	-	-	-
1982-1983	173	561,291.49	-	29,440.00	8.16	2.44	16,255	-	-	-
1981-1982	207	466,040.00	-	39,474.00	8.47	2.48	21,255	-	-	-
1980-1981	187	287,725.00	-	25,562.00	8.89	2.42	13,573	-	-	-
1979-1980	112	61,206.63	-	5,619.30	8.95	2.25	2,358	-	-	-
1978-1979	114	107,106.07	-	9,267.30	8.80	2.27	4,147	-	-	-
1977-1978	177	519,960.400	-	27,620.00	8.61	2.44	14,103	-	-	-
1976-1977	166	308,987.44	-	26,085.60	8.45	2.67	15,228	-	-	-
1975-1976	157	246,393.59	-	18,864.88	7.61	2.68	11,424	-	-	-
1974-1975	107	104,069.16	-	8,252.62	8.30	2.75	4,182	-	-	-
1973-1974	101	87,824.72	-	5,476.83	6.28	3.57	4,726	-	-	-

## Statement of Value Added

	(Rupees in million)			
	2003		2002	
Sales revenue	2,118.84		2,615.80	
Other receipts	86.75		31.96	
	<u>2,205.59</u>		<u>2,647.76</u>	
Less: Materials and services	1,420.99		1,758.82	
Value Added	<u><u>784.60</u></u>		<u><u>888.94</u></u>	
Applied the following way:	(Rs. in million)	% age	(Rs. in million)	% age
To employees:				
Salary, wages and related costs	94.64	12.06	85.55	9.62
To Government:				
Income tax, sale tax and other taxes	343.72	43.81	440.66	49.57
To providers of capital:				
Finance charges on loans and advances	122.59	15.62	173.67	19.54
To charitable institution	8.78	1.12	2.78	0.31
Provision for deferred cost	-	-	3.80	0.43
To provide for maintanances and expansion of assets:				
Depreciation/amortization	85.83	10.94	71.84	8.08
Profit retained	129.04	16.45	110.65	12.45
	214.87	27.39	182.49	20.53
	<u><u>784.60</u></u>	<u><u>100.00</u></u>	<u><u>888.94</u></u>	<u><u>100.00</u></u>



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Shakarganj Sugar Research





Shakarganj Mills Limited  
Annual Report 2003

## Shakarganj Sugar Research Institute



### Board of Governors

Mr. M. Asghar Qureshi  
Chairman

Mr. Altaf M. Saleem  
Member

Mr. M. Awais Qureshi  
Member

Mr. Malik Manzoor Hussain  
Member

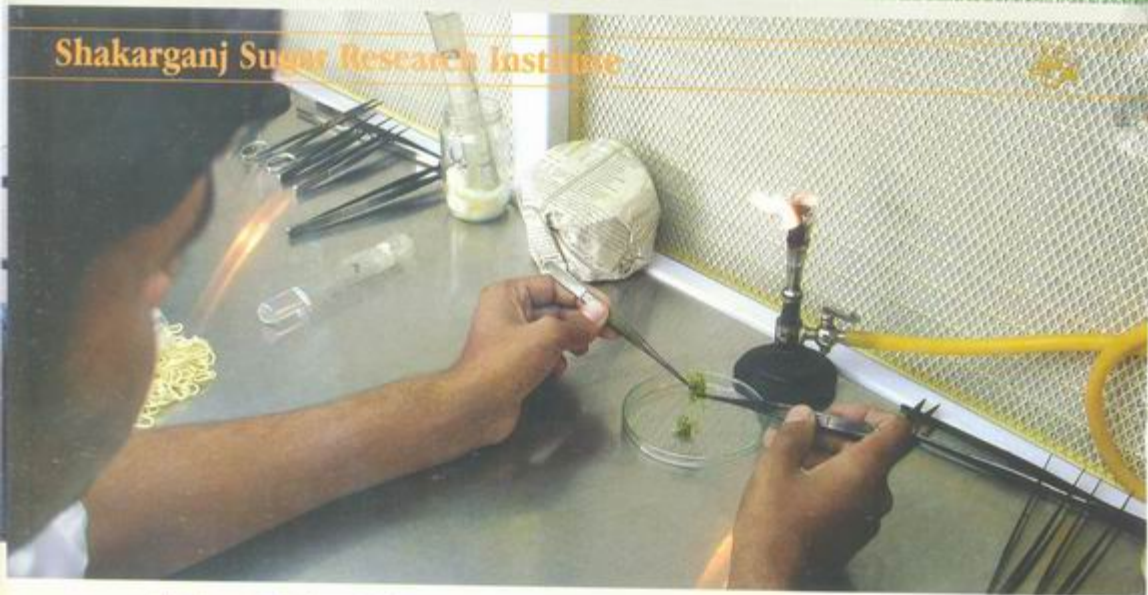
Dr. Shahid Afghan  
Member



### Principal Functions

1. Sugarcane breeding to evolve fertilizer responsive, disease resistant and stress tolerance varieties with high sucrose content.
2. To investigate the agronomic problem of sugarcane production.
3. Research and development on utilization of bio-mass 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 so develop appropriate control measures.
7. To conduct basic research on germination of sugarcane setts, sucrose production, translocation and storage and on the environmental influences on these processes.
8. To provide advice on the use of fertilizers and other agricultural chemicals, irrigation, drainage, diseases and pests control, the use of machines and equipment, land and water management, and other aspects of crop production planting and management.
9. To publish and disseminate information on all aspects of sugarcane production.
10. To provide educational courses in various aspects of sugarcane growing for growers.
11. To collaborate and exchange information and material with Research Organizations in Pakistan and other countries.
12. To improve technology of sugarcane production inside the sugar factories by improving process and milling efficiency.

## Shakarganj Sugar Research Institute



### Chairman's Review 2003

This report summarizes research and development activities being conducted at Shakarganj Sugar Research Institute (SSRI) with emphasis on main goals that were reached during the year 2002-2003. Following activities were conducted on various aspects of cane production:

- |   |  |
|---|--|
| <input type="checkbox"/> Sugarcane variety development              | <input type="checkbox"/> Biological control of borers and pyrrilla |
| <input type="checkbox"/> Tissue culture propagation of elite clones | <input type="checkbox"/> Studies on disease tolerance              |
| <input type="checkbox"/> Studies on insect resistance               | <input type="checkbox"/> Agronomic trials                          |
| <input type="checkbox"/> Soil and water advisory service            | <input type="checkbox"/> Workshop on R&D activities                |
| <input type="checkbox"/> Publication of Pakistan Sugar Journal      | <input type="checkbox"/> Library of the institute                  |

### Variety SPSG-394 Approved: A Great Achievement

We are happy to report that a sugarcane variety SPSG-394 raised from fuzz of COPERUCAR Brazil and developed at SSRI, Jhang. After vigorous testing has been approved by the Government of Pakistan for commercial cultivation in the province of the NWFP, at the recommendation of Sugar Crops Research Institute (SCRI) Mardian.

SSRI is now on strong footings having a number of more promising varieties of sugarcane under final testing stage. The varieties are high yielding, good ratooner and early maturing with resistance to major diseases.

### 1. Sugarcane variety development

Cane variety development programme was initiated at institute in July 13, 1985. It has proved very successful from the year of its inception. Scientists under various disciplines are working together to develop future cane varieties of sugar industry. Bi-parental fuzz, 10-crosses of selected parentage were purchased @ 300 US\$ per cross from Bureau of Sugar Experiment Station (BSES) Queensland, Australia. Fuzz of 70-bi-parental crosses from USDA Canal Point and 174-bi-parental crosses from Ag-Center Houma, USA, were imported under a cooperative programme during the year under report. Status of clones under different selection stages is given in table-1.

#### a. Original seedlings

At stage-I, Fuzz was grown from June 20th to July 15th 2003. A total of original seedlings bagged were 45374. Amongst the total a population of 3079 of original seedlings raised was from the fuzz of BSES, Australia. A seedling population of 31788 and 10507 was germinated from the fuzz imported from Canal Point and Ag-Center Houma USA, respectively (table-1). Original seedlings were spread as single stools at 1.5 x 3-feet plot. An alley of 6-feet was kept after 2-rows of the stools for observations. The poly-bag seedlings were transplanted on 9 acres from August 15th to 30th, 2003 at experimental research farm of SSRI.



## Shakarganj Sugar Research Institute



### **b. Progeny clones**

At stage-II, progenies were spread on 1194 lines from 36732 original seedlings of cane fuzz obtained from AgCenter Houma/Canal Point USA (table-1). The progeny clones were planted at 7 x 4 feet plot size, on an area of 3 acres during autumn 2003.

### **c. Advanced clones**

At stage-III, from 3711 progeny clones, 933 were advanced (table-1). The plot was 20 x 4 feet of 5-rows. Advanced clones were spread on 5.5 acres, during the year under report. Data on agronomic traits of the advanced lines was recorded.

### **d. Promising clones for semi-final trials**

At stage-IV, amongst 259 advanced clones, 45 were selected for semi-final trials (table-1). Semi-final clones would be further studied for germination capacity, tillering potential, striped cane yield, maturity trend, sucrose content and resistance against major diseases like red rot, rust, smut and pokah boeng.







**Table-1 Status of Germplasm under Different Selection Stages at SSRI Jhang**

Selection Stage	Seedling Year/Source of fuzz	Year 2002-2003
<b>Stage-5</b>	<b>Final clones</b> i. S98CSSG, Davis Laboratory Townsville, Australia	2
<b>Stage-4</b>	<b>Semi-final Clones</b> i. S99HoSG, AgCenter Houma, USA ii. S99QSG, BSES, Queensland, Australia <b>Total</b>	10 35 <b>45</b>
<b>Stage-3</b>	<b>Advanced clones</b> i. S2001HoSG, AgCenter, Houma, USA ii. S2001CPSG, USDA, Canal Point, USA iii. S2001NSG, SASAEX, Natal, South Africa iv. S2001QSG, BSES, Queensland, Australia v. S2001CSSG, Davis Laboratory Townsville, Australia <b>Total</b>	232 129 43 88 441 <b>933</b>
<b>Stage-2</b>	<b>Progeny clones</b> i. S2002NSG, SASAEX, Natal, South Africa ii. S2002QSG, BSES, Queensland, Australia iii. S2002HoSG, AgCenter, Houma, USA iv. S2002CPSG, USDA, Canal Point, USA <b>Total</b>	1194 1194
<b>Stage-1</b>	<b>Original seedlings</b> i. S2003HoSG, AgCenter, Houma, USA ii. S2003CPSG, USDA, Canal Point, USA iii. S2003QSG, BSES, Queensland, Australia <b>Total</b>	31788 10507 3079 <b>45374</b>

**d. Promising clones for final studies**

At stage-V, from 15 semi-final clones viz: CSSG-668 and CSSG-676 were kept for final trials (table-1). Both the promising varieties have shown better performance for cane yield and quality along with resistance against major diseases. These final clones were included in coordinated trials. Extensive testing and seed multiplication was in progress. Agro-economic traits and progress. Agro-economic traits and periodic trend of sugar recovery percent cane of CSSG-668 and CSSG676 was compared with standard check SPSG-26 during the years 2001-2003. It is given in table -2 and Fig. 1, respectively.



## Shakarganj Sugar Research Institute



**Table-2. Agro-Economic traits of CSSG-668 and CSSG-676 at final stage compared with standard SPSSG-26 (2001-2003)**

Clones	Agro-economic traits					Disease Reaction		
	Ger (%)	Tiller/ Plant	Millable canes (acre)	Cane weight (Kg)	Yield Acre (mds.)	Red rot	Rust	Smut
CSSG-668	60	2.50	42771	1.15	1230	MR	R	R
CSSG-676	59	2.99	43820	1.24	1328	R	R	R
SPSSG-26	58	2.50	37150	1.10	1021	R	R	MS

## 2. Biological control

### i. Biological control of borers

Biological control borers through *Trichogramma chilonis* have proved economical, effective and environment friendly. Tricho-cards tagged to sugarcane crop in 28 cane development circles of SML were 2,16,635 covering 43,327 acres from March to September 2003. The tricho-cards were provided to cane growers of SML at a highly subsidized price of Rs.3/- per card. Data recorded on infestation of borers in cane fields indicated damage of pest was under economic threshold level. It shows efficacy of parasite being released regularly in cane fields from 1996.

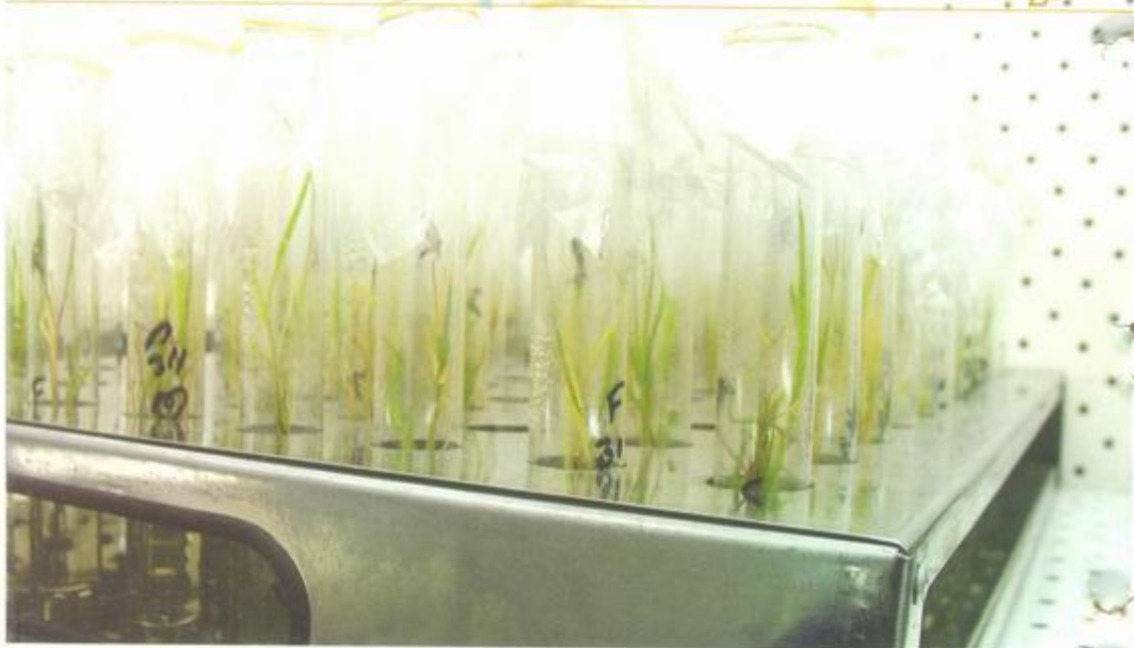
#### New Project:

### ii. Biological Control of *Pyrilla*

*Pyrilla perpusilla* is one the most infesting pest of sugar cane crop. The management has approved a new research project for control of *Pyrilla perpusilla*. Sever infestation of the pest was observed from grand growth phase till maturity of the sugarcane, deteriorating both yield and quality of crop. Chemical control of the pest was found ineffective and costly.

Keeping this in view it was decided to start biological control of *Pyrilla perpusilla*. It is possible with rearing of adults of an insect known as Green Lace-Wing (*Chrysopa carnea*). Its adults and larvae both the stages are aggressive predator of eggs and nymphs of *Pyrilla*.

## Shakarganj Sugar Research Institute



Rearing of *Chrysopa* in transparent plastic cages under laboratory condition has been started successfully from August 2003 at SSRI. Field application protocol will be standardized at grand growth phase of the crop during 2004. It is hoped, large-scale multiplication of this useful predator of pyrilla for the cane growers of SML would be started in near future. In addition, *Chrysopa* is equally good for effective control of borers of sugarcane, rice, maize and cotton, specifically for *Haliotus* species like American boll-worm.

### 3. Tissue culture Laboratory

This project was started in February 2001. Main objective is rapid multiplication of elite cane varieties with high quality vigorous seed to cane growers of SML. Cane varieties included for tissue culture propagation were NSG-6, NSG-39, NSG-311, NSG-555, CPF-257 and HSF-242. Total plantlets production was 66820. Excised plantlets shifted for hardening were 34626. Plantlets survival rate was 62 percent. Plantlets mortality was 4 percent in field plantation.

Rs. 1,061,600 was obtained with sale of 12.27 acres seed @Rs. 500 per marla. A target of 200 acres plantation of tissue cultured cane seed at grower's field was achieved during the year under report.

### 4. Studies on disease tolerance

Different selection stages of cane varieties were included for screening against major disease. Amongst 4168 entries only 397 have shown combined resistant to red rot, rust, pokha boeing and smut. 7 cane varieties at final stage were showing combined resistance. Out of 3711 progenies lines, 331 have shown combined resistance. And from 259-advanced lines tested only 35 were resistant. Out of 158- semi-final clones, screened for combined resistance were 10. Series-wise detail of screening against major diseases during the year under report is given in table-3.

## Shakarganj Sugar Research Institute



Table-3 Screening of germplasm for combined resistance against major diseases

Sr. No.	Origin	No. of Clones	Resistance to				Combined
			Red rot	Rust	P. boeng	Smuts	
1	Promising Varieties S96NSG series	4	2	3	3	3	2
2	Final clones S98CSSG series	15	7	12	8	9	7
3	Semi final clones S99HoSG series	158	10	117	115	120	10
4	Advance lines S2000HoSG series	259	35	231	179	210	35
5	Progeny clones S2001HoSG series	3711	331	228	426	379	331
6	SCRI, Mardan Varieties	3	2	3	3	3	2
7	SRI, Faisalabad Varieties	12	7	9	11	9	7
8	Habib Sugar, Nawabshah Varieties	4	3	3	2	3	2
9	Sri Lanka clones (SL series)	2	2	2	1	2	1
<b>Total</b>		<b>4168</b>	<b>399</b>	<b>608</b>	<b>748</b>	<b>738</b>	<b>397</b>

### 5. Studies on insect resistance

Clones included in the trial for insect resistance were 397. The infestation of top borer, stem borer, root borer and gurdaspur borer was estimated on internodes basis. The results have indicated no clone have shown resistance against borer complex.

### 6. Agronomic trials

Technical guidance on agronomic aspects was provided to cane growers of SMI, about production technology. Objective was to help enhance yield and quality of cane crop. Agronomic trials to develop low cost production technology conducted, which comprised increasing efficiency of fertilizer, irrigation water management, integrated pest management and determination of post-harvest losses.

### 7. Soil and water advisory service

Soil and Water Advisory Service is a permanent feature of this institute. It is beneficial for cane growers of this area to know fertility of soils and fitness status of water for judicious use of fertilizer and irrigation resources. Analysis of 763 soil sample was done. Water samples for quality were analysed of 68 tube wells during the year under report.





## Shakarganj Sugar Research Institute



### 8. Workshop on R&D activities on sugar crops

A fourth 2-day workshop was organized by SSRI. The subject was "Research and Development Activities on Sugar Crops in Pakistan". It was held on September 9-10, 2002 at Shakarganj Sugar Research Institute. The objective was to get the scientists together to have a thorough discussion on various aspects of R & D activities on sugar crops. Thirty-four scientists participated in the workshop of eight Research Institutes from all over the country. Fifteen research manuscripts were presented and discussed. The views of all the concerned scientists working on this crop gave a valuable input. Research papers alongwith recommendations were published as proceedings of the workshop in November-December 2002 issue of Pakistan Sugar Journal.

### 9. Publication of Pakistan Sugar Journal

Pakistan Sugar Journal was published with the patronage of SSRI, on bi-monthly basis. Some papers received from other countries like Egypt and Bangladesh were included in various issues of the research journal.

### 10. Library of SSRI

Some latest stuff including books, manuals, proceedings, research journals and audio-video aids were added in the library of the institute. Objective is to provide excellent reading material to member of the library. Material available is covering most of aspects of sugar industry. Following is the summary of reading material at the library of SSRI.

Description	Nos.
Books	4679
Proceedings	268
Journals on management	17
Journal on sugarcane/sugar industry	12
Video Cassettes	118
Audio Cassettes	79



## Quality Policy

Our quality policy stems from our vision and is to maintain industry leadership and customer satisfaction through production of high quality sugar and allied products at lowest cost, using environmentally 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.



## Our Governing Principles

SML conducts its business in a responsible manner with honesty and integrity. We also expect the same from our business partners. We set the tone for all our actions and the actions of all our employees by insisting on doing what is right. We also insist that all transactions be open and transparent, and this extends to our responsibilities regarding financial reporting. We understand our responsibilities to the shareholders and ensure that all transactions not only comply with all laws but are also fairly and accurately reflected in the accounts.

**Integrity:** SML does not use bribe as an instrument for any business or financial gain. Employees are not authorized to give or receive any gift or payment which may be construed as such. Employees are also required to avoid engaging in any personal activity or financial interests which would conflict with their responsibility to the company.

**Role of the Board of Directors:** The Board has a fiduciary responsibility for the proper direction and control of the activities of the Company. This responsibility includes such areas of stewardship as the identification and control of the company's business risks, the integrity of management information systems and clear, transparent reporting to shareholders. The Board accepts its primary responsibility for the overall control architecture of the Company.



However, it recognizes that the internal control system has to be cost effective and that no cost effective system will preclude all errors or irregularities. The system is based upon written procedures, policies, guidelines, an organogram that provides an appropriate division of responsibility, a programme of internal audit, and manning of all key functions by qualified personnel and constant training.

**Code of Conduct:** The Board has adopted a code of conduct for its members, executives and staff, specifying the business standards and ethical considerations in conducting its business. The code includes:

- ☐ Corporate Governance
- ☐ Relationship with employees, customers, suppliers and regulators.
- ☐ Trading in Company's shares.
- ☐ Environmental responsibilities.

**Responsibility to Stakeholders:** Our primary purpose is to run our business efficiently and profitably to enhance shareholder value but we do it with responsibility to all stakeholders. Profitability is essential to discharge this responsibility and the corporate resources are primarily deployed towards achievement of this end. However the Company does not operate in isolation within its environment and accordingly feels responsible to all its stakeholders which are:

- ☐ Our Shareholders
- ☐ Our Customers
- ☐ Our Management and Staff
- ☐ Our Business Partners
- ☐ Our Society



## Our Governing Principles

**Service to Society:** We are increasingly conscious of the role we have to play as responsible corporate citizen in fulfilling a wide variety of community needs. We believe in helping address issues such as education, healthcare, public safety, and environmental health. This also conforms to our basic belief that individual entities when they work together as a team can create powerful synergies and help improve the condition of the society in which they are functioning.

We have over the years actively strived to promote issues of education, health and environment. A major portion of our budget for philanthropy and sponsorship is allocated to primary and secondary schooling for less privileged children.

**Health and Safety:** Maintenance of health and safety standards at our plants and offices is a serious issue at SML. We are committed to actively managing health and safety risks associated with our business and are actively working towards improving our procedures to reduce, remove or control the risk of fires, accidents or injuries to employees and visitors. We also ensure that our products are transported in a safe manner complying with the safety standards and legal requirements.

**Role of Shareholders:** The Board aims to ensure that shareholders are informed of all major developments affecting the company's state of affairs. Information is communicated to the shareholders in the annual report and the interim reports. The Board encourages shareholders participation at the annual general meetings to ensure a high level of accountability and information dissemination.



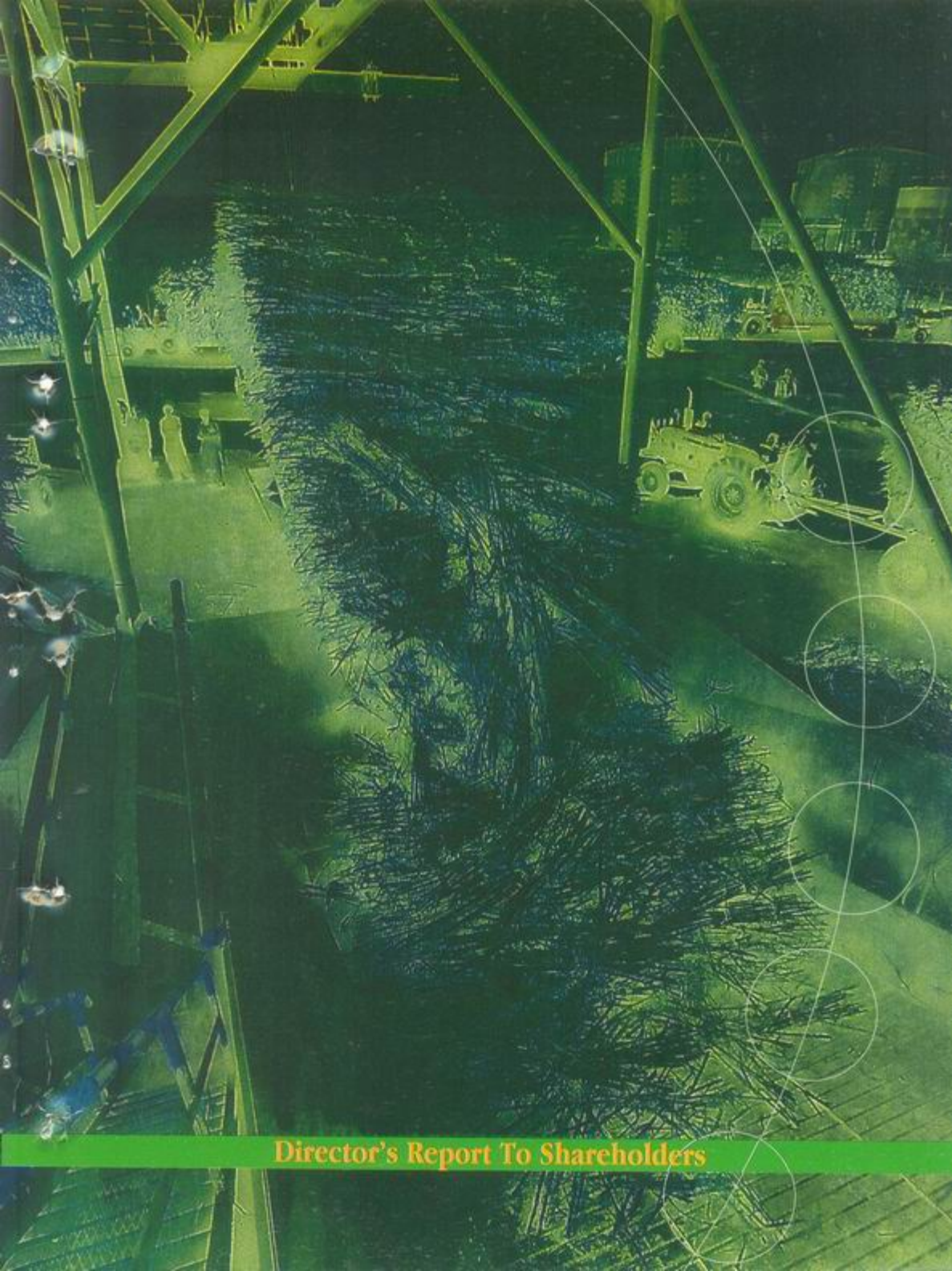


## Our Governing Principles

**Current Products:** Shakarganj Mills is currently primarily engaged in the manufacturing and marketing of white refined sugar and sugar by-products. The company is also manufacturing and marketing other products such as ethanol and particle board and continues to diversify its product and market portfolio.

**Current Strategy:** We currently aim to preserve our leadership position in the industries we compete in by producing the best quality products while investing in human resource development, technology, production and marketing expertise. We develop our human resources by investing in training and expertise development of our people. We also consider our farmers, our raw material suppliers, as our important partners and we share our research findings from our Sugar Research Institute with them to increase the quality and yield of their crops. Shakarganj Sugar Research Institute continues to keep our farmers and Shakarganj Mills Limited (SML) at the forefront of sugar research and technology. Our operations management personnel recognize the value of technology and improvement in production processes and continue to keep pace with latest innovations and developments in the field. SML also maximizes generation and utilization of co-products and by-products minimizing waste utilizing resources effectively and efficiently and reducing overall cost of production. Our marketing team continues to strengthen our position in markets that we currently cater to, while developing new products and profitable markets. All our personnel and our farmers operate as a team to maintain SML's leadership position in the industries it competes in.





## Director's Report To Shareholders



## Director's Report To Shareholders



### Dear Shakarganj Shareholders / Investors:

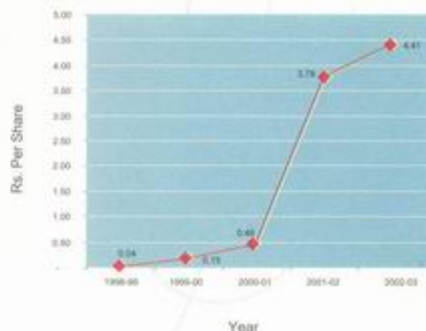
The directors of the Company have the pleasure in submitting their report together with audited accounts of the Company for the year ended September 30, 2003.

### Financial Results

The financial results of the company are summarised below:

	(Rupees in Thousand)	
	2003	2002
Profit for the year	156,231	124,673
Taxation	27,191	14,023
Profit after taxation	129,040	110,650
Unappropriated profit brought forward	115,624	115,603
Profit available for appropriation	244,664	226,253
<b>Appropriations</b>		
Transferred to reserve for equity investments	(26,000)	(57,000)
Transferred to general reserve	(174,700)	(9,700)
Proposed dividend	(43,929)	(43,929)
	(244,629)	(110,629)
	<u>35</u>	<u>115,624</u>
Earning per share	4.41	3.78
Dividend per share – Proposed	1.50	1.50

Earning Per Share



## Directors' Report To Shareholders

### Statement on Corporate and financial reporting framework

- ❑ The financial statements, prepared by the management of the company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity
- ❑ Proper books of accounts of the Company have been maintained
- ❑ Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- ❑ International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- ❑ The system of internal control is sound in design and has been effectively implemented and monitored.
- ❑ There are no significant doubts upon the Company's ability to continue as a going concern.
- ❑ There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- ❑ Details of significant improvements in the company's operations during the current year are stated in the Chief Executives Review.
- ❑ Key operating and financial data for last seven years in summarized form is annexed on page-4.
- ❑ Information about taxes and levies is given in the notes to the financial statement.
- ❑ The total number of employees at the end of year was 695 (2002 : 636)
- ❑ The following is the value of investments based on audited accounts:

Description	Amount (Rs.)	Year Ended
Provident fund	63,622,694	September 2001
Gratuity fund	22,108,489	September 2003
Pension fund	82,362,860	September 2003

- ❑ During the year three Board Meetings were held and detail of attendance by each director is as follows:

Name of Director	No. of meetings attended
Mr. Mazhar Karim	2
Mr. Ahsan M. Saleem	3
Mr. Gul Nawaz	3
Mr. Khalid Bashir	3
Mr. Muhammad Anwar	3
Mr. Muhammad Arshad	3
Mr. Muhammad Asif	3
Mr. Muhammad Bilal Sheikh	1

### Pattern of Shareholding

The pattern of shareholding as per section 236 of the Companies Ordinance, 1984 is attached separately on page-81.

No trade in the shares of the Company were carried out by CEO, CFO and Company Secretary, their spouses and minor Children

### Directors

Since the last report, no change in directorship has taken place.

The present term of the 7 elected directors will expire on June 01, 2005.

### Auditors

The auditors M/s. Riaz Ahmed & Company, Chartered Accountants, will retire and not offer themselves for re-appointment in compliance with the requirement of clause (XII) of the Code of Corporate Governance regarding rotation of auditors. We place our sincere thanks and appreciation for their services. The Audit Committee of the Board has recommended the appointment of A. F. Ferguson & Co as auditors for the year ended September 30, 2004.

By order of the Board



Ahsan M. Saleem  
Chief Executive

Lahore:  
December 29, 2003



## Chief Executive's Review

### Dear Shareholders,

I feel privileged to present the yearly performance review for your company for the period ended September 2003. You will be delighted to know that your company has set a new record for pre-tax earnings. This indeed is an outcome of a joint team effort of the management, employees and our farmer community.

We strongly believe that a most valuable component of our industrial process is the farmer and it is extremely important to focus on his needs and requirements. Our thrust therefore has been on providing financial support and skill development to this key partner of sugarcane industry.

The stress of the company on utilization of the co-products to reduce average cost of production continued and increased benefits of this policy are expected to accrue in the years to come.



**“Highest  
profitability in  
company's  
history**

### National Economic Scenario

A broad based economic recovery, further strengthening of macroeconomic stability and a near elimination of external account vulnerability has been the major successes of the outgoing fiscal year 2002-03. These successes include: a sharp pick-up in growth, aided by stellar growth in manufacturing and a robust recovery in agriculture; double-digit growth in per capita income, low inflation, highly conducive interest rates environment, tax collection remaining on track, fiscal deficit reduction, exports and imports registering impressive growth, workers' remittances touching new heights, and substantial improvement in the country's foreign exchange reserves. The rupee strengthened by almost 4 percent, domestic and external debt declined, foreign direct investment increased, the stock market rose substantially and the credit rating in international capital markets improved. Sugarcane production stood at 52.049 million tons as against 48.042 million tons of last year, thus registering an impressive growth of 8.3 percent.

## Chief Executive's Review

### Company Performance Overview

A brief performance of different activities of the company is presented below:

#### Sugar Division

The factory operated for 187 days against 188 days last year. The mills crushed 1.676 million metric tons of sugarcane against 1.705 million metric tons crushed last year. This slight difference of 29,000 tons is due to lower cane availability especially in the early days of October. However, with slight improvement in recovery, rate from 7.53% to 7.58% we could produce almost the same amount of sugar as last year.

#### Ethanol Division

Ethanol division worked at an expanded capacity and produced 26,233 million litres of ethanol against 15,800 million litres produced last year. This is an increase of about 66 percent. This diversification has contributed towards profit of the company, reducing total dependence on sugar manufacture.

Substantial production of ethanol is exported reducing dependency on local markets and increasing the nation's exports to reducing the trade deficit. During the year SML exported ethanol to the tune of Rs. 269.094 million.

#### Particle Board Division

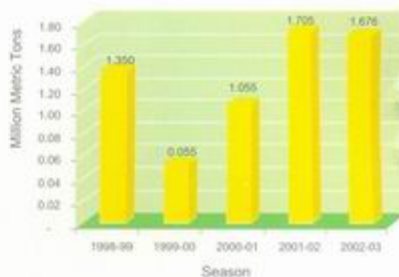
This division utilizes the surplus Bagasse, made available from sugar factory after meeting the fuel requirements of sugar and ethanol divisions. The expanded capacity of ethanol division required more fuel, thus more Bagasse was diverted towards providing this extra requirement of fuel. A small quantity of Bagasse was available which enabled the plant to run only for a short period. It produced 1,668 Cubic Meter of board against 5,670 Cubic Meter last year.

This year efforts are being made to gain further economy of fuel which is expected to leave more surplus Bagasse for the operation of this division.

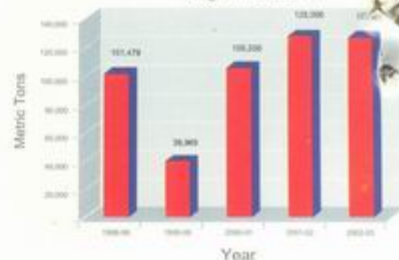
#### Co-Generation

We were able to sell more electricity than last year, thus increasing the income from Co-generation by about 10 percent to Rs. 10.261 million. In our long term planning, we are considering giving more attention to Co-Generation to increase the income of the company on this account.

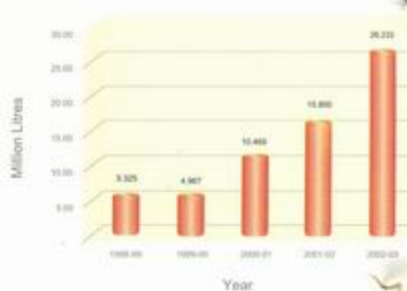
Sugarcane Crushing



Sugar Production



Ethanol Production



## Chief Executive's Review

### Financial Results

The operation for the year resulted in a pre-tax profit of Rs. 156.231 million as against Rs.124.675 million last year. This is an increase of 25.31 percent. The earning per share has gone up to Rs. 4.41 against Rs. 3.78 last year.

The administrative and selling expenses increased to Rs.63.562 million against Rs.48.620 million last year which is primarily on account of increased depreciation and a software development project which your company has initiated this year. The main reason is about Rs.4.000 million increase in salaries, Rs.3.600 million increase in depreciation, and about Rs.5.000 million on software and upgrade of I.T. system necessary to remain competitive.

A strong reflection of reduced interest rates in the economy is exhibited through lowering of our financial charges to Rs.122.587 million against Rs.175.675 million last year.

The sugar prices remained very depressed and we achieved a lower price per ton of sugar this year as compared to last year but as compared to most of other mills, we enjoyed a price premium due to our better quality product.

The net cash flow from operations increased to Rs.240.819 million from Rs.171.052 million last year.

### Industry Problems

The sugar industry of Pakistan is facing financial crisis for the last three years and especially units located in the province of Sindh are under great financial burden. This is the second largest industry of Pakistan, having great impact on the agro-based economy of our country. Direct relationship with farmers on such a large scale is not seen in any other industry. Sugarcane being a perishable produce requires very special treatment. As a crop, it has the longest gestation period and as such requirements and expectations of the farmers are very high from this crop.

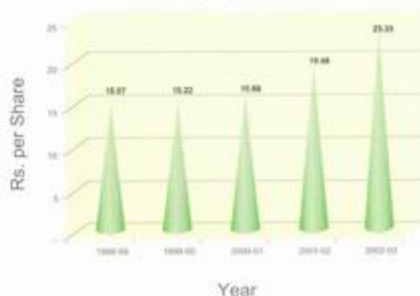
A major problem is the lower yield per hectare. Out of 16 cane producing countries Pakistan is at 15th for yield and 11th for recovery in cane. Against our average yield of 47 tons, India produces 68.60 tons per hectare.

The acreage in Pakistan represents eight percent of world total crop, but only four per cent of yield. This is largely because of low yield per acre which hovers around 19 tons, again much lower compared to the world average of over 28 tons. The low yield speaks volumes of the condition of the cropping efficiency.

Now better quality and better yield varieties need to be developed and technology needs to be improved to increase productivity measured in sugar yield per acre. An increase in yield per acre will benefit all members in the value chain from farmers to distributors.

Your company is playing its part by investing in seed and soil research at the company's sugar research institute and also through its field schools for farmers. The field schools provide training and advice to farmers regarding the full cycle from sowing to harvesting of the sugar crop. The training is imparted to groups of farmers with 25 members per group. The benefits of the training to farmers in terms of higher yield will also improve the local economy in the long term.

Break-up Value





## Chief Executive's Review

### Sugar Research Institute

Shakarganj carries a unique honour of having established a Sugar Research Institute at mills. The key functions of Shakarganj Sugar Research Institute (SSRI) are as follows:

- ❑ To evolve fertilizer responsive, disease resistant and stress tolerant sugarcane varieties with high sucrose content.
- ❑ To investigate agronomic problems of sugarcane production.
- ❑ Research and development on utilization of bio-mass and effluents from sugar industry and its use for sustainable agriculture.
- ❑ To study soils in sugarcane producing areas and to relate these to crop management.
- ❑ To use tissue culture propagation for rapid multiplication of elite clones.
- ❑ To study and monitor the pest and diseases of sugarcane and so develop appropriate control measures.
- ❑ To conduct basic research on germination of sugarcane sets, sucrose production, translocation and storage and the environmental influences on these processes.
- ❑ To provide advice on the use of fertilizers and other agricultural chemicals, irrigation, drainage, disease and pest control, the use of machines and equipment, land and water management, and other aspects of crop production planting and management.
- ❑ To publish and disseminate information on all aspects of sugarcane production.
- ❑ To provide educational courses on various aspects of sugarcane growing for growers.
- ❑ To collaborate and exchange information and material with Research Organizations in Pakistan and other countries.
- ❑ To improve the technology of sugarcane production inside the sugar factories by improving process and milling efficiency.

### 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. 343.723 million. We spent Rs. 122.587 million as cost of financing and share of workers compensation was Rs. 94.647 million. During the last ten years, your company has made a consolidated contribution of Rs. 2.53 billion in shape of Federal, Provincial and Local taxes.







#### **Safety, Security, Health and Environment**

At Shakarganj we are extremely conscious of our commitment to various dimensions of worker safety, security and health and environment Issues. Efforts are initiated to find immediate solution to any issue arising on these accounts. The management has demonstrated this commitment by developing a policy guideline to address health, security and environment issues. We have also taken all possible measures to ensure maximum worker safety. This has minimized the likelihood of accidents to a considerable extent. Medical facilities have also been provided at the factory to meet any contingency. Shakarganj has a specific policy on environment. The salient features of which are;

- ❑ Shakarganj assumes responsibility for its impact on the environment that it operates in.
- ❑ All decisions at Shakarganj shall favour environment.
- ❑ Shakarganj aims for zero waste and conservation of energy resources.
- ❑ Information about environment issues is open and free.



We run tree plantation campaigns twice a year in our area. Results have been very encouraging. We have taken a major initiative to recycle all nutrients to soil that come to us in sugarcane. Filter cake separated from sugarcane juice is composted and returned to the field as organic fertilizer. Application of compost has resulted in increased productivity and has become very popular with the farmers. Our waste treatment plant for the Distillery waste is fully operative and no environmental pollution is being caused by our distillery operation. The treated water is a gift for the growers around the mills who are experiencing great shortages of irrigation water. Bio-gas produced as a By-Product of the treatment of distillery waste fulfils a greater part of the distillery energy requirements. Overall all energy sources are efficiently utilized, effluents fully treated and zero waste policy is implemented. The company hence fulfils its responsibility as a socially responsible corporate entity by its environmentally friendly strategies.

## Chief Executive's Review



### Human Resource Development

Your company considers people to be its most valuable asset for creating and delivering value for its stakeholders. Hence, it sent the largest contingents to both batches of the diploma programme in Business Management specially developed by the Lahore University of Management Sciences (LUMS).

The programme consists of seven modules each of seven days duration, including courses in Production and Operations Management, Finance, Marketing, Management Information Sciences and Communication Skills. To encourage teamwork, the participants also undertake a group project relevant to their job responsibilities. The first batch has graduated from the programme in 2003. The participants consider it an excellent learning experience that will benefit them as well as the company, as it aims to provide more value to its stakeholders through enhancing the quality of its management and operations. The second batch commenced the programme in October 2003, and this year SML again sent the largest batch for the programme.

The continued investment in the skills enhancement of its people reflects the value your company places on the development of its human resources.

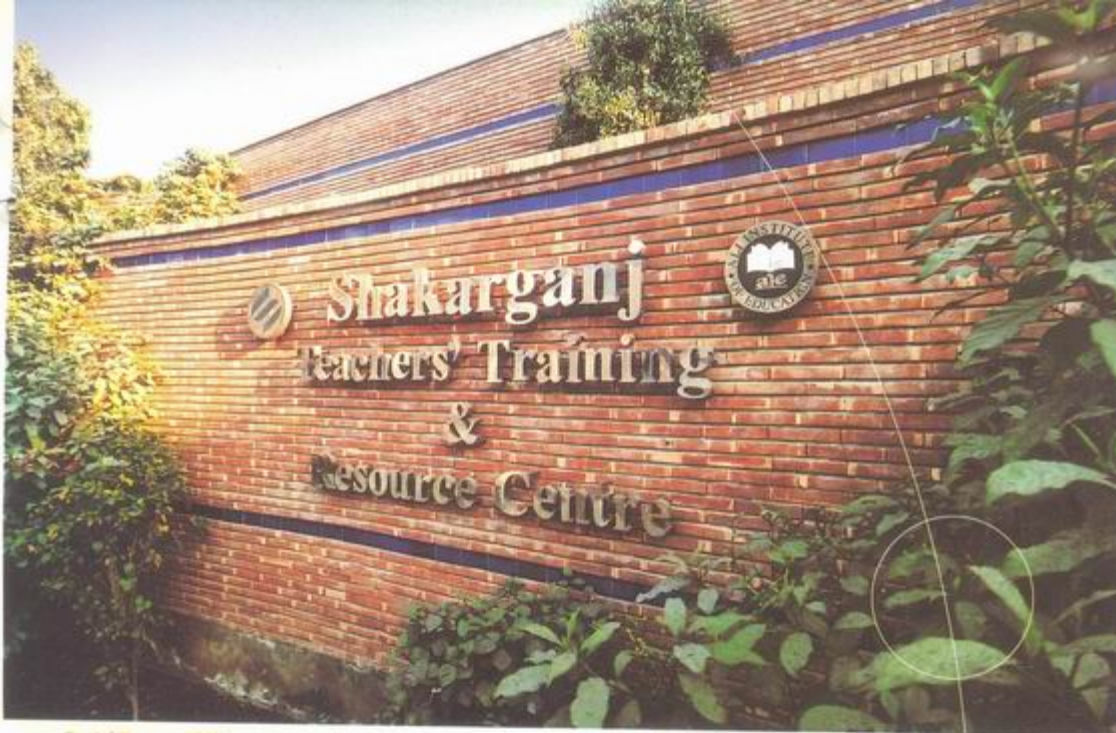
A well equipped library with latest books on all aspects of our business is maintained for the benefit of the team members. The library subscribes to some 130 periodicals and the collection of books exceeds 4600.

In house training of engineers and workers is also being continued and it has shown results in more efficient running of the operations of the company. We have also started imparting training to the growers in the area to practice agriculture on more scientific lines.

Shakarganj believes  
in people as the  
most valuable asset.







### Social Responsibility

Your company believes in investing in education to improve the quality of life and has taken several initiatives in this regard. The company initiated a school adoption program in its vicinity in October 2002. Since then we have adopted five Primary and five Middle Schools in the area. Our current enrollment at primary and middle level is 382 and 548 students respectively. In these schools a number of measures have been taken to improve the school environment and the teaching quality. Arrangements have been made to provide clean drinking water in all the schools. In addition, milk is provided to the children in some schools to improve their nutrition. The milk nutrition program will be expanded to all schools in future.

All students have been supplied school uniforms and books so that they can avail of the educational opportunities provided. Your company believes that it is important to provide a visually pleasing and a healthy environment at school to encourage the students to attend and learn. Hence the company has provided furniture and clean washrooms and has allocated funds for maintenance of the school facilities.

Your company believes that training teachers has a substantial positive multiplier effect on the quality of education imparted at schools. With the guidance of the Ali Institute of Education, your company has also started a Teachers Training Centre within the company premises. The graduates of this program will increase the quality of teaching in primary and secondary schools. Out of 393 teachers inducted under this programme, 200 have completed training.



**SML is a socially  
responsible  
corporate citizen**



The company has also started 26 adult literacy centres in its vicinity, 19 of them being for females. The results have been very encouraging as the participants have been keen learners and from being totally illiterate have been able to start reading within a month. A total number of 448 participants have so far been taught under this programme out of which 353 are female.

The company also continues to provide LUMS, the leading university in the country, with support. Overall the company believes in H.G. Wells comment that "Mankind is involved in headlong race between education and catastrophe" and hence as a socially responsible company, it continues to contribute to the development of education programmes at various levels.

The company has also developed mobile dispensaries and medical assistance facilities for the community in Jhang. Presently we are serving the local community at 3 locations and plan to expand to 25 localities in 3 years.

As part of our efforts to promote local arts and culture, we have also instituted an Art Gallery where we depict local art and culture and train young artists to develop their talents and skills.



## Chief Executive's Review

### Expansion Programme

With our constant efforts, enough cane has been developed in our area. This demands further expansion in capacity, as the present capacity cannot crush so much cane. We have two mill trains. One of the mill trains which was installed about thirty years ago has worn out and we have to run it on lower capacity.

We have initiated an expansion programme both for enhancing crushing of sugarcane and increasing the capacity of ethanol manufacturing. The required sugar factory machinery has been finalized and we expect to catch portion of the 2004-05 crushing season.

The expansion in distillery is underway. Increased production of about 50,000 litres of ethanol per day will be achieved by February 2004 and by the start of 2004-05, the distillery capacity is expected to be increased by another 100,000 litres of ethanol per day.

When the expansion comes into production, correspondingly enhanced financial results from the projects could be expected.





#### Corporate Governance

At Shakarganj we lay special emphasis on areas concerning good and efficient corporate governance. The exercise for strengthening internal control, updating the policies manual and effective functioning of the internal audit is all in line with our higher emphasis about these areas.

#### Season 2003-04

The season 2003-04 has started and so far 467,393.600 metric tons of sugarcane have been crushed and 36,112 metric tons of sugar have been produced at an average recovery rate of 8.01%. The price of sugar in the market has fluctuated but the company continues to obtain a premium for its higher quality product. In addition 7 million litres of ethanol have been produced.

#### Future Outlook

We look to the future with confidence. We are in a good position in the marketplace and the only sugar company with maximum utilization of co-products. Our size in every activity has increased to an economically viable level through continuous balancing, modernization and expansion.

We have developed some management systems to more effectively allocate scarce resources to the best opportunities available. We have recently initiated a study involving external consultants and our management regarding how to improve our systems and processes in order to better develop talent and manage production and marketing to improve future performances. We aim to further improve the working environment at SML to work as a team generating, sharing and implementing ideas, improve systems and processes and allocate resources more effectively translating the best ideas to operational reality.

We have always invested in research, development and training of human resources. This investment has started showing results and will provide a strong base to Shakarganj for facing the challenges of future. Directors, Employees and Suppliers.

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.

  
AHSAN M. SALEEM

Chief Executive

Lahore, December 29, 2003

## Statement of Compliance with the 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 follow manner:

1. The company encourages representation of independent non-executive directors. At present all 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 an NBFIs. None of them is a member of a stock exchange.
4. No casual vacancy occurred during the year ended September 30, 2003.
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. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer (CEO) have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence by a director elected by the Board for this purpose and the Board met once in every quarter during the year ended September 30, 2003. 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.
9. The members of the Board have attended orientation course during the year to apprise them of their duties and responsibilities.
10. The board has approved appointment of CFO/Company Secretary and the head of Internal Audit, including their remuneration and terms and conditions of employment, as recommended by CEO.
11. The Directors' Report for the year ended September 30, 2003 has been prepared in compliance with the requirements of the Code and it fully describes the salient matters required to be disclosed.
12. The financial statements of the company were duly endorsed by the CEO and CFO before approval by the Board.
13. The Directors, CEO and executives do not hold any interest in the shares of the company, other than that disclosed in the pattern of shareholding.
14. The company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises of three members, all of whom are 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.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.



## Statement of Compliance with the Code of Corporate Governance

17. The Board has set-up an effective internal audit function by appointing a full-time Head of Internal Audit.
18. The statutory auditors of the company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

By order of the Board.

  
Ahsan M. Saleem

Chief Executive Officer

Dated : December 29, 2003

## Review Report to the Members on Statement of Compliance With the Best Practises of the Code of Corporate Governance

We have reviewed the statement of compliance with the best practices contained in the code of corporate governance prepared by the Board of Directors of **SHAKARGANJ MILLS LIMITED** to comply with the Listing Regulation No. 37 (Chapter XI) of the Karachi Stock Exchange, Listing Regulation No. 43 (Chapter XIII) of the Lahore Stock Exchange and Listing Regulation No. 36 (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.



## Auditors' Report To The Members

We have audited the annexed balance sheet of **SHAKARGANJ MILLS LIMITED** as at 30 September 2003 and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;
- b) in our opinion:
  - i) the balance sheet and profit and loss account, together with the notes thereon, have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
  - ii) the expenditure incurred during the year was for the purpose of the company's business; and
  - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof, conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at 30 September 2003 and of the profit, its cash flows and changes in equity for the year then ended; and
- d) in our opinion, Zakat was 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.

Faisalabad  
December 30, 2003

*Riaz Ahmad & Co*  
**(RIAZ AHMAD AND COMPANY)**  
Chartered Accountants

## Balance Sheet

	NOTE	(Rupees in Thousand) 2003	2002
<b>Equity And Liabilities</b>			
<b>Share Capital And Reserves</b>			
Authorised share capital		500,000	500,000
50 000 000 ordinary shares of Rupees 10 each			
Issued, subscribed and paid up share capital	3	292,860	292,860
Reserves		390,426	118,106
Unappropriated profit		35	115,624
		683,321	526,590
Surplus on revaluation of operating fixed assets		10,566	10,566
<b>Non-current Liabilities</b>			
Redeemable capital	4	427,685	481,685
Long term loans	5	-	14,657
Liabilities against assets subject to finance lease	6	50,426	5,859
Deferred taxation		15,726	-
		493,837	502,201
<b>Current Liabilities</b>			
Current portion of long term liabilities	7	341,473	171,875
Short term finances	8	789,340	250,536
Creditors, accrued and other liabilities	9	209,402	254,474
Workers' participation fund	10	8,485	6,578
Provision for taxation		24,226	47,711
Proposed dividend		43,929	43,929
Unclaimed dividend		1,347	1,155
		1,418,202	776,258
Contingencies And Commitments	11	-	-
		2,605,926	1,815,615

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

  
Chief Executive

As At 30 September 2003

	NOTE	(Rupees in Thousand)	
		2003	2002
<b>Assets</b>			
<b>Non-current Assets</b>			
<b>Tangible fixed assets</b>			
Operating fixed assets	12	947,401	779,251
Assets subject to finance lease	13	65,825	42,771
Capital work-in-progress	14	158,290	44,627
		<u>1,171,516</u>	<u>866,649</u>
Equity investments	15	125,583	124,574
Long term deposits	16	5,117	1,103
		<u>1,302,216</u>	<u>992,326</u>
<b>Current Assets</b>			
Stores, spare parts and loose tools	17	45,976	28,067
Stock-in-trade	18	587,479	233,197
Trade debts	19	64,833	99,665
Advances, deposits, prepayments and other receivables	20	170,742	136,203
Short term investments	21	419,803	314,006
Cash and bank balances	22	14,877	12,151
		<u>1,303,710</u>	<u>823,289</u>
		<u><u>2,605,926</u></u>	<u><u>1,815,615</u></u>

*Imad Bano*  
Director



# Profit And Loss Account For The Year Ended 30 September 2003

	NOTE	(Rupees in Thousand)	
		2003	2002
Sales	23.1	2,118,843	2,615,804
Cost Of Goods Sold	23.2	1,843,613	2,203,240
Gross Profit		275,230	412,564
Operating Expenses			
Administrative and general	24	63,562	48,620
Selling and distribution	25	31,056	30,865
		94,618	79,485
Operating Profit		180,612	333,079
Other Income	26	117,275	46,634
		297,887	379,713
Financial And Other Charges			
Financial charges	27	122,587	173,675
Other charges	28	10,833	74,796
Workers' participation fund		8,236	6,569
		141,656	255,040
Profit Before Taxation		156,231	124,673
Taxation	29	27,191	14,023
Profit After Taxation		129,040	110,650
Unappropriated Profit Brought Forward - Adjusted		115,624	115,603
Profit Available For Appropriation		244,664	226,253
Appropriations			
Proposed dividend Rupees 1.50 (2002: Rupees 1.50) per share		(43,929)	(43,929)
Transferred to reserve for equity investment			
market value equalization		(26,000)	(57,000)
Transferred to general reserve		(174,700)	(9,700)
		(244,629)	(110,629)
Unappropriated Profit		35	115,624
Earnings Per Share (Rupees)	32	4.41	3.78

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

  
Chief Executive

  
Director

# Cash Flow Statement For The Year Ended 30 September 2003

	(Rupees in Thousand)	
	2003	2002
<b>Cash Flows From Operating Activities</b>		
Profit before taxation	156,231	124,673
Adjustments to reconcile profit to net cash provided by Operating activities		
Depreciation and amortization	85,828	71,835
Amortization of deferred cost	-	17,298
Contribution to employees' retirement benefits	8,964	5,109
Gain on disposal of operating fixed assets	(6,653)	(7,733)
(Profit)/loss on sale of investments	(13,310)	32,471
Dividend from associates	4,189	8,275
Share in post acquisition profit of associates	(30,519)	(14,676)
Financial charges	122,587	173,675
<b>Cash Flows From Operating Activities Before Working Capital Changes</b>	<b>327,317</b>	<b>410,927</b>
<b>Cash Flows From Working Capital Changes</b>		
<b>(Increase)/Decrease In Current Assets</b>		
Stores, spare parts and loose tools	(17,909)	8,178
Stock in trade	(354,282)	126,250
Trade debts	34,832	(45,244)
Advances, deposits, prepayments and other receivables	(61,659)	(17,496)
<b>Increase/(Decrease) In Current Liabilities</b>		
Short term finances	538,804	(100,065)
Creditors, accrued and other liabilities	(35,151)	19,055
Workers' participation fund	1,907	5,246
<b>Net Cash Flows From/(Used In) Working Capital Changes</b>	<b>106,542</b>	<b>(4,076)</b>
<b>Cash Flows From Operating Activities</b>	<b>433,859</b>	<b>406,851</b>

	(Rupees in Thousand)	
	2003	2002
Financial charges paid	(132,508)	(202,181)
Income tax paid	(15,973)	(5,067)
Dividend paid	(43,737)	(21,505)
Employees' retirement benefits paid	(822)	(7,046)
<b>Net Cash Flows From Operating Activities</b>	<b>240,819</b>	<b>171,052</b>
<b>Cash Flows From Investing Activities</b>		
Proceeds from sale of operating fixed assets	11,165	9,418
Fixed assets acquired	(327,449)	(112,426)
Long term deposits	(4,014)	4,962
Investments sold	66,864	37,833
Investments made	(62,409)	(60,257)
<b>Net Cash Used In Investing Activities</b>	<b>(315,843)</b>	<b>(120,470)</b>
<b>Cash Flows From Financing Activities</b>		
Redeemable capital	273,994	345,988
Redemption of redeemable capital	(141,788)	(369,151)
Repayment of long term loans	(19,658)	(4,310)
Repayment of finance lease liabilities	(34,798)	(32,654)
<b>Net Cash Flows From/(Used In) Financing Activities</b>	<b>77,750</b>	<b>(60,127)</b>
<b>Net Increase/(Decrease) In Cash And Cash Equivalents</b>	<b>2,726</b>	<b>(9,545)</b>
<b>Cash And Cash Equivalents At The Beginning Of The Year</b>	<b>12,151</b>	<b>21,696</b>
<b>Cash And Cash Equivalents At The End Of The Year</b>	<b>14,877</b>	<b>12,151</b>

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

  
Chief Executive

  
Director



## Statement Of Changes In Equity For The Year Ended 30 September 2003

Share Capital	(Rupees in Thousand)									
	Reserve for Contingent Liabilities	Reserve for Contingent Liabilities	Reserve for Contingent Liabilities	Reserve for Contingent Liabilities	Reserve for Contingent Liabilities	Reserve for Contingent Liabilities	Reserve for Contingent Liabilities	Reserve for Contingent Liabilities	Reserve for Contingent Liabilities	Un-appropriated Profit
Balance as at 01 October 2001	15,000	5,000	22,464	43,464	18,079	32,750	100,779	144,243	29	431,132
	-	-	-	-	-	-	-	-	-	113,574
Effect of adoption of AS 20	-	-	-	-	-	-	-	-	-	-
Adjusted balance as at 01 October 2001	15,000	5,000	22,464	43,464	18,079	32,750	100,779	144,243	-	544,706
Fair value loss	-	-	-	(62,817)	-	-	-	-	-	(62,817)
Net profit for the year	-	-	-	-	-	-	-	-	-	103,000
Transferred to reserves	-	-	-	-	8,729	-	87,300	66,750	-	154,779
Proposed dividend	-	-	-	-	-	-	-	-	-	(43,529)
Balance as at 30 September 2002	15,000	5,000	22,464	(19,353)	26,808	32,750	188,079	211,003	-	595,880
Fair value gain	-	-	-	71,820	-	-	-	-	-	71,820
Net profit for the year	-	-	-	-	-	-	-	-	-	129,040
Transferred to reserves	-	-	-	-	174,298	-	38,300	300,750	-	(200,750)
Proposed dividend	-	-	-	-	-	-	-	-	-	(43,529)
Balance as at 30 September 2003	15,000	5,000	22,464	51,467	262,478	32,750	226,379	511,753	38	893,331

The amount shown here is integral part of the financial statements.

  
Chief Executive

  
Director

## Notes To The Accounts For The Year Ended 30 September 2003

### 1. Status And Nature Of Business

Shakarganj Mills Limited was incorporated in Pakistan on 20 September 1967 as a public limited company and its shares are quoted on all three Stock Exchanges of Pakistan. The principal activity of the company is to manufacture, purchase and sale of sugar, distillate and kanewood.

The activities of the company have been grouped into three segments of related products. The Sugar division comprises manufacturing of sugar whereas Distillery and Kanewood divisions are involved in Industrial Alcohol and Kanewood manufacturing activity respectively. The Sugar division charges certain percentage of common administrative expenditure to Distillery and Kanewood divisions.

### 2. Significant Accounting Policies

#### 2.1 Basis of preparation of financial statements

These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984, the International Accounting Standards issued by International Accounting Standards Committee (IASC) and interpretations issued by the Standing Interpretations Committee of IASC as adopted in Pakistan. Wherever, the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of Companies Ordinance, 1984 or the requirements of the said directives take precedence.

#### 2.2 Accounting convention

These accounts have been prepared under the historical cost convention as modified by capitalization of exchange differences, revaluation of certain operating fixed assets and valuation of investments as referred to in Note 2.5, 2.6 and 2.10.

#### 2.3 Staff retirement benefits

The company operates pension and gratuity fund schemes for all permanent employees who are in management cadre. Premium is payable to the funds monthly on the basis of actuarial computation subject to a maximum of 20 % and 8.33 % of basic salary of the employees respectively.

The company also operates a funded contributory provident fund scheme for all permanent employees. Equal monthly contributions are made both by the company and employees at the rate of 7 and 8 percent of basic pay of officers and workers respectively.

## Notes To The Accounts For The Year Ended 30 September 2003

### 2.4 Taxation

#### Current

Charge for current taxation is based on taxable income at current tax rates after taking into account applicable tax rebates and credits, if any, or minimum tax at the rate of 0.5 percent of the turnover, whichever is higher.

#### Deferred

Deferred tax is accounted for by using the liability method on all timing differences between the carrying amounts of assets and liabilities in the financial statements and their tax base. Deferred tax liabilities are recognized for all taxable temporary differences. The company recognises deferred tax assets on all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which these deductible temporary differences can be utilized. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

### 2.5 Foreign currencies

Assets and liabilities in foreign currencies are translated at the rates of exchange prevailing at balance sheet date or at the contracted rates while foreign currency transactions are recorded at the rates of exchange prevailing at the transaction date or at the contracted rates. Exchange gains and losses are charged to income except those referred to in Note 2.6.

### 2.6 Tangible fixed assets and depreciation

Operating fixed assets are stated at cost and appreciated value less accumulated depreciation. Freehold land is stated at cost/appreciated value and capital work-in-progress at cost.

Cost of tangible fixed assets consists of historical cost, applicable exchange differences on foreign currency loans, appreciated value and direct attributable cost of bringing the assets to working condition. Borrowing cost pertaining to the construction/erection period upto the date of completion is also capitalized as part of historical cost.

Depreciation on operating fixed assets is charged to income on reducing balance method to write off the cost/appreciated value including related exchange differences over their expected useful life. Full year's depreciation is charged on additions, while no depreciation is charged on assets deleted during the year.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized. Gain or loss on disposal of operating fixed assets is charged to current year's income.



## Notes To The Accounts For The Year Ended 30 September 2003

### 2.7 Assets subject to finance lease

These are stated at the lower of present value of minimum lease payments under the lease agreements and the fair value of assets acquired on lease. Aggregate amount of obligations relating to assets subject to finance lease are accounted for at net present value of liabilities. Assets so acquired are amortized over their expected useful life. Amortization of lease assets is charged to current year's income.

### 2.8 Deferred cost

The expenses from where the benefits are expected to accrue for more than one year are deferred and amortized over the period of five years or the period in which the economic benefits are consumed by the company, whichever is shorter.

### 2.9 Borrowing cost

Interest, mark-up and other charges on long-term liabilities are capitalized upto the date of commissioning of respective fixed assets acquired out of the proceeds of such long-term liabilities. All other interest, mark-up and other charges are charged to income.

### 2.10 Equity Investments

#### 2.10.1 Associated Undertakings

Investments in associated undertakings are stated using equity method.

#### 2.10.2 Other Investments

Investments are initially recognised on trade-date at cost, comprising of consideration paid and cost of transaction. For listed securities, closing quotations of stock exchanges on last working day of the accounting year are considered for determining fair value, while for unquoted securities, fair value is determined considering break-up value of the securities. Its classification is made on the basis of intended purpose for holding such investments. These are measured at the balance sheet date on the following basis:

##### Held to Maturity

These are stated at amortized cost less impairment loss, if any, recognised to reflect irrecoverable amounts. Impairment losses are charged to profit and loss account.

##### Held for Trading

These are recognised at fair value and changes in carrying values are included in profit and loss account.

## Notes To The Accounts For The Year Ended 30 September 2003

### Available for Sale

These are stated at fair value and changes in carrying values are recognised in equity until investment is sold or determined to be impaired at which time the cumulative gain or loss previously recognised in equity is included in profit and loss account for the year.

### 2.11 Stores, spare parts and loose tools

Stores, spare parts and loose tools are valued at cost calculated on moving average basis less provision for obsolescence. Items in transit are stated at invoice values plus other charges paid thereon to the balance sheet date.

### 2.12 Stock-in-trade

Stock-in-trade is valued at the lower of cost and net realizable value except molasses (By-product) that is valued at net realizable value. Cost in relation to work-in-process and finished goods consists of average material cost, direct labour and factory overheads. Net realizable value signifies the prevailing market prices in the ordinary course of business less selling expenses incidental to sales.

### 2.13 Related party transactions

All transactions and contracts with related parties are carried out at arm's length prices determined in accordance with comparable uncontrolled price method.

### 2.14 Trade debts

Trade debts originated by the company are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Known bad debts are written off and provision is made against debts considered doubtful when collection of the full amount is no longer probable.

### 2.15 Provisions

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

## Notes To The Accounts For The Year Ended 30 September 2003

### 2.16 Impairment

The carrying amounts of the company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated and impairment losses are recognized in the profit and loss account.

### 2.17 Revenue recognition

Revenue from sales is recognized on delivery of goods to customers. Dividend from associated undertakings is recognized as reduction in cost of investments as prescribed by International Accounting Standard 28 and on other investments when right to receive the dividend is established. Gain/loss on investments in associated undertakings is accounted for to recognize the post acquisition changes in the share of net assets of the investee and in case of other investments on receipt basis.

### 2.18 Financial instruments

Financial assets and liabilities are recognised at cost that is the fair value of the consideration given or received at the time when the Company becomes a party to the contractual provisions of the instrument by following trade date accounting.

A financial asset or part thereof is de-recognised when the Company loses control of the contractual right that comprises the financial asset or part thereof. Such control is deemed to be lost if the Company realizes the rights to the benefits specified in the contracts, the rights expire or the Company surrenders those rights. A financial liability or part thereof is removed from the balance sheet when it is extinguished i.e. when the obligation specified in the contract is discharged, cancelled or expired.

Any gain or loss on subsequent measurement and de-recognition is charged to income.

### 2.19 Off setting

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

### 2.20 Cash and cash equivalents

Cash and cash equivalents of the Company consist of cash in hand and balances with banks (Note 22).



# Notes To The Accounts For The Year Ended 30 September 2003

	(Rupees in Thousand)	
	2003	2002
<b>3. Issued, Subscribed And Paid Up Share Capital</b>		
13 198 995 (2002: 13 198 995) ordinary shares of Rupees 10 each fully paid up in cash	131,990	131,990
750 000 (2002: 750 000) ordinary shares of Rupees 10 each issued to Pakistan Industrial Credit and Investment Corporation Limited against their right of option to convert 20 percent of their loan into fully paid up shares	7,500	7,500
15 337 034 (2002: 15 337 034) ordinary shares of Rupees 10 each issued as fully paid bonus shares	153,370	153,370
	<u>292,860</u>	<u>292,860</u>

3.1 6 529 503 (2002: 11 575 618) shares of the company are held by associated undertakings.

## 4. Redeemable Capital-non-participating Secured

Long term finances utilized under mark-up arrangements are as under:

Term finance certificates No.1 (Note 4.1 and 4.2)	166,600	249,900
Term finance certificates No.2 (Note 4.1 and 4.3)	199,920	200,000
Pakistan Industrial Credit and Investment Corporation Limited (Note 4.4)	17,886	31,960
Banking companies (Note 4.5)	360,444	141,167
International Housing Finance Limited (Note 4.6)	10,383	-
	<u>755,233</u>	<u>623,027</u>
Less: Current portion (Note 7)	327,548	141,342
	<u>427,685</u>	<u>481,685</u>

4.1 Both issues of Term Finance Certificates are secured against first pari passu charge on all present and future fixed assets of the company and pledge of marketable securities to the tune of Rupees 40 million. The TFCs issued to general and institutional investors are in set of eight TFCs each having face value of Rupees 5,000, Rupees 25,000, Rupees 50,000, Rupees 100,000 and Rupees 1,000,000.

## Notes To The Accounts For The Year Ended 30 September 2003

- 4.2 These are listed on Lahore Stock Exchange and were issued to repay the short-term high rate borrowing. These carry floating profit/mark-up based on State Bank of Pakistan discount rate plus two percent with a floor of 15 percent and ceiling of 18.75 percent. The profit/mark-up and principal will be repayable in eight semi annual instalments.
- 4.3 These are listed on Lahore Stock Exchange and were issued to repay the short-term high rate borrowing. These carry floating profit/mark-up based on State Bank of Pakistan discount rate plus two percent with a floor of 12.25 percent and ceiling of 15 percent. The profit/mark-up and principal will be repayable in eight semi annual instalments.
- 4.4 Pakistan Industrial Credit and Investment Corporation Limited has purchased machinery valuing Rupees 323.331 million from the company which was deemed to have been resold to the company at marked up price of Rupees 507.871 million which includes rebate of Rupees 86.091 million on timely payments. These are secured against:
- (a) first legal mortgage on company's present and future immovable properties wherever situated including all buildings, plant and machinery and fixtures;
  - (b) first charge ranking pari passu with the existing charges by way of hypothecation in respect of all the machinery of the company, present and future;
  - (c) first floating charge ranking pari passu with the existing charge on all other assets of the company, both present and future, subject to the hypothecation or charge in favour of company's bankers as referred to in Note 8; and
  - (d) demand promissory note.

These are repayable in 21 to 36 quarterly instalments and carry mark-up at the rate of 7 to 13.50 percent per annum.

- 4.5 Finances from banking companies are repayable in 12 quarterly, 10 semi annual and one lumpsum instalments. These carry mark-up at the rate of 4.71 percent to 7.5 percent per annum. These facilities are secured against first charge on fixed assets ranking pari passu with other creditors and pledge of finished goods.
- 4.6 Mortgage financing facility was obtained from International Housing Finance Limited for purchase of building. It carries mark-up with a floor of 7.5 percent and a ceiling of 11.5 percent per annum. Repayment will be made in 66 monthly instalments starting from 25 February 2004 after a grace period of 6 months.

# Notes To The Accounts For The Year Ended 30 September 2003

	(Rupees in Thousand)	
	2003	2002
<b>5. Long Term Loans</b>		
Pakistan Industrial Credit and Investment Corporation Limited		
Loan No:		
IBRD-3019	-	1,723
ADB-966	-	17,935
	-	19,658
Less: Current portion (Note 7)	-	5,001
	-	14,657

5.1 Long term loans from Pakistan Industrial Credit and Investment Corporation Limited have been repaid during the year.

## 6. Liabilities Against Assets Subject to Finance Lease

Future rentals and periods during which they fall due are as under:

30 September 2003	-	28,49
30 September 2004	20,617	6,985
30 September 2005	20,425	-
30 September 2006	16,673	-
30 September 2007	15,238	-
30 September 2008	6,809	-
Balance rentals as at 30 September	79,762	35,483
Less: Financial charges	15,411	4,092
Present value of minimum lease payments	64,351	31,391
Less: Current portion (Note 7)	13,925	25,532
	50,426	5,859

6.1 The value of minimum lease rental payments has been discounted at an implicit interest rate ranging from 11.50 to 15.40 percent. The balance rentals are payable in monthly/quarterly installments and in case of default in any payment, an additional charge at the rate of 2 percent shall be paid. Taxes, repairs and insurance costs are born by the lessee. Lessee shall have no right to terminate lease agreements and if lease agreements are terminated, the lessee shall pay entire amount of rentals for unexpired period of lease agreements. Lease agreements are renewable at the option of lessor on such terms as may be agreed upon. Liabilities are secured against deposit of Rupees 4.055 million (2002: Rupees 0.643 million) included in long term deposits (Note 16).



# Notes To The Accounts For The Year Ended 30 September 2003

6.2 Minimum lease payments and their present values are regrouped as under:

	2003		(Rupees in Thousand) 2002	
	Within one year	More than one year but less than five years	Within one year	More than one year but less than five years
Total of minimum lease payments	20,617	59,145	28,498	6,985
Less: Financial charges	6,692	8,719	2,966	1,126
Present Value of minimum lease payments	<u>13,925</u>	<u>50,426</u>	<u>25,532</u>	<u>5,859</u>

	(Rupees in Thousand)	
	2003	2002
<b>7. Current Portion Of Long Term Liabilities</b>		
Redeemable capital	327,548	141,342
Long term loans	-	5,001
Liabilities against assets subject to finance lease	<u>13,925</u>	<u>25,532</u>
	<u>341,473</u>	<u>171,875</u>
<b>8. Short Term Finances</b>		
<b>Secured:</b>		
<b>From banking companies</b>		
Cash finance (Note 8.1)	365,886	216,129
Export refinance (Note 8.2)	362,250	34,399
Running finance (Note 8.3)	16,868	-
Other (Note 8.4)	<u>23,123</u>	<u>-</u>
	<u>768,127</u>	<u>250,528</u>
Unsecured-Unpresented cheques	<u>21,213</u>	<u>8</u>
	<u>789,340</u>	<u>250,536</u>

8.1 These are secured against pledge of finished goods. Mark-up is chargeable at the rate of 2.75 percent to 9.5 percent per annum. These form part of aggregate credit facility of Rupees 879.650 million (2002: Rupees 322.423 million).

## Notes To The Accounts For The Year Ended 30 September 2003

- 8.2 These are secured against lien on export contracts and ranking charge for dollar finance facility on the current assets of the company. It carries mark-up for dollar finance facility from LIBOR plus 1.5 percent to LIBOR plus 2 percent and export refinance facility from 3 percent to 4 percent per annum. These form part of aggregate credit facility of Rupees 389 million (2002: Rupees 50 million).
- 8.3 Running finance facility is secured against hypothecation of stores and spares. It carries mark-up from 7.5 percent to 12 percent per annum.
- 8.4 These are obtained for sugarcane growers and are secured against the guarantee of the company. These carry mark-up from 9 percent to 12 percent per annum. These form part of aggregate credit facility of Rupees 45 million (2002: Rupees Nil).

	(Rupees in Thousand)	
	2003	2002
<b>9. Creditors, Accrued And Other Liabilities</b>		
Creditors	69,871	45,109
Advance from customers	27,704	53,632
Securities from contractors – Interest free, repayable on completion of contracts	1,270	1,257
Income tax deducted at source	553	315
Mark-up accrued on redeemable capital – Secured	15,085	23,747
Interest accrued on long term loans – Secured	1,163	814
Mark-up accrued on short term finances – Secured	6,298	7,906
Sales tax payable	33,552	37,173
Due to pension fund	244	-
Due to associated undertakings	755	29,577
Other accrued liabilities	52,907	54,944
	<b>209,402</b>	<b>254,474</b>
<b>10. Workers' Participation Fund</b>		
Balance as at 01 October	6,578	1,332
Allocation for the year	8,236	6,569
Interest accrued	249	136
	<b>15,063</b>	<b>8,037</b>
Less: Payments made during the year	6,578	1,459
	<b>8,485</b>	<b>6,578</b>

- 10.1 Interest is paid at the prescribed rate under the Act on the funds utilized by the company till the date of allocation to workers.

## Notes To The Accounts For The Year Ended 30 September 2003

### 11. Contingencies And Commitments

#### Contingencies

There was no contingent liability/asset at the year end (2002: Rupees Nil).

Company's share of contingencies of associated undertakings is Rupees 36.055 million (2002: Rupees 62.335 million).

#### Commitments

Contracts for capital expenditure are Rupees 388.616 million (2002: Rupees 9.823 million). Letters of credit other than capital expenditure are Rupees 0.615 million (2002: Rupees Nil).

Company's share of commitments of associated undertakings is Rupees 4.971 million (2002: Rupees 232.763 million).

### 12. Operating Fixed Assets

DESCRIPTION	Cost/Re-assessed Value			Depreciation				(Rupees in Thousand)	
	As at 01 October 2002	Additional/ (Deletions)	As at 30 September 2003	As at 01 October 2002	Adjustments	Charge for the year	As at 30 September 2003	Book Value As At 30 September 2003	Depreciation Rate %
Freehold land (Note 12.1)	22,178	42,738 (2,212)	62,704	-	-	-	-	62,704	-
Buildings and roads on freehold land	111,496	35,291	146,787	72,630	-	5,562	78,192	68,595	7.5
Plant and machinery	1,499,399	154,685 (269)	1,653,815	799,775	(101)	64,061	863,735	790,080	7.5
Tools and equipments	19,205	5,841 (4)	25,042	15,569	(4)	3,783	19,368	5,674	40
Water, electric and weighbridge equipments	16,332	2,717	19,049	10,229	-	1,764	11,993	7,856	20
Furniture and fixtures	11,766	2,042 (186)	13,624	9,374	(169)	864	10,069	3,535	20
Vehicles	14,272	7,511 (3,023)	18,760	9,296	(908)	2,074	10,462	8,298	20
Arms and ammunition	86	-	86	65	-	2	67	19	10
Library books	7,190	584	7,774	5,717	-	617	6,334	1,440	30
2003	1,701,928	251,409 (5,694)	1,947,641	922,675	(1,182)	78,747	1,000,240	947,401	
2002	1,558,562	146,838 (3,474)	1,701,928	857,994	(1,610)	66,291	922,675	779,351	

- 12.1 The company has given 10.39 acres land valuing Rupees 0.260 million for 20 years lease to Crescent Ujala Limited on annual rent of Rupees 3,968 per acre. Lease rent will be increased by 15 percent after every three years and lease is extendible for another term of 20 years with mutual consent of both parties.



## Notes To The Accounts For The Year Ended 30 September 2003

- 12.2** Land, buildings and plant and machinery were revalued by an independent valuer as at 30 September 1979 and stated in note 12 at appreciated value. Had there been no revaluation on that date, the value of these operating fixed assets would have been lower by Rupees 10.566 million (2002: Rupees 10.566 million).
- 12.3** The book value of freehold land, buildings on freehold land and plant and machinery on cost basis is Rupees 59.875 million, Rupees 66.483 million and Rupees 768.791 million respectively (2002: Rupees 19.349 million, Rupees 37.123 million and Rupees 696.537 million respectively).

(Rupees in Thousand)  
2003 2002

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

### Cost of goods sold

Sugar	(Note 23.2)	58,639	54,361
Distillate	(Note 23.2)	10,456	6,137
Kanewood	(Note 23.2)	947	924

### Administrative and general expenses-

Sugar	(Note 24.1)	8,705	4,869
		<u>78,747</u>	<u>66,291</u>

## Notes To The Accounts For The Year Ended 30 September 2003

### 12.5 Disposal Of Operating Fixed Assets

(Rupees In Thousand)

Description	Qty. Nos.	Cost	Accumulated Depreciation	Book Value	Sale Proceeds	Mode Of Disposal	Particulars Of Purchasers
<b>Land</b>							
Land at Chak No 68 RB, Tehsil, Jaranwala, Distt. Faisalabad.	-	2,212	-	2,212	8,028	Negotiation	Mr. Abdul Hafeez Sheikh Residence 177/G, Babala Colony, Faisalabad.
<b>Plant And Machinery</b>							
Panel board	1	68	26	42	132	Insurance claim	The Premium Insurance Corporation of Pakistan Ltd.
Vacuum filter	1	201	75	126	500	Negotiation	Mecca (Mtn) Sugar Mills Limited 84-Nishtar Road, Lahore.
<b>Furniture And Fixtures</b>							
Air Conditioner	3	45	42	4	9	Negotiation	M/S Habib Engineering, Shop No.2, Kot Road, Jhang.
Air Conditioner	3	41	39	2	6	Negotiation	Mr. Muhammad Shahid, Shop No.15, Kot Road, Jhang.
Air Conditioner	1	19	15	4	2	Negotiation	Mr. Baber Raza S/o Mr. Muhammad Rafiq R/O H-2 Street No.1, Mohallah Muhammad Pura, Ichra, Lahore.
Protostat machine	1	64	61	3	4	Negotiation	Mr. Muhammad Shahid, Shop No.15, Kot Road, Jhang.
Sofa set and bed cots	1	8	6	2	1	As per company policy	Mr. Muhammad Abdullah (Ex. Company's employee)
Double bed, show case, chairs and tarpal set	10	8	6	2	3	As per company policy	Mr. Muhammad Atzal Sindhu (Ex. Company's employee)
<b>Vehicles</b>							
Toyota Corolla FDY-4696	1	381	-	381	484	As per company policy	Mr. Hiral Ahmad (Company's employee)
Suzuki Margalla JGB-676	1	244	88	156	166	As per company policy	Mr. Abdul Samee (Company's employee)
Kia Classic FDY-4386	1	310	-	310	336	Insurance claim	The Premium Insurance Corporation of Pakistan Ltd.
Suzuki Khyber JGA-888	1	160	118	42	108	As per company policy	Mr. Muhammad Ashraf (Company's employee)
Suzuki Khyber JGB-5652	1	188	68	120	129	As per company policy	Mr. Muhammad Sadiq (Company's employee)
Suzuki Mehran JGB-5752	1	143	52	91	98	As per company policy	Mr. Javed Iqbal Shah (Company's employee)
Suzuki Mehran JGB-5750	1	143	52	91	98	As per company policy	Haliz Dilmir Khan (Company's employee)
Suzuki Mehran JGB-5746	1	143	52	91	98	As per company policy	Mr. Nisar Ahmad (Company's employee)
Suzuki Mehran JGB-5753	1	143	52	91	98	As per company policy	Mr. Munir Ahmad (Company's employee)
Suzuki Mehran JGB-5749	1	143	52	91	98	As per company policy	Mr. Akhtar Ali (Company's employee)
Suzuki Car JGB-5653	1	193	70	123	162	As per company policy	Mr. Muhammad Abdullah (Company's employee)

## Notes To The Accounts For The Year Ended 30 September 2003

Description	Qty. Nos.	Cost	Accumulated Depreciation	Book Value	Sale Proceeds	Mode Of Disposal	Particulars Of Purchasers
Motor Cycle	1	31	11	20	21	As per company policy	Jan Muhammad (Company's employee)
Motor Cycle	1	31	11	20	21	As per company policy	Mr. Muhammad Bashir (Company's employee)
Motor Cycle	1	31	11	20	21	As per company policy	Mr. Riaz Ahmad Khan (Company's employee)
Motor Cycle	1	31	11	20	21	As per company policy	Mr. Muhammad Maroof (Company's employee)
Motor Cycle	1	31	11	20	21	As per company policy	Mr. Munir Ahmad (Company's employee)
Motor Cycle	1	31	11	20	21	As per company policy	Mr. Muhammad Aaghar (Company's employee)
Motor Cycle	1	31	11	20	21	As per company policy	Mr. Ali Sajjad Akhtar (Company's employee)
Motor Cycle	1	31	11	20	21	As per company policy	Mr. Khilaf Baig (Company's employee)
Motor Cycle	1	3	3	-	11	As per company policy	Mr. Muhammad Yaseen (Company's employee)
Motor Cycle	1	31	11	20	21	As per company policy	Mr. Muhammad Ashraf Sajjad (Company's employee)
Motor Cycle	1	31	11	20	21	As per company policy	Mr. Fazal Haq (Company's employee)
Motor Cycle	1	31	11	20	21	As per company policy	Mr. Jamil Ahmad (Company's employee)
Motor Cycle	1	31	11	20	21	As per company policy	Mr. Muhammad Ismail (Company's employee)
Motor Cycle	1	31	11	20	21	As per company policy	Mr. Saeed Ahmad (Company's employee)
Motor Cycle	1	31	11	20	21	As per company policy	Mr. Iftikhar Ali (Company's employee)
Motor Cycle	1	31	11	20	21	As per company policy	Mr. Kabir Khan (Company's employee)
Motor Cycle	1	23	15	8	16	As per company policy	Mr. Bashir Ahmad Butt (Company's employee)
Motor Cycle	1	31	11	20	21	As per company policy	Mr. Faiz Ahmad Luck (Company's employee)
Motor Cycle	1	31	11	20	21	As per company policy	Mr. Amanullah (Company's employee)
Motor Cycle	1	31	11	20	21	As per company policy	Mr. Inshad Hussain (Company's employee)
Motor Cycle	1	31	11	20	21	As per company policy	Mr. Abdul Noor (Company's employee)
Motor Cycle	1	31	11	20	21	As per company policy	Mr. Muhammad Altaf (Company's employee)
Motor Cycle	1	31	11	20	21	As per company policy	Mr. Bashir Ahmad (Company's employee)
Motor Cycle	1	31	11	20	21	As per company policy	Mr. Nasir Ahmad (Company's employee)
Motor Cycle	1	31	11	20	21	As per company policy	Mr. Muhammad Sharif (Company's employee)
Motor Cycle	1	31	11	20	21	As per company policy	Mr. Ghulam Akbar (Company's employee)
Motor Cycle	1	31	11	20	21	As per company policy	Mr. Muhammad Hafeez Anjum (Company's employee)
Motor Cycle	1	31	11	20	21	As per company policy	Mr. Ahmad Ali (Company's employee)
<b>Tools and Equipments</b>							
Telephone exchange	1	3	3	-	7	Negotiation	Saeed Iron Store, Station Chowk, Jhang.
Spray machine	1	1	1	-	1	Negotiation	Mr. Muhammad Sarwar (Company's employee)
		5,694	1,182	4,512	11,165		



# Notes To The Accounts For The Year Ended 30 September 2003

## 13. Assets Subject To Finance Lease

Description	C o s t				Amortization		(Rupees in Thousand)		Amortization Rate %
	As At 01 October 2002	Additions/ (Deletion)	As At 30 September 2003	As At 01 October 2002	Adjustments	Charge For The Year	As At 30 September 2003	Book Value As At 30 September 2003	
Plant and machinery	43,490	60,000 (43,490)	60,000	11,560	(11,560)	4,500	4,500	55,500	7.5
Vehicles	15,491	7,758 (9,058)	14,193	5,239	(3,952)	2,581	3,368	16,325	20
Equipments	4,544	(4,544)	-	3,955	(3,955)	-	-	-	40
2003	63,525	67,758 (57,090)	74,193	20,754	(19,467)	7,081	8,368	65,825	
2002	110,414	6,436 (53,070)	63,780	30,490	(15,025)	5,544	21,609	42,771	

13.1 Deletions represent the leased assets purchased at the expiry of lease term and transferred to operating fixed assets.

13.2 Amortization charge of leasehold assets for the year has been allocated as follows:

	(Rupees in Thousand)	
	2003	2002
<b>Cost of goods sold -</b>		
Sugar (Note 23.2)	2,925	2,785
Distillate (Note 23.2)	1,575	-
<b>Administrative and general expenses-</b>		
Sugar (Note 24.1)	2,581	2,759
	<u>7,081</u>	<u>5,544</u>

## 14. Capital Work-in-progress

Buildings	2,725	-
Plant and machinery	77,620	42,610
Advance against supply of machinery	77,410	2,017
Furniture	535	-
	<u>158,290</u>	<u>44,627</u>

# Notes To The Accounts For The Year Ended 30 September 2003

		(Rupees in Thousand)	
		2003	2002
15.	Equity Investments		
	Quoted		
	Associated undertakings:		
	<b>MashreqBank Pakistan Limited</b>		
	5 010 705 (2002: 2 867 380) ordinary shares of		
	Rupees 10 each fully paid	51,463	58,348
	Equity held 5.73%		
	<b>Crescent Steel and Allied Products Limited</b>		
	748 028 (2002: 912 525) ordinary shares of		
	Rupees 10 each fully paid	43,280	39,955
	Equity held 3.72%		
	<b>Crescent Sugar Mills and Distillery Limited</b>		
	955 848 (2002: 955 848) ordinary shares of		
	Rupees 10 each fully paid	22,837	18,369
	Equity held 5.03%		
	<b>Crescent Boards Limited</b>		
	91 960 (2002: 91 960) ordinary shares of		
	Rupees 10 each fully paid	1,645	1,687
	Equity held 0.78%		
	<b>Crescent Jute Products Limited</b>		
	536 817 (2002: 536 817) ordinary shares of		
	Rupees 10 each fully paid	-	-
	Equity held 3.56%		
	<b>Jubilee Spinning and Weaving Mills Limited</b>		
	15 584 (2002: 15 584) ordinary shares of		
	Rupees 10 each fully paid	-	-
	Equity held 0.22%		
	<b>The Crescent Textile Mills Limited</b>		
	17 561 (2002: 17 561) ordinary shares of		
	Rupees 10 each fully paid	869	726
	Equity held 0.04%		

# Notes To The Accounts For The Year Ended 30 September 2003

	(Rupees in Thousand)	
	2003	2002
<b>17. Stores, Spare Parts And Loose Tools</b>		
Stores	31,579	18,152
Spare parts	15,121	10,858
Loose tools	776	557
	<u>47,476</u>	<u>29,567</u>
Less: Provision for obsolescence	1,500	1,500
	<u>45,976</u>	<u>28,067</u>
<b>18. Stock-in-trade</b>		
Work-in-process	3,180	5,491
Finished goods:		
Sugar	501,257	192,254
Molasses	19,856	-
Distillate	55,760	21,426
Kanewood	7,426	14,026
	<u>584,299</u>	<u>227,706</u>
	<u>587,479</u>	<u>233,197</u>
<b>19. Trade Debts</b>		
Considered good:		
Unsecured	64,833	65,909
Secured	-	33,756
	<u>64,833</u>	<u>99,665</u>



# Notes To The Accounts For The Year Ended 30 September 2003

	(Rupees in Thousand)	
	2003	2002
<b>20. Advances, Deposits, Prepayments And Other Receivables</b>		
<b>Loans and advances –Considered good:</b>		
Employees-Interest free	162	260
Suppliers and contractors	78,325	7,399
Income tax	15,973	34,950
Pension and gratuity fund	538	8,436
Sugarcane growers (Note 20.1)	20,195	28,448
Due from associated undertakings (Note 20.2)	2,143	-
	<b>117,336</b>	<b>79,493</b>
<b>Considered doubtful:</b>		
Sugarcane growers	2,001	2,001
Less: Provision for doubtful	2,001	2,001
	-	-
	<b>117,336</b>	<b>79,493</b>
<b>Deposits:</b>		
Margin against bank guarantees	1,769	918
Security deposit against leasehold assets (Note 6.1)	-	4,210
	<b>1,769</b>	<b>5,128</b>
Letters of credit	2,099	9,895
Short term prepayments	2,863	15,669
Sales tax	783	-
Accrued interest	-	28
Sundry receivables	45,892	25,990
	<b>170,742</b>	<b>136,203</b>
<b>20.1</b> Mark-up is charged on loans to sugarcane growers at the rate of 9 to 12 percent per annum.		
<b>20.2</b> Due from associated undertakings are detailed below:		
Crescent Business Management (Private) Limited	1,782	-
Crescent Sugar Mills and Distillery Limited	361	-
	<b>2,143</b>	<b>-</b>

# Notes To The Accounts For The Year Ended 30 September 2003

	(Rupees in Thousand)	
	2003	2002
<b>21. Short Term Investments</b>		
<b>Quoted</b>		
<b>The Premier Insurance Company of Pakistan Limited</b>		
40 129 (2002: 40 129) ordinary shares of Rupees 5 each fully paid	44	44
<b>Pakistan Industrial Credit and Investment Corporation Limited</b>		
6 137 875 (2002: 6 923 690) ordinary shares of Rupees 10 each fully paid	150,908	168,479
<b>Trust Investment Bank Limited</b>		
9 695 939 (2002: 9 695 939) ordinary shares of Rupees 10 each fully paid	105,859	105,859
<b>Safeway Mutual Fund Limited</b>		
5 527 100 (2002: 4 234 200) ordinary shares of Rupees 10 each fully paid	51,412	38,483
<b>First Standard Investment Bank Limited</b>		
444 358 ordinary shares (2002: 101 786 certificates of First Crescent Modaraba) of Rupees 10 each fully paid (Note 21.1)	1,287	965
<b>Crescent Knitwear Limited</b>		
700 000 (2002: 700 000) ordinary shares of Rupees 10 each fully paid	7,122	7,122
<b>Husein Sugar Mills Limited</b>		
631 (2002: 631) ordinary bonus shares of Rupees 10 each fully paid	-	-
<b>AR Pak. International Investment Limited</b>		
10 000 (2002: 10 000) ordinary shares of Rupees 10 each fully paid	93	93
<b>Pakistan International Airlines Corporation</b>		
51 (2002: 51) ordinary bonus shares of Rupees 10 each fully paid	-	-
<b>Pakistan Oil Fields Limited</b>		
1 350 (2002: 1 350) ordinary shares of Rupees 10 each fully paid	34	34

# Notes To The Accounts For The Year Ended 30 September 2003

	(Rupees in Thousand)	
	2003	2002
<b>Prudential Discount and Guarantee House Limited</b>		
46 000 (2002: 131 000) ordinary shares of Rupees 10 each fully paid	646	1,033
<b>Pakistan Telecommunication Corporation Limited</b>		
Nil (2002: 10 000) ordinary shares of Rupees 10 each fully paid	-	295
<b>Fauji Fertilizer Company Limited</b>		
25 000 (2002: 25 000) ordinary shares of Rupees 10 each fully paid	1,620	1,620
<b>Muslim Commercial Bank Limited</b>		
3 565 (2002: 3 565) ordinary bonus shares of Rupees 10 each fully paid	-	-
<b>Shaheen Cotton Mills Limited</b>		
535 000 (2002: 535 000) ordinary shares of Rupees 10 each fully paid	6,955	6,955
<b>Crescent Spinning Mills Limited</b>		
341 300 (2002: 341 300) ordinary shares of Rupees 10 each fully paid	3,413	3,413
<b>Atlas Lease Limited</b>		
Nil (2002: 50 540) ordinary shares of Rupees 10 each fully paid	-	132
<b>Paramount Leasing Limited</b>		
22 000 (2002: Nil) ordinary shares of Rupees 10 each fully paid	113	-
<b>Pacific Leasing Company Limited</b>		
2 000 (2002: Nil) ordinary shares of Rupees 10 each fully paid	9	-
<b>PICIC Commercial Bank Limited</b>		
910 500 (2002: Nil) ordinary shares of Rupees 10 each fully paid	32,644	-
<b>Crescent Leasing Corporation Limited</b>		
4 319 352 (2002: 3 550 291) ordinary shares of Rupees 10 each fully paid	73,361	70,117

# Notes To The Accounts For The Year Ended 30 September 2003

	(Rupees in Thousand)	
	2003	2002
<b>Unquoted- Associated Undertaking</b>		
<b>Crescent Group Services (Private) Limited</b>		
220 000 (2002: 220 000) ordinary shares of Rupees 10 each fully paid	2,200	2,200
Equity held 18.96 percent. Break-up value as per last audited accounts was Rupees zero per share.		
<b>Other – Crescent Ujala Limited</b>		
330 000 (2002: Nil) ordinary shares of Rupees 10 each fully paid	3,300	-
Break-up value as per last audited accounts was Rs. 10.19 per share		
	<b>441,020</b>	<b>406,844</b>
Less: Fair value adjustment under IAS 39	<b>21,217</b>	<b>92,838</b>
	<b>419,803</b>	<b>314,006</b>

**21.1** 305 358 fully paid ordinary shares of First Standard Investment Bank Limited (FSIBL) have been received against 101 786 certificates of First Crescent Modaraba (FCM) after merger of First Crescent Modaraba into First Standard Investment Bank Limited. The shares were received at a swap ratio of 3 shares of FSIBL against 1 share of FCM.

**21.2** Market/breakup value of short term investments as on 30 September 2003 was Rupees 419.803 million (2002: Rupees 272.646 million).

**21.3** Following investments having face value of Rupees 40.301 million (2002: Rupees 56.944 million) are deposited as security with banks, financial institutions and investment companies:

	(Rupees in Thousand)	
	2003	2002
Against finances from investment banks	40,000	56,643
Against central excise duty on loan	301	301
	<b>40,301</b>	<b>56,944</b>



# Notes To The Accounts For The Year Ended 30 September 2003

(Rupees in Thousand)  
2003 2002

## 22. Cash And Bank Balances

Cash in hand	1,084	943
Cash with banks on:		
Current accounts	13,435	9,595
Deposit accounts	-	726
Dividend account	-	14
Foreign currency account	358	873
	13,793	11,208
	14,877	12,151

## 23. Operating Results

	(Rupees in Thousand)							
	Sugar Unit		Distillery Unit		Kanewood Unit		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
Sales (Note 23.1)	1,895,985	2,503,574	337,880	235,700	20,755	17,146	2,118,843	2,815,804
Cost of goods sold (Note 23.2)	1,745,578	2,165,009	213,558	164,907	20,254	13,940	1,843,613	2,203,240
	150,407	338,565	124,322	70,793	501	3,206	275,230	412,564
Administrative and general (Note 24)	53,321	44,150	9,651	4,162	590	308	63,562	48,620
Selling and distribution (Note 25)	5,871	5,889	25,120	24,935	65	41	31,056	30,865
	59,192	50,039	34,771	29,097	655	349	94,618	79,485
	91,215	288,526	89,551	41,696	(154)	2,857	180,612	333,079

### 23.1 Sales

Local	2,054,643	2,767,332	70,268	133,345	20,755	17,146	2,145,666	2,917,823
Export	-	-	269,094	102,355	-	-	269,094	102,355
Inter-segment								
Steam	18,934	28,008	-	-	-	-	-	-
Baggase	1,854	3,022	-	-	-	-	-	-
Molasses	114,989	109,586	-	-	-	-	-	-
	2,190,420	2,907,948	339,362	235,700	20,755	17,146	2,414,760	3,020,178
Less: Commission to selling agents	3,325	4,980	-	-	-	-	3,325	4,980
Sales Tax	291,110	399,394	1,482	-	-	-	292,592	399,394
	294,435	404,374	1,482	-	-	-	295,917	404,374
	1,895,985	2,503,574	337,880	235,700	20,755	17,146	2,118,843	2,815,804

## Notes To The Accounts For The Year Ended 30 September 2003

### 23.2 Cost Of Goods Sold

	(Rupees in Thousand)							
	Sugar Unit		Distillery Unit		Kanewood Unit		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
<b>Purchases</b>								
Inter-segment	-	-	133,923	137,594	1,854	3,022	-	-
Raw Material Cost	1,770,044	1,763,466	46,368	-	2,085	8,518	1,818,497	1,771,984
	1,770,044	1,763,466	180,291	137,594	3,939	11,540	1,818,497	1,771,984
Salaries, wages and other benefits	56,663	55,758	2,772	2,143	2,167	1,783	61,602	59,684
Stores, spare parts and loose tools	10,776	8,119	5,069	1,909	1,615	2,543	17,460	12,571
Dyes and chemicals	17,484	13,990	10,147	7,056	-	-	27,631	21,046
Packing material	22,764	22,036	-	-	-	-	22,764	22,036
Fuel and Power	21,426	2,657	35,196	23,152	4,074	9,782	60,696	35,591
Repair and maintenance	69,343	52,453	-	-	-	-	69,343	52,453
Insurance	2,753	2,875	196	199	90	94	3,039	2,968
Vehicles' operating & maintenance	2,684	2,077	-	-	-	-	2,684	2,077
Travelling and conveyance	341	395	-	-	-	-	341	395
Printing and stationery	448	436	-	-	-	-	448	436
Rent, rates and taxes	149	181	-	-	-	-	149	181
Other factory overheads	8,343	6,656	1,932	3,204	822	537	11,097	10,397
Sugarcane research and development	22,977	19,474	-	-	-	-	22,977	19,474
Staff training and development	4,367	1,489	258	-	-	-	4,625	1,489
Depreciation/amortization	61,564	57,146	12,031	6,137	947	924	74,542	64,207
	2,072,126	2,009,008	247,892	181,394	13,654	27,203	2,197,895	2,076,989
<b>Work in process inventory:</b>								
As at 01 October	5,491	1,546	-	-	-	-	5,491	1,546
As at 30 September	3,180	5,491	-	-	-	-	3,180	5,491
	2,311	(3,945)	-	-	-	-	2,311	(3,945)
	2,074,437	2,005,063	247,892	181,394	13,654	27,203	2,200,206	2,073,044
<b>Cost of goods produced</b>								
<b>Finished goods inventory:</b>								
As at 01 October	192,254	352,200	21,426	4,939	14,026	763	227,706	357,902
As at 30 September	521,113	192,254	55,760	21,426	7,426	14,026	584,299	227,706
	(328,859)	159,946	(34,334)	(16,487)	6,600	(13,263)	(356,593)	130,196
	1,745,578	2,165,009	213,558	164,907	20,254	13,940	1,843,613	2,203,240

### 23.3 Inter-segment Sales/Purchases

Inter-segment sales/purchases have been eliminated from total figures.

# Notes To The Accounts For The Year Ended 30 September 2003

	(Rupees in Thousand)	
	2003	2002
<b>24. Administrative And General Expenses</b>		
Salaries, wages and other benefits	28,305	24,345
Directors' meeting fee	115	35
Traveling and conveyance	2,865	2,061
Printing and stationery	946	870
Telephone, postage and telegrams	1,648	1,495
Vehicles' running	2,575	2,662
Legal and professional	5,346	1,395
<b>Auditors' remuneration:</b>		
Annual audit fee	245	245
Corporate governance compliance review fee	30	-
Half yearly review fee	50	-
Out of pocket expenses	19	15
	344	260
Repair and maintenance	3,061	1,917
Entertainment	184	157
Subscription	2,374	2,168
Rent, rates and taxes	508	711
Publicity	739	287
Registered office expenses	726	844
Miscellaneous	2,540	1,785
Depreciation/amortization (Note 24.1)	11,286	7,628
	<u>63,562</u>	<u>48,620</u>
<b>24.1 Depreciation/Amortization</b>		
Depreciation (Note 12.4)	8,705	4,869
Amortization (Note 13.2)	2,581	2,759
	<u>11,286</u>	<u>7,628</u>
<b>25. Selling And Distribution Expenses</b>		
Freight and forwarding	24,058	24,381
Handling and distribution	2,694	2,665
Loading and unloading	3,275	2,035
Sales promotion expenses	915	-
Insurance	114	1,784
	<u>31,056</u>	<u>30,865</u>

# Notes To The Accounts For The Year Ended 30 September 2003

	(Rupees in Thousand)	
	2003	2002
<b>26. Other Income</b>		
Commission on fertilizer	118	221
Gain on disposal of operating fixed assets	6,653	7,733
Dividend income	13,231	10,113
Return on bank deposits	675	888
Profit on sale of investments	46,903	-
Rental income	122	726
Electricity income	10,261	9,303
Share in post acquisition profit of associates	30,519	14,676
Miscellaneous	8,793	2,974
	<u>117,275</u>	<u>46,634</u>
<b>27. Financial Charges</b>		
Mark-up/interest on:		
Redeemable capital	68,819	58,642
Short term finances	37,934	100,162
Long term loans	2,131	3,419
Workers' participation fund	249	136
Finance charges on lease liabilities	6,711	6,057
Lease agreements fee	570	234
Bank charges and commission	6,173	5,025
	<u>122,587</u>	<u>173,675</u>
<b>28. Other Charges</b>		
Loss on investments	-	46,956
Excise duty on loans	-	17,929
Donations (Note 28.1)	8,784	2,780
Term finance expenses	2,049	3,331
Amortization of deferred cost (TFCs)	-	3,800
	<u>10,833</u>	<u>74,796</u>

28.1 There was no interest of any director or his spouse in the donees.



## Notes To The Accounts For The Year Ended 30 September 2003

(Rupees in Thousand)  
2003                      2002

### 29. Taxation

Tax charged for the year

Current (Note 29.1)	11,465	14,023
Deferred (Note 29.2)	15,726	-
	<u>27,191</u>	<u>14,023</u>

29.1 This represents provision for the year against minimum tax on turnover under section 113 and tax on dividend income under section 5 of the Income Tax Ordinance 2001. After considering the available tax losses, no provision for current taxation except minimum tax is required. Tax losses available to be carried forward are Rupees 280.130 million as at 30 September 2003 (2002: Rupees 403.526 million).

29.2 Provision for deferred taxation has been determined according to the tax effect of timing difference on account of tax depreciation allowance adjusted to the extent of carry forward tax losses.

29.3 While framing assessment orders for the years 1998-1999, 1999-2000 and 2000-2001, the Income Tax Officer disallowed certain expenses on various grounds, which have reduced the tax losses available for carry forward by Rupees 248.016 million. The company being aggrieved has filed appeals with the Commissioner of Income Tax (Appeals) which are still pending.

## Notes To The Accounts For The Year Ended 30 September 2003

### 30. Chief Executive And Executives' Remuneration

The aggregate amount charged in the accounts for the year for remuneration, allowances including all benefits to chief executive and executives of the company are as follows:

Description	2003		(Rupees in Thousand) 2002	
	Chief Executive	Executives	Chief Executive	Executives
Managerial remuneration	-	20,111	-	18,034
Housing	-	5,706	-	4,958
Contribution to:				
Provident fund	-	1,127	-	1,036
Pension fund	-	3,158	-	2,167
Gratuity fund	-	1,315	-	1,058
Hospitalization	-	688	-	695
Other benefits:				
Utility allowance	-	2,011	-	1,803
Reimbursable expenses	-	963	-	1,081
	-	35,079	-	30,832
Number of persons	1	77	1	66

30.1 Three executives (2002: Three executives) have been provided free maintained vehicles by the company.

30.2 Aggregate amount charged in the accounts for fee to six directors in respect of three meetings was Rupees 115,000 (2002: Rupees 35,000 for three meetings).

## Notes To The Accounts For The Year Ended 30 September 2003

### 31. Transactions With Associated Undertakings/Related Parties

Maximum aggregate amount due from associated undertakings at the end of any month during the year was Rupees 2.143 million (2002: Rupees 2.163 million).

The company purchased from associated undertakings materials, goods and services in the aggregate sum of Rupees 10.686 million (2002: Rupees 11.822 million). Purchases of materials, goods and services are made at prevailing market prices. There is no transaction/dealing with any other related party.

### 32. Earning Per Share-basic And Diluted

There is no dilutive effect on the basic earning per share, which is based on:

		2003	2002
Profit attributable to ordinary Shareholders	(Rupees in Thousand)	129,040	110,650
Number of ordinary shares		29 286 029	29 286 029
Earning per share	(Rupees)	4.41	3.78

### 33. Financial Instruments And Related Disclosures

#### 33.1 Financial assets and liabilities

		(Rupees in Thousand)					
		2 0 0 3					
	Interest rates range %	Interest/Mark-up Bearing			Non Interest Bearing		
		Maturity within one year	Maturity more than one year but less than five years	Sub-Total	Maturity within one year	Maturity more than one year but less than five years	Total
<b>Financial Assets</b>							
Long term deposits		-	-	-	-	5,117	5,117
Trade debts		-	-	-	64,833	-	64,833
Advances, deposits, prepayments and other receivables		-	-	-	70,161	-	70,161
Short term investment		-	-	-	419,803	-	419,803
Cash and bank balances	0.25 to 4	358	-	358	14,519	-	14,519
		358	-	358	569,316	5,117	574,433
<b>Financial Liabilities</b>							
Redeemable capital	4.71 to 18.75	327,548	427,685	755,233	-	-	755,233
Long term loans		-	-	-	-	-	-
Liabilities against assets subject to finance lease	11.50 to 15.40	13,925	50,426	64,351	-	-	64,351
Short term finances	2.75 to 12	789,340	-	789,340	-	-	789,340
Creditors, accrued and other liabilities		-	-	-	147,349	-	147,349
Contingencies		-	-	-	-	-	-
Commitments		-	-	-	388,616	-	388,616
		1,130,813	478,111	1,608,924	535,965	-	2,144,889

## Notes To The Accounts For The Year Ended 30 September 2003

(Rupees in Thousand)

	Interest rate range %	Interest/Mark-up Bearing				Non Interest Bearing			Total
		Maturity within one year	Maturity more than one year but less than five years	Maturity more than five years	Sub-Total	Maturity within one year	Maturity more than one year but less than five years	Sub-Total	
<b>Financial Assets</b>									
Long term deposits		-	-	-	-	-	1,103	1,103	1,103
Trade debts		-	-	-	-	99,665	-	99,665	99,665
Advances, deposits, prepayments and other receivables		-	-	-	-	59,854	-	59,854	59,854
Short term investment		-	-	-	-	314,006	-	314,006	314,006
Cash and bank balances	0.25 to 4	1,599	-	-	1,599	10,552	-	10,552	12,151
		1,599	-	-	1,599	494,077	1,103	495,180	496,779
<b>Financial Liabilities</b>									
Redeemable capital	07 to 18.75	141,342	481,685	-	623,027	-	-	-	623,027
Long term loans	15 to 15.65	5,001	14,657	-	19,658	-	-	-	19,658
Liabilities against assets subject to finance lease	15.4 to 21.5	25,532	5,809	-	31,391	-	-	-	31,391
Short term finances	4.21 to 15.33	250,536	-	-	250,536	-	-	-	250,536
Creditors, accrued and other liabilities		-	-	-	-	163,354	-	163,354	163,354
Contingencies		-	-	-	-	-	-	-	-
Commitments		-	-	-	-	9,823	-	9,823	9,823
		422,411	502,201	-	924,612	173,177	-	173,177	1,097,789

### 33.2 Financial instruments and risk management policies

The company issues financial instruments mainly to finance its operations. In addition, financial instruments such as trade receivables and trade payables arise directly from the company's operation.

The company finances its operations primarily by a mixture of issued share capital, retained profits, long term and short term loans and liabilities. The company borrows funds in local currency usually at fixed rate of interest/mark-up.

Overall risks arising from the company's financial instruments are limited.

#### (a) Interest rate risk

Since the company borrows funds usually at fixed interest rates, therefore, the risk occurrence is minimal. However in case of term finance certificates the company has given profit rate in the range of 12.25 percent to 18.75 percent per annum.

#### (b) Foreign exchange risk management

Foreign currency risk on financial instruments, receivables or payables in foreign currency is also not material.



## Notes To The Accounts For The Year Ended 30 September 2003

### (c) Credit risk

The company deals mostly with regular and permanent customers who pay the instruments on due dates. The company considers the credit risk as minimal.

### (d) Fair value of financial assets and liabilities

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values except for equity investments in associated companies which have been accounted for using equity method.

### 34. Employees' Retirement Benefits

	(Rupees in Thousand)			
	Pension Funds		Gratuity Funds	
	2003	2002	2003	2002
Current services cost	5,778	2,385	1,125	1,081
Return cost	5,831	5,410	1,680	1,693
Expected return on plan assets	(6,412)	(5,158)	(1,740)	(1,570)
Vested past service cost	819	819	-	-
Cost due to change in benefits	-	-	318	318
	<b>6,016</b>	<b>3,456</b>	<b>1,383</b>	<b>1,522</b>

#### Movement in Assets/(Liability)

Assets/(liability) as on 01 October 2002	4,485	2,551	693	443
Amount charged to profit and loss account	(6,016)	(3,456)	1,383	1,522
Total contributions made during the year	6,059	5,390	(1,508)	(1,272)
Assets/(liability) as on 30 September 2003	<b>4,528</b>	<b>4,485</b>	<b>568</b>	<b>693</b>

These are made-up as under:

Present value of defined benefits obligation	79,928	53,010	18,368	15,271
Fair value of plan assets	(67,326)	(53,431)	(19,299)	(14,505)
Vested past services cost to be recognized in later periods	(5,736)	(6,555)	(291)	(954)
Unrecognized actuarial losses/(gains)	(11,394)	2,491	1,790	881
	<b>(4,528)</b>	<b>(4,485)</b>	<b>568</b>	<b>693</b>

Employees retirement benefits charged in the profit and loss account are aggregately amounting to Rupees 8,964 million (2002: Rupees 5,109 million).

Number of employees at the year end 2003: 695 (2002: 636)

# Notes To The Accounts For The Year Ended 30 September 2003

## 35. Plant Capacity And Actual Production

Sugar:		2003	2002
Capacity in 160 days	M. Ton	108 800	108 800
Per day capacity	M. Ton	680	680
Actual production	M. Ton	127 060	128 000
Percentage of production	%	116.78	117.65
Distillery:			
Capacity	Litres per day	80 000	60 000
On the basis of 270 days working	Litres	21 600 000	16 200 000
Actual production	Litres	26 233 000	15 800 156
Percentage of production	%	121.45	97.53
Particle Board:			
Capacity	Cubic meter per day	30	30
On the basis of 200 days working	Cubic meter	6000	6000
Actual production	Cubic meter	1 667.755	5 669.960
Percentage of production	%	27.80	94.50

### 35.1 Reasons for low production – particle board

The low production of particle board was due to shortage of baggase and lower demand in the market.

## 36. Segment Assets And Other Information

	(Rupees in Thousand)	
	2003	2002
Sugar	2,545,090	1,773,242
Distillery	30,147	20,998
Kanewood	30,689	21,375
	<u>2,605,926</u>	<u>1,815,615</u>

36.1 Molasses and baggase (By-Products of Sugar) are issued to distillery and particle board plant at market prices.

## Notes To The Accounts For The Year Ended 30 September 2003

### 37. Date Of Authorisation

These accounts have been authorised for issue by the Board of Directors of the company on December 29, 2003

### 38. Corresponding Figures

Corresponding figures have been re-arranged and regrouped wherever necessary for the purpose of comparison. No significant reclassification has been made.

Figures have rounded off to the nearest thousand rupees.

  
Chief Executive

  
Director

Pattern of Holding of Shares  
Held by Shareholders as at September 30, 2003

FORM 34

No. of Shareholders	Shareholding From	To	Total shares Held
219	1	100	7,724
230	101	500	67,083
214	501	1,000	151,522
195	1,001	5,000	422,612
50	5,001	10,000	383,237
23	10,001	15,000	283,721
13	15,001	20,000	220,939
13	20,001	25,000	293,129
7	25,001	30,000	197,208
8	30,001	35,000	251,232
6	35,001	40,000	231,570
7	40,001	45,000	308,459
4	45,001	50,000	186,836
5	50,001	55,000	258,250
1	55,001	60,000	58,000
2	60,001	65,000	125,711
4	70,001	75,000	294,360
3	80,001	85,000	250,378
4	85,001	90,000	355,128
1	90,001	95,000	95,000
1	95,001	100,000	95,727
1	105,001	110,000	106,933
1	110,001	115,000	111,868
1	115,001	120,000	117,500
1	120,001	125,000	124,000
1	140,001	145,000	141,420
1	150,001	155,000	152,356
1	155,001	160,000	157,906
2	165,001	170,000	337,170
1	180,001	185,000	180,074
1	185,001	190,000	186,432
1	200,001	205,000	204,105
1	230,001	235,000	233,181
1	280,001	285,000	281,300
1	295,001	300,000	296,500
1	325,001	330,000	325,444
1	330,001	335,000	334,940
1	425,001	430,000	427,265
1	775,001	780,000	779,286
1	815,001	820,000	816,865
1	1,345,001	1,350,000	1,347,463
1	1,395,001	1,400,000	1,395,916
1	1,915,001	1,920,000	1,915,496
1	2,850,001	2,855,000	2,850,416
1	3,230,001	3,235,000	3,230,608
1	8,690,001	8,695,000	8,693,757
1,036			29,286,027



# Pattern of Holding of Shares Held by Shareholders as at September 30, 2003

Categories of Shareholder		Shares Held	%age
a)	<b>Directors, Chief Executive Officer, Their Spouse and Children</b>		
	Mr. Ahsan M. Saleem	180,924	0.62
	Mr. Khalid Bashir	2,519	0.01
	Mr. Mazhar Karim	27,318	0.09
	Mr. Muhammad Anwar (CDC)	7,788	0.03
	Mr. Muhammad Arshad	50,023	0.17
	Mrs. Tanveer Khalid Bashir	64,802	0.22
	Mrs. Shahnaz A. Saleem	12,547	0.04
		<b>345,921</b>	<b>1.18</b>
b)	<b>Associated Companies, Undertakings &amp; Related Parties</b>		
	Crescent Boards Limited	779,286	2.66
	Crescent Foundation	141,420	0.48
	Crescent Investment Bank Limited	100	0.00
	Crescent Jute Products Limited	187,200	0.57
	Crescent Steel & Allied Products Limited	2,850,516	9.73
	Crescent Sugar Mills & Distillery Limited	1,915,496	6.54
	First Standard Investment Bank Limited (CDC)	126,200	0.43
	Jubilee Energy (pvt) Ltd (CDC)	81,686	0.28
	Jubilee Spinning & Weaving Mills Limited	816,865	2.79
	Safeway Mutual Fund Limited (CDC)	1,395,916	4.77
	The Crescent Textile Mills Ltd	3,230,648	11.03
	The Premier Insurance Co. of Pakistan Ltd (CDC)	74,000	0.25
	Trust Investment Bank Limited (CDC)	1,347,463	4.60
		<b>12,926,796</b>	<b>44.14</b>
c)	<b>NIT &amp; ICP (Name Wise Detail)</b>		
	Investment Corporation of Pakistan	27,057	0.09
	Investment Corporation of Pakistan	10,295	0.04
	Investment Corporation Of Pakistan (CDC)	2,179	0.01
	National Bank Of Pakistan (Trustee Deptt.) (CDC)	8,693,757	29.69
	National Bank Of Pakistan-Trustee Wing	71	0.00
		<b>8,733,359</b>	<b>29.82</b>
d)	<b>Banks, DFI's, NBFIs</b>	<b>379,047</b>	<b>1.29</b>
e)	<b>Insurance Companies</b>	<b>121</b>	<b>0.00</b>
f)	<b>Modaraba and Mutual Funds</b>	<b>606,507</b>	<b>2.07</b>
g)	<b>Other Companies</b>	<b>778,107</b>	<b>2.66</b>
h)	<b>Non Resident</b>	<b>157</b>	<b>0.00</b>
i)	<b>General Public</b>	<b>5,516,012</b>	<b>18.83</b>
		<b>29,286,027</b>	<b>100.00</b>
<b>Shareholders More Than 10.00%</b>			
	National Bank Of Pakistan (Trustee Deptt.) (CDC)	8,693,757	29.69
	The Crescent Textile Mills Limited (CDC)	3,230,648	11.03

## Notice of Annual General Meeting

NOTICE is hereby given to all the Members of SHAKARGANJ MILLS LIMITED (the "Company") that the 36th Annual General Meeting of the Company will be held on Thursday, 29 January 2004 at 11.00 a.m. at Pearl Continental Hotel, Shahrah-e-Quaid-e-Azam, Lahore, to transact the following business:

### Ordinary Business:

- To confirm the minutes of the proceedings of the 35<sup>th</sup> Annual General Meeting of the Company.
- To receive, consider and adopt the Directors' and Auditors' reports and Audited Accounts for the year ended September 30, 2003.
- To consider and approve the payment of cash dividend @ fifteen percent (15%), i.e. Rs.1.50 per share, for the year ended September 30, 2003 as recommended by the Directors of the Company.
- To appoint auditors and fix their remuneration.

### Special Business:

#### 1. Investment in Associated Undertaking

To consider and, if thought fit, to pass the following resolution as a special resolution under Section 208 of the Companies Ordinance, 1984 (the "Ordinance"):

"IT IS HEREBY RESOLVED THAT:

- The approval of the Company be and is hereby accorded to invest an amount of Rs.20,000,000 (Rupees twenty million only) through purchase of ordinary shares of the said value of Crescent Steel and Allied Products Limited ("Crescent Steel"), an associated undertaking of the Company.
- The terms and conditions of the proposed investment are as follows:

	Name of the investee company	Crescent Steel and Allied Products Limited ("CSAPL")
(i)	Nature, amount and extent of investment. (Rupees in million)	20
(ii)	Average market price of the shares intended to be purchased during the preceding six (6) months. (Rupees)	77.63
(iii)	Break up value of shares intended to be purchased on the basis of last published financial statements. (Rupees)	57.86
(iv)	Price at which shares will be purchased. (Rupees)	Market Value
(v)	Earning per share of the investee company in last three (3) years (Rupees):	
	2001	2.7
	2002	6.9
	2003	14.2
(vi)	Source of funds from where shares will be purchased.	Own Sources
(vii)	Period for which investment will be made.	Long Term
(viii)	Purpose of investment.	Balanced diversification
(ix)	Benefits likely to accrue to the Company and the shareholders from the proposed investments.	To receive dividends that will increase profitability of the potential capital gains that would increase shareholder value.

## Notice of Annual General Meeting

- (3) The Chief Executive of the Company be and is hereby authorized to singly do all acts, deeds and things and take any or all necessary actions to purchase/acquire the ordinary shares of Crescent Steel and to dispose off the shares so purchased/acquired as he thinks fit on behalf of the Company."

### 2. Increase in Authorised Share Capital

To consider and, if thought fit, to pass the following resolution under Section 92 (3) of the Ordinance:

"It Is Hereby Resolved That:

- (1) The authorised share capital of the Company be and is hereby increased from Rs.500,000,000 (Rupees five hundred million only) to Rs.1,000,000,000 (Rupees one billion only).
- (2) The Clause V of the Memorandum of Association of the Company be and is hereby altered as follows:

The authorised share capital of the Company is Rs.1,000,000,000 (Rupees one billion only) divided into 50,000,000 (fifty million) ordinary shares of Rs.10 (Rupees ten only) each, and 50,000,000 (fifty million) preference share of Rs.10 (Rupees ten only) each, with the power to increase or reduce the capital and to divide the shares in the capital for the time being into several classes in accordance with the provisions of the Companies Ordinance, 1984 and any rules made thereunder, and to attach thereto respectively such preferential, deferred, qualified or special rights, privileges or conditions as may be determined by or in accordance with the Articles of Association or the Regulations of the Company for the time being, and to vary, modify or abrogate any such rights, privileges or conditions in such manner as may for the time being be provided by the Articles of Association or Regulations of the Company.

### 3. Changes in Memorandum and Articles of Association

To consider and, if thought fit, to pass the following resolution as a special resolution, with or without modification:

"It Is Hereby Resolved That:

- (1) The approval of the Company be and is hereby accorded to alter the Memorandum of Association and Articles of Association of the Company, as per the attached black-lined draft.
- (2) The Chief Executive and Company Secretary of the Company be and are hereby authorized to do all acts, deeds and things, take any or all necessary actions to complete all legal formalities and file all necessary documents as they think fit on behalf of the Company."

### 4. Issuance of Preference shares

To consider, and if thought fit, to pass the following resolution as a special resolution, with or without modification, under Rule 5 of the Companies Share Capital (Variation in Rights and Privileges) Rules, 2000:

## Notice of Annual General Meeting

"It Is Hereby Resolved That:

- (1) Subject to the prior approval of the Securities & Exchange Commission of Pakistan (the "SECP"), the approval of the Company be and is hereby accorded to issue 49,786,244 (forty nine million seven hundred eighty six thousand two hundred forty four) preference shares of Rs.10 (Rupees ten only) each, in the manner and mode provided in Section 86 of the Ordinance and on the following terms and conditions:
  - (a) 24,893,122 (twenty four million eight hundred ninety three thousand one hundred twenty two) preference shares be and are hereby offered to the existing shareholders of the Company at the ratio of eighty-five (85) preference shares for every hundred (100) ordinary shares held by them as on the date to be announced separately after approval of the SECP.
  - (b) The remaining 24,893,122 (twenty four million eight hundred ninety three thousand one hundred twenty two) preference shares be and are hereby offered to the Banks and financial institutions without offering the existing shareholders of the Company, on the date to be announced separately after approval of the SECP.
  - (c) The preference shareholders shall not be entitled to:
    - (i) receive notice of, attend or vote at the meetings of the shareholders of the Company, except as otherwise provided by the Ordinance, whereby the holders of such shares would be entitled to vote separately as a class, i.e., with respect to the voting entitlement of preference shareholders on matters/issues affecting their respective substantial rights or liabilities.
    - (ii) bonus or right shares, in case the Company decides to increase the capital of the Company by issue of further shares.
    - (iii) participate any further in the profit or assets of the Company, except the right of dividend being attached to the preference shares as per this resolution.
    - (iv) without prejudice to the foregoing, the preference shareholders of the Company may attend the general meetings of the Company as observers with permission of the Chairman of the meeting.
  - (d) The Company may convert the preference shares into ordinary shares as under:
 

Par value of preference share i.e. Rs. 10/ (30 days average price of ordinary shares x (1+0.20)).

Example: if 30 days average price of ordinary shares = Rs. 33, then the conversion ratio will be as under:

$10/(33 \times (1+0.20)) = 0.25$  i.e a person holding 4 preference shares will get 1 ordinary share



## Notice of Annual General Meeting

- (e) The preference shares are to be redeemed after five (5) years of issuance/allotment, subject to the conversion option as exercised by preference shareholders, as per sub-clause (d) above. However if the Company fails to pay dividend to its preference shareholders during the entire tenure of five (5) years, the preference shares and the unpaid cumulative dividend shall be converted into ordinary shares at formula given in (1) (d).
- (f) The preference shares shall have a preferred dividend up to eight and half percent (8.5%) per annum as may be determined by the Board of Directors of the Company on a cumulative basis.
- (2) The Chief Executive or such one or more persons as may from time to time be specifically designated by him for the purpose, be and is/are hereby authorised to undertake arrangements for issuance of preference shares and settle the terms and conditions with the arranger(s), underwriters(s), and any and all other party(ies) concerned as and when necessary in this regard, and to take such action as he/they may consider necessary or expedient with a view to obtaining their consent and for facilitating the eventual issue and all sanctions, approvals, and permissions that may be required in connection with the aforesaid matter and in that connection to do all such acts, deeds and things as necessary."

By Order of the Board



Tariq Aleem  
Company Secretary

## Participation In The Annual General Meeting

1. Any member of the Company entitled to attend and vote at this meeting of the Company shall be entitled to appoint any other member as his/her proxy to attend and vote instead of him, and a proxy so appointed shall have the rights to speak and vote at the meeting as are available to the member.
2. 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.
3. Members, who have deposited their shares into Central Depository Company of Pakistan Limited, are being advised to bring their National Identity Card 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 grantor and the signature on the proxy forms should be the same as appearing on the National Identity Cards.

## Notice of Annual General Meeting

### Book Closure

The Share Transfer Books of the Company will remain closed from 21 January 2004 to 29 January 2004 (both days inclusive). Transfers received in order at the Registered Office of the Company up to the close of business on 20 January 2004, will be considered in time to be eligible for payment of final dividend to the transferees.

### Statement Under Section 160 (1) (b) of the Companies Ordinance, 1984

The following statement sets out the material facts pertaining to the special business to be transacted at the 36<sup>th</sup> Annual General Meeting of Shakarganj Mills Limited (the "Company") to be held on 29 January 2004.

#### A. Investment in Associated Undertaking

- The Board of Directors of the Company (the "Board"), at their meeting held on [29 December 2003], considered that due to strong performance of the capital market and good payout history of Crescent Steel and Allied Products Limited ("CSAPL"), an associated undertaking of the Company, the Company will benefit from investing in CSAPL.
- In view of the above, the Board resolved unanimously to approve, and place before the shareholders at their general meeting for approval by special resolution, the proposed investment of Rs.20,000,000 (Rupees twenty million only) in the ordinary shares of CSAPL.
- Following are the material facts about the proposed special resolution:

	Name of the investee company	Crescent Steel and Allied Products Limited ("CSAPL")
(i)	Nature, amount and extent of investment. (Rupees in million)	20
(ii)	Nature, amount and extent of investment. (Rupees in million)	20
(iii)	Average market price of the shares intended to be purchased during the preceding six (6) months. (Rupees)	77.63
(iv)	Break up value of shares intended to be purchased on the basis of last published financial statements. (Rupees)	57.86
(v)	Price at which shares will be purchased. (Rupees)	Market Value
(vi)	Source of funds from where shares will be purchased.	Own Sources
	Period for which investment will be made.	Long Term

## Notice of Annual General Meeting

### B. Increase In Authorised Share Capital

1. The Board, at their meeting held on 29 December 2003, considered that:
  - (1) the present authorised share capital of the Company and its division into a sole category of ordinary shares is insufficient to meet the financing needs of the Company; and
  - (2) by virtue of the recent amendment in Section 90 of the Ordinance and the introduction of the Companies Share Capital (Variation in Rights and Privileges) Rules, 2000, the Company has been allowed to have different kinds and classes of share capital with different rights and privileges attached thereto.
2. In view of the above, the Board resolved unanimously to approve, and place before the shareholders at their general meeting for approval by special resolution, the proposed increase in the authorised share capital of the Company and the inclusion of preference shares in its capital structure, and the alterations of the Company's Memorandum and Articles of Association resulting from the same.
3. A black-lined copy of the proposed amendments to the Memorandum and Articles of Association of the Company is annexed hereto.

### C. Changes In Memorandum And Articles Of Association

1. The Board, at their meeting held on [29 December 2003], considered that due to the recent amendments in the Companies Ordinance, 1984 (the "Ordinance") through the Companies (Amendment) Ordinance, 2002, and the introduction of new company laws, including but not limited to the Central Depositories Act, 1997 and the rules made thereunder, the Code of Corporate Governance, the Electronic Transactions Ordinance, 2002, the Companies (Buy-Back of Shares) Rules, 1999, and the Companies Share Capital (Variation in Rights and Privileges) Rules, 2000, certain clauses in the Memorandum and Articles of Association of the Company need to be altered.
2. In view of the above, the Board resolved unanimously to approve, and place before the shareholders at their general meeting for approval by special resolution, the proposed amendments to Clause V of the Memorandum of Association and the Articles of Association of the Company so as to bring the Company's objects and its business in line with the new legal/regulatory requirements.
3. A black-lined copy of the proposed amendments to the Memorandum and Articles of Association of the Company is annexed hereto.

### D. Issue Of Preference Shares

1. The Board, at their meeting held on 29 December 2003, considered that:

## Notice of Annual General Meeting

- (a) the Company has been enabled by the recent amendment in Section 90 of the Ordinance and the introduction of the Companies Share Capital (Variation in Rights and Privileges) Rules, 2000 to issue / allot different kinds and classes of shares with different rights, restrictions and privileges attached thereto as per the altered Articles of Association of the Company; and
  - (b) the issue and subscription of preference shares of the Company can be utilised to meet the resource gap of Rs. 497,862,440 (Rupees four hundred ninety seven million eight hundred sixty two thousand four hundred forty only) arising due to repayment of its TFC I and TFC II of the Company.
2. In view of the above, subject to the prior approval of the Securities and Exchange Commission of Pakistan, the Board resolved unanimously to approve, and place before the shareholders at their general meeting for approval by special resolution, the issue of 49,786,244 (forty nine million seven hundred eighty six thousand two hundred forty four only) preference shares of Rs.10 (Rupees ten only) each as per the terms of the resolution.

The Directors of the Company have no interest in the special businesses and/ or special resolutions, save to the extent of their shareholding in the Company or that some of the Directors and their relatives are also directors in CSAPL.

A copy of the Memorandum and Articles of Association of the Company as on date and also indicating the proposed amendments is available for inspection at the registered office of the Company from 9.00 a.m. to 5.00 p.m. on any working day.



## Form Of Proxy

Folio No. \_\_\_\_\_ CDC Participant's I.D. No. \_\_\_\_\_ A/C No. \_\_\_\_\_

I/We \_\_\_\_\_ of \_\_\_\_\_  
 a member(s) of **Shakarganj Mills Limited**, and holder of \_\_\_\_\_ shares  
 do hereby appoint \_\_\_\_\_ of \_\_\_\_\_ or failing him/  
 her \_\_\_\_\_ of \_\_\_\_\_ who is also a member of  
 the company, vide Registered folio/CDC Participant I.D. No. \_\_\_\_\_ as my/our proxy to  
 attend, speak and vote for me/us and on my/our behalf at the 36<sup>th</sup> Annual General Meeting of  
**Shakarganj Mills Limited** to be held on Thursday, the January 29, 2004 at 11:00 a.m. at Pearl  
 Continental Hotel, Shahrah-e-Quaid-e-Azam, Lahore and at any adjournment thereof.

As witness my/our hand this \_\_\_\_\_ day of \_\_\_\_\_ 2004.

Signature on  
 Five Rupees  
 Revenue Stamp

Dated:  
 Place:

The signature should agree  
 with the specimen registered  
 with the Company

### Notes:

1. The Proxy Form should be deposited at our Registered Office, Unit # 6, Happy Homes, 38-A-3 Main Gulberg, Lahore, not less than 48 hours before the time of holding the meeting and in default, the Proxy Form will not be treated as valid.
2. No person shall act as proxy unless he/she is a member of the Company except a corporation being a member may appoint as its proxy any officer of such corporation whether a member of the Company or not.

Affix  
Correct  
Postage

The Company Secretary  
**Shakarganj Mills Limited**  
Unit # 6 Happy Homes,  
38-A-3 Main Gulberg,  
Lahore - Pakistan