Contents

Company Information

Board of Directors	Asghar D. Habib	*Chairman*
	Ali Raza D. Habib	
	Muhammad Nawaz Tishna	
	Murtaza H. Habib	
	Farouq Habib Rahimtoola	
	Amin Ali Abdul Hamid	
	Imran A. Habib	
	Raeesul Hasan	*Chief Executive*
Audit Committee	Ali Raza D. Habib	Chairman
	Amin Ali Abdul Hamid	Member
	Imran A. Habib	Member
Human Resource & Remuneration Committee	Ali Raza D. Habib	Chairman
	Muhammad Nawaz Tishna	Member
	Murtaza H. Habib	Member
	Amin Ali Abdul Hamid	Member
	Raeesul Hasan	Member

Company Secretary
Amir Bashir Ahmed

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4th Floor, Imperial Court,
Dr. Ziauddin Ahmed Road,
Karachi-75530
Phones : (+92-21) 35680036 - 5 Lines
Fax : (+92-21) 35684086
www : habib.com/sugar
E-mail : sugar@habib.com

Mills
Nawabshah
Phones : (+92-244) 360751 - 5 Lines
Fax : (+92-244) 361314

Bankers
Allied Bank of Pakistan Limited
Bank AL Habib Limited
Barclays Bank PLC, Pakistan
Citibank N.A.
First Women Bank Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
MCB Bank Limited
Meezan Bank Limited
National Bank of Pakistan
Standard Chartered Bank (Pakistan) Limited
United Bank Limited

Statutory Auditors
Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

Cost Auditors
Hyder Bhimji & Co.
Chartered Accountants

Share Registrar
THK Associates (Pvt.) Limited
2nd Floor, State Life Building-3,
Dr. Ziauddin Ahmed Road,
Karachi-75530
Phones : (+92-21) 111-000-322
Fax : (+92-21) 35655595
E-mail : secretariat@thk.com.pk
info@thk.com.pk
Website : www.thk.com.pk

VISION STATEMENT

We aim to be a leading manufacturer and supplier of quality sugar, ethanol, liquid carbon dioxide (CO_2) and household textiles in local and international markets. We aspire to be known for the quality of our products and intend to play a pivotal role in the economic and social development of Pakistan.

MISSION STATEMENT

As a prominent producer and supplier of sugar, ethanol, liquid carbon dioxide (CO_2) and household textiles, we shall continue to strive to achieve excellence in performance and aim to exceed the expectations of all stakeholders. We target to achieve technological advancements to inculcate the most efficient, ethical and time tested business practices in our management.

Code of Conduct

The founders of Habib Sugar Mills Limited were visionaries who established the company on very sound principles and envisioned its development and growth on the basis of making no compromises in any aspects of business practices. The company takes pride in adherence to its principles and continues to serve its customers, stakeholders and society based on the following guidelines :

Products

- To produce refined, high-grade sugar that is edible and hygienic and provides all the nutrition and food value at standards determined by the company, which would exceed industry norms and averages.
- To produce by-products and allied products including molasses, ethanol and liquid carbon dioxide (CO_2).
- To diversify into other products such as home textiles thus consuming indigenous raw material and generating export earnings.

Systems & Processes

- To regularly update and upgrade manufacturing systems and processes so as to keep abreast with technological advancements, achieve economies of production and transfer knowledge and skill to workers.
- To develop and maintain the technical and professional standards, standard operating procedures and stringent Quality Control measures with on-line quality assurance at every stage of manufacture.
- To continuously conduct product research and develop new products, while improving upon the existing products, using ideal additives and packaging material.
- To regularly maintain, replace and upgrade all machinery and equipment for smooth working, optimum output and ensure safe working in all production units.
- To maintain a smooth work-flow in all departments with an effective communication system contained within the framework of principles yet allowing the required degree of autonomy for efficient functioning.

Management & Employees

- To employ only the appropriately suited human resource through the selection and recruitment process based on the commensurate qualifications and experience criteria without any non-professional considerations, without any bias or prejudice of race, cast, colour, creed or religious beliefs.
- To ensure that all management personnel are adequately qualified to perform management functions as assigned.
- To guide, direct and motivate employees to perform functions and to recognize and reward employees based on their performance outputs.
- To measure employee's performance by a pre-determined criteria so as to be fair and equitable towards every single employee.
- To ensure that all employees work towards achievement of corporate objectives, individually and collectively as a team and conduct themselves at work and in society as respectable employees and responsible citizens.

- To regularly train all employees at all levels to improve their knowledge and skill and provide employees with a career path whereby they can seek a planned betterment in their professional and personal life.
- To ensure that all employees and management personnel strictly adhere to the company rules and regulations and observe the best codes of conduct and abide by all laws of Pakistan.
- To make timely payment of salaries, wages and all allowances and benefits to all employees in line with their terms.
- To ensure all directors and employees of the company shall undertake such activities, whether personal or professional, that in no way conflicts with the interests of the company but contributes towards the betterment, development and growth of the organization in particular and the industry in general.

Financial

- To implement an effective, transparent and secure financial reporting and internal control system so as to ensure compliance with regulatory factors as well as meet all obligations of payable and receivables and keep investors, shareholders and management fully aware.
- To ensure effective utilization of all company resources and plan and operate resource utilization in order to produce better results and generate better yields and facilitate timely decisions.
- To place a strict Internal Audit system to study, analyze, review and report all company earning and spending and enhance reliability of all financial information and build shareholders confidence.
- To regularly prepare, as per pre-determined schedules, all financial reports and present accounts to the board for review and analysis and show trends based on company income, revenues and expenses and industry trends.
- To ensure cost effectiveness and purchase goods and services based on developed criteria, vendor assessment and market competitiveness and evaluate options on prices, terms, products/services, substitute available, prior to purchase.
- To ensure timely and proper payments as per negotiated terms to all suppliers and deduct applicable taxes so as to enhance corporate credibility and image.
- To maintain an excellent relationship with bankers and utilize banking facilities in a manner to benefit company whilst making proper use of funding and facilities available and ensuring no defaults.

Adherence to Law

- The company shall at all times strictly adhere to all laws of the country and fulfill all statutory requirements and ensure timely, proper and full payment of all applicable taxes, rates, duties and/or any other levies as may be imposed from time to time.

Environment

- The company shall use all means to ensure a clean, safe, healthy and pollution free environment not only for its workers and employees but for the well being of all people who live in and around any of the production and manufacturing units and employ such technology as may be beneficial in maintaining a healthy and hygienic working and living environment.

Planning

- The company shall prepare an annual plan with clearly defined objectives, goals and strategies and implement those plans with a close watch on achievements and monitor and control measures shall be built in to ensure achievement of objectives and enhancement of corporate image.

Notice of Annual General Meeting

Notice is hereby given that the 51st Annual General Meeting of Habib Sugar Mills Limited will be held on Tuesday, January 29, 2013 at 11.00 a.m. at Moosa D. Desai Auditorium, the Institute of Chartered Accountants of Pakistan (ICAP), Chartered Accountants Avenue, Clifton, Karachi to transact the following business:

Ordinary Business

1. To receive and consider the audited financial statements, the Directors' report and the Auditors' report for the year ended September 30, 2012.

2. To approve payment of cash dividend @ 50% i.e. Rs. 2.50 per share of Rs. 5 each for the year ended September 30, 2012 as recommended by the Board of Directors.

3. To appoint auditors for the year ending September 30, 2013 and fix their remuneration.

By order of the Board

Amir Bashir Ahmed
Company Secretary

Karachi: December 26, 2012

Notes:

1. The Share Transfer Books of the Company will remain closed from Wednesday, January 16, 2013 to Tuesday, January 29, 2013, both days inclusive.

2. A member entitled to attend and vote at this meeting is entitled to appoint another member of the Company as a proxy to attend and vote on his / her behalf. Proxies in order to be effective must be received at the Registered Office of the Company duly stamped and signed at least 48 hours before the time of meeting.

3. For identification, CDC account holders should present the participant's National Identity Card, and CDC Account Number.

4. Members are requested to notify any change in their addresses and their contact numbers immediately to our Share Registrar, THK Associates (Pvt.) Limited, Karachi.

5. Members who have not yet submitted photocopy of their valid Computerized National Identity Card (CNIC) are requested to send the same to the Company / Registrar.

Six years' review at a glance

		2012	2011	2010	2009	2008	2007
Sugar Division							
Sugarcane crushed	M. Tons	851,620	800,636	681,623	780,578	1,264,619	710,965
Average sucrose recovery	%	10.78	9.87	10.24	9.87	9.73	9.00
Sugar produced	M. Tons	91,832	79,056	69,784	77,051	123,064	64,015
Raw sugar refined	M. Tons	–	4,885	–	–	–	2,989
Average sucrose recovery	%	–	94.35	–	–	–	95.70
Sugar produced	M. Tons	–	4,609	–	–	–	2,860
Total sugar produced	M. Tons	91,832	83,665	69,784	77,051	123,064	66,875
Distillery Division							
Ethanol							
Molasses processed	M. Tons	163,560	167,969	145,652	113,321	181,259	153,648
Average ethanol yield	%	17.92	17.45	18.00	19.18	19.64	19.27
Ethanol produced	M. Tons	29,307	29,303	26,210	21,739	35,607	29,608
Liquid Carbon dioxide (CO_2) produced	M. Tons	4,902	5,644	3,648	2,643	–	–
Textile Division							
Yarn / Semi finished goods consumed	Kgs.	780,469	491,138	356,648	543,218	934,696	696,647
Average yield	%	86.64	98.73	98.83	98.40	98.10	98.37
Finished product	Kgs.	676,185	484,885	352,490	534,526	916,937	685,287
Operating results – Consolidated							
Sales / Rental income	Rs. '000	7,096,467	7,467,944	5,919,338	4,584,186	4,175,804	2,838,960
Cost of sales	Rs. '000	5,847,461	6,201,551	4,960,283	3,720,221	3,440,978	2,468,787
Gross profit	Rs. '000	1,249,006	1,266,393	959,055	863,965	734,826	370,173
Profit before taxation	Rs. '000	981,150	1,050,016	759,535	654,816	503,747	256,213
Profit after taxation	Rs. '000	781,150	755,016	534,535	489,816	403,747	216,213
Shareholders' Equity							
Paid-up capital	Rs. '000	750,000	750,000	600,000	480,000	360,000	288,000
Reserves	Rs. '000	3,304,851	2,768,090	2,251,222	1,973,660	1,670,464	1,693,672
Shareholders' equity	Rs. '000	4,054,851	3,518,090	2,851,222	2,453,660	2,030,464	1,979,672
Break-up value per share	Rupees	27.03	23.45	23.76	25.56	28.20	34.37
Adjusted earnings per share	Rupees	5.21	5.03	3.56	3.27	2.69	1.44
Return on equity	%	19.26	21.46	18.75	19.96	19.88	10.92
Financial position - Assets							
Fixed assets	Rs. '000	771,839	795,194	817,860	834,424	790,841	680,445
Long–term investments	Rs. '000	2,001,263	923,856	695,432	555,710	555,721	801,364
Long–term loans and deposits	Rs. '000	7,207	9,807	6,808	6,955	6,832	7,953
Current assets	Rs. '000	2,497,320	2,287,890	1,915,962	2,409,420	2,001,089	1,449,674
Total assets	Rs. '000	5,277,629	4,016,747	3,436,062	3,806,509	3,354,483	2,939,436
Financial position - Liabilities							
Non-current liabilities	Rs. '000	81,500	81,500	86,500	87,500	86,500	66,500
Current liabilities	Rs '000	1,141,278	417,157	498,340	1,265,349	1,237,519	893,264
Total liabilities	Rs. '000	1,222,778	498,657	584,840	1,352,849	1,324,019	959,764
Ratios							
Current ratio		2.19	5.48	3.84	1.90	1.62	1.62
Dividends		Proposed					
Cash	%	50	50	25	35	25	20
Bonus shares	%	–	–	25	25	33.33	25

Directors' Report

Dear Members – Assalam-o-Alekum

On behalf of the Board of Directors and myself, I am pleased to welcome you all to the 51st Annual General Meeting of the Company and presenting before you the Annual Report and Audited Financial Statements of the Company for the year ended September 30, 2012.

By the Grace of Allah, during the year under review, the operations of your Company resulted in pre-tax profit of Rs. 981.150 million. The operating results and appropriations as recommended by the Board are given below:

	(Rupees in thousands)
Profit before taxation	981,150
Less: Taxation	200,000
Profit after taxation	781,150
Un-appropriated profit brought forward	8,257
Profit available for appropriation	789,407
Proposed – Cash dividend @ 50% i.e. Rs. 2.50 per ordinary share of Rs. 5 each	375,000
– Transfer to general reserve	410,000
	785,000
Un-appropriated profit carried forward	4,407
Earnings per share – Basic and diluted	Rs. 5.21

Performance Review

Alhamdolillah, the overall performance of the Company continued to be satisfactory during the year. The division-wise performance is as follows :

Sugar Division

Crushing operations 2011-12 commenced on December 8, 2011 and plant operated upto March 31, 2012 for 115 days as against 146 days in the preceding season. The start of crushing season was delayed due to heavy rains and floods, hence the crushing span was short as compared with the last crushing season.

Sugarcane crushed during the current season was 851,620 M. Tons with average sucrose recovery of 10.78% and sugar production of 91,832 M. Tons, as compared with crushing of 800,636 M. Tons with average sucrose recovery of 9.87% and sugar production of 79,056 M. Tons during the preceding season. By the Grace of Allah, the sucrose recovery of 10.78% achieved during the current crushing season was the highest ever since inception.

The Government of Sindh fixed the minimum support price of sugarcane at Rs.154 per 40 kgs for the crushing season 2011-12 as against Rs.127 per 40 kgs for the crushing season 2010-11.

During the year, the Government also allowed export of a total quantity of 300,000 M.Tons of sugar initially 100,000 M. Tons in March 2012 and 200,000 M. Tons in June 2012 and placed export quota restriction of 5,000 M.Tons per mill on first come first served basis under each permission. Your Company availed this opportunity and exported 8,900 M. Tons of sugar upto September 30, 2012.

The Company also participated in two tenders floated by Trading Corporation of Pakistan (TCP) and sold 8,610 M.Tons of sugar, out of which 966 M.Tons had been lifted upto September 30, 2012.

The comparative statistics of the division's operations are given below :

		2011-12	2010-11
Crushing duration	Days	115	146
Sugarcane crushed	M.Tons	851,620	800,636
Average sucrose recovery	%	10.78	9.87
Sugar production	M.Tons	91,832	79,056
Raw sugar processed	"	–	4,885
Average sucrose recovery	%	–	94.35
Sugar production	M.Tons	–	4,609
Total sugar production	"	91,832	83,665

During the year, the division earned operating profit of Rs.338.446 million as compared with profit of Rs.760.678 million during the previous year. The primary reason for decrease in profit was reduction in selling price of sugar.

The division's financial results were also subject to cost audit under the Companies (Audit of Cost Accounts) Rules, 1998 as in previous years. The cost audit was conducted by Messrs. Hyder Bhimji & Co., Chartered Accountants who were recommended for appointment by the Board and duly approved by the Securities & Exchange Commission of Pakistan. The cost audit has been completed and the Company has received the cost audit report. The report will also be submitted directly by the cost auditors to the Securities & Exchange Commission of Pakistan as required by the Companies (Audit of Cost Accounts) Rules, 1998.

Distillery Division

By the Grace of Allah, the distillery division continued its operations on satisfactory basis and the division earned operating profit of Rs.600.301 million as compared with profit of Rs.245.465 million during the previous year. The increase in profit was mainly due to improved prices of ethanol in the international market and prudent and vigilant molasses buying.

The liquid carbon dioxide (CO_2) unit also operated satisfactorily and earned operating profit of Rs.78.536 million as compared with Rs. 46.877 million during the previous year which is included in the profit of the distillery division.

The comparative statistics of the division's operations are given below:

		2011-12	2010-11
Ethanol			
Days of operation		321	338
Molasses processed	M.Tons	163,560	167,969
Ethanol production	"	29,307	29,303
Liquid Carbon dioxide (CO_2)			
Days of operation		268	319
Liquid Carbon dioxide (CO_2) production	M.Tons	4,902	5,644

Textile Division

The Textile division earned operating profit of Rs.8.588 million as compared with profit of Rs.3.071 million during the previous year. The increase in profit of the division was on account of better operational efficiencies.

The comparative statistics of the division's operations are given below :

		2011-12	2010-11
Days of operation		300	300
Yarn / Semi finished goods consumed	Kgs	780,469	491,138
Finished goods production	"	676,185	484,885

Trading Division

During the year under review, the division made operating profit of Rs.2.168 million on account of export of molasses.

Future Prospects

Sugar Division

The crushing season 2012-13 commenced on November 27, 2012 and upto December 25, 2012 total crushing was 213,431 M.Tons with average sucrose recovery of 9.97% and sugar production of 20,033 M.Tons including sugar in process.

The Government of Sindh fixed the minimum support price of sugarcane at Rs.172 per 40 kgs for the crushing season 2012-13 as against Rs. 154 per 40 kgs for the crushing season 2011-12. In addition, sugar mills in Sindh under the above notification are also required to pay quality premium at the rate of paisas fifty for every 0.1 percent recovery in excess of the benchmark of 8.7%. However, in accordance with the said notification while the matter is still pending with the Supreme Court of Pakistan and as per decisions of Federal Government Steering Committee meeting, the quality premium shall remain suspended till the decision of the Hon'ble Supreme Court or consensus on uniform formula is developed by the Ministry of Food and Agriculture (MINFA).

The regular increase in Minimum Support price has motivated farmers to bring additional area under cultivation and we, therefore, expect better availability of sugarcane during the crushing season 2012-13.

The coming year however, looks extremely difficult due to depressed prevailing sugar prices and division's profitability will largely depend on external factors, such as procurement of sugar by TCP for maintaining strategic stock reserves and export of surplus sugar. The management would however, do their utmost in terms of carrying out efficient operations.

Distillery Division

Upto December 25, 2012 the division has produced 3,834 M.Tons of ethanol and 891 M.Tons of liquid carbon dioxide (CO_2).

The price of molasses continues to remain firm. It is expected that production and recovery of ethanol will, Inshallah be maintained at around previous year's level. However, ethanol price in the international market has shown decline which is likely to affect the profitability of the division.

The liquid carbon dioxide (CO_2) unit is performing satisfactorily and keeping in view the increase in demand, the management has decided to enhance the existing capacity of the unit and it is expected that the same should materialized by April 2013.

Textile Division

The slump in the international market persist, however, our efforts continue to explore additional markets to improve sale volume and profitability.

Board and Management Committees

Audit Committee

The Audit Committee comprises of three members, two of whom are non-executive directors including the Chairman of the Committee. The Audit Committee met four times during the year. Attendance of meetings is as follows:

		No. of meetings attended
Mr. Ali Raza D. Habib	Chairman	3
“ Amin Ali Abdul Hamid	Member	4
“ Imran A. Habib	Member	4

HR and Remuneration Committee

The HR and Remuneration Committee comprises of five members, three of whom are non-executive directors including the Chairman of the Committee. The HR and Remuneration Committee met once during the year. Attendance of meeting is as follows:

		No. of meetings attended
Mr. Ali Raza D. Habib	Chairman	1
“ Muhammad Nawaz Tishna*	Member	-
“ Murtaza H. Habib*	Member	-
“ Amin Ali Abdul Hamid	Member	1
“ Raeesul Hasan	Member	1

* appointed on Oct 19, 2012

Corporate Social Responsibility

Habib Sugar Mills Corporate Social Responsibility (CSR) programme dates back since its inception in 1962. Responding to the needs of local communities, government bodies and civil society organizations, the Company’s CSR portfolio has widened over the years to include social welfare, education, healthcare, infrastructural development and livelihood generation.

Community Investment and Welfare Scheme

As a responsible corporate citizen, the Company on a regular basis has undertaken number of welfare activities viz., running of school upto secondary level, holding of eye camps, financial assistance to villagers in the surrounding area of the mills, installation of water filter plants in villages and town and supply of free ration and clothing to the needy.

During the year, the Company made substantial contribution towards the rain affectees of the surrounding areas by providing them with tents, ration packets and medicines etc.

The contribution of the Company in the social and economic uplift of the district has been acknowledged at all levels.

Environment

Company attaches utmost importance to provide healthy atmosphere to its employees and residents of Nawabshah and accordingly has taken appropriate steps to ensure pollution free environment involving substantial capital outlay.

The fly ash removal systems installed in the boilers of the mills continue to operate satisfactorily and the spread of black soot particles has been completely eliminated. Similarly, the installation of bio-gas plant and carbon dioxide recovery plant are the manifestation of our social responsibility which has helped us to reduce the greenhouse gases emission from our distillery operations. By the grace of Allah, the successful operations of these projects have ensured a pollution free environment for the people of Nawabshah.

The Company has installed a sugar factory waste water treatment plant to remove oil, grease, total suspended solids, from the waste water. The project has since been completed yielding satisfactory results. Similarly, complete brick lining of the lagoons and replacement of open drain channels with RCC piping have been done to avoid seepage thus not affecting the water table of the surrounding areas.

The existing anaerobic lagoons for treatment of industrial waste water are being replaced with aerobic treatment system. Further, technology proposed by Natural Power Company Limited, Thailand is under active consideration for the installation of Upflow Anaerobic Sludge Bed (UASB) system with energy recovery in the form of biogas and post aerobic treatment for wet land to improve the waste water to be used as a liquid fertilizer for sugarcane plantation.

Health, Safety and Security

The Company is fully committed to meet all standards in respect of health, safety and security. The Company also contributes on a regular basis towards the medical needs and assistance of the people in the surrounding areas, by giving donations to hospitals and welfare institutions for medical equipment and apparatus and facilities. During the year, the Company also provided blood bags for Thalassaemia Care Center, Nawabshah.

Employment of Special Persons

The Company has provided employment to physically handicapped persons in compliance with the Disabled Persons (Employment & Rehabilitation) Ordinance, 1981.

Industrial Relations

Harmonious working environment and cordial industrial relations atmosphere prevailed within the Company.

Contribution to the National Exchequer

Your Company contributed an amount of Rs.599.831 million to the Government treasury in the shape of taxes, levies, sales-tax and excise duty in addition to earning precious foreign exchange equivalent to Pak Rupees 3,155.341million (US$ 34.525 million) during the year under review from exports of ethanol, molasses and household textiles.

Auditors

The auditors Messrs. Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants, retire and being eligible have offered themselves for re-appointment.

The Audit Committee has recommended to consider the re-appointment of Messrs. Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants, as auditors of the Company for the ensuing year.

Statement on Corporate and Financial Reporting Framework

1. The financial statements, prepared by the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
2. Proper books of account of the Company have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of the financial statements. Changes, if any have been adequately disclosed and accounting estimates are based on reasonable and prudent judgement.

4. International Financal Reporing Standards, as applicable in Pakistan, have been followed in preparation of the financial statements and deviation there from if any, has been adequately disclosed.

5. The system of internal control is sound in design and has been effectively implemented and monitored regularly.

6. There are no significant doubts upon the Company's ability to continue as a going concern.

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

8. Key operating and financial data for last six years in summarized form is given on page 7.

9. Information about the taxes and levies is given in the notes to the financial statements.

10. Value of investments including profit accrued thereon and balances in deposit / current accounts of Provident Fund and Gratuity Fund as at September 30, 2012 were as follows :

	Rs.'000
Provident Fund	256,600
Gratuity Fund	76,073

11. During the year four board meetings were held and the attendance by each Director was as follows:

Name of Director	Number of meetings attended
Mr. Asghar D. Habib	3
" Ali Raza D. Habib	3
" Muhammad Nawaz Tishna	4
" Murtaza H. Habib	3
" Farouq Habib Rahimtoola	4
" Amin Ali Abdul Hamid	4
" Imran A. Habib	4
" Raeesul Hasan	4

12. The pattern of shareholding and additional information regarding pattern of shareholding is given on page 58 and 59.

13. The Directors, CEO, CFO, Company Secretary and their spouses and minor children did not carry out any trade in the shares of the Company.

General

The directors place on record their appreciation of the devoted services and hard work put in by the officers, staff and workers of the Company.

On behalf of the Board of Directors

Asghar D. Habib
Chairman

Karachi: December 26, 2012

Statement of Compliance with the best practices of Code of Corporate Governance

Year Ended September 30, 2012

This statement is being presented to comply with the requirements of the Code of Corporate Governance (CCG) contained in the listing regulations of the Karachi and Lahore Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance.

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

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of directors. At present the Board includes:

Category	Names
Executive Directors	Mr. Asghar D. Habib Mr. Murtaza H. Habib Mr. Imran A. Habib Mr. Raeesul Hasan
Non-Executive Directors	Mr. Ali Raza D. Habib* Mr. Muhammad Nawaz Tishna Mr. Farouq Habib Rahimtoola* Mr. Amin Ali Abdul Hamid*

   * The above persons were elected as “independent non-executive directors” on January 27, 2011 for a period of three years. However, according to the revised CCG, any person who has served on the board for more than three consecutive terms shall not be considered as an independent director provided that such person shall be deemed “independent director” after a lapse of one term. In compliance with revised CCG, above directors have been classified as non-executive directors.

2. The directors have confirmed that none of them is serving as a director in more than seven listed companies, including this Company.

3. All the directors of the Company are registered as taxpayers and none of them have defaulted in payment of any loan to a banking company, a Development Financial Institution or a Non-Banking Financial Institution or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. No casual vacancy occurred in the Board during the current year.

5. The Company has prepared a “Code of Conduct” and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures.

6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Company. Particulars of significant policies have been maintained and amended / updated from time to time.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executives directors, 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 atleast once in every quarter. Written notices of the Board meetings, along with agenda and working papers were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. Directors are well conversant with the listing regulations, legal requirements and operational imperatives of the company, and as such are fully aware of their duties and responsibilities. At present, one director has acquired the formal directors training certificate from the Pakistan Institute of Corporate Governance (PICG).

10. The Chief Financial Officer / Company Secretary and Head of Internal Audit were appointed on November 1, 2012. Their remuneration and terms and conditions of employment, as recommended by the Human Resource and Remuneration (HR&R) Committee have been approved by the Board.

11. The Directors' report has been prepared in compliance with the requirements of the CCG and it fully describes the salient matters required to be disclosed.

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

13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

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

15. The Board has formed an Audit Committee. It comprises of three members, of whom two are non-executive directors including the Chairman of the Committee.

16. The meetings of the audit committee were held atleast once in every quarter prior to the approval of the interim and final results of the Company as required by the CCG. The terms of reference of the Committee have been formed and advised to the Committee for compliance.

17. The Board has formed an HR and Remuneration Committee. It comprises of five members, of whom three are non-executive directors including the Chairman of the Committee. The terms of reference of the Committee have been formed and advised to the Committee for compliance.

18. The Board has set-up an effective internal audit department. The Internal audit team comprises of suitable and qualified persons who are fully conversant with the policies and procedures of the Company.

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

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

21. The 'closed period', prior to the announcement of interim / final results, and business decisions, which may materially affect the market price of Company's securities, was determined and intimated to the directors, employees and Stock Exchanges.

22. Material / price sensitive information has been disseminated amongst all market participants at once through Stock Exchanges.

23. All related party transactions have been placed before the audit committee and Board of Directors on a quarterly basis and have been approved by the Board of Directors to comply with the requirements of listing regulations of the Karachi and Lahore Stock Exchanges.

24. We confirm that all other material principles contained in the CCG have been complied with.

Karachi: December 26, 2012

Asghar D. Habib
Chairman

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

We have reviewed the Statement of Compliance (the Statement) with the best practices contained in the Code of Corporate Governance (the Code) for the year ended 30 September 2012 prepared by the Board of Directors of **Habib Sugar Mills Limited** (the Company) to comply with the Listing Regulation No. 35 Chapter XI of Karachi Stock Exchange (Guarantee) Limited and Listing Regulation No. 35 Chapter XI of Lahore Stock Exchange (Guarantee) Limited, where the Company is listed.

The responsibility for compliance with the Code 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 reflects the status of the Company's compliance with the provisions of the Code 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 systems to enable us to express an opinion as to whether the Board’s statement on internal control covers all controls and the effectiveness of such internal controls.

Further, Sub-Regulation (x) of Listing Regulation No. 35 requires the company to place before the board of directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm’s length transactions and transactions which are not executed at arm’s length price, recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the board of directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm’s length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement does not appropriately reflect the Company’s compliance, in all material respects, with the best practices contained in the Code for the year ended 30 September 2012.

Ernst & Young Ford Rhodes Sidat Hyder

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

Karachi: December 26, 2012

Auditors' Report to the Members

We have audited the annexed balance sheet of **Habib Sugar Mills Limited** as at 30 September 2012 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

(b) in our opinion:

- (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for changes as stated in note 2.4 to the accompanying financial statements, with which we concur;
- (ii) the expenditure incurred during the year was for the purpose of the Company's business; and
- (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;

(c) 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, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 September 2012 and of the profit, comprehensive income, its cash flows and changes in equity for the year then ended; and

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

Ernst & Young Ford Rhodes Sidat Hyder

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Audit Engagement Partner: Riaz A. Rehman Chamdia

Karachi: December 26, 2012

Balance Sheet as at September 30, 2012

	Note	2012	2011
		(Rupees in thousands)	
Assets			
Non-Current Assets			
Fixed assets			
Property, plant and equipment	3	771,839	795,194
Long-term investments	4	2,001,263	923,856
Long-term loans	5	4,259	6,859
Long-term deposits		2,948	2,948
Current Assets			
Stores and spare parts	6	89,561	76,762
Stock-in-trade	7	897,543	580,092
Trade debts	8	397,115	185,699
Loans and advances	9	450,573	194,111
Trade deposits and short-term prepayments	10	11,114	14,585
Other receivables	11	15,331	14,503
Cash and bank balances	12	636,083	1,222,138
		2,497,320	2,287,890
Total Assets		5,277,629	4,016,747
Equity and Liabilities			
Share Capital and Reserves			
Share Capital			
Authorised			
150,000,000 (2011: 150,000,000) Ordinary shares of Rs. 5 each		750,000	750,000
Issued, subscribed and paid-up capital	13	750,000	750,000
Reserves	14	2,614,407	2,208,257
Unrealised gain on long-term investments - available for sale		690,444	559,833
		3,304,851	2,768,090
		4,054,851	3,518,090
Non-Current Liabilities			
Deferred taxation	15	81,500	81,500
Current Liabilities			
Trade and other payables	16	599,898	345,626
Advance from customers		538,032	27,131
Provision for income tax - net	17	3,348	44,400
		1,141,278	417,157
Contingencies and Commitments	18		
Total Equity and Liabilities		5,277,629	4,016,747

The annexed notes 1 to 34 form an integral part of these financial statements.

Raeesul Hasan
Chief Executive

Murtaza H. Habib
Director

Profit and Loss Account
for the year ended September 30, 2012

	Note	2012	2011
		(Rupees in thousands)	
Net sales and services	19	7,096,467	7,467,944
Cost of sales	20	5,847,461	6,201,551
Gross Profit		1,249,006	1,266,393
Selling and distribution expenses	21	(180,002)	(153,401)
Administrative expenses	22	(119,501)	(103,778)
Other operating expenses	23	(77,487)	(79,034)
Other operating income	24	89,260	74,646
		(287,730)	(261,567)
Operating Profit		961,276	1,004,826
Finance income / (cost) - net	25	19,874	45,190
Profit before taxation		981,150	1,050,016
Taxation	26	(200,000)	(295,000)
Profit after taxation		781,150	755,016
Earnings per share - Basic and diluted (Rupees)	27	5.21	5.03

The annexed notes 1 to 34 form an integral part of these financial statements.

Raeesul Hasan
Chief Executive

Murtaza H. Habib
Director

Statement of Comprehensive Income
for the year ended September 30, 2012

	2012	2011
	(Rupees in thousands)	
Profit after taxation	781,150	755,016
Other comprehensive income		
Net gain on changes in fair values of long-term investments - available for sale	130,611	61,852
Total comprehensive income for the year	911,761	816,868

The annexed notes 1 to 34 form an integral part of these financial statements.

Raeesul Hasan
Chief Executive

Murtaza H. Habib
Director

Statement of Changes in Equity
for the year ended September 30, 2012

	Issued subsc-ribed and paid-up Capital	Reserves				Unrealised gain / (loss) on long-term investments available for sale	Total Equity
		Capital Reserve	General Reserve	Unappro-priated profit	Total Reserves		
	(Rupees in thousands)						
Balance as on October 1, 2010	600,000	34,000	1,181,000	538,241	1,753,241	497,981	2,851,222
Cash dividend for 2010 @ 25%	–	–	–	(150,000)	(150,000)	–	(150,000)
Issue of bonus shares for 2010 @ 25%	150,000	–	–	(150,000)	(150,000)	–	–
Transfer to general reserve	–	–	235,000	(235,000)	–	–	–
Total comprehensive income for the year ended September 30, 2011	–	–	–	755,016	755,016	61,852	816,868
Balance as on September 30, 2011	750,000	34,000	1,416,000	758,257	2,208,257	559,833	3,518,090
Cash dividend for 2011 @ 50%	–	–	–	(375,000)	(375,000)	–	(375,000)
Transfer to general reserve	–	–	375,000	(375,000)	–	–	–
Total comprehensive income for the year ended September 30, 2012	–	–	–	781,150	781,150	130,611	911,761
Balance as on September 30, 2012	750,000	34,000	1,791,000	789,407	2,614,407	690,444	4,054,851

The annexed notes 1 to 34 form an integral part of these financial statements.

Raeesul Hasan
Chief Executive

Murtaza H. Habib
Director

Cash Flow Statement
for the year ended September 30, 2012

	Note	2012	2011
		(Rupees in thousands)	
Cash flows from operating activities			
Cash generated from operations	28	938,468	518,022
Finance income received - net		19,874	45,190
Income tax paid		(241,052)	(284,531)
Long-term loans		2,600	(2,999)
Net cash generated from operating activities		719,890	275,682
Cash flows from investing activities			
Fixed capital expenditure		(58,109)	(115,740)
Redemption / sale proceeds of long-term investments		302,775	136,840
Dividend received		53,117	36,491
Purchase of long-term investments		(1,240,433)	(278,945)
Sale proceeds of fixed assets		5,409	8,606
Net cash used in investing activities		(937,241)	(212,748)
Cash flows from financing activities			
Dividend paid		(368,704)	(148,064)
Net cash used in financing activities		(368,704)	(148,064)
Net decrease in cash and cash equivalents		(586,055)	(85,130)
Cash and cash equivalents at the beginning of the year		1,222,138	1,307,268
Cash and cash equivalents at the end of the year	12	636,083	1,222,138

The annexed notes 1 to 34 form an integral part of these financial statements.

Raeesul Hasan
Chief Executive

Murtaza H. Habib
Director

Notes to the Financial Statements
for the year ended September 30, 2012

1. The Company and its operations

Habib Sugar Mills Limited is a public limited Company incorporated in Pakistan, with its shares quoted on the Karachi and Lahore Stock Exchanges. The Company is engaged in the manufacturing and marketing of refined sugar, molasses, ethanol, liquid carbon dioxide (CO_2), household textiles and providing bulk storage facilities.

2. Summary of significant accounting policies

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

2.2 Basis of preparation

These financial statements have been prepared under historical cost convention, except for long-term investments which have been recognised at fair value in accordance with the requirements of IAS-39 "Financial Instruments: Recognition and Measurement".

2.3 Significant accounting judgements and estimates

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Estimates and judgements are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In the process of applying the accounting policies, management has made the following estimates and judgements which are significant to the financial statements:

a) Determining the residual values and useful lives of property, plant and equipment (Note 2.7.1);
b) Classification of investments (Note 2.8);
c) Impairment of inventories / adjustment of inventories to their net realizable value (Note 2.10);
d) Accounting for staff retirement benefits (Note 2.13);
e) Recognition of taxation and deferred tax (Note 2.16); and
f) Impairment of financial assets (Note 2.17).

2.4 New and amended standards and interpretations which became effective

Following are the new and amended standards which are considered to be relevant and became effective as of October 1, 2011.

IFRS 7 Financial Instruments : Disclosures - Amendments enhancing disclosures about transfers of financial assets

IAS 24 Related Party Disclosures (Revised)

However, amendments in the above standards did not have any effect on the financial statements of the Company.

In addition to the above, following is the amended interpretation which is considered not to be relevant and became effective from October 1, 2011.

IFRIC 14 IAS-19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction (Amendment)

2.5 New and amended standards and interpretations that are not yet effective

Following are the new and amended standards that have been issued and are mandatory for the accounting periods effective from the dates mentioned below against the respective revised standards

Standards		**Effective date (accounting periods beginning on or after)**
IFRS 7	Financial Instruments : Disclosures - Amendments enhancing disclosures about offsetting of financial assets and financial liabilities	January 1, 2013
IAS 1	Presentation of Financial Statements - Amendments to revise the way other comprehensive income is presented	July 1, 2012
IAS 12	Income Tax (Amendment) - Deferred Tax : Recovery of Underlying Assets	January 1, 2012
IAS 19	Employee Benefits - Amended Standard resulting from the Post-Employment Benefits and Termination Benefits projects	January 1, 2013
IAS 32	Offsetting of financial assets and financial liabilities (Amendments)	January 1, 2014

The Company expects that the adoption of the above new and amended standards will not have any significant effect on the Company's financial statements in the period of initial application except the following:

IAS 19 - Employee Benefits (Revised) requires acturial gains and losses to be recognised in other comprehensive income as these occur. Further, amounts recorded in profit and loss account are limited to current and past service costs, gains or losses on settlements and net interest income (expense). Furthermore, all other changes in the net defined benefit asset (liability) are recognised in other comprehensive income with no subsequent recycling to profit and loss account.

In addition to the above, following new interpretation has been issued which is mandatory for accounting periods beginning on or after January 1, 2013 and is considered not to be relevant.

Interpretations	**Effective date (accounting periods beginning on or after)**
IFRIC 20 Stripping cost in the production phase of a surface mine	January 1, 2013

2.6 **Standards issued by IASB but not yet notified by SECP**

Following new standards have been issued by International Accounting Standards Board (IASB) which are yet to be notified by the Securities and Exchange Commission of Pakistan (SECP) for the purpose of applicability in Pakistan.

Standards		**Effective date (accounting periods beginning on or after)**
IFRS - 9	Financial Instruments: Classification and Measurement	January 1, 2015
IFRS - 10	Consolidated Financial Instruments	January 1, 2013
IFRS - 11	Joint Arrangements	January 1, 2013
IFRS - 12	Disclosure of Interest in Other Entities	January 1, 2013
IFRS - 13	Fair value Measurement	January 1, 2013

2.7 **Fixed assets**

2.7.1 **Property, plant and equipment**

These are stated at cost less accumulated depreciation / amortization / impairment (if any), except for freehold land and capital work-in-progress which are stated at cost.

Significant borrowing costs related to acquisition, construction and commissioning of a qualifying asset is capitalized.

Depreciation is charged to profit and loss account applying the reducing balance method. Depreciation on additions is charged from the month in which the asset is put to use and on disposals up to the month the asset is in use. Assets residual values and useful lives are reviewed, and adjusted, if appropriate at each balance sheet date.

Maintenance and normal repairs are charged to profit and loss account as and when incurred. Major renewals and improvements are capitalised. Gain or loss on disposal of assets is included in profit and loss account.

2.7.2 **Capital work-in-progress**

Capital work-in-progress, machinery in transit and advances to suppliers made in respect of fixed assets are stated at cost and are transferred to the respective assets when available for intended use.

Significant borrowing costs related to acquisition, construction and commissioning of a qualifying asset is capitalized.

2.8 **Long-term investments - Available for sale**

Investments are classified as available for sale. All investments are initially recognised at cost, being the fair value of the consideration given. Subsequent to initial recognition, these investments are re-measured at fair value (quoted market price).

Any gain or loss from a change in the fair value of investments available for sale is recognised directly in equity as unrealised, unless sold, collected or otherwise disposed off, or until the investment is determined to be impaired, at which time cumulative gain or loss previously taken to equity is released to the profit and loss account of the year.

2.9 Stores and spare parts

These are valued at the lower of moving average cost and net realisable value except for items in transit which are valued at actual cost. Provision is made for obsolescence and slow moving items.

2.10 Stock-in-trade

These are valued as follows :

Raw materials	At the lower of average cost and net realisable value
Work-in-process	At the lower of average cost and net realisable value
Finished goods	At the lower of average cost and net realisable value
Fertilizers	At the lower of cost on FIFO basis and net realisable value

2.11 Trade debts and other receivables

Trade debts are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Other receivables are carried at cost less estimates made for doubtful receivables.

An estimate for doubtful trade debts and other receivables is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

2.12 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise of cash in hand, with banks on current, savings, treasury call and deposit accounts, net of short term borrowings under mark-up arrangements, if any.

2.13 Staff retirement benefits

2.13.1 Staff gratuity

The Company operates an approved defined benefit gratuity scheme for all permanent employees. Minimum qualifying period for entitlement to gratuity is five years continuous service with the Company. The scheme is funded and contributions to the fund are made in accordance with the recommendations of the actuary.

The latest actuarial valuation of the gratuity scheme was carried out as at September 30, 2012. The projected unit credit method, using the following significant assumptions, have been used for actuarial valuation.

Discount rate	11.50% per annum
Expected rate of return on investments	11.50% per annum
Expected rate of increase in salaries	10.50% per annum

Based on the actuarial valuation of gratuity scheme as of September 30, 2012, the fair value of gratuity scheme assets and liabilities were Rs.76.073 million and Rs.76.033 million respectively. The Company recognises the total actuarial gains and losses in the year in which they arise. The amounts recognised in balance sheet are as follows:

	2012	2011
	(Rupees in thousands)	
Present value of defined benefit obligation	76,033	68,734
Fair value of plan assets	(76,073)	(68,369)
Net (asset) / liability recognised in the balance sheet	(40)	365

Movement in the net (asset) / liability recognised in the balance sheet is as follows:

Opening balance	365	(897)
Charge for the year	4,136	4,109
Contribution during the year	(4,541)	(2,847)
Closing balance	(40)	365

The following amounts have been charged in the profit and loss account for the year ended September 30, 2012 in respect of these benefits.

	2012	2011
	(Rupees in thousands)	
Current service cost	3,482	2,610
Interest cost	8,995	6,412
Expected return on plan assets	(8,442)	(6,990)
Actuarial loss recognised	101	2,077
Gratuity cost for the year ended September 30	4,136	4,109

Actual return on plan assets is Rs. 8.865 (2011: Rs. 7.886) million.

Amounts for the current period and previous four annual periods of the fair value of plan assets, present value of defined benefit obligation and surplus / (deficit) arising thereon are as follows:

As at September 30,	2012	2011	2010	2009	2008
			(Rupees in thousands)		
Present value of defined benefit obligation	76,033	68,734	59,586	50,343	41,369
Fair value of plan assets	(76,073)	(68,369)	(60,483)	(48,718)	(41,506)
(Surplus) / Deficit	(40)	365	(897)	1,625	(137)

2.13.2 Provident fund

The Company operates a recognised provident fund scheme for all its permanent employees. Equal contributions are made by the Company and the employees at the rate of 8.33% of basic salary plus applicable cost of living allowance.

2.13.3 Compensated absences

The Company provides for its estimated liability towards employees accumulated leaves on the basis of current salary.

2.14 Borrowings and their cost

Borrowings are recorded at the proceeds received.

Borrowing costs are recognised as an expense in the period in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction and commissioning of a qualifying asset. Such borrowing costs, if any, are capitalised as part of the cost of that asset.

2.15 Trade and other payables

Liabilities for trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

2.16 Taxation

2.16.1 Current

Provision for current taxation is computed in accordance with the provisions of the applicable Income Tax laws.

2.16.2 Deferred

Deferred tax is recognised using the balance sheet liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts appearing in the financial statements. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that the temporary differences will reverse in the future and taxable income will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantially enacted by the balance sheet date.

2.17 Impairment

The carrying amounts of the Company's assets are reviewed annually to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and impairment losses are recognised in the profit and loss account.

2.18 Provisions

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

2.19 Foreign currencies

Transactions in foreign currencies are translated into Pak Rupees which is the Company's functional and presentation currency, at the rates of exchange prevailing on the date of transactions. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the rates of exchange ruling on the balance sheet date.

Exchange gains and losses are included in profit and loss account.

2.20 Revenue recognition

Sales are recorded on despatch of goods to customers.
Income on investments is recorded when the right to receive is established.
Income / profit on bank treasury call and deposit accounts is recorded on accrual basis.
Storage income is recorded on accrual basis.

2.21 Segment reporting

Segment reporting is based on operating (business) segments of the company. These business segments are engaged in providing product or services which are subject to risks and rewards that are different from the risks and rewards of other segments.

2.22 Financial instruments

All the financial assets and financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised at the time when the Company looses control of the contractual rights that comprises the financial assets. All financial liabilities are derecognised at the time when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled, or expires. Any gains or losses on derecognition of financial assets and financial liabilities are taken to profit and loss account currently.

2.23 Offsetting

Financial assets and liabilities are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset or settle the liability simultaneously.

	Note	2012	2011
		(Rupees in thousands)	
3. Fixed Assets			
Property, plant and equipment			
Operating fixed assets	3.1	724,129	768,778
Capital work-in-progress	3.4	47,710	26,416
		771,839	795,194

3.1 Operating fixed assets for 2012:

	Cost / book value as at Oct. 1, 2011	Additions / (deletions)	Cost / book value as at Sept. 30, 2012	Accum-ulated deprec-iation as at Oct. 1, 2011	Depre-ciation / amortization charge for the year & accum-lated deprec-iation on deletions	Accum-ulated deprec-iation / amortization as at Sept. 30, 2012	Written down value as at Sept. 30, 2012	Annual rate of deprec-iation / amortiz-ation %
				(Rupees in thousands)				
Land								
Freehold - Sugar / Distillery division	10,984	–	10,984	–	–	–	10,984	–
Leasehold - Textile division	489	–	489	211	5	216	273	1.01
Buildings on freehold land								
Sugar division	77,214	–	77,214	50,495	2,672	53,167	24,047	10
Distillery division	21,243	–	21,243	14,467	677	15,144	6,099	10
Non-factory buildings	30,228	–	30,228	20,925	465	21,390	8,838	5
Buildings on leasehold land								
Textile division	19,335	–	19,335	14,625	471	15,096	4,239	10
Plant and machinery								
Sugar division	939,504	29,595	969,099	628,796	32,676	661,472	307,627	10
Distillery division - Note 3.1.1	600,326	–	600,326	292,602	30,772	323,374	276,952	10
Textile division	113,516	553	114,069	37,093	7,673	44,766	69,303	10
Railway siding - Sugar division	468	–	468	459	1	460	8	10
Electric, gas and water installations								
Sugar / Distillery division	8,808	–	8,808	7,892	92	7,984	824	10
Textile division	3,601	–	3,601	2,378	122	2,500	1,101	10
Furniture, fittings, electrical and office equipment								
Sugar / Distillery division	48,256	4,128 (298)	52,086	38,142	3,103 (285)	40,960	11,126	25
Textile division	8,924	328	9,252	8,194	202	8,396	856	25
Tractors / trolleys and agriculture implements								
Sugar division	2,765	–	2,765	2,579	37	2,616	149	20
Motor cars / vehicles								
Sugar / Distillery division	4,644	2,197 (4,194)	2,647	2,757	380 (2,111)	1,026	1,621	20
Textile division	665	14	679	577	20	597	82	20
Total	1,890,970	36,815 (4,492)	1,923,293	1,122,192	79,368 (2,396)	1,199,164	724,129	

3.1.1 Plant and machinery of Distillery division include storage tanks of the CO_2 unit having written down value of Rs. 25.64 (2011: Rs. 28.49) million installed at customers' premises.

3.1.2 Reconciliation of carrying values for 2012

	Written down value as at Oct. 1, 2011	Additions / (deletions)	Depreciation / amortization charge for the year	Written down value as at Sept. 30, 2012
	(Rupees in thousands)			
Land	11,262	–	5	11,257
Buildings on freehold land	42,798	–	3,814	38,984
Buildings on leasehold land	4,710	–	471	4,239
Plant and machinery	694,855	30,148	71,121	653,882
Railway siding	9	–	1	8
Electric, gas and water installations	2,139	–	214	1,925
Furniture, fittings, electrical and office equipment	10,844	4,456	3,305	11,982
		(298)	(285)	
Tractors / trolleys and agriculture implements	186	–	37	149
Motor cars / vehicles	1,975	2,211	400	1,703
		(4,194)	(2,111)	
	768,778	36,815	79,368	724,129
		(4,492)	(2,396)	

3.1.3 Operating fixed assets for 2011:

	Cost / book value as at Oct. 1, 2010	Additions / (deletions)	Cost / book value as at Sept. 30, 2011	Accum-ulated deprec-iation as at Oct. 1, 2010	Depre-ciation / amortization charge for the year & accum-lated deprec-iation on deletions	Accum-ulated deprec-iation / amortization as at Sept. 30, 2011	Written down value as at Sept. 30, 2011	Annual rate of deprec-iation / amortiz-ation %
	(Rupees in thousands)							
Land								
Freehold - Sugar / Distillery division	10,984	–	10,984	–	–	–	10,984	–
Leasehold - Textile division	489	–	489	206	5	211	278	1.01
Buildings on freehold land								
Sugar division	77,214	–	77,214	47,526	2,969	50,495	26,719	10
Distillery division	21,243	–	21,243	13,714	753	14,467	6,776	10
Non-factory buildings	30,228	–	30,228	20,435	490	20,925	9,303	5
Buildings on leasehold land								
Textile division	16,480	2,855	19,335	14,313	312	14,625	4,710	10
Plant and machinery								
Sugar division	934,852	4,957 (305)	939,504	594,581	34,268 (53)	628,796	310,708	10
Distillery division - Note 3.1.1	602,758	2,036 (4,468)	600,326	262,471	34,105 (3,974)	292,602	307,724	10
Textile division	44,330	69,186	113,516	33,576	3,517	37,093	76,423	10
Railway siding - Sugar division	468	–	468	458	1	459	9	10
Electric, gas and water installations								
Sugar / Distillery division	8,808	–	8,808	7,790	102	7,892	916	10
Textile division	2,766	835	3,601	2,304	74	2,378	1,223	10
Furniture, fittings, electrical and office equipment								
Sugar / Distillery division	43,128	7,629 (2,501)	48,256	37,943	2,214 (2,015)	38,142	10,114	25
Textile division	8,700	224	8,924	8,005	189	8,194	730	25
Tractors / trolleys and agriculture implements								
Sugar division	2,765	–	2,765	2,532	47	2,579	186	20
Motor cars / vehicles								
Sugar / Distillery division	3,488	2,822 (1,666)	4,644	2,449	491 (183)	2,757	1,887	20
Textile division	815	– (150)	665	704	22 (149)	577	88	20
Total	1,809,516	90,544 (9,090)	1,890,970	1,049,007	79,559 (6,374)	1,122,192	768,778	

3.1.4 Reconciliation of carrying values for 2011

	Written down value as at Oct. 1, 2010	Additions / (deletions)	Depreciation / amortization charge for the year	Written down value as at Sept. 30, 2011
		(Rupees in thousands)		
Land	11,267	–	5	11,262
Buildings on freehold land	47,010	–	4,212	42,798
Buildings on leasehold land	2,167	2,855	312	4,710
Plant and machinery	691,312	76,179	71,890	694,855
		(4,773)	(4,027)	
Railway siding	10	–	1	9
Electric, gas and water installations	1,480	835	176	2,139
Furniture, fittings, electrical and office equipment	5,880	7,853	2,403	10,844
		(2,501)	(2,015)	
Tractors / trolleys and agriculture implements	233	–	47	186
Motor cars / vehicles	1,150	2,822	513	1,975
		(1,816)	(332)	
	760,509	90,544	79,559	768,778
		(9,090)	(6,374)	

3.2 Allocation of depreciation / amortization charge for the year:

	Note	2012	2011
		(Rupees in thousands)	
Cost of Sales			
Sugar division	20	37,405	38,932
Distillery division	20	31,734	35,024
Textile division	20	8,272	3,909
		77,411	77,865
Administrative expenses			
Sugar division	22	1,413	1,154
Distillery division	22	121	99
Textile division	22	222	212
Terminal	19.1	201	229
		1,957	1,694
		79,368	79,559

3.3 Details of fixed assets disposed off:

	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain on disposal	Mode of disposal	Particulars of purchasers
	(Rupees in thousands)						
Furniture, fittings, electrical and office equipment							
Sugar / Distillery division							
Furniture & fittings	51	51	–	10	10	Negotiation	Employee at Nawabshah
Office equipment	140	135	5	7	2	"	SES Business Systems, 410 4th Floor, Trade Towers, Near Hotel Metropole, Abdulllah Haroon Road, Karachi.
"	107	99	8	15	7	"	Sammar Refrigeration Service Shop # 2, C-20, Block R,North Nazimabad, Karachi.
	298	285	13	32	19		
Motor cars / vehicles							
Sugar division							
Motor cars	1,732	–	1,732	1,905	173	Claim	M/s. Habib Insurance Company Ltd. M.A. Jinnah Road, Karachi.
"	1,975	1,912	63	600	537	"	M/s. Habib Insurance Company Ltd. M.A. Jinnah Road, Karachi.
"	49	39	10	310	300	Tender	M/s. Value Logistic, 6th Floor, Hussain Trade Centre, Altaf Hussain Road, I.I. Chundirgar Road, Karachi.
"	117	79	38	710	672	"	Mr. Imran s/o. Abdul Razzak, Khatija Manzil Plot # 1, Flat 201, Mihadar Old Town, Karachi.
"	11	5	6	810	804	"	Mrs. Mumtaz Faitma Farooqui H.No. 983, PIB Colony, Karachi.
"	4	1	3	175	172	"	Mr. Mohammad Ahmed, Flat # 102, Al-Zahra Pride, Garden East, Karachi.
Distillery division							
Motor Car	197	–	197	825	628	"	Mr. Amanullah s/o Gul Khan Darrah Pezu District Lucky Marwat.

	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain on disposal	Mode of disposal	Particulars of purchasers
			(Rupees in thousands)				
Motor Cycle	37	24	13	14	1	Tender	Mr. Tahir Ali Khan A-359 Yasinabad Block-9, F.B. Area, Karachi.
"	36	26	10	14	4	"	Syed Asad Abbas Quarter 43/1 Khairabad Lane, Malir Cant, Karachi.
"	36	25	11	14	3	"	Syed Ali Haider s/o Ali Gohar, B-49, LInes Area, Karachi.
	4,194	2,111	2,083	5,377	3,294		
2012	4,492	2,396	2,096	5,409	3,313		
2011	9,090	6,374	2,716	8,606	5,890		

	Note	2012	2011
		(Rupees in thousands)	
3.4 Capital work-in-progress			
Plant and machinery		26,662	26,416
Machinery in transit		15,830	–
Non-Factory Building		2,868	–
Advance to supplier		2,350	–
	3.4.1	47,710	26,416

3.4.1 Movement in capital work-in-progress

	2012	2011
Balance as on October 1,	26,416	57,351
Cost incurred during the year	50,889	32,190
	77,305	89,541
Transfer to operating fixed assets	(29,595)	(6,994)
Charged to profit and loss account under:		
Stores and spare parts consumed	–	(7,969)
Repairs and maintenance	–	(4,528)
Waste water treatment expenses	–	(43,634)
	–	(56,131)
	(29,595)	(63,125)
Balance as on September 30,	47,710	26,416

4. Long-term investments

Available for sale

Fully paid-up Ordinary Shares / Unit Certificates of Listed Companies / Mutual Funds are as follows:

Number of shares / units certificates 2011	2012	Face value Rs.	Company's / Fund's Name	2012 (Rupees in thousands)	2011 (Rupees in thousands)
4.1 Investments in related parties					
147,797	147,797	5	Balochistan Particle Board Limited	517	118
14,613,986	16,806,083	10	Bank AL Habib Limited	475,780	436,520
1,479,290	8,122,366	100	First Habib Cash Fund	813,335	152,352
3,900,926	4,291,018	5	Habib Insurance Company Limited	62,134	41,155
				1,351,766	630,145
4.2 Investments in other companies					
11,000	11,000	10	Adamjee Insurance Company Limited	715	589
56,178	56,178	10	Dawood Lawrencepur Limited	2,752	1,480
240,000	312,000	10	Engro Corporation Limited	33,312	34,414
179,257	268,885	10	Fauji Fertilizer Company Limited	30,053	29,022
514,000	514,000	5	First Habib Modaraba	3,701	3,850
632,337	632,337	10	Habib Metropolitan Bank Limited	11,097	11,572
983,566	3,954,661	100	HBL Money Market Fund	406,783	101,387
54,000	54,000	10	Honda Atlas Cars (Pakistan) Limited	756	492
206,000	206,000	10	International Industries Limited	7,721	8,248
62,756	69,031	10	MCB Bank Limited	12,842	10,874
25,000	25,000	10	Millat Tractor Limited	12,075	10,025
20,000	20,000	10	Packages Limited	2,344	2,040
19,650	19,650	10	Pak Suzuki Motor Company Limited	1,938	1,347
14,507	14,507	10	Pakistan Tobacco Company Limited	885	1,052
3,763,170	3,763,170	5	Shabbir Tiles and Ceramics Limited	35,750	26,342
71,683	75,267	10	Sui Northern Gas Pipelines Limited	1,556	1,433
539,018	646,821	5	Thal Limited	84,171	48,991
48,322	48,322	10	TPL Direct Insurance Limited	478	460
–	43,246	10	TPL Trakker Limited	386	–
50,000	50,000	10	TRG Pakistan Limited	182	93
				649,497	293,711
				2,001,263	923,856

4.3 The aggregate book value of the above long-term investments, net of impairment, is Rs.1,310.819 (2011: Rs.364.023) million.

4.4 The above long-term investments are stated at fair value. Unrealised gain of Rs.130.611 (2011: Rs.61.852) million arising from a change in the fair value of these long-term investments during the current year has been recognised directly in equity whereas impairment in the Ordinary shares of Rs.3.637 (2011: Nil) million has been charged to the profit and loss account.

	Note	2012	2011
		(Rupees in thousands)	
5. Long-term loans			
Secured - considered good			
Executives	5.1 & 5.2	362	7,034
Employees		12,519	15,914
	5.3	12,881	22,948
Receivable within next twelve months shown under current assets:			
Executives	9	(362)	(6,678)
Employees	9	(8,260)	(9,411)
		(8,622)	(16,089)
		4,259	6,859

5.1 The maximum aggregate amount due from executives at the end of any month during the year was Rs.6.94 (2011: Rs.7.11) million.

5.2 Movement of loans to executives during the year is as follows:

	2012	2011
	(Rupees in thousands)	
Balance as on October 1,	7,034	1,439
Disbursements	–	6,000
	7,034	7,439
Repayments	(6,672)	(405)
Balance as on September 30,	362	7,034

5.3 Long-term loans of Rs. 12.88 (2011: Rs.22.95) million, include loans of Rs.0.36 (2011: Rs.0.91) million and Rs.4.36 (2011: Rs.5.74) million to executives and workers respectively which carry no interest. The balance amount of loan carries interest ranging from 7% to 16% per annum.

	2012	2011
	(Rupees in thousands)	
6. Stores and spare parts		
Stores	65,993	57,007
Provision for obsolescence and slow moving stores	(9,500)	(9,500)
	56,493	47,507
Spare parts	52,860	49,047
Provision for obsolescence and slow moving spare parts	(19,792)	(19,792)
	33,068	29,255
	89,561	76,762

	Note	2012	2011
		(Rupees in thousands)	
7. Stock-in-trade			
Raw materials			
Distillery division		140,698	124,115
Textile division		13,039	14,338
		153,737	138,453
Work-in-process			
Sugar division		786	1,008
Textile division		31,975	11,048
		32,761	12,056
Finished goods			
Sugar division		601,377	237,382
Distillery division		107,989	191,450
Textile division		879	273
		710,245	429,105
Fertilizers		800	478
		897,543	580,092
8. Trade debts			
Considered good			
Export – Secured against export documents		203,138	109,291
Local – Unsecured		193,977	76,408
		397,115	185,699
8.1 The aging of trade debts at September 30 is as follows :			
Neither past due nor impaired		395,446	168,088
Past due but not impaired:			
within 90 days		1,176	17,114
91 to 180 days		–	–
over 180 days		493	497
		397,115	185,699
9. Loans and advances			
Considered good			
Current maturity of long-term loans			
Executives	5	362	6,678
Employees	5	8,260	9,411
		8,622	16,089
Advances			
Employees		14	65
Suppliers		441,937	177,957
		441,951	178,022
		450,573	194,111

	Note	2012	2011
		(Rupees in thousands)	

10. Trade deposits and short-term prepayments

Trade deposits		1,206	3,391
Short-term prepayments		9,908	11,194
		11,114	14,585

11. Other receivables

Duty drawback and research & development support claim		13,219	12,463
Others		2,112	2,040
		15,331	14,503

12. Cash and bank balances

Cash in hand		132	297
Balances with banks on:			
Current accounts		5,757	79,480
Treasury call accounts	12.1	630,194	492,361
Term deposits	12.2	–	650,000
	12.3	635,951	1,221,841
		636,083	1,222,138

12.1 Profit rates on treasury call accounts ranged between 9.00% to 11.00% (2011: 9.00% to 11.30%) per annum.

12.2 Profit rates on term deposits ranged between 10.50% to 12.00% (2011: 10.50% to 13.00%) per annum.

12.3 Includes Rs. 596.780 (2011: Rs. 773.604) million kept with Bank AL Habib Limited - a related party.

13. Issued, subscribed and paid-up capital

Number of shares		2012	2011
		(Rupees in thousands)	
10,136,700	(2011: 10,136,700) Ordinary shares of Rs. 5 each fully paid in cash	50,684	50,684
139,863,300	(2011: 139,863,300) Ordinary shares of Rs. 5 each issued as bonus shares	699,316	699,316
150,000,000		750,000	750,000

Issued, subscribed and paid-up capital of the Company includes 24,548,998 Ordinary shares of Rs. 5 each (2011: 24,561,835) held by related parties at the end of the year.

	Note	2012	2011
		(Rupees in thousands)	
14. Reserves			
Capital			
Share premium		34,000	34,000
Revenue			
General	14.1	1,791,000	1,416,000
Unappropriated profit		789,407	758,257
		2,614,407	2,208,257
14.1 At the beginning of the year		1,416,000	1,181,000
Transfer from unappropriated profit		375,000	235,000
		1,791,000	1,416,000
15. Deferred taxation			
Deferred tax liability on taxable temporary difference:			
Accelerated tax depreciation on operating fixed assets		90,000	90,000
Deferred tax asset on deductible temporary difference:			
Provision for obsolescence and slow moving stores and spare parts		(8,500)	(8,500)
		81,500	81,500
16. Trade and other payables			
Creditors		327,986	129,855
Accrued liabilities		129,156	70,830
Sales-tax / Ferderal excise duty		45,382	31,704
Workers' Profit Participation Fund	16.1	52,750	56,453
Workers' Welfare Fund		21,100	38,915
Income-tax deducted at source		405	1,046
Unclaimed dividends		23,119	16,823
		599,898	345,626
16.1 Workers' Profit Participation Fund			
Balance as at October 1,		56,453	40,835
Interest on funds utilized in the Company's business		1,230	501
		57,683	41,336
Amount paid to the Trustees		(57,683)	(41,336)
		–	–
Allocation for the year	23	52,750	56,453
Balance as on September 30,		52,750	56,453

		2012	2011
		(Rupees in thousands)	
17.	**Provision for income tax - net**	3,348	44,400

The return of income tax for the Tax year 2012 (financial year ended September 30, 2011) has been filed.

18. Contingencies and Commitments

18.1 Contingencies

18.1.1 The Company has provided counter guarantees to banks, aggregating to Rs.190.226 (2011: Rs.172.022) million against agriculture finance facilities to growers and guarantees issued by banks in favour of third parties on behalf of the Company.

18.1.2 During 2009-10, Company received show cause notice from Competition Commission of Pakistan (CCP) under the Competition Ordinance, 2009 for violation of certain provisions of the Ordinance. The Company alongwith other sugar mills filed Constitutional Petition before the Honourable High Court of Sindh challenging the Ordinance. The Honourable High Court of Sindh, granted stay and restrained the Commission not to pass final order in respect of the show cause notice. The CCP filed an appeal before the Honourable Supreme Court of Pakistan which was disposed off by the Honourable Supreme court based on the grounds that the matter was pending before the Honourable High Courts of Sindh and Punjab.

The Competition Ordinance of 2009 was repealed on March 25, 2010 and thereafter a new Ordinance, 2010 was promulgated which also stood repealed on August 15, 2010. The Parliament thereafter enacted the Competition Act, 2010 (ACT XIX of 2010). The Company filed amended application in view of the promulgation of the Competition Act 2010 which was accepted by the Honourable High Court of Sindh, with the consent of both the parties.

The petitions were last fixed for hearing on October 16, 2012 and adjourned to date in office. Since the financial impact is indeterminate no liability has been recorded in these financial statements.

18.1.3 During the year 2009-10 the Company alongwith other sugar mills filed a Constitutional Petition before the Honourable High Court of Sindh against Pakistan Standards and Quality Control Authority - PSQCA (the Authority) challenging the notifications issued in respect of registration of the Standard Mark for refined sugar manufactured and sold by the Company and charging of marking fee under PSQCA Act-VI of 1996. The Authority has demanded payment of marking fee at the rate of 0.1% of ex-factory price of sugar sold with effect from January 1, 2009. The Company is of the view that the demand raised is without any lawful authority under the PSQCA Act-VI of 1996 and is in violation of the Constitution.

The Honourable High Court of Sindh on December 4, 2012 decided the case in favour of the Company. No action has so far been taken by PSQCA against the Honourable Court's decision in favour of the Company.

18.1.4 Under the Gas Infrastructure Development Cess Act, 2011, the Government of Pakistan levied Gas Infrastructure Development (GID) Cess on gas bills at the rate of Rs.13 / MMBTU on all Industrial consumers. In the month of June 2012, the Federal Govt. revised GID Cess rate from Rs.13 / MMBTU to Rs.100 / MMBTU and recommended this increase under Section 8(3) of the OGRA Ordinance 2002.

In this respect, the Company filed a Suit before the Honorable High Court of Sindh, challenging the applicability of Gas Infrastructure Cess Act, 2011 along with increase in GID Cess as being illegal, void and not in congruence to the Constitution of the Islamic Republic of Pakistan, 1973. The Company further sought refund of all amounts paid to the Government in shape of cess from the date of imposition of same under the GID Cess Act, 2011.

On August 25, 2012, the suit came up for hearing and an ad-interim stay was granted in favour of the Company, restraining the Sui Southern Gas Company Limited from charging any amount of GID Cess over and above Rs.13 / MMBTU till the final decision of the case.

On September 7, 2012, the Federal Govt. issued another notification revising the rate of GID Cess from Rs.13 / MMBTU to Rs.50 / MMBTU and accordingly the prayer Clause of the suit also stands amended.

After the grant of the stay orders the matter has been fixed for hearing on various dates and was argued at length. The suit was lastly fixed on December 14, 2012 and was adjourned to December 26, 2012.

The financial exposure of the Company under the suit for the financial year ended September 30, 2012 is Rs.3.43 million. The Company is confident of a favourable outcome of the suit and accordingly no provision has been made in the financial statements for the above amount.

18.1.5 Appeals filed by the Tax authorities for the Tax years 1998, 2001 and 2002 (corresponding financial years ended September 30, 1997, 2000 and 2001 respectively) against decisions of the Income Tax Appellate Tribunal (ITAT), in favour of the Company are pending before the Honourable High Court of Sindh. The tax exposure against these appeals in aggregate amounts to Rs. 14.6 million. During the year, appeals were fixed for hearing on various dates and were adjourned to date in office. The Company is confident of a favourable out come and accordingly no provision for the aforesaid amount has been made in these financial statements.

	2012	2011
	(Rupees in thousands)	
18.2 Commitments		
18.2.1 Capital expenditure	109,869	2,572
18.2.2 Rentals under operating lease agreements with First Habib Modaraba in respect of vehicles, payable over the following next four years, are as follows:		
Year ending September 30		
2012	–	9,230
2013	10,798	6,765
2014	8,967	4,735
2015	5,640	1,013
2016	1,467	–
	26,872	21,743

19. Segment operating results and related information

(Rupees in thousands)

	Note	Sugar Division 2012	Sugar Division 2011	Distillery Division 2012	Distillery Division 2011	Textile Division 2012	Textile Division 2011	Trading Division 2012	Trading Division 2011	Total 2012	Total 2011
Net sales and services											
Local sales		3,973,689	5,443,948	242,696	387,671	1,745	–	–	–	4,218,130	5,831,619
Less: Sales tax / Special excise duty / Federal excise duty		272,840	336,992	29,105	54,369	241	–	–	–	302,186	391,361
Discount		–	–	345	573	–	–	–	–	345	573
		272,840	336,992	29,450	54,942	241	–	–	–	302,531	391,934
		3,700,849	5,106,956	213,246	332,729	1,504	–	–	–	3,915,599	5,439,685
Export sales		461,879	–	2,328,448	1,706,189	334,858	344,014	107,024	–	3,232,209	2,050,203
Less: Export duty, Freight and commission		–	–	13,273	6,079	22,484	16,057	15,894	–	51,651	22,136
		461,879	–	2,315,175	1,700,110	312,374	327,957	91,130	–	3,180,558	2,028,067
Net sales		4,162,728	5,106,956	2,528,421	2,032,839	313,878	327,957	91,130	–	7,096,157	7,467,752
Services											
Storage income - net	19.1	–	–	310	192	–	–	–	–	310	192
		4,162,728	5,106,956	2,528,731	2,033,031	313,878	327,957	91,130	–	7,096,467	7,467,944
Less: Cost of sales	20	3,669,275	4,204,982	1,801,706	1,686,057	288,740	310,512	87,740	–	5,847,461	6,201,551
Gross profit		493,453	901,974	727,025	346,974	25,138	17,445	3,390	–	1,249,006	1,266,393
Selling and distribution expenses	21	45,662	45,331	120,222	96,424	13,201	11,646	917	–	180,002	153,401
Administrative expenses	22	109,345	95,965	6,502	5,085	3,349	2,728	305	–	119,501	103,778
		155,007	141,296	126,724	101,509	16,550	14,374	1,222	–	299,503	257,179
Profit before other operating expenses and other operating income		338,446	760,678	600,301	245,465	8,588	3,071	2,168	–	949,503	1,009,214
Other operating expenses	23									(77,487)	(79,034)
Other operating income	24									89,260	74,646
Operating profit										961,276	1,004,826

- Sugar division is engaged in manufacturing of refined sugar and molasses.
- Distilery division is engaged in manufacturing of ethanol, liquid carbon dioxide (CO_2) and providing bulk storage facilities.
- Textile division is engaged in manufacturing of household textiles.
- Trading division is engaged in trading of sugar / molasses as and when opportunity occurs.

	Sugar Division		Distillery Division		Textile Division		Trading Division		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
19.1 Services - Storage income - net										
Terminal rental income	–	–	2,351	1,980	–	–	–	–	2,351	1,980
Less: Terminal expenses										
Salaries, wages and other benefits - note 19.2	–	–	839	719	–	–	–	–	839	719
Repairs and maintenance	–	–	179	169	–	–	–	–	179	169
Water, electricity and gas	–	–	111	99	–	–	–	–	111	99
Rent, rates and taxes	–	–	482	384	–	–	–	–	482	384
Depreciation	–	–	201	229	–	–	–	–	201	229
Travelling and vehicle running expenses	–	–	84	63	–	–	–	–	84	63
Insurance	–	–	38	41	–	–	–	–	38	41
Other expenses	–	–	107	84	–	–	–	–	107	84
	–	–	2,041	1,788	–	–	–	–	2,041	1,788
	–	–	310	192	–	–	–	–	310	192

19.2 Salaries, wages and other benefits include a sum of Rs. 0.10 (2011: Rs. 0.09) million in respect of staff retirement benefits.

19.3 Company accounts for inter-segment revenue / transfers at arm's length.

(Rupees in thousands)

20. Cost of sales

	Sugar Division		Distillery Division		Textile Division		Trading Division		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Opening stock of raw material	–	–	124,115	171,169	14,338	429	–	–	138,453	171,598
Purchases	3,701,770	4,089,633	1,407,589	1,438,892	211,133	44,065	–	–	5,320,492	5,572,590
	3,701,770	4,089,633	1,531,704	1,610,061	225,471	44,494	–	–	5,458,945	5,744,188
Closing stock of raw material	–	–	(140,698)	(124,115)	(13,039)	(14,338)	–	–	(153,737)	(138,453)
Raw material consumed	3,701,770	4,089,633	1,391,006	1,485,946	212,432	30,156	–	–	5,305,208	5,605,735
Semi finished goods purchased	–	–	–	–	–	198,757	–	–	–	198,757
	3,701,770	4,089,633	1,391,006	1,485,946	212,432	228,913	–	–	5,305,208	5,804,492
Salaries, wages and other benefits - note 20.1	167,943	142,151	44,764	37,243	9,912	6,573	–	–	222,619	185,967
Research and development expenses	2,155	2,073	–	–	–	–	–	–	2,155	2,073
Process chemicals	34,519	28,165	23,311	24,965	–	–	–	–	57,830	53,130
Packing material	47,088	40,045	–	–	12,149	4,165	–	–	59,237	44,210
Dyeing, weaving and other charges	–	–	–	–	45,986	3,327	–	–	45,986	3,327
Stores and spare parts consumed	52,036	48,896	17,127	16,276	–	–	–	–	69,163	65,172
Rent, rates, taxes and lease rentals	10,068	7,927	6,704	5,650	100	338	–	–	16,872	13,915
Water, fuel and power	48,736	58,207	153,240	118,294	19,314	6,768	–	–	221,290	183,269
Repairs and maintenance	110,181	117,016	37,853	21,769	2,031	1,577	–	–	150,065	140,362
Waste water treatment expenses	–	48,945	–	–	–	–	–	–	–	48,945
Repairs / reconstruction of roads and cane yard	56,378	–	–	–	–	–	–	–	56,378	–
Legal and professional charges	4,695	2,611	–	–	–	–	–	–	4,695	2,611
Insurance	6,238	6,275	5,709	5,634	705	250	–	–	12,652	12,159
Postage, telephone and stationery	3,318	2,545	–	–	–	–	–	–	3,318	2,545
Depreciation / amortization	37,405	38,932	31,734	35,024	8,272	3,909	–	–	77,411	77,865
Other manufacturing expenses	17,194	17,345	6,797	5,503	399	519	–	–	24,390	23,367
Duty drawback and research & development support claim	–	–	–	–	(4,829)	(10,379)	–	–	(4,829)	(10,379)
Bagasse sale	(9,673)	(13,915)	–	–	–	–	–	–	(9,673)	(13,915)
Molasses transfer to distillery division	(257,003)	(208,019)	–	–	–	–	–	–	(257,003)	(208,019)
	331,278	339,199	327,239	270,358	94,039	17,047	–	–	752,556	626,604
Manufacturing cost	4,033,048	4,428,832	1,718,245	1,756,304	306,471	245,960	–	–	6,057,764	6,431,096
Opening stock of work-in-process	1,008	890	–	–	11,048	8,801	–	–	12,056	9,691
Closing stock of work-in-process	(786)	(1,008)	–	–	(31,975)	(11,048)	–	–	(32,761)	(12,056)
	222	(118)	–	–	(20,927)	(2,247)	–	–	(20,705)	(2,365)
Cost of goods manufactured	4,033,270	4,428,714	1,718,245	1,756,304	285,544	243,713	–	–	6,037,059	6,428,731
Opening stock of finished goods	237,382	13,650	191,450	121,203	273	1,950	–	–	429,105	136,803
Purchases	–	–	–	–	3,802	65,122	87,740	–	91,542	65,122
Closing stock of finished goods	(601,377)	(237,382)	(107,989)	(191,450)	(879)	(273)	–	–	(710,245)	(429,105)
	(363,995)	(223,732)	83,461	(70,247)	3,196	66,799	87,740	–	(189,598)	(227,180)
	3,669,275	4,204,982	1,801,706	1,686,057	288,740	310,512	87,740	–	5,847,461	6,201,551

20.1 Salaries, wages and other benefits include a sum of Rs. 8.1 (2011: Rs. 7.7) million in respect of staff retirement benefits.

(Rupees in thousands)

	Sugar Division		Distillery Division		Textile Division		Trading Division		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
21. Selling and distribution expenses										
Salaries, wages and other benefits - note 21.1	6,428	5,424	2,284	1,760	3,318	2,744	–	–	12,030	9,928
Insurance	4,148	2,671	3,032	1,958	–	–	–	–	7,180	4,629
Rent, rates, taxes and lease rentals	1,178	554	789	697	–	–	–	–	1,967	1,251
Transport, freight, handling and forwarding expenses	33,908	36,682	108,615	84,343	4,708	4,197	917	–	148,148	125,222
Other expenses	–	–	5,502	7,666	5,175	4,705	–	–	10,677	12,371
	45,662	45,331	120,222	96,424	13,201	11,646	917	–	180,002	153,401

21.1 Salaries, wages and other benefits include a sum of Rs. 0.55 (2011: Rs. 0.42) million in respect of staff retirement benefits.

22. Administrative expenses

	Sugar Division 2012	Sugar Division 2011	Distillery Division 2012	Distillery Division 2011	Textile Division 2012	Textile Division 2011	Trading Division 2012	Trading Division 2011	Total 2012	Total 2011
Salaries, wages and other benefits - note 22.1	63,959	53,985	2,284	1,760	1,691	1,283	227	–	68,161	57,028
Insurance	1,520	1,477	69	74	–	–	–	–	1,589	1,551
Repairs and maintenance	1,175	1,851	296	310	267	225	–	–	1,738	2,386
Postage, telephone and stationery	4,757	3,889	569	425	158	83	–	–	5,484	4,397
Travelling and vehicle running expenses	12,810	10,699	451	326	307	206	–	–	13,568	11,231
Rent, rates, taxes and lease rentals	4,818	5,085	1,264	969	–	–	–	–	6,082	6,054
Water, electricity and gas	2,784	3,212	183	182	56	193	–	–	3,023	3,587
Fees, subscription and periodicals	970	2,076	9	20	53	73	–	–	1,032	2,169
Legal and professional charges	1,532	1,248	511	444	24	39	–	–	2,067	1,731
Directors' meeting fee	30	32	–	–	–	–	–	–	30	32
Depreciation	1,413	1,154	121	99	222	212	–	–	1,756	1,465
Auditors' remuneration - note 22.2	1,255	1,171	609	369	76	60	22	–	1,962	1,600
Other expenses - note 22.3	12,322	10,086	136	107	495	354	56	–	13,009	10,547
	109,345	95,965	6,502	5,085	3,349	2,728	305	–	119,501	103,778

22.1 Salaries, wages and other benefits include a sum of Rs. 2.81 (2011: Rs. 2.37) million in respect of staff retirement benefits.

22.2 Auditors' remuneration

	Sugar Division 2012	Sugar Division 2011	Distillery Division 2012	Distillery Division 2011	Textile Division 2012	Textile Division 2011	Trading Division 2012	Trading Division 2011	Total 2012	Total 2011
Annual audit fee	550	513	250	204	38	33	12	–	850	750
Half yearly review fee	140	137	50	54	10	9	–	–	200	200
Cost audit fee	200	200	–	–	–	–	–	–	200	200
Tax / other services	235	188	250	75	20	12	8	–	513	275
Out of pocket expenses	130	133	59	36	8	6	2	–	199	175
	1,255	1,171	609	369	76	60	22	–	1,962	1,600

22.3 Sugar division's other expenses include donation of Rs.5.5 (2011: Rs. 4.0) million as per details below:

Name of Institution	2012 (Rupees in thousands)	2011 (Rupees in thousands)
Al-Sayyeda Benevolent Trust	910	910
Habib Education Trust	840	840
Rehmat Bai Widows & Orphange Trust	500	500
Habib Medical Trust	840	840
Habib Poor Fund	910	910
Family Education Service Foundation	1,500	–
	5,500	4,000

None of the Directors or their spouses had any interest in the above donee's fund, except for Habib Education Trust, where Mr. Imran A. Habib, Director of the Company is a Trustee.

22.4 Information on assets, liabilities and capital expenditure by segment is as follows:

(Rupees in thousands)

	Sugar Division		Distillery Division		Textile Division		Trading Division		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
22.4.1 Segment assets	1,180,521	753,584	1,161,621	939,421	219,798	175,362	3,434	–	2,565,374	1,868,367
Unallocated assets									2,712,255	2,148,380
									5,277,629	4,016,747
22.4.2 Segment liabilities	1,013,465	316,963	81,859	57,914	40,932	17,454	235	–	1,136,491	392,331
Unallocated liabilities									86,287	106,326
									1,222,778	498,657
22.4.3 Capital expenditure	40,683	40,828	927	2,036	16,499	72,876	–	–	58,109	115,740

	Note	2012	2011
		(Rupees in thousands)	
23. Other operating expenses			
Workers' Profit Participation Fund	16.1	52,750	56,453
Workers' Welfare Fund		21,100	22,581
Impairment in the value of long-term investments		3,637	–
		77,487	79,034
24. Other operating income			
Income from financial assets			
Profit on redemption / sale of long-term investments	24.1	12,775	24,467
Dividend income	24.2	53,229	37,416
Exchange gain		16,978	4,639
		82,982	66,522
Income from non financial assets			
Gain on disposal of fixed assets		3,313	5,890
Agricultural income		146	350
Scrap sale		2,819	1,884
		6,278	8,124
		89,260	74,646

24.1 Profit on redemption / sale of long-term investments includes profit of Rs.7.45 (2011: Rs.5.42) million on redemption of units of First Habib Cash / Income Fund, managed by a related party, Habib Asset Management Limited.

24.2 Dividend income includes dividend received from the following related parties:

	2012	2011
	(Rupees in thousands)	
Bank AL Habib Limited	36,535	24,357
Habib Insurance Company Limited	4,876	4,334
	41,411	28,691

In addition to cash dividend, the Company received 2,192,097 (2011: 2,435,664) ordinary shares of Rs.10/- each, 390,092 (2011: 433,436) ordinary shares of Rs.5/- each as bonus shares and 241,960 (2011: 48,110) units of Rs. 100 each as bonus units from Bank AL Habib Limited, Habib Insurance Company Limited and First Habib Cash / Income Fund, respectively.

	2012	2011
	(Rupees in thousands)	
25. Finance income / (cost) - net		
Profit on treasury call accounts	33,302	50,829
Interest on loan to employees	1,287	787
Profit on term deposits	41,146	38,954
	75,735	90,570
Less: Mark-up / interest on:		
Short-term borrowings	(44,784)	(36,102)
Workers' Profit Participation Fund	(1,230)	(501)
Bank charges	(9,847)	(8,777)
	(55,861)	(45,380)
	19,874	45,190

The facilities for short-term borrowings from various commercial banks amounted to Rs.1,930 (2011: Rs.2,175) million.

These facilities are secured by way of registered charge against hypothecation of stock-in-trade, stores and spares, assignment of trade debts and other receivables. The rate of mark-up during the year was 11.00% to 14.14% (2011: 10.00% to 15.21%) per annum.

	2012	2011
	(Rupees in thousands)	

26. Taxation

	2012	2011
Income tax - current	200,000	300,000
Deferred tax	–	(5,000)
	200,000	295,000

26.1 Reconciliation of tax charge for the year

	2012	2011
Accounting profit	981,150	1,050,016
Corporate tax rate	35%	35%
Tax on accounting profit at applicable rate	343,403	367,506
Tax effect of timing differences	(763)	215
Tax effect of lower tax rates on certain income	(169,423)	(74,899)
Tax effect of income exempt from tax	(51)	(8,454)
Tax effect of expenses that are inadmissible in determining taxable income	26,834	10,632
	(143,403)	(72,506)
Provision for taxation	200,000	295,000

27. Earnings per share - Basic and diluted

	2012	2011
Profit after taxation	781,150	755,016
	Number of shares	
Number of ordinary shares of Rs. 5 each	150,000,000	150,000,000
Earnings per share - basic and diluted	Rs. 5.21	Rs. 5.03

	2012	2011
	(Rupees in thousands)	

28. Cash generated from operations

	2012	2011
Profit before taxation	981,150	1,050,016
Adjustment for non-cash charges and other items		
Depreciation	79,368	79,559
Gain on disposal of fixed assets	(3,313)	(5,890)
Profit on redemption / sale of long-term investments	(12,775)	(24,467)
Impairment on long-term investments	3,637	–
Finance (income) / cost - net	(19,874)	(45,190)
Dividend income	(53,229)	(37,416)
Amount charged to profit and loss account from capital work-in-progress - note 3.4.1	–	56,131
Working capital changes - note 28.1	(36,496)	(554,721)
	938,468	518,022

28.1 Working capital changes

	2012	2011
(Increase) / decrease in current assets		
Stores and spare parts	(12,799)	(7,980)
Stock-in-trade	(317,451)	(260,716)
Trade debts	(211,416)	(71,521)
Loans and advances	(256,462)	(135,370)
Trade deposits and short-term prepayments	3,471	(5,814)
Sales tax and excise duty adjustable	–	32,631
Other receivables	(716)	(7,363)
	(795,373)	(456,133)
Increase / (decrease) in current liabilities		
Trade and other payables	247,976	(86,784)
Advance from customers	510,901	(11,804)
	758,877	(98,588)
Net changes in working capital	(36,496)	(554,721)

29. Remuneration of Chief Executive, Directors and Executives

	2012				2011			
	Chief Executive	Directors	Executives	Total	Chief Executive	Directors	Executives	Total
	(Rupees in thousands)							
Managerial remuneration	6,840	19,800	51,722	78,362	6,460	18,176	42,015	66,651
Perquisites								
Telephone	37	379	366	782	42	361	351	754
Medical	477	312	975	1,764	167	391	729	1,287
Utilities	–	1,270	–	1,270	–	1,124	–	1,124
Entertainment	–	371	–	371	–	360	–	360
Retirement benefits	552	1,654	3,683	5,889	538	1,566	3,492	5,596
	7,906	23,786	56,746	88,438	7,207	21,978	46,587	75,772
Number of persons	1	3	27	31	1	3	25	29

29.1 Chief Executive, Directors and certain Executives are also provided with the Company maintained cars.

29.2 Aggregate amount charged in these financial statements in respect of directors' meeting fee paid to Non-Executive Directors amounts to Rs.30 (2011: Rs. 32) thousand for four Directors.

30 Financial Risk Management Objectives and Policies

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, foreign currency risk and equity price risk. The Board of Directors reviews and decides policies for managing each of these risks which are summarised below.

30.1 Credit risk

Credit risk is the risk which arises with the possibility that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the credit worthiness of counterparties.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

The Company is exposed to credit risk on long-term investments, loans, advances, deposits, trade debts, other receivables and bank balances. The Company seeks to minimize the credit risk exposure through having exposures only to customers considered credit worthy and obtaining securities where applicable. The maximum exposure to credit risk at the reporting date is as follows:

	Carrying Values 2012 (Rupees in thousands)	Carrying Values 2011 (Rupees in thousands)
Long-term investments	2,001,263	923,856
Long-term loans	4,259	6,859
Long-term deposits	2,948	2,948
Trade debts	397,115	185,699
Loans and advances	450,573	194,111
Trade deposits	1,206	3,391
Other receivables	15,331	14,503
Bank balances	635,951	1,221,841
	3,508,646	2,553,208

Quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings or the historical information about counterparty default rates as shown below:

		Carrying Values 2012 (Rupees in thousands)	Carrying Values 2011 (Rupees in thousands)
30.1.1	**Trade debts**		
	Customers with no defaults in the past one year	389,206	154,423
	Customers with some defaults in past one year which have been fully recovered	6,240	13,665
	Customers with defaults in past one year which have not yet been recovered	–	–
		395,446	168,088
30.1.2	**Long-term Investments**		
	Long-term Rating		
	AA+	503,420	462,816
	AA+(f)	–	253,738
	AA (f)	1,220,118	–
	AA	4,615	4,063
	AA-	–	34,413
	A+	62,134	41,155
	A	33,312	–
	A-	864	461
	Estimated credit rating not available	176,800	127,210
		2,001,263	923,856
	Short-term Rating		
	A1+	507,320	567,676
	A1	33,312	34,413
	A2	386	–
	Estimated credit rating not available	1,460,245	321,767
		2,001,263	923,856
30.1.3	**Bank Balances**		
	A1+	634,564	1,221,734
	A1	295	45
	P1	167	–
	A2	925	62
		635,951	1,221,841

30.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company applies the prudent risk management policies by maintaining sufficient cash and bank balances and by keeping committed credit lines. The table below summarises the maturity profile of the Company's financial liabilities at the following reporting dates:

Year ended September 30, 2012	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
			(Rupees in thousands)			
Trade and other payables	–	219,928	379,970	–	–	599,898
Advance from customers	–	185,556	352,476	–	–	538,032

Year ended September 30, 2011	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
			(Rupees in thousands)			
Trade and other payables	–	165,984	179,642	–	–	345,626
Advance from customers	–	27,131	–	–	–	27,131

30.3 Foreign currency risk

Foreign currency risk is the risk that the value of financial assets or a financial liability will fluctuate due to change in foreign exchange rates. It arises mainly where receivables and payables exist due to transactions in foreign currency. The Company's exposure to foreign currency risk is as follows:

		2012	2011
		(Respective Currency)	
Trade debts	$	2,095,550	1,144,987
“	£	29,064	67,476
Trade and other payables	$	60,631	162,998
“	£	2,034	1,206

The following significant exchange rates have been applied at the reporting dates:

			2012	2011
Exchange rates	buying	$	94.80	87.42
	selling	$	95.00	87.62
	buying	£	154.12	136.29
	selling	£	154.45	136.60

The foreign currency exposure is partly covered as the outstanding balance at the year end is determined in respective currency which is converted into rupees at the exchange rate prevailing at the balance sheet date.

Sensitivity analysis:

The following table demonstrates the sensitivity of the Company's profit before tax and the Company's equity to a reasonably possible change in the foreign currency exchange rate, with all other variables held constant.

	Change in Foreign Currency rate (%)	Effect on profit	Effect on equity
		(Rupees in thousands)	
September 30, 2012	+10	19,706	19,509
	-10	(19,706)	(19,509)
September 30, 2011	+10	9,484	9,390
	-10	(9,484)	(9,390)

30.4 Equity price risk

The Company's equity securities are susceptible to market price risk arising from uncertainties about future values of investment securities. The Company manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Company's senior management on a regular basis. The Company's Board Investment Committee reviews and approves policy decisions.

At the balance sheet date, the exposure to equity securities held as available for sale was Rs.2,001.263 (2011: Rs.923.856) million.

30.5 Capital risk management

The primary objective of the Company's capital management is to ensure ample availability of finance for its existing and potential investment projects, to maximise shareholder value and reduce the cost of capital.

The Company manages its capital structure and makes adjustment to it, in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The gearing ratio of the Company is Nil (2011: Nil) and the Company finances its investments portfolio through management of its working capital and equity with a view to maintaining an appropriate mix between various sources of finance to minimise risk.

30.6 Fair value of financial instruments

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

Financial assets which are tradeable in an open market are revalued at the market prices prevailing on the balance sheet date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from book value.

The following shows financial instruments recognized at fair value, analysed between those whose fair value is based on:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

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

As at September 30, 2012, the Company had only Long-term investments measured at fair value using Level 1 valuation techniques.

During the year ended September 30, 2012, there were no transfers between level 1 and level 2 fair value measurements, and no transfers into and out of level 3 fair value measurement.

31. Capacity and production

		2012			2011		
		Quantity		Working days	Quantity		Working days
31.1	**Sugar division**						
	Crushing capacity	7,000	M.Tons	Per Day	7,000	M. Tons	Per Day
	Capacity based on actual working days	805,000	M. Tons	115	1,022,000	M. Tons	146
	Actual crushing	851,620	M. Tons	115	800,636	M. Tons	146
	Sucrose recovery	10.78	%		9.87	%	
	Sugar production	91,832	M. Tons		79,056	M. Tons	

During the year 2011, in addition to production of sugar from sugarcane, 4,609 M. Tons of sugar have been produced from refining 4,885 M.Tons of raw sugar.

		2012			2011		
31.2	**Distillery division**						
	a) Ethanol						
	Capacity	34,000	M. Tons	300	34,000	M. Tons	300
	Actual production	29,307	M. Tons	321	29,303	M. Tons	338
	b) Liquid carbon dioxide (CO_2)						
	Capacity	6,000	M. Tons	300	6,000	M. Tons	300
	Capacity based on actual working days	5,360	M. Tons	268	6,000	M. Tons	319
	Actual production	4,902	M. Tons	268	5,644	M. Tons	319

c) Distillery / CO_2 unit operated below capacity due to lesser availability of molasses.

		2012			2011		
31.3	**Textile division**						
	Capacity	450,000	Kgs.	300	300,000	Kgs.	300
	Actual production	676,185	Kgs.	300	484,885	Kgs.	300

The actual production of textile division is higher than the capacity due to weaving from outside source.

32. Transactions with related parties

Material transactions with related parties, other than remuneration and benefits to Directors and key management personnel under the terms of their employment, are given below:

	2012	2011
	(Rupees in thousands)	
Insurance premium	15,866	20,138
Insurance claims received	6,655	3,344
Profit on treasury call accounts / term deposits	62,133	69,851
Purchases of long-term investments	800,000	150,000
Redemption / sale proceeds of long-term investments	157,449	105,416
Purchases / sales	168	255
Dividend received	41,411	28,691
Dividend paid	61,372	24,562
Bonus shares received at nominal value	48,067	31,335
Bonus shares issued at nominal value	–	24,562
Bank charges	1,045	217

Transactions with related parties are carried out at arm's length.

33. Dividend

The Board of Directors of the Company in their meeting held on December 26, 2012 have proposed a final cash dividend of Rs. 2.50 per share (50%) for the year ended September 30, 2012 . The approval of the members for the proposed final cash dividend will be obtained at the Annual General Meeting of the Company to be held on January 29, 2013. The financial statements for the year ended September 30, 2012 do not include the effect of the proposed final cash dividend which will be accounted for in the financial statements for the year ending September 30, 2013.

34. General

- Figures have been rounded off to the nearest thousand rupees.

- These financial statements were authorised for issue on December 26, 2012 by the Board of Directors of the Company.

Raeesul Hasan
Chief Executive

Murtaza H. Habib
Director

Pattern of Shareholding as at September 30, 2012

Number of Shareholders	Size of Shareholding			Total Number of Shares held
	From		To	
1,397	1	...	100	35,353
880	101	...	500	241,347
556	501	...	1,000	420,725
1,545	1,001	...	5,000	3,485,165
337	5,001	...	10,000	2,434,304
132	10,001	...	15,000	1,622,838
98	15,001	...	20,000	1,726,191
54	20,001	...	25,000	1,207,341
39	25,001	...	30,000	1,089,206
29	30,001	...	35,000	934,667
14	35,001	...	40,000	516,245
12	40,001	...	45,000	551,243
25	45,001	...	50,000	1,209,375
11	50,001	...	55,000	576,339
8	55,001	...	60,000	460,761
10	60,001	...	65,000	636,066
6	65,001	...	70,000	404,963
6	70,001	...	75,000	427,709
10	75,001	...	80,000	780,524
1	80,001	...	85,000	85,000
7	85,001	...	90,000	692,576
3	90,001	...	95,000	188,222
1	100,001	...	105,000	104,165
2	105,001	...	110,000	212,464
2	110,001	...	115,000	227,875
1	115,001	...	120,000	119,658
1	120,001	...	125,000	121,624
2	130,001	...	135,000	262,300
1	135,001	...	140,000	138,002
3	140,001	...	145,000	425,385
4	150,001	...	155,000	613,519
2	155,001	...	160,000	316,309
3	165,001	...	170,000	500,127
1	170,001	...	175,000	170,315
1	175,001	...	180,000	176,251
1	185,001	...	190,000	185,779
1	190,001	...	195,000	190,770
1	195,001	...	200,000	195,510
1	205,001	...	210,000	205,156
1	220,001	...	225,000	223,885
1	225,001	...	230,000	226,846
1	230,001	...	235,000	232,027
1	245,001	...	250,000	246,593
3	280,001	...	285,000	850,995
1	285,001	...	290,000	289,707
2	300,001	...	305,000	607,627
3	305,001	...	310,000	925,192
1	320,001	...	325,000	320,446
2	325,001	...	330,000	657,539
1	340,001	...	345,000	340,740
1	355,001	...	360,000	359,970
1	360,001	...	365,000	363,957
2	385,001	...	390,000	771,441
2	390,001	...	395,000	783,658
1	395,001	...	400,000	397,377
1	420,001	...	425,000	421,146
1	435,001	...	440,000	437,166
1	460,001	...	465,000	463,815
1	465,001	...	470,000	468,145
1	500,001	...	505,000	500,737
2	510,001	...	515,000	1,021,336
1	520,001	...	525,000	521,263
1	530,001	...	535,000	530,057
1	555,001	...	560,000	557,127
1	565,001	...	570,000	567,387
1	570,001	...	575,000	572,918
1	595,001	...	600,000	597,032
1	600,001	...	605,000	602,857
1	635,001	...	640,000	638,318
1	645,001	...	650,000	650,000
1	655,001	...	660,000	658,571
2	735,001	...	740,000	1,475,500
3	755,001	...	760,000	2,273,153
1	780,001	...	785,000	780,825
2	915,001	...	920,000	1,837,782
1	970,001	...	975,000	970,127
2	985,001	...	990,000	1,976,157
1	1,035,001	...	1,040,000	1,039,263
3	1,040,001	...	1,045,000	3,133,040
2	1,180,001	...	1,185,000	2,361,526
1	1,185,001	...	1,190,000	1,189,501
1	1,230,001	...	1,235,000	1,230,968
1	1,415,001	...	1,420,000	1,418,565
1	1,685,001	...	1,690,000	1,688,251
1	1,865,001	...	1,870,000	1,866,906
1	2,515,001	...	2,520,000	2,518,556
1	3,070,001	...	3,075,000	3,071,845
2	3,555,001	...	3,560,000	3,559,751
1	5,280,001	...	5,285,000	5,282,258
1	5,825,001	...	5,830,000	5,825,357
1	7,775,001	...	7,780,000	7,778,921
1	8,865,001	...	8,870,000	8,868,497
1	9,365,001	...	9,370,000	9,366,312
1	13,275,001	...	13,280,000	13,276,570
1	26,510,001	...	26,515,000	26,513,125
5,282				**150,000,000**

Shareholders' Category	Number of Shareholders	Number of Shares held	Percentage
Individuals	5,194	50,763,556	33.84
Insurance Companies	4	11,845,785	7.90
Joint Stock Companies	52	42,434,975	28.29
Financial Institutions	10	32,147,052	21.43
Modaraba Companies	2	667,857	0.45
Charitable Trusts	15	11,570,443	7.71
Societies	3	520,644	0.35
Corporate Law Authority	1	1	0.00
The Administrator Abandoned Properties Organisation	1	49,687	0.03
	5,282	**150,000,000**	**100.00**

Pattern of Shareholding as at September 30, 2012

Additional Information

Shareholders' Category		Number of Shareholders	Number of Shares Held
Associated Companies, undertakings and related parties			
Habib Insurance Company Limited		1	5,282,258
Habib Mercantile Company (Pvt) Limited		1	510,668
Habib & Sons (Pvt) Limited		1	521,263
Bank AL Habib Limited		1	9,366,312
Hasni Textiles (Pvt) Ltd.		1	8,868,497
NIT and ICP			
National Bank of Pakistan Trustee Department (NIT)		1	13,276,570
Investment Corporation of Pakistan		1	5,798
Directors, CEO and their spouses and minor children			
Asghar D. Habib	Chairman	1	1,044,352
Ali Raza D. Habib	Director	1	23,218
Muhammad Nawaz Tishna (NIT Nominee)	“	–	–
Murtaza H. Habib	“	1	1,180,763
Farouq Habib Rahimtoola	“	1	24,833
Amin Ali Abdul Hamid	“	1	23,971
Imran A. Habib	“	1	1,044,343
Raeesul Hasan	Chief Executive	1	31
Mrs. Tahira Ali Asghar w/o Mr. Ashgar D. Habib		1	385,721
Executives		2	758,940
Public Sector Companies and Corporations		49	32,534,547
Banks, Development Finance Institutions, Non-Banking Finance Companies, Insurance Companies and Modarabas		12	16,729,756
Individuals		5,184	46,277,384
Charitable & other Trusts, Societies and Government Institutions		20	12,140,775
		5,282	150,000,000

Shareholders holding 5% or more voting rights

ICOM Industrie Und Handels, Schaan Principality of Liechtenstein	26,513,125
National Bank of Pakistan Trustee Department (NIT)	13,276,570
Bank AL Habib Ltd.	9,366,312
Hasni Textiles (Pvt) Ltd.	8,868,497
National Bank of Pakistan	7,778,921

Form of Proxy

The Company Secretary
Habib Sugar Mills Limited
Imperial Court, 4th Floor
Dr. Ziauddin Ahmed Road
KARACHI – 75530

I/We..of..
a member(s) of HABIB SUGAR MILLS LIMITED and holding...
ordinary shares, as per Folio No. .... and /or CDC Participant's
I.D. Numbers...
and Account / Sub-Account No. ....
hereby appoint ....of..
or failing him...of..
another member of the Company to vote for me / us and on my / our behalf at the 51st Annual General Meeting of the Company to be held on Tuesday, January 29, 2013 and at any adjournment thereof.

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

Rs. Five
Revenue
Stamp

....
SIGNATURE OF MEMBER(S)

1. Witness Signature: ____________________
   Name: ____________________
   Address: ____________________
   CNIC/Passport No: ____________________

2. Witness Signature ____________________
   Name: ____________________
   Address: ____________________
   CNIC/Passport No: ____________________

A member entitled to attend and vote at this meeting is entitled to appoint another member of the Company as a proxy to attend and vote on his / her behalf.

Any individual beneficial owner of CDC, entitled to attend and vote at this meeting must bring his / her National Identity Card, Account and Participant's ID Numbers to prove his / her identity, and in case of proxy, must enclose attested copies of his / her National Identity Card, Account and Participant's ID Numbers. Representatives of corporate members should bring the usual documents as required for such purpose.

The instrument appointing a proxy should be signed by the member or by his attorney duly authorised in writing. If the member is a corporation its common seal (if any) should be affixed to the instrument.

The instrument appointing a proxy, together with the power of attorney (if any) under which it is signed or a notarially certified copy thereof, should be deposited at the registered office of the Company at least 48 hours before the time of the meeting.