



Company Information

Board of Directors	Asgar D. Habib Ali Raza D. Habib Muhammad Nawaz Tishna Murtaza H. Habib Farouq Habib Rahimtoola Amin Ali Abdul Hamid Imran A. Habib Raeesul Hasan	<i>Chairman</i> <i>Chief Executive</i>
Audit Committee	Ali Raza D. Habib Amin Ali Abdul Hamid Imran A. Habib	<i>Chairman</i> <i>Member</i> <i>Member</i>
Company Secretary	Cawas R. Sethna	
Registered Office	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	
Share Registrars	Corporate Management Services (Pvt) Ltd. 3rd Floor, Imperial Court, Dr. Ziauddin Ahmed Road, Karachi-75530 Phones : (+92-21) 35693741-42 Fax : (+92-21) 35693743	



VISION STATEMENT

We aim to be a leading manufacturer and supplier of quality sugar, ethanol, liquid carbon dioxide (CO₂), household textiles in local and international markets and providing bulk storage facilities. 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 (CO₂), household textiles and service provider for bulk storage facilities, 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.



Directors' Report

Dear Members – Assalam-o-Alekum

On behalf of the Board of Directors, it is my privilege to present to you the unaudited condensed interim financial statements of the Company for the first quarter ended December 31, 2010.

Financial Results

By the Grace of Allah, during the period under review the operations of your Company resulted in a pre-tax profit of Rs. 115.383 million. The financial results for the quarter are as follows:

		(Rupees in thousands)
Profit before taxation		115,383
Taxation		40,000
Profit after taxation		75,383
Unappropriated profit brought forward		3,241
Unappropriated profit carried forward		78,624
Earnings per share - Basic and diluted	Rupees	0.63

Performance Review

Sugar Division

Crushing operations for the season 2010-11 commenced on October 30, 2010 and up to December 31, 2010, a quantity of 16,180 M. Tons of sugar was produced with total crushing of 179,881 M. Tons and average sucrose recovery of 8.99%, as compared with 23,570 M. Tons of sugar production out of crushing of 251,549 M. Tons and average sucrose recovery of 9.37% during the corresponding quarter of the previous year.

The division earned operating profit of Rs. 78.48 million as against Rs. 54.25 million in the corresponding quarter of last year.

The Government of Sindh has fixed the minimum sugarcane support price at Rs. 127 per 40 kgs for the crushing season 2010-11 as against Rs. 102 per 40 kgs for the crushing season 2009-10.

The supply of sugarcane has been very low upto December 31, 2010 as the average crushing per day was only 35% of the installed crushing capacity. The hold back of supply by the growers was mainly on account of price and the Company has been compelled to procure sugarcane at much higher rates ranging to around Rs. 200 per 40 kgs. However, since the beginning of January 2011, the supply of sugarcane has improved and currently we are crushing at optimum levels.



In order to meet the shortfall in sugar production and arrest the upward trend in price of sugar in the open market, the Government allowed duty free import of raw sugar. Your Company availed the opportunity and converted 4,885 tons of raw sugar into 4,609 tons of refined sugar during November and December 2010.

Distillery Division

The production of ethanol during the quarter ended December 31, 2010 was 4,507 M. Tons as compared with 3,200 M. Tons during the corresponding period of the previous year. The division earned operating profit of Rs. 10.26 million during the quarter as against Rs. 10.39 million during the corresponding period of last year. The profit has been affected on account of lower recovery of ethanol from molasses consumed of the previous year.

During the current year, however, it is hoped that the recovery of ethanol is likely to be higher and this may have a favourable impact on the profitability of the division.

The production of liquid carbon dioxide (CO₂) during the quarter ended December 31, 2010 was 1,056 M. Tons, and the CO₂ unit earned operating profit of Rs. 3.18 million as against Rs. 2.77 million in the corresponding period of last year, which is included in the Distillery division's profit. Inshallah, the profitability of the unit is also likely to be better.

Textile Division

The division earned operating profit of Rs. 2.14 million during the quarter as against Rs. 2.39 million in the corresponding period of last year. The slump in the international market continues which may result in reduced sale volume and profitability. The Company has, however, undertaken necessary steps to achieve increased volume of production and sale by importing hi-tech looms which will, Inshallah, be installed and operational by June 2011. This may have a favourable impact on the profitability of the division.

General

The Directors are pleased to place on record their appreciation of the devoted and dedicated services of the officers, staff and workers of the Company.

On behalf of the Board of Directors

Asghar D. Habib
Chairman

Karachi: January 29, 2011



Condensed Interim Balance Sheet as at December 31, 2010 (Unaudited)

Assets	Note	Dec. 31, 2010	Sept. 30, 2010
(Rupees in thousands)			
Non-Current Assets			
Fixed assets			
Property, plant and equipment	4	809,735	817,860
Long-term investments	5	815,545	695,432
Long-term loans		3,565	3,860
Long-term deposits		2,948	2,948
Current Assets			
Stores and spares		88,594	68,782
Stock-in-trade		777,335	319,376
Trade debts		314,530	114,178
Loans and advances		270,866	58,741
Trade deposits and short-term prepayments		15,611	8,771
Profit accrued on bank deposits		774	-
Sales tax and excise duty adjustable		65,924	32,631
Other receivables		7,996	6,215
Cash and bank balances		1,353,593	1,307,268
		<u>2,895,223</u>	<u>1,915,962</u>
Total Assets		<u>4,527,016</u>	<u>3,436,062</u>
Equity and Liabilities			
Share Capital and Reserves			
Share Capital			
Authorised			
120,000,000 Ordinary shares of Rs. 5 each		600,000	600,000
Issued, subscribed and paid-up capital			
120,000,000 Ordinary shares of Rs. 5 each		600,000	600,000
Reserves		1,678,624	1,753,241
Unrealised gain on long-term investments		618,094	497,981
- available for sale		2,296,718	2,251,222
		<u>2,896,718</u>	<u>2,851,222</u>
Non-Current Liabilities			
Deferred taxation		86,500	86,500
Current Liabilities			
Trade and other payables		771,128	469,409
Short-term borrowings	6	600,000	-
Accrued mark-up on short-term borrowings		313	-
Provision for income tax - net		22,357	28,931
Proposed dividend		150,000	-
		<u>1,543,798</u>	<u>498,340</u>
Contingencies and Commitments	7		
		<u>4,527,016</u>	<u>3,436,062</u>

The annexed notes 1 to 15 form an integral part of these condensed interim financial statements.

Raeesul Hasan
Chief Executive

Murtaza H. Habib
Director



Condensed Interim Profit and Loss Account for the quarter ended December 31, 2010 (Unaudited)

	Note	Dec. 31, 2010	Dec. 31, 2009
		(Rupees in thousands)	
Segment operating results	8		
Net sales and services		1,358,244	841,441
Cost of sales		(1,215,392)	(736,632)
Gross Profit		142,852	104,809
Distribution and marketing expenses		(24,085)	(13,996)
Administrative expenses		(27,890)	(23,786)
Other operating expenses	9	(9,156)	(6,905)
Other operating income	10	6,812	3,256
		(54,319)	(41,431)
Operating profit		88,533	63,378
Finance income / (cost) - net		26,850	28,349
Profit before taxation		115,383	91,727
Taxation		(40,000)	(35,000)
Profit after taxation		75,383	56,727
Earnings per share - basic and diluted	(Rupees)	0.63	(Restated) 0.47

The annexed notes 1 to 15 form an integral part of these condensed interim financial statements.

Raeesul Hasan
Chief Executive

Murtaza H. Habib
Director



**Condensed Interim Statement of Comprehensive Income
for the quarter ended December 31, 2010 (Unaudited)**

	Dec. 31, 2010	Dec. 31, 2009
	(Rupees in thousands)	
Profit after taxation	75,383	56,727
Other comprehensive income		
Unrealised gain on changes in fair values of long-term investments - available for sale	120,113	2,036
Total comprehensive income for the quarter ended December 31, 2010	<u>195,496</u>	<u>58,763</u>

The annexed notes 1 to 15 form an integral part of these condensed interim financial statements.

Raeesul Hasan
Chief Executive

Murtaza H. Habib
Director



Condensed Interim Statement of Changes in Equity for the quarter ended December 31, 2010 (Unaudited)

	Issued Subscribed and Paid-up Capital	Reserves				Total Reserves	Unrealised Gain/(loss) on Long-term investments available for sale	Total Equity
		Capital Reserve	General Reserve	Reserve for issue of Bonus Shares	Unappro- priated Profit			
Balance as on October 1, 2009	480,000	34,000	981,000	-	491,706	1,506,706	466,954	2,453,660
Proposed cash dividend for 2009 @ 35%	-	-	-	-	(168,000)	(168,000)	-	(168,000)
Proposed issue of bonus shares for 2009 @ 25%	-	-	-	120,000	(120,000)	-	-	-
Proposed transfer to general reserve	-	-	200,000	-	(200,000)	-	-	-
Total comprehensive income after taxation for the quarter ended December 31, 2009	-	-	-	-	56,727	56,727	2,036	58,763
Balance as on December 31, 2009	<u>480,000</u>	<u>34,000</u>	<u>1,181,000</u>	<u>120,000</u>	<u>60,433</u>	<u>1,395,433</u>	<u>468,990</u>	<u>2,344,423</u>
Balance as on October 1, 2010	600,000	34,000	1,181,000	-	538,241	1,753,241	497,981	2,851,222
Proposed cash dividend for 2010 @ 25%	-	-	-	-	(150,000)	(150,000)	-	(150,000)
Proposed issue of bonus shares for 2010 @ 25%	-	-	-	150,000	(150,000)	-	-	-
Proposed transfer to general reserve	-	-	235,000	-	(235,000)	-	-	-
Total comprehensive income after taxation for the quarter ended December 31, 2010	-	-	-	-	75,383	75,383	120,113	195,496
Balance as on December 31, 2010	<u>600,000</u>	<u>34,000</u>	<u>1,416,000</u>	<u>150,000</u>	<u>78,624</u>	<u>1,678,624</u>	<u>618,094</u>	<u>2,896,718</u>

The annexed notes 1 to 15 form an integral part of these condensed interim financial statements.

Raeesul Hasan
Chief Executive

Murtaza H. Habib
Director



Condensed Interim Cash Flow Statement for the quarter ended December 31, 2010 (Unaudited)

	Note	Dec. 31, 2010	Dec. 31, 2009
(Rupees in thousands)			
Cash flows from operating activities			
Cash generated from / (used in) operations	11	(528,799)	(881,087)
Finance income received - net		26,389	37,242
Income tax paid		(46,574)	(8,280)
Long-term loans		295	446
Long-term deposits		–	(16)
Net cash generated / (used in) operating activities		(548,689)	(851,695)
Cash flows from investing activities			
Fixed capital expenditure		(11,222)	(10,649)
Dividend received		3,521	1,218
Sale proceeds of fixed assets		2,987	1,446
Net cash used in investing activities		(4,714)	(7,985)
Cash flows from financing activities			
Dividend paid		(272)	(17)
Net cash used in financing activities		(272)	(17)
Net increase / (decrease) in cash and cash equivalents		(553,675)	(859,697)
Cash and cash equivalents at the beginning of the quarter		1,307,268	1,169,667
Cash and cash equivalents at the end of the quarter	12	753,593	309,970

The annexed notes 1 to 15 form an integral part of these condensed interim financial statements.

Raeesul Hasan
Chief Executive

Murtaza H. Habib
Director



Notes to the Condensed Interim Financial Statements for the quarter ended December 31, 2010 (Unaudited)

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, household textiles and providing bulk storage facilities.

2. Statement of compliance

These condensed interim financial statements are unaudited and are being submitted to the members in accordance with Section 245 of the Companies Ordinance, 1984 and have been prepared in accordance with the requirements of International Accounting Standard (IAS) - 34, 'Interim Financial Reporting', as applicable in Pakistan. The condensed interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements for the year ended September 30, 2010.

3. Significant accounting policies and disclosures

The accounting policies and methods of computation followed for the preparation of these condensed interim financial statements are the same as those applied in preparation of the annual published financial statements of the Company for the year ended September 30, 2010.

4. Fixed assets

4.1 Property, plant and equipment

	Dec. 31, 2010	Sept. 30, 2010
	(Rupees in thousands)	
Operating fixed assets	746,364	760,509
Capital work-in-progress	63,371	57,351
	<u>809,735</u>	<u>817,860</u>

4.2 Cost of additions to / deletions from fixed assets during the period ended December 31, 2010 were as follows:

	Additions	Deletions
	(Rupees in thousands)	
Plant and machinery		
Sugar	2,657	-
Distillery	1,209	4,177
Textile	6,201	-
Furniture, fittings and office equipment	1,100	64
Motor cars / vehicles	55	16
	<u>11,222</u>	<u>4,257</u>



	Dec. 31, 2010	Sept. 30, 2010
	(Rupees in thousands)	
5. Long-term investments		
Available for sale - quoted		
Investments in related parties	593,520	515,150
Investments in other companies	222,025	180,282
	815,545	695,432

5.1 The aggregate book value of the above referred investments, net of impairment, is Rs. 197.45 (September 30, 2010: Rs. 197.45) million.

5.2 The above investments are stated at fair value. Unrealised gain of Rs. 120.113 (September 30, 2010: Rs. 31.027) million arising from a change in fair value of these investments during the quarter has been recognised directly in equity.

	Dec. 31, 2010	Sept. 30, 2010
	(Rupees in thousands)	
6. Short-term borrowings - secured	600,000	-

The short-term borrowings are secured by way of registered charge against hypothecation of stock-in-trade, stores & spares and assignment of trade debts and other receivables. The rate of mark-up during the period ranged from 10% to 11% (September 30, 2010 : 7.5% to 14.09%) per annum. The facility for short-term borrowings amounted to Rs. 2,275 (September 30, 2010: Rs. 2,275) million.

7. Contingencies and commitments

7.1 Contingencies

7.1.1 The Company has provided counter guarantees to banks, aggregating to Rs. 91.71 (September 30, 2010: Rs. 145.074) million against agriculture finance facilities to growers and guarantees issued by banks in favour of third parties on behalf of the Company.

7.1.2 During 2009-10 the Company received show cause notice from Competition Commission of Pakistan (CCP) under section 30 of the Competition Ordinance, 2007 for violation of various sections of this Ordinance. The Company alongwith other sugar mills filed a Constitutional Petition before the Honourable High Court of Sindh challenging the Competition Ordinance, 2007. The Honourable High Court of Sindh, granted stay against the proceedings of the CCP and restrained the Commission to pass final order in respect of the show cause notice. The Competition Commission of Pakistan filed an appeal before the Honourable Supreme Court of Pakistan which was disposed of by the court based on the grounds that the matter was pending before the Honourable High Court of Sindh.



In the meanwhile, a new Ordinance named Competition Commission Ordinance, 2009 was promulgated. The Company alongwith other sugar mills filed a Constitutional Petition before the Honourable High Court of Sindh challenging the Competition Commission Ordinance, 2009 being ultra vires.

That on December 9, 2010 an Amended Petition was filed and allowed by the Honourable High Court of Sindh with the consent of both the parties to hold and declare that the Competition Act, 2010 notified in the Official Gazette on October 13, 2010 is ultra vires the Constitution. The matter was lastly fixed on January 25, 2011 but it could not proceed and was adjourned for February 1, 2011. Since the financial impact is indeterminate at this stage no liability is reflected in these financial statements.

7.1.3 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 notification issued in respect of charging marking fee under PSQCA Act-VI of 1996. The Authority has demanded a payment at the rate of 0.1% of ex-factory price with effect from January 1, 2009. The Company is of the view that the impugned notifications so raised are without any lawful authority under the PSQCA Act-VI of 1996 and are in violation of the Constitution. On August 26, 2010 the case came up for hearing before the Honourable High Court of Sindh who maintained that prima facie it appears that the impugned notifications have been issued without lawful authority and in the meanwhile the operations of the impugned notifications have been suspended. Further, the matter came up for hearing on December 3, 2010 but it did not proceed and adjourned to date in office. Based on the advice of our legal counsel, the Company expects a favourable outcome.

Dec. 31, Sept. 30,
2010 2010
(Rupees in thousands)

7.2 Commitments

7.2.1	Capital expenditure	<u>60,643</u>	<u>2,259</u>
7.2.2	Rentals under operating lease agreements with First Habib Modaraba in respect of vehicles, payable over the next four years	<u>24,609</u>	<u>23,650</u>



8. Segment operating results for the quarter ended December 31, 2010 (Unaudited)

		Sugar Division		Distillery Division		Textile Division		(Rupees in thousands) Total	
		Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Net sales and services									
Sales	Local	913,817	633,651	68,206	70,763	–	–	982,023	704,414
	Export	–	–	245,197	56,896	130,941	80,032	376,138	136,928
		913,817	633,651	313,403	127,659	130,941	80,032	1,358,161	841,342
Services - Storage income - net		–	–	83	99	–	–	83	99
		913,817	633,651	313,486	127,758	130,941	80,032	1,358,244	841,441
Less: Cost of sales		(805,856)	(554,537)	(286,259)	(108,715)	(123,277)	(73,380)	(1,215,392)	(736,632)
Gross Profit		107,961	79,114	27,227	19,043	7,664	6,652	142,852	104,809
Less: Distribution and marketing expenses		(6,578)	(5,280)	(13,200)	(5,548)	(4,307)	(3,168)	(24,085)	(13,996)
	Administrative expenses	(22,903)	(19,586)	(3,771)	(3,104)	(1,216)	(1,096)	(27,890)	(23,786)
		(29,481)	(24,866)	(16,971)	(8,652)	(5,523)	(4,264)	(51,975)	(37,782)
Profit before other operating expenses and other operating income		78,480	54,248	10,256	10,391	2,141	2,388	90,877	67,027
Other operating expenses - note 9								(9,156)	(6,905)
Other operating income - note 10								6,812	3,256
Operating Profit								88,533	63,378

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



	Dec. 31, 2010	Dec. 31, 2009
	(Rupees in thousands)	
9. Other operating expenses		
Workers' Profit Participation Fund	6,203	4,932
Workers' Welfare Fund	2,481	1,973
Exchange Loss	472	-
	<u>9,156</u>	<u>6,905</u>
10. Other operating income		
Dividend income	2,939	1,404
Gain on disposal of fixed assets	2,625	801
Scrap sale	1,248	558
Exchange gain	-	493
	<u>6,812</u>	<u>3,256</u>
11. Cash generated from / (used in) operations		
Profit before taxation	115,383	91,727
Adjustment for non-cash charges and other items		
Depreciation	18,985	19,696
Gain on disposal of fixed assets	(2,625)	(801)
Finance (income) / cost - net	(26,850)	(28,349)
Dividend income	(2,939)	(1,404)
Working capital changes - note 11.1	(630,753)	(961,956)
	<u>(528,799)</u>	<u>(881,087)</u>
11.1 Working capital changes		
(Increase) / decrease in current assets		
Stores and spares	(19,812)	(10,886)
Stock-in-trade	(457,959)	(504,998)
Trade debts	(200,352)	(71,931)
Loans and advances	(212,125)	(268,805)
Trade deposits and short-term prepayments	(6,840)	(5,103)
Sales tax and excise duty adjustable	(33,293)	-
Other receivables	(2,363)	(2,149)
	<u>(932,744)</u>	<u>(863,872)</u>
Increase / (decrease) in current liabilities		
Trade and other payables	301,991	(98,084)
Net changes in working capital	<u>(630,753)</u>	<u>(961,956)</u>



Dec. 31, Dec. 31,
2010 2009
(Rupees in thousands)

12. Cash and cash equivalents at the end of the quarter

These comprise of the following:

Cash and bank balances	1,353,593	835,970
Short-term borrowings	(600,000)	(526,000)
	<u>753,593</u>	<u>309,970</u>

13. 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:

	Dec. 31, 2010	Dec. 31, 2009
	(Rupees in thousands)	
Insurance premium paid	9,655	11,235
Insurance claim received	–	930
Profit on bank accounts	19,241	20,450
Purchases / sales / services	38	39
Bank charges	66	121

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

14. Dividend for 2010

The Board of Directors of the Company in their meeting held on December 22, 2010 had recommended a final cash dividend of Rs. 1.25 per share (25%) and issue of bonus shares in the ratio of one bonus share of Rs. 5 for every four ordinary shares (25%) of Rs. 5 held for the year ended September 30, 2010. The cash dividend and bonus issue as recommended by the Board of Directors of the Company was approved by the members at the Annual General Meeting held on January 29, 2011. The proposed cash dividend and the reserve for proposed issue of bonus shares has been accounted for in these condensed interim financial statements.

15. General

- Figures presented in these condensed interim financial statements have been rounded off to the nearest thousand rupees.
- These condensed interim financial statements were authorised for issue on January 29, 2011 by the Board of Directors of the Company.

Raeesul Hasan
Chief Executive

Murtaza H. Habib
Director