



FARAN SUGAR MILLS LTD.

ANNUAL REPORT 2014

ADDING

Sweetness

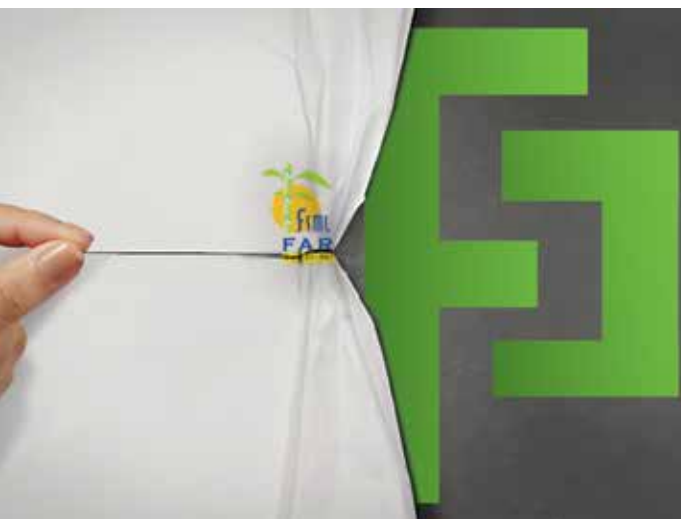


TO LIFE

ADDING  
*Sweetness*  
TO LIFE



FARAN SUGAR MILLS LTD.



FARAN SUGAR NEW CORPORATE LOGO – TRANSFORMING TO A NEW PARADIGM

As illustrious as it stands to be, our new logo talks about of a new era of branding where subtlety is sought for. Hence the new logo comes forth to be green holistically, a color that symbolizes the two main elements that seed the term “Success”, Balance and Harmony. On the other hand we subliminally twist and turn our audiences’ attention towards the twist and turn of our shapes that very mysteriously form the connection between the “F” and the “S”. Hence with all the elements combined, we form the contemporary yet substance-full presence of FSML which aims to remain a leader in the years to come Insha Allah in surge of what it feels is its destination, success.



**FARAN SUGAR MILLS LTD.**

## **VISION & MISSION**

Faran Sugar Mills Limited will thrive as a proactive partner in prosperity of the nation, recognized as a center for state-of-the-art industrial facilities. Above all, Faran Sugar Mills will strive to be a model business entity where all primary stakeholders are intricately woven in progressive pattern, imperative for the economic growth of the nation.

Faran Sugar Mills Limited strives to fulfill its commitments to the society. Our strategic business vision, sound business principles are aimed at quality production with maximum operating efficiency that eventually contribute towards national economy and social well-being of all the stakeholders. Pride in our heritage and a strong sense of community is reinforced by proactive planning and enhanced by effective management.





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Production

92,824 M. Tons





FARAN SUGAR MILLS LTD.

There are no limits to growth  
because there are no limits  
of human intelligence,  
imagination and wonder.  
The growth which FSML has  
witnessed over past years is a  
reflection of its limitless pursuit  
for excellence and leadership.



Sweet Growth

# CORPORATE INFORMATION

## Date of Incorporation

November 3, 1981

## Date of Commencement of Business

November 25, 1981

## Board of Directors

Muhammad Amin Ahmed Bawany (Chairman)  
Muhammad Omar Amin Bawany (Vice Chairman)  
Ahmed Ali Bawany (Chief Executive)  
Iqbal A. Rehman  
Abdul Wahid Ghaffar  
Irfan Zakaria Bawany  
Muhammad Asif (NIT)  
Sheikh Asim Rafiq (NIT)

## Audit Committee

Abdul Wahid Ghaffar (Chairman)  
Muhammad Omar Amin Bawany (Member)  
Iqbal A. Rehman (Member)

## Human Resources and Remuneration Committee

Ahmed Ali Bawany (Chairman)  
Iqbal A. Rehman (Member)  
Abdul Wahid Ghaffar (Member)

## Auditors

Rahman Sarfaraz Rahim Iqbal Rafiq  
Chartered Accountants

## Cost Auditor

ALE Imran & Co.  
Chartered Accountants

## Chief Financial Officer & Company Secretary

Muhammad Ayub

## Legal Advisor

A. Ghaffar Muhammad Gheewala

## Bankers

Al Baraka Islamic Bank  
Bank Al-Habib Ltd.  
Bank Al Falah Ltd.  
Dubai Islamic Bank Ltd.  
Habib Bank Ltd.  
Habib Metropolitan Bank Ltd.  
MCB Bank Ltd.  
Meezan Bank Ltd.  
United Bank Ltd.

## Share Registrar

C&K Management Associates (PVT.) Ltd.  
404, Trade Tower, Abdullah Haroon Road,  
Near Metropole Hotel, Karachi.  
Tel: (92-21) 35687839, 35685930

## Registered Office

3rd Floor, Bank House No.1, Habib Square  
M.A. Jinnah Road, Karachi.  
UAN: 92-21 111-786-878  
92-21 111-BAWANY (229-269)  
Fax: 92-21 32 42 10 10

## Mills

Shaikh Bhirkio, Taluka Tando M. Khan  
Distt. Hyderabad, Sindh.

## E-mail & Website

info@faran.com.pk  
www.faran.com.pk

## Stock Exchange Symbol

FRSM



**FARAN SUGAR MILLS LTD.**

*Sugar has forever stood to be an essential ingredient that paves the way for happiness in a person's mental sphere. Rather than seeing this product as a mere commodity, we believe in the essence of its effects in the lives of us humans. From wedding and other festivities in the east, to a thanksgiving dinner in the west, Faran Sugar Mills has always tried to be a part of these cheerful moments through our high quality natural sweetener in local and international markets. Hence we are trying to add value not only by our product but also the way we see this as ingredient of happiness.*



# MAJOR MILESTONES

**1981**

Incorporation of the company

**1983**

Commencement of commercial production at Mill 1 with 2,000 TCD

**1984**

Listed with Karachi & Lahore stock exchanges

**1988**

Crushing capacity enhanced to 2,700 TCD

**1990**

Crushing capacity further increased to 3,700 TCD

**1994**

Second line started and capacity enhanced to 6,500 TCD

**2004**

De-Bottle Necking at Mill I & II to increase capacity to 7,500 TCD.

Investment in Unicol Limited, a distillery unit with Joint venture of two other sugar millers

**2008**

Successfully Deployed Enterprise Resource Planning (ERP).  
Achieved highest crushing of 890,592 M. Tons

**2012**

Completed Modernization and Expansion of plant initiated in 2011 which enhanced crushing capacity to 9,000 TCD.  
Highest ever profit Rs. 304 million

**2013**

Highest ever recovery rate 10.68%

**2014**

Highest ever production of 92,824 M. Tons



Faran Sugar Mills Limited is an agri-based company, engaged in the business of manufacturing and selling of refined sugar. The company is a unit of **Amin Bawany Group** which is a leading business group having interest in diversified businesses such as sugar, insurance, modaraba, particle board, ethanol production, trading, construction and other important business sector of Pakistan.

Having a legacy of diversified experience in industrial sector, FARAN SUGAR MILLS LIMITED, commenced its operation in 1981 with an aim to be, Insha Allah, one of the best sugar mills in the industry and its entire operation revolves around one objective i.e. to satisfy the diverse need of its customers.

The mill is located at Shaikh Bhirkio District Hyderabad, which is considered as a suitable sugarcane growing area and ensure ample and uninterrupted supply of required quantity / quality of cane during the crushing season. The plant started commercial production in 1983 with installed cane crushing capacity of 2000 TCD extendable to 2700 TCD, which has been now enhanced to 9000 TCD

Al-Hamdulillah, Faran Sugar is ranked amongst top Six sugar mills operating in the province of Sindh in terms of production. The diversified portfolio of our customers

includes the manufacture of cereals, confectionary, syrups, drinks, ice creams, biscuits and so on. Having one of the most efficient sugarcane processing facilities, Faran sugar is well placed to develop its capabilities in the years ahead. We strive to take market leading position through anticipating all the important factors that affect our business verticals. We are committed towards achieving the highest standards of quality and environmental care.

The company has made long term investment in distillery unit namely, Unicol Limited, where entire molasses of the company is used to produce premium quality ENA grade ethanol. Unicol Limited was formed in accordance with the terms of a joint Venture agreement concluded amongst the three leading sugar mills of Sindh.



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## BOARD OF DIRECTORS



Muhammad Amin  
Ahmed Bawany  
Chairman

Mr. Muhammad Amin Ahmed Bawany is the Chairman of Faran Sugar Mills Limited since its inception. He obtained his secondary education from St. Patrick School, Karachi and acquired his professional education regarding assembling and maintenance of various Textile Machines, from Tokyo University, Yokohama, Japan. Pursuing his vision the group installed Bawany Sugar Mills at Talhar under his leadership. Mr. Amin established Annoor Textile Mills at Gharo Dhabeji. Sindh Particle Board Mills was established at Kotri under his wise leadership. Faran Sugar Mills was conceived and commenced under his guidance. Since its inception, he is actively involved in every operation of the entire group.



Muhammad Omar  
Amin Bawany  
Vice Chairman

Mr. Muhammad Omar Amin Bawany acquired his education from Karachi American School and then went to American College, Switzerland and obtained an Associate Degree in Business Administration. Under his wise management, Annoor Textile Mills operated successfully. He is on the Board of Directors of Faran Sugar since 1984. Currently, he is working in the capacity of Vice Chairman of Faran Sugar Mills, responsible for production and sales of sugar. He is also the Chief Executive of B.F. Modaraba managed by E.A Management and on the board of Reliance Insurance Company.



Ahmed Ali Bawany  
Chief Executive

Mr. Ahmed Ali Bawany is on the Board of Directors of the Faran Sugar Mills since 1995. He got his schooling from CAS, Karachi. For pursuing further education, he went to USA and got degree in business entrepreneurship from University of Southern California. Currently, he is the Chief Executive of Faran Sugar Mills and particularly looking after financial matters as well as procurement of cane for Faran Sugar Mills. Besides Faran Sugar, he is actively involved in Unicol Ltd in the capacity of director, which is a Joint Venture engaged in the production and marketing of Ethanol. He is also on the board of Reliance Insurance and is the Chairman of B.F Modaraba.



Irfan Zakaria Bawany

Mr. Irfan Zakaria Bawany was elected as a Non Executive Director in March 2013 for a tenure of three years. He is also a Non-Executive Director of Reliance Insurance Company Limited since 1991. He is CEO of Anam Fabrics (Pvt.) Limited. He has served on the Board of Pioneer Cables Limited from 1983 to 1991. He has diversified experience in Electrical Cable Manufacturing and Textile made up business. After receiving a B.B.A (Accounting) from The University of Houston, USA, he was certified as a Fellow Member of the Texas Society of Certified Public Accountants. He is a certified Director from Pakistan Institute of Corporate Governance (P.I.C.G)

## BOARD OF DIRECTORS



Muhammad Asif

Mr. Muhammad Asif is an MBA with Major in Finance. He has been working at National Investment Trust (NIT) for last 20 years enriched with diversified experience in the field of Equity Research, Fund Management and Database Administration. As an expert analyst of sugar industry, NIT has nominated him to the board of various Sugar Mills coupled with other companies of Textile, Engineering and Oil Sectors.



Iqbal A. Rehman

Mr. Iqbal A. Rehman graduated in Commerce from University of Karachi in 1964 and has worked as Company Secretary of Faran Sugar Mills. Currently, he is on board of Faran Sugar Mills since 1995. During his life long association with Bawany group, he held a number of important positions in different companies.



Sheikh Asim Rafiq

Mr. Asim Rafiq is presently working as Head of Internal Audit at NIT. He is a qualified Chartered Accountant from Institute of Chartered Accountants of Pakistan, with training from A.F. Fergusson & Co. Chartered Accountants and also a Certified Internal Auditor from the Institute of Internal Auditors, USA. He has a working experience of over a decade, substantially in financial services sector. In addition to his responsibilities as Head of Internal Audit, Mr. Rafiq is also representing NIT as a Nominee Director in different companies.



Abdul Wahid Ghaffar

Mr. Abdul Wahid Ghaffar has been on Faran Board of Directors for the last 14 years. He is a graduate from university of London of economics. He has a long association with Bawany group and looked after a number of textile units setup by the group. He has expertise in cotton trading and currently he is operating as a licensed cotton broker at the Karachi Cotton Exchange.

# CORE VALUES

## Innovation

We believe in relentless commitment to continuous improvement and encourage ideas from all stakeholders. For this, we define quality, as understanding the customers' expectation.

## Leadership

Managerial and professional competence is vital for our success, therefore we value leadership qualities coupled with drive to challenge the status quo.

## Excellence

We are committed to excellence in all spheres of performance and have firm belief that our core values emerges from satisfying our customers needs of quality management.

## Ethics & Integrity

We constantly strive to establish and maintain highest professional and ethical standards and strongly believe that honesty, ethical behaviour and integrity are the land mark of our success. Choosing the course of the highest integrity has always been our intent.

## Employees' Growth & Development

Our philosophy is to create a congenial working environment where dignity and value of the personnel is considered as top responsibility. We focus on encouraging and empowering employees to contribute to the company's success.

## Profitability

We have developed an attitude to successfully discharge our responsibilities to maximize returns to our stakeholders by constantly meeting their expectations.

## Teamwork

High performance teams can accomplish what individuals can not. Therefore we strive to develop a team of professionals having relevant specialization in respective domain.



## CODE OF CONDUCT AND ETHICS

“Our focus on finding every opportunity which reduces cost while improving operations based on ethical conduct remains crucial to our continued success”.

Company’s code of conduct set out the minimum standards expected from the entire team. By this we are able to maintain excellent eminence amongst all of business partners in a professional manner. We have a firm conviction that employees have an obligation to themselves and to the company to raise any matter of business conduct or ethics which cause concern. No one is allowed to commit an illegal or unethical act.

It is the company’s policy to conduct its operations in accordance with the highest business ethical considerations to comply with all statutory regulations and to confirm to the best accepted standards of good corporate citizenship. The policy applies to all directors and employees of the company regardless of function grade or standing.

In general we treat our personnel as company’s ambassadors to all our stakeholders therefore expected to promote the company’s best interest maintaining integrity and confidentiality in all dealings.

Business ethics help protect both the employees and the company from unfounded indictment of pretext or deception and fraud. Further ensures, any fraud that has or might have taken place, must be properly investigated and dealt within a timely manner.

The company’s activities and operations are carried out in strict compliance of all applicable laws and highest ethical standards. While dealing with stakeholders, the company is strictly prohibited to be engaged, directly or indirectly, in any malpractices.

Corporate funds and assets will be utilized solely for the company’s objectives in a lawful manner.

We will support a precautionary approach to

environmental challenges and within the company’s sphere of influence, undertake initiatives to promote greater environmental safety and encourage the development and diffusion of environmental friendly technology.

Employees are expected to safeguard confidential information and must not without authority; disclose such information about company activities to any outside source that are not entitled to such information.

Any dealings between staff and outside organization in which they have a direct, indirect or family connection must be fully disclosed to the management.

We will not discriminate against any employee for any reason such as race, religion, political conviction or gender, and will treat everyone with full dignity and with respect for their private lives.

Any violation of this conduct shall be promptly reported to the management by any employee having knowledge thereof.

## KEY ACHIEVEMENTS

### CANE CRUSHING

(Metric Tons)

2014	897,803
2013	753,025

### EXPORT SALES

(Rs. In Million)

2014	1,516.20
2013	1,325.69

### PRODUCTION

(Metric Tons)

2014	92,824
2013	80,429

### SHAREHOLDERS' EQUITY

(Rs. In Million)

2014	1,304.08
2013	1,160.58

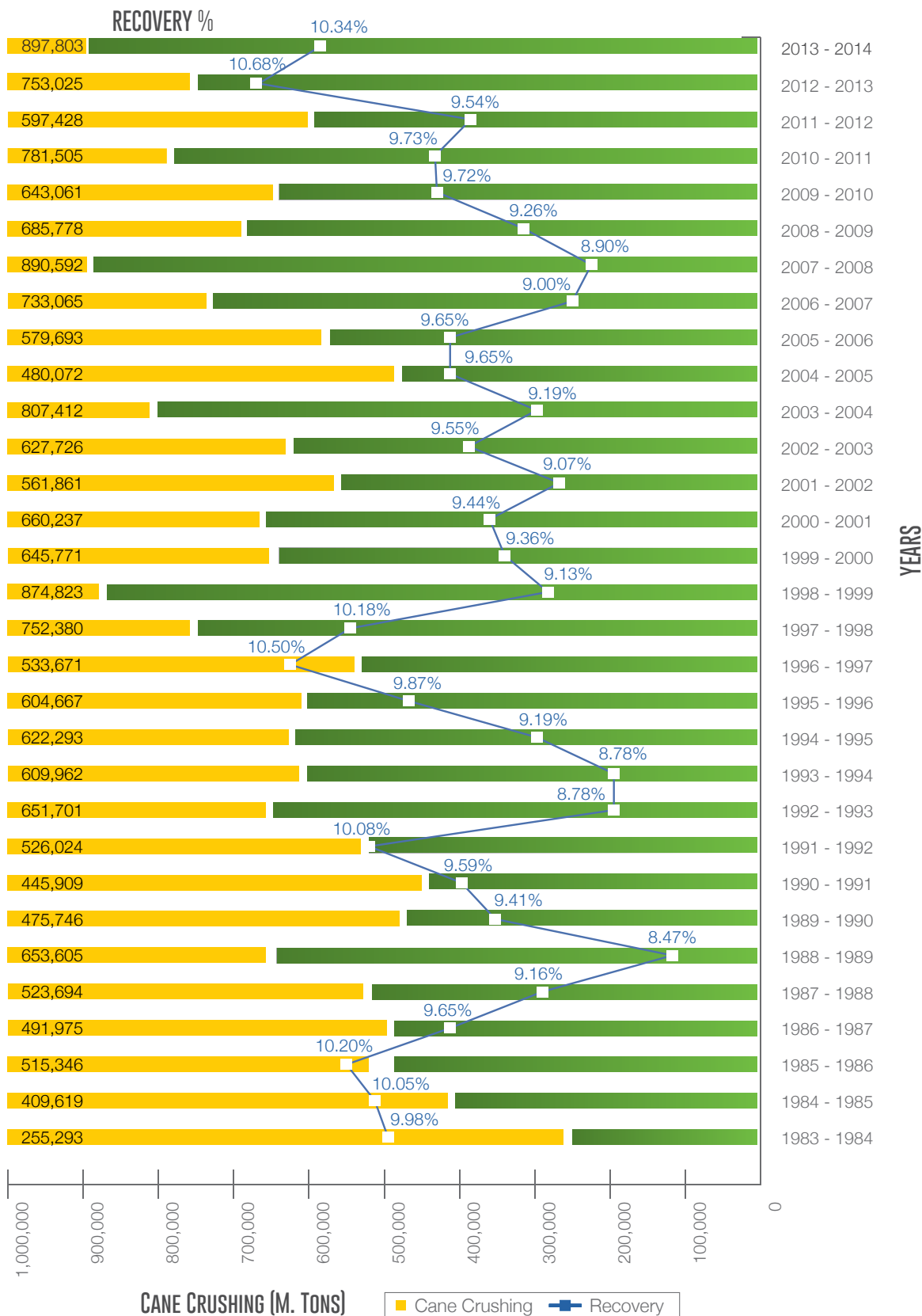
### BREAK-UP VALUE

(Rs.)

2014	52.15
2013	48.73



# CANE CRUSHING HISTORY



## SUGAR INDUSTRY OVERVIEW

Pakistan is the world's sixth largest producer of sugarcane in terms of acreage, and the 9th largest producer of sugar. In Pakistan, sugarcane is grown on approximately 1.1 million hectares and provides the raw material for 86 sugar mills. Sugar industry is the country's second largest agro-industry after textiles.

Worldwide sugar consumption during the 2013/14 season stood at 167.5mn tons while sugar production worldwide clocked in at 175.7mn tons adding to the global sugar glut since 2010/11. Sugar production has steadily increased since 2009/10 when total production stood at 153.36mn tons while consumption stood at 154.4mn tons causing a deficit and higher sugar prices.

Global per capita sugar consumption has grown from 20.4kg per annum in 1995 to 24.7kg per annum in 2014 at a CAGR of 0.95% while world population during the period has grown at a rate of 1.16% per annum.

Refined sugar prices have constantly declined from a high of USD 890/ton in July 2011 to a low of USD 403/ton in January 2014. Prices have since then remained in the range of \$390 - \$425

Historically prices have risen in periods where inventories have remained low and declined in periods where inventories have risen. The International Sugar Organization expects sugar production in 2014-2015 to decline to 180mn tons and consumption to increase slightly to 179.8mn tons ending a period of supply in the global sugar market. Even though the estimates do not suggest a large deficit, global inventories as a percentage of consumption will decline from 44.7% in 2014 to 44.2% in 2015 if the estimates stand true.

**PAKISTAN IS THE  
WORLD'S SIXTH  
LARGEST PRODUCER OF  
SUGARCANE IN TERMS  
OF ACREAGE, AND THE  
9TH LARGEST PRODUCER  
OF SUGAR. IN PAKISTAN,  
SUGARCANE IS GROWN  
ON APPROXIMATELY  
1.1 MILLION HECTARES  
AND PROVIDES THE  
RAW MATERIAL FOR 86  
SUGAR MILLS.**



Sugarcane is an important industrial and cash crop in Pakistan. Current year's increase in sugarcane cropped area and opportune monsoon rains provided optimum moisture, a key factor to impel a record sugarcane harvest. Pakistan's sugarcane crop was not affected by rainfall shortage as sugarcane is grown in irrigated areas in Pakistan. Though largely unaffected, a weaker monsoon could lead to lower recovery rates across the sector and lower production due to lower yields.

Efficiency of sugar mills mainly depends on the variety of cane grown in the vicinity of the sugar mills. In recent years most companies in the industry have tried to work with farmers to improve sucrose recovery rates by planting approved varieties of sugar cane that provide higher yields for farmers and higher recovery rates for sugar mills. Pakistan's average recovery rate has improved from 8.33% in 2000 to an estimated 9.90% in 2014

In 2013-14, Pakistan's sugarcane production remained around 63 million tons, up 7 percent over last year's harvest of 59 million tons. The higher production was due to favourable climatic conditions coupled with high prices received by the growers in the previous year. The current year's sugarcane crop benefited from the opportune monsoon season especially in southern Punjab and Sindh Provinces. The availability of optimum moisture throughout the growing season helped achieve record harvest. For 2013-14 sugar production was around 5.5 million tons based on record harvest following excessive rains/ flooding, favourable weather conditions coupled with improved sucrose contents. Pakistan sugar industry duly supported by government is making all out efforts to dispose of the surplus stocks but facing difficulties due to higher cost of production followed by glut like situation in the international

market. Since March 2014, the appreciation of Pakistani rupee versus U.S. Dollar is likely to affect the export of commodities from Pakistan

Only a few mills have also installed distilleries to process molasses into ethanol for value addition and offsetting low sugar prices. Firms with lower recovery rates have suffered the most during periods of oversupply and lower sugar prices.

Sugar consumption in Pakistan has grown from a mere 3.70mn tons in 2001 to 4.68mn tons in 2014 mainly due to population growth and an increase in per capita consumption of sugar. The balance stock from the previous year coupled with high production in the current year has created surplus inventory levels. If this high inventory is not managed properly and disposed off in the international market with government support, it will continue to depress prices of sugar locally and also hamper the profitability of the industry at large.



Diversification into JV

# Chemical Business

Production Capacity 200,000 Ltr per day





FARAN SUGAR MILLS LTD.

We believe that a life without ideas is an unfulfilled existence. Not only having ideas is important, but to express them, share them, and implement them is what makes a difference in this world. At FSML, we encourage every individual to express and share the ideas what one feels would bring sweetness in life for all.



Sweet Ideas

## SUGAR CANE DEVELOPMENT ACTIVITIES

To develop into a well equipped scientifically managed Modern Research Farm.

“To maximize production, Intensive Cultivation focusing on field economics; reducing the input cost of the crop in comparison with other crops grown in the area. We further lay analysis on modern technological advancement in order to minimize the cost of labour and efficient working.”

The FSM Sugarcane Research and Seed Multiplication Farm is a Research and Development Project located adjacent to FSML factory. Total area of the farm is 17.91 hector (44.25 acres) and 100% area under cultivation. The farm is equipped with latest farm machinery. FSM (SR & SM) Farm conducts field trials and experiments the promising sugarcane pipeline varieties, latest field management practices, planting methods and quality yield of plant and ratoon crop.

27 pipeline varieties of different research stations are under experimental process since last 3 years.

Some promising pipeline varieties like S-2003-US-633, S2003-US-718, S-2003-US-778, NIA-2011 and HOTH-127, after satisfactory field trials have been provided to growers for multiplication. All these research practices are being carried out in collaboration with different Government research institute like Nuclear Institutes of Agriculture; Tando Jam, Ayoob Agriculture Research Institute; Faisalabad and National Crops Research Station; Thatta.

We Focus on the following:

- Healthy Seed propagation programme (HSPP)
- Spaced transplanting technique (STP)
- Sugarcane Ratoon Management (SRM)
- Skip furrow method of irrigation (SFMI) – water saving sugarcane production technology.
- Drought resistant varieties
- Facilitating of the growers with latest agronomical practices.

## CHEMICAL BUSINESS VENTURE

Considering a sharp increase in the demand of ENA grade alcohol and penetration in new territories, the company decided to initiate the expansion project last year. Alhamdulillah, the project has been completed this year and now UNICOL is operating with a production capacity of 200,000 liters per day. The company is the largest exporter of ENA grade ethanol in Pakistan as well as the largest exporter in containers as well. Like other Ethanol producers, the decrease in international prices as well as a narrow US\$ - PKR parity has affected the bottom line of the company.

In order to tap the potential recovery of available CO<sub>2</sub>, Unicol has installed a CO<sub>2</sub> extraction plant which has started marketing CO<sub>2</sub> to the local industry. The company is geared up to contribute towards reducing the power shortage in the country and provide cheaper electricity from its captive power resource. Unicol has received an approval for a 3MW bio-fuel power plant and the work is under progress. These projects will mitigate the external threats and will contribute to the profitability of joint venture companies.



## POWER CO-GENERATION PROJECT



During winter season in Pakistan, we witness a considerable decrease in power generation due to lower availability of water for hydro-Power and shortage of natural gas for thermal plants. With a spirit to serve the nation for elimination of load shedding during this period, Faran Sugar has offered its captive power facilities to provide cheaper indigenous fuel based power to HESCO.

FSML will use its existing infrastructure to produce excess power and supply to HESCO grid during crushing season only. This has been taken as a pilot project and if things go smoothly, the capacity might be increased in the next year depending on the availability of Bagasse and attractive tariff from NEPRA

Al Hamdulillah, Faran Sugar has received approval from NEPRA to supply 5MW of electricity to HESCO on a take and pay basis. For this purpose,

# BIOLOGICAL CONTROL ACTIVITIES

## Overview and Background

Biological control based sugarcane Integrated Pest Management (IPM) Program has been implemented in Faran Sugar Mills Limited (FSML) area since 1989.

FSML has been the pioneer organization who patronized this environment-friendly technology in the sugar industry in collaboration with the internally acclaimed scientist, Dr. A.I Mohyuddin and his present team of agricultural technologists.

Before implementation of the project in 1989, the Mills had to suffer serious losses due to high infestation of sugarcane insect pests. As a result of uninterrupted operation of the biological based Sugarcane IPM Program since 1989, FSML have been protected from any catastrophe such as sudden flare-up of the insect pests. Because of regular field monitoring and pest scouting, almost all the imminent threat of pests' flare-up were timely handled by the biological lab system with appropriate action. In addition to this, among several other factor responsible for increasing or at least sustaining the sugar recovery, biological control program has also been an important contributor.

## Evolution and Achievements of the Program

Under the biological control based Sugarcane IPM Program, more than six million bio-cards including *Trichogramma chilonis*, *Chrysoperla carnia*, *Elasmus zehnetneri* and *Telenomus dingus* were produced and released in the sugarcane growers' field initially free of cost for about 12 years and then gradually fixing the price tag on the bio-cards / bio-products. As a result of these efforts, in-zone as well as out-zone area of about 40,000 acres is being covered for the releases of bio-cards as an integrated part of IPM Program that has entered the phase of biological control based IPM Enterprise. In addition to this, the sugarcane growers in the project area of FSML are being provided on-farm training for their capacity building in the right application of bio-cards and bio-products. To supplement these efforts, FSML is also providing a wide range of incentives in the form of promising sugarcane varieties, loan facility and technical support for development of sugarcane in FSML area.

With the passage of time, the biological control based

sugarcane IPM program is being evolved into the comprehensive Sugarcane Integrated Development and production program starting from preparation of the land up to clean supply of sugarcane to the mills. To step forward, a comprehensive Business Plan for promotion of the program over the next few years has also been documented in coordination with FSML.

## Current Status of Infrastructure of Biological Lab at FSML

With the wide acceptance and popularity of biological control based Sugarcane IPM Enterprise in Sindh, other sugar mills also started to adopt the same approach by establishing their own biological control laboratories. So far, the present team of Eco-Conservation Initiatives (ECI) has provided technical support to about thirty sugar mills in Sindh, Punjab and NWFP for establishing their own biological control based IPM laboratories which are being one successfully run.

Being the first and successful oldest model of biological control based sugarcane IPM program at FSML in Pakistan, a large number of experts from other organization, public and private sector as well as growers' community occasionally visit the biological labs at FSML.

## Biological Control Works

We initiated Biological Control Integrated Pest Management program at FSM 22 years ago, against sugarcane Borers and presently a target of releasing 450,000 lacs Tricho cards and 75,000 *Chrysoperla* cards against Borers and Sucking Pests is to be achieved with a program of increasing to 6 lacs Cards or more in coming year, keeping in view the excessive demand of growers. The pest infestation maintained a level of maximum 4.27% coming down from 13%, with coverage of approx. 16,000 acres of Sugarcane cultivation which is to be expanded to 24,000 acres as the demand from Mills and adjacent areas is increasing.

## Bio-technological Activities

Sugarcane crop (*Sacharum Officinarium*-family *gramineae*) is crushed with an objective to produce a final product of sugar (Sucrose). The bye – products obtained by the crushing process are molasses, Bagasse and press mud. Molasses are used for alcohol, medicine, cattle feed and fuel (ethanol).



Bagasse is mainly used as fuel for generation of power to run the sugar mills. Also it is used in chip board manufacture. Fresh Press mud is used in the fields as soil ameliorant enhancing crop production. Press mud after being chemically processed, becomes Bio Compost which is used as soil nutrients supplement as well as soil ameliorant.

### Press Mud

It is black powder mud, by - product of the sugar mills @ 3% cane crushing after the cane juice purification process, having following Nutrients Compositions (Faran Sugar Mills mud samples):-

- pH=7.03
- Nitrogen (N) = 0.72% (N2)
- Phosphors (P) = 0.54% (P205)
- Kallium (K) = 1.20% (K20)
- Orange Matter = 39%

As a fresh use, it is dumped, get dried and Spread @ 15 to 20 tons per acre. The press mud mixed in the

soil and the land is ploughed by Tractor drawn mold-board ploughs and after the land preparation, crop plantation starts. Some of the important function of press mud are to:-

- Improve the textures and structure of the soil.
- Increase the organic matter content of the soil.
- Supplement the soil nutrients there by reducing the cost of fertilizers.
- Improve the water holding capacity of the soil.

### Bio Compost

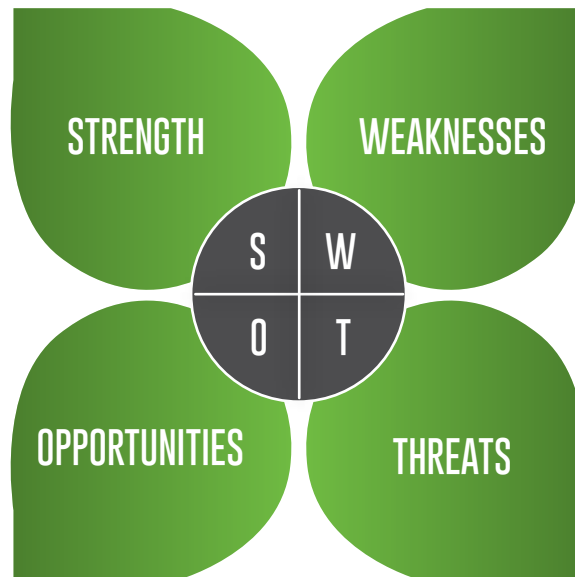
The Press mud is chemically processed end product called "Bio compost" which becomes more beneficial in terms of quality and quantity of available soil nutrients than Press mud used as fresh. The main constituents of "Bio compost" are Press mud, Ash, Spent wash, Molasses and Bio Aab.



# SWOT ANALYSIS

SWOT Analysis is a strategic planning tool used to evaluate the Strengths, Weaknesses, Opportunities and Threats, involved in a project or in a business venture. It involves specifying the objectives of the business venture or project and identifying the internal and external factors that are favourable and unfavourable to achieve that objectives.

- In house power generation
- Basic essential food
- No homogeneous commodity
- Ample human resource deployment sector



- High volatility in sugar-cane price and refine sugar
- Minimum support price for sugar cane and no minimum selling price for refine sugar
- No comprehensive policy for sugar industry and an ad-hoc policy is changed from time to time without thorough study

- Growth in consumption to drive the demand for sugar
- Value addition in by-product to earn additional income
- Alternative power generation at cheap rate
- Improvement in sugar yield (sucrose recovery) R&D resulting reduction in cost of production

- Government regulations are key risks to the industry
- Government's attempt to control inflation by curbing sugar prices
- Diversion of cane area to alternative crops for better earning by growers
- Fall in the sugar price in both the international and domestic market
- Intervention by the State Bank of Pakistan by imposing certain conditions for short term borrowings (working capital loan)
- Relaxing government levies on import of refined sugar and absence of permanent policy of export of refined / raw sugar
- The unstable political and economic scenario of Pakistan
- Natural climates: sugar cane crop requires huge quantity of water and inadequate rain causes shortage of water resulting acute shortage of cane cultivation
- Sugarcane varieties are prone to diseases that hamper the crop yield



## RISK MANAGEMENT

Faran Sugar's business activities are subject to significant risk factors that could have a material impact on strategic, operational, financial performance and compliance. Hence Board has established a structured approach by adopting effective risk corrective actions to mitigate these risks to acceptable levels. Our senior management is involved in identification of risks, implementation of corrective measures and monitoring of controls. Following is the outline of some of the material risks being faced by our company:

### **Sugarcane Development**

Given the huge competition for sugarcane following capacity expansion by 9,000 TCD of the mills, FSML efforts in terms of cane development activities has a key bearing on cane availability.

### **Procurement Planning**

Typically, FSML co-ordinate with about 1,700 to 1,800 growers/farmers for procurement of sugarcane. Since area allotted to factory is termed as in-zone around 50 miles radius, so as to ensure consistent supply of cane, it becomes very important to develop harmonious and good relations with these growers so that they do not switch to alternate cash crops to other millers.

### **Price Risk**

Before start of season, Govt. issues notification of sugarcane rate. Factory offers this rate to growers, in case of bumper crop at notified rate and in case of shortage of cane; rate may go well above notified rate. The rates are fluctuated through out the season to procure more and more cane. If cane is short, millers offers special subsidies (price & transport) to procure more cane. This factor affects the cost of sugar.

### **Maintenance**

Before start of the season every miller exerts efforts to minimize the stoppages due to technical grounds.

### **Recovery Risk**

Sugar content extraction made possible by efficient milling and minimization of losses.

**GIVEN THE HUGE COMPETITION FOR SUGARCANE FOLLOWING CAPACITY EXPANSION BY 9,000 TCD OF THE MILLS, FSML EFFORTS IN TERMS OF CANE DEVELOPMENT ACTIVITIES HAS A KEY BEARING ON CANE AVAILABILITY.**

Net Revenue of over  
Rs. 4,555 Million





FARAN SUGAR MILLS LTD.

One might think that the money value of a job constitutes its reward. But, we derive our greatest pleasure and reward in the work that precedes what the world calls success. Our focused and concerted efforts in pursuit of success have brought both tangible and intangible rewards for our company and country at large.



Sweet Rewards

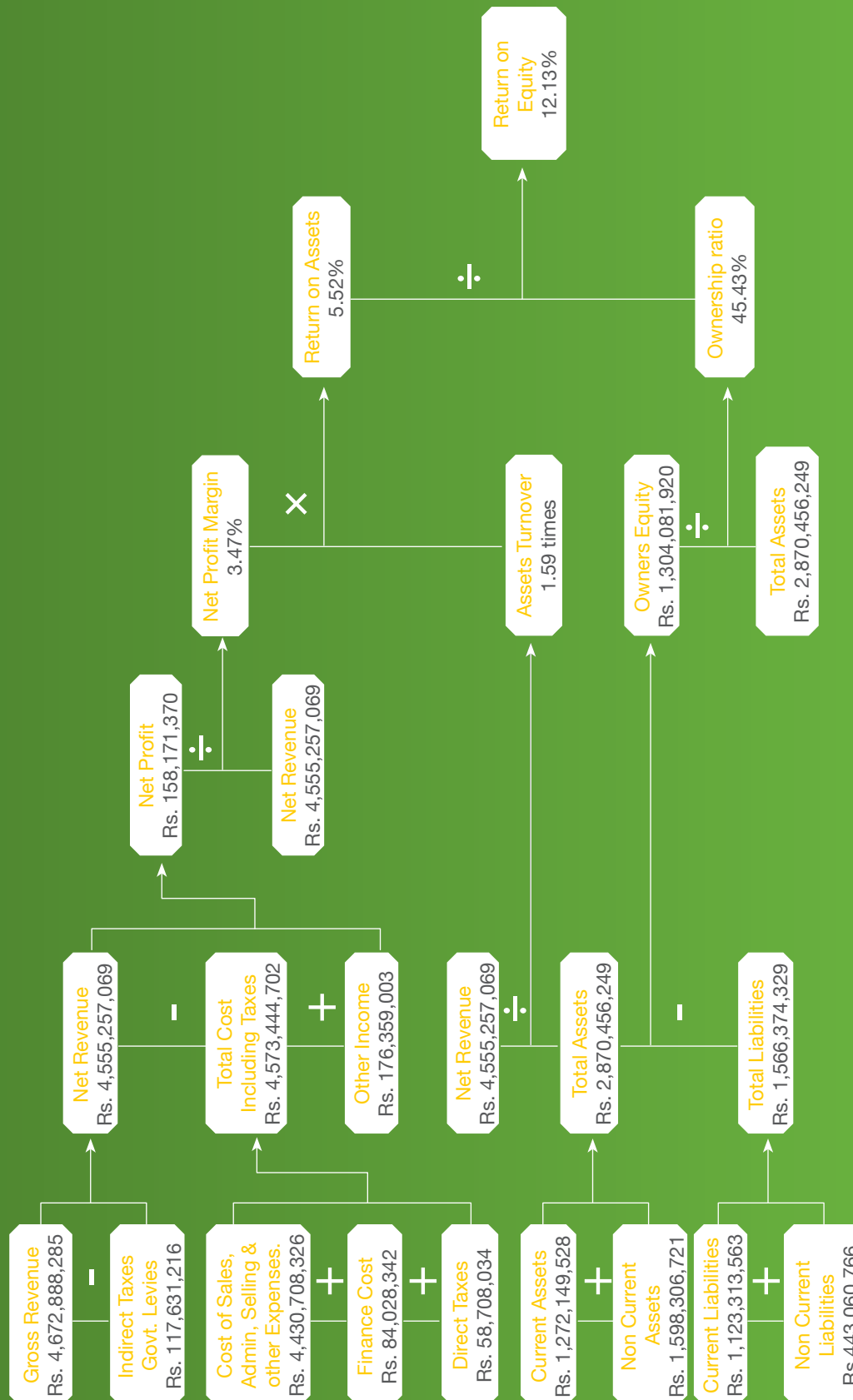
# INVESTOR INFORMATION (FOR THE LAST SIX YEARS)

		2009	2010	2011	2012	2013	2014
<b>Operational</b>							
Cane Crushing	M.tons	685,778	643,060	781,505	597,428	753,025	897,803
Processing-Raw Sugar	M.tons	-	-	3,875	-	-	-
Sugar Production	M.tons	63,473	62,568	79,641	56,999	80,429	92,824
Molasses Production	M.tons	37,987	31,578	42,767	32,186	36,780	45,797
Sugar Recovery	%	9.26%	9.72%	9.73%	9.54%	10.68%	10.34%
Average Crushing / Day	M.tons	5,575	5,450	5,704	5,532	6,972	6,506
Season Commenced	Date	14-Nov-08	13-Nov-09	22-Nov-10	28-Nov-11	30-Nov-12	1-Nov-13
Season Ended	Date	16-Mar-09	10-Mar-10	7-Apr-11	14-Mar-12	17-Mar-13	18-Mar-14
Duration of season ( days )	Days	123	118	137	108	108	138
<b>Profit &amp; Loss Account</b>							
Gross Revenue	Rs. In Million	2,767.52	4,189.63	4,104.90	4,386.50	4,254.52	4,672.89
Net Revenue	Rs. In Million	2,409.49	3,989.92	3,855.07	4,100.63	4,166.93	4,555.26
Gross Profit	Rs. In Million	190.66	243.89	412.37	313.12	363.79	305.08
Selling & Admin Exp.	Rs. In Million	57.38	53.21	64.94	86.87	141.19	159.40
Operating Profit	Rs. In Million	132.40	200.98	368.63	250.44	244.15	249.45
Earning before interest & Tax	Rs. In Million	164.93	209.25	409.42	421.34	373.36	300.91
Profit before Tax	Rs. In Million	116.14	157.31	310.30	369.17	284.26	216.88
Profit after Tax	Rs. In Million	85.68	107.90	234.36	304.80	233.02	158.17
<b>Balance Sheet</b>							
Share Capital	Rs. In Million	216.51	216.51	216.51	216.51	238.16	250.07
Reserves	Rs. In Million	230.64	301.50	484.13	732.93	922.42	1,054.01
Shareholders' Equity	Rs. In Million	447.16	518.01	700.64	949.44	1,160.58	1,304.08
Property Plant and Equipment	Rs. In Million	534.54	559.87	812.39	1,056.43	1,043.43	1,032.84
Net Current Assets	Rs. In Million	118.35	128.72	85.21	(2.94)	(9.05)	1,48.84
Long Term Loan	Rs. In Million	-	-	-	-	-	69.8
<b>Profitability Ratios</b>							
Gross Profit Ratio	%	7.9%	6.1%	10.7%	7.6%	8.7%	6.7%
Net Profit Ratio	%	3.6%	2.7%	6.1%	7.4%	5.6%	3.5%
Earning before Interest & Tax Margin	%	6.8%	5.2%	10.6%	10.3%	9.0%	6.6%
Return on Shareholder Equity	%	19.2%	20.8%	33.4%	32.1%	20.1%	12.13%
<b>Asset Utilization</b>							
Inventory Turnover ratio	Times	4.63	10.17	2.23	6.86	6.19	5.92
Total Asset Turnover ratio	Times	1.58	2.27	1.22	1.69	1.65	1.59
Fixed Asset Turnover ratio	Times	4.51	7.13	5.28	3.93	4.00	4.41
<b>Investment</b>							
Earnings per share	Rs.	3.97	4.98	10.82	12.80	9.32	6.33
Market value per share (year wise)	Rs.	17.00	17.50	19.40	27.00	32.74	37.02
Break-Up Value	Rs.	20.65	23.93	32.36	43.85	48.73	52.15
Price earning ratio (P/E)	Times	4.28	3.51	1.79	2.11	3.51	5.85
Dividend per share	Rs.	1.75	2.50	2.50	1.00	0.75	1.00
Bonus share	%	-	-	-	10%	5%	0%
Dividend payout	%	44%	50%	23%	8%	8%	16%
Dividend yield	%	10.3%	14.3%	12.9%	3.7%	2%	3%
Dividend cover	Times	2.27	1.99	4.33	12.80	12.43	6.33
<b>Leverage</b>							
Current Ratio	Times	1.17	1.15	1.04	1.00	0.99	1.14
Quick Ratio	Times	0.33	0.51	0.17	0.15	0.07	0.01
Interest Cover	Times	3.38	4.03	4.13	8.08	4.19	3.58
Gearing Ratio	%	-	-	-	-	-	5.35%

# DUPONT ANALYSIS



FARAN SUGAR MILLS LTD.

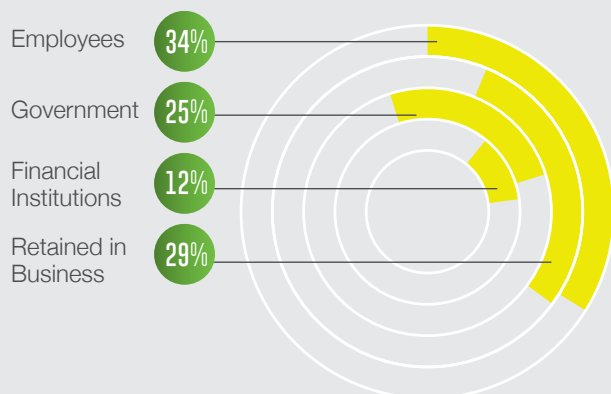


# FINANCIAL ANALYSIS

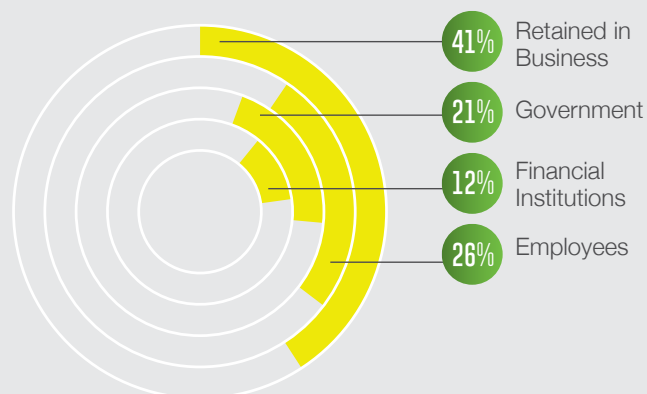
Profit & Loss Account		2009	2010	2011	2012	2013	2014
Net Sales	Rs. In Million	2,409,498	3,989,928	3,855,075	4,100,627	4,166,933	4,555,257
Cost of Sales	Rs. In Million	(2,218,841)	(3,746,036)	(3,442,701)	(3,787,507)	(3,803,146)	(4,250,180)
Gross Profit	Rs. In Million	190,657	243,892	412,373	313,120	363,787	305,077
Operating Expenses	Rs. In Million	(57,387)	(53,214)	(64,939)	(86,866)	(141,189)	(159,397)
Other Operating Expenses	Rs. In Million	(10,331)	(14,071)	(21,862)	(17,469)	(16,652)	(21,131)
Other Operating Income	Rs. In Million	9,460	24,373	43,064	41,658	38,208	124,903
Operating Profit	Rs. In Million	132,399	200,980	368,636	250,442	244,153	249,452
Share in profit of associate	Rs. In Million	32,534	8,286	40,783	170,898	129,206	51,456
Finance Cost	Rs. In Million	(48,790)	(51,949)	(99,118)	(52,175)	(89,104)	(84,028)
Profit before taxation	Rs. In Million	116,143	157,317	310,301	369,166	284,256	216,879
Taxation	Rs. In Million	(30,467)	(49,412)	(75,965)	(64,370)	(51,239)	(58,708)
Profit after taxation	Rs. In Million	85,676	107,905	234,336	304,795	233,017	158,171

Vertical Analysis - % of Sales		2009	2010	2011	2012	2013	2014
Net Sales		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of Sales		-92.09%	-93.89%	-89.30%	-92.36%	-91.27%	-93.30%
Gross Profit		7.91%	6.11%	10.70%	7.64%	8.73%	6.70%
Operating Expenses		-2.38%	-1.33%	-1.68%	-2.12%	-3.39%	-3.50%
Other Operating Expenses		-0.43%	-0.35%	-0.57%	-0.43%	-0.40%	-0.46%
Other Operating Income		0.39%	0.61%	1.12%	1.02%	0.92%	2.74%
Operating Profit		5.49%	5.04%	9.56%	6.11%	5.86%	5.48%
Share in profit of associate		1.35%	0.21%	1.06%	4.17%	3.10%	1.13%
Finance Cost		-2.02%	-1.30%	-2.57%	-1.27%	-2.14%	-1.84%
Profit before taxation		4.82%	3.94%	8.05%	9.00%	6.82%	4.76%
Taxation		-1.26%	-1.24%	-1.97%	-1.57%	-1.23%	-1.29%
Profit after taxation		3.56%	2.70%	6.08%	7.43%	5.59%	3.47%

Horizontal Analysis - Year on Year		2009	2010	2011	2012	2013	2014
		over	over	over	over	over	over
		2008	2009	2010	2011	2012	2013
Net Sales		60.24%	65.59%	-3.38%	6.37%	1.62%	9.32%
Cost of Sales		63.25%	68.83%	-8.10%	10.02%	0.41%	11.75%
Gross Profit		31.93%	27.92%	69.08%	-24.07%	16.18%	-16.14%
Operating Expenses		-9.01%	-7.27%	22.03%	33.77%	62.54%	12.90%
Other Operating Expenses		65.91%	36.20%	55.37%	-20.09%	-4.67%	-16.90%
Other Operating Income		-46.25%	157.64%	76.69%	-3.26%	-8.28%	226.90%
Operating Profit		42.64%	51.80%	83.42%	-32.06%	-2.51%	2.17%
Share in profit of associate		-9.68%	-74.53%	392.20%	319.04%	-24.40%	-60.18%
Finance Cost		131.12%	6.47%	90.80%	-47.36%	70.78%	-5.70%
Profit before taxation		7.81%	35.45%	97.25%	18.97%	-23.00%	-23.70%
Taxation		1.56%	62.18%	53.74%	-15.26%	-20.40%	14.58%
Profit after taxation		10.22%	25.95%	117.17%	30.07%	-23.55%	-32.12%



Distribution of value addition for the year ended Sep 30, 2014



Distribution of value addition for the year ended Sep 30, 2013



Balance Sheet		2009	2010	2011	2012	2013	2014
<b>Assets</b>							
Non Current Assets	Rs. In Million	710,126	776,121	1,036,483	1,437,826	1,554,216	1,598,307
Current Assets	Rs. In Million	818,849	979,588	2,121,221	988,235	976,400	1,272,149
Total	Rs. In Million	1,528,976	1,755,710	3,157,704	2,426,061	2,530,616	2,870,456

<b>Equity and Liabilities</b>							
Shareholder Equity	Rs. In Million	447,160	518,013	700,612	949,438	1,160,579	1,304,082
Non Current Liabilities	Rs. In Million	-	-	-	-	-	58,858
Deferred Liabilities	Rs. In Million	381,316	386,830	421,078	485,449	384,588	384,202
Current Liabilities	Rs. In Million	700,500	850,867	2,036,014	991,174	985,449	1,123,314
Total	Rs. In Million	1,528,976	1,755,710	3,157,704	2,426,061	2,530,616	2,870,456

### Vertical Analysis

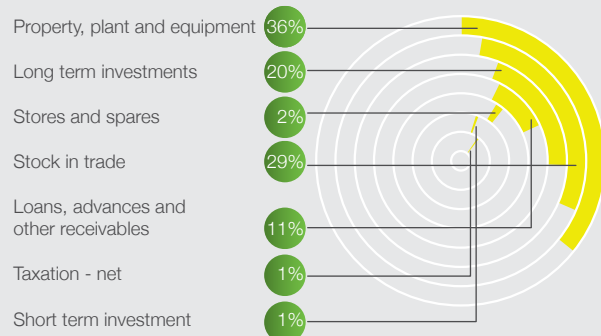
<b>Assets</b>							
Non Current Assets		46%	44%	33%	59%	61%	56%
Current Assets		54%	56%	67%	41%	39%	44%
Total Assets		100%	100%	100%	100%	100%	100%

<b>Equity and Liabilities</b>							
Shareholder Equity		29%	30%	22%	39%	46%	46%
Non Current Liabilities		0%	0%	0%	0%	0%	2%
Deferred Liabilities		25%	22%	13%	20%	15%	13%
Current Liabilities		46%	48%	64%	41%	39%	39%
Total Equity and Liabilities		100%	100%	100%	100%	100%	100%

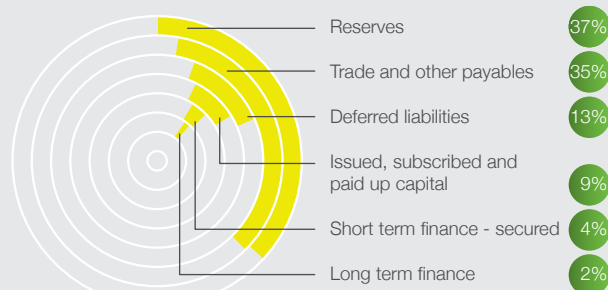
### Horizontal Analysis - Year on Year

		2009 over 2008	2010 over 2009	2011 over 2010	2012 over 2011	2013 over 2012	2014 over 2013
<b>Assets</b>							
Non Current Assets		8%	9%	34%	39%	8%	3%
Current Assets		-4%	20%	117%	-53%	0%	30%
Total Assets		1%	15%	80%	-23%	5%	13%

<b>Equity and Liabilities</b>							
Shareholder Equity		23%	16%	35%	36%	22%	12%
Non Current Liabilities		-100%	-	-	0%	0%	0%
Deferred Liabilities		3%	1%	9%	15%	-21%	0%
Current Liabilities		-8%	21%	139%	-51%	-1%	14%
Total Equity and Liabilities		1%	15%	80%	-23%	5%	13%



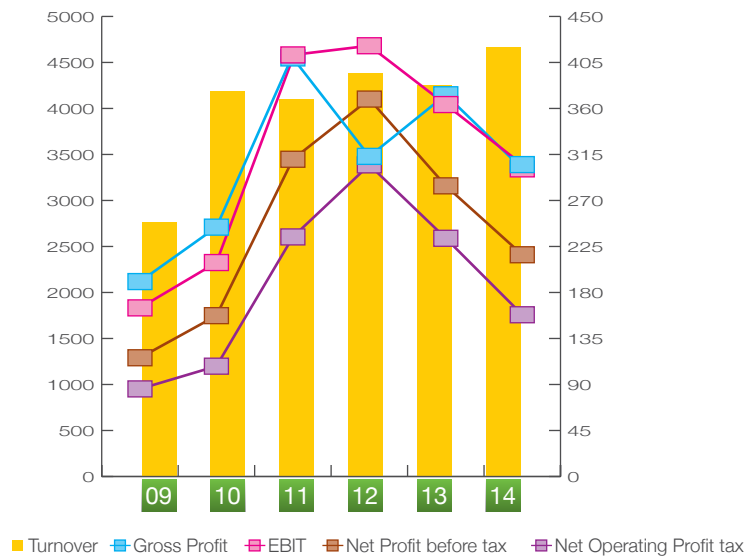
Composition of Balance Sheet - Assets



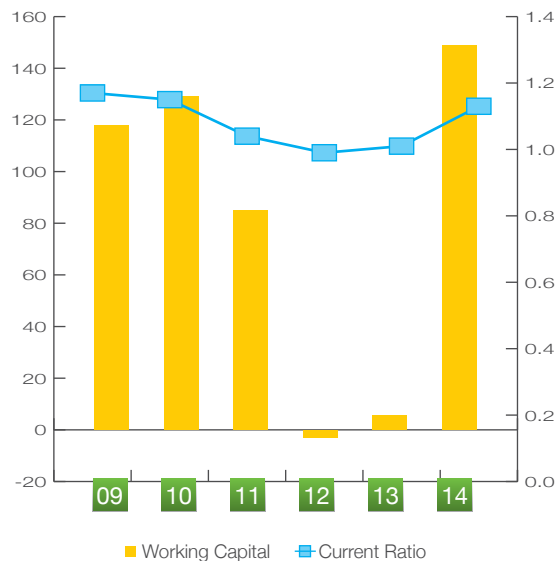
Composition of Balance Sheet - Shareholders Equity and Liabilities

# FINANCIAL ANALYSIS

## PROFITABILITY ANALYSIS

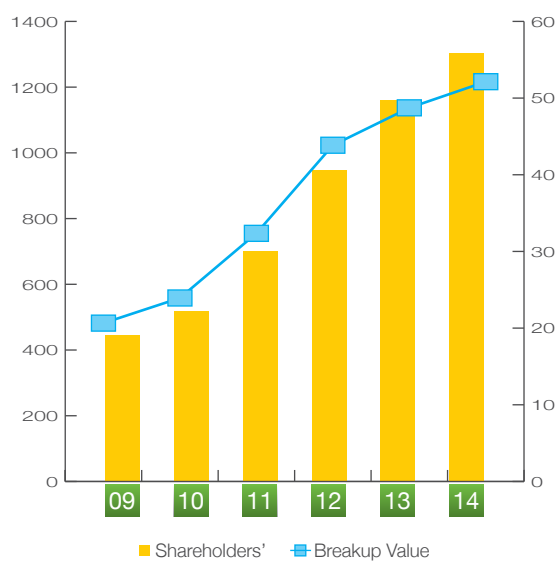


## LIQUIDITY ANALYSIS

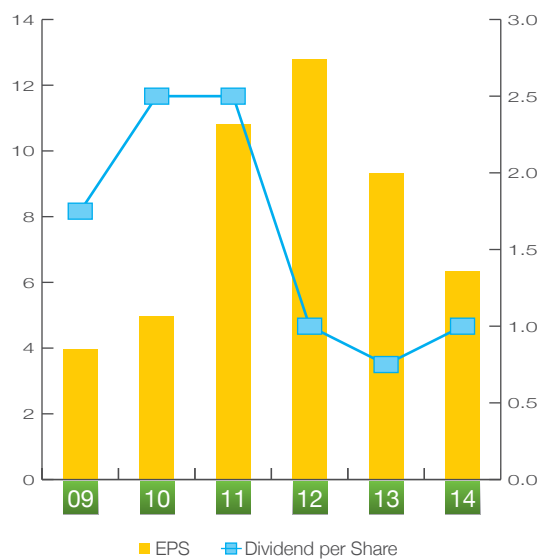




## SHAREHOLDERS' EQUITY AND BREAKUP VALUE



## EPS AND DIVIDEND PER SHARE (RS.)



Integrated Pest Management (IPM) Program  
distributed

Over 5 Million Trico Cards  
to our growers





FARAN SUGAR MILLS LTD.

Our philosophy is to create a congenial working environment where dignity and value of the personnel is considered as top responsibility. We focus on encouraging and empowering employees to contribute to the company's success



*Sweet Environment*

# CORPORATE SOCIAL RESPONSIBILITY

## ENVIRONMENTAL

### transforming raw materials

Sugar production remains at the core of our operations, but using a highly integrated approach to manufacturing, we aim to transform all of our raw materials into sustainable products.

We've invested millions of rupees in the last two decades to continuously improve our use of raw materials, installing leading technology in energy efficiency, power and water treatment. This substantial investment has increased our operational capabilities and enabled us to produce best quality sugar.

Faran Sugar believes that protection of the environment is everyone's responsibility and all employees are accountable for environmental performance.

## SOCIAL

### our people

We believe that our people are the key to our success. Faran Sugar's diverse business holds a multi-skilled workforce with specialists in engineering, business, finance and agriculture and we work as one team to succeed.

Built upon the values of respect, being safe, pride, customer focus, one team and a passion to excel, we train people to both know and care about what they do, by setting clear and focused objectives.

## HEALTH & SAFETY

### award winning initiatives

Nothing is more important than health and safety

and our target is to eliminate all injuries, by creating a culture of preventing injury and ill health at work.

Faran Sugar is committed to ensuring the health, safety and welfare of its employees at work and others who may be affected by its activities. We have a Health & Safety Policy to govern our activities and continually seek to improve our health and safety performance. Our business complies with all legal requirements and we provide a secure work environment by ensuring all significant risks will be assessed and effectively managed. We maintain our sites and plants in a technically sound condition and ensure our teams and our contractors are competent to work on site.

## HEALTH & WELLBEING

### the role that sugar can play in a healthy balanced diet

Sugar not only gives us sweetness, act as a preservative and provide palatability, but is an important source of energy.

We all need energy to go about our daily lives. The most important and predominant sugar in the body is glucose; body tissues require a constant supply of fuel in the form of glucose from foods and glycogen reserves. The brain requires around 130g of glucose a day to cover energy needs.

As per current scientific research, approximately half (45–60%) of our energy intake should come from carbohydrates (these include sugars and starches). The rest of the diet should be made up of protein (12–15%) and fat (between 30–35%, as % of energy).

# HUMAN CAPITAL

Human resource development is a strategic task at FSML; a task which entails identifying the existing talent and potential for development in the current work force, investing in the human capital before formal assessment of work performance.

At Faran Sugar Mills strategies are formulated to foster an environment which brings best out of its

people, by inducing close coordination between different functional departments.

The company believes its employees to be one of the critical success factors contributing to the company's performance since incorporation. At FSML we recruit best people, give equal opportunities for growth, motivate them through



leaders and reward their performance, so that these best people find themselves with the vision of the company. The board is committed to ensure compliance with code of conduct, developed to govern work behaviour, in which everyone is treated with dignity and respect to recognize and value his contribution towards the achievement of company's objectives.

We are committed to create a culture, comprising of best working environment, remuneration, incentives and opportunities for personal growth, which induces highly qualified professionals to be retained and associated with the company for a

significant period. Moreover the company is keen to introduce new blood to keep pace with the innovative and changing environment.

We are committed to equality of opportunity for all regardless of gender, age, race, physical ability, religion and political conviction as laid down in company's Code of Conduct and Ethics.

The company seriously takes its obligation to the disabled and seeks not to discriminate against current or prospective employees because of any disability.

## HEALTH, SAFETY AND ENVIRONMENT (HSE)

Health and Safety of our employees has been the hallmark of Faran Sugar Mills Ltd.

FSML recognizes that safe operations depend not only on technically sound plant and equipment but also on competent people and an active HSE and that no activity is so important that it cannot be done safely.

The company conducts its business with the highest concern for the health and safety of its employees, contractors, customers, neighbors and the general public and for the environment in which it operates.

The company has well defined health and safety polices. The company seeks to identify and eliminate occupational health hazards, and is committed to providing a safe workplace for all its employees and strives for zero injuries.

Policies are regularly reviewed to ensure that the standards set are linked to industry best practices. Health and safety training is provided to employees to ensure that they perform their work in accordance with the Company's standards. In this respect, in-house training for fire safety, first aid, defensive driving and occupational health and safety is

carried out routinely. The company ensures that employees and, where applicable contractors, are aware of potential hazards and of the Company's requirements for health, safety and environmental friendly working practices. Safety drills are carried out regularly to ensure that the state of preparedness and emergency response time remain within established limits.

**PAKISTAN IS THE  
WORLD'S SIXTH  
LARGEST PRODUCER OF  
SUGARCANE AND NINTH  
LARGEST PRODUCER OF  
SUGAR.**

## SUGAR & HEALTH



Sugar is usually viewed as some sinful, devilish character that sits on our shoulder tempting us. We love to find a “Food Villain” for which we can blame all our problems, disease, obesity, and other issues.

Sugars are carbohydrates. Like all carbohydrates, they provide a source of energy in our diet. Sugar is a term that includes all sweet carbohydrates, although the term most often is used to describe sucrose or table sugar, a ‘double sugar’. The body breaks down carbohydrates into simple sugars such as glucose that can be readily used in the body.

Our body is made up of trillions of cells which are the building blocks for the tissues and organs of our body. In other words: Our cell health is critical to overall health. If the cells are nourished we have the right foundation for a nourished body.

If you cut out all sugars, your body would soon begin to fail. Your brain especially relies on sugar, or glucose, to function. If you don’t have enough sugar in your bloodstream, you can become confused, forgetful, or even lapse into a coma.

Sugar is a form of carbohydrate and it provides the same amount of energy or kilojoules (kJ) per gram as other forms of carbohydrates found in breads, rice, pasta and fruits.

Our body breaks down carbohydrates and converts them into a simple sugar called glucose. This ready form of energy is carried through the blood and delivered to every cell.

One gram of carbohydrate provides 16 kJ of energy. One gram of fat provides 37 kJ. Therefore, fats in food contribute double the energy than the equivalent amounts provided by sugar.

There has been a lot of debate about the link between high sugar intake and being overweight or obese. But there is general agreement that energy (kilojoules) above the body’s needs, will be stored as fat.



## EVENTS AND ANNUAL ACTIVITIES

### Eid-e-Melad-un-Nabi Celebrations:

Eid-e-Melad-un-Nabi (S.A.W.W.) was celebrated with full fervour at Mills and School. This event had a mixture of Qirat Competitions, Naat Competitions, and Speech Contests based on the “Seerat-un-Nabi” (S.A.W.W.) concept. To incentivize a competitive feel to this event we organized a Prize Distribution ceremony at the end of this event.

### Hajj Balloting Ceremony:

This particular event was structured on the Lucky Draw concept, through which 3 employees were selected after a balloting process for Hajj-e-Baitullah.

### 23<sup>rd</sup> March:

Celebrated as National Day in School.

### One day Training course:

This event was held and organized by the National Productivity Organization (NPO). The event particularly entailed disaster management, fire protection, inventory management plans and systems. Starting with the disaster management plan, this was held on the 12th of August 2014, in which all Head of Departments and senior officers participated. Then was the fire protection system and techniques, which was held on the 17th of May 2014 at Hyderabad Chamber of Commerce and industry. Last but not the least, we had the inventory management and MRP which was held and assisted by the NED University of Engineering and Technology. In between the above we had arranged a Seminar on Labor Laws which particular touched upon Workers categories, contract systems, benefits and company profits.

### Picnic Program of Workers Club:

Worker club arranged a Picnic for workers and visited Bhit Shah, Rani Kot Fort & Sehwan Sharif with a participant number of 110 workers.



## EVENTS AND ANNUAL ACTIVITIES

### Iftar Party:

An Iftar Party was held on 18th of July 2014 at Tennis Lawn in which all Head of Departments, Officers & Workers stood as participants.

On 25th Ramzan-ul-Mubarak, an Iftar party was arranged for all workers and contractors. Following that event, on the 27th Ramzan-ul-Mubarak a Ceremony of Khatam-ul-Quraan along with a distribution of sweets was arranged at the Colony Mosque.

### Independence Day:

On Independence Day Function was held in School, different events like Flag hoisting, Speech Competition in English, Urdu and Sindhi, Tablos and quiz competition were held and prizes were distributed amongst the winning students.

### Sports Tournament:

Arranged during June to September amongst different departmental teams and Prize Distribution was held for winners of Cricket, Badminton, Carrom, Cards, Volley Ball, Tug of War & Races events.

### Sugarcane Seminar:

Sugarcane Seminar was held on the 25th of September 2014, with a participation of 355 Growers. This seminar entailed the topics Performance of Sugarcane varieties in the area, Soil sampling method, its importance and improvement of soil health Programme, Crop management better Ratoon Management practices (BRMP) and Growers Economics to be improved by adoption of intercropping Technology.

### Farewell Party

FSM Executive Officer's club arranged a farewell party in honour of Arif Amiwala, the outgoing Director Operations.





**Eye Camp:**

8th Free Surgical Eye Camp was held between 21st to 24th October 2014 in which 734 Patients were treated in OPD and 110 successful Operations conducted.

**Free Mobile Camp:**

Mega Medical Camp Arranged at BHU Shaikh Bhirkio covering Hepatitis B&C (Screening + Vaccination), Paeds, Gynaecology, Skin, and Polio drops. Furthermore ultrasound arrangements were also made along with Free Medicine distribution.

This was executed through two Free Mobile Medical Camps arranged in different villages. Where tricycles were distributed among disabled people alongside which financial assistance was provided to different needful people for their daughters' marriages.

**Eid-ul-Azha:-**

Sacrificial animals were arranged for Qurbani, the same were slaughtered and distributed amongst all and sundry. Barra Khana also arranged for Staff.

**Inauguration Ceremony:**

Started with the recitation of an ayat from the Holy Quran following with a Duaa. The former was followed by the Sacrifice of Animals along with a prize distribution ceremony to drivers, which ended with refreshment for growers & guests.





Provided

# Secondary School

Education to Thousands of  
boys and girls



FARAN SUGAR MILLS LTD.

We all have dreams. But in order to make dreams come into reality, it takes an awful lot of determination, dedication, self-discipline, and effort. FSML is striving hard to transform the dreams of our less privileged community into reality by providing the resources in the form of a secondary school where around 750 boys and girls studying in order to bring sweetness in their lives.



*Sweet Dreams*

# DIRECTORS' REPORT

## Dear Shareholders,

In the name of ALLAH, the Most Gracious and Most Merciful, your directors are pleased to present Annual Report and Audited Financial Statements of the Company for the year ended September 30, 2014.

It gives me immense pleasure to report another hallmark year in the company's history as reported ever highest production of refined sugar and growth in export sale by 14% over the previous year breaking all previous record of export sale both in terms of volume and value.

## Financial Performance

Financial results are summarized as follows:

	2014	2013
	----- Rupees in '000 -----	
<b>Gross sale</b>	4,672,888	4,254,524
Profit before taxation	165,424	155,050
Share in profit/(loss) from Unicol Ltd	51,455	129,206
	216,879	284,256
<b>Less: Taxation</b>		
Current	48,094	34,380
Deferred	10,614	16,859
	58,708	51,239
Profit after Taxation	158,171	233,017
<b>Earnings per Share (Rs.)</b>	6.33	9.32
		Re-stated

The gross sales during the year were Rs. 4.672 billion including export sale of Rs. 1.516 billion vis-à-vis Rs. 4.255 billion including export sale of Rs. 1.326 billion for the corresponding year 2012-13. The growth of 10% revenue during the year was primarily attributable to increase in sales volume as well as increase in selling price of Molasses. Selling price of refined sugar remained lower in the domestic market throughout the reporting period due to continuous surplus production in the country since last four consecutive years as well as depressed international market.

Administrative expenses increased by 12%, an expected rise considering factor of inflation. Increase in selling and distribution expenses was mainly due to increase in export sale. Financial charges remained lower as compare to last year despite of increase in working capital requirement due to effective fund management while other income shown monumental growth mainly due to freight subsidy of Rs.83.283 million despite of lower sale of bagasse and foreign exchange loss of around Rs. 6.15 million on export sale. During the year 2012-13 and 2013-14, the Government announced certain incentives for export of sugar i.e 0.5% FED to equivalent export quantity and freight inland subsidy at the rate of Rs.1.75/ Kg which was reduced to Re.1/ Kg to encourage sugar mills to export sugar. But no payment of inland subsidy has



been yet made to sugar sector which are causing serious financial problems. Unicol Limited also did not maintain its profitability which reduced by 60% mainly due to rupee appreciation as well as decline in selling price and increase in raw material cost.

Thus, your company earned pre-tax profit of Rs. 216.879 million which primary boosted on heels of strong contribution from FED and freight inland subsidy and also including share of profit from Unicol Limited amounting to Rs. 51.455 million against pre-tax profit of Rs. 284.255 million of preceding year including share of profit from Unicol Limited amounting to Rs. 129.206 million. Consequently, earning per share dipped to Rs. 6.33 from Rs. 9.32 per share.

### Operational Performance

The crushing season 2013-14 had begun on November 1, 2013 and closed in mid-March 2014, showing higher yield of sugar cane this year. The production of sugar in Pakistan reached a new record of around 5.5 million metric tons. In 2008-2009 and 2009-10, the country endured an unprecedented shortage of sugar as domestic output stood below consumption. But for last three-four years, there is surplus production of sugar.

During season 2013-14, sugarcane was cultivated in Punjab on an area of 724,000 hectares as compared to 767,670 hectares in the previous year, In Sindh on an area of 298,000 hectares as compare to 253,694 the previous year and Khyber

Pakhtunkhwa (KP) on an area of 107,693 hectares as compared to 106,734 hectares the previous year. Sugar data reported by sugar mills of the country reveals that quantity of sugarcane crushed in the country was 56 million metric tons by 87 mills as compared to 50 million metric tons crushed by 86 mills in last season 2012-13, and bumper sugar production 5.5 million metric tons was reported with average recovery of 9.9%, out of which 3.208 million metric tons produced in the Punjab with average recovery of 9.85%, followed by Sindh of 1.813 million metric tons with average recovery 10.21% and Khyber Pakhtunkhwa of 0.3 million metric tons with average recovery 8.75%. It had been the third consecutive year that the industry closed crushing season with surplus production.

We started crushing on 1st November, 2013 as per government policy enforced on us in order to qualify for export which also caused loss to us but due to constrain in supply of sugar-cane, we had to stop our Mills. Subsequently, on 18th November 2013 crushing was resumed and we crushed 897,503 metric tons sugarcane with average recovery of 10.33%.

By the grace of Allah, Our mills performance was to our expectation; produced highest ever record refined sugar production of 92,824 metric tons breaking all previous record. With a sucrose recovery rate of 10.68% and 10.33% in FY13 & FY14, Faran remains an efficient player in the sector.

The comparative summarized operating result of your mills for complete season is as follows:

		Season 2013-14	Season 2012-13
Season commenced	Date	01-November- 2013	30-November- 2012
Season end	Date	18-March-2014	17-March-2013
Duration of Operation	Days	138	108
Minimum Support Price	Per 40 kg	172	172
Sugar-cane Crushed	Metric tons	897,803	753,025
Sugar Production	metric tons	92,824	80,428
Recovery	%	10.33	10.68

International refined sugar prices have constantly declined from a high of approximately USD 890 per metric tons in July 2011 to a low of approximately USD 390 per ton in 2014. International sugar price have shown great fluctuation during the year under review. In the beginning of the season 2013-14, 500,000 metric tons of sugar was allowed to export with incentives on account of Federal Excise Duty (FED) at the lower rate of 0.5 percent on quantity of local sale equivalent to export quantity and freight subsidy of Re.1 per kg to encourage export. In March 2014, the Economic Co-ordination Committee (ECC) allocated a further quota of 250,000 metric tons sugars for export in addition to 500,000 metric tons without these incentives.

During the year, your company also broke all our previous record of export sale both in terms of value and tonnage.

#### Liquidity and Debt management

Your Company is resorting all its financial needs through only Shariah compliant products from prominent Islamic banks and provide HALAL earning to its Shareholders. The company has substantial approved finance facilities limit of Rs.2.75 billions under various products of Islamic financing to meets its huge working capital requirements as well as long term financing. Alhumdolillah, we are RIBA/ INTEREST FREE CORPORATE ENTITY.

The cash flow from operating activities showed cash generation of Rs.148.644 million as compared to cash generated of Rs.113.484 million in previous year. During the year under review, we obtained working capital finance under different Islamic products amounting to Rs.1.55 billion (2012-13: Rs. 2.299 billion ) to meet our working capital requirement in addition to opening outstanding loan of Rs. 300 million , out of which Rs 1.75 billion had been paid before the year end. The company had been managing its long term projects & major overhauling and payment of dividend to the shareholders through internal cash generation since 2009 and no any long-term debt was on its books since 2009. However, as per policy decided in last year to finance any further capital nature expenses through long term finance to have sufficient fund for working capital and distribution to Shareholders, the company obtained Rs. 70 million during the year for capital nature expenses. The liquidity position of the

company remained stable with the year end current ratio of Rs. 1.13:1.

#### Expansion and Modernization Projects

We spent huge amount of approximately Rs.540 million in 2011 and 2012 in various Balancing, Modernization, Replacement and Expansion (BMRE) projects with the objectives of long term benefits. Last year we achieved highest production of refined sugar with the highest recovery, and this year we again broke all our all previous record of production with modest sucrose recovery, bearing fruits of the investment.

During the year under review, the National Electric Power Regulatory Authority (NEPRA) has awarded bagasse-based power generation license of existing capacity of 13MW. Faran has also received approval from NEPRA to provide 5MW of electricity to HESCO on a take and pay basis. Faran will use its existing infrastructure to sell up to 4MW bagasse based power only during the season.

We believe the long term survival of the company in today competitive and challenging environment also lies in investing in suitable allied business beside the induction of the latest machinery and optimization techniques for efficiency of plant. Our entrant in power generation & selling business will define our path for further investment in this venture.

#### Unicol Limited (joint venture Distillery Project)

Unicol Limited has reported less profit as compare to previous year due to multiple factors. However, the recent expansion of production capacity to 200,000 litres per day, commercial production of CO2 and setting up of 3MW bio-fuel power plant would bear fruit in the years a head. The expansion has been completely financed through Unicol's own sources without injection of any further investment from JV partners. We initially invested Rs.105 million in distillery project which was formed in 2004 in accordance with the terms of a Joint Venture agreement concluded amongst the three leading sugar mills listed on Stock Exchange.

Unicol Limited also assisted in contributing equivalent to Pak rupees amounting to Rs. 3.16 billion towards country's precious foreign exchange reserve.



During the year the Board of Directors of Unicol Limited declared stock dividend at the rate of 20% for the year ended September 30, 2013 and interim stock dividend at the rate of 10% for the period ended March 31, 2014.

### Financial Reporting Frame Work

In Compliance with the requirements of Revised Code of Corporate Governance 2012, your Directors' report that:

- The financial statements prepared by the management present fairly its state of affairs, the result of its operation, cash flows and changes in equity.
- The company has maintained proper books of accounts as required by the law.
- Appropriate accounting policies have been consistently applied in preparation of financial Statements and accounting estimates are based on reasonable and prudent judgment.
- The accounting policies and disclosures are in accordance with the International Accounting Standards as applicable in Pakistan, unless otherwise disclosed.
- The System of internal control is sound in design and effectively implemented and being monitored.
- There is no significant doubt as to the ability of the Company to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed In the listing regulations.
- The summary of key operating and financial data and graphic presentation of the important statistics for last six year annexed.
- The Company operates funded Provident fund scheme. The fair value of assets based on latest Un-audited accounts of the fund amounted to Rs. 19.96 million.

### Board of Directors

Subsequent to balance sheet date Mr. Iqbal A. Rehman and Mr. Wahid Ghaffar has resigned from the Board. I take this opportunity to thank our outgoing directors who have, over their tenure, rendered invaluable services and contribution towards the success of the Company and achievement of our objectives.

During the year four meetings of Board of Directors were held. Participation of Directors as follows:

Name of Directors	No of meeting attended
Mr. Muhammad Amin Ahmed Bawany	02
Mr. Muhammad Omar Bawany	03
Mr. Ahmed Ali Muhammad Amin	04
Mr. Iqbal A Rehman	02
Mr. Wahid Ghaffar	03
Mr. Irfan Zakaria	02
Mr. Muhammad Asif	03
Mr. Sheikh Asim Rafique	02

Leave of absence was granted to Directors who could not attend some meetings

### Pattern of Share Holding

The Company is listed on Karachi and Lahore Stock Exchanges. There were 2258 shareholders of the Company as on 30th September 2014. The detail pattern of shareholding and categories of shareholding of the Company as on 30th September 2014 are annexed to this annual report.

### Statutory Auditors

The present auditors Rehman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountant, have conveyed their willingness to be re appointed as auditors for the next year.

### Contribution towards Economy

Your company is a noteworthy contributor to the national economy. The Company has contributed to the national exchequer Rs. 185.33 million ( 2012-13 Rs. 146.29 million) in respects of payments towards Federal Excise Duty, Income Tax and other statutory levies which are 25% of value generated by the

Company. We have also exported record quantity of refined sugar and contributed around \$ 15 million (2012-13 US \$ 13 million) foreign exchange to the national economy.

### Dividend

In light of company financial and cash flow position, we have decided to recommend cash dividend of 10% which is subject to the approval of the members at the 33<sup>rd</sup> Annual General Meeting to be held on January 29, 2015.

### Post Balance Sheet Events

There have been no material changes since September 30, 2014 to the date of this report except the declaration of final cash dividend disclosed in notes to the Accounts. The effect of such declaration shall be reflected in next year's financial statements.

### Next Season and Future Outlook

The ongoing season 2014-15 looks very stressful and challenging for all stakeholders, particularly for growers and millers. The Provincial government arbitrarily imposed minimum support of Rs. 182 per 40 kgs on 7th November 2014 and also specified 14th November 2014 as the commencement date for the season 2014-15 by exercising power given under relevant provision of Sugar Factories Control Act 1950. Earlier, the government of Punjab also fixed minimum support price of Rs.180 per 40 kgs on 22nd September 2014 without considering selling price of sugar in domestic and international market. The minimum price of sugarcane has witnessed an average increase of 388%, i.e., 386% each in Punjab and KPK and 378% in Sindh between 2000-01 and 2012-13, whereas during the same period, the retail price of refined sugar has only increased by 99%. The figures show that since 2000-01, the average minimum price of sugarcane has increased five-fold, i.e., from Rs 35 per 40 k.g. to Rs 171 per 40 kg while the average price of refined sugar has increased from Rs 26.73 per kg. to Rs 53.25 per kg. It was categorically envisaged in the prevailing national sugar policy that the price of refined sugar shall be determined by free market and therefore in the prevailing circumstances, the

impugned provisions had become anachronistic, discriminatory and redundant and same was therefore apt to be struck down.

We have already taken up this matter before every forum of justice and competent authority for interest of whole sugar supply chain management and long term survival of sugar industry of Pakistan. Meanwhile government of Sindh issued another notification of interim minimum support price of Rs.155 per 40 kgs on 3rd December 2014 to commence crushing season and timely sowing of Rabi crop. The millers started crushing and entered into agreements with the sugarcane growers with regard to purchase of sugarcane. All of a sudden, the government issued a notification on December 9, 2014 withdrawing its notification dated December 03, 2014 and restored arbitrarily its earlier notification of minimum price of sugarcane at Rs 182 per 40kg.

It is expected that sugar production would be above 5.0 million metric tons due to another bumper sugarcane crop this season which will add further to the existing surplus. But low sugar prices in the domestic and international market are threatening the viability of the industry as well as damaging the growers' interest. As ex-mill sugar prices are lower than last year's price and also on declining trend, many in the sector fear accumulation of cane arrears. There is a brewing sugar crisis that is fast gathering momentum; however, we are confident that the Federal and the Provincial government must come forward for survival of the 2nd largest agro-base sector of the country. Economic Co-ordination Committee (ECC) of Cabinet is expected to approve incentives for sugar mills/ growers aiming to resolve issues being faced by the industry and growers. The Economic Co-ordination Committee (ECC) has also allocated sugar export quota of 500,000 metric tons for season 2014-15.

The ongoing season 2014-15 appears to be another challenging year for the business. We started our mills on 8th December 2014. As another bumper crop is expected, we expect capacity utilization for Faran to remain at historical highs. While the



company is very optimistic in sugar production, its short term growth will be hampered by the continuous decline in selling price.

Despite above unfavourable conditions, the Company will continue to focus on cost effectiveness, comprehensive sale policy and cane-procurement strategy. The company has started a program to replace low recovery sugarcane varieties with high recovery cane varieties and this program is gradually increasing the recovery rate that is increasing company's competitiveness in the industry. Declining trend of interest rate will also positively contribute towards profitability. We expect that the expansion in distillery capacity, completion of Co2 extraction plant and entrant in power business will support FARAN bottom line and would also provide much needed financial strength to your balance sheet in long run.

#### Acknowledgement

The Board of Directors places on record its appreciation for the support by its shareholders, valued customers, growers and financial institutions. Our management team and staff also deserve a vote of thanks for all of their continued dedication and hard work.

On behalf of the Board of Directors

Ahmed Ali Bawany  
Chief Executive

Karachi: January 1, 2015

**THE GROSS SALES DURING THE YEAR WERE  
RS. 4.672 BILLION INCLUDING EXPORT SALE OF  
RS. 1.516 BILLION VIS-À-VIS RS. 4.255 BILLION  
INCLUDING EXPORT SALE OF RS. 1.326 BILLION FOR  
THE CORRESPONDING YEAR 2012-13.**



## To the Members on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of Faran Sugar Mills Limited ("the Company"), for the year ended September 30, 2014 to comply with the Listing Regulations of the Karachi Stock Exchange Limited and Lahore Stock Exchange 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 of Compliance reflects the status of the Company's compliance with the provisions of the Code and report if it does not and highlight any non-compliance with the requirements of the Code. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Code.

As part of the 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 are not required to consider whether the Board of Directors' statement on internal control covers all risks and control, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

The code requires the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval of its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in the 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 this requirement to the extent of approval of related party transactions by the board of directors upon recommendation of 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 of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended September 30, 2014.

Karachi.

Dated: January 1, 2015

Rahman Sarfaraz Rahim Iqbal Rafiq  
Chartered Accountants

Engagement Partner: Muhammad Rafiq Dosani

# STATEMENT OF COMPLIANCE

## with Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in listing regulations of 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 Code of Corporate Governance 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
Independent Directors	Mr. Irfan zakaria
Executive Directors	Mr. Muhammad Omar Amin Bawany Mr. Ahmed Ali Bawany
Non-Executive Directors	Mr. Muhammad Amin Ahmed Bawany Mr. Iqbal A. Rehman Mr. Abdul Wahid Ghaffar Mr. Muhammad Asif Mr. Sheikh Asim Rafiq

- 2) The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this company (excluding the listed subsidiaries of listed holding companies where applicable).
- 3) All the resident directors of the company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
- 4) No causal vacancy in the Board occurred during the 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. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
- 7) All the powers of the board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the board/shareholders.
- 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 at least 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) The directors are aware of their fiduciary responsibilities. However, whenever necessary, the board arrange orientation courses for its directors in this respect.
- 10) The board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment as determined by CEO.



- 11) The directors' report for this year has been prepared in compliance with the requirements of the CCG and 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 three members, of whom two are non-executive directors.
- 16) The meetings of the audit committee were held at least once in every quarter prior to approval of interim and final results of the company and 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 three members, of whom two are non-executive directors and the chairman of the committee is Chief Executive officer.
- 18) The board has set up an effective internal audit function.
- 19) The statutory auditors of the company have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
- 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 directors, employees and stock exchange(s).
- 22) Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).
- 23) We confirm that all other material principles enshrined in the CCG have been complied with.

On behalf of the Board of Directors

Ahmed Ali Bawany  
Chief Executive

Dated: January 1, 2015

# FINANCIAL STATEMENTS

for the year ended September 30, 2014



## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed Balance Sheet of FARAN SUGAR MILLS LIMITED ("the Company") as at September 30, 2014, the related profit & 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 purpose 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 included 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 accounts have been kept by the company as required by the Companies Ordinance, 1984;
- (b) in our opinion;
  - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
  - (ii) the expenditure incurred during the year was for the purpose of the company's business; and
  - (iii) the business conducted 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 & 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 September 30, 2014, and of the Profit, its 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.

Karachi.  
Dated: January 1, 2015

Rahman Sarfaraz Rahim Iqbal Rafiq  
Chartered Accountants  
Engagement Partner: Muhammad Rafiq Dosani

# BALANCE SHEET

As at September 30, 2014

	Notes	2014 ----- Rupees -----	2013 ----- Rupees -----
<b>ASSETS</b>			
<b>Non - Current Assets</b>			
Property, plant and equipment	5	1,032,835,239	1,043,431,744
Long term investments	6	563,634,496	508,984,889
Long term deposits		1,836,986	1,798,827
		<u>1,598,306,721</u>	<u>1,554,215,460</u>
<b>Current Assets</b>			
Stores and spares	7	52,546,097	52,363,686
Stock in trade	8	822,353,667	614,368,882
Trade debts	9	2,558,098	3,130,583
Loans, advances and other receivables	10	347,318,637	198,432,087
Taxation - net		27,784,156	42,397,955
Short term investments	11	-	6,562,943
Cash and bank balances	12	19,588,873	59,144,225
		<u>1,272,149,528</u>	<u>976,400,361</u>
		<u>2,870,456,249</u>	<u>2,530,615,821</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Authorised Share Capital</b>			
40,000,000 (2013: 40,000,000) ordinary shares of Rs. 10/- each		<u>400,000,000</u>	<u>400,000,000</u>
Issued, subscribed and paid up capital	13	250,069,550	238,161,480
Reserves	14	<u>1,054,012,370</u>	<u>922,417,241</u>
		<u>1,304,081,920</u>	<u>1,160,578,721</u>
<b>Non - Current Liabilities</b>			
Long term loan	15	58,858,310	-
Deferred liabilities	16	384,202,456	384,588,591
		<u>443,060,766</u>	<u>384,588,591</u>
<b>Current Liabilities</b>			
Trade and other payables	17	1,006,078,899	677,332,245
Accrued mark up		6,267,945	8,119,014
Current portion of long term finance	15	10,966,719	-
Short term finance	18	<u>100,000,000</u>	<u>299,997,250</u>
		<u>1,123,313,563</u>	<u>985,448,509</u>
<b>Contingencies and Commitments</b>	19		
		<u>2,870,456,249</u>	<u>2,530,615,821</u>

The annexed notes 1 to 38 form an integral part of these financial statements.

AHMED ALI BAWANY  
CHIEF EXECUTIVE

MUHAMMAD OMAR AMIN BAWANY  
VICE CHAIRMAN

# PROFIT AND LOSS ACCOUNT



FARAN SUGAR MILLS LTD.

For the year ended September 30, 2014

	Notes	2014 ----- Rupees -----	2013 ----- Rupees -----
Sales - gross		4,672,888,285	4,254,524,601
Less: Indirect taxes and commission		(117,631,216)	(87,591,611)
<b>Sales - net</b>	20	<b>4,555,257,069</b>	<b>4,166,932,990</b>
Cost of sales	21	(4,250,179,642)	(3,803,146,327)
<b>Gross profit</b>		<b>305,077,427</b>	<b>363,786,663</b>
Administrative expenses	22	(82,729,929)	(74,032,826)
Selling and distribution cost	23	(76,667,344)	(67,156,015)
		(159,397,273)	(141,188,841)
<b>Operating profit</b>		<b>145,680,154</b>	<b>222,597,822</b>
Other income	24	124,903,336	38,207,965
Other expenses	25	(21,131,411)	(16,652,486)
		103,771,925	21,555,479
		249,452,079	244,153,301
Finance cost	26	(84,028,342)	(89,103,664)
		165,423,737	155,049,637
Share in profit from equity accounted investment		51,455,667	129,206,211
Profit before taxation		216,879,404	284,255,848
Taxation	27	(58,708,034)	(51,238,887)
Profit after taxation		158,171,370	233,016,961
			(Restated)
<b>Earnings per share - basic and diluted</b>	28	<b>6.33</b>	<b>9.32</b>

The annexed notes 1 to 38 form an integral part of these financial statements.

AHMED ALI BAWANY  
CHIEF EXECUTIVE

MUHAMMAD OMAR AMIN BAWANY  
VICE CHAIRMAN

# STATEMENT OF COMPREHENSIVE INCOME

For the year ended September 30, 2014

	2014	2013
	----- Rupees -----	-----
Profit for the year	158,171,370	233,016,961
Other comprehensive income for the year		
Unrealised loss on re-measurement of available for sale investment	3,193,940	(225,455)
Total comprehensive income for the year	<u>161,365,310</u>	<u>232,791,506</u>

The annexed notes 1 to 38 form an integral part of these financial statements.

AHMED ALI BAWANY  
CHIEF EXECUTIVE

MUHAMMAD OMAR AMIN BAWANY  
VICE CHAIRMAN

# STATEMENT OF CHANGES IN EQUITY



FARAN SUGAR MILLS LTD.

For the year ended September 30, 2014

	Share capital	Capital reserves		Revenue reserves		Total
	Issued, subscribed and paid up capital	Share premium	Surplus / (deficit) on re-measurement of available for sale investment	General reserve	Unappropriated profits	
	----- (Rupees) -----					
Balance as at 01 October 2012	216,510,440	8,472,152	45,152	49,952,868	674,457,647	949,438,259
<b>Total comprehensive income for the year ending September 30, 2013</b>						
- Profit for the year	-	-	-	-	233,016,961	233,016,961
- Other comprehensive income	-	-	(225,455)	-	-	(225,455)
	-	-	(225,455)	-	233,016,961	232,791,506
<b>Transactions with owners</b>						
- Issue of bonus shares	21,651,040	-	-	-	(21,651,040)	-
- Dividend paid @ 10%	-	-	-	-	(21,651,044)	(21,651,044)
	21,651,040	-	-	-	(43,302,084)	(21,651,044)
Balance as at September 30, 2013	238,161,480	8,472,152	(180,303)	49,952,868	864,172,524	1,160,578,721
<b>Total comprehensive income for the year ending September 30, 2014</b>						
- Profit for the year	-	-	-	-	158,171,370	158,171,370
- Other comprehensive income	-	-	3,193,940	-	-	3,193,940
	-	-	3,193,940	-	158,171,370	161,365,310
<b>Transactions with owners</b>						
- Issue of bonus shares	11,908,070	-	-	-	(11,908,070)	-
- Dividend paid @ 7.5%	-	-	-	-	(17,862,111)	(17,862,111)
	11,908,070	-	-	-	(29,770,181)	(17,862,111)
Balance as at September 30, 2014	250,069,550	8,472,152	3,013,637	49,952,868	992,573,713	1,304,081,920

The annexed notes 1 to 38 form an integral part of these financial statements.

AHMED ALI BAWANY  
CHIEF EXECUTIVE

MUHAMMAD OMAR AMIN BAWANY  
VICE CHAIRMAN

# CASH FLOW STATEMENT

For the year ended September 30, 2014

	Notes	2014 ----- Rupees -----	2013 ----- Rupees -----
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	30	268,003,958	341,280,307
Deferred liabilities		-	(117,719,207)
Income tax paid		(33,480,370)	(19,352,626)
Finance cost paid		(85,879,411)	(90,724,005)
Net cash generated from operating activities		148,644,177	113,484,469
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditure		(49,843,830)	(47,529,640)
Proceeds from sale of property, plant and equipment		2,738,810	1,155,000
Short term investment made		-	(180,000,000)
Short term investment redeemed		6,977,982	177,300,000
Dividend received		-	469,698
Long term deposits		(38,159)	(404,788)
Net cash used in investing activities		(40,165,197)	(49,009,730)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividend paid		(17,862,111)	(21,651,044)
Long term loans obtained		70,688,029	-
Long term loans repaid		(863,000)	-
Short term finance - net		(199,997,250)	(7,002,750)
Net cash used in financing activities		(148,034,332)	(28,653,794)
Net (decrease) / increase in cash and cash equivalents		(39,555,352)	35,820,945
Cash and bank at the beginning of the year		59,144,225	23,323,280
Cash and bank at the end of the year		19,588,873	59,144,225

The annexed notes 1 to 38 form an integral part of these financial statements.

AHMED ALI BAWANY  
CHIEF EXECUTIVE

MUHAMMAD OMAR AMIN BAWANY  
VICE CHAIRMAN

# NOTES TO THE FINANCIAL STATEMENTS



FARAN SUGAR MILLS LTD.

For the year ended September 30, 2014

## 1. STATUS AND NATURE OF BUSINESS

The Company was incorporated in Pakistan on 3 November 1981 as a Public Limited company and listed on Karachi and Lahore stock exchanges. The principal business of the Company is to manufacture and sale of white sugar. The mill is located at Sheikh Bhirkio, Tando Mohammad Khan district Hyderabad, Sindh. Registered office of the Company is situated at Habib Square 3rd Floor, M.A Jinnah Road, Karachi.

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance

These financial statements have been prepared in accordance with requirements of the Companies Ordinance, 1984 (the Ordinance), directives issued by the Securities and Exchange Commission of Pakistan (SECP) and approved financial reporting standards as applicable in Pakistan. Approved financial reporting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the provisions of the Ordinance. Wherever the requirements of the Ordinance, or the directives issued by the SECP differ with the requirements of these standards, the requirements of the Ordinance or of the said directives have been followed.

### 2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except for certain investment which is measured at fair value.

### 2.3 Functional and presentation currency

These financial statements have been prepared in Pakistan Rupees, which is the Company's functional and presentation currency. All financial information presented in Pakistan Rupees has been rounded to the nearest rupee.

### 2.4 Use of estimates and judgments

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to an accounting estimate are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of approved accounting standards, as applicable in Pakistan, that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the future periods are as follows:

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended September 30, 2014

■ Useful lives and residual values of property and equipment	4.1
■ Investments	4.2
■ Provision for obsolete / slow moving stores and spares	4.3
■ Provision for obsolete / slow moving stock in trade	4.4
■ Estimation for impairment in respect of trade debts	4.5
■ Employee benefits	4.11
■ Taxation	4.12

## 3. STANDARDS, AMENDMENTS AND INTERPRETATIONS

### 3.1 Standards, amendments to published standards and interpretations effective in 2013 and relevant

The following standard and amendment to published standard are mandatory for the financial year beginning on July 1, 2013:

- IAS 1–(Amendment) ‘Financial statement presentation.’ The main change from these amendments is a requirement for entities to group items presented in ‘Other comprehensive income’ (OCI) on the basis of whether they are potentially re-classifiable to profit or loss subsequently (reclassification adjustments). The amendment does not address which items are presented in OCI. The amendment only affects the disclosures in the company’s financial statements.

### 3.2 Initial application of standards, amendments or an interpretation to existing standards

#### a) Standards, amendments or interpretations which became effective during the year:

Standards, amendments to published standards and interpretations that are effective in year beginning from October 01, 2013 and are relevant to the company:

- IAS 1, ‘Financial statement presentation’ regarding other comprehensive income, emphasises on the requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially re-classifiable to profit or loss subsequently (reclassification adjustments). The application of the amendment has not affected the results or net assets of the Company as it is only concerned with presentation and disclosures.
- IAS 16 Property, Plant and Equipment is amended to clarify the accounting of spare parts, stand-by equipment and servicing equipment. Applicable to annual periods beginning on or after January 1, 2013.
- IAS 32 Financial Instruments: Presentation - Applicable to annual periods beginning on or after 1 January 2013, is amended to clarify that IAS 12 Income Taxes applies to the accounting for income taxes relating to distributions to holders of an equity instrument and transaction costs of an equity transaction.
- IAS 34 Interim Financial Reporting is amended, Applicable to annual periods beginning on or after 1 January 2013, to align the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in IFRS 8 Operating Segments.
- IAS 28 “Investments in Associates and Joint Ventures”, applicable to annual reporting periods beginning on or after January 1, 2013.
- IFRS 12, ‘Disclosure of interests in other entities’, effective for annual periods beginning on or after January 1, 2013.

# NOTES TO THE FINANCIAL STATEMENTS



FARAN SUGAR MILLS LTD.

For the year ended September 30, 2014

- IFRS 13, 'Fair value measurement', effective for annual periods beginning on or after January 1, 2013.
- IAS 19 (revised) 'Employee Benefits' has eliminated the corridor approach and requires to calculate finance cost on net funding bases. The Company has applied this change in accounting policy retrospectively in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and recorded unrecognized actuarial losses net of taxes associated with retirement benefit plan by adjusting the opening balance of unappropriated profit and retirement benefit for the prior years presented.
- b) **New / revised accounting standards, amendments to published accounting standards, and interpretations that are not yet effective:**
  - IFRIC 21- Levies 'an Interpretation on the accounting for levies imposed by governments' (effective for annual periods beginning on or after 1 January 2014). IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The interpretation is not likely to have an impact on Company's financial statements.
  - Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. The amendments are not likely to have an impact on Company's financial statements.
  - Amendment to IAS 36 "Impairment of Assets" Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014). These narrow-scope amendments to IAS 36 Impairment of Assets address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.
  - Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" Continuing hedge accounting after derivative novation (effective for annual periods beginning on or after 1 January 2014). The amendments add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria.
  - Amendments to IAS 38 Intangible Assets and IAS 16 Property, Plant and Equipment (effective for annual periods beginning on or after 1 January 2016) introduce severe restrictions on the use of revenue-based amortization for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments are not likely to have an impact on Company's financial statements.
  - Agriculture: Bearer Plants [Amendment to IAS 16 and IAS 41] (effective for annual periods beginning on or after 1 January 2016). Bearer plants are now in the scope of IAS 16 Property, Plant and Equipment for measurement and disclosure purposes. Therefore, a company can elect

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended September 30, 2014

to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under IAS 41 Agriculture. A bearer plant is a plant that: is used in the supply of agricultural produce; is expected to bear produce for more than one period; and has a remote likelihood of being sold as agricultural produce. Before maturity, bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment during construction.

- Amendments to IAS 27 'Separate Financial Statements' (effective for annual period beginning on or after 1 January 2016). The amendments to IAS 27 allow entities to use equity method to account for its investment in subsidiaries, joint ventures and associates in the Separate Financial Statements. Management is currently evaluating the implication of the amendment.

*Annual Improvements 2010-2012 and 2011-2013 cycles (most amendments will apply prospectively for annual period beginning on or after 1 July 2014). The new cycle of improvements contain amendments to the following standards:*

- IFRS 2 'Share-based Payment'. IFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. The amendment also clarifies both: how to distinguish between a market condition and a non-market performance condition and the basis on which a performance condition can be differentiated from a vesting condition.
- IFRS 3 'Business Combinations'. These amendments clarify the classification and measurement of contingent consideration in a business combination. Further IFRS 3 has also been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements including joint operations in the financial statements of the joint arrangement themselves.
- IFRS 8 'Operating Segments' has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. In addition this amendment clarifies that a reconciliation of the total of the reportable segment's assets to the entity assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities.
- Amendments to IAS 16 'Property, plant and equipment' and IAS 38 'Intangible Assets'. The amendments clarify the requirements of the revaluation model in IAS 16 and IAS 38, recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in the gross carrying amount of the asset.
- IAS 24 'Related Party Disclosure'. The definition of related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity.
- IAS 40 'Investment Property'. IAS 40 has been amended to clarify that an entity should: assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition of the investment property constitutes a business combination.
- IFRIC 21- Levies 'an Interpretation on the accounting for levies imposed by governments' (effective for annual periods beginning on or after 1 January 2014). IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation

# NOTES TO THE FINANCIAL STATEMENTS



FARAN SUGAR MILLS LTD.

For the year ended September 30, 2014

as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

- Amendment to IAS 36 “Impairment of Assets” Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014). These narrow-scope amendments to IAS 36 Impairment of Assets address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. These are not expected to have any impact other than increased disclosures.
- Securities and Exchange Commission of Pakistan (SECP) vide SRO 633(1)/2014 dated 10th July 2014 has approved the below IFRSs:
  - IFRS 10 ‘Consolidated Financial Statements’
  - IFRS 11 ‘Joint Arrangements’
  - IFRS 12 ‘Disclosure of interests in other entities’
  - IFRS 13 ‘Fair Value Measurement’

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been applied consistently to all years presented, unless otherwise stated.

### 4.1 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any, except free hold land and capital work in progress which are stated at cost. Cost includes expenditure that are directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and its cost can be measured reliably. Cost incurred to replace a component of an item of property and equipment is capitalized, the asset so replaced is retired from use and its carrying amount is derecognized. Normal repairs and maintenance are charged to profit and loss account during the period in which they are incurred.

Major spare parts qualify for recognition as property, plant and equipment when an entity expects to use them during more than one year. Transfers are made to relevant operating assets category as and when such items are available for use.

Depreciation on additions is charged for the quarter in which an asset is put to use and no depreciation is charged in the quarter in which assets are disposed. Depreciation on all property, plant and equipment is charged to profit and loss account using the reducing balance method over the asset’s useful life at the rates stated in note 5.1.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit and loss account in the year in which the asset is derecognized.

Disposal of an item of property and equipment is recognized when significant risks and rewards incidental to ownership have been transferred to buyers. Gains and losses on disposal of fixed assets are included in income currently.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended September 30, 2014

The assets' residual values, useful lives are reviewed, and adjusted if appropriate, at each financial year end. The Company's estimate of residual value of property and equipment as at 30 September 2014 did not require any adjustment as its impact is considered insignificant.

Capital work in progress is stated at cost and consists of expenditure incurred and advances made in respect of property, plant and equipment in the course of their construction and installation. Transfers are made to relevant asset's category as and when assets are available for intended use.

## 4.2 Financial assets

### 4.2.1 Classification :

The Company classifies its financial assets in the following categories: at fair value through profit or loss, held to maturity, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The Company classifies its investments in the following categories:

#### a) *Available for sale*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. These are primarily those investments that are intended to be held for an undefined period of time or may be sold in response to the need for liquidity. They are included in non-current assets unless the investment matures or management intends to dispose off it within 12 months of the end of the reporting date.

#### b) *Fair value through profit and loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

#### c) *Held to maturity*

Investments with a fixed maturity where the Company has the intent and ability to hold to maturity are classified as held to maturity investments. Held-to-maturity investments are carried at amortized cost using the effective interest rate method, less any impairment losses.

#### d) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. The Company's loans and receivables comprise 'trade debts', 'short term loans', 'trade deposits and other receivables' and 'cash and cash equivalents' in the balance sheet.

### 4.2.2 Investment in associate

The Company considers its associate to be such in which the Company have ownership of not less than twenty percent of the voting power and / or has significant influence through common directorship, but not control.

# NOTES TO THE FINANCIAL STATEMENTS



FARAN SUGAR MILLS LTD.

For the year ended September 30, 2014

The Company accounts for its investment in associate using the equity method. Under this method investment is initially recognized at cost, being the fair value of consideration given includes acquisition charges associated with such investments. Subsequently the investors' share in profit / loss of the investee is recognized in profit and loss. Distributions received from the investee reduce the carrying amount of the investment. Adjustment to the carrying amount will also be made for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income.

Where Company's share of loss of an associates equal or exceeds its interest in the associates, the Company discontinue to recognize its shares of further losses except to the extent that Company has incurred legal or constructive obligation or made payment on behalf of the associates. If the associates subsequently reports profits, the Company resumes recognizing its share of those profit only after its share of the profit equals the share of losses not recognized.

## 4.2.3 Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the profit and loss account. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit and loss account within income / expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the profit and loss account as part of operating income when the Company's right to receive payments is established.

Changes in fair value of monetary and non-monetary securities classified as available-for-sale are recognized in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the profit and loss account as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the profit and loss account as part of other income. Dividends on available for sale equity instruments are recognized in the profit and loss account as part of other income when the Company's right to receive payments is established.

## 4.3 Stores and spares

Stores and spares excluding items in transit are valued at lower of average cost and net realizable value.

Items in transit are valued at cost comprising invoice values plus other charges incurred thereon accumulated to the balance sheet date.

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended September 30, 2014

Provisions are made in the financial statements for obsolete and slow moving inventory based on management's best estimate regarding their future usability.

## 4.4 Stock in trade

Stock in trade is valued at the lower of cost and net realisable value except for stock in transit which is valued at cost accumulated up to balance sheet date.

Net realizable value is determined on the basis of estimated selling price of the product in the ordinary course of business less costs necessary to be incurred for its sale.

Valuation of finished goods includes cost of direct materials, labour and appropriate portion of manufacturing overheads. Items in transit are stated at cost comprising invoice value and other incidental charges paid thereon.

Cost is determined as follows:

Finished goods	: at lower of average manufacturing cost and net realizable value
Imported goods in transit	: at actual incurred cost
Work in process	: at average raw material cost
Molasses	: at net realizable value

Provisions are made in the financial statements for obsolete and slow moving inventory based on management's best estimate regarding their future usability.

## 4.5 Trade and other receivables

Trade and other receivables are carried at original invoice amount / cost, which is the fair value of the consideration to be received, less an estimate made for doubtful receivables which is determined based on management review of outstanding amounts and previous repayment pattern. Balance considered bad and irrevocable are written off.

## 4.6 Cash and cash equivalents

Cash in hand and at banks, short term bank deposits and short term running finances, if any, are carried at cost. For the purpose of cash flow statement, cash and cash equivalents consists of cash in hand and deposits in bank, net of short term running finances (if any) that are highly liquid in nature, readily convertible into known amounts of cash and subject to insignificant risks of changes in value.

## 4.7 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.

## 4.8 Provisions

Provision is recognized when, as a result of past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Subsequently, provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

# NOTES TO THE FINANCIAL STATEMENTS



FARAN SUGAR MILLS LTD.

For the year ended September 30, 2014

## 4.9 Financial instruments

Financial assets and financial liabilities are recognized at fair value or amortized cost when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the contractual right to the cash flow from the financial assets expire or is transferred. Financial liabilities are derecognized when they are extinguished i.e. when the obligation specified in the contract is discharged or cancelled or expires. Financial instruments carried on the balance sheet include trade debts and other receivables, loans and advances, cash and bank balances, trade and other payables and short term murabaha finance. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

## 4.10 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, net of any direct expenses. Revenue is recognized on the following basis:

Revenue from sale of goods is recognized when the significant risk and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods to customers.

Interest or profit from investment is recorded on accrual basis.

Dividend income is recognized when the right to receive the dividend is established. i.e. the book closure date of the investee company declaring the dividend.

Gains and losses on sale of investments are accounted for when the commitment (trade date) for sale of security is made.

## 4.11 Staff retirement benefits - Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contribution and will have no legal or constructive obligation to pay further amounts. Obligations for the defined contributions plans are recognized as an employee benefit expense in profit or loss when they are due.

The Company operates a recognized provident fund for all its eligible permanent employees. Equal monthly contributions are made by the Company and employees to the fund at the rate of 9% of basic salary. Company's contribution are charged to profit and loss account.

## 4.12 Taxation

The tax expense for the year comprises current and deferred tax. Tax is recognized in the profit and loss account, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

### *Current*

Current tax is the amount of tax payable on taxable income for the year, using tax rate enacted by or subsequent to the reporting date, and any adjustment to the tax payable in respect of previous year. Provision for current tax is based on higher of the taxable income at current rates of taxation in

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended September 30, 2014

Pakistan after taking into account tax credits, rebates and exemptions available, if any or minimum tax u/s 113 after taking into account tax credits. However, for income covered under final tax regime, taxation is based on applicable tax rates under such regime. The amount of unpaid income tax in respect of the current or prior periods is recognized as a liability. Any excess paid over what is due in respect of the current or prior periods is recognized as an asset.

## *Deferred*

Deferred tax is accounted for using the balance sheet method in respect of all temporary differences at the balance sheet date between the tax base and carrying amount of assets and liabilities for financial reporting purposes.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and carry forward of unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of deferred tax provided is based on the expected manner of realization of the carrying amount of assets and liabilities, using the rates that are expected to apply to the period when the difference reverse based on tax rates that have been enacted at the balance sheet date.

## 4.13 Impairment of Assets

### *Financial assets*

A financial asset is assessed at each balance sheet date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

In case of investment in equity securities classified as available for sale and measured at fair value, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists, the cumulative loss measured as a difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized is transferred from equity and recognized in the profit and loss account. Such impairment losses are not subsequently reversed through the profit and loss account.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in profit and loss account.

### *Non - financial assets*

The carrying amount of the Company's non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss, if any. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Impairment losses are recognized in profit and loss account.

# NOTES TO THE FINANCIAL STATEMENTS



FARAN SUGAR MILLS LTD.

For the year ended September 30, 2014

## 4.14 Off-setting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the balance sheet, if the Company has a legally enforceable right to setoff the recognized amounts and the Company intends to settle either on a net basis or realize the asset and settle the liability simultaneously.

## 4.15 Foreign currency transaction and translation

Foreign currencies are translated into reporting currency at the rates of exchange prevailing on the date of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into reporting currency equivalents using year-end spot foreign exchange rates. Non-monetary assets are translated using exchange rates that existed when the values were determined. Exchange differences on foreign currency translations are included in income currently.

## 4.16 Related party transactions and transfer pricing

All transactions involving related parties arising in the normal course of business are conducted at normal commercial rates on the same terms and conditions as third party transactions using valuation modes, as admissible, except in extremely rare circumstances where, subject to the approval of the Board of Directors, it is in the interest of the Company to do so.

## 4.17 Borrowing costs

Borrowing costs are recognized as an expense in the year in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs, if any, are capitalized as part of the cost of the relevant asset.

## 4.18 Dividend and appropriation to reserve

Dividend distribution to the Company's shareholders and appropriation to reserves are recognized as a liability in the financial statements in the period in which these are approved. Transfer between reserves made subsequent to the balance sheet date is considered as a non adjusting event and is recognized in the financial statements in the period in which such transfers are made.

	Notes	2014 ----- Rupees -----	2013 -----
<b>5. PROPERTY, PLANT AND EQUIPMENT</b>			
Operating fixed assets	5.1	1,024,405,558	1,041,163,408
Capital work in progress	5.2	8,429,681	2,268,336
		<u>1,032,835,239</u>	<u>1,043,431,744</u>



# NOTES TO THE FINANCIAL STATEMENTS



FARAN SUGAR MILLS LTD.

For the year ended September 30, 2014

2014                      2013  
----- Rupees -----

5.1.1 Depreciation charge for the year has been allocated as follows:

Cost of sales	47,978,936	48,512,922
Administration expense	10,896,907	11,618,940
	<u>58,875,843</u>	<u>60,131,862</u>

5.1.2 Detail of operating assets disposed off during the year are as follows:

30 September 2014					
Particulars	Sold to	Method of Disposal	Original Cost	Accumulated Depreciation	Sale Proceeds
----- Rupees -----					
Honda City	Sohail Qutbi	Negotiation	834,197	398,741	603,410
Suzuki Cultus	Insurance claim	As per policy	938,000	260,295	900,000
Belarus tractor	A.R. Agri Farm	Negotiation	900,000	347,288	735,000
Various bikes having book value below Rs 50,000	Various	Negotiation	436,900	232,223	500,400
<b>Total</b>			<u>3,109,097</u>	<u>1,238,547</u>	<u>2,738,810</u>

30 September 2013					
Particulars	Sold to	Method of Disposal	Original Cost	Accumulated Depreciation	Sale Proceeds
----- Rupees -----					
Suzuki Mehran	Syed Haider Ali Naqvi	Negotiation	350,000	253,167	245,000
Nissan Sunny	Azhar Hussain	Negotiation	1,185,000	889,118	730,000
Mitsubishi Van	Muhammad Yaqoob	Negotiation	36,800	35,969	180,000
			<u>1,571,800</u>	<u>1,178,254</u>	<u>1,155,000</u>

5.2 Capital work in progress

	Buildings	Plant and Machinery	Power Generation	Factory Equipment	Total
	----- (Rupees) -----				
<b>Balance as at 1 October 2012</b>	610,443	12,305,356	-	-	12,915,799
Additions during the year	5,057,047	50,207,147	-	1,235,747	56,499,941
Transfer to property, plant and equipment	(5,667,490)	(41,363,077)	-	(1,235,747)	(48,266,314)
Transfer to maintenance	-	(18,881,090)	-	-	(18,881,090)
<b>Balance as at 30 September 2013</b>	-	2,268,336	-	-	2,268,336
Additions during the year	7,047,739	36,738,615	2,155,836	1,663,640	47,605,830
Transfer to property, plant and equipment	(7,047,739)	(32,733,106)	-	(1,663,640)	(41,444,485)
Transfer to maintenance	-	-	-	-	-
<b>Balance as at 30 September 2014</b>	-	6,273,845	2,155,836	-	8,429,681

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended September 30, 2014

	Notes	2014	2013
		----- Rupees -----	
<b>6. LONG TERM INVESTMENTS</b>			
Equity accounted investments	6.1	556,870,859	505,415,192
Available for sale investments	6.2	6,763,637	3,569,697
		<u>563,634,496</u>	<u>508,984,889</u>
<b>6.1 Equity accounted investments</b>			
<i>Unicol Limited - unquoted - related party</i>			
Cost of investment: 10,499,998 Shares @ Rs.10/- each		104,999,980	104,999,980
Bonus Shares : 12,559,574 Shares (2013: 6,969,374)		125,595,746	69,693,746
		<u>230,595,726</u>	<u>174,693,726</u>
Share of Profit :			
Opening balance of profit		330,721,466	249,159,005
Bonus Shares issued during the year		(55,902,000)	(47,643,750)
Share in Profit during the year		51,455,667	129,206,211
		<u>326,275,133</u>	<u>330,721,466</u>
Carrying amount at 30 September		<u>556,870,859</u>	<u>505,415,192</u>
Percentage of equity held		33.33%	33.33%
		----- Rupees -----	
Total assets		<u>5,367,004,158</u>	<u>3,917,337,325</u>
Total liabilities		<u>3,678,393,463</u>	<u>2,400,982,924</u>
Revenue		<u>3,165,644,000</u>	<u>2,595,817,661</u>
<b>6.1.1</b>	The share of profit and other financial information of the associate presented as above are based on its un-audited financial statements for the year ended 30 September 2014.		
		2014	2013
		----- Rupees -----	
<b>6.2 Available for sale investments</b>			
<i>B.F. Modaraba - quoted - related party</i>			
Cost of investment		3,750,000	3,750,000
Add : Unrealised gain / (loss) on re-measurement of investment		(180,303)	45,152
Opening Balance		3,193,940	(225,455)
Adjustment during the year		3,013,637	(180,303)
Carrying amount		<u>6,763,637</u>	<u>3,569,697</u>
Chief executive		: Omar Amin Bawany	
Percentage of equity held		: 12.50% (2013: 12.50%)	
Market value as on 30 September 2014		: Rs.7.2 (2013: Rs. 3.80)	
Certificates		: 939,394 Modaraba certificates which includes 144,980 bonus certificates.	

# NOTES TO THE FINANCIAL STATEMENTS



FARAN SUGAR MILLS LTD.

For the year ended September 30, 2014

	2014	2013
	----- Rupees -----	
<b>7. STORES AND SPARES</b>		
Stores and spares	56,493,145	56,084,525
Packing material	568,926	795,135
	<u>57,062,071</u>	<u>56,879,660</u>
Less: Provision for slow moving stores and spares	<u>(4,515,974)</u>	<u>(4,515,974)</u>
	<u>52,546,097</u>	<u>52,363,686</u>

7.1 Most items of the stores and spares are interchangeable nature and can be used as machine spares or consumed as stores. Accordingly, it is not practicable to distinguish stores from spares until their actual use.

	Notes	2014	2013
		----- Rupees -----	
<b>8. STOCK IN TRADE</b>			
Finished goods	8.1	820,694,733	611,475,241
Work in process		1,658,934	2,893,641
		<u>822,353,667</u>	<u>614,368,882</u>

8.1 The stock in trade amounting to Rs. 323 million (2013 : Rs. Nil) has been pledged against istisna as at balance sheet date.

	Notes	2014	2013
		----- Rupees -----	

**9. TRADE DEBTS**  
*Unsecured, Considered good*

Local	2,558,098	3,130,583
-------	-----------	-----------

**10. LOANS, ADVANCES AND OTHER RECEIVABLES**

Loans - considered good			
- Growers - unsecured		69,694,190	67,393,820
- Employees - secured		346,225	1,709,642
		<u>70,040,415</u>	<u>69,103,462</u>
Advances - unsecured, considered good			
- Contractors		4,889,047	403,893
- Supplier		101,603,023	60,230,683
- Others		2,163,818	4,966,608
		<u>108,655,888</u>	<u>65,601,184</u>
Freight subsidy receivable		83,283,750	-
Advance sales tax		21,733,912	-
Sale tax receivable	16.2	56,424,979	56,424,979
Excise duty receivable	16	7,005,677	7,005,677
Other receivables		174,016	296,785
		<u>347,318,637</u>	<u>198,432,087</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended September 30, 2014

## 11. SHORT TERM INVESTMENTS

*Held for trading*

	2014 No. of Units	2013	Notes	2014 Rupees	2013 Rupees
	-	130,971		-	6,562,943
		Meezan Cash Fund			
<b>12. CASH AND BANK BALANCES</b>					
Cash at bank					
- In deposit accounts			12.1	6,862,259	48,764,068
- In current accounts				12,464,041	9,780,314
				19,326,300	58,544,382
Cash in hand				262,573	599,843
				19,588,873	59,144,225

12.1 These carry profits at the rates ranging from 6% to 8% (2013: 8% to 8.5%).

## 13. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

	2014 (Number of shares)	2013		2014 Rupees	2013 Rupees
18,201,714	18,201,714	Ordinary shares of Rs. 10/- each fully paid in cash		182,017,140	182,017,140
6,805,241	5,614,434	Ordinary shares of Rs. 10/- each issued as fully paid bonus shares		68,052,410	56,144,340
<u>25,006,955</u>	<u>23,816,148</u>			<u>250,069,550</u>	<u>238,161,480</u>

13.1 Movement in issued, subscribed and paid-up share capital during the year:

	2014 (Number of shares)	2013		2014 Rupees	2013 Rupees
23,816,148	21,651,044	As at 1 October		238,161,480	216,510,440
1,190,807	2,165,104	Ordinary shares of Rs. 10 each issued during the year as fully paid bonus shares		11,908,070	21,651,040
<u>25,006,955</u>	<u>23,816,148</u>			<u>250,069,550</u>	<u>238,161,480</u>

# NOTES TO THE FINANCIAL STATEMENTS



FARAN SUGAR MILLS LTD.

For the year ended September 30, 2014

	2014	2013
	----- Rupees -----	
<b>14. RESERVES</b>		
<i>Revenue Reserves</i>		
General reserve	49,952,868	49,952,868
Unappropriated profit	992,573,713	864,172,524
	<u>1,042,526,581</u>	<u>914,125,392</u>
<i>Capital Reserves</i>		
Share premium	8,472,152	8,472,152
Surplus on re-measurement of available for sale investment	3,013,637	(180,303)
	<u>11,485,789</u>	<u>8,291,849</u>
	<u>1,054,012,370</u>	<u>922,417,241</u>
<b>15. LONG TERM LOAN</b>		
Obtained during the year	70,688,029	-
Repayments made	(863,000)	-
	<u>69,825,029</u>	<u>-</u>
Current maturity of the loan	(10,966,719)	-
	<u>58,858,310</u>	<u>-</u>

15.1 This represent the loan obtained from Bank Al-Habib against limit of Rs 136 million under diminishing musharika. The loan carries profit at the spread of 1.25% over 6 months KIBOR with floor of 10% and cap of 20%. The loan is secured by registered specific hypothecation charge over machinery of Rs 140 million.

	2014	2013
	----- Rupees -----	
<b>16. DEFERRED LIABILITIES</b>		
Deferred taxation - net	16.1 265,039,704	254,425,839
Road cess payable	2,737,499	2,737,499
Sales tax payable	16.2 & 10 109,419,576	109,419,576
Excise duty payable	16.3 -	11,000,000
Provision for excise duty	10 7,005,677	7,005,677
	<u>384,202,456</u>	<u>384,588,591</u>
<b>16.1 Deferred taxation - net</b>		
<i>Deferred tax liability arising in respect of:</i>		
Investment in associate	32,627,513	33,054,118
Property, plant and equipment	244,637,581	235,922,567
Short term investments	-	62,080
	<u>277,265,094</u>	<u>269,038,765</u>
<i>Deferred tax asset arising in respect of:</i>		
Unused tax credits	(12,225,390)	(14,612,926)
	<u>265,039,704</u>	<u>254,425,839</u>

16.2 This represents the amount of further tax collected in terms of repealed section 3 (1A) of the Sales Tax Act and paid to the extent disclosed in note 10 in view of the judgment of the High Court against the said levy. The Collectorate's Appeal with the Supreme Court was remanded back to the High court where it is pending for further proceedings.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended September 30, 2014

16.3 This represents liability on account of demand raised by Collector of Customs & Central Excise Hyderabad in respect of excise duty for the season 1991-92. In March 2011, Sindh High Court remanded back the case to the tax department to pass final order within 4 months. Tax department obtained all necessary details/ documents and till then no further information/ details have been required. Owing to any further action from the department, the company decided to reverse the provision.

	Notes	2014	2013
		----- Rupees -----	
<b>17. TRADE AND OTHER PAYABLES</b>			
Creditors:			
Raw material		87,044,304	85,035,589
Stores and spares		33,169,289	34,679,469
		<u>120,213,593</u>	<u>119,715,058</u>
Accrued liabilities		53,325,123	54,763,871
Deposits from customers		763,710,695	449,608,186
Security deposits		2,392,286	2,956,866
Sales tax payable		18,874,291	6,723,313
Workers' profit participation fund	17.1	11,209,810	10,696,110
Workers' welfare fund	17.2	19,579,909	16,203,914
Special excise duty	17.3	13,208,869	13,208,869
Unclaimed dividend		3,051,551	3,230,052
Other liabilities		512,772	226,006
		<u>1,006,078,899</u>	<u>677,332,245</u>
<b>17.1 Workers' profit participation fund</b>			
Balance at the beginning of the year		10,696,110	12,831,934
Allocation for the year		8,884,196	8,327,048
		<u>19,580,306</u>	<u>21,158,982</u>
Less : payment during the year		<u>(8,370,496)</u>	<u>(10,462,872)</u>
		<u>11,209,810</u>	<u>10,696,110</u>

17.2 The Workers' Welfare Fund Ordinance 1971 (Ordinance) was amended by the Finance Acts of 2006 and 2008 to (i) modify the basis of calculating WWF payable, and (ii) expand the net of WWF to include 'non-manufacturing' companies, respectively. Assessments issued under the amended Ordinance were challenged by certain companies. In 2010 a Division Bench of the Sindh High Court (SHC) upheld these amendments. Subsequently, however, this matter went before a larger Bench of the SHC which suspended, on an interim basis, the operation of the said assessments. During August 2011, the Lahore High Court (LHC) passed an order striking down the said amendments on the basis that WWF contributions are in the nature of a "fee" rather than a "tax" therefore the Ordinance may not be amended through a money bill. However, on March 01, 2013 the larger Bench of the SHC pronounced the verdict that WWF is a "tax" and not a "fee". The Company has filed a constitutional petition in the SHC against the levy of WWF during May 2013 and the SHC has provided an interim stay till the hearing of the case. However, the Company, on prudent basis, has been providing charge for WWF, on the higher of Accounting profit before tax (excluding share of profit from associate) and taxable income, since 2011 in the respective financial statements.

# NOTES TO THE FINANCIAL STATEMENTS



FARAN SUGAR MILLS LTD.

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17.3 This represents the balance amount of Special Excise Duty for the month of May and June 2011. The matter is pending in High Court of Sindh since the company filed a petition against the imposition of SED and the recovery was stayed by High Court till disposal.

## 18. SHORT TERM FINANCE - secured

This represents outstanding amount of Islamic finance facility under various Islamic products available from various banks amounting to Rs 2,750 million (2013: 2,450/- million), secured against pledge of refined sugar and first pari passu charge over fixed assets including land, building and plant and machinery. The rate of profit on this facility is average six months KIBOR + 0.6% to 1% per annum (2013: 0.75% to 1.25% per annum).

## 19. CONTINGENCIES AND COMMITMENTS

### 19.1 Contingencies

Quality premium amounting Rs 103.941 million (2013: Nil) for the year has not been provided for due to the reason that the Steering Committee of the Federal Government has decided that the quality premium shall remain suspended till the decision of Honourable Supreme Court of Pakistan or consensus on uniform formula is developed by the Ministry of Food and Agriculture.

The matter of quality premium has been declared unlawful by the Lahore High court while appeal against the conflicting judgment of the Sindh High Court is pending with the Honourable Supreme Court of Pakistan since the year 2004 after it granted leave to defend on the question of issue of quality premium. The Apex court also ordered that no coercive action for recovery of quality premium shall be taken against the mills till the case is decided. The Company has made the provision of the quality premium up to the year 2004. However, with respect to quality premium for previous years, the Company has adjusted additional costs and subsidies paid above minimum cane price level against quality premium to the growers.

### 19.2 Commitments

Commitments in respect of capital expenditure contracted for but not yet incurred amounting to Rs. 120 million (2013: Nil)

	2014	2013
	----- Rupees -----	
<b>20. SALES - NET</b>		
Export	1,516,203,379	1,325,685,751
Local	3,156,684,906	2,928,838,850
	<u>4,672,888,285</u>	<u>4,254,524,601</u>
Less: FED / Sales tax	(117,631,216)	(87,177,008)
Commission and brokerage	-	(414,603)
	<u>(117,631,216)</u>	<u>(87,591,611)</u>
	<u>4,555,257,069</u>	<u>4,166,932,990</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended September 30, 2014

	Notes	2014	2013
		----- Rupees -----	
<b>21. COST OF SALES</b>			
Raw material consumed	21.1	3,945,823,640	3,451,109,432
Stores and spares consumed		83,541,097	56,697,638
Packing material consumed		53,132,536	35,731,970
Salaries, wages and benefits	21.2 & 21.3	192,676,964	132,983,821
Repairs and maintenance		89,062,563	95,381,944
Fuel and power		23,400,493	23,510,225
Vehicle running expenses		6,215,406	5,763,661
Insurance		11,123,204	10,886,820
Depreciation	5.1.1	47,978,936	48,512,922
Freight		2,237,508	2,682,487
Others		2,972,080	2,237,812
		<u>4,458,164,427</u>	<u>3,865,498,732</u>
Opening stock of work in process		2,893,641	3,119,495
Closing stock of work in process		(1,658,934)	(2,893,641)
		1,234,707	225,854
Opening stock of finished goods		611,475,241	548,896,982
Closing stock of finished goods		(820,694,733)	(611,475,241)
		(209,219,492)	(62,578,259)
		<u>4,250,179,642</u>	<u>3,803,146,327</u>

21.1 The company's cane procurement is based on market price which is over and above the minimum price fixed by the government as per notification issued by the Sindh Government in this respect for the year. Such market price includes some additional costs and subsidies, however Quality premium has not been provided (refer note 19.1).

21.2 This includes Rs. 1.607 million (2013: Rs. 1.407 million) in respect of staff retirement benefits.

21.3 This includes expense relates to contractors for the labour force provided during the season.

		2014	2013
		----- Rupees -----	
<b>22. ADMINISTRATIVE EXPENSES</b>			
Salaries and benefits	22.1	47,483,503	41,888,204
Vehicle running		3,968,328	3,970,411
Legal and professional charges		3,246,951	2,544,673
Fees and subscription		2,832,743	2,150,492
Utilities charges		2,348,672	2,036,898
Telephone, postage and telegraph		2,195,096	2,216,560
Travelling and conveyance charges		1,779,420	537,877
Rent, rates and taxes		1,626,133	1,331,811
Printing and stationery		997,396	666,374
Repairs and maintenance		365,057	689,635
Video conferencing		629,800	480,000
Advertisement expenses		208,400	136,464
Auditors' remuneration	22.2	873,450	835,000
Depreciation	5.1.1	10,896,907	11,618,940
General expenses		3,278,073	2,929,487
		<u>82,729,929</u>	<u>74,032,826</u>

# NOTES TO THE FINANCIAL STATEMENTS



FARAN SUGAR MILLS LTD.

For the year ended September 30, 2014

22.1 This includes Rs. 1.339 Million (2013: Rs. 1.363 Million) in respect of staff retirement benefits.

	Notes	2014	2013
		----- Rupees -----	
<b>22.2 Auditors' remuneration</b>			
Statutory audit fee		600,000	600,000
Half yearly review		200,000	200,000
Cost audit		40,000	35,000
Others		20,000	-
Out of pocket expenses		13,450	-
		<u>873,450</u>	<u>835,000</u>
<b>23. SELLING AND DISTRIBUTION COST</b>			
Export expenses		67,284,262	58,210,870
Handling and storage		8,490,689	7,904,933
Warehousing and storage cost		-	960,881
Other expenses		892,393	79,331
		<u>76,667,344</u>	<u>67,156,015</u>
<b>24. OTHER INCOME</b>			
Income from financial assets:			
Profit on bank accounts		4,867,899	4,589,295
Income from Mutual Fund		415,039	3,680,355
Unrealised gain on re-measurement of investment in mutual fund		-	182,588
Dividend Income		-	469,698
Exchange Gain		-	2,841,063
		<u>5,282,938</u>	<u>11,762,999</u>
<i>Income from non - financial assets:</i>			
Freight subsidy from Trade Development Authority of Pakistan	24.1	83,283,750	-
Provision for excise duty reversed		11,000,000	-
Sale of bagasse		6,990,905	18,106,613
Sale of scrap		9,611,770	5,856,154
Sale of trico cards		6,978,846	637,435
Gain on sale of property, plant and equipment		1,174,318	761,454
Late lifting charges		-	656,160
Miscellaneous income		580,809	427,150
		<u>119,620,398</u>	<u>26,444,966</u>
		<u>124,903,336</u>	<u>38,207,965</u>

24.1 This represents the amount of Inland Freight Subsidy granted by the Federal Government at the rate of Rs.1.75 per kg and Re. 1.00 per kg on different sugar export quotas announced during the years 2012-2013 and 2013-2014.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended September 30, 2014

	Notes	2014	2013
		----- Rupees -----	
<b>25. OTHER EXPENSES</b>			
Donation	25.1	2,721,953	5,161,160
Workers' profit participation fund		8,884,196	8,327,048
Workers' welfare fund		3,375,995	3,164,278
Exchange loss		6,149,267	-
		<u>21,131,411</u>	<u>16,652,486</u>
25.1	This includes Rs. 2.5 Million (2013: Rs. 4.69 Million) paid to Begum Aisha Bawany Taleem-ul-Quran Trust. Mr. Amin Ahmed Bawany, Chairman of the Company, is a Trustee of the Trust.		
	Notes	2014	2013
		----- Rupees -----	
<b>26. FINANCE COST</b>			
Markup on long term finance		1,176,572	-
Markup on Istisna finance		55,933,442	42,533,423
Markup on Salam finance		24,813,469	17,389,427
Bank charges		2,104,859	1,537,312
Markup on Murabaha finance		-	27,643,502
		<u>84,028,342</u>	<u>89,103,664</u>
<b>27. TAXATION</b>			
Current tax	27.1	48,094,169	34,379,935
Deferred tax		10,613,865	16,858,952
		<u>58,708,034</u>	<u>51,238,887</u>
27.1	Relationship between tax expense and accounting profit		
Accounting profit before taxation		<u>216,879,404</u>	<u>284,255,848</u>
Tax on accounting profit @ 33% (2013: 34%)		71,570,203	96,646,988
Tax effect on share of profit on associates		(16,980,370)	(43,930,112)
Tax effect of expenses that are not deductible in determining taxable profit		19,510,167	19,796,795
Tax effect of expenses that are deductible in determining taxable profit		(21,035,496)	(11,579,043)
Tax effect of income subject to FTR		2,610,412	3,035,747
Tax effect of exempt income		3,630,000	-
BMRE credit		-	(13,627,900)
Minimum tax credit		-	-
Others		(596,882)	896,412
Total		<u>58,708,034</u>	<u>51,238,887</u>

The income tax assessments of the Company have been finalised up to and including the tax year 2013. Tax returns are deemed to be assessed under provisions of the Income Tax Ordinance, 2001 ("the Ordinance") unless selected for an audit by the taxation authorities. The Commissioner of Income Tax may, at any time during a period of five years from date of filing of return, select the deemed assessment order for audit.

# NOTES TO THE FINANCIAL STATEMENTS



FARAN SUGAR MILLS LTD.

For the year ended September 30, 2014

28. EARNINGS PER SHARE - BASIC AND DILUTED	2014	2013
	----- Rupees -----	
Profit after taxation	<u>158,171,370</u>	<u>233,016,961</u>
		Restated
		----- Number -----
Weighted average number of ordinary shares	<u>25,006,955</u>	<u>25,006,955</u>
		Restated
		----- Rupees -----
Earnings per share - basic and diluted	<u>6.33</u>	<u>9.32</u>

28.1 Earnings per share of corresponding period has been restated to incorporate the effect of bonus shares issued during current year.

## 29. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND OTHER EXECUTIVES

29.1 For the purpose of disclosure those employees are considered as executives whose basic salary exceeds five hundred thousand rupees in a financial year

29.2 The aggregate amounts charged in these financial statements in respect of remuneration including benefits to the Chief Executive, Directors and Executives of the Company are given below.

	2014			
	Chief executive	Directors	Executives	Total
	----- Rupees -----			
Managerial remuneration	4,303,031	9,272,727	13,704,014	27,279,772
Contribution to provident fund	-	-	1,035,823	1,035,823
Benefits	430,303	927,273	10,713,807	12,071,383
Other perquisites and benefits	-	-	4,129,086	4,129,086
	<u>4,733,334</u>	<u>10,200,000</u>	<u>29,582,730</u>	<u>44,516,064</u>

Number of persons	1	2	18
-------------------	---	---	----

	2013			
	Chief executive	Directors	Executives	Total
	----- Rupees -----			
Managerial remuneration	3,584,848	8,181,818	12,346,896	24,113,562
Contribution to provident fund	-	-	935,067	935,067
Benefits	358,485	818,182	10,518,276	11,694,943
Other perquisites and benefits	-	-	3,729,685	3,729,685
	<u>3,943,333</u>	<u>9,000,000</u>	<u>27,529,924</u>	<u>40,473,257</u>

Number of persons	1	2	15
-------------------	---	---	----

29.3 Five non - executive directors were paid fees to attend the meetings aggregating Rs. 90,000 (2013 : Rs. 172,500).

29.4 In addition, the chief executive officer and executive directors are provided with free use of Company maintained cars in accordance with their terms of services.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended September 30, 2014

	Notes	2014	2013
		----- Rupees -----	
<b>30. CASH GENERATED FROM OPERATIONS</b>			
Profit before taxation		216,879,404	284,255,848
Adjustments for:			
Depreciation		58,875,843	60,131,862
Share of profit from associate		(51,455,667)	(129,206,211)
Dividend Income		-	(469,698)
Profit on short term investment		-	-
Unrealised gain on short term investment		-	(182,588)
Realised gain on short term investment		(415,039)	(3,680,355)
Gain on disposal of property, plant and equipment		(1,174,318)	(761,454)
Finance cost		84,028,342	89,103,664
Provision for excise duty reversed		(11,000,000)	-
Working capital changes	30.1	(27,734,607)	42,089,239
		<u>268,003,958</u>	<u>341,280,307</u>
<b>30.1 Working capital changes</b>			
Decrease / (increase) store and spares		(182,411)	(2,275,237)
Decrease / (increase) stock in trade		(207,984,785)	(62,352,407)
(Increase) / decrease trade debts		572,485	116,345,150
Decrease / (increase) short term deposits		-	5,525,000
Decrease / (increase) loans, advances and other receivables		(148,886,550)	(18,051,303)
Increase / (decrease) trade and other payables		328,746,654	2,898,036
		<u>(27,734,607)</u>	<u>42,089,239</u>

## 31. TRANSACTIONS WITH RELATED PARTIES

Related parties comprise of group companies (subsidiaries and associates), directors and their close family members, major shareholders of the Company, key management personnel and staff provident fund. Transactions with related parties are on arm's length. Remuneration and benefits to executives of the Company are in accordance with the terms of the employment while contribution to the provident fund is in accordance with staff service rules. Remuneration of chief executive, directors and executives is disclosed in note 28 to the financial statements. Transactions with related parties during the year other than those disclosed elsewhere in the financial statements are given below:

	2014	2013
	----- Rupees -----	
<i>Transactions with associate</i>		
Sale of goods	475,521,400	346,534,968
Due from / (to) associate	499,205	(3,367,722)
Share of profit from associate	51,455,667	129,206,211
<i>Transactions with other related parties</i>		
Sale of goods	51,690,000	57,062,303
Insurance premium	13,596,834	9,589,590
Provident fund contribution	2,946,738	2,770,797
Donation	2,500,000	4,690,000

# NOTES TO THE FINANCIAL STATEMENTS



FARAN SUGAR MILLS LTD.

For the year ended September 30, 2014

	2014	2013
	----- Rupees -----	
<b>32. PROVIDENT FUND</b>		
a) Disclosure with regards to Provident Fund		
(i) Size of the Fund	<u>23,063,277</u>	<u>19,860,000</u>

32.1 All the moneys are kept in separate bank accounts as per section 227 of Companies Ordinance, 1984 and no any investments out of provident fund have been made.

	2014	2013
	----- Rupees -----	
<b>33. NUMBER OF EMPLOYEES</b>		
Number of employees including contractual employees at the end of year	<u>576</u>	<u>583</u>
Average number of employees including contractual employees during the year	<u>713</u>	<u>662</u>

## 34. FINANCIAL INSTRUMENTS

### 34.1 Financial assets and liabilities

	Interest / Mark-up bearing			Non-Interest / Mark-up bearing			
	Maturity up to one year	Maturity after one year	Total	Maturity up to one year	Maturity after one year	Total	
<b>FINANCIAL ASSETS</b>							
Loans and receivables							
Trade debts	-	-	-	2,558,098	-	2,558,098	2,558,098
Loans, advances and other receivables	-	-	-	178,870,319	-	178,870,319	178,870,319
Cash and bank balances	6,862,259	-	6,862,259	12,726,614	-	12,726,614	19,588,873
2014	<u>6,862,259</u>	<u>-</u>	<u>6,862,259</u>	<u>194,155,031</u>	<u>-</u>	<u>194,155,031</u>	<u>201,017,290</u>
2013	<u>48,764,068</u>	<u>-</u>	<u>48,764,068</u>	<u>148,512,171</u>	<u>-</u>	<u>148,512,171</u>	<u>197,276,239</u>
<b>FINANCIAL LIABILITIES</b>							
Non-derivative							
Long term loan	10,966,719	58,858,310	69,825,029	-	-	-	69,825,029
Short term finance	100,000,000	-	100,000,000	-	-	-	100,000,000
Accrued markup	-	-	-	6,267,945	-	6,267,945	6,267,945
Trade and other payables	-	-	-	954,415,830	-	954,415,830	954,415,830
2014	<u>110,966,719</u>	<u>58,858,310</u>	<u>169,825,029</u>	<u>960,683,775</u>	<u>-</u>	<u>960,683,775</u>	<u>1,130,508,804</u>
2013	<u>299,997,250</u>	<u>-</u>	<u>299,997,250</u>	<u>641,196,149</u>	<u>-</u>	<u>641,196,149</u>	<u>941,193,399</u>

### 34.2 Financial risk management objectives and policies

The Company has exposures to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance. Overall, risks arising from the Company's financial assets and liabilities are limited. The Company consistently manages its exposure to financial risk without any material change from previous period in the manner described in notes below.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended September 30, 2014

The Board of Directors has overall responsibility for the establishment and oversight of Company's risk management framework. All treasury related transactions are carried out within the parameters of these policies.

## 34.2.1 Credit risk

Credit risk is the risk which arises with a possibility that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss, without taking into account the fair value of any collateral. Concentration of credit risk arises when a number of financial instruments or contracts are entered into with the same party, or when counter parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by change in economics, political or other conditions. Concentration of credit risk indicates that relative sensitivity of the Company's performance to development affecting a particular industry.

Credit risk arises from deposits with banks and financial institutions, trade debts, loans, advances, bank guarantees and other receivables. The Company attempts to control credit risk by monitoring credit exposures and continually assessing the creditworthiness of counterparties. Company receives advances from customers against sales of goods and therefore its exposure to credit risk is limited. The Company monitors the credit quality of its financial assets with reference to historical performance of such assets and available external credit ratings.

The carrying amount of financial assets represents the maximum credit exposure. To manage exposure to credit risk, the Company applies credit limits to their customers. Cash is held only with banks with high quality credit worthiness.

The company's gross maximum exposure to credit risk at the balance sheet date is as follows:

	2014	2013
	----- Rupees -----	
Long term investments	563,634,496	508,984,889
Long term deposits	1,836,986	1,798,827
Trade debts	2,558,098	3,130,583
Loans and advances	178,870,319	135,001,431
Short term investments	-	6,562,943
Bank balances	19,326,300	58,544,382
	<u>766,226,199</u>	<u>714,023,055</u>

The maximum exposure to credit risk at the balance sheet date by geographic region is as follows:

	2014	2013
	----- Rupees -----	
Local	766,226,199	714,023,055
Exports	-	-
	<u>766,226,199</u>	<u>714,023,055</u>

# NOTES TO THE FINANCIAL STATEMENTS



FARAN SUGAR MILLS LTD.

For the year ended September 30, 2014

## Impairment losses

The aging of trade debts at the balance sheet date was:

	2014		2013	
	Gross	Impairment	Gross	Impairment
	Rupees		Rupees	
Not past due	2,558,098	-	3,130,583	-
Past due 1 to 180 days	-	-	-	-
More than 180 days	-	-	-	-
	<u>2,558,098</u>	<u>-</u>	<u>3,130,583</u>	<u>-</u>

The credit quality of company's liquid funds can be assessed with reference to external credit ratings as follows:

Bank Name	Credit Rating Agency	Short term	Long term	2014		2013	
				Rupees		Rupees	
United Bank Limited	JCR-VIS	A-1+	AA+	13,144,223	50,768,270		
Bank Al-Habib Limited	PACRA	A-1+	AA+	2,194,174	1,447,050		
Habib Bank Limited	JCR-VIS	A-1+	AAA	2,220,818	4,439,811		
Bank Al-Falah Limited	PACRA	A-1+	AA	754,165	191,804		
MCB Bank Limited	PACRA	A-1+	AAA	722,721	1,261,278		
Dubai Islamic Bank Limited	JCR-VIS	A-1	A	187,352	109,347		
Meezan Bank Limited	JCR-VIS	A-1+	AA	86,534	214,739		
Others below Rs 50,000	PACRA	A-1 to A-1+	AA to AA-	16,313	112,083		
				<u>19,326,300</u>	<u>58,544,382</u>		

## 34.2.2 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Company could be required to pay its liabilities earlier than expected or difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The following are the contractual maturities of financial liabilities (including interest payments):

	2014			
	Carrying amount	Contractual cash flows	Twelve months or less	Two to five years
	(Rupees)			
<b>Non-derivative financial liabilities</b>				
Long term loan	69,825,029	(93,001,080)	(10,966,719)	(82,034,361)
Trade and other payables	1,006,078,899	(1,006,078,899)	(1,006,078,899)	-
Accrued mark up	6,267,945	(6,267,945)	(6,267,945)	-
Short term finance	100,000,000	(111,690,000)	(111,690,000)	-
	<u>1,182,171,873</u>	<u>(1,217,037,924)</u>	<u>(1,135,003,563)</u>	<u>(82,034,361)</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended September 30, 2014

	2013			
	Carrying amount	Contractual cash flows	Twelve months or less	Two to five years
	----- (Rupees) -----			
Non-derivative financial liabilities				
Long term loan	-	-	-	-
Trade and other payables	677,332,245	(677,332,245)	(677,332,245)	-
Accrued mark up	8,119,014	(8,119,014)	(8,119,014)	-
Short term finance	299,997,250	(299,997,250)	(299,997,250)	-
	<u>985,448,509</u>	<u>(985,448,509)</u>	<u>(985,448,509)</u>	<u>-</u>

## Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. The Company is exposed to currency risk, interest rate risk and equity price risk.

### a) Currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to a change in a foreign exchange rate. It arise mainly where receivables and payables exist due to transactions in foreign currency.

#### *Exposure to currency risk*

The Company is exposed to currency risk on trade debts and sales that are denominated in a currency other than the respective functional currency of the Company. These transactions are denominated in US Dollars. At the reporting date all export debts were realised and the company has no exposure to foreign currency risk.

The following significant exchange rates applied during the year:

	2014		2013	
	Average rates	Balance sheet rate	Average rates	Balance sheet rate
	----- Rupees -----		----- Rupees -----	
US Dollar	<u>102.03</u>	<u>102.29</u>	<u>99.00</u>	<u>105.30</u>

As the company has no any foreign currency receivables at year end, hence any increase or decrease in exchange rate will not have any impact on company's financial statements.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to cash flow interest rate risk on its running finance arrangements which is repriced at a maximum period of 120 days.

All the borrowings of the company are variable rate borrowings, hence the company is not exposed to fair value risk on its borrowings.

During the year, if average KIBOR interest rate on borrowings had been 100 basis points higher / lower with all other variables held constant, profit (2013: profit) after taxation for the year would have been higher / lower by Rs. 1.698 million (2013: lower / higher by Rs. 2.3 million) respectively, mainly as a result of higher / lower interest exposure on floating rate borrowing.

# NOTES TO THE FINANCIAL STATEMENTS



FARAN SUGAR MILLS LTD.

For the year ended September 30, 2014

## c) Price risk

Price risk represents the risk that fair value of a financial instrument will fluctuate because of changes in the market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all or similar financial instruments traded in the market. Company is exposed to equity price risk since it has investments in quoted equity securities amounting to Rs 3.75 million (2013: Rs. 3.75 million) at the balance sheet date having fair value of Rs. 6.763 million (2013: 3.569 million).

The Company's strategy is to hold its strategic equity investments for long period of time. Thus, Company's management is not concerned with short term price fluctuations with respect to its strategic investments provided that the underlying business, economic and management characteristics of the investee remain favourable. The Company strives to maintain above average levels of shareholders' capital to provide a margin of safety against short term equity price volatility. Company manages price risk by monitoring exposure in quoted equity securities and implementing the strict discipline in internal risk management and investment policies.

The carrying value of investments subject to equity price risk are, in almost all instances, based on quoted market prices as of the balance sheet date except for, unquoted associates which value through equity method. Market prices are subject to fluctuation and consequently the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments and general market conditions. Furthermore, amount realized in the sale of a particular security may be affected by the relative quantity of the security being sold.

## 34.3 Capital risk management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence, sustain future development of the business, safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefit for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Board of Directors monitors the return on capital, which the Company defines as net profit after taxation divided by total shareholders' equity. The Board of Directors also monitors the level of dividend to ordinary shareholders. There were no changes to the Company's approach to capital management during the year and the Company is not subject to externally imposed capital requirements.

The companies finances its operations through equity, borrowings and management of working capital with a view to maintaining an appropriate mix between various sources of finance.

The gearing ratio as at year end is as follows

	2014	2013
	----- Rupees -----	
Long term borrowings	69,825,029	-
Short term finance	100,000,000	299,997,250
Total debt	169,825,029	299,997,250
Cash and bank balances	(19,588,873)	(59,144,225)
Net Debt	150,236,156	240,853,025
Share capital	250,069,550	238,161,480
Reserves	1,054,012,370	922,417,241
Total equity	1,304,081,920	1,160,578,721
Gearing ratio	11.52%	20.75%

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended September 30, 2014

## 35. PRODUCTION CAPACITY

	2014		2013	
	Metric Tons	Days	Metric Tons	Days
Crushing capacity	1,440,000	180	1,440,000	180
Cane crushed	897,803	138	753,025	108
Production - sugar	92,823	138	80,429	108

The reason for under utilization of installed capacity is due to limited availability of sugarcane.

## 36. EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors of the Company in its meeting held on January 1, 2015 has proposed a cash dividend of Re. 1 per share (2013: Rs. 0.75 per share) and bonus share at the rate Nil% (2013: 5%) in respect of year ended September 30, 2014. The approval of the members for the proposed dividend will be obtained at the Annual General Meeting of the Company to be held on January 29, 2015. The financial statements for the year ended 30 September 2014 do not include the effect of these dividends which will be accounted for in the financial statement for the year ending 30 September 2015.

## 37. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on January 1, 2015 by the Board of Directors of the Company.

## 38. GENERAL

- Figures have been rounded off to the nearest rupee.

- Figures, including comparatives, have been re-arranged and reclassified wherever necessary.

AHMED ALI BAWANY  
CHIEF EXECUTIVE

MUHAMMAD OMAR AMIN BAWANY  
VICE CHAIRMAN

# NOTICE OF ANNUAL GENERAL MEETING



FARAN SUGAR MILLS LTD.

## Ordinary Business

1. To confirm the minutes of the last meeting held on 30th January 2014.
2. To receive, consider & adopt Annual Audited Financial Statements for the year ended September 30, 2014 together with the reports of the auditors' and directors' thereon.
3. To consider & approve the payment of cash dividend @ 10% i.e. Re. 1.00 per share for the year ended 30th September 2014 as recommended by the Board of Directors.
4. To appoint Auditor of the Company for the year ending 30th September 2015 and fix their remuneration. The retiring Auditors M/s. Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants have given their consent and offered themselves for re-appointment as Auditors of the Company for the year ending 30th September 2015.

## Special Business.

5. To Consider and approve the increase in remuneration of the Chairman, Vice Chairman and Chief Executive. w.e.f. October 2014 Rs. 50,000/= each and also approve aggregate remuneration of incoming director Rs. 180,000/= w.e.f January 2015.
6. To transact any other business with permission of the Chair.

By order of the Board

Karachi  
Dated: January 1, 2015

Muhammad Ayub  
Company Secretary

## Notes:

1. The Share transfer books of the Company will remain closed from 22nd January 2015 to 29th January 2015 (both days inclusive).
2. A member entitled to attend and vote at the Annual General Meeting may appoint another member as his/her proxy to attend and vote in his/her behalf, proxies in order to be effective must be received by the Company at its registered office not later than 48 hours before the time of meeting.

**NOTICE IS HEREBY GIVEN  
THAT THE 33<sup>RD</sup> ANNUAL  
GENERAL MEETING OF  
THE COMPANY WILL  
BE HELD ON THURSDAY  
29<sup>TH</sup> JANUARY 2015 AT  
12:00 NOON AT THE  
INSTITUTE OF CHARTERED  
ACCOUNTANTS OF  
PAKISTAN, CHARTERED  
ACCOUNTANTS AVENUE,  
CLIFTON, KARACHI,  
TO TRANSACT THE  
FOLLOWING BUSINESS:**

# NOTICE OF ANNUAL GENERAL MEETING

3. The Shareholders are requested to notify the Company immediately the change in their addresses, if any.
4. Any individual beneficial owner of CDC, entitled to vote at this meeting, must bring original NIC with him/her to prove his/her identity, and in case of proxy, a copy of shareholder's attested NIC must be attached with the proxy form. Representatives of corporate members should bring the usual documents required for such purpose.
5. Under directives of SECP, it is mandatory for the shareholders to provide a copy of computerized national identity card (CNIC), in case of individuals, and national tax number (NTN) in case of corporate entity. Therefore, all shareholders are requested to immediately send the required information to the share registrar of the Company. In case of non compliance of the said requirement, the company will not be in a position to issue the dividends to the respective shareholders till complaints.
6. Pursuant to the provisions of Finance Act, 2014 effective July 01, 2014 reforms have been made with regards to deduction of income tax. For cash dividend, the rates of deduction for income tax, under Section 150 of Income Tax Ordinance 2001, have been revised as follows:

1	Rate of tax deduction for filers of Income Tax Return is 10%
2	Rate of tax deduction for non-filers of Income Tax Return is 15%

Members seeking exemption from deduction of income tax or are eligible for deduction at a reduce rate are requested to submit a valid tax certificate or necessary documentary evidence as the case may be.

7. Under directives of SECP, the shareholders are hereby given the opportunity to authorize the company to directly credit in their bank accounts with cash dividend if any, declare by the company in future instead of issuing a dividend warrant. Please provide the following information / detail:

## Details for Bank Mandate

Title of Bank Account:	
Bank Account Number:	
Bank's Name:	
Branch name and Address:	
Contact No. and Address of Shareholder/Transferee:	
CNIC Number:	

## Statement under section 160(1)(B) of the Companies Ordinance, 1984; Regarding the special business.

The statement sets out the material facts pertaining to the special business to be transacted at the forthcoming annual general meeting of the company to be held on January 29, 2015. The Directors in their meeting held on January 1, 2015 have recommended to the shareholders to pass ordinary resolution in respect of the following item.

## Chairman, Vice Chairman and Chief Executive Remuneration

The Board of the Directors in its meeting held on 1st January 2015 recommended to approve remuneration along with other benefits as per service rule for the Chairman, Vice Chairman and Chief Executive w.e.f. October 2014 and incoming director Mr. Bilal Omar Bawany who filled up a casual vacancy occurred due to resignation of Mr. Abdul Wahid Ghaffar w.e.f. January 2015, for this purpose it is proposed that the following resolution be passed with or without modification.

“Resolved that the consent of the Company be and hereby accorded to the aggregate remuneration to Mr. Muhammad Amin Bawany – Chairman a sum of Rs. 490,000/- per month, Mr. Muhammad Omar Bawany – Vice Chairman a sum of Rs. 460,000/- per month and Mr. Ahmed Ali Bawany – Chief Executive a sum of Rs. 450,000/- per month w.e.f. from October 2014, and Mr. Bilal Omar Bawany Executive Director a sum of Rs. 180,000/- per month w.e.f. January 2015, and other benefits as per service rules.”

# PATTERN OF SHAREHOLDING



FARAN SUGAR MILLS LTD.

As at September 30, 2014

NO. OF SHARE HOLDERS	FROM	SHARE HOLDING	TO	TOTAL SHARES HOLD
1214	1	-	100	19,421
536	101	-	500	108,029
146	501	-	1000	110,404
191	1001	-	5000	431,170
60	5001	-	10000	449,572
22	10001	-	15000	280,848
16	15001	-	20000	291,673
9	20001	-	25000	202,217
4	25001	-	30000	110,256
5	30001	-	35000	166,962
1	35001	-	40000	37,516
1	40001	-	45000	42,913
1	45001	-	50000	49,550
2	50001	-	55000	109,775
1	55001	-	60000	59,194
1	60001	-	65000	63,693
1	65001	-	70000	65,250
1	75001	-	80000	79,355
1	85001	-	90000	87,855
1	95001	-	100000	100,000
1	100001	-	105000	103,005
2	105001	-	110000	213,106
1	110001	-	115000	112,000
3	130001	-	135000	397,251
1	145001	-	150000	147,666
1	150001	-	155000	151,395
1	160001	-	165000	163,500
1	165001	-	170000	167,401
2	180001	-	185000	365,322
1	185001	-	190000	187,734
1	235001	-	240000	236,350
2	255001	-	260000	515,154
1	305001	-	310000	305,328
1	315001	-	320000	318,221
1	325001	-	330000	327,500
1	335001	-	340000	338,701
2	340001	-	345000	683,766
1	370001	-	375000	370,246
1	380001	-	385000	381,883
1	405001	-	410000	407,146
1	415001	-	420000	418,546
1	455001	-	460000	457,116
2	475001	-	480000	955,728
1	495001	-	500000	497,585
1	530001	-	535000	530,572
1	550001	-	555000	551,265
1	640001	-	645000	644,956
1	705001	-	710000	705,597
1	820001	-	825000	823,740
1	880001	-	885000	882,470
1	975001	-	980000	978,338
1	1005001	-	1010000	1,008,869
1	1140001	-	1145000	1,140,115
1	1265001	-	1270000	1,267,931
1	1400001	-	1405000	1,400,775
1	1695001	-	1700000	1,699,250
1	2285001	-	2290000	2,285,774
2258		Total		25,006,955

S/R NO.	CATEGORIES OF SHARE HOLDERS	NUMBER OF SHARE HOLDERS	TOTAL SHARES HOLD	PERCENTAGE %
1	INDIVIDUALS	2211	20,287,604	81.13
2	INSURANCE COMPANIES	2	169,724	0.68
3	JOINT STOCK COMPANIES	14	297,492	1.19
4	FINANCIAL INSTITUTIONS	5	418,072	1.67
5	MODARABAS	1	231	0.00
6	OTHERS	19	1,085,757	4.34
7	MUTUAL FUND	2	2,298,774	9.19
8	WELFARE SOCIETY	1	20,602	0.08
9	EMPLOYEES PENSION FUND	1	256,209	1.03
10	EMPLOYEES BENEVOLENT FUND	1	8,990	0.04
11	EDUCATIONAL INSTITUTION	1	163,500	0.65
		2258	25,006,955	100.00

# PATTERN OF SHAREHOLDING

As at September 30, 2014  
(Additional Information)

		Number of shareholders	Shares Held	Percentage
<b>Associated Companies, Undertaking and Related Parties</b>				
Reliance Insurance Company Ltd		1	18329	0.07
<b>CDC - Trustee</b>				
National Investment (Unit) Trust		1	2285774	9.14
<b>Directors, CEO and their spouse and minor children</b>				
Mr. Mohammad Amin Ahmed Bawany	Chairman	1	151548	0.60
Mr. Mohammad Omar Amin Bawany	Vice Chairman	1	254722	1.02
Mr. Ahmed Ali Mohammad Amin	Chief Executive	1	446679	1.78
Mr. Iqbal A. Rehman	Director	1	4980	0.02
Mr. Abdul Wahid Ghaffar	Director	1	4980	0.02
Mr. Irfan Zakaria	Director	1	2625	0.01
Mrs. Roshan Ara Mohd Amin	Spouse	1	1350553	5.40
Mrs. Rukhsana Omar	Spouse	1	1963855	7.85
Mrs. Ambreen Ahmed Ali	Spouse	1	2106339	8.43
Mr. Altamash Ahmed Ali	Son	1	978338	3.92
Miss Alveena Ahmed Ali	Daughter	1	457116	1.83
<b>Public sector companies and corporation</b>				
<b>Banks, DFIs, NBFIs, Insurance Companies, Modarabas and Mutual Funds</b>				
National Bank Of Pakistan		1	410134	1.64
Trustee National Bank of Pakistan Employee Pension		1	265199	1.06
State Life Insurance Corporation Of Pakistan		1	151395	0.61
Habib Bank AG Zurich Deira		1	7500	0.02
Muslim Commercial Bank Ltd		1	92	0.00
<b>Share holders holding five percent or more interest</b>				
Trustee National Investment (unit) Trust		1	2285774	9.14
Roshan Ara Mohd Amin		1	1350553	5.40
Rukhsana Omar		1	1963855	7.85
Ambreen Ahmed		1	2106339	8.43
Ayesha Amin		1	1747504	6.99
Shahida Amin		1	1819321	7.27
Gulshanara Amin		1	1485024	5.94

# FORM OF PROXY



FARAN SUGAR MILLS LTD.

I/We \_\_\_\_\_  
Of \_\_\_\_\_  
Being a member of Faran Sugar mills Ltd., and A holder Of \_\_\_\_\_ Ordinary  
Shares as per share Registration Folio No. \_\_\_\_\_ and / or CDC participant I.D. No.  
\_\_\_\_\_ hereby appoint Mr. / Mrs. /Miss, \_\_\_\_\_ of  
\_\_\_\_\_ as my / our proxy to vote for me/us and on my/our behalf at the 33<sup>rd</sup>  
Annual Meeting of the Company to be held on January 29, 2015 at 12:00 noon and at any adjournment  
thereof.

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2015

Signature on Rs/- 5  
Revenue Stamp

For Beneficial owners as per CDC List

1. Witness

Signature: \_\_\_\_\_

2. Witness

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Address \_\_\_\_\_

Name: \_\_\_\_\_

Address: \_\_\_\_\_

CNIC No.      -       -  CNIC No.      -       -

Or Passport No. \_\_\_\_\_ Or Passport No. \_\_\_\_\_

Notes:

1. The Proxy must be a member of the Company
2. The instruments appointing a proxy must be duly stamped, signed and deposited at the Registered office of the company not later than 48 hours before time fixed for holding the meeting
3. Signature of the appointing member should match his/her specimen signature registered with the company.
4. If a proxy is granted by a member who has deposited his / her shares into Central Depository Company of Pakistan Limited, the proxy must be accompanied with participant's ID number and account number along with attested copies of the Computerized National Identity Card (CNIC) or the Passport of the beneficial owner. Representatives of corporate members should bring usual documents required for such purpose.



## **FARAN SUGAR MILLS LTD.**

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92-21 111-BAWANY (229-269)  
Fax :92-21 3242 1010  
Email : info@faran.com.pk

**WEB : [WWW.FARAN.COM.PK](http://WWW.FARAN.COM.PK)**