

## **COST AUDITORS' REPORT TO THE BOARD OF DIRECTORS**

We, **M/s SAEED METHANI SIRAJ MOHY-UD-DIN & CO., CHARTERED ACCOUNTANTS**, having been appointed to conduct an Audit of the Cost Accounts of **M/s HASEEB WAQAS SUGAR MILLS LIMITED**, have examined the books of account and the statements prescribed under Clause (e) of Sub Section (1) of Section 230 of the Companies Ordinance, 1984 and other relevant record for the year ended on September 30, 2013 and report that:

We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of this audit.

- a) In our opinion:
  - i) Proper Cost Accounting Records, as required by Clause (e) of Sub-Section (1) of Section 230 of the Companies Ordinance, 1984 (XLVII of 1984) and as required by these rules, have been kept by the Company;
  - ii) The said books and records give the information, as required by the rules, in the manner so required.
  
- b) In our opinion and subject to the best of our information:
  - i) The Annexed Statement of Capacity Utilization and Stock in Trade are in agreement with the books of account of the Company and exhibit a true and fair view of the Company's affairs; and
  - ii) The Cost Accounting Records have been properly kept so as to give a true and fair view of the Cost of Production, Processing, Manufacturing and Marketing of the Sugar and its by-products, namely Molasses and Bagasse.

The matter contained in the ANNEXURES forms an integral part of this report.

**LAHORE:** January 27, 2014

**SAEED METHANI SIRAJ MOHY-UD-DIN & CO.  
CHARTERED ACCOUNTANTS**

**HASEEB WAQAS SUGAR MILLS LIMITED**  
**APPENDIX III [see Rule 4(3)]**  
**OF THE COMPANIES (AUDIT OF COST ACCOUNTS) RULES, 1998**  
**OF THE COST AUDITOR'S REPORT TO THE BOARD OF DIRECTORS**

This is with reference to our appointment as Cost Auditors for the year ended September 30, 2013 vide application made, on the form as set out in Appendix I [see Rule 3(3)] of the Companies (Audit of Cost Accounts) Rules, 1998, to the Securities and Exchange Commission of Pakistan (SECP) (the "Commission") dated October 30, 2008 and subsequent approval by the same authority, as conveyed vide Letter No. EMD/C.O.258/85/2002-750 dated November 08, 2013. In this regard, we take pleasure in reporting hereunder on the following matters:

<b>1 CAPACITY</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>1.1</b> Licensed/Installed Capacity of the Mill (M. Tons. Per Day)	8,000	8,000	8,000
Capacity Utilized by the Mill (M. Tons. Per Day)	4,321	5,547	4,713
No. of days worked (Days)	109	117	109
Total capacity based on the No. of Days Worked (M. Tons)	872,000	936,000	872,000
Cane crushed (M.Tons)	470,972	648,976	513,707

**1.2** The company is not engaged in any other activity.

**2 COST ACCOUNTING SYSTEM**

**2.1** The company is engaged in the production of White Sugar using a Continuous Process. The Company uses a tailor-made Accounting Software for Sugar Industry, whereby the Cost Accounting Records are integrated with the Financial Accounting Records allowing all the accounting entries for the Cost of Production, at various levels, to be incorporated in the financial books of accounts. The Company's weighment bridge is fully computerized that facilitates the incorporation of Cane purchased in the books of account at the time of weightment. The said Software was assessed as adequate to determine correctly the Company's Cost of Production.

**2.2** The Actual Cost incurred during the period are allocated to the respective Cost Centres, as under:

**2.2.1 Production Department:**

- White Sugar

**2.2.2 Service Department:**

- Steam Generation  
 - Electricity Generation

<b>3 PRODUCTION</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>3.1</b> Sugar produced from sugar cane (M. Tons)	43,565	58,340	43,516
Sugar produced from sugar cane (No. of 50 kg. bags of sugar)	871,300	1,166,791	870,310

**3.2 Percentage of Production in relation to Available/Installed Capacity:**

	<b>2013</b>	<b>2012</b>	<b>2011</b>
Available/Installed Capacity (M. Tons.)	872,000	936,000	872,000
Capacity utilized (M. Tons.)	470,972	648,976	513,707
Percentage of production in relation to installed capacity.	54.01%	69.34%	58.91%

**3.2.1 Percentage of Production in relation to Available/Installed Capacity (in terms of Recovery Percentage):**

	2013		
	Sugar Cane (M. Tons)	Recovery %	White Sugar (M. Tons)
Installed crushing capacity (at 109 days)	872,000	9.26%	80,747
Attained crushing capacity	470,972	9.26%	43,612
Variance	401,028	-	37,135
	2012		
	Sugar Cane (M. Tons)	Recovery %	White Sugar (M. Tons)
Installed crushing capacity (at 117 days)	936,000	9.00%	84,240
Attained crushing capacity	648,976	9.00%	58,408
Variance	287,024	-	25,832
	2011		
	Sugar Cane (M. Tons)	Recovery %	White Sugar (M. Tons)
Installed crushing capacity (at 109 days)	872,000	8.47%	73,858
Attained crushing capacity	513,707	8.47%	43,516
Variance	358,293	-	30,342

**3.2.2 Reason for variance in available/installed capacity:**

	2013	2012	2011
Available capacity depends upon the length of crushing season which was (in days)	109	117	109

**3.2.3 Reason for variance in capacity utilized:**

During the season, we had faced severe shortage of sugarcane due to its less cultivation in our mills area. Moreover, some technical problems arose during the season. The plant, therefore, faced various shut down due to low cane and technical problems.

**3.2.4 Percentage of hours crushed in relation to crushing hours available:**

	2013	2012	2011
Crushing hours available (Hours)	2,616	2,808	2,612
Hours actually crushed (Hours)	2,467	2,392	2,113
Percentage of hours crushed in relation to crushing hours available	94.30%	85.17%	80.90%

**3.3 Addition to the production capacity during the year or in immediate preceding two years.**

There were no additions to the production capacity during the year or in immediate preceding two years.

**4 RAW MATERIAL**

**4.1** Please refer to the 'Statement showing the cost of sugar cane crushed, i.e Annexure III'.

**4.2 The Cost of Raw Material (per bag of production)**

	2013	2012	2011
Raw material cost (Rupees)	2,535,050,793	2,537,000,752	2,719,776,559
No. of 50 kg bags of sugar (Bags)	871,300	1,166,791	870,310
Cost of raw material (per bag of production) (Rupees)	2,909.50	2,174.34	3,125.07

- 4.3 The production of sugar (per M. Tons. of sugar cane) depends upon the quality of sugar cane and the months during which the sugar cane has been crushed.

The raw material cost (per bag of production) has increased mainly due to the increase in the price of sugar cane.

4.4 **No. of Bags of Sugar produced per M. Tons of Sugar Cane Crushed:**

	2013	2012	2011
No. of 50 kg. bags of sugar (Bags)	871,300	1,166,791	870,310
Total sugar cane crushed (M. Tons)	470,972	648,976	513,707
No. of bags of sugar produced per M.Tons of Sugar Cane Crushed bags)	1.85	1.80	1.69

4.5 **Recovery Percentage of Sugar**

(in percentage)	2013	2012	2011
	9.26%	9.00%	8.47%

4.6

The sugar cane, being received from farmers at the Factory Gate and Purchase Centres (Depots), is directly transferred to production. It was also reviewed and observed that proper computerized and manual records, regarding the receipt and purchase of Sugar Cane (both in Quantity and Value), were determined.

**5 WAGES AND SALARIES**

- 5.1 Please refer to the 'Statement showing the Cost of Salaries, Wages and Benefits, i.e. Annexure VI'.

The Administrative Salaries include the Remuneration of the Chief Executive, Directors and Executives which amount to Rs. 2.4 Million (2012: Rs. 2.4 Million), Rs. Nil (2011: Rs. Nil Million) and Rs. 7.403 Million (2012: Rs. 4.446 Million) respectively. The said are also entitled to the free use of Company Cars.

5.2 **Total Man-Days of Direct Labour Available and Actually Worked for the year:**

	2013	2012	2011
Total man-days of direct labour available (Days)	126,876	137,007	127,094
Total man-days of direct labour actually worked (Days)	119,640	116,690	102,657

5.3 **Average No. of Workers Employed for the year:**

	2013	2012	2011
Direct and indirect labour, including contract staff (No. of Workers)	1,164	1171	1166

5.4 **Direct Labour Cost (per Bag of Output) (Rupees)**

	2013	2012	2011
Direct Labour Cost (Rupees)	88,204,993	72,741,542	60,314,507
No. of Bags of Sugar (Bags)	871,300	1,166,791	870,310
Direct Labour Cost (per bag of output) (Rupees)	101.23	62.34	69.30

- 5.5 The variation in direct labour cost (per bag of output) is mainly due to the increase in the number of employees and production.

- 5.6 There were various Incentive Schemes for direct/indirect labour, i.e EOBI, ESSI, Gratuity, Group Insurance etc. No change was observed in these Incentive Schemes during the year.

## 6 STORES AND SPARES PARTS

### 6.1 Stores and Spare parts - Expenditure per bag of output:

	2013	2012	2011
Expenditure on stores and spares parts (Rupees)	62,240,987	62,379,147	44,409,663
No. of bags of sugar cane (Bags)	871,300	1,166,791	870,310
Stores and spare parts - expenditure per bag of output (Rupees)	71.43	53.46	51.03

6.2 The stores and spare parts cost per unit of output has fallen due to the increase in the production of sugar bags.

### 6.3 Comments on the System of Stores accounting for recording Receipts, Issue and Balance, (both in Quantities and Values):

#### a) Recording of Receipts:

The Company follows the Perpetual Method of Accounting for stores and spare parts. The receipts are recorded on the basis of Actual Prices and Actual Quantities received.

#### b) Recording of Consumption:

The stores and spare parts consumed are recorded on the basis of Stores Requisition Slips and are valued at an Average Rate. The Provision for Obsolescence, if any, of the Stores and Spare Parts and any reversal thereof are included in the normal consumption.

### 6.4 The Proportion of Closing Inventory of the Stores, representing items that have not been moved for over Twenty Four (24) months:

3.9 (2012: 4.7) percent of the Inventory items, in terms of value, have not been moved for over Twenty Four (24) months from the end of the reporting period.

## 7 DEPRECIATION

7.1 The Company uses the Reducing Balance Method for the purpose of determining the depreciation charge for the year, at the rates ranging between 5% - 20%.

7.2 Depreciation on additions is charged from the month in which the asset is put to use. Depreciation on disposals of assets is charged up to the month the assets is in use.

7.3 The depreciation charged is allocated between the Cost of Sales and Administrative expenses at the rate of 92% and 8%(approximately) respectively.

## 8 OVERHEADS

### 8.1 The total amount of overheads is as under:

	2013	2012	2011
i) Factory overheads	2,336,347	3,138,510	1,758,088
ii) Administrative	33,260,389	37,120,107	32,666,790
iii) Selling and distribution	911,780	-	-
iv) Financial charges	203,435,943	254,565,826	167,931,206
	<u>239,944,459</u>	<u>294,824,443</u>	<u>202,356,084</u>

8.2 For break-up of the items (i), (ii) and (iii), please refer to the 'Statement showing other factory overheads, administrative expenses, i.e. Annexure X' and the 'Statement showing selling expenses, i.e. Annexure XI' respectively.

### 8.3 The variance in the above overhead, in comparison with the preceding two years, are as under:

	2013	2012	Increase/ (Decrease)
i) Factory overheads	2,336,347	3,138,510	(802,163)
ii) Administrative	33,260,389	37,120,107	(3,859,718)
iii) Selling and distribution	911,780	-	911,780
iv) Financial charges	203,435,943	254,565,826	(51,129,883)

	2012	2011	Increase/ (Decrease)
i) Factory overheads	3,138,510	1,758,088	1,380,422
ii) Administrative	37,120,107	32,666,790	4,453,317
iii) Selling and distribution	-	-	-
iv) Financial charges	254,565,826	167,931,206	86,634,620

**8.4** The variance in the Administrative Expenses is mainly due to normal recruitment in staff during the current fiscal year. The depreciation has decreased, in comparison with the prior year as a consequence of disposal of plant and machinery during the year. Increase in the financial charges is due to multifold reasons, but mainly due to increase in long term financing in the year.

**8.5** All factory overheads have been charged directly to the White Sugar Produced and Work in Progress. The method of charging the said overheads to productions is based on the Absorption Costing Methods.

**8.6 The Cost of Packing Material**

	2013	2012	2011
Polypropylene bags	18,853,897	23,429,995	15,971,749

**9 ROYALTY / TECHNICAL AID PAYMENTS**

The Company has not paid any Royalty or Technical Aid Payment during the year under report.

**10 ABNORMAL NON RECURRING FEATURES**

**10.1** The company has faced various abnormal features that have been affected the production during the year, viz: Low Cane Recovery, Less attainment of crushing capacity, High Cane Cost etc. The driving forces behind these abnormalities were: the increase in competition with surrounding Sugar Mills in respect of sugar cane purchase, multiple shut downs, less rains and the abundance of unapproved, poor quality Sugar Cane varieties.

**10.2** There were no special expense incurred during the year that have been charged to White Sugar.

**11 COST OF PRODUCTION**

**11.1** Please refer to the 'Statement showing the Cost of Production and Sale of White Bagged Sugar i.e Annexure I'.

**11.2 The Cost of Production per M. Tons of White Sugar:**

	2013	2012	2011
Cost of goods manufactured (Rupees)	2,098,545,328	2,907,161,309	2,830,584,751
Sugar produced from sugar cane (M. Tons)	43,565	58,340	43,516
Cost of production per M.Tons of White Sugar (Rupees)	48,170.44	49,831.74	65,047.74

**11.3**

The cost of production per M. Tons of white sugar has decreased by Rs. 1,661.3. This decrease has resulted due to substantial decrease in sugar cane / raw material cost and subsidy to growers / quality premium.

## 12 SALES

### 12.1 Local - White Sugar

	2013	2012	2011
Total sales of sugar	2,251,227,216	1,951,211,552	2,994,432,788
No. of 50 kg bags sold to white sugar (Bags)	938,457	824,337	866,926
Average selling price per 50 kg bag of white sugar	2,398.86	2,367.01	3,454.08
Average selling price per M. Tons of white sugar	47,977.21	47,340.14	69,081.62

12.2 There were no exports of white sugar during the year under report.

## 13 PROFITABILITY

### 13.1 Profit/(Loss) per M. Tons of White Sugar

	2013	2012	2011
Total cost to make and sell white sugar	2,535,050,793	2,351,188,425	3,017,658,747
Quantity of white sugar sold (M.Tons)	46,923	41,217	43,346
Cost of white sugar sold per M. Tons	54,025.93	57,044.35	69,617.45
Sale price per M. Tons of white sugar (from 12.1 above)	47,977.21	47,340.14	69,081.62
Profit/(loss) per M. Tons	(6,048.73)	(9,704.21)	(535.83)

### 13.2 Profit /(Loss) per Machine Hour:

	2013	2012	2011
Total profit/(loss) on sale of white sugar	(283,823,577)	(399,976,873)	(23,225,959)
Total machine hours available	2,616	2,808	2,612
Total machine hours lost	149	416	499
Total machine hours actually crushed (Hours)	2,467	2,392	2,113
Profit /(loss) per machine hours	(115,057)	(167,214)	(10,992)

13.3 The profitability of the company depends upon the support prices of sugar cane as fixed by the Government and the recovery percentage of sugar from the sugar cane.

## 14 COST AUDITORS' OBSERVATION AND CONCLUSIONS

To the best of our knowledge and belief, there are no:

- a) matters, which appear to be clearly wrong in principle or apparently unjustifiable;
- b) cases, where the company's funds have been used in a negligent or inefficient manner;
- c)

factor that could have been controlled, but have not been done resulting in the increase in cost of production;

- i) we state that the company has maintained a good budgetary control system; and
- ii) we also state that the company has setup an effective Internal Audit Function, which is operated through the Head Office, manned by suitably qualified and experienced personnel, who are conversant with the policies and procedures of the company.

### d) Suggestions for Improvements in Performance

- i) **Rectification of General Imbalance in Production Facilities**  
Our procedures did not reveal any general imbalance in production facilities.
- ii) **Fuller Utilization of Installed Capacity**  
Though the company has significantly improved its crushing per day yet there is space to reduce the gap between installed cane crushing capacity and the capacity achieved.

**iii) Comments on areas offering scope for Cost Reduction, Productivity, Key Limiting Factor, Improved Inventory Policies, Energy Conservancy, State of Technology, whether modern or obsolete; and Plant, whether new or second-hand when installed:**

The major component of the cost is sugar cane, which should be controlled by having efficient field staff for procurement. Further scientific means should be adopted to determine the Quality of Cane, so as to avoid purchase of Low Quality Cane, which will ultimately enhance the recovery rate and overall profitability. Besides the cost reduction in purchase of raw material, saving in other manufacturing expenses should be tried. Apart from the non-availability of sugar cane, there are no bottlenecks that limit production. Further that the Inventory System is adequate, the utilization of energy is efficient (being utilized at the maximum level) and the plant was new when installed.

**15 RECONCILIATION WITH FINANCIAL ACCOUNTS**

The figure shown in this report are subject to reconciliation with the Annual Accounts duly audited, as required under Rule 15 of the Companies (Audit of Cost Accounts) Rules, 1998.

**16 COST STATEMENT**

Cost statement on the formats prescribed by the Securities and Exchange Commission of Pakistan (SECP) (the "Commission") under Clause (e) of Sub-Section (1) of Section 230 of the Companies Ordinance, 1984, duly authenticated by the Chief Executive and Chief Accountant, are enclosed with this report.

**17 MISCELLANEOUS**

Corresponding figures have been re-stated and, wherever necessary, re-grouped to facilitate comparison.

LAHORE: January 27, 2014

**SAEED METHANI SIRAJ MOHY-UD-DIN & CO.  
CHARTERED ACCOUNTANTS.**

**HASEEB WAQAS SUGAR MILLS LIMITED  
COST AUDIT REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**RECONCILIATION OF COST ACCOUNTS WITH FINANCIAL AC**

	<b>Current Year Amount (Rs.)</b>
<b>Total Cost to Make and Sell (As Per Annexure I)</b>	<b>2,535,050,793</b>
<b>Less:</b>	
Administrative Expenses	33,260,389
Selling and Distribution Expenses	911,780
Finance Cost	203,435,943
Sales Tax / Excise Duty	246,523,869
Closing Stock (Molasses)	-
	484,131,981
<b>Add:</b>	
Realisable Value of By-Products	561,614,415
Opening Stock (Molasses)	195,581,144
	757,195,559
<b>Total Cost of Sales (As Per Financial Statements)</b>	<b><u><u>2,808,114,371</u></u></b>

**COUNTS**

**Previous Year  
Amount (Rs.)**

**2,351,188,425**

37,120,107
-
254,565,826
162,230,123
195,581,144
649,497,200

126,150,000
20,586,700
146,736,700

**1,848,427,925**