

BOARD OF DIRECTORS

CHAIRMAN & CHIEF EXECUTIVE

SYED MASOOD ALAM RIZVI

DIRECTORS

1. MR. ABDUL MALIK
2. MAJOR (R) ALI RAZA
3. MR. ABRAR AHMAD KHAN

SECRETARY

MR. SHAHID NAJIB HASSAN

ANNUAL REPORT OF TRADING CORPORATION OF PAKISTAN (PVT) LTD.
FOR THE YEAR 2003-2004

The Board of Directors have pleasure in presenting the TCP's Annual Report and the Audited Statement of Accounts for the financial year 2003-2004 ended on 30th June 2004.

CHANGES IN DIRECTORS

MR.ZAHID HUSSAIN KHAN

Relinquished the charge of the Director (Commercial) on 29th November, 2003 on attaining the age of superannuation.

GENERAL

The Government of Pakistan set up the trading Corporation of Pakistan Limited (TCP) as a private limited company in July 1967 registered under Companies Act 1913. The shares of corporation were owned by the Ministry of Commerce. It was the first move by the Government to introduce state trading in the country. The creation of TCP was meant to achieve the following objectives:

1. Act as a counterpart of state trading organizations in the socialist countries for import items assigned to TCP in Import Policy.
2. Achieve economies of scale by handling bulk transactions; secure advantages of price, freight and port-handling expenses, and prevent leakage of foreign exchanges through such malpractices as over/under invoicing, etc.
3. Stabilize market conditions and neutralize effect of high market prices resulting from unwarranted escalation by private importers and IPSO Facto, act as a check on disparity between import prices and scarcity prices.
4. In January, 1995 the Federal Cabinet assigned the following new role to TCP:-

A. Imports:

- Import of essential commodities in emergent condition as in the past;
- Import of Soyabean Oil in future PL-480 Programme and CC Credit;
- Import of Palm Oil from Malaysia under Malaysian credit;
- Import of Industrial raw materials and other selected bulk items.
- Utilization of Credit Facilities.

B. Exports:

- Export of selected items Produced by public sector corporations, agencies, etc.
- Channelizing exports business in areas such as Commonwealth of Independent States (CIS)/Central Asian Republics (CAR)/Malaysia, African Countries, etc;

Export of Pakistani products to new/non traditional markets by way of giving concessions/ incentives by Government to prospective buyers for capturing new markets;

To perform innovative role of undertaking export of non-traditional items to non-traditional markets on experimental basis;

- To undertake and develop export of fresh fruits/vegetables and minerals in collaboration with and on partnership basis with the private sector.

C. Counter Trade:

- To undertake counter trade to find out new markets and to promote exports, particularly to the countries facing cash constraints.

D. Procurement of Lint cotton:

- TCP undertakes lint cotton procurement operation on Government direction for stabilizing cotton prices.

E. Inspection of Brown Rice Exported to European Countries:

The Government has assigned inspection of Brown Rice (being exported to European countries) to TCP since August, 2002 which was earlier done by the RECP. TCP is discharging this responsibility to the satisfaction of the exporters and customs authorities in the European Union.

In addition to the above, due to a suit filed in the Sindh High Court some exporters of rice and under the directive of Ministry of

Commerce, TCP also inspects White Rice of those parties who are petitioners and issue them inspection certificates.

D. Nomination of TCP nodal Point:

The Government has nominated TCP as nodal point for dissemination of information relating to bulk purchase between the SAARC Countries.

TCP'S CAPITAL:

- The initial paid up capital of the corporation subscribed by the Government in 1967 was Rs. 2.5 million, which was subsequently raised to Rs.5 million in 1969-70 and Rs. 7.5 million in 1970-71 out of Corporation's own resources. In 1977-78, TCP increased its paid up capital from Rs. 10.00 million to Rs. 50.00 million and further increased it to Rs. 100.00 million in 1978-79 through its own resources by issuing bonus shares. The present paid up capital of the Corporation is Rs. 100.00 million

MANAGEMENT

The Management of the Corporation is vested in a Board of Directors appointed by the Federal Government. The Board comprises a Chairman who is the Chief Executive of the Corporation and three/four Directors who look after the financial, import, export and other affairs of the corporation. Besides one joint secretary of the Ministry of Commerce, Government of Pakistan, Islamabad is also on the Board of TCP as ex- officio Director.

ACTIVITIES OF THE CORPORATION

IMPORTS:

- **SoybeanOil**

On behalf of the government of Pakistan, TCP, under the Japanese Non-Project Grant handled 28,367 MT Soybean oil C&F value US\$ 14.801 million. This quantity as well as a quantity of 17,800 MT of soybean oil received last year under 416(b) Programme of USA government was auctioned and the auction proceeds amounting to Rs. 2.1 billion remitted to the

Government of Pakistan for utilization for the Poverty Reduction Program.

1. Beef Packer Tallow:

TCP also handled a quantity of 23,354 MT Beef Packer Tallow C&F value US\$ 17.428 million received as donation under Food for Progress Act (FFP) Programme of USA. The total quantity was disposed through open public auction yielding an amount of Rs. 711.296 million which was also remitted to the Government of Pakistan for utilization for the Poverty Reduction Programme.

Handling and disposal of these commodities were accomplished by TCP efficiently, as these were promptly cleared the port, storage was undertaken at the liquid terminals (Soya Oil) / TCP godowns (Beef Packer Tallow) and disposal done through open tender / auction in the local market.

(Detail of above commodities received under various aid programmes is given at Annexure-I)

COTTON PROCUREMENT & EXPORT

PROCUREMENT:

In order to ensure a fair price of seed cotton (phutti) to cotton growers Government has from time to time intervened in the market as a third buyer, since 1999-2000 and directed TCP to purchase lint cotton from ginners for stabilizing cotton and phutti prices. This job has been performed successfully by TCP. Moreover, TCP was also assigned the catalytic and developmental role of encouraging the production of clean cotton in model districts during the seasons 2001-2002 and 2002-2003. TCP was also instrumental in getting the Cotton Control Act 1966 amended by the provincial Government for the betterment of the cotton economy. TCP also played a prominent and significant role in carrying out the directives of the Chief Executive of Pakistan in promoting cotton cultivation in Balochistan and in the establishment of two cotton ginning factories in the private sector in Dera Murad Jamali.

During the entire cotton season 2003-2004 the prices of seed cotton remained much above the support price of Rs. 850/- per 40 kgs., therefore, TCP did not enter in the market for procurement of lint cotton as it was not warranted. However, as per announcement of Trade Policy for the year 2003-2004, TCP was to continue to intervene and procure clean cotton at a premium as and when needed. TCP made all arrangements for procurement from 5 clean cotton producing districts viz. Rahim Yar Khan in Punjab, Sanghar and Ghotki in Sindh and Nasirabad in Balochistan. TCP carried out registration of ginning factories in these districts for procurement of clean cotton. However, in view of the high prices of cotton during 2003-2004 seasons the purchases of clean cotton were not made by TCP.

LOCAL SALE:

TCP has sold 52 bales of lint cotton, left over from previous years, in the local market through open tender and fetched Rs. 0.391 million.

PURCHASE OF SUGAR FROM SUGAR MILLS

PROCUREMENT:

The ECC of the Cabinet in its meeting held on 25th October, 2003 decided to purchase through TCP, for retaining as buffer stock 100,000 MT sugar immediately and 100,000 MT sugar during January 2004 from those sugar mills who would clear the dues of the growers by 31st January 2004 as well as started crushing of sugarcane on or before 1st November, 2003. In pursuance of the decision, TCP purchased 100,000 MT sugar from 19 sugar mills in November 2003 and 95,000 MT sugar from 13 sugar mills in January 2004 through open tenders.

To resolve the liquidity problems of sugar mills, the ECC of the Cabinet on 20th May 2004 directed TCP to purchase further quantity of 300,000 MT sugar. In compliance, TCP purchased 269,000 MT sugar from 19 sugar mills located in Sindh and Punjab through open tenders which had cleared the growers outstanding dues by 15th June, 2004 and also undertook to start crushing of sugarcane by 1st November, 2004.

Export:

TCP has exported the balance quantity of 60,825 MT sugar of contracts concluded in previous year with three foreign buyers at FOB value of Rs. 725.797 million. This sugar was balance of 100,000 MT sugar purchased in February 2003 in pursuance of Cabinet decision of 18th January 2003.

(Details of sugar export is given at Annexure-II)

INSPECTION OF BROWN & WHITE RICE

During the year 2003-2004 TCP inspected 98,788 MT of Brown Rice (exported to European Union) and 66,327 MT of White Rice and earned an amount of Rs. 3.083 million towards inspection fee.

SALE OF RESIDUAL/LEFT OVER STOCKS OF DEFUNCT RECP

The government had decided that residual stocks, assets and stores of defunct Rice Export Corporation of Pakistan (RECP) will be disposed off by TCP through public tenders. During 2003-2004 stocks & stores of defunct RECP (which now stand merged with TCP) worth Rs. 61.434 million have been disposed of by TCP.

RENTING OF GODOWNS OF DEFUNCT RECP

TCP received rent amounting to Rs. 3.977 million from private parties & Sindh Food Department through renting of RECP (defunct) Qasim Rice Godowns (QRG) Pipri.

SALE OF OFFICE PREMISES

A portion of TCP office space measuring 41,962.16 sq. ft. situated at 4th Floor, Block A, Finance & Trade Centre, Karachi was sold out to M/s. Pak-Kuwait Investment Co., Karachi against sale consideration of Rs. 62.60 million after inviting bids through public notice in the press media. Besides, M/s. PKIC have also paid Rs. 6.00 million as relocation / re-furbishment charges to TCP over and above the sale consideration.

MANAGEMENT – STAFF RELATIONS

The relationship between the Management, TCP Officers Association and TCP Employees Union continued to remain harmonious during the year.

The Management is happy to record its appreciation for the hard work put in by the officers and employees of the Corporation at all levels.

AUDITORS

M/s Bilwani & Co., Chartered Accountants were appointed as Auditors to conduct the audit of accounts of TCP for the year 2003-2004.

Comparative Statements of Financial Results, Highlights of Financial Results and stocks position is given at Annexures III, IV and V.

AUDITOR'S REPORT TO THE MEMBERS

We have audited the annexed balance sheet of M/S. TRADING CORPORATION OF PAKISTAN (PRIVATE) LIMITED as at June 30, 2004 and the related profit and loss account and cash flow statement 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 Corporation's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

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

- (a)** (i) The audited accounts of Trading Corporation of Pakistan (Pvt.) Limited as at 30.06.2004 are prepared on accrual basis and a provision of Rs. 286.500 Million has been made in the accounts under the head of receivables from the Government which has not been confirmed by the Ministry of Finance till the date of finalization of the accounts and signing of our Report
- (ii) The financial expenses pertaining to the overdraft of CEC (Defunct) and RECP (Defunct) have been shown after declaring overall profit/(loss) of the Corporation.

(iii) The Corporation has not provided for disputed tax liabilities of Rs.2,353 million levied on subsidy income for the assessment years 1991-92 to 2002-2003 due to the reasons explained in note 23 to the accounts.

(iv) During the course of audit it has been observed that although there was nil Operational activity of cotton for purchase yet direct expenses of Rs. 34.693 million have been incurred in the books on cotton operation

(v) Trade debtors, as disclosed note 12 is an amount of Rs. 784.417 million. The trade debtors have not confirmed this balance, except USC, has confirmed as under

Receivable from Utility Stores

Corp. of Pakistan (Pvt.) Ltd.

773.662 Million

Confirmed by USC

480.076 Million

Amount not confirmed

293.586 Million

(vi) Included in other receivables as disclosed in note 14 is an amount of Rs.12.466 Million which is receivable from the custodians of stock in respect of stock shortages due to damage and godown shortages. We have not received any response to our confirmation requests from the custodians who we understand are disputing the claim. We therefore have been unable to determine the recoverability of this amount.

(vii) The Lahore Development Authority (LDA) has not confirmed the advance given by the Corporation against equity participation. Furthermore, audited accounts after June 30, 1997 of the project are not available for our review and for disclosure in Note 6 to the accounts. Therefore, we have been unable to ascertain the reliability of the amount.

(viii) Despite the merger order of High Court of Sindh dated January 19, 2001. The RECP (Defunct) and CEC (Defunct) Retainees are being continued as employees of RECP (Defunct) and CEC (Defunct) which have been dissolved by SECP & their salaries are being

disbursed without clearance by the Internal Audit which requires regularization.

(xi) No replies have been received to our confirmation letters except from Utility Stores Corporation of Pakistan (Pvt.) Limited, till the date of signing our report.

(x) J-Vs and R-Vs involving huge and heavy amount signed by the persons prepared it but neither signed by the Authorized Officer nor any approval in this respect was provided / attached.

(xi) The accounts of Utility Stores Corp. of Pakistan (Pvt.) Limited has been credited by an amount of Rs. 174.343 Million against the releases made by the Government for Bonds payable to the Banks.

(xii) A provision of Rs. 212.276 million already made in the accounts for the period 1995-96 to 2002-03, has been reduced/written back due to reduction in the rate of mark-up to 6.5% as agreed between the Banks and Federal Government.

(xiii) As a result of sale of RECP's stock of rice no stock basmati rice is available for sale. Since there was a difference of Rs. 37.091 million between Provision for shortage & book value as on 30.06.2004, the same has been adjusted by increasing provision of shortage to bring the ground balance Nil in the books of accounts.

(xiv) The RECP (Defunct) provided Bank Guarantees in favour of Govt. of Pakistan on account of import fee and sales tax and kept margin against these guarantees with NBP. The guarantees have since expired but margin has not since been reversed.

(xv) As a result of merger a number of properties (Godowns, Land etc.) have been taken over by TCP but the title of these assets still not transferred in favour of TCP.

(xvi) It has been observed during the audit that a number of suits are pending in Court of law pertaining to RECP/CEC (Defunct) and sizeable recurring expenditure is being incurred by TCP which seems

to be unproductive. Management's attention is invited to curtail these unproductive expenses.

(xvii) A sum of Rs. 429.961 million has been shown as contingent liability which in our view is a specific liability and should have been provided in the books of accounts as Liverpool Cotton Association (LCA) has given foreign award against CEC (Defunct) merged in TCP.

(b) Subject to the foregoing, in our opinion, proper books of accounts have been kept by the Corporation as required by the Companies ordinance, 1984.

(c) Subject to the above, 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 accounts and are further in accordance with accounting policies consistently applied;

(ii) the expenditure incurred during the year was for the purpose of the Corporation's business; and

(iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with objects of the Corporation;

(d) and subject to the foregoing, in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account and cash flow statement 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 Corporation's affairs as at June 30, 2004 and of the Profit and its cash flow for the year then ended; and

(e) in our opinion no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980)

Karachi Dated: 15th October, 2004

BILWANI & COMPANY

