

September 11, 2019



The General Manager
Pakistan Stock Exchange Limited
Stock Exchange Building
Stock Exchange Road,
Karachi

Subject: Revocation of Annual Report for the year 2018 and re-publication

Dear Sir,

With reference to subject and our external auditor letter, we would like to inform you that a paragraph of three lines & few amendments in the point no. 2 & 3 of key audit matters in the external auditor's report to the members for the year 2018 were erroneously skipped in printing by the printer. The contents of the paragraph are as follows:

Emphasis of Matter

We draw attention to notes 19.1.7 and 19.1.8 to the accompanying financial statements, wherein it is stated that during and subsequent to year end, suit has been filed by some financial institutions for recovery of their dues. Our opinion is not qualified in this respect.

The above matter has been highlighted by our auditor and for the purpose of updation of aforementioned amendments, you are requested to revoke our earlier publication of Annual Report for the year 2018 and allow us to re-publish the amended Annual Report of External Auditors. In this regard draft External Auditor's report with track changes and final External Auditor's report is attached herewith as *Annexure-I & Annexure-II* respectively.

Your kind consideration in this regard would be highly appreciated.

Regards,

For Agritech Limited

A handwritten signature in black ink, appearing to read "Faisal", is written over a faint circular stamp.

Muhammad Faisal Muzammil
(Chief Executive Officer)



INDEPENDENT AUDITOR'S REPORT

To the members of Agritech Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of **Agritech Limited** ("the Company"), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and we state that, except for as stated in *Basis of Qualified Opinion* section, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, except for the possible effect on the financial statements of the matter discussed in of *Basis of Qualified Opinion* section of our report, the statement of financial position, statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of the loss, the comprehensive loss, the changes in equity and its cash flows for the year then ended.

Basis for Qualified Opinion

As stated in note 13.1 and 21.2, management has assessed the recoverability of deferred tax asset on tax losses and tested the impairment of goodwill based on five years business plan approved by the Board of Directors and asserts that no impairment is required. However, we are unable to obtain sufficient appropriate audit evidence with respect to key assumptions used in the business plan i.e. operational days based on availability of natural gas and cost of raw material based on gas rates since approval from Government of Pakistan for supply of gas to the Company at subsidized rates is available only till October 2019. Management is however confident that supply of gas will be available on long term basis. Consequently, we were unable to determine whether any adjustments in respect of impairment were necessary for goodwill amounting to Rs. 2,567.31 million and deferred tax assets amounting to Rs. 6,060.03 million recognized on tax losses of Rs. 20,896.64 million in these financial statements.

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Material Uncertainty relating to Going Concern

Notwithstanding the matter discussed in *Basis of Qualified Opinion* section, the Company during the year ended 31 December 2018 has incurred loss before tax of Rs. 3,639.61 million and, as of that date, its current liabilities exceeded its current assets by Rs. 40,999.30 million, and its accumulated losses stood at Rs. 17,516.57 million. These conditions, along with other matters as set forth in note 2.2 to the financial statements, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. These financial statements have however been prepared on a going concern basis for the reasons more fully explained in note 2.2 to the financial statements.

Emphasis of Matter

We draw attention to notes 19.1.7 and 19.1.8 to the accompanying financial statements, wherein it is stated that during and subsequent to year end, suit has been filed by some financial institutions for recovery of their dues. Our opinion is not qualified in this respect.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in *Basis for Qualified Opinion* and the *Material Uncertainty Related to Going Concern* sections, we have determined the matters described below as the key audit matter to be communicated in our report:

Sr. No.	Key audit matters	How the matter was addressed in our audit
I.	<p>Sales</p> <p>Refer to note 3.17 and 29 to the financial statements.</p> <p>The Company principally generates revenue from manufacturing and sale of Urea and Granulated Single Super Phosphate ("GSSP") fertilizer.</p> <p>We identified revenue recognition as a key audit matter because it is one of the key performance indicator of the Company and gives rise to an inherent risk of misstatement to meet expectations or targets.</p>	<p>Our audit procedures, amongst others, included the following:</p> <ul style="list-style-type: none">• obtaining an understanding of the process relating to recording of sales and testing the design, implementation and operating effectiveness of relevant key internal controls over recording of sales;• assessing the appropriateness of the Company's accounting policy for recording of sales and compliance of the policy with applicable accounting and reporting standards;• comparing a sample of sale transactions recorded during the year with sales orders, sales invoices, delivery challans and other relevant underlying documents;• comparing a sample of sale transactions recorded near the year end with the sales orders, sales invoices, delivery challans and other relevant underlying documentation to assess if the sale was recorded in the appropriate accounting period;

Sr. No.	Key audit matters	How the matter was addressed in our audit
		<ul style="list-style-type: none"> • inspecting on a sample basis, credit notes, if any, issued near to and subsequent to year end to evaluate whether the adjustments to sales had been accurately recorded in the appropriate accounting period; and • scanning for any manual journal entries relating to sales recorded during and near the year end which were considered to be material or met other specific risk based criteria for inspecting underlying documentation.
2.	<p>Impairment assessment of plant and machinery</p> <p>Refer to notes 3.2 and 20 to the financial statements.</p> <p>As at 31 December 2018, carrying amount of plant and machinery for Urea business, amounted to Rs. 31,704.73 million.</p> <p>Impairment testing is required whenever events and circumstances indicate that carrying amount of assets may exceed its recoverable amount. The Company has assessed the recoverable amount based on value in use and fair value less cost to sell. Fair value less cost to sell has been assessed by the management based on the valuation report prepared by an external valuation expert.</p> <p>We identified the impairment testing of plant and machinery as a key audit matter because significant degree of management judgment and estimation is involved in making the above assessment.</p>	<p>Our audit procedures, amongst others, included the following:</p> <ul style="list-style-type: none"> • obtaining an understanding of the process and testing the design and implementation of relevant key internal controls over impairment testing of plant and machinery; • assessing the appropriateness of the methodology applied by the management for impairment testing of plant and machinery in accordance with applicable accounting and reporting standards; • involving our internal valuation specialist to assist us in assessing the significant assumptions and judgments applied by management in its 5-year business plan, including discount rate, projected growth rates, future selling prices and production volumes, with reference to available market information; • evaluated the professional valuer's competence, capabilities <u>capability</u> and objectivity and assessed the appropriateness of methodology used <u>adopted</u> by the professional valuer <u>engaged by the management</u> to estimate the fair value less cost to sell of plant and machinery; and • obtaining and inspecting the valuation report prepared by the external valuer engaged by the Company <u>management</u> and comparing the recoverable amount with the carrying value of plant and machinery to identify impairment, if any.
3	<p>Long Term Borrowings and finance costs</p> <p>Refer notes 2.3, 3.12, 8, 9 and 42.2.2 to the financial statements.</p>	<p>Our audit procedures, amongst others, included the following:</p> <ul style="list-style-type: none"> • Assessing the design and operating effectiveness of the Company's internal

Sr. No.	Key audit matters	How the matter was addressed in our audit
	<p>The Company has obtained range of long term financing facilities from different financial institutions with varying terms and tenures.</p> <p>This was considered to be a key audit matter as these affects Company's gearing, liquidity and solvency.</p> <p>Further, compliance with debt covenants is a key requirement of these financing arrangements.</p>	<p>controls over recording the terms and conditions of borrowings from financial institutions, including their classification as either current or non-current and associated costs.</p> <ul style="list-style-type: none"> • Obtaining confirmations of borrowings as at 31 December 2018 directly from the financial institutions; • Testing the calculation of markup recognized as expense during the year to assess whether these were accounted for in accordance with approved accounting standards as applicable in Pakistan; • Assessing whether loans maturing within twelve months were classified as current liabilities; and • Assessing the Company's compliance with the terms of the loans and assessing the presentation and adequacy of disclosure in the financial statements where there is non-compliance with the repayment terms and or non-compliance of loan covenants.

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. Other information comprises the information included in the annual report for the year ended 31 December 2018, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting and reporting standards as applicable in Pakistan and the requirements of Companies Act, 2017(XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going

concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Board of directors are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to

outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Based on our audit, we further report that in our opinion:

- a) except for the possible effect on the financial statements of the matter discussed in *Basis of Qualified Opinion* section of our report proper books of account have been kept by the Company as required by the Companies Act, 2017(XIX of 2017);
- b) except for the possible effect on the financial statements of the matter discussed in *Basis of Qualified Opinion* section of our report, the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;
- c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business; and
- d) no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

The engagement partner on the audit resulting in this independent auditor's report is Mr. Bilal Ali.

Lahore

Date:

KPMG Taseer Hadi & Co.
Chartered Accountants