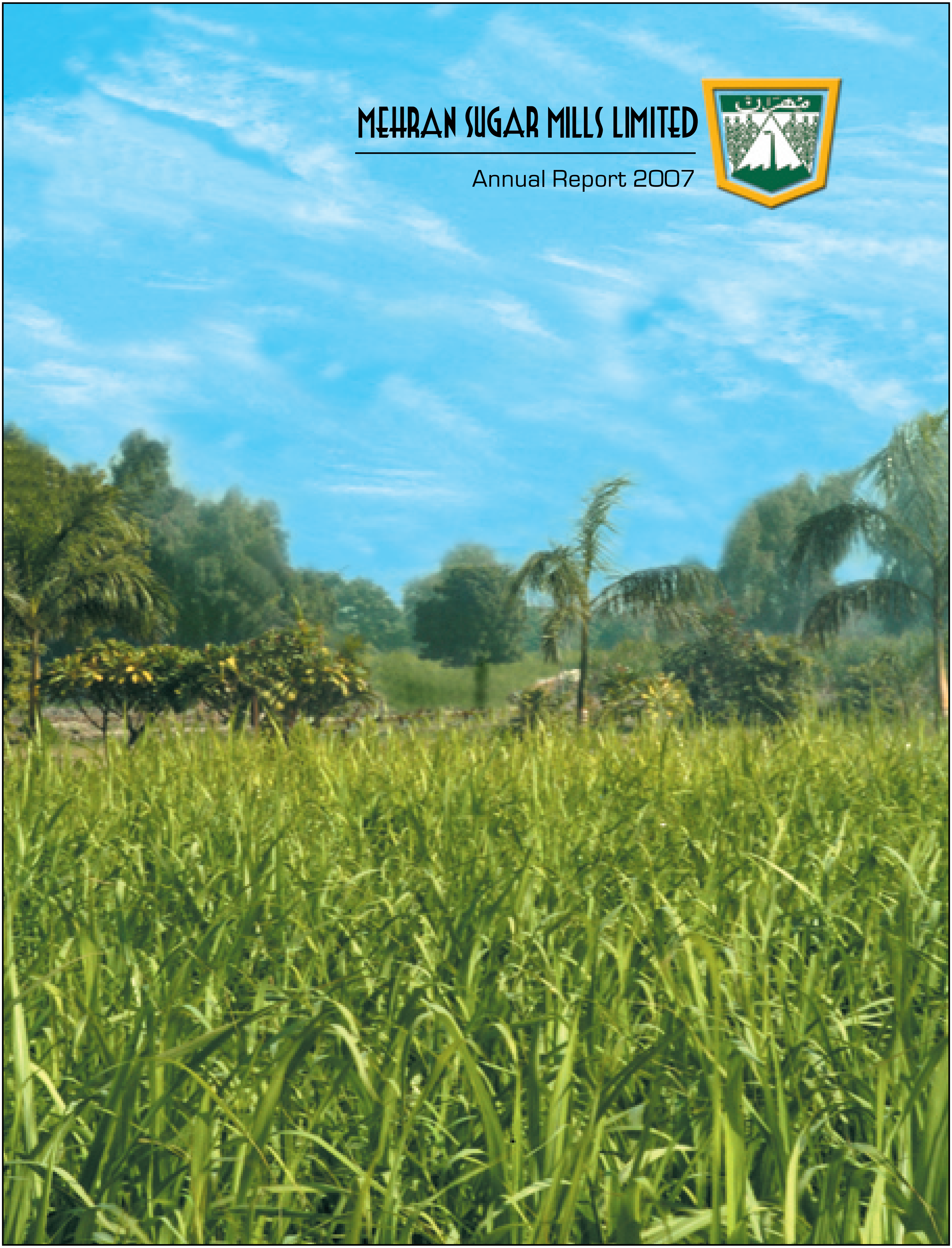
MEHRAN SUGAR MILLS LIMITED

Annual Report 2007



Mehran's corporate prosperity has translated into an attractive growth in the region of its presence.

This has been increasingly reflected in the improved lifestyle of farmers and employees, growth of townships, stronger health and educational infrastructure and increase in rural entrepreneurship thus enlarging community wealth and leading to the purchase of tractors, trucks and jeeps by farmers.

Contents

Vision Statement

Focusing on customers and shareholders satisfaction with challenging spirit and flexibility, we are dedicated to have eminent position in manufacturing and supplying quality white refined sugar and allied products and thereby play a vital role in the social economic development of the country.

Corporate Mission

Preamble

We the management of Enterprise, have set forth our belief as to the purpose for which the Company is established and the principles under which it should operate.

We pledge our efforts to the accomplishment of the purpose within the agreed principles.

Basic Purpose

The basic purpose of Enterprise is to perpetuate as a Public Limited Company engaged in manufacturing and marketing white refined cane sugar, food products, sugar by-products and other products wherein management or sponsors have expertise. In addition we preserve to assume a leadership position in related industry regarding: quality of the product, cost effectiveness, turnover and technology.

What We Do

Our main business area is the production of refined cane sugar and sugar by-products. We recognize the value to technological improvement keep in step with the latest innovations and developments in our field. We believe in modern management practice and use latest techniques. We constantly train our people and keep them highly motivated as they are our most important assets. We strongly believe in integrity of Mehran depends on integrity of each one of its employees. We consider our farmers who are our raw material suppliers as the most important part of our business.

We believe in diversification through new manufacturing facilities and through equity participation.

Company Information

We recognize the value of technological improvement to keep in step with the latest innovations and developments in our field. We believe in modern management practice and implementing latest techniques. We constantly train our people and keep them highly motivated as they are our most important assets. We strongly believe in integrity of Mehran depends on integrity of each one of its employees. We consider our farmers who are our raw material suppliers as the most important part of our business.

Board of Directors
Mr. Mohammed Kasim Hasham
Chairman
Mr. Mohammed Ebrahim Hasham
Chief Executive Officer
Mr. Mohammed Hussain Hasham
Mr. Khurram Kasim
Mr. Ahmed Ebrahim Hasham
Mr. Mohammed Iqbal
Mr. Abdul Razzaq Usman

Audit Committee
Mr. Mohammed Kasim Hasham
Chairman
Mr. Mohammed Hussain Hasham
Mr. Ahmed Ebrahim Hasham

Chief Financial Officer & Company Secretary
Mr. Muhammad Hanif Aziz, FCMA

Auditors
M/s. Ford Rhodes Sidat Hyder & Co.
Chartered Accountants

Intenal Auditors
M/s. Shekha & Mufti
Chartered Accountants

Cost Auditor
Haroon Zakaria & Company
Chartered Accountants

Legal Advisor
Sayeed & Sayeed
Advocate & Legal Consultants

Bankers
MCB Bank Limited
Bank Alfalah Limited
PICIC Commercial Bank Limited

Registered Office
Adamjee House, 8th Floor,
I.I. Chundrigar Road, Karachi

Tel	:	(92-21) 2417131-4
Fax	:	(92-21) 2416477
E-mail	:	msm@mehransugar.com
URL	:	www.mehransugar.com

Mills
Tando Allahyar, Distt. Hyderabad, Sindh

Tel	:	(92-223) 890856, 890407, 891984
Fax	:	(92-223) 890568
E-mail	:	msmtda@mehransugar.com

Corporate Profile

Date of Incorporation	December 22, 1965
Date of Commencement of Business	March 19, 1966
Start of Commercial Production	January 1969
Date of Bmr & Expansion	1993-1994
Installed Capacity	7,000 Tons Cane Crushing Per Day
Total Land Area	118 Acres
Permanent Employees	Officers: 80 Workers: 262
Offices Head Office Mills	 Adamjee House, I. I. Chundrigar Road, Karachi Tando Allahyar (40 Km From Hyderadad)
Facilities at the MSM Staff Colony Housing	 99 Family Homes For Executives And Workers
Population of the Staff Colony	Approximately 378
Children at the Dawood Memorial School	403

Other Facilities

- Mosque
- Clinic with Ambulance
- Dawood Memorial School for Children of MSM Employees as well as Children of Near by Town
- Recreation Centres for Executives, Workers and Ladies with Indoor Games TV, Videos, Dish Antennnas, and other Facilities
- Cricket Ground, Tennis Court, Park And Rose Garden School Bus for Pick and Drop Services to School And College
- Private Electric Generator for Uninterrupted Power Supply
- Clean Water Supply with UV Filters
- Transport Facility for City & Adjoining Areas

Six Years' Review at a Glance

	2007	2006	2005	2004	2003	2002
Operations						
Sugarcane crushed-M.tons	589,378	496,873	341,738	668,262	635,388	406,983
Sugar produced-M.tons	50,796	*51,576	*39,506	58,868	57,296	36,504
Average sucrose recovery-%	8.63	9.46	9.38	8.80	9.00	9.00
Crushing-days	138	114	106	131	118	112
Profit and Loss Account		**Rupees in million**				
Turnover	1,288.72	2,259.62	1,273.64	818.62	942.55	837.27
Gross profit/(loss)	(7.36)	188.494	65.26	33.43	44.39	(40.08)
Pre-tax profit/(loss)	(110.36)	98.92	4.68	30.30	5.87	(99.29)
After-tax profit/(loss)	(86.78)	79.25	(7.49)	12.38	(9.00)	(103.58)
Earnings per share-Rupees	(8.82)	8.11	(0.76)	1.26	(0.91)	(10.52)
Dividend	-	24.60	-	-	-	-
Balance Sheet						
Share Capital	98.44	98.44	98.44	98.44	98.44	98.44
Reserves	19.97	130.76	51.51	59.01	46.63	55.63
Shareholders' equity	118.41	229.20	149.95	157.44	145.06	154.07
Break-up value per share-Rupees	12.03	23.28	15.23	15.99	14.74	15.65
Fixed Assets	419.79	394.31	403.68	385.25	364.68	375.49
Current assets	206.74	288.35	317.81	437.95	263.77	193.18
Current liabilities	320.05	324.63	397.99	530.17	313.29	244.96
Long term liabilities	325.18	237.52	276.56	263.02	222.39	213.16
Total assets employed	443.59	480.89	382.29	420.46	363.55	366.23

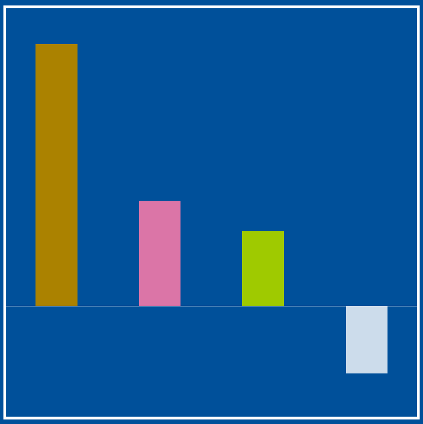
	M.Tons	M.Tons
Refined sugar from cane	47,296	32,021
Refined sugar from raw sugar	4,280	7,485
	*51,576	*39,506

Statement of Value Added

	2007 Rupees	Percentage %
WEALTH GENERATED		
Net revenue	1,485,943,210	
Expenses	1,191,532,881	
Wealth generated	294,410,329	100
WEALTH DISTRIBUTED		
To Government		
Sales Tax, Income Tax, Road Cess	207,383,334	70
To Employees		
Salaries, Benefits and Other related cost	81,754,805	28
To Providers of capital		
Mark-up on borrowed funds	57,773,160	20
Retained with the business		
Depreciation	34,280,108	
Retained profit	(86,781,078)	
	(52,500,970)	(18)
	294,410,329	100

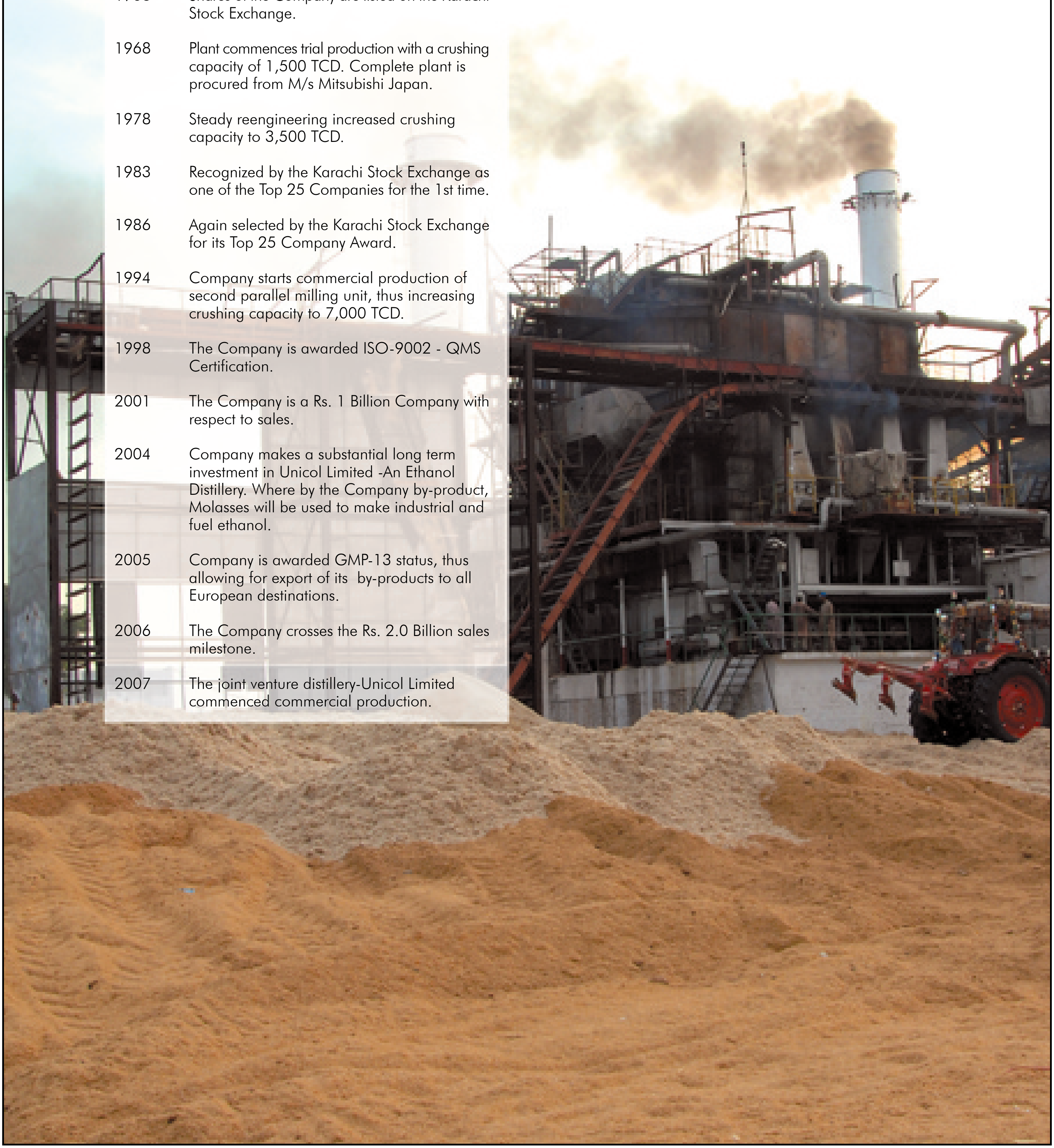
Wealth Distribution 2006-07

- Government 70%
- Employees 28%
- Mark-up 20%
- Retained -18%



Corporate History

1965	The Company is incorporated as a public limited company.
1968	Shares of the Company are listed on the Karachi Stock Exchange.
1968	Plant commences trial production with a crushing capacity of 1,500 TCD. Complete plant is procured from M/s Mitsubishi Japan.
1978	Steady reengineering increased crushing capacity to 3,500 TCD.
1983	Recognized by the Karachi Stock Exchange as one of the Top 25 Companies for the 1st time.
1986	Again selected by the Karachi Stock Exchange for its Top 25 Company Award.
1994	Company starts commercial production of second parallel milling unit, thus increasing crushing capacity to 7,000 TCD.
1998	The Company is awarded ISO-9002 - QMS Certification.
2001	The Company is a Rs. 1 Billion Company with respect to sales.
2004	Company makes a substantial long term investment in Unicol Limited -An Ethanol Distillery. Where by the Company by-product, Molasses will be used to make industrial and fuel ethanol.
2005	Company is awarded GMP-13 status, thus allowing for export of its by-products to all European destinations.
2006	The Company crosses the Rs. 2.0 Billion sales milestone.
2007	The joint venture distillery-Unicol Limited commenced commercial production.



Sugar cane (Saccharum) is a genus of 6 to 37 species (depending on taxonomic interpretation) of tall grasses (family Poaceae, tribe Andropogoneae) native to warm temperature to tropical regions of the Old World. They have Stout jointed fibrous stalks that are rich in sugar and measure 2 to 6 meters tall. All of the sugarcane species interbreed, and the major commercial cultivars are complex hybrids.

Products

Mehran has been producing sugar and molasses since four decades. During the year, its associated company has started production of Ethanol. This has diversified our product line.

Sugar

A carbohydrate product of photosynthesis comprising one, two or more groups of saccharose. Sugar was first extracted in North America in 1689 using sugar cane from West Indies.

Molasses

It is the thick liquid left after the sucrose has been removed from mother liquor in sugar manufacturing. Molasses is the syrup from which no more sugar can be obtained economically.

Ethanol

It is also called alcohol ethyl alcohol or fuel alcohol. It is derived from the fermentation of molasses. Ethanol is a colorless, volatile liquid with pungent taste. It is mixable with water and used in alcoholic beverages. Fuel ethanol can be mixed with petrol up to 85%.

Mehran Sugar Mills role in Rural Sector Development

Over the years, Mehran has propagated an increased planting of cane through the following initiatives: timely remuneration, wider irrigation coverage, seed distribution and advanced planting techniques.

Thus today our 25 mile cane zone, also known as the operational area, is one of the most densely populated cane zones in the country, thus giving us a core advantage over our competitors.

Specific areas in which Farm Extension Services are carried out by the Company

a) Multiple ratooning.

b) Frontline demonstrations on various techniques of sugarcane production. Thereby helping the farmer get higher yields and a better rate of return.

c) Bio - manure production. Thus reducing cost of fertilizer application.

d) Multiplication of high sucrose and early maturing varieties.

e) Propagated drip irrigation system in sugarcane fields. One of the first mills to do so. Used Foreign technical collaboration.

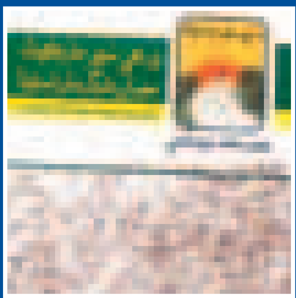
f) Made and distributed Trichograma and Crysopa cards. Incidence of pest and disease minimized to produce healthy crops.

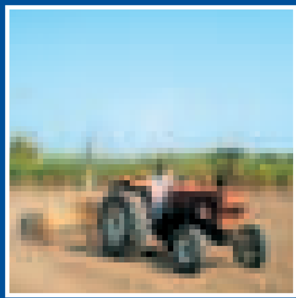
g) Replacement of old and deteriorating varieties with new and high yielding ones.

h) Irrigation facilities increased in the area.

Cane Development Measures carried out by Mehran

Mehran provided 96,579 Trichograma and 49,360 Crysopa cards through it's bio-laboratory to enable farmers to produce a healthier crop.





Trichogramma Cards

Trichogramma is a friendly insect and known as egg parasitoid that attacks the eggs of over 200 species of moths and caterpillars. In sugarcane, this is used to control sugarcane borers, which damage the crop and cause loss in yield and sugar recovery.

Trichogramma is supplied to farmers in the host (Sitotroga) eggs pasted on a piece of card and it is called Tricho-card. It looks like a piece of sandpaper apparently. Tricho-cards are supplied to growers on subsidized rate. These cards are stapled with the leaves of sugarcane. Trichogramma adults emerge from the host eggs and spread in the field in the search of sugarcane borer's eggs.

Laser Leveler

It is a sophisticated land leveling equipment that utilizes laser rays to ensure flawless even surfaces.

It saves water and fertilizer. The even spread of water and fertilizer leads to a better crop because of uniform supply of moisture and nutrients to plant roots all over the field. The net result is about a 15 percent gain in productivity.

Wade Rain

It is a portable sprinkler that is adaptable to irregular fields. Liquid Fertilizers can also be supplied to the crop with the help of wade rain. Thus, it saves water and fertilizer and improves their efficiency.

Role of the Pakistan Sugar Industry in Rural Sector Development

The sugar industry contributes significantly to social development and welfare in the country through its central role as a service provider to rural communities. This includes the provision of housing, healthcare, education and training, recreational facilities, technical and financial assistance to the farmers and its employees.

- Generates revenue to the sugarcane growers to the tune of Rs 60 billion with further revenue of Rs 6 billion to the Transporters & Carriage Contractors.
- Provides Employment to about 1.5 million workers directly and indirectly, 95% of who are in the rural areas of Pakistan.
- Its raw material base provides a remunerative income for nearly 250,000 farmers.
- It catalyses rural infrastructure creation, necessitated by the speedy delivery of cane to the factory. For instance, it facilitates road building around each factory that connects farms to the factory. Annually the Pakistan sugar industry contributes Rs. 500 million in the form of road cess.
- It acts as a principal economy-driver of its rural catchments area: nearly 85 per cent of the total annual expenses incurred by a sugar company are dispensed within its hinterland.
- Due to the economic activity in the area, property prices within the sugar mills 25 mile radius, also known as the operational area, are much higher, compared to adjoining areas of the rural sector.
- Second largest agro processing industry in Pakistan.
- Location of sugar industry has been the major contributor in transformation of the rural lands into semi-urban oasis. By its locational feature in rural area, several self sustaining service areas have been opened up. No other industry can be a fountain of Socio-economic uplift as the sugar industry happens to be in the rural sector. Due to sugar mills sites in thick rural places, modern facilities of life such as schools, dispensaries, markets and utilities like electricity, telecommunications and transports have flourished.

Directors' Report to the Shareholders

While the economy has shown considerable growth, the year under review was a very difficult one for the sugar industry.

The minimum cane support price for season 2006-2007 was again increased despite strong protest from the industry. This increase in notified cane price created a 20% price differential between Sindh and Punjab.

On behalf of the Board, we are pleased to present the audited financial results of the Company for the year ended September 30, 2007.

Economic Review

During the FY07, the economy posted a real GDP growth of 7%, marginally above 6.6% of last year and well above the consensus market expectation. SBP's tight monetary policy seems to have succeeded in controlling inflation with official CPI being 7.8% for the year. SBP is not expected to raise interest rates any further and there seems to be marginal relaxation in the monetary policy in the medium term.

Increasing global crude oil prices badly affected external indicators. The national trade deficit increased to $ 14 billion during the current year compared to $12.4 last year.

The capital account surplus has largely resulted from rising Foreign Direct Investment and the privatization program in the form of GDRs. These inflows assisted the foreign exchange reserve to grow to an all time high of $ 15.2 billion (up 15.6% YOY), improving the import cover to 7 months from 4 months last year. Resultantly, the pressure on the Rupee also remained low.

Industry Review

It is a pity to note that while the economy has shown considerable growth, the year under review was a very difficult one for the sugar industry. The industry and thus your Company continually face an uncertain business environment. This uncertainity is one of the major reasons the sugar industry has not been able to grow consistently.

The start of crushing season 2006-07 was delayed due to unexpected heavy rains in the country. These rains flooded the sugarcane fields and also resulted in lodging of sugarcane. Cane in our area was severely damaged and there was heavy infestation. These factors, affected the overall cane yield as well as sucrose recovery. This led to huge losses for both our growers as well as the Company.

The minimum cane support price for season 2006-2007 was again increased from Rs. 60 to Rs. 67 per 40 Kg despite strong protest from the industry. This increase in notified cane price created a 20% price differential between Sindh and Punjab. We have continually stated that such a large price differential will erode the viability of the Sindh Sugar industry and make it uncompetitive.

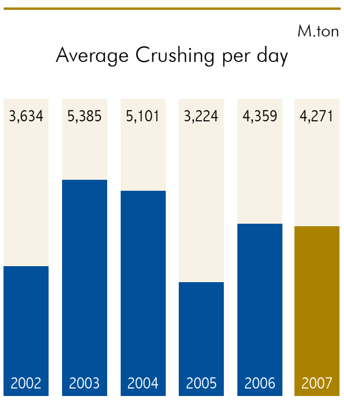
Overall, the country produced 3.5 million tons of sugar, which was 35% higher than last year. The TCP was carrying a huge carryover stock of 0.8 million tons. This led to a total availability of 4.3 million tons. Consumption for the year was 3.8 million tons. Thus the excess sugar in the market continued to keep pressure on sugar prices.

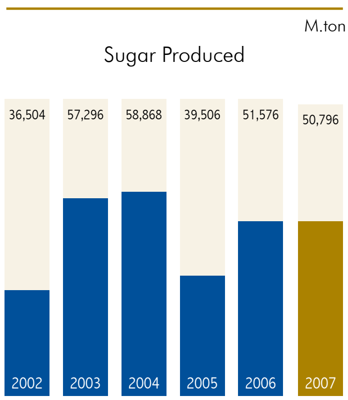
Sugar prices worldwide remained bearish. Record crops in Brazil, India and other leading producers resulted in depression of market prices. India, especially had a much larger crop than forecasted thus leading to lower white values internationally. A subsidy on exports by the Indian government and its proximity to the Pakistani market was another sentiment dampener for the local sugar market.

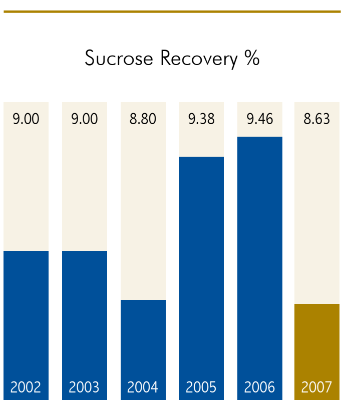
Another factor which continued to pressurize the market was the constant market intervention by the state run, Trading Corporation of Pakistan (TCP). The government, before the start of the season had committed that the TCP would not intervene below Rs.31/kg, which was the benchmark selling price set by the government. However, the TCP despite continuous protest by the industry continued to sell sugar. Their sales campaign was even more aggressive after the end of the crushing season. The strong network of Utility Stores Corporation used by the TCP made sales for mills even more difficult. This led to mills having no choice but to force sell, resulting in the open market crashing as low as Rs.24.5/kg. The TCP in its last tender has sold Indian sugar as low as Rs 21.50/Kg as against their landed cost of Rs. 38/-.

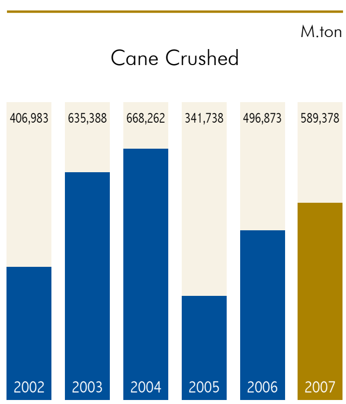
Operational Highlights

Mehran was able to crush 18 % more cane than the previous year, however reduction in sucrose recovery has reduced its effect on production to only 8.02% higher than last year.





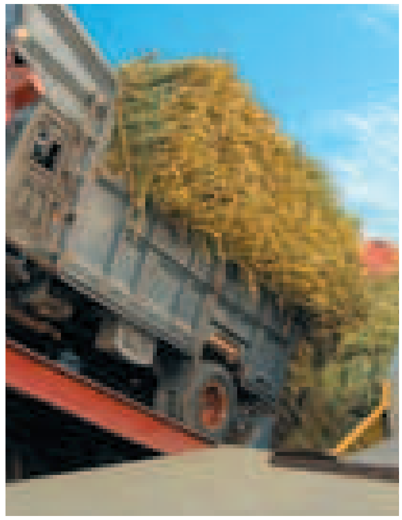


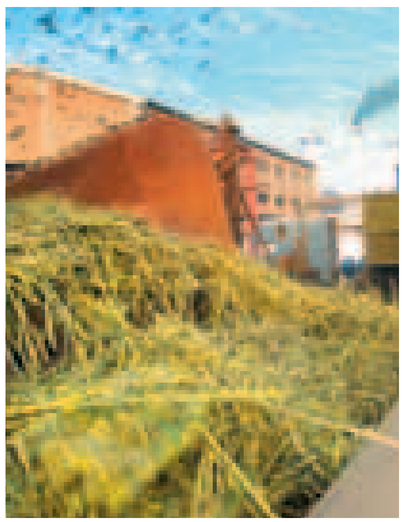


Operational Highlights:

	2006-07	2005-06
Season started	10.11.06	25.11.05
Season closed	27.03.07	18.03.06
Duration-Days	138	114
Crushing-M.Tons	589,378	496,873
Sucrose Recovery %	8.63	9.46
Raw Sugar Remelting-M.Tons	Nil	4,553
Sugar Production-M.Tons	50,796	51,576
Sugar Imported-M.Tons	Nil	14,801
Molasses Production-M.Tons	27,770	25,145

Overall crushing has increased by 18%, however reduction in sucrose recovery has reduced its affect on production to only 8.02% higher than last year. Since the country already had a glut of sugar, there was no opportunity for imports of raw or white sugar.



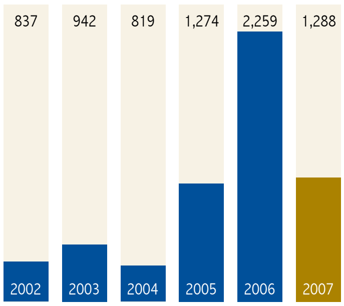


70% of cane unloading at Mehran is done through Mechanical Tippers

Company Performance

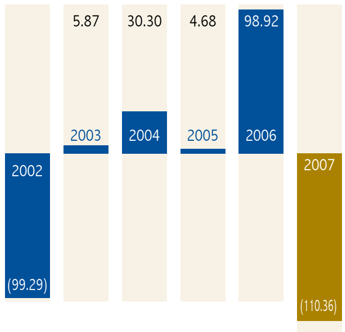
Rupees in Million

Turnover



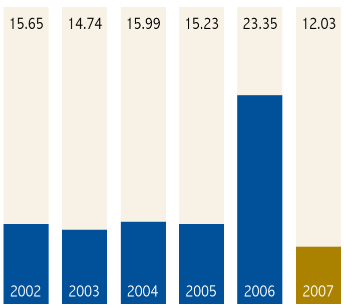
Rupees in Million

Pre tax Profit



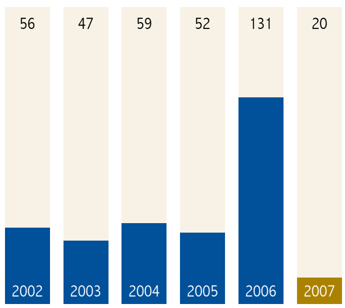
Rupees

Break-up Value of Share



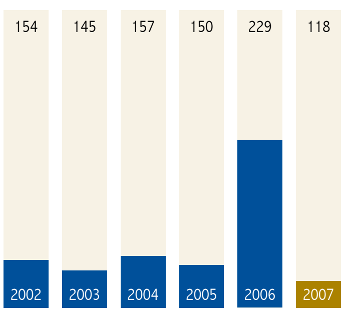
Rupees in Million

Reserves



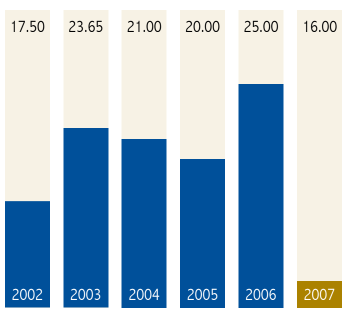
Rupees in Million

Equity



Rupees

Market Price of Share



Financial Highlights

An analysis of key financial results are given below:

	Rupees in (000) 2006-07	2005-06
Turnover	1,485,943	2,259,630
Sales Tax	197,224	299,028
Gross (Loss)/Profit	(6,333)	188,495
Pretax (Loss)/Profit	(110,357)	98,923
After tax (Loss)/Profit	(86,788)	79,851

The impact of lower recovery was detrimental to our bottom line and has been one of the major reasons for the loss.

This coupled with depressed selling price and increased raw material price compelled the Company to suffer loss.

Turnover also showed reduction due to lower sales prices and no import activity.

The main reasons responsible for the loss are highlighted below:

- Sucrose recovery was lower by 8.77%.
- Continued decline in the selling price of sugar due to constant intervention by TCP and due to crash in the international market. Average sugar sales price was 15% lower than last year.
- Depressed Molasses prices, which were lower by 25%.
- Financial expenses increased by 23 % from Rs. 46.94 million to Rs. 57.77 million due to carrying cost of sugar.
- Consumables increased by 12 % primarily due to the higher oil prices.
- The incidence of fixed sales tax which was higher than 15%.
- Valuation of closing stock on Net Realisable Value (NRV) instead of cost of production.
- Diminution in the value of investment in associated company due to pre production costs.
- Provision for sales tax on bagasse.

Future Outlook

Higher cane price has motivated growers to bring more area under the cultivation of sugarcane. As a result, we expect a record high bumper crop in 2007-08. National production of sugar is expected to be between 4.2 Million to 4.4 million tons, which would be about 20% higher than last year. This should be Pakistan's record highest production. The increased output coupled with carry over stocks by the industry and TCP will make sugar abundantly available. This along with low international prices and a record Indian crop will make sugar sales a challenge.

As we mentioned earlier, the continued disparity between minimum support price of Sindh and Punjab has put the Sindh industry in a disadvantageous position and has questioned the viability of the industry. We reiterate the creation of a level playing field for mills all over the country.

It is very important to implement the price mechanism based on sucrose content to motivate growers to cultivate quality cane. At the same time, it is also essential to create a link between sugar and sugarcane prices to allow the industry to sustain rising inflationary effects.

As of November 30, 2007, your mill has crushed 66,702 metric tons with an average recovery of 8.76%.

The strict implementation of our policy to procure quality cane is also expected to bear fruits in the shape of improved recovery.

The fixation of sales tax based on ex-factory selling price of Rs.24,000/ton coupled with 1% Special Excise Duty is also impacting the profitability of the industry. The requested revision for fixation of sales tax on market price by the industry is yet to be implemented by the Federal Board of Revenue.

As the crushing season progresses, it will be extremely important to ensure prudent cane procurement as any reduction in sucrose recovery might play havoc with the financials. Identically, sales policy will have to be very clear and decisive to ensure minimal financial charges.

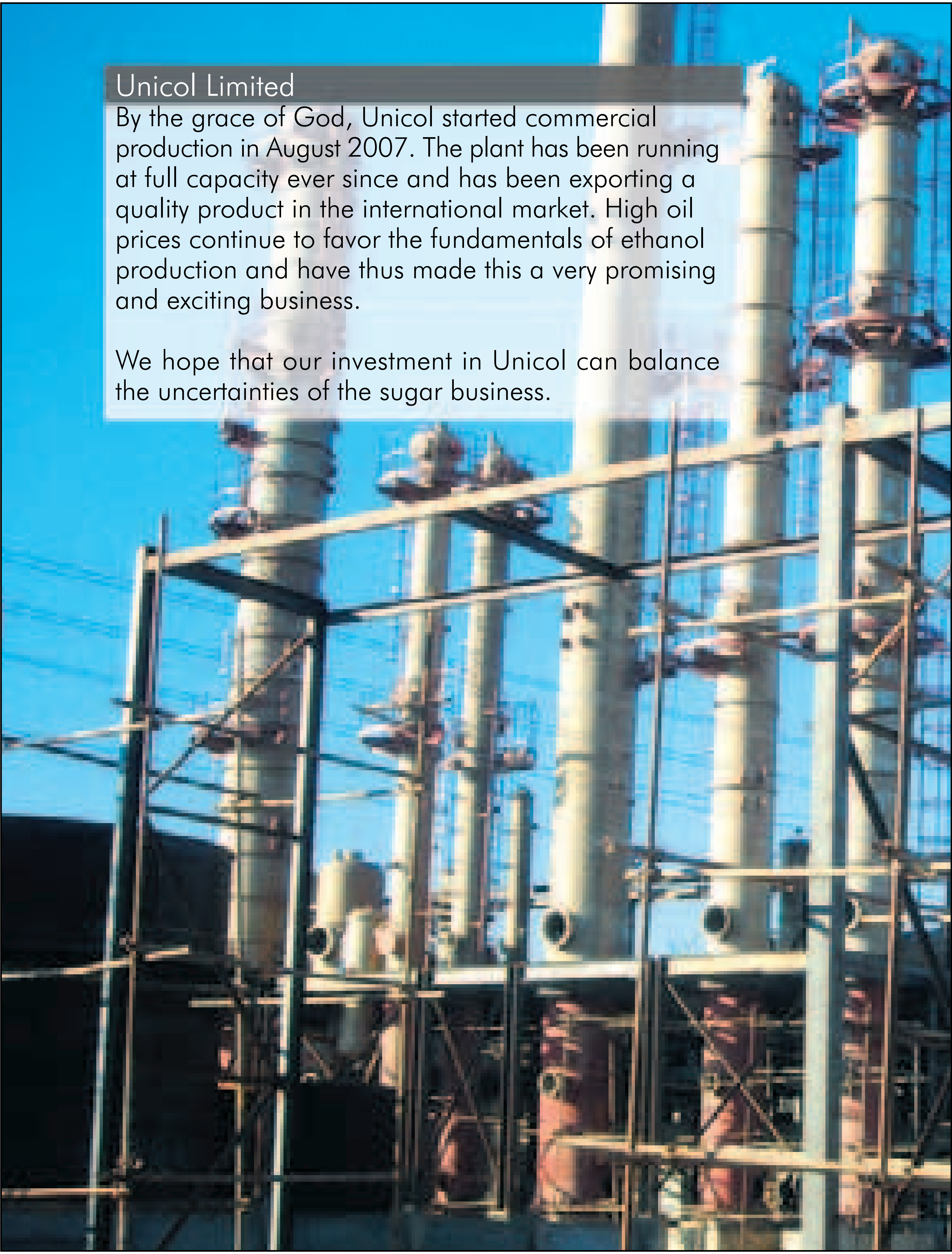
We reiterate that the future outlook of the Company will depend on immediate government attention on three major issues:

i) minimum support price to be reduced
ii) TCP buying to continue
iii) FBR to fix sales tax on market prices

Unicol Limited

By the grace of God, Unicol started commercial production in August 2007. The plant has been running at full capacity ever since and has been exporting a quality product in the international market. High oil prices continue to favor the fundamentals of ethanol production and have thus made this a very promising and exciting business.

We hope that our investment in Unicol can balance the uncertainties of the sugar business.



Mehran has an extensive forestation programme, whereby plants are nurtured in our own green house and than planted in the region.

Corporate and Social Responsibility

Contribution to society

Corporate social responsibility is an integral part of our business. It is an inherent vision of MSML to have a significant positive contribution towards the society. Accountability and trust are closely related; it is essential for us to maintain a trusting relationship with our customers, employees and society in general. We are therefore, making a consistent effort to attend to the Group's corporate social responsibilities in a comprehensive way. Last year, in our review of corporate and social responsibility commitments, we set out our pledge to connecting business decisions with ethical, social and environmental concerns.

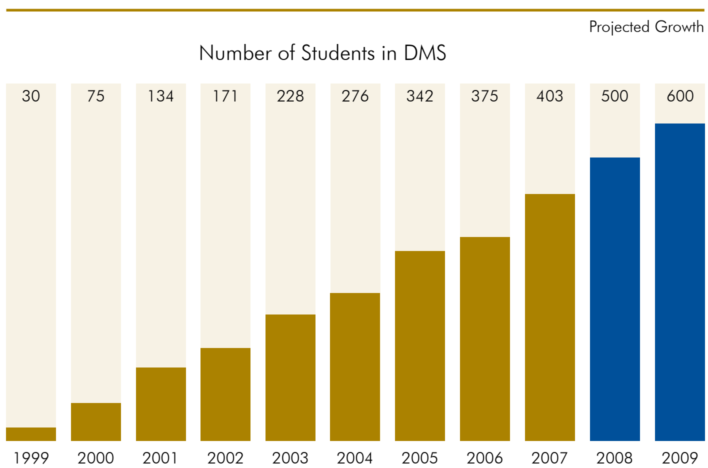
MSML through its vast social activities, has much to be proud of in improving the health and education standards in the under developed areas of Sindh especially in our mills area. Most of our efforts are targeted at improving the quality of life of people in under-served areas. We fund programs that are measurable, sustainable and replicable and we monitor them closely to ensure their success.

Some of the projects undertaken include:

DAOOD MEMORIAL SCHOOL (DMS)

Daood Memorial School, situated within the premises of MSML, is a fully equipped educational center specifically meant for employees of the mills and generally for the youth of Tando Allahyar and its vicinity. For over 9 years, the school has been facilitating students to learn and create their future themselves. By the grace of Allah Almighty and due to the untiring efforts and commitment of the management, DMS, as we call it, has been growing steadily. Considering the growth of DMS, we plan to expand it to Matriculation level and increase the number of students from 403 to 600 in the next three years. The graph and the table below show the growth trend in DMS.

Period	No. of Students	Growth %
1998 - 99	30	-
1999 - 2000	75	150%
2000 - 01	134	79%
2001 - 02	171	28%
2002 - 03	228	33%
2003 - 04	276	21%
2004 - 05	342	12%
2005 - 06	375	21%
2006-07	403	7.5%
Growth Plan (Projected)		
2007 - 08	500	16%
2008 - 09	600	20%



MSML MOBILE DISPENSARY

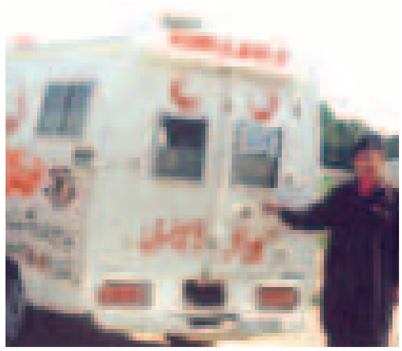
The objective of MSML Mobile Dispensary is to provide free of cost healthcare services at the doorstep of the needy in the surrounding areas of Tando Allahyar. We started our first Mobile Dispensary unit in June 2004 and so far it has diagnosed and treated 17,126 patients for various ailments. During the period October 2006 to September 2007, it had provided services to 7,475 patients.

MSML FREE EYE CAMP

Free Eye Camp is being organized once every year. It was conducted this year between 9th to 11th November. There was a turnout of 702 patients having various eye-related problems. 114 of them underwent major operations whereas 12 were treated for minor operations. This continues to be a successful annual event.

MEHRAN VOCATIONAL TRAINING CENTER FOR WOMEN

The Mehran Vocational Training Center, located at the MSML Staff Colony, provides basic training to the women of the colony and surrounding areas for sewing, embroidery, and stitching. So far, almost 300 women have attended beneficial courses at our vocational training center enabling them to utilize their spare time in a creative and constructive way.



Board of Directors

The Board of Directors of the Company consists of seven members, comprising of three non-executive (including the Chairman) and four executive Directors. The Board is responsible for independently and transparently monitoring the performance of the Company and taking strategic decisions to achieve sustainable growth in the Company operations.

Written notices of the Board meetings were sent to the members seven days before the meetings. During the year under review, a total of five meetings of the Board were convened and the attendance of the members was as follows:

Sr. #	Name of Directors	Meetings attended
01.	Mr. Mohammed Kasim Hasham	4
02.	Mr. Mohammed Ebrahim Hasham	2
03.	Mr. Mohammed Hussain Hasham	2
04.	Mr. Khurram Kasim	3
05.	Mr. Ahmed Ebrahim Hasham	5
06.	Mr. Muhammad Iqbal	4
07.	Mr. Abdul Razzaq	5

The leave of absence was granted to the directors who could not attend some of the meetings due to their absence from the country or ill health.

STATEMENT OF ETHICS & BUSINESS PRACTICES

The Board has adopted the Statement of Ethics & Business Practices. All employees are informed of this statement and are required to observe these rules of conduct in relation to customers, suppliers and regulations.

AUDIT COMMITTEE

The Audit Committee (AC) of the Company comprises of two non-executive (including the Chairman) and one executive Director. A total of two meetings of the AC were held during the year.

EXTERNAL AUDIT

The Company wishes to place on record its appreciation for the services rendered by the Company's auditors M/s. Ford Rhodes Sidat Hyder & Co., Chartered Accountants, who completed the audit of financial statements of the Company for the year ended September 30, 2007.

INTERNAL AUDIT

During the year, the Company has appointed M/s. Shekha & Mufti, Chartered Accountants to carry out internal audits.

COST AUDIT

The Company's Cost Accounts were also subject to cost audit under the Companies (Audit of Cost Accounts) Rules, 1998. M/s. Haroon Zakaria & Company, Chartered Accountants performed the cost audit of the Company, who were recommended for appointment by the Board of Directors and duly approved by the Securities and Exchange Commission of Pakistan (SECP).

Corporate & Financial Reporting Framework

As required by the Code, your Directors are pleased to report that:

- The financial statements, prepared by the management of the Mehran Sugar Mills Limited, present fairly its state of affairs, the result of its operations, cash flows and changes in equity;
- The Company has maintained proper books of accounts as required under the law;
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements for the year ended September 30, 2007;
- The system of internal control is sound in design and has been effectively implemented and monitored;
- There are no significant doubts upon the Company's ability to continue as a going concern;
- There has been no material departure from the best practices of the corporate governance, as detailed in the listing regulations;
- The summary of key operating and financial data for last six years is annexed;
- Company have made contribution towards the national exchequer by paying more than Rs. 207 million in the form of Federal, Provincial and local taxes and levies.
- The Company is operating a Provident Fund Scheme for its permanent employees. The value of the fund as at September 30, 2006 was Rs. 56.92 million.
- There is also an un-funded gratuity scheme. On the basis of actuarial valuation conducted recently, a net liability of Rs. 5.9 million as at September 30, 2007 has been provided.
- None of the directors, CEO, GMF, Company Secretary and their spouses and minor children carried out any transaction in the shares of the Company during the year under review:

CERTIFICATE OF RELATED PARTY TRANSACTIONS

It is confirmed that the transactions entered with related parties have been verified by the audit committee and the Board, and provides the information about the amount due from related parties at the balance sheet date, and the proportion of receivables from related parties provided as doubtful debts, if any.

MATERIAL CHANGES

There have been no material changes since September 30, 2007 and the Company has not entered into any commitment, which would affect its financial position at the date.

PATTERN OF SHAREHOLDING

The pattern of shareholding as on September 30, 2007 is included in the annexed shareholders' information.

ACKNOWLEDGMENT

We are trying to cultivate our future with a sharpened focus on delivering greater shareholders' satisfaction. For enhancing our efforts, we would like to appreciate the devotion and efforts of the workers, staff and executives and anticipate that in the future as well they will contribute towards the enhancement of the productivity and well being of the Company with greater zeal and spirit.

The Board further extends its gratitude to the government functionaries, associations, banking and financial institutions, shareholders and suppliers for the valued support and co-operation extended by them for the betterment and prosperity of the Company.

For and on behalf of the Board of Directors

Mohammad Kasim Hasham
Chairman

Mohammad Ebrahim Hasham
Chief Executive Officer

Karachi: December 06, 2007

Notice of Annual General Meeting

Notice is hereby given that the 42nd Annual General Meeting of the members of the Company will be held at I.C.A.P. Auditorium, Chartered Accountants Avenue, Clifton, Karachi on Saturday December 29, 2007 at 1400 PST to transact the following business:

ORDINARY BUSINESS

1. To confirm the minutes of the Extraordinary General Meeting held on May 18, 2007;

2. To receive, consider and adopt the Audited Financial Statements of the Company together with the Directors' and Auditors' Reports for the year ended September 30, 2007;

3. To appoint auditors for the year ending September 30, 2008 and to fix their remuneration. The retiring auditors M/s. Ford Rhodes Sidat Hyder & Co., Chartered Accountants being eligible, have offered themselves for the re-appointment.

4. To transact any other business with the permission of the Chair.

By order of the of Board of Directors

Muhammad Hanif Aziz
Company Secretary

Karachi: December 06, 2007

NOTES

1. The share transfer books of the Company will remain closed from December 23, 2007 to December 29, 2007 (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 the Meeting.

3. The shareholders whose shares are registered in their account/sub-account with Central Depository System (CDS) are requested to bring CNIC alongwith their account number in CDS and participant's ID number for verification. In case of appointment of proxy by such account holders and sub-account holders the guide lines as contained in SECP's circular 1 of 26th January, 2000 to be followed.

4. The shareholders are requested to notify the Company immediately the change in their address, if any.

5. The shareholders are also requested to intimate us their CNIC # to implement the requirements of Annual Returns (Form A) which the Company is required to file with the SECP under section 156 of the Ordinance.

Statement of Compliance with the Code of Corporate Governance

for the year ended September 30, 2007

The statement is being presented to comply with the Code of Corporate Governance (The Code) embodied in the listing regulations of Karachi Stock Exchange 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 in the following manner:

1. The Board of Directors consists of four executive and three non-executive directors.(including the Chairman). All the directors take keen interest in the Company's affairs.

2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company

3. All the resident directors of the Company are registered as taxpayers and none of them have defaulted in payment of any loan to banking company, DFI or NBFI, or being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. The Company has prepared a "Statement of Ethics and Business Practices" which has been adopted by the board and signed by all the directors and employees of the Company.

5. The Board has developed a vision statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the date on which they were approved or amended has been maintained.

6. All the powers of the Board have been duly exercised and decision on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.

7. 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 meeting, 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.

8. The Board arranged necessary orientation courses for its Directors to apprise them of their duties and responsibilities.

9. The CEO under the powers delegated by Board has approved the appointment of Chief Financial Officer (CFO) and Company Secretary. Their remuneration, terms and conditions of employment have also been approved by the CEO.

10. The Directors' Report for the year ended September 30, 2007 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

11. The financial statements of the Company were duly endorsed by the CEO and CFO before approval of the Board.

12. The directors, CEO and executives do not hold any interest in the shares of the Company other than disclosed in the pattern of shareholdings.

13. The Company has complied with all the corporate and financial reporting requirements of the Code.

14. The Audit Committee comprises three members, of whom two are non-executive Directors including the Chairman.

15. The meetings of the Audit Committee were held twice during the year prior to approval of interim and final results of the Company as required by the Code. The terms of references of the Committee have been formed and advised to Committee for compliance.

16. The Board has set up an effective internal audit function manned by suitably qualified and experienced personnel who are conversant with the policies and procedures of the Company and are involved in the internal audit function.

17. The statutory auditors of the Company have confirmed that they have been given satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, 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 Institute of Chartered Accountants of Pakistan.

18. 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.

19. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

Mohammed Ebrahim Hasham
Chief Executive Officer

Karachi: December 06, 2007

Review Report to the Members on Statement of Compliance with Best Practices of the Code of Corporate Governance

We have reviewed the statement of compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Mehran Sugar Mills Limited to comply with the Listing regulation No.37 (Chapter XI) of the Karachi Stock Exchange, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance 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 of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our 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 have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

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, 2007.

Ford Rhodes Sidat Hyder & Co.
Chartered Accountants

Karachi: December 06, 2007

Financial Statements

for the year ended September 30, 2007

Auditors' Report to the Members

We have audited the annexed balance sheet of Mehran Sugar Mills Limited as at September 30, 2007 and the related profit and loss account, 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 purposes 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 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) in our opinion, proper books of account 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, investments made 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 and loss account, 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, 2007 and of the loss, 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.

   Without qualifying our opinion we draw attention to the following:

   i) note 5, 9.1 and 11.1 to the financial statements in respect of long-term receivable, trade debts (net of related liability) and deposits of Rs. 42.511 million, Rs. 8.327 million and Rs. 7.196 million respectively, which are subject to the outcome of litigation. The ultimate outcome of these matters cannot presently be determined and hence, no provision for any impairment loss that may result therefrom has been made in these financial statements.

   ii) note 24(a) to the financial statements. The Company is defendant in various law suits which are pending adjudications. The ultimate outcome of the matters cannot presently be determined and, no provision for any liability that may result has been made in these financial statements.

FORD RHODES SIDAT HYDER & CO.
CHARTERED ACCOUNTANTS

KARACHI: December 06, 2007

Balance Sheet
as at September 30, 2007

	Note	2007 Rupees	2006 Rupees
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	4	419,794,883	394,306,070
Long-term receivable	5	42,510,996	42,510,996
Long-term investment	6	94,236,980	79,999,980
Long-term deposits		350,400	350,400
		556,893,259	517,167,446
CURRENT ASSETS			
Stores and spare parts	7	25,583,636	24,303,996
Stock-in-trade	8	118,386,838	139,740,348
Trade debts	9	31,072,631	57,959,983
Loans and advances	10	10,129,393	15,023,342
Trade deposits and short-term prepayments	11	12,812,202	21,923,466
Other receivables		785,649	413,713
Short-term investments	12	3,654,000	3,654,000
Income tax recoverable		2,106,910	746,602
Cash and bank balances	13	2,210,174	26,526,433
		206,741,433	290,291,883
TOTAL ASSETS		763,634,692	807,459,329
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised capital			
50,000,000 (2006: 50,000,000) ordinary shares of Rs.10/- each		500,000,000	500,000,000
Issued, subscribed and paid-up capital	14	98,437,500	98,437,500
Reserves	15	19,974,398	131,364,851
		118,411,898	229,802,351
NON-CURRENT LIABILITIES			
Subordinated loans	16	42,652,232	41,400,000
Long-term financing	17	151,076,950	49,451,941
Liabilities against assets subject to finance lease	18	1,127,857	326,915
Deferred liabilities	19	28,192,398	60,818,921
Provisions	20	102,127,051	99,289,715
		325,176,488	251,287,492
CURRENT LIABILITIES			
Trade and other payables	21	123,573,756	62,936,051
Mark-up accrued on loans and other payables	22	31,149,654	24,861,383
Short-term borrowings	23	87,095,838	174,525,410
Current maturity of liabilities against assets subject to finance lease	18	1,500,180	958,198
Current portion of long-term financing	17	48,541,658	30,903,324
Sales tax payable		28,185,220	32,185,120
		320,046,306	326,369,486
CONTINGENCIES AND COMMITMENTS	24		
TOTAL EQUITY AND LIABILITIES		763,634,692	807,459,329

The annexed notes from 1 to 41 form an integral part of these financial statements.

Mohammed Ebrahim Hasham
Chief Executive Officer

Mohammed Hussain Hasham
Director

Profit and Loss Account

for the year ended September 30, 2007

	Note	2007 Rupees	2006 Rupees
SALES	25	1,485,943,210	2,259,620,586
Less: Sales tax		197,223,593	299,028,348
NET SALES		1,288,719,617	1,960,592,238
COST OF SALES	26	(1,296,080,119)	(1,772,097,471)
GROSS (LOSS)/PROFIT		(7,360,502)	188,494,767
Distribution costs	27	1,924,450	2,291,641
Administrative expenses	28	41,309,976	40,057,430
Other operating expenses	29	3,016,425	5,028,650
Other operating income	30	(6,790,635)	(4,745,249)
		(39,460,216)	(42,632,472)
		(46,820,718)	145,862,295
Share of loss from an associate	6	(5,763,000)	-
Finance costs	31	(57,773,160)	(46,939,313)
(LOSS) / PROFIT BEFORE TAXATION		(110,356,878)	98,922,982
Taxation	32	23,575,800	(19,071,489)
(LOSS) / PROFIT AFTER TAXATION		(86,781,078)	79,851,493
(LOSS) / EARNINGS PER SHARE - Basic and Diluted	33	(8.82)	8.11

The annexed notes from 1 to 41 form an integral part of these financial statements.

Mohammed Ebrahim Hasham
Chief Executive Officer

Mohammed Hussain Hasham
Director

Cash Flow Statement
for the year ended September 30, 2007

	Note	2007 Rupees	2006 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before taxation		(110,356,878)	98,922,982
Adjustment for non-cash items:			
Depreciation		34,280,208	33,112,876
Provision for staff gratuity - written back		(2,297,647)	498,568
Share of loss from an associate		5,763,000	-
Liabilities written back		-	(1,041,806)
Gain on disposal of fixed assets		(464,090)	(387,333)
Provision for additional tax on bagasse		2,933,925	-
Finance costs		57,773,160	46,939,313
Working capital changes	34	116,391,374	(112,796,803)
		214,379,930	(33,675,185)
Staff gratuity paid		(317,966)	(237,805)
Taxes (paid) / refund		(7,795,417)	3,106,021
Finance costs paid		(51,484,890)	(38,988,343)
Payment of surcharge on road cess		(96,589)	(6,246,288)
Net cash generated from operating activities		44,328,190	22,881,382
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(57,444,377)	(16,967,226)
Long-term investments		(20,000,000)	(26,999,980)
Long-term deposits		-	(8,000)
Proceeds from disposal of operating fixed assets		1,861,446	722,636
Net cash used in investing activities		(75,582,931)	(43,252,570)
CASH FLOWS FROM FINANCING ACTIVITIES			
Subordinated loans - net		1,252,232	-
Long term financing obtained/(paid)-net		115,541,343	(22,278,609)
Liabilities against assets subject to finance lease		1,342,924	(1,012,468)
Short term borrowings (paid)/obtained		(87,429,572)	69,979,032
Dividend paid		(23,768,445)	-
Net cash generated from financing activities		6,938,482	46,687,955
Net (decrease) / increase in cash and cash equivalents during the year		(24,316,259)	26,316,767
Cash and cash equivalents at the beginning of the year		26,526,433	209,666
Cash and cash equivalents at the end of the year	13	2,210,174	26,526,433

The annexed notes from 1 to 41 form an integral part of these financial statements.

Mohammed Ebrahim Hasham
Chief Executive Officer

Mohammed Hussain Hasham
Director

Statement of Changes in Equity
for the year ended September 30, 2007

	Issued, subscribed and paid-up capital	Reserves				Total
		Capital reserve - Share premium	Revenue reserve - General reserve	Accumulated (losses) / profit	Total reserves	
	Rupees					
Balance as at September 30, 2005	98,437,500	63,281,250	85,000,000	(96,767,892)	51,513,358	149,950,858
Profit after taxation for the year ended September 30, 2006	-	-	-	79,851,493	79,851,493	79,851,493
Balance as at September 30, 2006	98,437,500	63,281,250	85,000,000	(16,916,399)	131,364,851	229,802,351
Final dividend @Rs. 2.50 per share for the year ended September 30, 2006	-	-	-	(24,609,375)	(24,609,375)	(24,609,375)
Loss after taxation for the year ended September 30, 2007	-	-	-	(86,781,078)	(86,781,078)	(86,781,078)
Balance as at September 30, 2007	98,437,500	63,281,250	85,000,000	(128,306,852)	19,974,398	118,411,898

The annexed notes from 1 to 41 form an integral part of these financial statements.

Mohammed Ebrahim Hasham
Chief Executive Officer

Mohammed Hussain Hasham
Director

Notes to the Financial Statements
for the year ended September 30, 2007

1. THE COMPANY AND ITS OPERATIONS

Mehran Sugar Mills Limited (the Company) was incorporated in Pakistan as a public limited company on December 22, 1965 under the Companies Act, 1913 (now Companies Ordinance, 1984). The shares of the Company are quoted on Karachi Stock Exchange. The Company is principally engaged in the manufacturing and sale of sugar. The registered office of the Company is situated at Adamjee House, 8th Floor, I.I. Chundrigar Road, Karachi. The mills of the Company is located at Tando Allahyar, Distt. Hyderabad, Sindh.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirement of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.1 Accounting standards not yet effective

2.1.1 The following new standards and amendments of approved accounting standards are applicable in Pakistan from the dates mentioned below against the respective standard or amendment:

IAS - 1 Presentation of Financial Statements - amendments relating to capital disclosures	effective from accounting period beginning on or after January 01, 2007
IAS - 23 (Revised) Borrowing Costs	effective from accounting period beginning on or after January 01, 2009
IAS - 41 Agriculture	effective from accounting period beginning on or after May 22, 2007
IFRS - 2 Share based Payment	effective from accounting period beginning on or after December 06, 2006
IFRS - 3 Business Combinations	effective for business combinations for which agreement date is on or after December 06, 2006
IFRS - 5 Non-current Assets Held for Sale and Discontinued Operations	effective from accounting period beginning on or after December 06, 2006
IFRS - 6 Exploration for and Evaluation of Mineral Resources	effective from accounting period beginning on or after December 06, 2006

In addition, interpretations in relation to certain IFRSs have been issued by the International Accounting Standards Board that are not yet affective.

The Company expects that the adoption of the above standards, amendments and interpretations (except IAS 41, Agriculture, refer 2.1.2) will have no impact on the Company's financial statements in the period of initial application.

2.1.2 Under IAS - 41 “Agriculture”, a biological asset shall be measured on initial recognition and at each balance sheet date at its fair value less estimated point-of-sale costs. A gain or loss arising on initial recognition of a biological asset at fair value less estimate point-of-sale costs and from a change in fair value less estimated point-of-sale costs of a biological asset shall be included in profit or loss for the period in which it arises. The financial statements of the Company for the year ending September 30, 2008 are expected to be affected by the above referred requirement of IAS-41, the amount whereof cannot be determined at this stage.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in preparing these financial statements are as follows:

3.1 Basis of preparation

These financial statements have been prepared under the historical cost convention, unless otherwise disclosed.

3.2 Significant accounting judgments and estimates

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgments in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In the process of applying the Company's accounting policies, management has made the following estimates and judgments which are significant to the financial statements:

Property, plant and equipment

The Company reviews appropriateness of the rate of depreciation and useful life used in the calculation of depreciation. Further, where applicable, an estimate of the recoverable amount of assets is made for possible impairment on an annual basis. In making these estimates, the Company uses the technical resources available with the Company. Any change in the estimates in the future might affect the carrying amount of respective item of property, plant and equipment, with corresponding effects on the depreciation charge and impairment.

Stock-in-trade and stores and spare parts

The Company reviews the net realizable value of stock-in-trade and stores and spare parts to assess any diminution in the respective carrying values. Net realizable value is estimated with reference to the estimated selling price in the ordinary course of business less the estimated cost necessary to make the sale.

Trade debts and receivables

The Company reviews its doubtful trade debts and receivables at each reporting date to assess whether provision should be recorded in the profit and loss account. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provisions.

Taxation

In making the estimate for income tax payable by the Company, the Company takes into account the applicable tax laws and the decision by appellate authorities on certain issues in the past.

Deferred tax assets are recognized for all unused tax losses and credits to the extent that it is probable that taxable profit will be available against which such losses and credits can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Staff Retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 19.2 to the financial statements for valuation of present value of defined benefit obligations. Any changes in these assumptions in future years might affect gains and losses in those years.

3.3 Property, plant and equipment

3.3.1 Operating fixed assets

Owned

These are stated at cost less accumulated depreciation and any impairment in value, except for land, which is stated at cost. The cost in relation to certain fixed assets signifies historical cost and cost of borrowings during period of construction / installation.

Depreciation is charged to income using the reducing balance method at the rates specified in note 4.1. Depreciation on additions is charged from the month in which the asset is put to use and on disposals up to the month the asset in use.

The carrying value's of the Company's operating fixed assets are reviewed at each financial year end for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Repairs and maintenance cost is written off to the profit and loss account in the year in which it is incurred. Major renewals and improvements are capitalized when it is probable that respective future economic benefits will flow to the Company.

An item of operating fixed asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gain on disposal of fixed assets is recognized in the period of disposal.

Leased

The Company accounts for fixed assets acquired under finance lease by recording the asset and the related liability at the amounts which are determined on the basis of discounted value of minimum lease payments, which is the fair value of the asset.

Finance cost are allocated to the accounting period in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation is charged to income applying the same basis as for owned assets.

3.3.2 Capital work-in-progress

These are stated at cost less impairment, if any, and represent expenditure on fixed assets in the course of construction and installation. Transfers are made to relevant fixed asset category as and when assets are available for their intended use.

3.4 Investments

3.4.1 In an associated company

Investment in an associated company is accounted for using equity method of accounting. Investments over which investor has “significant influence” are accounted for under this method i.e., investments to be carried in the balance sheet at cost plus post-acquisition changes in the share of net assets of the associate, less any impairment in value, if material. The profit and loss account reflects the share of the results of operations of the associate. If an associate uses accounting policies other than those of the Company, adjustments are made to conform the associate's policies to those of the Company, if the impact is considered material. Profits and losses resulting from `upstream' and `downstream' transactions between the Company and an associate are recognized only to the extent of unrelated Company's interest in the associate.

3.4.2 Others

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. After initial measurement, these investments are measured at amortised cost.

3.5 Stores and spare parts

These are valued at lower of cost, calculated on moving average basis less provision for obsolescence and slow moving, if any, and net realizable value. Items in transit are stated at invoice value plus other charges incurred thereon, if any.

Net realisable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

3.6 Stock-in-trade

Stock-in-trade is valued at the lower of moving average cost and net realizable value. Cost in relation to work-in-process consist of manufacturing cost comprising prime cost and appropriate proportion of factory overheads.

Items in transit are stated at cost comprising invoice value plus other charges paid thereon to the balance sheet date.

Net realizable value signifies the prevailing selling prices in the ordinary course of business less estimated costs of completion and selling expenses incidental to sales.

3.7 Trade debts

Trade debts originated by the Company are recognized and carried at original invoice amount less provision for doubtful debts. An estimate for doubtful debts is made when collection is no longer probable. Bad debts are written-off as and when identified.

3.8 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of cash flow, cash and cash equivalents comprise cash in hand, cheques in hand, deposits held with banks and other Short term highly liquid investments with original maturities of three months or less, if any.

3.9 Staff retirement benefits

Gratuity

The Company operates an unfunded gratuity scheme (defined benefit scheme) for its employees. An actuarial valuation was carried out at September 30, 2007, using the Project Unit Credit Method, to cover the obligation under the scheme for its employees eligible to gratuity benefits.

Provident fund

The Company also operates a recognized provident fund for those permanent employees who have opted for it. Equal monthly contributions are made to the fund by the Company and employees in accordance with the fund's rules.

Compensated absences

The Company accrues it's estimated liability towards leaves accumulated by employees on an accrual basis using current salary level.

3.10 Taxation

Current

Provision for current taxation is based on taxable income at current rate of taxation after taking into account tax credits and rebates available, if any, or one half percent of turnover, whichever is higher.

Deferred

Deferred tax is recognised using the balance sheet liability method, on all major temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. The proportion of deferred tax attributable to the final tax regime is not considered material and, hence, ignored.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and / or carry-forward of unused tax losses can be realized.

The carrying amount of all deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be realized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

3.11 Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

3.12 Provisions

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation of which reliable estimate can be made.

3.13 Foreign currency transactions and translation

Transactions in foreign currencies are translated into Pak rupees (functional currency) using the exchange rates prevailing at the dates of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the balance sheet date. Exchange gains and losses are included in profit and loss account except for exchange differences on translation of borrowings, that were outstanding before July 05, 2004 and were specifically acquired for purchase of assets which are capitalized as part of cost of the related assets as allowed under Circular No. 1 of January 19, 2005 issued by the SECP.

3.14 Borrowing costs

Interest / mark-up directly attributable to the acquisition / construction / installation of qualifying assets is capitalized. All other finance costs are charged to profit and loss account currently.

3.15 Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated and impairment losses are recognized in the profit and loss account.

3.16 Transaction with related parties

The Company enters into transactions with related parties for sale / purchase of goods and services. Prices for these transactions are determined on the basis of the Comparable Uncontrolled Price method, which sets the price by reference to comparable goods sold in an economically comparable market to a buyer unrelated to the seller.

3.17 Financial instruments

All financial assets and liabilities are recognized at the time when the Company becomes party to the contractual provisions of the instrument and are derecognized in the case of assets, when the contractual rights under the instruments are realized, expired or surrendered and in the case of liability, when the obligation is discharged, cancelled or expired.

Financial instruments carried on the balance sheet include investments, deposits, receivables, loans, cash and bank balances, borrowings, long term financing, creditors and other liabilities. The particular recognition method adopted is disclosed in the individual policy statements associated with each financial instrument.

Any gain / loss on the recognition and derecognition of the financial assets and liabilities is included in the profit and loss for the period in which it arises.

3.18 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when the Company has a legally enforceable right to set-off the transaction and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Notes to the Financial Statements
for the year ended September 30, 2007

3.19 Revenue recognition

Sales are recognized as revenue when invoiced, which generally coincides with delivery.

Return on bank deposits is recognized on accrual basis.

	Note	2007 Rupees	2006 Rupees
4. PROPERTY, PLANT AND EQUIPMENT			
Operating fixed assets	4.1	391,208,615	394,306,070
Capital work-in-progress	4.2	28,586,268	-
		419,794,883	394,306,070

4.1 Operating fixed assets

2007								
Description	Cost at October 01, 2006	Additions/ *transfers/ (deletions)	Cost at September 30, 2007	Accumulated depreciation at October 01, 2006	Depreciation for the year/ (accumulated depreciation on deletions)	Accumulated depreciation at September 30, 2007	Book value at September 30, 2007	Dep. Rate %
	Rupees							
Owned								
Freehold land	180,720	-	180,720	-	-	-	180,720	-
Building on freehold land								
- Factory	69,341,744	1,029,503	70,371,247	46,922,344	2,281,363	49,203,707	21,167,540	10
- Non-factory	14,119,611	-	14,119,611	5,959,401	408,011	6,367,412	7,752,199	5
Plant, machinery and equipment	680,777,885	24,527,732	705,305,617	339,316,764	26,654,244	365,971,008	339,334,609	7.5
Furniture and fittings	2,447,847	-	2,447,847	1,934,962	51,289	1,986,251	461,596	10
Vehicles	20,963,697	1,790,990	20,590,187	11,735,026	1,982,025	12,740,414	7,849,773	20
		(2,164,500)			(976,637)			
Office equipment	6,087,892	-	6,087,892	4,709,620	137,827	4,847,447	1,240,445	10
Electric installation	9,429,234	500,000	9,929,234	6,061,146	382,642	6,443,788	3,485,446	10
Weighbridge and scales	965,624	-	965,624	783,835	18,179	802,014	163,610	10
Workshop tools and other equipment	6,059,509	438,587	6,498,096	3,532,033	274,677	3,806,710	2,691,386	10
Computers	2,411,775	299,797	2,711,572	1,215,289	409,232	1,624,521	1,087,051	30
Airconditioners and refrigerators	5,116,661	271,500	5,388,161	3,442,327	541,375	3,983,702	1,404,459	10
	817,902,199	28,858,109	844,595,808	425,612,747	33,140,864	457,776,974	386,818,834	
		(2,164,500)			(976,637)			
Leased								
Vehicles	3,491,000	3,722,000	6,722,000	1,474,382	1,139,344	2,332,219	4,389,781	20
		(491,000)			(281,507)			
Total	**821,393,199**	**32,580,109**	**851,317,808**	**427,087,129**	**34,280,208**	**460,109,193**	**391,208,615**	
		(2,655,500)			**(1,258,144)**			

Operating fixed assets

Description	Cost at October 01, 2005	Additions/ *transfers/ (deletions)	Cost at September 30, 2006	Accumulated depreciation at October 01, 2005	Depreciation for the year/ (accumulated depreciation on deletions)	Accumulated depreciation at September 30, 2006	Book value at September 30, 2006	Dep. Rate %
	2006							
	Rupees							
Owned								
Freehold land	180,720	-	180,720	-	-	-	180,720	-
Building on freehold land								
- Factory	64,421,975	4,919,769	69,341,744	44,795,726	2,126,618	46,922,344	22,419,400	10
- Non-factory	14,119,611	-	14,119,611	5,529,916	429,485	5,959,401	8,160,210	5
Plant, machinery and equipment	667,387,727	13,390,158	680,777,885	312,388,445	26,928,319	339,316,764	341,461,121	7.5
Furniture and fittings	2,447,847	-	2,447,847	1,877,975	56,987	1,934,962	512,885	10
Vehicles	16,790,697	4,718,000	20,963,697	10,555,194	1,664,037	11,735,026	9,228,671	20
		(545,000)			(484,205)			
Office equipment	6,052,892	35,000	6,087,892	4,558,145	151,475	4,709,620	1,378,272	10
Electric installation	9,209,234	220,000	9,429,234	5,737,394	323,752	6,061,146	3,368,088	10
Weighbridge and scales	928,624	37,000	965,624	764,386	19,449	783,835	181,789	10
Workshop tools and other equipment	6,059,509	-	6,059,509	3,251,202	280,831	3,532,033	2,527,476	10
Computers	2,077,375	394,400	2,411,775	851,301	400,872	1,215,289	1,196,486	30
		(60,000)			(36,884)			
Airconditioners and refrigerators	4,753,571	363,090	5,116,661	3,278,278	164,049	3,442,327	1,674,334	10
	794,429,782	24,077,417	817,902,199	393,587,962	32,545,874	425,612,747	392,289,452	
		(605,000)			(521,089)			
Leased								
Vehicles	3,982,000	-	3,491,000	1,146,988	567,002	1,474,382	2,016,618	20
		(491,000)			(239,608)			
Total	**798,411,782**	**24,077,417**	**821,393,199**	**394,734,950**	**33,112,876**	**427,087,129**	**394,306,070**	
		(1,096,000)			**(760,697)**			

	Note	2007 Rupees	2006 Rupees
4.1.1 Depreciation charge for the year has been allocated as follows:			
Cost of sales	26	30,019,116	30,108,454
Administrative expenses	28	4,261,092	3,004,422
		34,280,208	33,112,876

Notes to the Financial Statements

for the year ended September 30, 2007

4.1.2 The following operating fixed assets were disposed off during the year:

Particulars	Cost	Accumulated depreciation	Book Value	Sale proceeds	Gain/ (Loss)	Mode of disposal	Particulars of Purchaser
	(Rupees)						
Toyota Corolla (ABK-557)	670,000	262,640	407,360	390,000	(17,360)	Negotiation	Dr. Ishtiaque (an employee)
Suzuki Bolan (CJ-0973)	100,000	95,822	4,178	90,000	85,822	Negotiation	Mr. Fayyaz Muhammad S/o Zar Muhammad
Ravi Pick up (KP-1963)	344,000	11,467	332,533	344,000	11,467	Negotiation	Mr.Misal Khan (contractor)
Motor cycle (KAX-8430)	58,500	24,118	34,382	42,650	8,268	Negotiation	Mr. Masoom (an employee)
Motor cycle (KAC-1114)	58,500	23,525	34,975	58,500	23,525	Negotiation	Mr. Arshad Nawaz (an employee)
Motor cycle (KAC-4030)	43,000	17,727	25,273	39,000	13,727	Negotiation	Mr. Gul Mastan (an employee)
Motor cycle (KAC-1110)	58,500	23,525	34,975	41,465	6,490	Negotiation	Mr. Haroon Nizamani (an employee)
Motor cycle (KBA-9181)	58,500	31,543	26,957	42,650	15,693	Negotiation	Mr. Abubakar Siddique (an employee)
Toyota Corolla ACJ-516	773,500	486,270	287,230	461,471	174,241	Negotiation	Mr. Rais Ahmed Khan (an employee)
Suzuki Alto (Leased) AFK-993	491,000	281,507	209,493	351,710	142,217	Negotiation	Mr. Muhammad Niaz Naz (an employee)
2007	2,655,500	1,258,144	1,397,356	1,861,446	464,090		

	Note	2007 Rupees	2006 Rupees
4.2 CAPITAL WORK-IN-PROGRESS			
Advance against supply of plant and machinery		28,586,268	-
5. LONG-TERM RECEIVABLE - Unsecured			
Tender earnest money		1,000,000	1,000,000
Down payment		33,125,000	33,125,000
Other costs		8,385,996	8,385,996
	5.1	42,510,996	42,510,996

5.1 This represents down payment made in respect of purchase of Thatta Sugar Mills (the mill) and other cost in running the mill from November 1992 up to July 1993, when the mill was forcibly taken over by the Government of Sindh (GoS) without paying any amount. The Company filed a law suit for Rs. 166 million being the amount of down payment, expenses incurred (including payment to workers) and loss of profits. The GoS made a counter claim of Rs. 402 million against the Company. The case is currently pending in the Honorable High Court of Sindh for recording of evidences. While the Company's suit for recovery of compensation is pending in the Honorable High Court Sindh, the GoS invited bids for sale of Thatta Sugar Mills through Sindh Privatization Commission but it could not succeed. The GoS is now trying to privatize it through the Federal Privatization Commission. The representative of the GoS has also admitted the fact that the mill was taken by Government without payment to the Company. Hence, the management of the Company is confident that the Company will be able to recover in excess of the carrying value of the investment. Therefore, no provision has been made against the above receivable in these financial statements.

6. LONG TERM INVESTMENT

- In an associate

Number of shares 2007	Number of shares 2006	Face value per share Rupees	Name of the Company	Note	2007 Rupees	2006 Rupees
9,999,998	7,999,998	10	Unicol Limited - an un-quoted company	6.1	94,236,980	79,999,980

6.1 Movement of investments in an associate

	2007 Rupees	2006 Rupees
Opening balance	79,999,980	79,999,980
Shares further acquired during the year	20,000,000	-
Share of loss for the year - net of tax	(5,763,000)	-
	94,236,980	79,999,980

The Company holds 33 (2006: 33) percent of the investee's total equity.

6.2 The results of the associate based on unaudited financial statements, for the year ended September 30, 2007, are as follows:

	Note	2007 Rupees	2006 Rupees
Aggregate amount of:			
- assets		997,099,000	369,549,000
- liabilities		714,359,000	129,549,000
- revenue		59,202,000	-
- loss		17,291,000	-

7. STORES AND SPARE PARTS

Stores	11,913,298	11,072,560
Spare parts	13,670,338	13,231,436
	25,583,636	24,303,996

8. STOCK-IN-TRADE

Manufactured sugar			
- Finished	8.1	115,925,126	41,575,854
- Work-in-process		2,461,712	898,494
Imported sugar		-	97,266,000
		118,386,838	139,740,348

8.1 Represents quantity of 4,940 metric tons having average cost of Rs. 123.629 million. This stock has been valued at Net Realizable Value (NRV) of Rs. 115.925 million being lower than the average cost of the stock.

	Note	2007 Rupees	2006 Rupees
9. TRADE DEBTS - unsecured			
Considered good	9.1	31,072,631	57,959,983
Considered doubtful		2,468,025	2,468,025
		33,540,656	60,428,008
Less: Provision for doubtful debts		2,468,025	2,468,025
		31,072,631	57,959,983

9.1 Includes an amount of Rs. 14.519 million due from the Food department, Government of Sindh. This represents amount withheld by the Government of Sindh from the bills raised by the Company during the years from 1981 to 1983 on account of a dispute regarding the quality of sugar. Consequently, the Company has withheld mark-up due to the Food department, amounting to Rs. 6.192 million, as referred to in note 22 to the financial statements. Since then, the matter is under litigation and pending before the Honorable High Court of Sindh. Based on the merit of the case, the management is confident that the amount would be fully recovered and, therefore, no provision against the above amount has been made in these financial statements.

	Note	2007 Rupees	2006 Rupees
10. LOANS AND ADVANCES - Unsecured, considered good			
Loans to staff	10.1	1,782,587	3,111,445
Advances			
- to suppliers		4,571,181	9,018,328
- to cane growers		3,602,709	2,469,877
- against expenses		172,916	423,692
		8,346,806	11,911,897
		10,129,393	15,023,342

10.1 Represents interest free loans to employees for purchase of vehicle, repayable in monthly installments.

	Note	2007 Rupees	2006 Rupees
11. TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS			
Trade deposits	11.1	8,771,623	18,275,660
Short-term prepayments		4,040,579	3,647,806
		12,812,202	21,923,466

11.1 Includes a sum of Rs. 7.196 million paid by the Company to the Director General Defence Procurement (DGDP) as tender money during the year 1997 which has been withheld by them on account of DGDP's risk purchase claim on the Company, as fully described in note 24.2. Presently, the matter is under litigation. Based on the merit of the case, the Company is confident that the ultimate decision would be in its favor and, therefore, no provision for impairment loss, if any, has been made against the above amount in these financial statements.

		Note	2007 Rupees	2006 Rupees
12.	**SHORT-TERM INVESTMENTS**			
	Held to maturity			
	Term deposit certificates	12.1	3,654,000	3,654,000

12.1 Includes certificates of the value of Rs. 3.654 million (2006: 3.654 million) deposited with the bankers under lien against guarantees issued by them on behalf of the Company having maturity upto six months. These carry profit at the rate of 2.97 to 3.07 (2006: 3 to 4) percent per annum.

		2007 Rupees	2006 Rupees
13.	**CASH AND BANK BALANCES**		
	Cash in hand	17,126	26,709
	Cash at banks in current accounts - local currency	2,193,048	26,499,724
		2,210,174	26,526,433

14. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2007 (Number of shares)	2006 (Number of shares)			
5,968,750	5,968,750	- Ordinary shares of Rs.10/- each fully paid in cash	59,687,500	59,687,500
350,000	350,000	- Issued for consideration other than cash	3,500,000	3,500,000
3,525,000	3,525,000	- Issued as fully paid bonus shares	35,250,000	35,250,000
9,843,750	9,843,750		98,437,500	98,437,500

15. RESERVES

Capital reserve - share premium	63,281,250	63,281,250
Revenue reserve - general	85,000,000	85,000,000
Accumulated losses	(128,306,852)	(16,916,399)
	19,974,398	131,364,851

16. SUBORDINATED LOANS - Unsecured

From directors	9,252,232	8,000,000
From other related parties	33,400,000	33,400,000
	42,652,232	41,400,000

The lenders have given consent to consider these loans as subordinated and that the same will not be demanded from the Company for the next three years.

These carry mark-up at the rate of 3 months KIBOR prevailing at the beginning of the quarter (2006: 3 months KIBOR prevailing at the beginning of the quarter) per annum.

17. LONG TERM FINANCING - Secured

	Note	Installments Number	Installments Commencing from	Mark-up 2007	Mark-up 2006	2007 Rupees	2006 Rupees
From banking companies							
PICIC Commercial Bank Limited - TF I	17.1	20 quarterly	March 2005	3 months KIBOR plus 2.75% with a floor of 13% per annum	6 months KIBOR plus 4% with a floor of 13% per annum	27,000,000	39,000,000
PICIC Commercial Bank Limited - TF II	17.1	16 quarterly	March 2005	3 months KIBOR plus 2.75% with a floor of 13% per annum	6 months KIBOR plus 4% with a floor of 13% per annum	18,750,000	31,250,000
PICIC Commercial Bank Limited - TF III	17.1	60 monthly	October 2005	3 months KIBOR plus 2.75% with a floor of 13% per annum	6 months KIBOR plus 4% with a floor of 13% per annum	3,868,608	5,701,934
PICIC Commercial Bank Limited - TF IV	17.1	16 quarterly	January 2008	3 months KIBOR plus 2.75% with a floor of 13% per annum	-	10,000,000	-
PICIC Commercial Bank Limited - TF V	17.1	16 quarterly	January 2008	3 months KIBOR plus 2.75% with a floor of 13% per annum	-	40,000,000	-
Bank Alfalah Limited	17.2	36 monthly	August 2004	-	7% per annum	-	4,403,331
Mybank Limited	17.3	16 quarterly	June 2008	6 months KIBOR plus 3% with a floor of 14% per annum	-	100,000,000	-
						199,618,608	80,355,265
Less: Current portion shown under current liabilities						48,541,658	30,903,324
						151,076,950	49,451,941

17.1 The above finances are secured by way of first pari passu charge of Rs. 155 million over fixed assets of the Company and personal guarantees of all the directors of the Company.

17.2 This is secured by way of first pari passu charge of Rs. 21 million over fixed assets of the Company.

17.3 The above finance is secured by way of first pari passu charge over fixed assets of the Company, with 25% margin and personal guarantees of all the directors of the Company.

18. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES

Represent finance leases entered into with a bank for vehicles. Total lease rentals due under various lease agreements aggregate to Rs. 2,939,496/- (2006: Rs. 3,982,000/-) and are payable in equal monthly installments latest by 2009. Taxes, repairs, replacement and insurance costs are to be borne by the lessee. In case of termination of agreement, the lessee has to pay the entire rent for unexpired period. Financing rates of approximately 7 to 13 (2006: 7 percent) per annum has been used as discounting factor. Purchase options can be exercised by the lessee in accordance with the respective lease agreements. The movement in the finance lease liability is as follows:

	2007		2006	
	Minimum lease Payments	Present Value	Minimum lease Payments	Present Value
		(Rupees)		
Within one year	1,737,009	1,500,180	1,023,836	958,198
After one year but not more than five years	1,202,487	1,127,857	425,211	326,915
Total minimum lease payments	2,939,496	2,628,037	1,449,047	1,285,113
Less: Amount representing finance charges	311,459	-	163,934	-
Present value of minimum lease payments	2,628,037	2,628,037	1,285,113	1,285,113
Less: Current maturity shown under current liability	1,500,180	1,500,180	958,198	958,198
	1,127,857	1,127,857	326,915	326,915

	Note	2007 Rupees	2006 Rupees
19. DEFERRED LIABILITIES			
Deferred taxation	19.1	22,340,769	52,351,679
Staff gratuity	19.2	5,851,629	8,467,242
		28,192,398	60,818,921

19.1 Deferred taxation comprises differences relating to:

Credit balance arising due to :

	2007 Rupees	2006 Rupees
Accelerated tax depreciation	83,216,045	80,587,585
Assets subject to finance lease	1,536,423	705,816
Debit balances arising due to:		
Provision for gratuity	(2,048,070)	(3,153,674)
Provision for doubtful debts	(863,809)	(863,809)
Liabilities against assets subject to finance lease	(919,813)	(449,790)
Minimum tax impact	(18,979,836)	(24,474,449)
Unabsorbed tax losses	(39,600,171)	-
	(62,411,699)	(28,941,722)
	22,340,769	52,351,679

		Note	2007 Rupees	2006 Rupees
19.2	**Staff gratuity**			
	Opening net liability		8,467,242	8,206,479
	(Prepaid cost)/expense for the year		(2,297,647)	498,568
			6,169,595	8,705,047
	Benefits paid during the year		(317,966)	(237,805)
	Liability to be recognized		5,851,629	8,467,242
	Expense for the year ended September 30, 2007			
	Current service cost		304,846	490,978
	Interest cost		592,707	917,619
	Transitional asset recognized		(3,195,200)	(910,029)
	(Prepaid cost)/expense for the year		(2,297,647)	498,568
	Reconciliation			
	Present value of defined benefit obligation		5,851,629	8,467,242
	Unrealized actuarial losses		-	-
	Liability to be recognized as at September 30		5,851,629	8,467,242

The (credit)/charge for the year has been allocated as follows:

	2007 Rupees	2006 Rupees
Cost of sales	(2,241,189)	486,318
Distribution costs	(22,741)	4,934
Administrative expenses	(33,717)	7,316
	(2,297,647)	498,568

Comparisons for five years:

As at September 30	2007	2006	2005 (Rupees)	2004	2003
Present value of defined benefit obligation	5,851,629	8,467,242	8,330,665	7,124,000	6,501,000
Fair value of plan assets	-	-	-	-	-
(Surplus) / deficit	5,851,629	8,467,242	8,330,665	7,124,000	6,501,000

19.3 The Projected Unit Credit Method, using the following significant assumptions was used for the valuation of the scheme:
- discount rate at 10 % per annum;
- expected rate of increase in salary level at 7 % per annum;
- expected average remaining life of employees 30 years.

		Note	2007 Rupees	2006 Rupees
20.	**PROVISIONS**			
	Surcharge on road cess	20.1	1,416,308	1,512,897
	Market committee fee	20.2	53,550,964	53,550,964
	Quality premium	20.3	44,225,854	44,225,854
	Additional tax on bagasse	24.5	2,933,925	-
			102,127,051	99,289,715

20.1 Represents the growers' share of surcharge on road cess collected by the Company which is refundable upon verification by the Cane Commissioner.

20.2 The Market Committee filed a law suit for the recovery of market committee fee before the Senior Civil Judge Tando Allahyar during the year 1999-2000. The Company has contested the law suit on the ground that Market Committee was not lawfully constituted. The Senior Civil Judge Tando Allahyar, however, passed a decree against the Company on March 12, 2003 for a sum of Rs. 43.7 million plus fee amounting to Rs. 9.85 million relating to the years upto 2003-2004. Subsequently, the Government of Sindh has withdrawn the levy of Market Committee for crushing season of 2004-2005. The Company filed an appeal against the said order with the District Judge, Hyderabad and the same has been dismissed by the District Judge during the year. Consequently, during the year Company has filed an appeal and obtained a stay order from the Honorable High Court of Sindh and it is making efforts to settle the matter out of court by following a parallel settlement process. Accordingly, as a matter of prudence, the Company has made provision for the above market committee fee in these financial statements.

20.3 The sugar mills in Sindh are required to pay quality premium to the cane growers at the rate of fifty (50) paisas per forty (40) Kg cane for each 0.1 percent of excess sucrose recovery above the benchmark of 8.7 percent determined on over all sucrose recovery of each mill. The Company challenged the levy of quality premium before the Honorable High Court of Sindh, which decided the matter against the Company. The Company has filed an appeal with the Honorable Supreme Court of Pakistan. While admitting the appeal against the impugned judgment of the Honorable High Court, the Honorable Supreme Court granted stay to the Company. The Punjab government is not charging any quality premium in view of an earlier decision of Lahore High Court in a similar case in which the Court had declared the demand of quality premium as unlawful.

	Note	2007 Rupees	2006 Rupees
21. TRADE AND OTHER PAYABLES			
Creditors		21,178,876	17,203,053
Accrued expenses		1,801,399	7,301,328
Advances from customers		93,187,181	26,350,778
Workers' profits participation fund		-	4,946,150
Employees' provident fund		-	487,415
Unclaimed dividend		4,303,512	3,462,582
Other liabilities		3,102,788	3,184,745
		123,573,756	62,936,051
22. MARK-UP ACCRUED ON LOANS AND OTHER PAYABLES			
Accrued mark-up on:			
- Subordinated loans - from related parties		8,230,959	7,284,017
- Short-term borrowings		9,547,755	7,726,849
- Long-term financing		7,178,611	3,658,188
- Advances	9.1	6,192,329	6,192,329
		31,149,654	24,861,383
23. SHORT- TERM BORROWINGS - Secured			
From Banking companies:			
- MCB Deh Dhero - Agriculture Finance		50,000,000	50,000,000
- MCB Deh Dhero - Cash Finance		21,800,000	18,000,000
- MCB Deh Dhero - Running Finance		2,943,733	-
- MCB Corporate Branch - Running Finance		12,352,105	-
- PICIC Commercial Bank - FIM		-	106,525,410
	23.1	87,095,838	174,525,410

23.1 These are secured against pledge of sugar stock, hypothecation of stores and spare parts and other current assets, first registered charge on fixed assets of Company and continuing guarantee of the Company. These finances form part of the aggregate facility of Rs. 675 million (2006: Rs. 575 million). The finances carry mark-up ranging between 11.30 % to 13.41 % per annum (2006: 7.00 % to 13.44 %) payable quarterly.

24. CONTINGENCIES AND COMMITMENTS

(a) Contingencies

24.1 Contribution demanded by SESSI Rs. 3.28 million (2006: Rs. 3.28 million) for the period from July 1987 to August 1990 which has been disputed by the Company. The case is pending before the Honorable High Court of Sindh. The Company and its legal counsel are hopeful of the favourable outcome of the case and hence, no provision has been made against the above demand in these financial statements.

24.2 DGDP risk purchase claim Rs. 38.58 million (2006: Rs. 38.58 million) which is disputed by the Company on the ground that the goods were already delivered and the DGDP had no right to make the risk purchase claim and that the DGDP who failed to lift the goods was responsible for the breach of the contract. The Company has filed a counter claim of Rs. 25.81 million (2006: Rs. 25.81 million) against the said breach of contract. The cases are pending before the Honorable Supreme Court of Pakistan and the Honorable Lahore High Court - Rawalpindi Bench. The management and legal counsel of the Company are confident that no liability will arise in respect of the risk purchase claim, and hence no provision has been made for the same in these financial statements.

24.3 The Company has filed an appeal before the Honorable Sindh High Court which has granted a stay to the Company against the order of Customs, Excise and Sales Tax Appellate Tribunal, Karachi upholding allegation of non payment of sales tax on advances etc., amounting to Rs. 11,087,051/-. Based on the facts and advise of the legal advisor, the management is confident of a favourable outcome and hence no provision is required to be made in these financial statements.

24.4 The Company has also filed an appeal before Customs, Excise and Sales Tax Appellate Tribunal, Karachi, which is pending for hearing, against the order of the Deputy Collector, Collectorate of Customs, Excise and Sales Tax (Adjudication), Hyderabad to pay off alleged demand of Rs.10,756,624/- alongwith additional tax and penalty while framing his order. Based on the advise of the legal advisor, the management is confident of a favourable outcome and hence no provision is required to be made in these financial statements.

24.5 In prior years, the Customs, Excise & Sales Tax Appellate Tribunal, vide Appeal No. 631/1998, had ordered the Company to pay a sum of Rs.11,933,267 as additional tax on bagasse. The Company preferred an application under Section 47A of the Sales Tax Act, 1990 (the Act) with the Federal Board of Revenue (the Board) for constitution of an Alternate Dispute Resolution Committee (ADRC) regarding the dispute. After examining the case in detail, the ADRC unanimously recommended to the Board that the departmental demand of additional tax amounting to Rs.11,933,267 may be reduced to Rs.2,933,925 as full and final additional tax and the remaining demand of Rs.8,999,342 may be deleted and waived. Accordingly, as a matter of prudence, the management has made a provision of Rs.2,933,925 as disclosed in note 20 to the financial statements. The management based on the legal advice is confident that the remaining demand of Rs.8,999,342 will be waived-off by the Board and accordingly no provision is required thereagainst in the financial statements.

24.6 The Company has not made provision for market committee fee for the years 2005-2006 and 2006-2007 amounting to Rs. 5,431,254 as it has been granted a stay order by the Honorable High Court of Sindh relating to market committee fee in respect of earlier years. The management, on the basis of legal advice, is confident that the ultimate outcome will be in Company's favour and hence no provision is required to be made thereagainst in these financial statements.

(b) Commitments

Commitments in respect of capital expenditure as on September 30, 2007 amounted to Rs. 3.352 million (2006: Rs. 8.917 million).

	Note	2007 Rupees	2006 Rupees
Outstanding letter of guarantees		3,700,000	3,700,000

25. NET SALES

		2007 Rupees	2006 Rupees
Locally produced		1,287,261,598	1,793,857,895
Imported		109,001,100	358,771,850
Molasses		87,109,245	106,990,841
Bagasse		2,571,267	-
		1,485,943,210	2,259,620,586
Less: Sales tax		(197,223,593)	(299,028,348)
		1,288,719,617	1,960,592,238

	Note	2007 Rupees	2006 Rupees
26. COST OF SALES			
Manufactured sugar:			
Cost of sugarcane consumed (including procurement and other expenses)		1,093,169,577	1,010,001,170
Road cess on sugarcane		3,709,605	3,105,482
Import of raw sugar		-	79,248,195
Salaries, wages and other benefits	26.1	57,255,011	54,467,120
Stores and spare parts consumed		58,999,892	53,592,715
Repairs and maintenance		15,093,702	12,777,168
Fuel, electricity and water charges		8,131,497	10,882,828
Vehicle running and maintenance expenses		1,081,288	973,176
Insurance		2,406,111	2,060,041
Depreciation	4.1.1	30,019,116	30,108,454
Other overheads		4,078,671	3,630,332
		1,273,944,470	1,260,846,681
Opening stock of work-in-process		898,494	6,176,648
Closing stock of work-in-process		(2,461,712)	(898,494)
		(1,563,218)	5,278,154
Cost of goods manufactured		1,272,381,252	1,266,124,835
Imported Sugar:			
Opening stock of imported sugar		97,266,000	661,062
Cost of sugar imported		782,139	447,181,172
Closing stock of imported sugar		-	(97,266,000)
Cost of sugar imported		98,048,139	350,576,234
Opening stock of molasses		-	1,653,080
Opening stock of finished goods		41,575,854	195,319,176
Closing stock of finished goods		(115,925,126)	(41,575,854)
		(74,349,272)	153,743,322
		1,296,080,119	1,772,097,471

26.1 This includes contribution to provident fund of Rs. 1,480,517/- (2006: Rs. 1,711,218/-) and gratuity fund of Rs. (2,241,189/) (2006: Rs. 486,318/-).

	Note	2007 Rupees	2006 Rupees
27. DISTRIBUTION COSTS			
Salaries, wages and other benefits	27.1	559,072	510,511
Insurance		7,370	5,694
Staking and loading		1,358,008	1,775,436
		1,924,450	2,291,641

27.1 This includes contribution to provident fund of Rs. 22,143/- (2006: Rs. 13,307/-) and gratuity fund of Rs. (22,741/-) (2006: Rs. 4,934/).

		Note	2007 Rupees	2006 Rupees
28.	**ADMINISTRATIVE EXPENSES**			
	Salaries and other benefits	28.1	23,940,722	21,075,619
	Rent, rates and taxes		826,783	839,751
	Electricity, telephone, fax and postage		2,328,870	2,686,878
	Printing and stationery		942,906	651,362
	Travelling and conveyance		1,458,991	3,474,249
	Vehicle running and maintenance expenses		2,658,214	2,959,091
	Auditors' remuneration	28.2	456,480	342,500
	Legal and professional		917,500	1,023,100
	Fees and subscription		475,946	450,253
	Insurance		80,333	85,416
	Repairs and maintenance		1,301,698	1,795,222
	Advertising		132,454	263,125
	Donations	28.3	1,099,435	701,875
	Depreciation	4.1.1	4,261,092	3,004,422
	Other expenses		428,552	704,567
			41,309,976	40,057,430

28.1 This includes contribution to provident fund of Rs. 657,435/- (2006: Rs. 437,784/-) and gratuity fund of Rs. (33,717/-) (2006: Rs. 7,316/-).

		Note	2007 Rupees	2006 Rupees
28.2	**Auditors' remuneration**			
	Statutory audit			
	Ford Rhodes Sidat Hyder & Co.			
	Statutory audit fee		255,000	205,000
	Review of half yearly financial statements and compliance with Code of Corporate Governance		70,000	70,000
	Out of pocket expenses		81,480	17,500
			406,480	292,500
	Cost audit			
	Haroon Zakaria & Co.			
	Cost audit fee		50,000	50,000
			456,480	342,500

28.3 No director or their spouse had any interest in any donee to which the donations were made.

		Note	2007 Rupees	2006 Rupees
29.	**OTHER OPERATING EXPENSES**			
	Zakat		82,500	82,500
	Workers' Profits Participation Fund		-	4,946,150
	Additional tax on bagasse	24.5	2,933,925	-
			3,016,425	5,028,650

	Note	2007 Rupees	2006 Rupees

30. OTHER OPERATING INCOME

	Note	2007 Rupees	2006 Rupees
Profit on bank deposits		90,400	118,992
Gain on disposal of fixed assets		464,090	387,333
Scrap sales		1,307,624	291,280
Rental income		173,200	263,700
Net farm income		3,900,313	-
Miscellaneous income		855,008	2,642,138
Liabilities no longer payable written back		-	1,041,806
		6,790,635	4,745,249

31. FINANCE COSTS

	Note	2007 Rupees	2006 Rupees
Mark-up on:			
Long-term financing		15,455,040	11,609,999
Subordinated loans - from related parties		4,387,783	3,727,039
Short-term borrowings		35,813,328	30,072,972
Lease finance		385,441	137,243
		56,041,592	45,547,253
Bank charges		1,731,568	1,392,060
		57,773,160	46,939,313

32. TAXATION

	Note	2007 Rupees	2006 Rupees
Current	32.1	6,450,136	9,821,478
Prior year		(15,026)	5,384,867
		6,435,110	15,206,345
Deferred	19.1	(30,010,910)	3,865,144
		(23,575,800)	19,071,489

32.1 Provision for current income tax is based on minimum tax under Section 113 of the Income Tax Ordinance, 2001. Accordingly, tax charge reconciliation with the accounting profit is not reported.

32.2 Income tax assessments of the Company have been completed upto the tax year 2006 (accounting year ended September 30, 2005).

33. (LOSS) / EARNINGS PER SHARE - BASIC AND DILUTED

There is no dilutive effect on the basic (loss)/earnings per share of the Company, which is based on:

	Note	2007 Rupees	2006 Rupees
(Loss) / earnings after taxation attributable to ordinary shares		(86,781,078)	79,851,493
Weighted average number of ordinary shares		9,843,750	9,843,750
(Loss) / earnings per share - Basic and diluted		(8.82)	8.11

	Note	2007 Rupees	2006 Rupees

34. WORKING CAPITAL CHANGES

		2007 Rupees	2006 Rupees
(Decrease) / increase in current assets			
Stores and spare parts		(1,279,640)	8,480,725
Stock-in-trade		21,353,510	64,069,618
Trade debts		26,887,352	(43,440,141)
Loans and advances		4,893,949	(1,906,513)
Trade deposits and short-term prepayments		9,111,264	10,519,215
Other receivables		(371,936)	(191,353)
		60,594,499	37,531,551
Increase / (decrease) in current liabilities			
Trade and other payables		59,796,775	(172,568,077)
Sales tax payable		(3,999,900)	22,239,723
		55,796,875	(150,328,354)
		116,391,374	(112,796,803)

35. TRANSACTIONS WITH RELATED PARTIES

Related parties of the Company comprise of the group companies Pakistan Molasses Company (Private) Limited, Mogul Tobacco Company (Private) Limited, Unicol Limited, Companies where directors also hold directorship, directors and key management personnel. Transactions with related parties, other than remuneration and benefits to directors and key management personnel under the terms of their employment, as disclosed in respective notes 37, are as follows:

	2007 Rupees	2006 Rupees
Group companies		
Sales	36,523,259	-
Expenses shared	208,186	258,300
Investment made in an associated company	20,000,000	-
Directors and group companies		
Receipt of subordinated loans	7,500,000	-
Repayment of subordinated loans	6,247,768	-
Mark-up on subordinated loans	7,828,624	3,727,039
Retirement benefit plans		
Provident fund contribution	2,160,091	2,162,309

35.1 Balance outstanding with related parties have been disclosed in the respective notes to the financial statements.

35.2 The above transactions with related parties are entered into on arm's length basis.

36. CAPACITY AND PRODUCTION

	Rated capacity		Actual capacity	
	M. Tons	Days	M. Tons	Days
Season 2006-2007	7000 TCD	160	4271 TCD	138
Season 2005-2006	7000 TCD	160	4358 TCD	114

The short fall in crushing is due to shortage of raw material i.e. sugar cane.

37. REMUNERATION OF CHIEF EXECUTIVE OFFICER, DIRECTORS AND EXECUTIVES

37.1 The aggregate amount, charged in the financial statements for the year are as follows:

	2007				2006			
	Chief Executive Officer	Directors	Executives	Total	Chief Executive Officer	Directors	Executives	Total
	Rupees							
Fees	2,000	23,000	-	25,000	3,500	13,000	-	16,500
Managerial remuneration	1,399,500	1,514,550	6,181,310	9,095,360	1,200,000	863,474	3,855,089	5,918,563
Retirement benefits	-	37,755	480,843	518,598	-	16,505	254,393	270,898
Perquisites and other benefits	700,500	783,075	1,376,484	2,860,059	282,000	350,068	1,417,915	2,049,983
	2,102,000	2,358,380	8,038,637	12,499,017	1,485,500	1,243,047	5,527,397	8,255,944
Number of persons	1	3	8	12	1	3	4	8

37.2 In addition, the chief executive officer and executive directors were provided with free use of the Company maintained cars, in accordance with their terms of service.

38. FINANCIAL INSTRUMENTS

38.1 Interest / mark-up / profit rate risk exposure

Interest / mark-up / profit rate risk arises from the possibility that changes in interest / mark-up rates will affect the value of financial instruments.

The Company is exposed to interest / mark-up / profit rate risk in respect of following:

	2007 (Rupees)								
	Interest/mark-up / profit bearing				Non Interest/mark-up / profit bearing				
	Maturity upto one year	Maturity from one to five years	Maturity after five years	Sub-total	Maturity upto one year	Maturity from one to five years	Maturity after five years	Sub-total	Total
Financial assets									
Long-term receivable	-	-	-	-	-	-	42,510,996	42,510,996	42,510,996
Long term investment	-	-	-	-	-	-	94,236,980	94,236,980	94,236,980
Trade debts	-	-	-	-	31,072,631	-	-	31,072,631	31,072,631
Loans and advances	-	-	-	-	10,129,393	-	-	10,129,393	10,129,393
Trade deposits	-	-	-	-	12,812,202	-	-	12,812,202	12,812,202
Other receivables	-	-	-	-	785,649	-	-	785,649	785,649
Short-term investments	3,654,000	-	-	3,654,000	-	-	-	-	3,654,000
Cash and bank balances	-	-	-	-	2,210,174	-	-	2,210,174	2,210,174
	3,654,000	-	-	3,654,000	57,010,049	-	136,747,976	193,758,025	197,412,025
Financial liabilities									
Subordinated loans	-	42,652,232	-	42,652,232	-	-	-	-	42,652,232
Long-term financing	48,541,658	151,076,950	-	199,618,608	-	-	-	-	199,618,608
Liabilities against assets subject to finance lease	1,500,180	1,127,857	-	2,628,037	-	-	-	-	2,628,037
Trade and other payables	-	-	-	-	123,573,756	-	-	123,573,756	123,573,756
Mark-up accrued on loans and Other payables	-	-	-	-	31,149,654	-	-	31,149,654	31,149,654
Short-term borrowings	87,095,838	-	-	87,095,838	-	-	-	-	87,095,838
	137,137,676	194,857,039	-	331,994,715	154,723,410	-	-	154,723,410	486,718,125
Net financial Assets / (liabilities) 2007	(133,483,676)	(194,857,039)	-	(328,340,715)	(97,713,361)	-	136,747,976	39,034,615	(289,306,100)
Net financial Assets / (liabilities) 2006	(202,732,932)	(91,178,856)	-	(293,911,788)	34,049,503	-	122,510,976	156,560,479	(137,351,309)

	2006 (Rupees)								
	Interest/mark-up / profit bearing				Non Interest/mark-up / profit bearing				
	Maturity upto one year	Maturity from one to five years	Maturity after five years	Sub-total	Maturity upto one year	Maturity from one to five years	Maturity after five years	Sub-total	Total
Financial assets									
Long-term receivable	-	-	-	-	-	-	42,510,996	42,510,996	42,510,996
Long term investment	-	-	-	-	-	-	79,999,980	79,999,980	79,999,980
Trade debts	-	-	-	-	57,959,983	-	-	57,959,983	57,959,983
Loans and advances	-	-	-	-	15,023,342	-	-	15,023,342	15,023,342
Trade deposits	-	-	-	-	21,923,466	-	-	21,923,466	21,923,466
Other receivables	-	-	-	-	413,713	-	-	413,713	413,713
Short-term investments	3,654,000	-	-	3,654,000	-	-	-	-	3,654,000
Cash and bank balances	-	-	-	-	26,526,433	-	-	26,526,433	26,526,433
	3,654,000	-	-	3,654,000	121,846,937	-	122,510,976	244,357,913	248,011,913
Financial liabilities									
Subordinated loans	-	41,400,000	-	41,400,000	-	-	-	-	41,400,000
Long-term financing	30,903,324	49,451,941	-	80,355,265	-	-	-	-	80,355,265
Liabilities against assets subject to finance lease	958,198	326,915	-	1,285,113	-	-	-	-	1,285,113
Trade and other payables	-	-	-	-	62,936,051	-	-	62,936,051	62,936,051
Mark-up accrued on loans and other payables	-	-	-	-	24,861,383	-	-	24,861,383	24,861,383
Short-term borrowings	174,525,410	-	-	174,525,410	-	-	-	-	174,525,410
	206,386,932	91,178,856	-	297,565,788	87,797,434	-	-	87,797,434	385,363,222
Net financial Assets / (liabilities) 2006	(202,732,932)	(91,178,856)	-	(293,911,788)	34,049,503	-	122,510,976	156,560,479	(137,351,309)
Net financial Assets / (liabilities) 2005	(132,892,179)	(114,331,654)	-	(247,223,833)	(236,948,870)	-	(95,510,996)	(141,437,874)	(388,661,707)

The effective interest / mark-up / profit rates for the monetary financial assets / liabilities are mentioned in the respective notes to the financial statements.

Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed to perform as contracted. The Company's exposure to the credit risk is limited to the extent of trade debtors. The Company attempts to control credit risk associated with the carrying amount of its receivables by monitoring credit exposures, limiting transactions with specific customers and continuing assessment of credit worthiness of such customers.

Liquidity risk

The Company applies prudent risk management policies by maintaining sufficient cash and bank balances and by keeping committed credit lines.

Foreign exchange risk management

Foreign currency risk is the risk that the value of a financial asset or a liability will fluctuate due to a change in foreign exchange rates. It arises mainly where receivables and payables exist due to transactions with foreign undertakings. In appropriate cases, the management takes out forward contracts to mitigate the risk. Company’s foreign exchange risk is also minimal.

Fair value of financial instruments

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values.

Notes to the Financial Statements
for the year ended September 30, 2007

39. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on December 06, 2007 by the Board of Directors of the Company.

40. CORRESPONDING FIGURES

Certain prior year's figures have been reclassified consequent upon certain changes in current year's presentation for more appropriate comparison. Material reclassifications include “loans and advances” which have been reclassified to “trade and other payables”.

41. GENERAL

Amounts have been rounded off to the nearest rupee unless otherwise stated.

Mohammed Ebrahim Hasham
Chief Executive Officer

Mohammed Hussain Hasham
Director

Pattern of Shareholdings

as at September 30, 2007

Number of Shareholders	Shareholding From	Shareholding To	Total shares held
925	1	100	23,583
142	101	500	40,757
46	501	1000	36,000
71	1001	5000	172,047
23	5001	10000	163,929
9	10001	15000	113,188
4	15001	20000	67,174
7	20001	25000	147,802
2	25001	35000	59,399
2	45001	50000	92,002
2	50001	55000	103,540
2	55001	60000	115,500
3	65001	70000	202,706
1	75001	80000	79,642
1	85001	90000	86,608
4	95001	100000	397,653
2	100001	150000	236,206
1	150001	200000	166,272
1	300001	400000	336,044
1	1030001	1035000	1,030,077
1	1035001	1040000	1,039,053
1	1670001	1675000	1,674,018
1	1725001	1730000	1,729,675
1	1730001	1735000	1,730,875
1,253			9,843,750

Categories of Shareholders

Description	Number of Shareholders	Shares held	% age of paid up capital
Individuals	1,234	9,645,827	97.99%
Investment Companies	4	11,006	0.11%
Insurance Companies	3	128,594	1.31%
Joint Stock Companies	5	27,073	0.28%
Financial Institutions	3	25,445	0.26%
Others			
Okhai Memon Youth Services	1	5,235	0.05%
Hussain Ebrahim Foundation	1	437	0.00%
Administrator, Abandoned Properties, Government of Pakistan	1	132	0.00%
Corporate Law Authority	1	1	0.00%
	1,253	9,843,750	100.00%

Additional Information

	Categories		Number of Shareholders	Shares held	% age
a)	**Associated Undertaking and related parties**		1	29,327	0.30%
b)	**NIT and ICP**				
	National Bank of Pakistan (Trustee Deptt.)		1	4,100	0.04%
	Investment Corporation of Pakistan		1	534	0.01%
c)	**Directors/CEO and their Spouse and minor children**				
	Mr. Mohammed Kasim Hasham	Chairman	1	1,730,875	17.58%
	Mr. Mohammed Ebrahim Hasham	CEO	1	1,674,018	17.01%
	Mr. Mohammed Hussain Hasham	Director	1	1,729,675	17.57%
	Mr. Khurram Kasim	Director	1	1,039,053	10.56%
	Mr. Ahmed Ebrahim	Director	1	1,030,077	10.46%
	Mr. Muhammad Iqbal	Director	1	2,502	0.03%
	Mr. Abdul Razzaq	Director	1	2,500	0.03%
	Mrs. Kulsoom Kasim	Spouse	1	104,500	1.06%
	Mrs. Khursheed Ebrahim	Spouse	1	74,377	0.76%
	Mrs. Marium Hussain	Spouse	1	99,909	1.01%
d)	**Executives**		None	-	-
e)	**Public Sector Companies & Corporations**		6	35,545	0.44%
f)	**Bank, DFIs, NBFIs, Insurance Companies, Mudarbas & Mutual Funds**				
	MCB Bank Limited		1	80	0.00%
	Habib Bank Limited		1	21,265	0.22%
	Adamjee Insurance Company Limited		1	29,327	0.30%
	EFU General Insurance Limited		1	14	0.00%
	State Life Insurance Corporation of Pakistan		1	99,253	1.01%
	National Bank Of Pakistan		1	4,100	0.04%
	Investment Corporation of Pakistan		1	534	0.01%
g)	**Shareholders holding 10% or more voting interest**				
	Mr. Mohammed Kasim Hasham		1	1,730,875	17.58%
	Mr. Mohammed Ebrahim Hasham		1	1,674,018	17.01%
	Mr. Mohammed Hussain Hasham		1	1,729,675	17.57%
	Mr. Khurram Kasim		1	1,039,053	10.56%
	Mr. Ahmed Ebrahim Hasham		1	1,030,077	10.46%

Proxy Form

42nd Annual General Meeting

I / We ____

of ______________________________ being a member of **Mehran Sugar Mills Limited**

holding ________________ ordinary shares hereby appoint ________________

______________________ of ______________________ or failing

him/her ____

of ________________ who is/are also member(s) of Mehran Sugar Mills Limited as my / our proxy in my / our absence to attend and vote for me / us and on my / our behalf at the 42nd Annual General Meeting of the Company to be held on December 29, 2007 at 1400 PST and at any adjournment thereof.
As witness my/our hand/seal this __________ day of __________ 2007.

Signed by the said ______________________

in the presence of 1. ______________________

2. ______________________

____

____

Signature on
Revenue Stamp
of Appropriate
Value

Signature should agree with the specimen registered with the Company

Folio / CDC Account No.

Important:

1. This Proxy Form, duly completed and signed, must be received at the Registered Office of the Company Adamjee House, 8th Floor, I. I. Chundrigar Road, Karachi, not less than 48 hours before the time of the meeting.

2. No person shall act as proxy unless he himself is a member of the Company, except that a corporation may appoint a person who is not a member.

3. If a member appoints more than one proxy and more than one instruments of proxy are deposited by a member with the Company, all such instruments of proxy shall be rendered invalid.

For CDC Account Holders / Corporate Entities.

In addition to the above, the following requirements have to be met:

i) The Proxy Form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the Form.

ii) Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the Proxy Form.

iii) The proxy shall produce his original CNIC or original passport at the time of the meeting.

iv) In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with Proxy Form to the Company.

Adamjee House, 8th Floor, I.I. Chundrigar Road, Karachi-74000, Pakistan.
Tel: (92-21) 241-7131 (4 Lines) Fax: (92-21) 241-6477
E-mail: msm@mehransugar.com URL: www.mehransugar.com