MEHRAN SUGAR MILLS LIMITED

Sugarcane Can Make a Difference

Annual Report 2011

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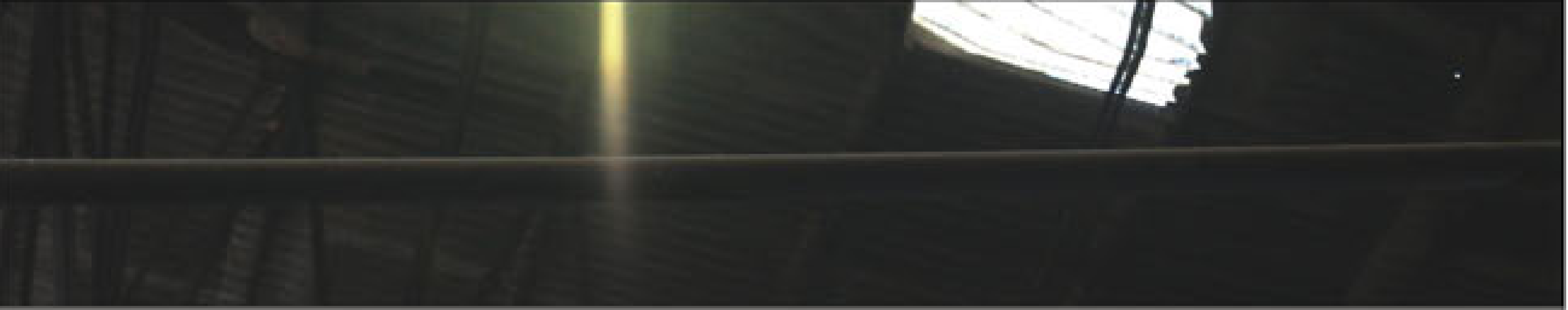


Sugarcane can make a difference

Sugarcane refers to any of six to 37 species (depending on which taxonomic system is used) of tall perennial grasses of the genus Saccharum. Native to the warm temperate to tropical regions of South Asia, they have stout, jointed, fibrous stalks that are rich in sugar, and measure six to 19 feet tall. All sugarcane species inter breed, and the major commercial cultivators are complex hybrids.

Sugarcane products include table sugar, molasses, rum, bagasse and ethanol.

Sugarcane is indigenous to tropical South Asia and Southeast Asia. Different species likely originated in different locations, with S. barberi originating in India and S. edule and S. officinarum coming from New Guinea. Crystallized sugar was reported 5,000 years ago in the Indus Valley Civilisation, located in modern-day Pakistan and North India.

Around the eighth century A.D., Arab traders introduced sugar from South Asia to the other parts of the Abbasid Caliphate in Mediterranean,

Mesopotamia, Egypt, North Africa, and Andalusia. By the 10th century, sources state, there was no village in Mesopotamia that did not grow sugarcane. It was among the early crops brought to the Americas by the Andalusians from their fields in the Canary Islands, and the Portuguese.

Boiling houses in the 17th through 19th centuries converted sugarcane juice into raw sugar. These houses were attached to sugar plantations in the western colonies. Slaves often ran the boiling process, under very poor conditions. Made of cut stone, rectangular boxes of brick or stone served as furnaces, with an opening at the bottom to stoke the fire and remove ashes. At the top of each furnace were up to seven copper kettles or boilers, each one smaller and hotter than the previous one. The cane juice began in the largest kettle. The juice was then heated and lime added to remove impurities. The juice was skimmed, and then channelled to successively smaller kettles. The last kettle, the "teache", was where the cane juice became syrup. The next step was a cooling trough, where the sugar crystals hardened around a sticky core of molasses. This raw sugar was then shovelled from the cooling trough into hogsheads (wooden barrels), and from there into the curing house.

Eventually the same process was modified and made more energy efficient leading to what is the modern day sugarcane processing facility. Today's sugarcane processing facility specialises not only in sugar production but is also an industrial scale producer of ethanol, bio fertiliser, renewable energy and bio plastics. All these products, how they are produced and how they are utilized define today's modern day sugarcane factory and show how sugarcane can make a difference in our life.

Vision

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.

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.

Business Strategy & Goal

Mehran Sugar Mills Limited is a growth oriented sugar company. We strive to attain a leadership role in the field of sugar manufacturing as well as investing in projects which add value to sugarcane processing. We aim to increase our production capacity on a consistent basis as well as applying latest technology to attain maximum productivity. Our ultimate goal is to ensure consistent returns to our shareholders and create value.

Risks / Challenges associated with Sugar Industry

Each business has its peculiar risks and challenges. Accordingly, we have tried to highlight risks and challenges which particularly affect the sugar business.

1. Sugar price fluctuation

Sugar prices like most commodities primarily depend on supply and demand. International prices also play an important role in determining local prices. In addition, the cost of production especially cane price affects sugar prices as well. It has been noted that international and domestic sugar prices have continued to remain extremely volatile which doesn't allow one to forecast future revenue streams. While sugar production is a seasonal operation for approximately 120 days, sales continue throughout the year, thus holding inventory is a risk, especially in a high interest rate environment.

2. Plant efficiency during the season

Proper maintenance during the off-season enables the plant to run smoothly during the season. Since the season is for a limited duration, a major breakdown could affect financial results for the entire year.

3. Cyclical nature of sugarcane crop

Change in the size of the sugarcane crop can have an affect on the financial results of a company. sugarcane crop sizes vary depending on the weather, water availability and pricing of competitive crops. sugarcane disease can have a detrimental affect on both farmer and factory yields.

4. Correlation between Cane and Sugar prices

Cane prices have a minimum support price and are determined through a free market mechanism. Whereas sugar prices though supposedly free market are met with resistance when prices co-relate with cane prices.

5. Molasses price fluctuation

Price primarily depends on supply and demand. Bulk of Molasses is now bought by ethanol distilleries as export of molasses is no more a feasible option in view of duty structure. Prices remain volatile and have swung by as much as 100 percent in some financial years. Since molasses revenue is an important determinant of our cash flow, this fluctuation does not allow us to forecast our revenue stream.

6. Fluctuating interest rates

In order to curb inflation, State Bank of Pakistan regularly intervenes and revises interest rates which affect the cost of doing business. A sudden surge in borrowing rates could adversely impact the Company's financials.

7. Law and Order

Sugar mills are typically located in rural areas which are more susceptible to Law and Order situation.

8. Inflation

Inflation affects the business due to unprecedented cost increase. It also reduces the consumer buying power.

9. Foreign Exchange Risk

Devaluation of local currency increases cost of imports thereby increasing our processing cost.

10. Cane crop vs Crushing Capacities

In the last two decades the industry has consistently increased its sugarcane crushing capacities without objectively ensuring an increase in the size of crop. A major challenge going ahead is to ensure increased sugarcane cultivation to match crushing capacity. However we feel that there is still an unabated bandwagon of capacities without similar growth or a long term plan for increasing the cane crop.

11. Sugarcane Varieties

With the passage of time, the sucrose recovery from traditional varieties is reducing. The need of the time is to bring new varieties with high sucrose recovery to mitigate the reduction and improve our overall sugar production. Therefore, research and development need to be given preferred attention for continuous improvement. This will give long term sustainability to the industry. Currently these varieties are being sown without any formal attestation from recognized research institutes which is also a risk.

Mehran has continued to pay dividend since last 12 quarters

We have paid 50% dividend in 2010-11

Management Committees

Various committees have been formed to look after the operational and financial matters of the Company. A brief description of the composition and their related tasks are as follows:

Executive Committee

The Committee meets to discuss and coordinate various operational activities of the Company. Chief Executive Officer of the Company is the Chairman of the Committee while Chief Operating Officer, Chief Financial Officer, Resident Director, Director Cane/ Development are the members of the Committee.

Human Resource Development Committee

The Human Resource Development Committee is responsible for necessary training and capacity building of staff at mill site as well as at H.O. It is also responsible for staff annual appraisal and compensation.

The Committee comprises of Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Resident Director.

Information Technology Committee

The Committee meets to decide adaptation of latest innovations in the field of Information Technology. It comprises of Chief Operating Officer, Chief Financial Officer and Manager IT.

Audit Committee

It is a statutory Committee formed as per requirements of Code of Corporate Governance; it is responsible to ensure that all functions of the Company operations are regularly audited and their reports are reviewed regularly for ensuring the work as per Company policy. It consists of a Chairman and two other Directors.

In 2010-11 Mehran generated highest production, sales and profits

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 re-engineering increased crushing capacity to 3,500 TCD.

1983
Recognized by the Karachi Stock Exchange as one of the Top 25 Companies for the first 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
Company touched billion Rupees sales.

2006
The Company crosses the Rs. 2.0 Billion sales milestone.

2007
The joint venture distillery-Unicol Limited commenced commercial production.

2010
The Company crosses the Rs. 4.0 Billion sales milestone.

2011
Record highest sugar production, turnover and profits.

Board of Directors

From left to right

Mr. Muhammad Iqbal
Director Sales

Mr. Ahmed Ebrahim Hasham
Director/Chief Operating Officer

Mr. Mohammed Ebrahim Hasham
Director/Chief Executive Officer

Mr. Mohammed Kasim Hasham
Chairman

Mr. Mohammed Hussain Hasham
Director

Mr. Khurram Kasim
Director

Mr. Farooq Hassan
Director

Company Information

Audit Committee

Mr. Mohammed Kasim Hasham,
Chairman

Mr. Khurram Kasim,
Member

Mr. Farooq Hassan
Member

Mr. Muhammad Iqbal,
Secretary

Chief Financial Officer & Company Secretary

Mr. Muhammad Hanif Aziz,
FCMA

Auditors

M/s. Ernst & Young Ford Rhodes
Sidat Hyder
Chartered Accountants

Internal Auditors

M/s. Shekha & Mufti
Chartered Accountants

Cost Auditors

Haroon Zakaria & Company
Chartered Accountants

Legal Advisor

Sayeed & Sayeed
Advocate & Legal Consultants

Bankers

MCB Bank Limited
Bank Alfalah Limited
Bank Al Habib Limited
Al Baraka Bank (Pakistan) Limited
Meezan Bank Limited

Registered Office

Adamjee House, 8th Floor,
I.I. Chundrigar Road, Karachi
Tel:(021) 32417131-4
Fax:(021) 32416477
URL:www.mehransugar.com

Mills

Tando Adam Road, Distt. Tando Allahyar.
Tel:(022) 3890856, 3890407, 3891984
Fax:(022) 3890568

Sugarcane can make a difference by providing Bio-Fertilizer

Between 2% to 3% residue after sugarcane juice has been clarified turns into a high nutrient mud. This mud is used as a soil conditioner or a bio-fertilizer on agriculture land, thus replacing the use of chemical fertilizers. It contains substantial nitrogen and phosphorous which increases the soil fertility and enhances crop yield by 20% to 30%. It is also more cost effective as compared to chemical fertilizer, even more so now, considering the global increase in energy prices. Bio-fertilizer prevents damaging of the soils natural nutrient cycle, thus it is more environmentally friendly.

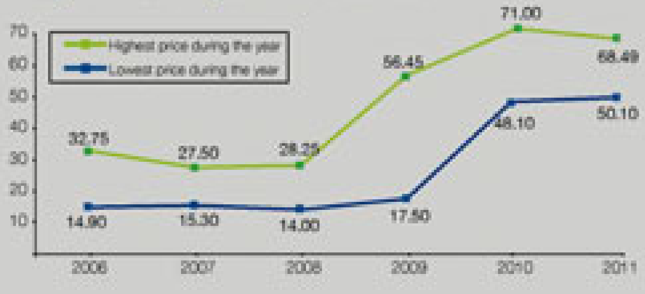
Shareholders Information / Investor Relations

Share Registrar	Corporate Support Services 407-408, Al Ameera Centre, Shahrah-e-Iraq, Saddar, Karachi Ph: +92 - 21 -35662023-24, 35213104			
Contact Person	Mr. Muhammad Najeeb Ajmal			
Date of the Annual General Meeting	31/01/2012			
Date of Board of Directors meeting (Tentative)	1st Qtr 25/01/2012	Half Year 20/05/2012	3rd Qtr 25/07/2012	Annual 06/12/2012

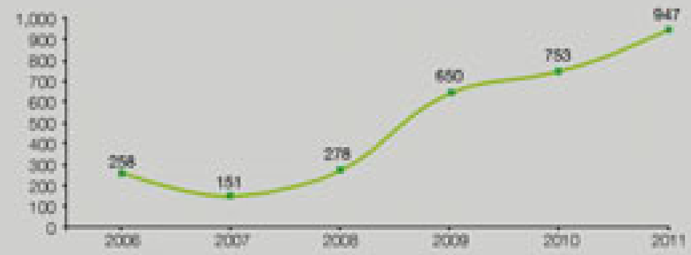
	2011	2010	2009	2008	2007	2006
Number of Shares (Issued / Paid-up)	17,294,682	14,293,125	11,812,500	9,843,750	9,843,750	9,843,750
Earning per share	18.67	16.93	14.89	5.83	(8.82)	8.11
Break-up value per share	45.84	36.55	28.25	17.86	12.03	23.35
Market Capitalization	947,402,680	753,247,688	649,687,500	278,085,938	150,609,375	258,398,438
Market value of share at the close of the year	54.78	52.70	55.00	28.25	15.30	26.25
P/E Ratio	2.93	3.11	3.69	4.85	0.00	3.24
Cash Dividend %	30	25	35	-	-	25
Bonus Shares %	20	10	30	-	-	-
Number of shares Traded	985,330	1,473,487	1,122,096	394,000	384,500	904,500
Highest price during the year	68.49	71.00	56.45	28.25	27.50	32.75
Lowest price during the year	50.10	48.10	17.50	14.00	15.30	14.90

Graphical Analysis

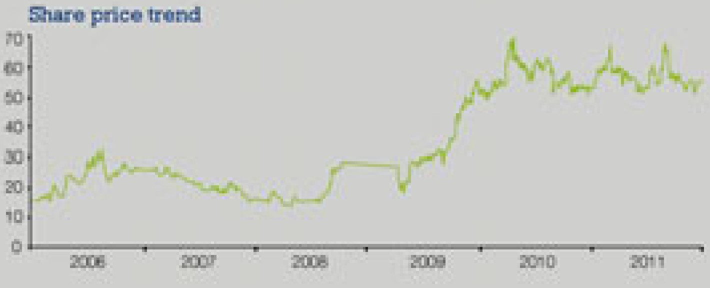
Highest vs Lowest price of Mehran's share



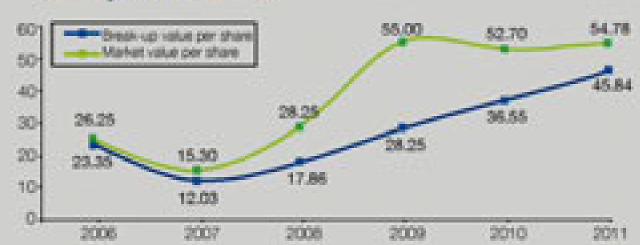
Market Capitalization (Rupees in millions)



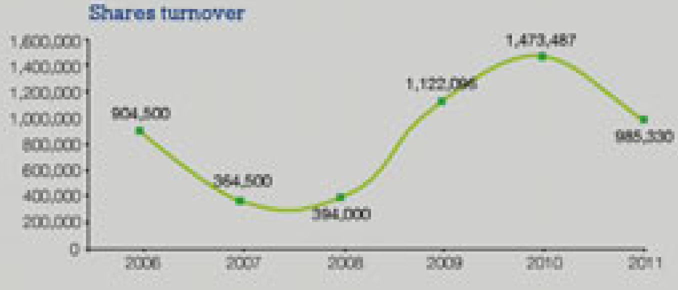
Share price trend



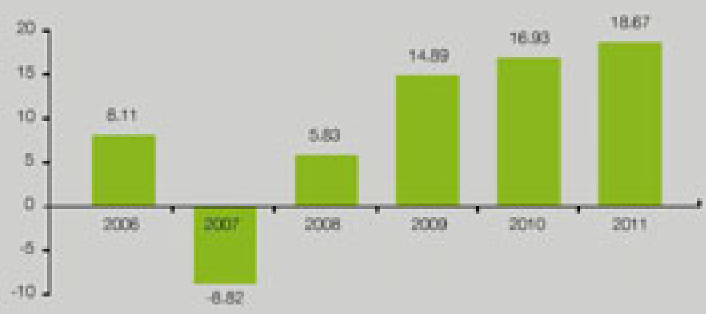
Breakup vs Market value



Shares turnover



Earnings per share



Management Team

Ehthesham-Ud-Din
Director Cane/Development

Bachelor of Arts

Joined Mehran in 2004

Muhammad Iqbal
Director-Sales & Marketing

B.Com, C.A. (Finalist)

Joined Mehran in 2003

Ahmed Ebrahim Hasham
Chief Operating Officer

Bachelor of Arts (Economics and IR)
Tufts University, Medford MA, USA

Joined Mehran in 2000

Mohammed Ebrahim Hasham
Chief Executive Officer

M.A. (Management)
Chapman University, Orange California

Joined Mehran in 1973

Ikhlas Ahmed Khan
Resident Director

B.E / PGD (Chemical Engineering)
University Of Punjab, Lahore

Joined Mehran in 2007

Muhammad Hanif Aziz
Chief Financial Officer/
Company Secretary

FCMA, FCIS

Joined Mehran in 2004

Sugarcane can make a difference by providing clean fuel from ethanol

sugarcane can be used directly for the production of ethanol or indirectly through the production of molasses. Molasses is a by-product of sugarcane which can be fermented and distilled to produce different grades of ethanol.

The largest use of Ethanol is as a motor fuel whereby it is being gradually used as a substitution of gasoline in the world. It adds oxygen to gasoline which helps reduce air pollution and harmful emissions. Each country has different mandates to blend ethanol in gasoline and this figure can vary from 10 - 100 percent. In some parts of the world it is a legal requirement to add 25% ethanol in traditional motor fuel.

Ethanol production worldwide increased from 12.15 billion gallons in 2005 to 19.11 billion gallons in 2010 thus increasing by 57% in 5 years. Brazil is the largest sugarcane based ethanol producer in the world. Most plants in Brazil extract ethanol directly from cane Juice.

Ethanol is also another good option for diversifying energy supplies. It can be used as a bio-fuel as well as to replace kerosene for domestic lighting. Ethanol has many other uses as well and some of the more common ones are for the perfumery and pharmaceutical industry. In the pharmaceutical industry it is used in the preparation of antiseptics such as spirits and other psychoactive medication.

Corporate Profile

Date of Incorporation
December 22, 1965

Date of Commencement of Business
March 19, 1966

Start of Commercial Production
January 1969

Installed Capacity
7,000 Tons Cane Crushing Per Day

Total Land Area
118 Acres

Permanent Employees
343

Facilities At The MSM Staff Colony

Housing
92 Family Homes for Executives, Officers and Workers

Population of the Staff Colony
1,018

Children at the Dawood Memorial School
562

Other Facilities

- Mosque
- Mobile Dispensary
- Recreation Centres equipped with Indoor Games, TV, Videos, Dish Antennas and other facilities for Executives, Workers and Ladies
- Cricket Ground, Tennis Court, Park and Rose Garden, School/ College Bus facility
- Private Electric Generator for Uninterrupted Power Supply
- Clean Water Supply with UV Filters
- Transport Facility for City & Adjoining Areas
- Accommodation for Officers and Company Guests with all facilities

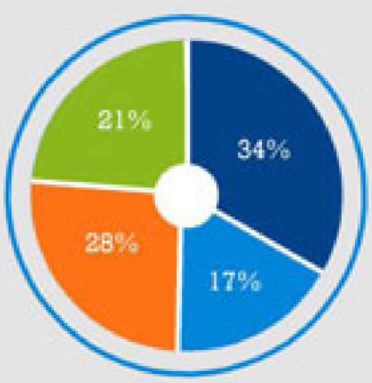

RELAY PANEL NO 1

During the current year we were able to add value in excess of Rs.1 billion

Statement of Value Added

	2011 (Rupees)	%	2010 (Rupees)	%
WEALTH GENERATED				
Net revenue	4,596,296,142		4,025,770,523	
Expenses	3,550,637,297		3,256,542,401	
Wealth generated	1,045,658,845	100	769,228,122	100
WEALTH DISTRIBUTED				
To Government				
Sales Tax, Income Tax, Road Cess	298,149,637	28	239,304,017	31
To Employees				
Salaries, Benefits and Other related cost	173,522,656	17	137,798,215	18
To Providers of capital				
Mark-up on borrowed funds	133,757,171	13	73,800,473	10
Shareholders as Dividend/Bonus shares	82,543,560	8	75,039,372	10
	216,300,731	21	148,839,845	20
Retained with the business				
Depreciation	75,567,941	7	47,901,533	6
Retained profit	282,117,881	27	195,384,512	25
	357,685,822	34	243,286,045	31
	1,045,658,845	100	769,228,122	100

Value addition and distribution during the year 2011 Rs. 1,045.66 million



- Retained within the business 34%
- Government as taxes 28%
- Financial, dividend and bonus shares 21%
- Employees as remuneration 17%

Sugarcane can make a difference by providing an eco friendly lifestyle

Bagasse is a fibrous matter, a residue that remains after sugarcane is crushed to extract juice. It is approximately 30% of the total cane crushed. bagasse can be used to make pulp in manufacturing of paper products and building materials such as particle board sheets.

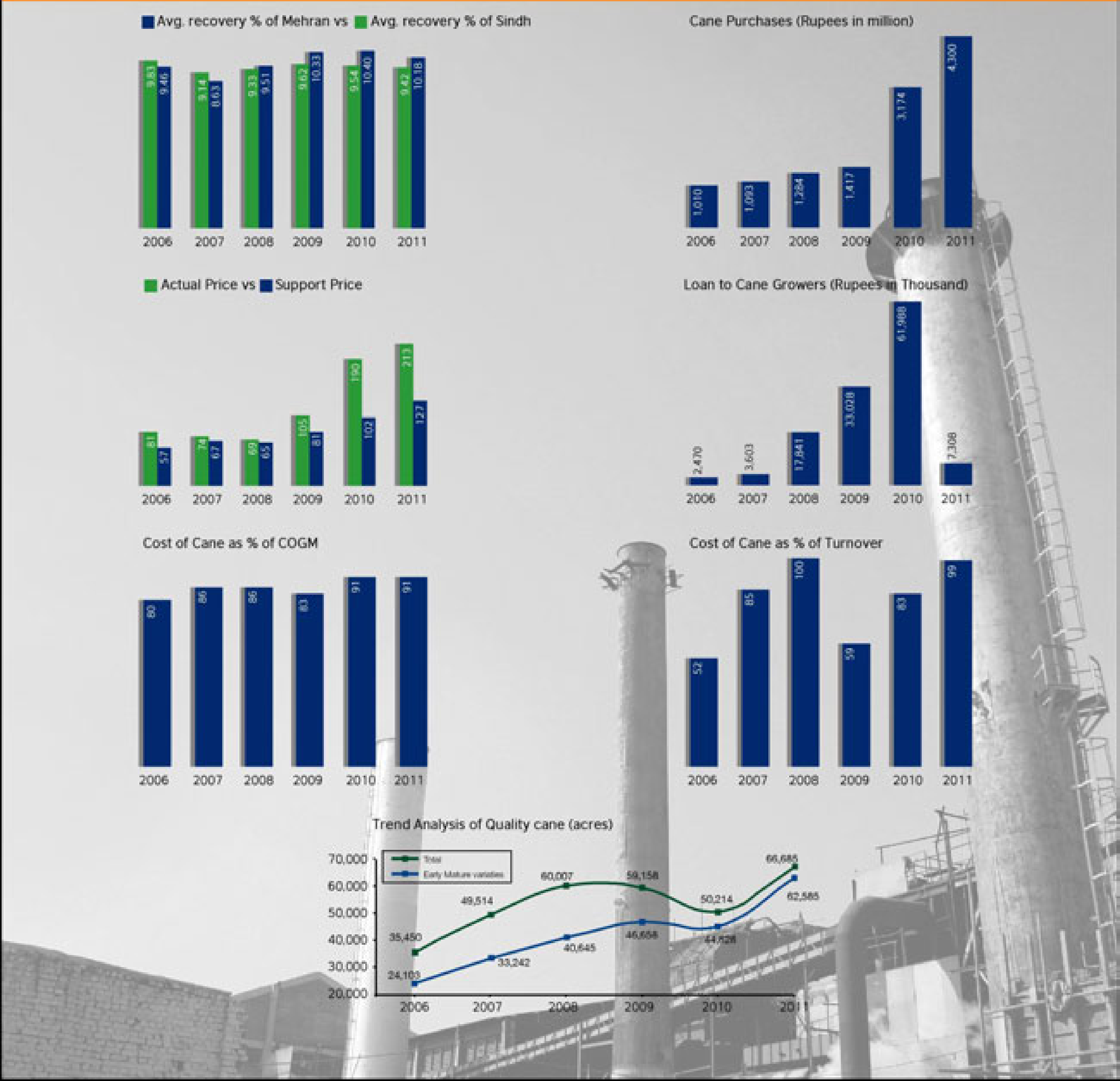
Around 5 percent of paper production worldwide is being produced from bagasse, thus reducing the damage to the global eco system due to blatant and illegal cutting of trees in forests. It is now an essential ingredient for the production of pressed particle board, acoustical tiles and other construction material. In recent years bagasse is also being used by a large number of MDF (Medium-density fibre board) plants.

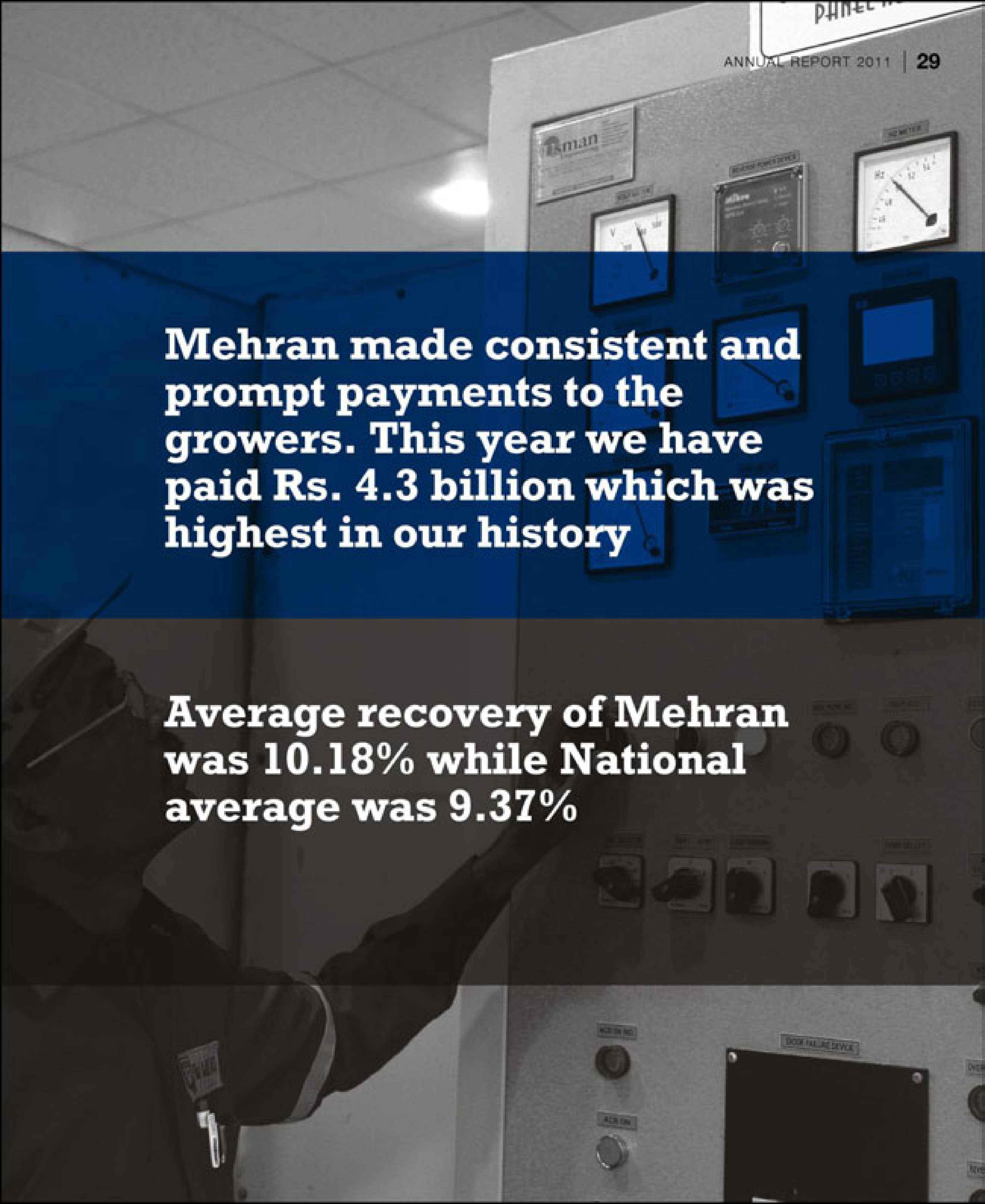
Six years Review at a Glance

	2011	2010	2009	2008	2007	2006
Operational Trends						
Sugarcane crushed - M.Tons	809,034	667,628	538,930	741,383	589,378	496,873
Sugar produced - M.Tons	84,894	69,450	55,678	70,558	50,796	47,296
Sugar produced - Raw Sugar (M.Tons)	-	-	-	-	-	4,280
Average sucrose recovery - %	10.18	10.40	10.33	9.51	8.63	9.46
Crushing days	156	122	113	136	138	114
Average crushing per day - M.Tons	5,186	5,472	4,769	5,451	4,271	4,359
Balance Sheet			Rupees in million			
Share capital	172.95	142.93	118.13	98.44	98.44	98.44
Reserves	619.89	379.48	215.56	77.35	19.97	131.36
Shareholders' equity	792.84	522.41	333.69	175.79	118.41	229.80
Non current liabilities	472.09	461.25	302.60	303.40	323.76	251.29
Current liabilities	1,854.59	751.72	482.16	712.40	321.46	326.37
Total Equity & Liabilities	3,119.52	1,735.38	1,118.45	1,191.59	763.63	807.46
Fixed Assets	1,088.78	847.95	512.17	425.34	419.79	394.31
Non current assets	225.26	180.07	176.23	179.05	137.10	122.86
Current assets	1,805.47	707.37	430.05	587.20	206.74	290.29
Total assets	3,119.51	1,735.39	1,118.45	1,191.59	763.63	807.46
Financial Trends			Rupees in million			
Turnover	4,596.30	4,025.77	2,692.04	1,439.29	1,485.94	2,259.62
Gross profit / (loss)	581.40	474.78	393.07	118.58	(7.36)	188.49
EBITDA	625.82	442.83	347.52	138.89	(18.30)	178.98
Operating profit / (loss)	509.61	393.08	271.40	68.83	(46.82)	145.86
Pre-tax profit / (loss)	416.50	321.13	245.69	60.56	(110.36)	98.92
After-tax profit / (loss)	322.86	241.99	175.91	57.38	(86.78)	79.85
Capital Expenditure (additions during the year)	258.94	385.83	92.74	63.93	32.58	24.08
Cash Flows			Rupees in million			
Operating activities	317.29	507.05	292.07	55.94	44.33	22.88
Investing activities	396.42	445.87	129.79	62.57	75.58	43.25
Financing activities	7.32	91.75	(65.64)	(74.30)	94.37	(23.29)
Cash and Cash equivalents at the end of the year	11.94	83.75	(69.18)	(165.83)	(84.89)	(148.00)

	2011	2010	2009	2008	2007	2006
Profitability Indicators						
Grosss profit margin (%)	12.65	11.79	14.60	8.24	-0.50	8.34
Net profit margin (%)	7.02	6.01	6.53	3.99	-5.84	3.53
Return on shareholders' equity (%)	40.72	46.32	52.72	32.64	-73.29	34.75
Operating profit / (loss) on capital employed (%)	40.00	39.96	42.65	14.36	-10.59	30.32
Return on total assets (%)	10.00	13.94	15.73	4.82	-11.36	9.89
EBITDA margin (%)	13.62	11.00	12.91	9.65	-1.23	7.92
Capital Efficiency / Operating Performance						
Inventory turnover ratio	4.41	17.04	6.90	4.20	10.04	10.32
Inventory turnover in days	83	21	53	87	36	35
Debtor turnover ratio	91.45	37.91	33.48	41.71	28.95	54.10
Debtor turnover in days	4	10	11	9	13	7
Total assets turnover ratio	1.47	2.32	2.41	1.21	1.95	2.80
Fixed assets turnover ratio	4.22	4.75	5.26	3.38	3.54	5.73
Operating cycle in days	87	31	64	96	49	42
Capital employed turnover ratio	3.63	4.09	4.23	3.00	3.36	4.70
Investment Valuation						
Earnings per share (Rupees)	18.67	16.93	14.89	5.83	(8.82)	8.11
Break-up value per share (Rupees)	45.84	36.55	28.25	17.86	12.03	23.35
Price earning ratio	2.93	3.11	3.69	4.85	(1.73)	3.08
Dividend yield (%)	9.13	10.44	11.82	0.00	0.00	9.52
Dividend payout (%)	26.78	32.49	43.65	0.00	0.00	0.00
Market value per share (at the year end)	54.78	52.70	55.00	28.25	15.30	26.25
Cash Dividend (%)	30	35	35	-	-	25
Bonus Shares (%)	20	20	30	-	-	-
Financial gearing						
Debt Ratio	0.75 : 1	0.7 : 1	0.7 : 1	0.85 : 1	0.84 : 1	0.72 : 1
Debt : Equity Ratio	19 : 81	30 : 70	21 : 79	38 : 62	49 : 51	16 : 84
Interest cover ratio	4.11	5.35	4.76	2.39	-0.91	3.11
Liquidity measurement						
Current ratio	0.97 : 1	0.94 : 1	0.89 : 1	0.82 : 1	0.64 : 1	0.89 : 1
Quick ratio/Acid test ratio	0.19 : 1	0.6 : 1	0.6 : 1	0.21 : 1	0.27 : 1	0.46 : 1
Value addtion		**Rupees in million**				
Employees as remuneration	173.52	137.80	121.46	94.29	81.75	76.06
Government as taxes	298.00	239.00	313.06	161.88	207.37	317.34
Financial charges to providers of finance	133.76	73.80	65.33	43.64	57.77	46.94
Shareholders as dividend and bonus shares	82.54	75.04	70.38	0.00	0.00	24.61
Retained within the business	357.69	243.29	206.70	92.86	-82.51	92.22

Six years Sugarcane trends Analysis

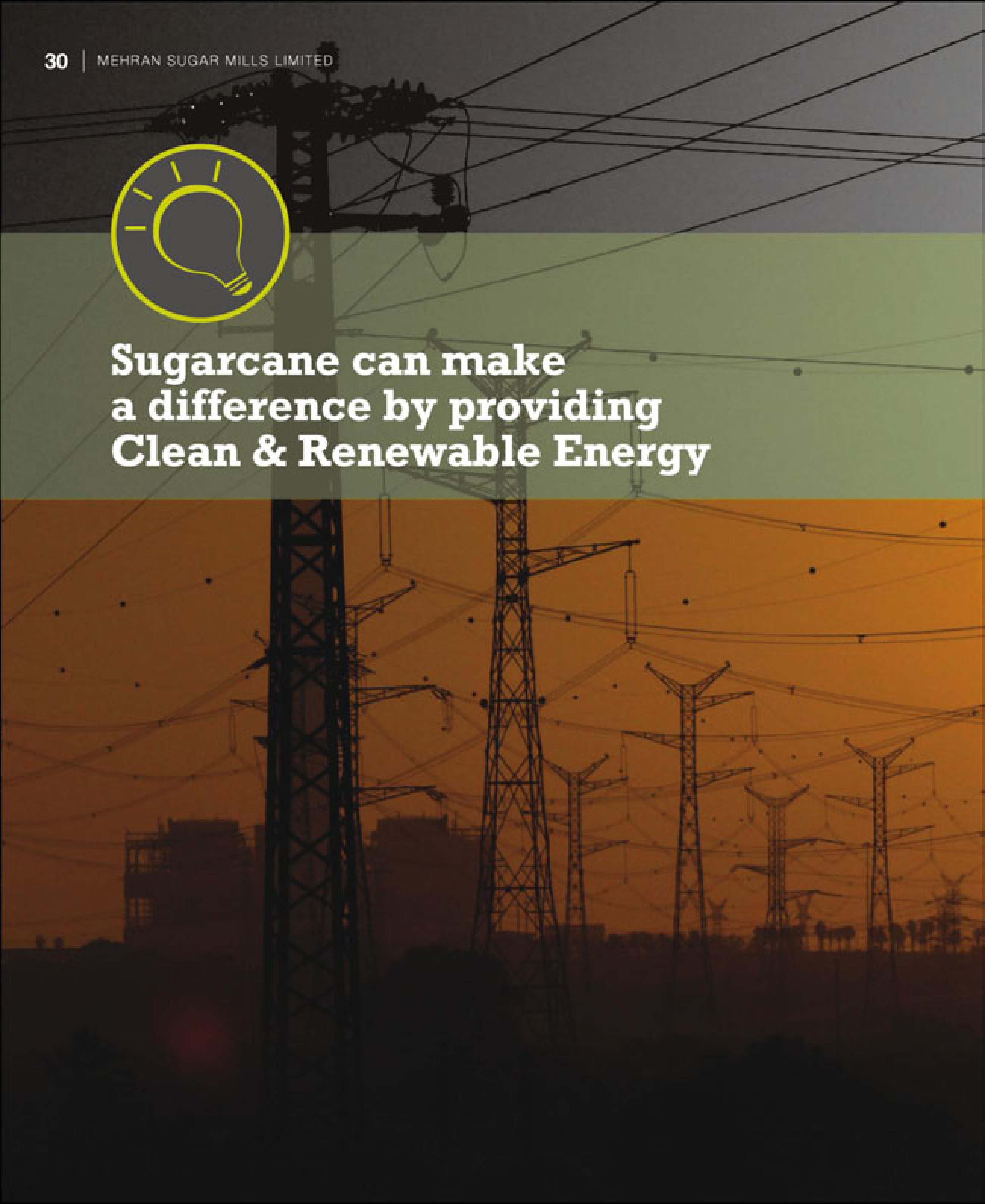




Mehran made consistent and prompt payments to the growers. This year we have paid Rs. 4.3 billion which was highest in our history

Average recovery of Mehran was 10.18% while National average was 9.37%

Sugarcane can make a difference by providing Clean & Renewable Energy



Bagasse can also be used as renewable power generation source. It is burnt in boilers to produce steam, which can be converted into electricity through turbines. It is used to produce steam / electricity necessary for sugar production process through internal generation, thus reducing dependence on national grid. By efficient plant operations, bagasse can be saved and thus used to produce and supply electricity to the grid. It is a cheaper, environmentally friendly and a renewable source of electricity.

Chairman's Review

Dear Shareholders,

It is indeed a pleasure for me to present my views on the performance of the Company for the year ended September 30, 2011.

I take great pride in congratulating the entire team at Mehran for what has been a milestone year in the history of our company. Mehran has surpassed its previous performances, both in terms of profit and production, setting its best records.

The credit for this achievement goes to our management along with the entire team. On behalf of all the shareholders of Mehran, I laud their hard work, dedication and commitment.

During the last 3 years, Mehran has invested Rs. 900 Million in a modernization drive at its plant, which has significantly improved not just its capacity but also its efficiency, both in terms of production and energy consumption. It has also made a conscious effort to improve the quality of its main raw material by investing and encouraging advanced methods of sugarcane farming. These efforts have enabled the development of a core cane area where recoveries are now amongst the top ten mills in Pakistan.

Besides revenues from its core business, Mehran has also gained significant strength by actively investing in the diversification of its balance sheet. With our investments in Unicol Limited, a farming division and an equity portfolio of blue chip Pakistani companies, we have gradually developed alternate sources of income and wealth for our company. We continue to invest in different areas primarily through our internal capital generation but are careful in ensuring that we do so in a cautious and conservative manner which has been our tradition.

Finally, our eventual goal has always been to provide value to our shareholders and I am particularly proud of the fact that Mashallah, Mehran has been paying dividends every quarter over the past 3 years.

I pray that in the future, we not only maintain but surpass our past performances and we continue to grow and prosper and make our contribution to the development and progress of Pakistan's economy and its sugar industry in particular. I look forward to the same efforts and hard work from our team to achieve these objectives and wish them the best in all their future endeavours.

I thank all the shareholders and board members for their continued support.

Mohammed Kasim Hasham
Chairman

Our investment plan has helped us to save 13,402 M.Tons bagasse and generated other income of Rs. 39.92 million

Directors' Report

Dear Shareholders,

On behalf of the Board, I am pleased to present the audited financial statements of the Company for the year ended September 30, 2011.

The Economy

Despite tremendous challenges on account of unprecedented floods, volatile oil prices and energy outages, our economy has performed reasonably. The factors that contributed to economic recovery after devastating floods include significant growth in export earnings and record remittances. These factors have mitigated the impact of the higher oil import bill and sustained the build up in foreign exchange reserves.

GDP growth rate for the period under review stood at 2.4% as compared to a growth of 3.8% in the previous year. Prior to the floods, this rate was projected at 4.5% for financial year 2010-11. However devastating floods affected the growth momentum. Resultantly the agriculture sector growth was 1.2% as against the target of 3.8%, whereas services sector grew by 4.1% as against the target of 5.4%. The manufacturing sector growth was also adversely affected due to reduction in output of textiles and petroleum products.

Currently, the key challenges faced by our economy are falling private investment, rising total debt, energy deficit and circular debts issue. The SBP decision to reduce policy rate is expected to increase demand for private sector credit and increase in investment may help the productive capacity of the economy.

Industry Review

The announcement of Minimum Support Price on 20-10-2010 well before the start of the crushing campaign was considered a positive move on the part of the Government. The announced price was 24.5% higher as compared to the previous year. This notified price has interestingly doubled during the last three years from Rs.63/40 kgs in 2008 to Rs.127/40 kgs in 2010. However, the eventual cane prices paid by sugar mills were on average between Rs 200/-40kgs to Rs 240/-40kgs due to a shortage of cane as compared to crushing capacity.

One of the major reasons for high sugarcane prices was the bullish nature of local sugar prices which followed the international price trend. The London white sugar market has increased from $330/ton in 2008 to an average of $ 725/-ton in 2011.

The national sugar production during 2010-11 was 4.2 million tones as against 3.2 million tones in 2009-10 showing an increase of 31% over the previous year. Out of this, 2.6 million tones 62% was produced in the Punjab while Sindh produced 1.3 million tones 31%. The remaining 300,000 Tons 7% was produced in Khyber Pakhtoonkhwa.

To counter expected shortage, import of raw and refined sugar was also allowed and duties were removed. Only 40,000 tones of raw sugar was imported by the private sector after which local prices fell below the international market and imports did not remain viable for the remaining part of the year. Thus for the remainder of the year, sugar in Pakistan was cheaper than international imports even though there were no duties on import.

The increase in production allowed the country to maintain sufficient stocks as well as provide for the annual consumption of 4.2 million tons. Mills were left with a large carryover stock since the TCP had imported 500,000 tons from the international market earlier in the year and had been gradually off loading its stocks during the year. In September 2011 the sugar market

realized that a large quantity of carryover stocks would be left and considering the next year was expected to be a bumper crop the market crashed. Prices of sugar collapsed from an average of Rs 70/- kg to Rs 50/- kg within a month. Luckily your Company had sold most of its sugar and came unscathed from this event.

Operational Highlights

	2010-11	2009-10
Season started	29-10-2010	10-11-2009
Season closed	02-04-2011	11-03-2010
Duration-Days	156	122
Crushing-M.Tons	809,034	667,628
Sucrose Recovery %	10.18%	10.40%
Sugar Production-M.Tons	84,894	69,450
Molasses Production-M.Tons	38,900	28,645

The year under review marked a few noteworthy achievements for the Company. Mehran's cane crushing as well as sugar production was the highest in its history. Our share in national and provincial production was 2% and 6.33% respectively. Sucrose recovery went down to 10.18% from 10.40% in the previous year and can be attributed to intermittent crushing during the first 30 days of the campaign on account of irregular sugarcane supplies.

Our average sugarcane procurement price was Rs.212.50/40 kgs compared to Rs.190/40 kg for the previous year depicting an increase of 11.84%. However the procurement price was 67% higher than the minimum support price announced by the government which was an excellent boost for our farmer in the form of additional revenue. Our overall average price was comparatively better than surrounding mills since the Mill has an ideal location and close proximity to quality cane.

The Company continues to invest in BMRE. During the year under review, we have invested Rs.300 million as compared to Rs 400 Million in the previous season. The focus this year was on improving our milling operations and automating the process house. The work has been according to schedule despite interruptions during the rain based flood which caused havoc in the mill in September. Luckily the heavy monsoon rains during the month did not cause destruction at the factory. It however slowed the process of work at site.

The floods have played havoc in the field especially in the districts of Tando Allahyar and Mirpurkhas. Cotton, rice and other smaller crops have been severely hit. Sugarcane being a water intensive crop was able to withstand the pressure to an extent however the standing water in the field will reduce both farm and factory yields. The rains have also delayed the crushing season since damaged roads have made access to the fields difficult and many fields are still inundated with water.

Financial Highlights (Rupees in Thousand except EPS)

	2010-11	2009-10
Turnover	4,596,296	4,025,771
Sales tax / Special excise duty/Federal excise duty	241,258	184,426
Gross profit	581,396	474,779
Profit before tax profit	416,497	321,129
After tax profit	322,857	241,986
Earnings per share	18.67	13.99

The company was able to achieve record financial turnover and profits. Turnover crossed Rs.4.5 billion showing an increase of 14% compared to the previous year. The total sugar quantity sold was 6% lower than last year however an improved selling price enabled higher turnover. At the end of this period 20,869 tons of sugar remained sold but un-lifted.

Following are the reasons for improved profitability;

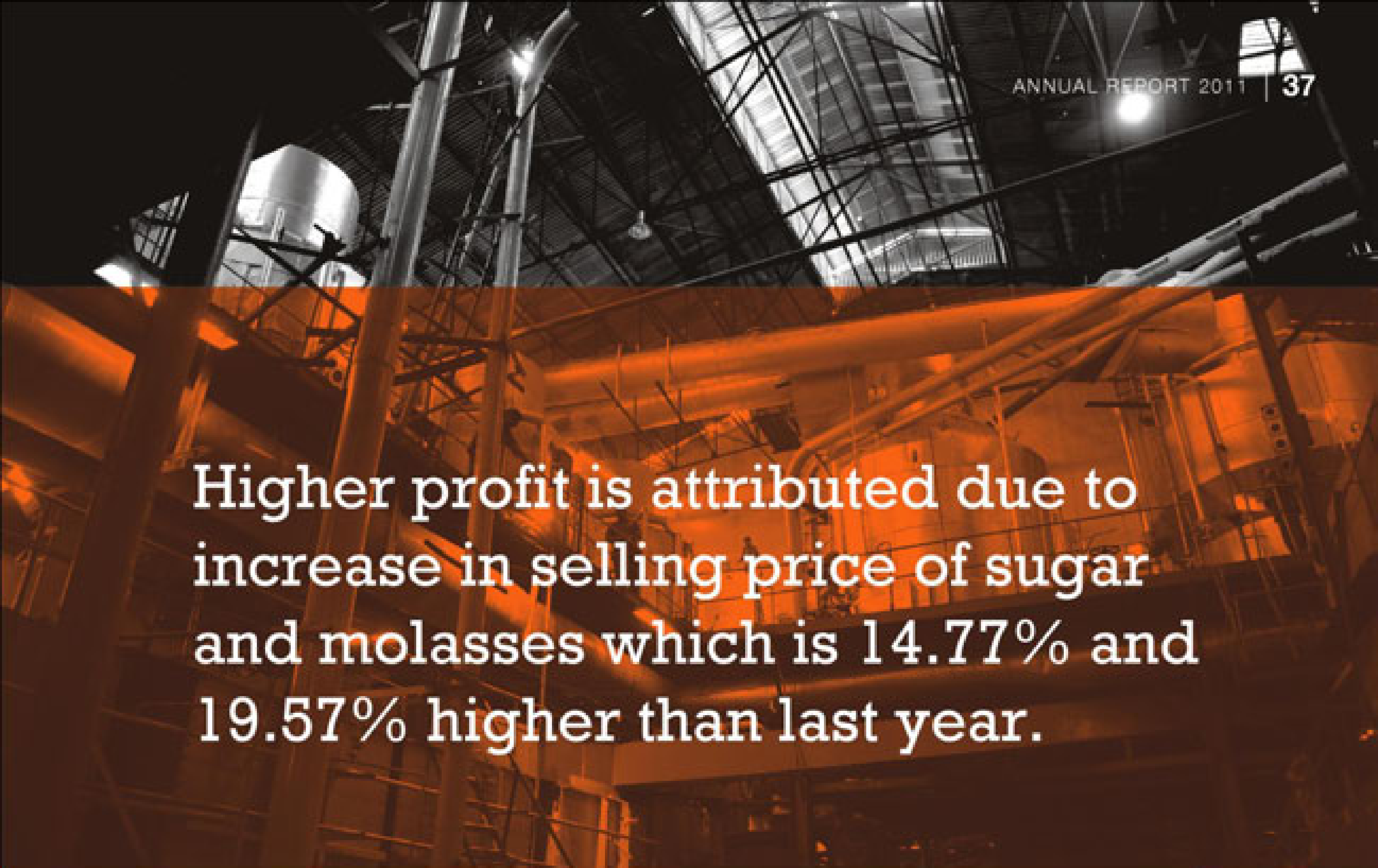
High sucrose recovery of 10.18% which is 8.6% higher than the national average.

Increase in selling price of sugar and molasses which is 14.77% and 19.57 % higher than last year.

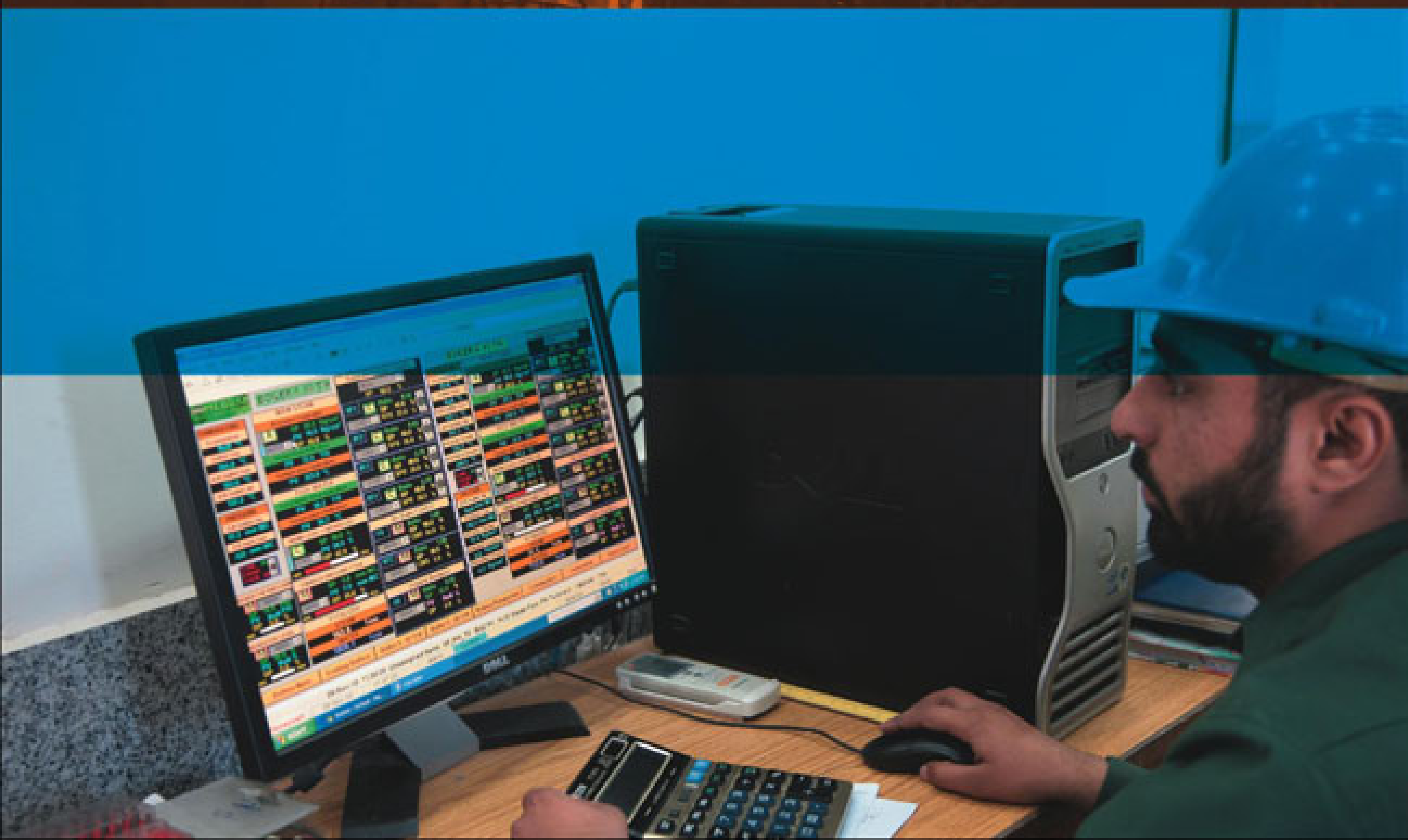
Sales of 13,402 tons of bagasse which resulted in a revenue of Rs 39,925,842 as compared to a revenue of Rs. 6,662,877 from a total quantity of 2,998 tons last year.

Farming Division continued to show better results surpassing its previous year's income of Rs 24,553,623 and recorded a profit of Rs.32,154,120 primarily due to higher sugarcane prices.

Considerable improvement in profit from Unicol Limited which increased from Rs.1,848,209 to Rs.40,640,865.

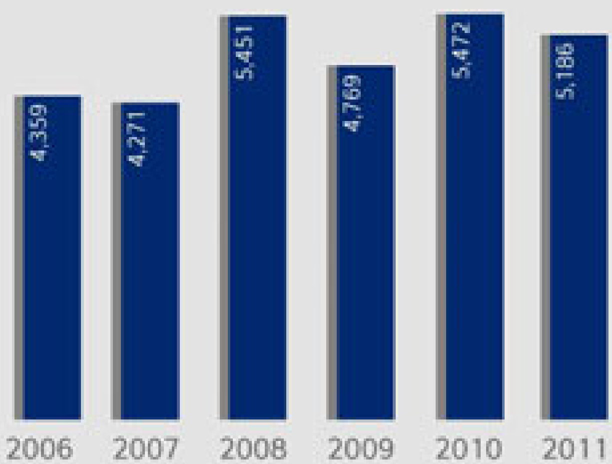


Higher profit is attributed due to increase in selling price of sugar and molasses which is 14.77% and 19.57% higher than last year.

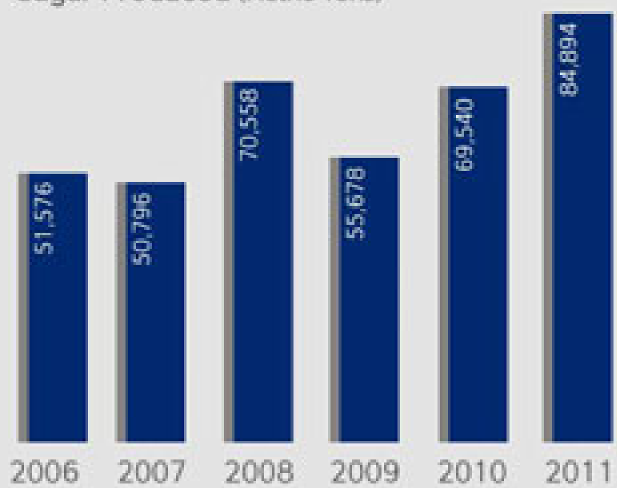


Operational Highlights

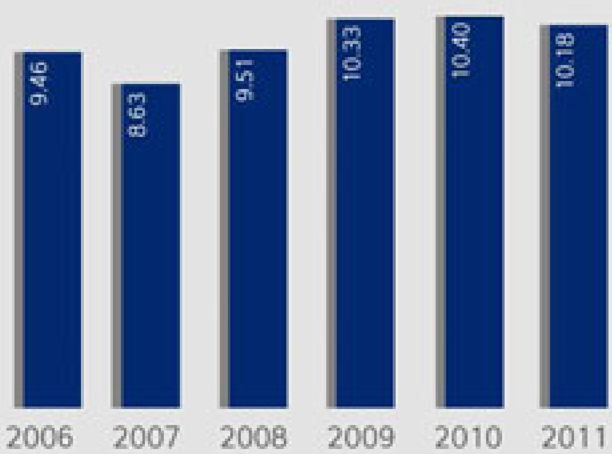
Average Crushing per day (Metric Tons)



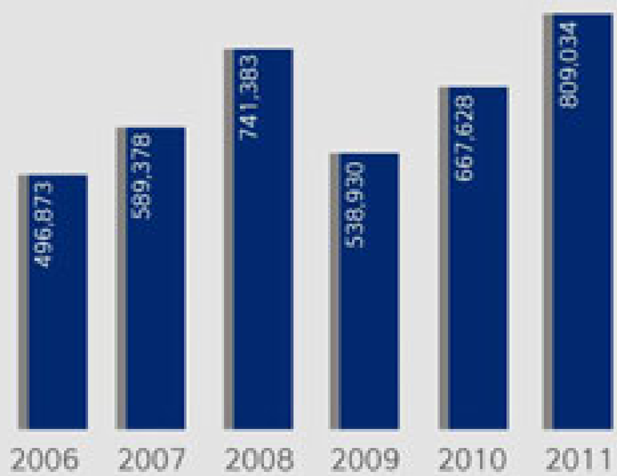
Sugar Produced (Metric Tons)



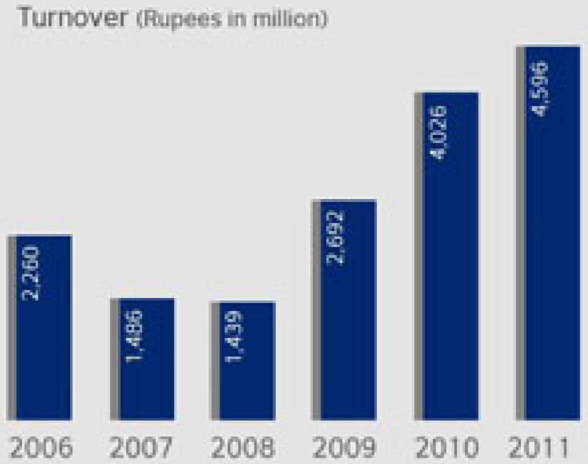
Sucrose Recovery (%)

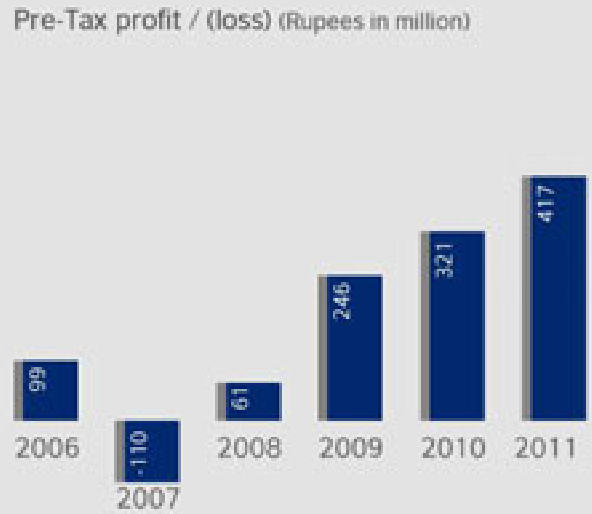


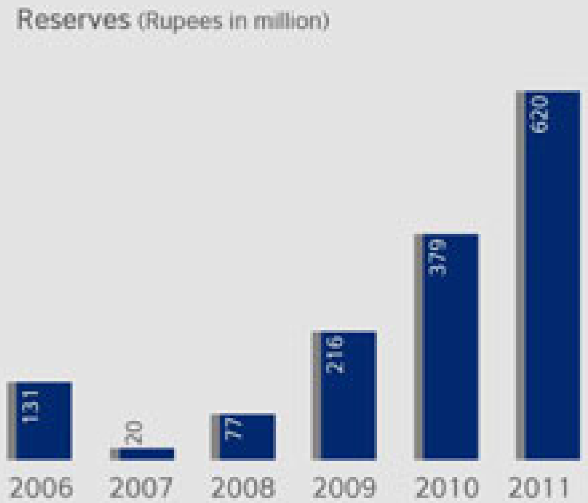
Cane Crushed (Metric Tons)

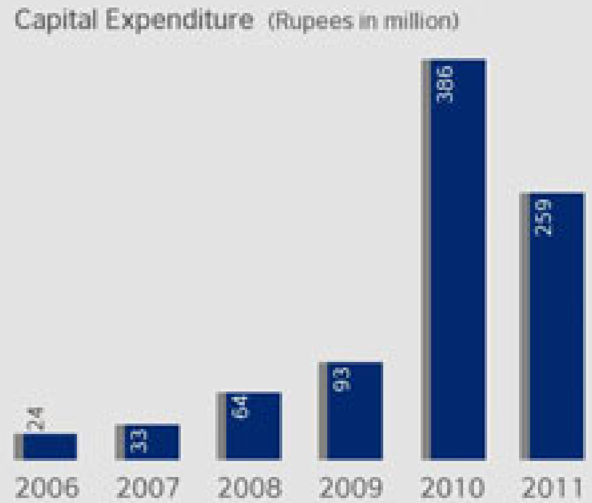


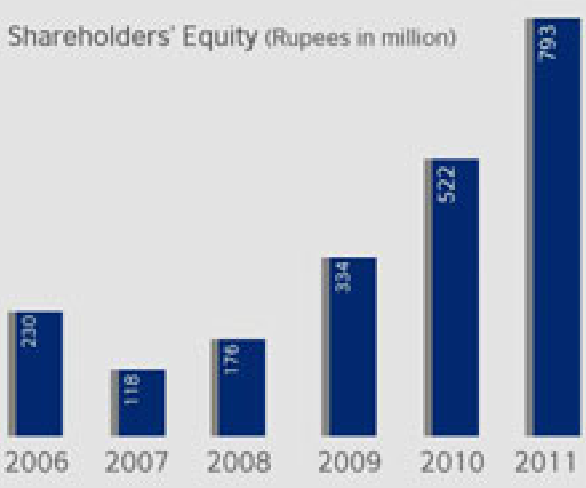
Company Performance at a Glance











Unicol Limited

Our joint venture distillery continued its satisfactory operations. The plant was able to run at capacity however plant operations were suspended for 48 days from September 03, 2011 to October 20, 2011 due to the torrential rains.

Unicol's financial highlights are given below:

	20010-11	2009-10
	(Rupees in Thousand except EPS)	
Turnover	1,981,436	1,512,709
Profit before tax	134,617	46,570
Profit after tax	115,338	31,443
Earnings per share	3.35	1.00

The production for the year was 24,993 M.tons as compared to 21,430 M.tons. Profits at Unicol have increased primarily since ethanol prices this year have been 13.36% higher than last year. The reason for higher ethanol prices can be primarily attributed to the lower sugarcane crop in Brazil which meant that Brazil was not in a position to export quantities which it had historically been able to do so.

The upcoming year seems positive for Unicol as well. Ethanol prices remain high, while record molasses crops in India, Pakistan and Thailand mean that molasses will be easily available.

Future Outlook

High sugarcane prices paid during the last few years meant that the cane crop for season 2012 was meant to be one of the largest in Sindh as well as Pakistan. However due to the heavy rains and flooding in certain areas of Sindh a substantial portion of the crop has been damaged in the districts of Tando Allahyar, Mirpurkhas, Thatta and Nawabshah. Sugarcane output in these districts would be affected, both in terms of factory and farm yields. Since the overall acreage planted was higher, we expect the overall crop, despite the damage to be similar to last year. The worrying factor is that sucrose recovery may be slightly lower since many fields were inundated in water for period of up to 2 months.

The Minimum Support Price of Rs 154/-40 kgs was also announced after considerable delay, which is 21% higher than last year. We expect the price of sugarcane to remain relatively stable for the first half of the crush. We again reiterate that our concern remains the field and factory yields due to the devastation which could make us uncompetitive compared to the industry.

The country is expected to produce around 5 million tones of sugar during this year's campaign which would be the highest production in Pakistan's history. Since consumption is anticipated at 4.3 Million tons we expect there to be a huge surplus stock in the country which would keep sugar prices under pressure throughout the year.

We are expecting the TCP to procure sugar from mills this year or for the government to give permission to export sugar as local prices in Pakistan have made the industry very competitive and exports are viable. We see either one or a mix of these developments to play a very strong role in determining how this season would eventually be. All in all we remain cautious and feel this is going to be an extremely tough year for the industry, especially for those mills in Sindh which have been affected by the floods.

Contribution to Society

Mehran always envisioned playing significant role in the development of the society in general and in the vicinity of Tando Allayar in particular. Corporate Social Responsibility is therefore considered an integral part of our business. We believe in maintaining a trusting relationship with our customers, employees and society. We are therefore, making a conscious effort to attend to this objective. We have set out long term plan in this regard and connect our business decisions with ethical, social and environmental concerns.

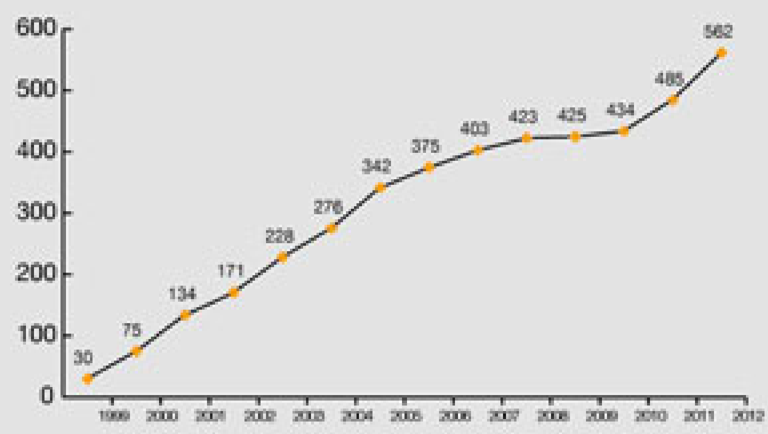
Mehran through its social activities, has been trying to improve the health and education standards in the under developed areas of Sindh especially in our mills area. We fund programs that are measurable, sustainable and replicable and subsequently monitor them closely to ensure their success. In addition, we also give donations to renowned trusts which are also providing services similar to our desire.

Some of the projects undertaken include:

Daood Memorial School (DMS)

Daood Memorial School, situated inside the premises of MSML, is a fully equipped educational center specifically meant for our mill employees and generally for the youth of Tando Allayar and its vicinity. For more than a decade the school has been providing quality education and 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 faculty and the management, the school has been growing steadily. It has been providing education upto Matriculation. In view of the growth of DMS, we intend to increase the number of students from 562 to 750 in next three years and continue to provide adequate infrastructure for the same.

Period	No. of Students	Growth %
1998-1999	30	-
1999-2000	75	150%
2000-2001	134	79%
2001-2002	171	28%
2002-2003	228	33%
2003-2004	276	21%
2004-2005	342	24%
2005-2006	375	10%
2006-2007	403	7.5%
2007-2008	423	5%
2008-2009	425	1%
2009-2010	434	2%
2010-2011	485	12%
2011-2012	562	16%
Growth Plan (Projected)		
2011-2013	675	20%



MSML Mobile Dispensary

The objective of MSML Mobile Dispensary is to provide free of cost health care services at the doorstep of the poor and needy in the surroundings of Tando Allahyar. We started our first Mobile Dispensary unit in June 2004 and so far it has diagnosed and treated 29,663 patients for various ailments. During the period October 2010 to September 2011, it had provided services to 3,739 patients.

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, cooking and stitching. So far, almost 345 women have attended beneficial courses at our vocational training center enabling them to utilize their spare time in a creative and constructive way and bringing some improvement in their routine life style.

TCF School-Haji Hasham Campus

In line with its ambitions to improve the educational standard of the youth of the area, we have donated Rs.8 Millions to Hasham Foundation (An associated concern established for undertaking welfare activities). They have combined hands with The Citizens Foundation for establishing a modern school in Piyaro Lund area, approx 13 kms from Tando Allayar. The school is under construction and expected to be operational from April 2012.

Board of Directors

The Board of Directors of the Company consists of seven members, comprising of three non-executives (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 four 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	3
02.	Mr. Mohammed Ebrahim Hasham	4
03.	Mr. Mohammed Hussain Hasham	2
04.	Mr. Khurram Kasim	2
05.	Mr. Ahmed Ebrahim Hasham	4
06.	Mr. Mohammad Iqbal	4
07.	Mr. Abdul Razzaq*	1
08.	Mr. Farooq Hassan*	3

* Mr. Abdul Razzaq retired in January 2011 and Mr. Farooq Hassan was appointed in place.

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

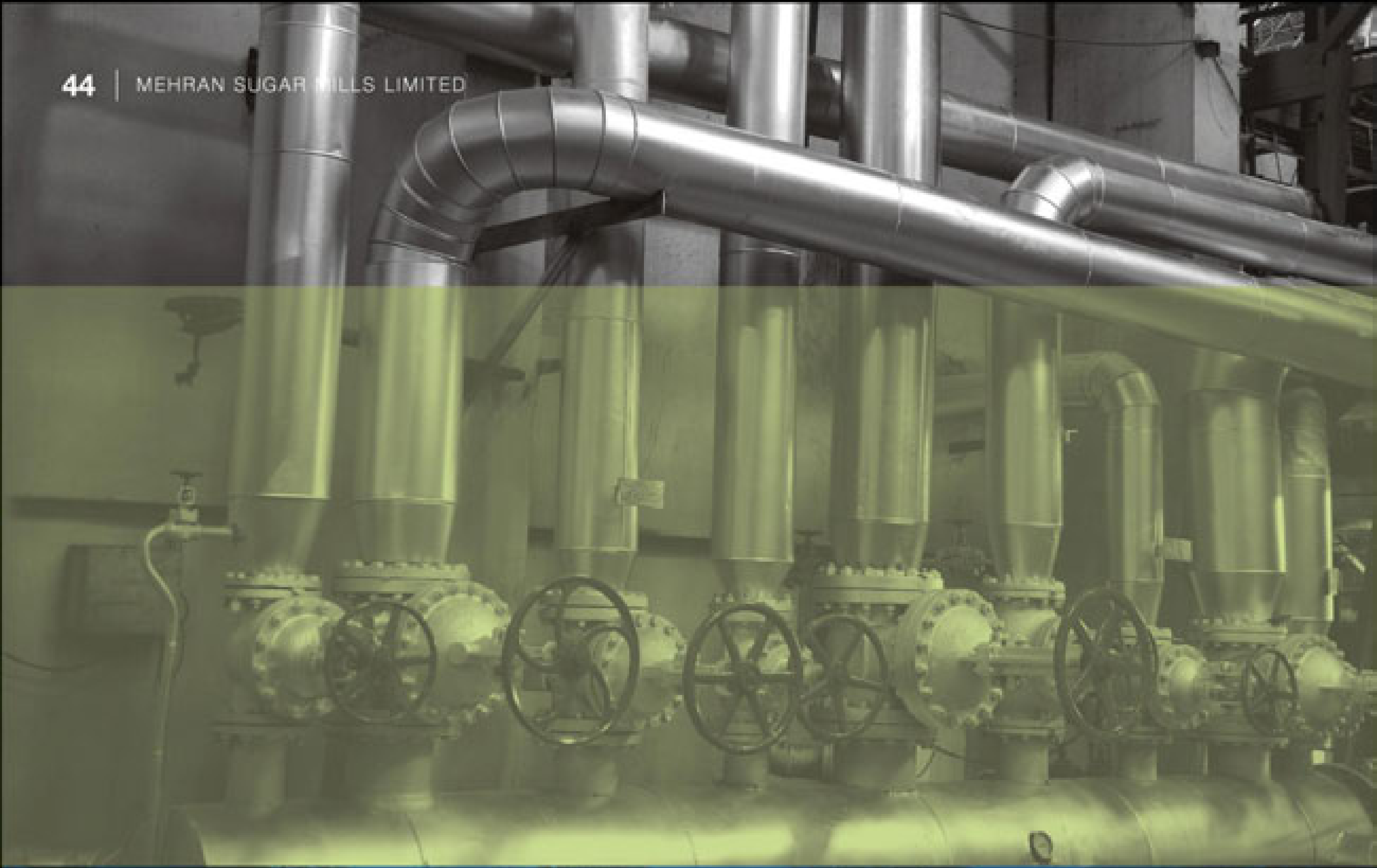
The Audit Committee (AC) of the Company comprises of three non-executive (including the Chairman) Directors. A total of four meetings of the AC were held during the year.

External Audit

The Company wishes to place on record its appreciation for the services rendered by the Company's auditors M/s. Ernst & Young Ford Rhodes Sidat Hyder., Chartered Accountants, who completed the audit of financial statements of the Company for the year ended September 30, 2011.

Cost Audit

The Company's 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).



One of our major investment this year was the introduction of Mill Max Technology which will improve our milling efficiency

CORPORATE & FINANCIAL REPORTING FRAMEWORK

As required by the Code of Corporate Governance, 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, 2011;
- 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.298.15 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, 2010 was Rs 72.00 million.
- There is also an un-funded gratuity scheme. On the basis of actuarial valuation conducted during 2011, a net liability of Rs.5.68 million as at September 30, 2011 has been provided.
- None of the directors, CEO, CFO, 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 Parties 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, 2011 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, 2011 is included in the annexed shareholders' information.

Acknowledgment

We are trying our best to satisfy Shareholders' expectations. 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

Mohammed Ebrahim Hasham
Chief Executive Officer

Karachi: December 16, 2011

Notice of the Annual General Meeting

as at September 30, 2011

Notice is hereby given that the 46th Annual General Meeting of the members of the Company will be held at I.C.A.P. Auditorium, Chartered Accountants Avenue, Clifton, Karachi on Tuesday, January 31, 2012 at 1700 PST to transact the following business:

ORDINARY BUSINESS

1. To confirm the minutes of the Annual General Meeting held on January 21, 2011;

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, 2011;

3. To consider and approve Final Cash Dividend issued @7.5% i.e.Re.0.75 per share in addition to 22.5% i.e. Rs.2.25 per share interim dividend already paid and 10% bonus shares in addition to 10% interim bonus shares already issued by way of issue of fully paid ordinary shares in the proportion of 10 shares for every 100 shares held by the members for the year ended September 30, 2011 as recommended by the Board of Directors of the Company. To further approve consolidation of fractional shares and disposal of its proceeds to charitable institutions.

4 To appoint auditors for the year ending September 30, 2012 and to fix their remuneration. The retiring auditors M/s. Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants being eligible, have offered themselves for re-appointment.

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

SPECIAL BUSINESS

6. To approve the remuneration of the Chief Executive Officer and three Working Directors of the Company.

   A statement under section 160(1)(b) of the Companies Ordinance 1984, pertaining to the above-mentioned Special Business, is being sent to the members with this notice.

By order of the of Board of Directors
Muhammad Hanif Aziz
Company Secretary

Karachi: December 16, 2011

NOTES

1. The share transfer books of the Company will remain closed from January 25, 2012 to January 31, 2012 (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 fixed for holding the Annual General Meeting.

3. The shareholders whose shares are registered in their account/sub-account with Central Depository System (CDS) are requested to bring their 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 guidelines 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 Companies Ordinance 1984.

STATEMENT U/S 160(1)(b) OF THE COMPANIES ORDINANCE, 1984

This Statement sets out material facts concerning Special Business to be transacted at the 46th Annual General Meeting of the Company to be held on January 31, 2012. The approval of the Members of the Company will be sought for:

AGENDA ITEM NO. 6

The Board of Directors has recommended that the remuneration of the Chief Executive Officer and Working Directors will be increased as follows:

Designation	Last Remuneration	Proposed Remuneration	Last Revision
CEO	Rs. 410,000	Rs. 450,000	Jan.-2011
Working Director	Rs. 330,000	Rs. 355,000	Jan.-2011
Working Director	Rs. 110,000	Rs. 120,000	Jan.-2011
Working Director	Rs. 90,000	Rs. 100,000	Jan.-2011

Statement of Compliance with the Code of Corporate Governance

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), Company Secretary, and Head of Internal Audit. Their remuneration, terms and conditions of employment have also been approved by the CEO.

10. The Directors' Report for the year ended September 30, 2011 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 non-Executives Directors including the Chairman.

15. The meetings of the Audit Committee were held at least once every quarter 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 on a full time basis.

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.

20. The related party transactions entered during the year ended September 30, 2011 have been placed before the Audit Committee and approved by the Board of Directors in their meetings held on December 16, 2011.

For and on behalf of the Board

Karachi: December 16, 2011

Mohammed Ebrahim Hasham
Chief Executive Officer

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

We have reviewed the Statement of Compliance (the Statement) with the best practices contained in the Code of Corporate Governance (the Code) for the year ended 30 September 2011 prepared by the Board of Directors of Mehran Sugar Mills Limited (the Company) to comply with the Listing Regulations No. 35 Chapter XI of Karachi Stock Exchange (Guarantee) Limited, where the Company is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement reflects the status of the Company's compliance with the provisions of the Code 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 systems 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.

Further, Sub-Regulation (xiii a) of Listing Regulations 35 notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 requires the Company to place before the Board of Directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price, recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the board of directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code for the year ended 30 September 2011.

KARACHI: December 16, 2011

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

Auditors' Report to the Members

We have audited the annexed balance sheet of Mehran Sugar Mills Limited (the Company) as at 30 September 2011 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the 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 except for changes as stated in note 2.3 to the accompanying financial statements with which we concur;

   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, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 September 2011 and of the profit, comprehensive income, its cash flows and changes in equity for the year then ended; and

d) in our opinion, Zakat deductible at source under the Zakat and Usher Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

We draw your attention to notes 27.1 to 27.5 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. Our opinion is not qualified in respect of these matters.

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Audit Engagement Partner: Riaz A Rehman Chamdia

Karachi: December 16, 2011

Balance Sheet

as at September 30, 2011

	Note	2011 Rupees	2010 Rupees
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	5	1,088,780,908	847,953,503
Long-term receivable	6	-	-
Long-term investment	7	216,718,336	176,077,471
Long-term deposits		8,545,735	3,992,400
		1,314,044,979	1,028,023,374
CURRENT ASSETS			
Biological assets	8	43,315,568	13,347,530
Stores and spare parts	9	77,795,462	56,961,715
Stock-in-trade	10	1,458,570,403	253,836,976
Trade debts	11	4,683,163	90,560,969
Loans and advances	12	31,029,412	84,487,408
Trade deposits and short-term prepayments	13	14,669,595	2,382,059
Other receivables		472,171	563,077
Short-term investments	14	162,988,889	91,480,776
Cash and bank balances	15	11,943,333	113,747,245
		1,805,467,996	707,367,775
TOTAL ASSETS		3,119,512,975	1,735,391,149
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Share capital	16	172,946,820	142,931,250
Reserves	17	619,891,757	379,483,109
		792,838,577	522,414,359
NON-CURRENT LIABILITIES			
Long-term financing	18	175,000,000	203,750,000
Liabilities against assets subject to finance lease	19	14,058,991	16,221,811
Deferred liabilities	20	5,681,987	5,742,073
Deferred taxation	21	158,054,830	116,249,988
Provision for quality premium	22	119,290,919	119,290,919
		472,086,727	461,254,791
CURRENT LIABILITIES			
Trade and other payables	23	1,634,127,427	606,527,976
Accrued mark up	24	9,627,061	10,806,928
Short-term borrowings	25	-	29,998,978
Current portion of long-term financing	18	128,750,000	40,000,000
Current maturity of liabilities against assets subject to finance lease	19	6,349,843	7,374,302
Provision for market committee fee	26	42,777,959	32,700,000
Income tax - net		20,695,628	14,824,491
Sales tax payable		-	9,489,324
Federal Excise Duty / Special Excise Duty payable		12,259,753	-
		1,854,587,671	751,721,999
CONTINGENCIES AND COMMITMENTS	27		
TOTAL EQUITY AND LIABILITIES		3,119,512,975	1,735,391,149

The annexed notes from 1 to 44 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

Profit and Loss Account

for the year ended September 30, 2011

	Note	2011 Rupees		2010 Rupees	
Turnover	28		4,596,296,142		4,025,770,523
Less:					
- Sales tax		169,820,602		159,257,861	
- Special excise duty		34,017,888		25,167,855	
- Federal excise duty		37,419,347		-	
			241,257,837		184,425,716
			4,355,038,305		3,841,344,807
Cost of sales	29		(3,773,642,501)		(3,366,565,888)
Gross profit			581,395,804		474,778,919
Distribution costs	30	(5,163,852)		(5,442,782)	
Administrative expenses	31	(103,333,544)		(81,953,859)	
Other operating expenses	32	(43,544,444)		(33,377,182)	
Other operating income	33	80,259,085		39,076,640	
			(71,782,755)		(81,697,183)
			509,613,049		393,081,736
Share of profit from an associate - net of tax	7		40,640,865		1,848,209
Finance costs	34		(133,757,171)		(73,800,473)
Profit before taxation			416,496,743		321,129,472
Taxation	35		(93,640,144)		(79,143,207)
Profit after taxation			322,856,599		241,986,265
					Restated
Basic and diluted earnings per share	36		18.67		13.99

The annexed notes from 1 to 44 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

Statement of Comprehensive Income

for the year ended September 30, 2011

	2011 Rupees	2010 Rupees
PROFIT FOR THE YEAR	322,856,599	241,986,265
OTHER COMPREHENSIVE INCOME:		
Net loss on available for sale investments		
Unrealised loss on revaluation of investments during the year	(17,481,161)	(9,542,009)
Reclassification adjustments included in the profit and loss account for:		
- Gain on sale of investments - net	(1,067,898)	(4,609,529)
- Impairment on investments	16,965,229	9,123,647
	(1,583,830)	(5,027,891)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	321,272,769	236,958,374

The annexed notes from 1 to 44 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

Cash Flow Statement

for the year ended September 30, 2011

	Note	2011 Rupees	2010 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		416,496,743	321,129,472
Adjustment for non-cash items:			
Depreciation		75,567,941	47,901,533
Share of profit from an associate		(40,640,865)	(1,848,209)
Gain on disposal of fixed assets		(412,552)	(1,137,331)
Finance costs		133,757,171	73,800,473
Realised gain on disposal of short term investments		(14,177,188)	(5,252,266)
Provision for staff gratuity		1,097,678	1,656,070
Impairment on short-term investments		16,965,229	9,123,647
Provision for market committee fee		10,077,959	-
Working capital changes	37	(94,370,936)	148,371,021
		87,864,437	272,614,938
Staff gratuity paid		(1,157,764)	(781,799)
Taxes paid		(50,978,308)	(12,662,045)
Finance costs paid		(134,937,038)	(73,255,333)
Net cash generated from operating activities		317,288,070	507,045,233
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(317,816,699)	(385,027,213)
Long term deposits		(4,553,335)	(2,000,000)
Short-term investments		(158,871,673)	(111,735,244)
Proceeds from disposal of short term investments		82,991,689	50,408,372
Proceeds from disposal of operating fixed assets		1,833,905	2,484,156
Net cash used in investing activities		(396,416,113)	(445,869,929)
CASH FLOWS FROM FINANCING ACTIVITIES			
Long term financing - net		60,000,000	121,607,200
Liabilities against assets subject to finance lease		(3,187,279)	17,597,323
Dividend paid		(49,489,612)	(47,450,252)
Net cash generated from financing activities		7,323,109	91,754,271
Net (decrease) / increase in cash and cash equivalents during the year		(71,804,934)	152,929,575
Cash and cash equivalents at the beginning of the year		83,748,267	(69,181,308)
Cash and cash equivalents at the end of the year		11,943,333	83,748,267
Cash and cash equivalents comprise of:			
Cash and bank balances	15	11,943,333	113,747,245
Short-term borrowings	25	-	(29,998,978)
		11,943,333	83,748,267

The annexed notes from 1 to 44 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

Statement of Changes in Equity

for the year ended September 30, 2011

	Issued, subscribed and paid-up capital	Reserves					Total
		Capital reserve - Share premium	Revenue reserve - General reserve	Unrealized gain on revaluation of Available-for-Sale Investments	Accumulated Profit	Total Reserves	
	Rupees						
Balance as at September 30, 2009	118,125,000	63,281,250	85,000,000	6,097,853	61,177,017	215,556,120	333,681,120
Final dividend for the year ended September 30, 2009 @ 12.5%	-	-	-	-	(14,765,763)	(14,765,763)	(14,765,763)
Bonus shares issued during the year in the ratio of 1 ordinary share for every 10 ordinary shares held	11,812,500	-	-	-	(11,812,500)	(11,812,500)	-
First interim dividend @ 10%	-	-	-	-	(12,993,750)	(12,993,750)	(12,993,750)
Second interim dividend @ 7.5%	-	-	-	-	(9,745,524)	(9,745,524)	(9,745,524)
Bonus shares issued during the year in the ratio of 1 ordinary share for every 10 ordinary shares held	12,993,750	-	-	-	(12,993,750)	(12,993,750)	-
Third interim dividend @ 7.5%	-	-	-	-	(10,720,098)	(10,720,098)	(10,720,098)
Profit for the year	-	-	-	-	241,986,265	241,986,265	241,986,265
Net loss on revaluation of available for sale investments	-	-	-	(5,027,891)	-	(5,027,891)	(5,027,891)
Total comprehensive income for the year	-	-	-	(5,027,891)	241,986,265	236,958,374	236,958,374
Balance as at September 30, 2010	142,931,250	3,281,250	85,000,000	1,069,962	230,131,897	379,483,109	522,414,359
Final dividend for the year ended September 30, 2010 @ 10%	-	-	-	-	(14,293,125)	(14,293,125)	(14,293,125)
Bonus shares issued during the year in the ratio of 1 ordinary share for every 10 ordinary shares held	14,293,130	-	-	-	(14,293,130)	(14,293,130)	-
First interim dividend @ 7.5%	-	-	-	-	(11,792,058)	(11,792,058)	(11,792,058)
Bonus shares issued during the year in the ratio of 1 ordinary share for every 10 ordinary shares held	15,722,440	-	-	-	(15,722,440)	(15,722,440)	-
Second interim dividend @ 7.5%	-	-	-	-	(11,792,056)	(11,792,056)	(11,792,056)
Third interim dividend @ 7.5%	-	-	-	-	(12,971,312)	(12,971,312)	(12,971,312)
Profit for the year	-	-	-	-	322,856,599	322,856,599	322,856,599
Net loss on revaluation of available for sale investments	-	-	-	(1,583,830)	-	(1,583,830)	(1,583,830)
Total comprehensive income for the year	-	-	-	(1,583,830)	322,856,599	321,272,769	321,272,769
Balance as at September 30, 2011	172,946,820	63,281,250	85,000,000	(513,868)	472,124,375	619,891,757	792,838,577

The annexed notes from 1 to 44 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

Notes to the Financial Statements

for the year ended September 30, 2011

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 mill of the Company is located at Distt. Tando Allahyar, Sindh.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFASs) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

2.2 Accounting convention

These financial statemensave been prepared under the historical cost convention.

2.3 New and amended standards and interpretations

The Company has adopted the following new and amended IFRS and IFRIC interpretations which became effective during the year:

IFRS 2 - Group Cash-settled Share Based Payment Arrangements
IAS 32 - Financial Instruments: Presentation - Classification of Right Issues (Amended)
IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments

Improvements to various standards issued by IASB

Issued in 2009

IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations
IFRS 8 - Operating Segments
IAS 1 - Presentation of Financial Statements
IAS 17 - Leases
IAS 36 - Impairment of Assets
IAS 39 - Financial Instruments: Recognition and Measurement

Issued in May 2010

IFRS 3 - Business Combinations
IAS 27 - Consolidated and Separate Financial Statements

The adoption of above standards, amendments / improvements and interpretations did not have any material effect on the financial statements.

Notes to the Financial Statements

for the year ended September 30, 2011

2.4 Standards and interpretations issued but not yet effective for the current financial year

The following revised standards and interpretations with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective revised standard or interpretation:

	Standards or interpretation	Effective date (accounting periods beginning on or after)
IAS 1 -	Presentation of financial statements - Amendments to revise the way other comprehensive income is presented	July 01, 2012
IFRS 7 -	Financial instruments : Disclosures - Amendments enhancing disclosures about transfers of financial assets	July 01, 2011
IAS 12 -	Income tax (Amendment) - Deferred taxes, Recovery of underlying assets	January 01, 2012
IAS 19 -	Employee benefits - Amended standard resulting from the Post-Employment Benefits and Termination Benefits projects	January 01, 2013
IAS 24 -	Related Party Disclosures (Revised)	January 01, 2011
IFRIC 14 -	Prepayments of a Minimum Funding Requirement - (Amendment)	January 01, 2011

The Company expects that the adoption of the above revisions, amendments and interpretations of the standards will not have any material impact on the Company's financial statements in the period of initial application except certain additional disclosures.

In addition to above, amendments to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after January 01, 2011. The Company expects that such improvements of the standards will not have any material impact on the Company's financial statements in the period of initial application.

Further the following new standards have been issued by IASB which are yet to be notified by the Securities and Exchange Commission of Pakistan (SECP) for the purpose of applicability in Pakistan:

	Standards or interpretation	IASB Effective date (accounting periods beginning on or after)
IFRS 9 -	Financial Instruments	January 01, 2015
IFRS 10 -	Consolidated Financial Statements	January 01, 2013
IFRS 11 -	Joint Arrangements	January 01, 2013
IFRS 12 -	Disclosures of Interests in Other Entities	January 01, 2013
IFRS 13 -	Fair Value Measurement	January 01, 2013

Notes to the Financial Statements

for the year ended September 30, 2011

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the Company's accounting policies, management has made the following estimates, judgements and assumptions 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.

Biological assets

The fair value of growing crops is determined based on the estimated selling prices approximately those at year end less estimated costs to sell at the harvesting state.

The fair value of growing crops is based on the minimum prices fixed by the Government.

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.

Notes to the Financial Statements

for the year ended September 30, 2011

Staff Retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 20.2 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.

Quality premium and market committee fee

The Company accounts for provision for quality premium and market committee fee taking into consideration the advice of its legal counsel and recent decisions of the relevant authorities.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Property, plant and equipment

Owned

These are stated at cost less accumulated depreciation and any accumulated 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 5.1. 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 values of the Company's property plant and equipment 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 property plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gain or loss on disposal of property plant and equipment is recognized in the period of disposal.

Leased

Leases which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item are capitalized at the inception of the lease, at the fair value of the leased property or, if lower at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Assets acquired under finance lease are depreciated using the same basis as for owned assets.

Notes to the Financial Statements

for the year ended September 30, 2011

Capital work-in-progress

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

4.2 Investments

4.2.1 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.

4.2.2 Investments - available-for-sale

Investments which the management intends to hold for an indefinite period, but may be sold in response to the need for liquidity or changes in interest rates are classified as available-for-sale.

These investments are initially recognised at cost, being the fair value of the consideration given including transaction costs associated with the investment. After initial recognition, these investments are remeasured at fair value.

For investments traded in active market, fair value is determined by reference to quoted market price and the investments for which a quoted market price is not available, or the fair value cannot be reasonably calculated, are measured at cost, subject to review for impairment at each balance sheet date.

Gains or losses on available-for-sale investments are recognised in equity until the investment is disposed or determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in income.

4.2.3 Investments - Held-to-maturity

Investments with fixed or determinable payments and fixed maturity where management has both the positive intent and ability to hold to maturity are classified as held to maturity and are stated at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

4.3 Biological Assets

International Accounting Standard (IAS) - 41 "Agriculture" requires biological assets to be measured on initial recognition and at each balance sheet date at its fair value less costs to sell. A gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset shall be included in profit or loss for the period in which it arises.

Notes to the Financial Statements

for the year ended September 30, 2011

4.4 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.

4.5 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 and finished goods 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 at 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.

4.6 Trade debts and other receivables

Trade debts and other receivables are stated at original invoice amount less provision for doubtful debts, if any. Provision for doubtful debts/ receivable is based on the management's assessment of customers' outstanding balances and creditworthiness. Bad debts are written-off when identified.

4.7 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 net of short term borrowing.

4.8 Staff retirement benefits

Gratuity

The Company operates an unfunded gratuity scheme (defined benefit scheme) for its employees. An actuarial valuation has been carried out at September 30, 2011, 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.

Notes to the Financial Statements

for the year ended September 30, 2011

4.9 Taxation

Current

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

Deferred

Deferred tax is recognized using the balance sheet liability method, on all temporary differences arising at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that the future taxable profits will be available against which the assets may be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred 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 the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

4.10 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.

4.11 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

4.12 Foreign currency transactions and translation

Foreign currency transactions are translated into Pak Rupees using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees using the exchange rate at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at the year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

4.13 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.

4.14 Impairment

The carrying values of the Company's assets except for inventories and deferred tax 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 recognised in the profit and loss account.

Notes to the Financial Statements

for the year ended September 30, 2011

4.15 Related Party Transactions

All transactions with related parties are carried out by the Company using the methods prescribed under the Companies Ordinance, 1984.

4.16 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, trade and other payables. 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.

4.17 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.

4.18 Revenue recognition

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

Return on bank deposits is recognized on accrual basis.

4.19 Dividend and appropriation to reserves

Dividend and appropriation to reserves are recognized in the financial statements in the period in which these are approved.

4.20 Functional and presentation currency

These financial statements are presented in Pakistani Rupees, which is the company's functional and presentation currency.

	Note	2011 Rupees	2010 Rupees
5. PROPERTY, PLANT AND EQUIPMENT			
Operating fixed assets	5.1	991,686,763	809,740,183
Capital work-in-progress	5.2	97,094,145	38,213,320
		1,088,780,908	847,953,503

Notes to the Financial Statements

or the year ended September 30, 2011

5.1 Operating fixed assets

	2011							
	Cost at October 01, 2010	Additions/ (deletions)	Cost at September 30, 2011	Accumulated depreciation at October 01, 2010	Depreciation for the year/ (accumulated depreciation on deletions)	Accumulated depreciation at September 30, 2011	Book value at September 30, 2011	Dep. Rate %
	Rupees							
Owned								
Freehold land	180,720	-	180,720	-	-	-	180,720	-
Building on freehold land								
- Factory	81,295,490	19,136,361	100,431,851	55,543,721	4,048,422	59,592,143	40,839,708	10
- Non-factory	14,119,611	-	14,119,611	7,473,069	332,327	7,805,396	6,314,215	5
Plant, machinery and equipments	1,186,150,660	224,692,840	1,410,843,500	460,202,245	60,265,710	520,467,955	890,375,545	7.5
Furniture and fittings	3,853,565	136,020	3,989,585	2,256,276	167,067	2,423,343	1,566,242	10
Vehicles	19,208,916	733,400	18,773,316	13,263,637	1,274,554	13,523,477	5,249,839	20
		(1,169,000)			(1,014,714)			
Office equipment	6,698,592	40,000	6,738,592	5,296,154	140,911	5,437,065	1,301,527	10
Electric installation	10,763,906	2,530,254	13,294,160	7,510,493	543,647	8,054,140	5,240,020	10
Weighbridge and scales	1,090,624	32,000	1,122,624	654,685	25,994	680,679	441,945	10
Workshop tools and other equipments	8,910,896	-	8,910,896	4,817,602	409,329	5,226,931	3,683,965	10
Computers	4,481,618	1,527,099	6,008,717	3,088,054	745,756	3,833,810	2,174,907	30
Airconditioners and refrigerators	8,021,131	636,400	8,657,531	4,653,522	366,425	5,019,947	3,637,584	10
	1,344,775,729	249,464,374	1,593,071,103	564,959,458	68,320,142	632,264,886	960,806,217	
		(1,169,000)			(1,014,714)			
Leased								
Vehicles	35,556,000	9,471,500	43,063,500	5,632,088	7,247,799	12,182,954	30,880,546	20
		(1,964,000)			(696,933)			
Total	1,380,331,729	258,935,874	1,636,134,603	570,591,546	75,567,941	644,447,840	991,686,763	
		(3,133,000)			(1,711,647)			

Notes to the Financial Statements

for the year ended September 30, 2011

	2010							
	Cost at October 01, 2009	Additions/ (deletions)	Cost at September 30, 2010	Accumulated depreciation at October 01, 2009	Depreciation for the year/ (accumulated depreciation on deletions)	Accumulated depreciation at September 30, 2010	Book value at September 30, 2010	Dep. Rate %
	Rupees							
Owned								
Freehold land	180,720	-	180,720	-	-	-	180,720	-
Building on freehold land								
- Factory	72,146,374	9,149,116	81,295,490	53,313,453	2,230,268	55,543,721	25,751,769	10
- Non-factory	14,119,611	-	14,119,611	7,123,251	349,818	7,473,069	6,646,542	5
Plant, machinery and equipments	843,413,679	342,736,981	1,186,150,660	422,796,838	37,405,407	460,202,245	725,948,415	7.5
Furniture and fittings	3,073,063	780,502	3,853,565	2,117,750	138,526	2,256,276	1,597,289	10
Vehicles	23,038,104	1,170,202	19,208,916	15,490,116	1,426,086	13,263,637	5,945,279	20
		(4,999,390)			(3,652,565)			
Office equipment	6,457,592	241,000	6,698,592	5,140,327	155,827	5,296,154	1,402,438	10
Electric installation	10,443,906	320,000	10,763,906	7,157,892	352,601	7,510,493	3,253,413	10
Weighbridge and scales	965,624	125,000	1,090,624	833,100	21,585	854,685	235,939	10
Workshop tools and other equipments	7,160,896	1,750,000	8,910,896	4,395,199	422,403	4,817,602	4,093,294	10
Computers	4,199,518	282,100	4,481,618	2,575,980	512,074	3,088,054	1,393,564	30
Airconditioners and refrigerators	6,806,581	1,214,550	8,021,131	4,366,248	287,274	4,653,522	3,367,609	10
	992,005,668	357,769,451	1,344,775,729	525,310,154	43,301,869	564,959,458	779,816,271	
		(4,999,390)			(3,652,565)			
Leased								
Vehicles	7,493,000	28,063,000	35,556,000	1,032,424	4,599,664	5,632,088	29,923,912	20
Total	999,498,668	385,832,451	1,380,331,729	526,342,578	47,901,533	570,591,546	809,740,183	
		(4,999,390)			(3,652,565)			

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

	Note	2011 Rupees	2010 Rupees
Cost of sales	29	65,625,429	40,782,082
Administrative expenses	31	9,942,512	7,119,451
		75,567,941	47,901,533

Notes to the Financial Statements

for the year ended September 30, 2011

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

Particulars	Cost (Rupees)	Accumulated Depreciation (Rupees)	Book Value (Rupees)	Sale Proceeds (Rupees)	Gain (Rupees)	Mode of Disposal	Particulars of Purchaser
Toyota Corolla Saloon - AEJ 471	1,169,000	1,014,714	154,286	300,000	145,714	Negotiation	Mr. Sana Ullah House No. 638, Sector Z-4, Gulshan-e-Maymar, Karachi
Toyota Corolla XLI - ARN 530	1,284,000	556,400	727,600	903,905	176,305	Negotiation	Mr.Jawed Anwer House No. 100, Muslim Town, Bhawalpur
Suzuki Alto VXR - AUC 032	680,000	140,533	539,467	630,000	90,533	Negotiation	Mr. Misal Khan House No. A-M-4, Chief Court Road, Karachi.
Total	3,133,000	1,711,647	1,421,353	1,833,905	412,552		

	Note	2011 Rupees	2010 Rupees
5.2 Capital work-in-progress			
Civil works		13,963,623	8,621,318
Advance against supply of plant and machinery		83,130,522	29,592,002
	5.2.1	97,094,145	38,213,320

5.2.1 Movement

	Civil works	Advance against supply of plant and machinery	Total
		(Rupees)	
Balance as at September 30, 2009	988,350	38,030,208	39,018,558
Capital expenditure incurred / advances made during the year	16,782,084	329,257,542	346,039,626
Transfer to operating fixed assets	(9,149,116)	(337,695,748)	(346,844,864)
Balance as at September 30, 2010	8,621,318	29,592,002	38,213,320
Capital expenditure incurred / advances made during the year	20,070,190	139,974,495	160,044,685
Transfer to operating fixed assets	(14,727,885)	(86,435,975)	(101,163,860)
Balance as at September 30, 2011	13,963,623	83,130,522	97,094,145

Notes to the Financial Statements

for the year ended September 30, 2011

6. LONG-TERM RECEIVABLE - Unsecured

	Note	2011 Rupees	2010 Rupees
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
		42,510,996	42,510,996
Provision for doubtful receivable	6.1	(42,510,996)	(42,510,996)
		-	-

6.1 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 of 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. The Company has made provision against the aforesaid receivable as a matter of prudence and the fact that the debt is outstanding for a considerable period.

7. LONG TERM INVESTMENT

- In an associate

Number of shares		Face value per share	Name of the Company	Note	2011 Rupees	2010 Rupees
2011 Rupees	2010 Rupees					
11,549,998	10,499,998	10	Unicol Limited (an un-quoted company)	7.1	216,718,336	176,077,471

7.1 Movement of investment in an associate

	Note	2011	2010
Opening balance		176,077,471	174,229,262
Share of profit for the year - net of tax		38,446,000	8,286,135
Prior year's adjustment	7.1.1	2,194,865	(6,437,926)
		216,718,336	176,077,471

The Company holds 33.33 (2010: 33.33) percent of the investee's total equity.

7.1.1 Represents net excess profit booked in prior years on the basis of unaudited financial statements.

Notes to the Financial Statements

for the year ended September 30, 2011

7.2 The summarized financial information of the associate company based on unaudited financial statements, for the year ended September 30, 2011 (September 30, 2010: audited), are as follows:

	2011 Rupees	2010 Rupees
Aggregate amount of:		
- assets	1,642,222,000	1,633,564,000
- liabilities	985,520,000	1,098,747,000
- revenue	1,981,436,000	1,512,709,000
- profit	115,338,000	31,443,000

8. BIOLOGICAL ASSETS - At fair value

	2011 Rupees	2010 Rupees
Carrying value at beginning of the year	13,347,530	8,748,440
Addition due to cultivation	21,340,095	3,491,668
Gain arising from changes in fair value less costs to sell	21,975,473	9,855,862
	56,663,098	22,095,970
Reduction due to harvesting	(13,347,530)	(8,748,440)
Carrying value at the end of the year	43,315,568	13,347,530

Operations and Principal Activities at Farms:

The Company is principally engaged in sugarcane cultivation.

Financial Risk Management Strategies:

The Company is exposed to financial risks arising from changes in sugarcane prices. The Company does not anticipate that sugarcane prices will decline significantly in the foreseeable future and therefore, has not entered into any contracts to manage the risk of a decline in sugarcane prices.

	2011 Rupees	2010 Rupees
9. STORES AND SPARE PARTS		
Stores	10,079,643	23,815,225
Spare parts	67,715,819	33,146,490
	77,795,462	56,961,715
10. STOCK-IN-TRADE		
Manufactured sugar		
- Finished	1,454,806,439	250,629,437
- Work-in-process	3,763,964	3,207,539
	1,458,570,403	253,836,976

Notes to the Financial Statements

for the year ended September 30, 2011

11. TRADE DEBTS - unsecured

	Note	2011 Rupees	2010 Rupees
Considered good	11.1,11.2 & 11.3	4,683,163	90,560,989
Considered doubtful	11.4	16,987,867	16,987,867
		21,671,030	107,548,856
Less: Provision for doubtful debts	11.4	16,987,867	16,987,867
		4,683,163	90,560,989

11.1 The aging of trade debts at September 30 is as follows:

	2011 Rupees	2010 Rupees
Neither past due nor impaired	-	-
Past due but not impaired		
- within 90 days	158,463	90,560,989
- 91 - 180 days	4,524,700	-
	4,683,163	90,560,989

11.2 Represents receivable from Unicol Limited, an associated company amounting to Rs.4.525 (2010: Rs. 76.920) million.

11.3 The maximum aggregate amount due from associated company at the end of any month during the year was Rs. 209.319 (2010: Rs. 190.36) million.

11.4 Includes an amount of Rs. 14.519 million due from the Food Department, Government of Sindh (GoS). 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. Since then, the matter is under litigation and pending before the Honorable High Court of Sindh. The amount receivable from the Department has been provided because it has been long time the case is pending and the respective liability of mark-up due to the Food Department, GoS was also written back.

12. LOANS AND ADVANCES - Unsecured, considered good

	Note	2011 Rupees	2010 Rupees
Loans to staff	12.1	1,672,422	1,581,493
Advances			
- to suppliers		20,823,218	19,959,627
- to cane growers	12.2	7,308,333	61,987,611
- against expenses		1,225,439	958,677
		29,356,990	82,905,915
		31,029,412	84,487,408

12.1 Includes interest free loans to employees for purchase of vehicle, repayable in monthly installments.

12.2 Includes cost of seeds provided to the cane growers and the same are adjusted when sugarcane is purchased from these cane growers.

Notes to the Financial Statements

for the year ended September 30, 2011

13. TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS

	Note	2011 Rupees	2010 Rupees
Trade deposits:			
Considered good		148,500	188,500
Considered doubtful	13.1	8,196,113	8,196,113
		8,344,613	8,384,613
Less: Provision for doubtful deposits		8,196,113	8,196,113
		148,500	188,500
Short-term prepayments:			
Considered good		14,521,095	2,193,559
Considered doubtful		563,441	563,441
		15,084,536	2,757,000
Less: Provision for doubtful prepayments		563,441	563,441
		14,521,095	2,193,559
		14,669,595	2,382,059

13.1 Represents amount paid by the Company to the Director General Defence Procurement (DGDP) as tender money during the year 1995 to1996 which has been withheld by them on account of DGDP's risk purchase claim on the Company, as fully described in note 27.2. Although the matter is under litigation, the Company, as a matter of prudence, has made full provision against the deposit in these financial statements.

14. SHORT-TERM INVESTMENTS

	Note	2011 Rupees	2010 Rupees
Held to maturity			
Term deposit certificates	14.1	3,300,000	3,300,000
Available for sale			
Equity securities	14.2 &14.3	159,688,889	88,180,776
		162,988,889	91,480,776

14.1 Represents term deposit certificates 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 5.0 (2010: 5.0) percent per annum.

Notes to the Financial Statements

for the year ended September 30, 2011

14.2 Available for sale Investments

2011 Number of shares	2010 Number of shares		2011 Rupees	2010 Rupees
		Quoted companies		
80,000	-	Allied Bank Limited	4,848,000	-
-	95,000	Arif Habib Corporation Limited	-	2,166,000
11,000	-	Attock Petroleum Limited	4,376,350	-
285,145	322,621	Bank Al- Habib Limited	8,517,281	10,017,382
-	129,794	Century Paper & Board Mills Limited	-	2,553,048
469, 823	392,839	Chashma Sugar Mills Limited	4,129,744	3,838,037
470,614	461,766	Cherat Cement Limited	3,882,566	5,060,955
325,000	100,000	D.G.Khan Cement Limited	6,685,250	2,392,000
-	32,641	EFU General Insurance Limited	-	1,226,645
38,160	16,050	Engro Corporation Limited	5,471,762	2,796,071
7,500	-	Fauji Fertilizer Company Limited	1,214,250	-
-	17,824	Glaxosmithkline Pakistan Limited	-	1,201,338
104,501	302,418	Habib Metropolitan Bank Limited	1,912,368	5,788,281
50,000	50,000	Hub Power Company Limited	2,075,000	1,664,500
61,554	61,554	Hum Network Limited	758,961	1,250,162
15,660	2,500	Indus Motors Limited	3,022,537	541,475
401,085	211,957	International Industries Limited	16,059,443	10,343,502
1,200,000	-	International Steel Limited	14,760,000	-
22,301	-	JDW Sugar Mills Limited	1,830,466	-
40,000	20,000	MCB Bank Limited	6,930,800	3,766,200
11,587	9,656	Mirpurkhas Sugar Mills Limited	615,038	561,883
10,000	10,844	National Refinery Limited	3,871,300	2,191,139
200,000	-	Nishat (Chunian) Limited	4,226,000	-
180,000	-	Nishat Mills Limited	8,296,200	-
-	199,677	Noon Sugar Mills Limited	-	2,246,366
1,155,000	-	Pakgen Power Limited	16,516,500	-
35,000	20,000	Pakistan Oil Fields Limited	12,892,600	4,742,600
-	3,000	Pak Suzuki Motor Company Limited	-	207,870
171,522	121,836	Pakistan Cables Limited	7,018,680	7,246,805
53,016	42,680	Pakistan Petroleum Limited	10,050,243	7,358,459
7,500	2,000	Pakistan State Oil Company Limited	1,909,350	537,400
130,000	165,000	United Bank Limited	7,818,200	8,482,658
			159,688,889	88,180,776

All shares are ordinary shares of Rs.10/- each.

14.3 The aggregate cost of the above investment is Rs.177.170 (2010: Rs. 97.723) million. These investments are stated at fair value.

15. CASH AND BANK BALANCES

	2011 Rupees	2010 Rupees
Cash in hand	92,837	52,845
Cash with banks in current accounts	11,850,496	113,694,400
	11,943,333	113,747,245

Notes to the Financial Statements

for the year ended September 30, 2011

16. SHARE CAPITAL

2011 Number of shares	2010 Number of shares		2011 Rupees	2010 Rupees
Authorized capital				
50,000,000	50,000,000	Ordinary shares of Rs. 10 each	500,000,000	500,000,000
Issued, subscribed and paid-up capital				
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	Ordinary shares of Rs. 10/- each issued for consideration other than cash	3,500,000	3,500,000
Issued as fully paid bonus shares				
7,974,375	5,493,750	Opening balance	79,743,750	54,937,500
3,001,557	2,480,625	Issued during the year	30,015,570	24,806,250
10,975,932	7,974,375	Closing balance	109,759,320	79,743,750
17,294,682	14,293,125		172,946,820	142,931,250

17. RESERVES

	2011	2010
Capital reserve		
Share premium	63,281,250	63,281,250
Revenue reserve		
General	85,000,000	85,000,000
Accumulated profit	472,124,375	230,131,897
	557,124,375	315,131,897
Unrealized (loss) / gain on revaluation of available for sale equity securities	(513,868)	1,069,962
	619,891,757	379,483,109

18. LONG TERM FINANCING - Secured

	Note	Installments Number	Installments Commencing from	Mark-up	2011 Rupees	2010 Rupees
From banking companies						
Al Baraka Bank Pakistan Ltd.	18.1	16 quarterly	October 2009	6 months KIBOR plus 1.8% per annum	50,000,000	75,000,000
Bank Al Habib Limited	18.1	8 quarterly	January 2010	6 months KIBOR plus 2.25% per annum	3,750,000	18,750,000
Bank Al Habib Limited	18.1	12 quarterly	February 2011	6 months KIBOR plus 1.75% per annum	125,000,000	150,000,000
MCB Bank Limited	18.1	12 quarterly	February 2012	3 months KIBOR plus 2.% per annum	125,000,000	-
					303,750,000	243,750,000
Less: Current portion shown under current liabilities					128,750,000	40,000,000
					175,000,000	203,750,000

18.1 This is secured by way of first pari passu charge over fixed assets of the Company amounting to Rs.573 million.

Notes to the Financial Statements

for the year ended September 30, 2011

19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES

Represent finance leases entered into with commercial banks for vehicles. Total lease rentals due under various lease agreements aggregate to Rs. 25,872,532/- (2010: Rs. 30,792,596/-) and are payable in equal monthly installments latest by March 2016. 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 15.07 to 16.00 (2010: 14.32 to 15.34) 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:

	2011		2010	
	Minimum lease Payments	Present Value	Minimum lease Payments	Present Value
	(Rupees)			
Within one year	9,054,715	6,349,843	10,291,945	7,374,302
After one year but not more than five years	16,817,817	14,058,991	20,500,651	16,221,811
Total minimum lease payments	25,872,532	20,408,834	30,792,596	23,596,113
Less: Amount representing finance charges	5,463,698	-	7,196,483	-
Present value of minimum lease payments	20,408,834	20,408,834	23,596,113	23,596,113
Less: Current maturity shown under current liability	6,349,843	6,349,843	7,374,302	7,374,302
	14,058,991	14,058,991	16,221,811	16,221,811

	Note	2011 Rupees	2010 Rupees
20. DEFERRED LIABILITIES			
Staff gratuity	20.1	5,681,987	5,742,073

20.1 Staff gratuity

	2011 Rupees	2010 Rupees
Opening net liability	5,742,073	4,867,802
Expense for the year	1,097,678	1,656,070
	6,839,751	6,523,872
Benefits paid during the year	(1,157,764)	(781,799)
Liability to be recognized	5,681,987	5,742,073
Expense for the year		
Current service cost	602,081	1,023,256
Interest cost	671,215	632,814
Actuarial (gain) / loss recognized	(175,618)	-
Expense for the year	1,097,678	1,656,070
Reconciliation		
Present value of defined benefit obligation	5,681,987	5,742,073
Unrealized (gain) / actuarial losses	-	-
Liability to be recognized as at September 30	5,681,987	5,742,073

Comparisons for five years:
As at September 30

	2011	2010	2009	2008	2007
	(Rupees)				
Present value of defined benefit obligation	5,681,987	5,742,073	4,867,802	5,483,775	5,851,629
Fair value of plan assets	-	-	-	-	-
Deficit	5,681,987	5,742,073	4,867,802	5,483,775	5,851,629

Notes to the Financial Statements

for the year ended September 30, 2011

20.2 The Projected Unit Credit Method, using the following significant assumptions was used for the valuation of the scheme:
- discount rate at 13 % per annum;
- expected rate of increase in salary level at 10 % per annum;
- expected average remaining life of employees 30 years.

	Note	2011 Rupees	2010 Rupees
21. DEFERRED TAXATION			
Credit balances arising due to :			
Accelerated tax depreciation, assets subject to finance lease, accrued markup and long term investment		227,644,570	180,757,890
Debit balances arising due to:			
Provision for gratuity		(1,988,695)	(2,009,726)
Provision for doubtful debts		(5,945,753)	(5,945,753)
Provision for doubtful deposits and prepayments		(3,065,844)	(3,065,844)
Provision for impairment on short-term investments		(123,900)	(123,900)
Provision for doubtful long-term receivable		(14,878,848)	(14,878,848)
Carry over of minimum tax		(43,586,700)	(38,483,831)
		(69,589,740)	(64,507,902)
		158,054,830	116,249,988
22. PROVISION FOR QUALITY PREMIUM			
Provision for quality premium	22.1	119,290,919	119,290,919

22.1 Sugar mills in Sindh are required to pay quality premium to 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 has 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 of Sindh, the Honorable Supreme Court of Pakistan granted stay to the Company. The Punjab Government is not levying any quality premium in view of an earlier decision of Lahore High Court in a similar case wherein the Court had declared the demand of quality premium as unlawful.

Although the matter is under litigation, the Company has made full provision for quality premium in the financial statements, as a matter of prudence.

Notes to the Financial Statements

for the year ended September 30, 2011

	Note	2011 Rupees	2010 Rupees
23. TRADE AND OTHER PAYABLES			
Creditors		79,762,214	116,249,905
Accrued expenses		3,270,183	3,808,777
Advances from customers		1,498,357,826	443,168,673
Workers' profits participation fund	23.1	22,149,673	17,265,025
Workers' welfare fund		11,253,052	11,920,153
Unclaimed dividend		7,369,122	6,010,183
Other liabilities		11,965,357	8,105,260
		1,634,127,427	606,527,976
23.1 Workers' Profit Participation Fund			
Balance at the beginning of the year		17,265,025	13,195,113
Allocation for the year		22,149,673	17,265,025
		39,414,698	30,460,138
Add: Interest on funds utilized in the Company's business		113,800	200,782
		39,528,498	30,660,920
Less: Amount paid to trustees of the fund		17,378,825	13,395,895
		22,149,673	17,265,025
24. ACCRUED MARK-UP			
- Subordinated loans - from related parties		219,161	219,161
- Short-term borrowings		213,118	2,492,755
- Long-term financing		9,194,782	8,095,012
		9,627,061	10,806,928
25. SHORT- TERM BORROWINGS - Secured			
From Banking companies			
- Running finance under mark-up arrangement	25.1	-	29,998,978

25.1 These were secured against pledge of stock of sugar, 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 formed part of the aggregate facility of Rs. 1,725 million (2010: Rs. 975 million). The finances carried mark-up ranging between 14.74 to 15.87 (2010: 14.18 to 15.79) percent payable quarterly.

	Note	2011 Rupees	2010 Rupees
26. PROVISION FOR MARKET COMMITTEE FEE			
Provision for market committee fee	26.1	42,777,959	32,700,000

26.1 During the year 1999-2000, the Market Committee filed a law suit for the recovery of market committee fee before the Senior Civil Judge Tando Allahyar. The Company 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 amounting to Rs. 43.7 million plus fee amounting to Rs. 9.85 million relating to the years upto 2003-2004. Subsequently, the Government of Sindh withdrew the levy of

Notes to the Financial Statements

for the year ended September 30, 2011

Market Committee for crushing season of 2004-2005. The Company filed an appeal against the aforesaid order of Senior Civil Judge Tando Allahyar with the District Judge, Hyderabad and the same was dismissed by the District Judge during 2006-2007. Consequently, in 2006-2007 the Company filed an appeal and obtained a stay order from the Honorable High Court of Sindh. In the year 2008-2009, the Honorable High Court of Sindh made a decision in this respect and determined the Company's liability in the sum of Rs. 32.70 million upto the month of June 2008. The Company filed an appeal in the Supreme Court of Pakistan against the amount of liability determined by the High Court of Sindh which is pending before the Supreme Court of Pakistan. During the previous year as a matter of prudence, the Company fully provided the amount determined by the Honourable High Court of Sindh and on the advice of its legal counsel decided not to provide any further liability on account of market committee fee for the subsequent crushing seasons 2008-2009 and 2009-2010. However, in the current year, as a matter of prudence, the Company has made a provision for the crushing seasons 2008-2009, 2009-2010 and 2010-2011 amounting to Rs. 10.078 million.

27. CONTINGENCIES AND COMMITMENTS

CONTINGENCIES

27.1 Contribution demanded by SESSI Rs. 3.28 million (2010: 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.

27.2 DGDP risk purchase claim Rs. 38.58 million (2010: 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 (2010: Rs. 25.81 million) against the said breach of contract. The cases are pending before the Honorable Supreme Court of Pakistan - Rawalpindi bench 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.

27.3 The Company has filed an appeal before the Honorable High Court of Sindh 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/- (2010: Rs. 11,087,051/-). Based on the facts and advise of the legal advisor, the management is confident of a favorable outcome and hence no provision is required to be made in these financial statements.

27.4 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.10,746,624/- (2010: Rs. 10,746,624/-) alongwith additional tax and penalty. 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.

27.5 Pakistan Standards and Quality Control Authority had demanded a fee payment at the rate of 0.1 percent of ex-factory price for the year 2008-09 amounting to Rs. 2.2 million. The Company is of the view that demand notifications so raised are without any lawful authority under the PSQCA Act-VI of 1996 and are in violation of the constitution. Based on the advise of the legal advisor, the management is confident that it would not be liable to pay the said marking fee and hence no provision is required to be made in these financial statements.

COMMITMENTS

27.6 Commitments in respect of capital expenditure as on September 30, 2011 amounted to Rs. 246.130 million (2010: Rs. 65.873 million).

27.7 Commitments in respect of operating lease rentals for farms as on September 30, 2011 amounted to Rs. 86.175 million (2010: Rs. 7.84 million).

Notes to the Financial Statements

for the year ended September 30, 2011

	Note	2011 Rupees	2010 Rupees
28. TURNOVER			
Sales			
- Sugar		4,226,267,604	3,815,814,244
- Molasses		330,102,696	203,293,402
- Bagasse		39,925,842	6,662,877
		4,596,296,142	4,025,770,523

	Note	2011 Rupees	2010 Rupees
29. COST OF SALES			
Manufactured sugar:			
Cost of sugarcane consumed (including procurement and other expenses)		4,521,188,762	3,174,120,276
Market committee fee		10,077,959	-
Road cess on sugarcane		5,056,498	4,172,713
Salaries, wages and other benefits	29.1	113,665,847	88,888,182
Stores and spare parts consumed		175,606,159	108,098,749
Repairs and maintenance		40,478,478	26,353,591
Fuel, electricity and water charges		17,341,151	20,531,928
Vehicle running and maintenance expenses		5,388,014	3,264,523
Insurance		6,182,635	4,682,534
Depreciation	5.1.1	65,625,429	40,782,082
Other overheads		17,764,996	8,211,542
		4,978,375,928	3,479,106,120
Opening stock of work-in-process		3,207,539	1,677,023
Closing stock of work-in-process		(3,763,964)	(3,207,539)
		(556,425)	(1,530,516)
Cost of goods manufactured		4,977,819,503	3,477,575,604
Opening stock of finished goods		250,629,437	139,619,721
Closing stock of finished goods		(1,454,806,439)	(250,629,437)
		(1,204,177,002)	(111,009,716)
		3,773,642,501	3,366,565,888

29.1 This includes contribution to provident fund of Rs. 2,465,379/- (2010: Rs. 2,054,666/-) and gratuity fund of Rs 1,097,678/- (2010: Rs. 1,656,070/-).

	Note	2011 Rupees	2010 Rupees
30. DISTRIBUTION COSTS			
Salaries, wages and other benefits	30.1	1,386,065	1,183,470
Insurance		18,800	10,335
Stacking and loading		3,603,537	3,906,002
Selling expenses		155,450	342,975
		5,163,852	5,442,782

30.1 This includes contribution to provident fund of Rs. 51,561/- (2011: Rs. 39,159/-).

Notes to the Financial Statements

for the year ended September 30, 2011

	Note	2011 Rupees	2010 Rupees
31. ADMINISTRATIVE EXPENSES			
Salaries and other benefits	31.1	58,470,744	47,726,563
Rent, rates and taxes		1,652,505	1,576,463
Electricity, telephone, fax and postage		4,922,066	4,539,298
Printing and stationery		1,693,076	1,635,535
Travelling and conveyance		3,181,066	4,390,185
Vehicle running and maintenance expenses		6,089,925	4,904,815
Auditors' remuneration	31.2	1,180,500	1,137,650
Legal and professional		2,427,970	2,111,631
Fees and subscription		888,032	942,574
Insurance		176,720	191,595
Repairs and maintenance		3,083,434	2,983,913
Advertising		813,645	599,055
Donations	31.3	8,662,520	1,530,030
Depreciation	5.1.1	9,942,512	7,119,451
Other expenses		148,829	565,101
		103,333,544	81,953,859

31.1 This includes contribution to provident fund of Rs. 1,335,088/- (2010: Rs. 1,144,321/-).

	2011 Rupees	2010 Rupees
31.2 Auditors' remuneration		
Statutory audit		
Ernst & Young Ford Rhodes Sidat Hyder		
Statutory audit fee	660,000	600,000
Review of half yearly financial statements and compliance with Code of Corporate Governance	300,000	305,000
Other services	50,000	30,000
Out of pocket expenses	70,500	70,650
	1,080,500	1,005,650
Cost audit		
Haroon Zakaria & Co.		
Cost audit fee	100,000	125,000
Out of pocket expenses	-	7,000
	1,180,500	1,137,650

31.3 Includes Rs.8,000,000/- (2010: Rs. Nil) paid to Hasham Foundation which is a project of Hasham Group. Mr. Mohammed Kasim Hasham, Mr. Mohammed Ebrahim Hasham, Mr. Mohammed Hussain Hasham, Mr. Khurram Kasim and Mr. Ahmed Ebrahim Hasham are trustees of the said Foundation. No other directors or their spouses have any interest in any donee's fund to which donation was made.

Notes to the Financial Statements

for the year ended September 30, 2011

	Note	2011 Rupees	2010 Rupees
32. OTHER OPERATING EXPENSES			
Workers' Profits Participation Fund		22,149,673	17,265,025
Workers' Welfare Fund		4,347,042	6,906,010
Provision for impairment on short-term investments		16,965,229	9,123,647
Zakat		82,500	82,500
		43,544,444	33,377,182
33. OTHER OPERATING INCOME			
Profit on bank deposits		5,548,727	1,346,585
Gain on disposal of fixed assets		412,552	1,137,331
Scrap sales		17,845,997	2,968,980
Rental income		215,629	238,618
Net farm income		32,154,120	24,553,623
Realized gain on disposal of short term investments		14,177,188	5,252,266
Dividend income		9,904,872	3,579,237
		80,259,085	39,076,640
34. FINANCE COSTS			
Mark-up on:			
Long-term financing		48,382,141	18,128,118
Subordinated loans - from related parties		-	212,626
Short-term borrowings		80,263,954	51,440,681
Lease finance		3,702,891	2,666,899
		132,348,986	72,448,324
Bank charges		1,408,185	1,352,149
		133,757,171	73,800,473
35. TAXATION			
Current		45,595,461	38,757,934
Prior year		6,239,841	11,947,654
		51,835,302	50,705,588
Deferred		41,804,842	28,437,619
	35.1	93,640,144	79,143,207

35.1 The Company is subject to Minimum tax under section 113 of the Income Tax Ordinance, 2001, therefore relationship between income tax expense and accounting profit has not been presented for the current year.

35.2 Income tax assessments of the Company have been completed upto the tax year 2010 (accounting year ended September 30, 2009).

Notes to the Financial Statements

for the year ended September 30, 2011

36. BASIC AND DILUTED EARNING PER SHARE

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

		2011	2010
Earnings after taxation attributable to ordinary shares	(Rupees)	322,856,599	241,986,265
			(Restated)
Weighted average number of ordinary shares		17,294,682	17,294,682
			(Restated)
Earnings per share - after tax	(Rupees)	18.67	13.99

37. WORKING CAPITAL CHANGES

	2011 Rupees	2010 Rupees
(Increase)/decrease in current assets		
Biological assets	(29,968,038)	(4,599,090)
Stores and spare parts	(20,833,747)	3,348,808
Stock-in-trade	(1,204,733,427)	(112,540,232)
Trade debts	85,877,826	21,540,437
Loans and advances	53,457,996	(42,784,609)
Trade deposits and short-term prepayments	(12,287,536)	(1,068,233)
Other receivables	90,906	398,166
	(1,128,396,020)	(135,704,753)
Increase / (decrease) in current liabilities		
Trade and other payables	1,031,254,655	294,995,576
Sales tax payable	2,770,429	(10,919,802)
	1,034,025,084	284,075,774
	(94,370,936)	148,371,021

38. TRANSACTIONS WITH RELATED PARTIES

Related parties of the Company comprise of Pakistan Molasses Company (Private) Limited, Mogul Tobacco Company (Private) Limited, Unicol Limited, Adamjee Insurance Company Limited. Transactions with related parties, other than remuneration and benefits to directors and key management personnel under the terms of their employment, as disclosed in note 40, are as follows:

	2011 Rupees	2010 Rupees
Relationships - Common directorship		
Sales	377,215,218	214,360,968
Expenses shared	308,693	287,348
Insurance premium	8,535,097	5,356,043
Donations paid	8,000,000	-
Receipt of subordinated loan	-	24,000,000
Repayment of subordinated loan	-	24,000,000
Mark-up on subordinated loan	-	212,626
Retirement benefit plans		
Provident fund contribution	3,852,028	3,238,146

Notes to the Financial Statements

for the year ended September 30, 2011

38.1 Balances outstanding with related parties have been disclosed in the respective notes to the financial statements.

39. CAPACITY AND PRODUCTION

	Rated capacity		Capacity utilisation	
	M. Tons	Days	M. Tons	Days
Season 2010-2011	7000 TCD	160	5186 TCD	156
Season 2009-2010	7000 TCD	160	5472 TCD	122

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

40. REMUNERATION OF CHIEF EXECUTIVE OFFICER, DIRECTORS AND EXECUTIVES

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

	2011				2010			
	Chief Executive Officer	Directors	Executives	Total	Chief Executive Officer	Directors	Executives	Total
	Rupees							
Fees	17,000	43,000	-	60,000	6,000	28,000	-	34,000
Managerial remuneration	3,207,000	4,725,000	9,587,835	17,519,835	2,796,000	3,929,250	8,885,520	15,610,770
Retirement benefits	-	59,100	1,008,594	1,067,694	-	52,425	930,833	983,258
Perquisites and other benefits	2,950,000	4,348,500	9,288,385	16,586,885	2,518,000	3,527,500	8,452,302	14,497,802
	6,174,000	9,175,600	19,884,814	35,234,414	5,320,000	7,537,175	18,268,655	31,125,830
Number of persons	1	4	12	17	1	4	12	17

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

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, interest rate risk and equity price risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

41.1 Credit risk

Credit risk is the risk which arises with the possibility that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

The Company is exposed to credit risk on long-term deposits, trade debts, long term investments, loans and advances, trade deposits, other receivables, short term investments and bank balances. The Company seeks to minimize the credit risk exposure through having exposures only to customers considered credit

Notes to the Financial Statements

for the year ended September 30, 2011

worthy and obtaining securities where applicable. The maximum exposure to credit risk at the reporting date is:

	Carrying Values	
	2011 Rupees	2010 Rupees
Long-term deposits	8,545,735	3,992,400
Trade debts	4,683,163	90,560,989
Long term investment	216,718,336	176,077,471
Loans and Advances	31,029,412	84,487,408
Trade Deposits	148,500	188,500
Other receivables	472,171	563,077
Short term Investments	162,988,889	91,480,776
Bank balances	11,850,496	113,694,400
	436,436,702	561,045,021

Quality of financial assets

The credit quality of financial assets can be assessed by reference to external credit ratings or the historical information about counter party default rates as shown below:

	Carrying Values	
	2011 Rupees	2010 Rupees
41.1.1 Trade debts		
Customers with no defaults in the past one year	4,683,163	90,560,989
Customers with some defaults in past one year which have been fully recovered	-	-
Customers with defaults in past one year which have not yet been recovered	-	-
	4,683,163	90,560,989
41.1.2 Investments		
Available for sale investments		
With external credit rating		
A1	2,589,427	-
A1+	51,650,262	8,482,650
A-2	-	2,553,048
Without external credit rating	105,449,200	77,145,078
	159,688,889	88,180,776
Held-to-maturity investments		
With external credit rating		
A1+	3,300,000	3,300,000
41.1.3 Bank balances		
With external credit rating		
A1	281,957	156,062
A1+	11,568,539	113,527,529
A2	-	10,809
	1,850,496	113,694,400

Notes to the Financial Statements

for the year ended September 30, 2011

41.2 Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The Company applies the prudent risk management policies by maintaining sufficient cash and bank balances and by keeping committed credit lines. The table below summarises the maturity profile of the Company's financial liabilities at the following reporting dates:

Year ended 30 September 2011	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Long-term financing - secured	-	35,000,000	93,750,000	175,000,000	-	303,750,000
Liabilities against assets subject to finance lease	-	2,260,003	4,089,840	14,058,991	-	20,408,834
Trade and other payables	7,411,922	1,575,845,901	11,431,993	6,034,886	-	1,600,724,702
Accrued markup	-	9,627,061	-	-	-	9,627,061
	7,411,922	1,622,732,965	109,271,833	195,093,877	-	1,934,510,597

Year ended 30 September 2010	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Long-term financing - secured	-	10,000,000	30,000,000	203,750,000	-	243,750,000
Liabilities against assets subject to finance lease	-	2,664,916	4,709,386	16,221,811	-	23,596,113
Trade and other payables	6,152,983	558,061,027	9,983,145	3,145,643	-	577,342,798
Accrued markup	-	10,806,928	-	-	-	10,806,928
Short term borrowings secured	-	29,998,978	-	-	-	29,998,978
	6,152,983	611,531,849	44,692,531	223,117,454	-	885,494,817

41.3 Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates to the Company's long-term debt obligations, short-term borrowings, subordinated loans and lease obligations with floating interest rates.

Sensitivity Analysis:

The following figures demonstrate the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of the Company's profit before tax:

	Increase / decrease in basis points	Effect on profit before tax
2011		
KIBOR	+100	(1,323,490)
KIBOR	-100	1,323,490
2010		
KIBOR	+100	(724,483)
KIBOR	-100	724,483

Notes to the Financial Statements

for the year ended September 30, 2011

41.4 Equity price risk

The Company's listed equity securities are susceptible to market price risk arising from uncertainties about future values of investment securities. The Company manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Company's senior management on a regular basis. The Company's Board of Directors reviews and approves all equity instrument decisions.

At the balance sheet date, the exposure to listed equity securities held as Available for sale was Rs. 159.689 million.

A (decrease) / increase of 10% on the stock exchange index would have an impact of approximately Rs.15.969 million on the equity of the Company, depending on whether or not the (decrease) / increase is significant and prolong.

41.5 Capital risk management

The primary objective of the Company's capital management is to maintain healthy capital ratios, strong credit rating and optimal capital structures in order to ensure ample availability of finance for its existing and potential investment projects, to maximise shareholder value and reduce the cost of capital.

The Company manages its capital structure and makes adjustment to it, in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt is calculated as total loans and borrowings including any finance cost thereon, trade and other payables, less cash and bank balances and investments. Capital signifies equity as shown in the balance sheet plus net debt.

The gearing ratios as at September 30, 2011 and 2010 were as follows:

	2011	2010
Short term borrowings - secured	-	29,998,978
Long term financing	303,750,000	243,750,000
Trade and other payables	1,634,127,427	606,527,976
Accrued mark-up	9,627,061	10,806,928
Liabilities against asset subject to finance lease	20,408,834	23,596,113
Total debt	1,967,913,322	914,679,995
Less: Cash and bank balances	(11,943,333)	(113,747,245)
Short term investments	(162,988,889)	(91,480,776)
Net debt	1,792,981,100	709,451,974
Share capital	172,946,820	142,931,250
Reserves	619,891,757	379,483,109
Equity	792,838,577	522,414,359
Capital	2,585,819,677	1,231,866,333
Gearing ratio	69%	58%

Notes to the Financial Statements

for the year ended September 30, 2011

The Company finances its investment portfolio through equity, borrowings and management of its working capital with a view to maintaining an appropriate mix between various sources of finance to minimise risk.

41.6 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

The Company has available for sale investments which are revalued at the market prices prevailing on the balance sheet date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from book value.

42. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on December 16, 2011 by the Board of Directors of the Company.

43. DIVIDEND AND APPROPRIATIONS

The Board of Directors in their board meeting held on December 16, 2011 has recommended a final cash dividend of Re. 0.75 per share 7.5% (2010: Re. 1/- per share 10%) and issue of bonus shares in the proportion of ten (10) ordinary shares for every hundred (100) ordinary shares held 10% (2010: ten (10) ordinary shares for every hundred (100) ordinary shares held 10%) for the year ended September 30, 2011. The approval of the members for the proposed final cash dividend and the proposed bonus issue will be obtained at the Annual General Meeting of the Company to be held on January 31, 2012. The financial statements for the year ended September 30, 2011 do not include the effect of the final cash dividend and proposed bonus issue which will be accounted for in the financial statements for the year ending September 30, 2012.

44. GENERAL

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

CHIEF EXECUTIVE OFFICER

DIRECTOR

Pattern of Shareholding

as at September 30, 2011

Number of Shareholders	Shareholdings From		Shareholdings To	Total Number of Shares Held
1134	1	-	100	18,896
240	101	-	500	56,449
72	501	-	1000	54,335
77	1001	-	5000	201,433
19	5001	-	10000	145,683
14	10001	-	15000	169,168
6	15001	-	20000	108,447
6	20001	-	25000	137,220
4	25001	-	30000	108,937
1	30001	-	35000	34,113
4	35001	-	40000	141,489
1	50001	-	55000	52,831
1	55001	-	60000	58,856
1	60001	-	65000	61,931
1	65001	-	70000	67,783
1	90001	-	95000	90,382
1	95001	-	100000	98,632
1	100001	-	105000	101,801
1	125001	-	130000	129,912
1	145001	-	150000	147,000
1	150001	-	155000	152,160
1	165001	-	170000	165,500
1	170001	-	175000	174,377
1	175001	-	180000	175,529
1	180001	-	185000	183,597
1	215001	-	220000	215,246
1	230001	-	235000	231,394
1	275001	-	280000	277,081
1	280001	-	285000	282,123
1	335001	-	340000	336,095
1	580001	-	585000	580,399
2	1825001	-	1830000	3,654,617
1	2800001	-	2805000	2,801,359
1	3035001	-	3040000	3,038,899
1	3040001	-	3045000	3,041,008
1602				17,294,682

Shareholder's Category	Number of Shareholders	Number of Shares Held	Percentage of Paid-up Capital
FINANCIAL INSTITUTIONS	2	1,857	0.01%
INDIVIDUALS	1589	16,847,306	97.41%
INSURANCE COMPANY	2	174,397	1.01%
JOINT STOCK COMPANIES	6	260,573	1.51%
TRUST FUND	2	9,962	0.06%
INVESTMENT COMPANY	1	587	0.00%
	1602	17,294,682	100.00%

Additional Information

	Categories	Number of Shareholders	Shares held	Percentage
a)	Associated Undertaking and related parties	None	-	0.00
b)	NIT and ICP			
	National Bank of Pakistan	None	-	
	Investment Corporation of Pakistan	1	587	0.00
c)	Directors / CEO and their spouse and minor children			
	Mr. Mohammed Kasim Hasham	1	3,041,008	17.58
	Mr. Mohammed Ebrahim Hasham	1	2,801,359	16.20
	Mr. Mohammed Hussain Hasham	1	3,038,899	17.57
	Mr. Khurram Kasim	1	1,825,530	10.56
	Mr. Ahmed Ebrahim Hasham	1	1,829,087	10.58
	Mr. Muhammad Iqbal	1	4,394	0.03
	Mr. Farooq Hassan	1	3,025	0.02
	Mrs. Kulsoom Kasim	1	183,597	1.06
	Mrs. Khursheed Ebrahim	1	277,081	1.60
	Mrs. Marium Hussain	1	175,529	1.01
d)	Executives	None	-	0.00
e)	Public Sector Companies and Corporations	6	260,573	1.51
f)	Bank, DFIs, NBFIs, Insurance Companies, Mudarbas & Mutual Funds			
	MCB Bank Limited	1	115	0.00
	Habib Bank Limited	1	1,742	0.01
	EFU General Insurance Limited	1	20	0.00
	State Life Insurance Corporation of Pakistan	1	174,377	1.01
	Investment Corporation of Pakistan	1	587	0.00
g)	Shareholders holding 10% or more voting interest			
	Mr. Mohammed Kasim Hasham	1	3,041,008	17.58
	Mr. Mohammed Ebrahim Hasham	1	2,801,359	16.20
	Mr. Mohammed Hussain Hasham	1	3,038,899	17.57
	Mr. Khurram Kasim	1	1,825,530	10.56
	Mr. Ahmed Ebrahim Hasham	1	1,829,087	10.58

Proxy Form

46th Annual General Meeting

I / We ____

of ____

____________________________ being 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 46th Annual General Meeting of the Company to be held on January 31, 2012 at 1700 PST and at any adjournment thereof.

As witness my our hand seal this ______________ day of ________________ 2012

Signed by the said ____________________

in the presence of ____________________

Signature of Shareholders

Please affix Five Rupees Revenue Stamp

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 fixed for holding the Annual General 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, address 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/her 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.

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