

MEHRAN  
SUGAR  
MILLS  
LIMITED



Annual Report  
2008

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## Vision Statement

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



# Corporate Mission

## Preamble

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

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

## Basic Purpose

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

## What We Do

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

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





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

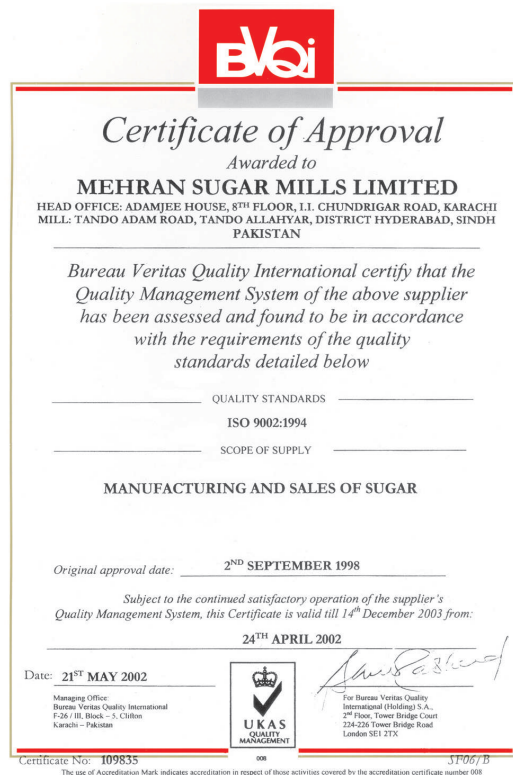
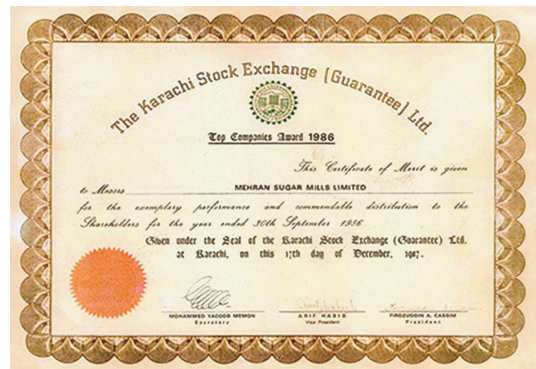
This has been increasingly reflected in the improved life-style of farmers and employees, growth of townships, stronger health and educational infrastructure and increase in rural entrepreneurship thus enlarging community wealth and leading to the purchase of tractors, trucks and jeeps by farmers





# 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 The Company is a Rs. 1 Billion Company with respect to sales.
- 2004 Company makes a substantial long term investment in Unicol Limited -An Ethanol Distillery. Where by the Company by-product, Molasses will be used to make industrial and fuel ethanol.
- 2005 Company is awarded GMP-13 status, thus allowing for export of its by-products to all European destinations.
- 2006 The Company crosses the Rs. 2.0 Billion sales milestone.
- 2007 The joint venture distillery-Unicol Limited commenced commercial production.
- 2008 Record highest sugar production of 70,558 M.tons



# Company Information

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



## Registered Office

Adamjee House, 8th Floor,  
I.I. Chundrigar Road, Karachi  
Tel : (92-21) 2417131-4  
Fax : (92-21) 2416477  
E-mail : [msm@mehransugar.com](mailto:msm@mehransugar.com)  
URL : [www.mehransugar.com](http://www.mehransugar.com)

## Mills

Tando Adam Road, Distt. Tando Allahyar  
Tel : (92-22) 3890856, 3890407, 3891984  
Fax : (92-22) 3890568  
E-mail : [msmta@mehransugar.com](mailto:msmta@mehransugar.com)

## Board of Directors

Mr. Mohammed Kasim Hasham, **Chairman**  
Mr. Mohammed Ebrahim Hasham, **Chief Executive Officer**  
Mr. Mohammed Hussain Hasham  
Mr. Khurram Kasim  
Mr. Ahmed Ebrahim Hasham  
Mr. Mohammed Iqbal  
Mr. Abdul Razzaq Usman

## Audit Committee

Mr. Mohammed Hussain Hasham, **Chairman**  
Mr. Khurram Kasim  
Mr. Muhammad Iqbal

## Chief Financial Officer & Company Secretary

Mr. Muhammad Hanif Aziz, FCMA

## Auditors

M/s. Ford Rhodes Sidat Hyder & Co.  
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 Islamic Bank



# Corporate Profile

Date of Incorporation	December 22, 1965
Date of Commencement of Business	March 19, 1966
Start of Commercial Production	January 1969
Date of BMR & Expansion	1993-1994
Installed Capacity	7,000 Tons Cane Crushing Per Day
Total Land Area	118 Acres
Permanent Employees :	Officers : 101 Workers: 232
Offices Head Office Mills	Adamjee House, I. I. Chundrigar Road, Karachi Tando Allahyar (40 Km From Hyderabad)
Facilities at the MSM Staff Colony Housing	96 Family Homes For Executives And Workers
Population of the Staff Colony	Approximately 581
Children at the Dawood Memorial School	423
Other Facilities	<ul style="list-style-type: none"><li>■ Mosque</li><li>■ Clinic with Ambulance</li><li>■ Dawood Memorial School for Children of MSM Employees as well as Children of Near by Town</li><li>■ Recreation Centres equipped with Indoor Games, TV, Videos, Dish Antennas and other facilities for Executives, Workers and Ladies</li><li>■ Cricket Ground, Tennis Court, Park and Rose Garden, School / College Bus facility</li><li>■ Private Electric Generator for Uninterrupted Power Supply</li><li>■ Clean Water Supply with UV Filters</li><li>■ Transport Facility for City &amp; Adjoining Areas</li><li>■ Newly constructed accommodation for Officers and Company Guests with all facilities</li></ul>





# Statement of Value Added

	2008 (Rupees)	Percentage
<b>WEALTH GENERATED</b>		
Net revenue	1,439,287,528	
Expenses	(1,046,624,172)	
Wealth generated	392,663,356	100
<b>WEALTH DISTRIBUTED</b>		
<b>To Government</b>		
Sales Tax, Income Tax, Road Cess	162,669,421	41
<b>To Employees</b>		
Salaries, Benefits and Other related cost	94,289,247	24
<b>To Providers of capital</b>		
Mark-up on borrowed funds	43,638,528	11
<b>Retained with the business</b>		
Depreciation	34,690,269	
Retained profit	57,375,891	
	92,066,160	23
	392,663,356	100

## Wealth Distribution 2007-08

- Government 41%
- Employees 24%
- Mark-up 11%
- Retained 23%



# Six Years Review at a Glance

	2008	2007	2006	2005	2004	2003
<b>Operational Trends</b>						
Sugarcane crushed - M.Tons	741,383	589,378	496,873	341,738	668,262	635,388
Sugar produced - Cane (M.Tons)	70,558	50,796	47,296	32,021	58,868	57,296
Sugar produced - Raw Sugar (M.Tons)	-	-	4,280	7,485	-	-
Average sucrose recovery - %	9.51	8.63	9.46	9.38	8.80	9.00
Crushing-days	136	138	114	106	131	118
Average crushing per day - M.Tons	5,451	4,271	4,359	3,224	5,101	5,385
<b>Balance Sheet</b>						
	<b>Rupees in million</b>					
Share capital	98.44	98.44	98.44	98.44	98.44	98.44
Reserves	77.35	19.97	131.36	51.51	59.01	46.63
Shareholders' equity	175.79	118.41	229.80	149.95	157.44	145.06
Non current liabilities	303.40	325.18	251.29	276.56	263.02	218.49
Current liabilities	712.40	320.05	326.37	397.99	530.17	313.29
Total Equity & Liabilities	1,191.59	763.63	807.46	824.50	950.63	676.84
<b>Fixed assets</b>						
Non current assets	177.43	137.10	122.86	95.85	91.34	48.40
Current assets	588.82	206.74	290.29	317.86	437.95	263.77
Total assets	1,191.59	763.63	807.46	824.50	950.63	676.84
<b>Financial Trends</b>						
Turnover	1439.29	1485.94	2259.62	1273.64	818.62	942.55
Gross profit/(loss)	118.58	(7.36)	188.495	65.26	33.43	44.39
EBITDA	138.89	(18.30)	178.98	67.23	73.43	52.80
Operating profit / (loss)	68.83	(46.82)	145.86	34.38	(13.86)	15.08
Pre-tax profit/(loss)	60.56	(110.36)	98.92	4.68	30.30	5.87
After-tax profit/(loss)	57.38	(86.78)	79.85	(7.49)	12.38	(9.00)
Earning / (Loss) per share-Rupees	5.83	(8.82)	8.11	(0.76)	1.26	(0.91)
Capital Expenditure	63.93	32.58	24.08	52.67	68.55	4.94
<b>Cash Flows</b>						
Operating activities	54.32	44.33	22.88	28.47	44.38	65.35
Investing activities	(59.25)	(75.58)	(43.25)	(25.83)	(131.71)	(18.26)
Financing activities	(76.01)	94.37	(23.29)	(29.79)	103.93	(49.34)
Cash and Cash equivalents at the end of the year	(165.83)	(84.89)	(148.00)	(104.34)	(73.52)	(90.14)





	2008	2007	2006	2005	2004	2003
<b>Profitability Indicators</b>						
Gross profit ( % )	9.23	(0.57)	9.61	5.85	5.01	5.78
Net profit ( % )	4.47	(6.73)	4.07	(0.67)	1.86	(1.17)
Return on shareholders' equity ( % )	32.64	(73.29)	34.75	(5.00)	7.86	(6.21)
Operating profit / (loss) on capital employed ( % )	14.36	(10.55)	30.32	8.06	(3.30)	4.15
Return on total assets ( % )	4.82	(11.36)	9.89	(0.91)	1.30	(1.33)
Weighted average cost of debts ( % )	13.02	18.35	17.12	11.68	5.65	9.21
EBITDA margin ( % )	10.81	(1.42)	9.13	6.03	11.01	6.88
<b>Capital Efficiency</b>						
Inventory turnover ratio	2.67	10.95	12.68	5.15	4.74	8.84
inventory turnover in days	135	33	28	70	76	41
Debtor turnover ratio	42.10	41.47	33.83	76.84	39.55	22.94
Debtor turnover in days	9	9	11	5	9	16
Total assets turnover ratio	1.08	1.69	2.43	1.35	0.70	1.13
Fixed assets turnover ratio	3.02	3.07	4.97	2.72	1.58	2.10
Operating cycle in days	144	42	39	75	85	56
Capital employed turnover ratio	2.68	2.91	4.08	2.62	1.59	2.11
<b>Investment Trends</b>						
Earning per share	5.83	(8.82)	8.11	(0.76)	1.26	(0.91)
Break-up value per share	17.86	12.03	23.35	15.23	15.99	14.74
Market value per share at the year end	28.25	15.30	25.00	20.00	21.00	23.65
Price earning ratio at the year end	4.85	(1.74)	3.08	(26.28)	16.70	(25.86)
<b>Financial gearing</b>						
Debt : Equity Ratio	38 : 62	49 : 51	16 : 84	28 : 72	34 : 66	0 : 100
Interest cover ratio ( % )	2.39	(0.91)	3.11	1.16	3.55	1.34
<b>Liquidity ratio</b>						
Current ratio	0.83 : 1	0.65 : 1	0.89 : 1	0.8 : 1	0.83 : 1	0.84 : 1
Quick ratio/Acid test ratio	0.21 : 1	0.28 : 1	0.46 : 1	0.29 : 1	0.22 : 1	0.35 : 1
<b>Value addition</b>						
	<b>Rupees in million</b>					
Employees as remuneration	94.29	81.75	81.01	66.73	62.63	74.79
Government as taxes	162.67	207.38	321.21	159.08	149.07	131.80
Shareholders as dividends	0.00	0.00	24.60	0.00	0.00	0.00
Retained within the business	92.07	(52.50)	112.96	25.36	20.75	43.63
Financial charges to providers of finance	43.64	57.77	46.94	29.70	11.88	17.17



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





# Products

Mehran has been producing **sugar** and **molasses** since four decades. Since last year the Company is also involved in the production of **ethanol**. This will add further diversity to our product base.



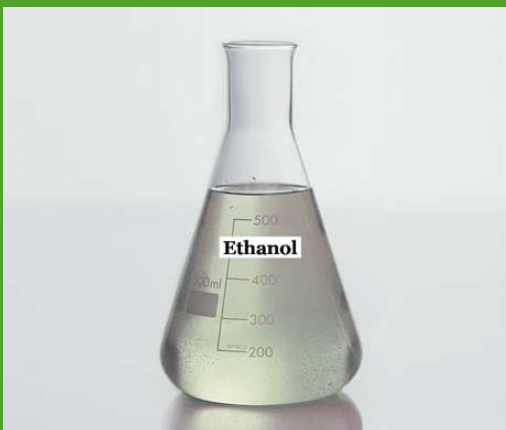
## Sugar

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



## Molasses

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



## Ethanol

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



# Mehran Sugar Mills Role in Rural Sector Development

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

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

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

- a) Multiple ratooning.
- b) Frontline demonstrations on various techniques of sugarcane production. Thereby helping the farmer get higher yields and a better rate of return.
- c) Bio - manure production. Thus reducing cost of fertilizer application.
- d) Multiplication of high sucrose and early maturing varieties.
- e) Propagated drip irrigation system in sugarcane fields. One of the first mills to do so. Used foreign technical collaboration.
- f) Made and distributed Trichogramma cards and Crysopa cards through in-house bio Lab. incidence of pest and disease minimized to produce healthy crops.
- g) Replacement of old and deteriorating varieties with new and high yielding ones.
- h) Irrigation facilities increased in the area.





# Cane Development Measures carried out by Mehran

Mehran provided **170,254 Trichogramma cards** and **2,850 Crysopa cards** through its in-house bio laboratory to enable farmers to produce a healthier crop



## Trichogramma Cards

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

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



## Laser Leveler

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

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



## Wade Rain

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

# Role of the Pakistan Sugar Industry in Rural Sector Development

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

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











# Directors' Report to the Shareholders

By the grace of God, the country had a record bumper crop of sugarcane. The national sugar production touched 4.73 million metric tons surpassing the previous highest production of 3.99 million metric tons achieved in 2003-04.

It is my pleasure to present the audited financial results of the Company for the year ended September 30, 2008.

## Economic Review

During the FY08, the economy posted a GDP growth of 5.8% comparatively lower than 7% of last year. Although the country had good rice, sugarcane and wheat crops, yet the benefit could not be passed on to consumers resulting in steep rise in their retail prices. This rise was mainly an international phenomena as global funds played havoc with commodity prices by increasing them to unprecedented levels. The international crude oil prices also created records by soaring up to \$ 148/barrel. In turn domestic prices registered considerable increase as government passed on the impact of such an abnormal increase. This impact was so huge that it offset majority of positive contributors to the economic growth leading to a huge fiscal and trade deficit.

The national trade deficit increased to \$ 14 billion during the current year compared to \$ 12.4 last year. Although the remittance flow from overseas partially financed the trade deficit, the current account deficit widened to \$ 7.4 billion (5% of GDP) compared to \$ 4.6 billion (4.3%) last year.

Due to unmanageable inflation, State Bank continued to tighten monetary policy by gradually increasing the discount rate to 15%. This has resulted in substantial rise in mark up rates. Increased mark up and depreciating local currency has increased cost of doing business and slowed down economic activities in the country.

## Industry Prospective

The commencement of the crushing season was again marred by controversy over notified price which led to a turbulent start. The provincial government initially notified

a price of Rs.67/40 kg. Strong resistance by the industry in the wake of falling sugar prices due to the anticipated bumper crop forced the government to revise the minimum support downwards to Rs.63/40 kgs with effect from January 21, 2008.

By the grace of God, the country had a record bumper crop of sugarcane. The national sugar production touched 4.73 million metric tons surpassing the previous highest production of 3.99 million metric tons achieved in 2003-04. This record production resulted in a crash of the local sugar market to Rs.21.75/kg with taxes and Rs.18.4/kg without taxes. The surplus production and low domestic prices of sugar created export opportunities. After many years Pakistan was able to export sugar without any subsidies in the free market. The country exported more than 200,000 metric tons and earned valuable foreign exchange. Your Company also took part in these exports and was able to export 10,910 metric tons to Bangladesh, Yemen and Afghanistan. Thus we had a market share of above 5 % in Pakistan's sugar exports.

To ensure timely sugarcane payments, the government controlled Trading Corporation of Pakistan (TCP) continued to buy sugar from mills at regular intervals. The function of TCP was seen as positive one for the sugar industry as it allowed prices to stabilize in the local market and also helped the government to build a buffer stock as well as provide subsidized sugar to the common man through its large network of utility stores. The TCP bought 556,000 metric tons from sugar mills across the country and has been mandated to continue keeping a buffer stock of 400,000 tons, which is equivalent to just over one month of Pakistan's sugar consumption.

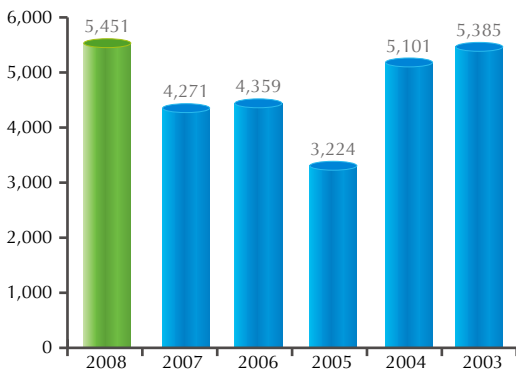
Though the sugar prices remained depressed for most part of the year, however, in the last quarter prices started improving due to continuous TCP intervention; rise in international prices; depreciation of currency and relatively lower expected production in the next season.



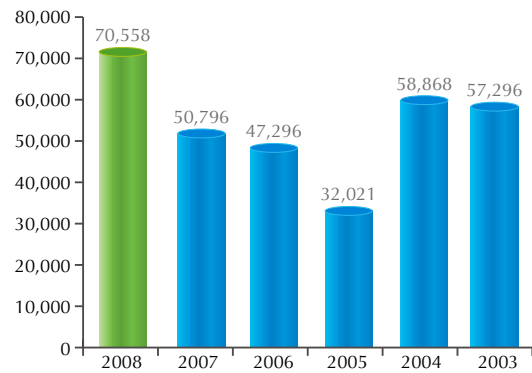
# Operational Highlights

Mehran was able to crush 26% more cane than the previous year as well as get 10% higher sucrose recovery, which lead to an overall increase of 39% in sugar production.

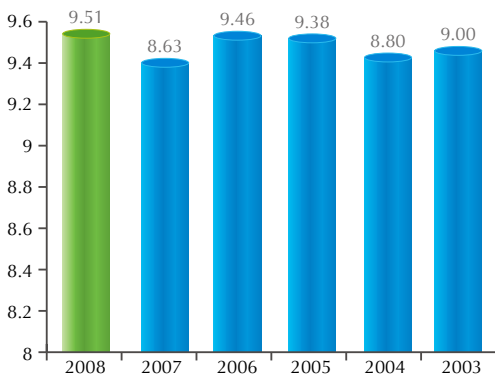
**Average Crushing per day** Metric Ton



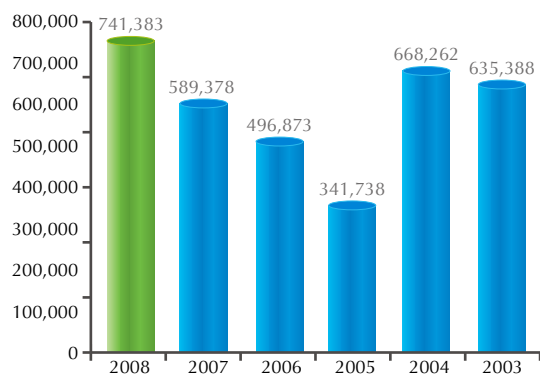
**Sugar Produced** Metric Ton



**Sucrose Recovery %**



**Cane Crushed** Metric Ton







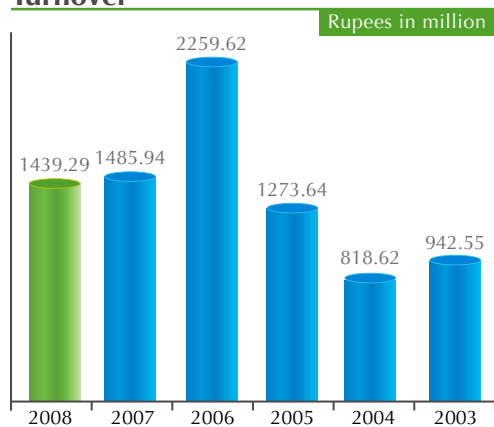
	2008	2007
	Rupees	
Season started	15.11.07	10.11.06
Season closed	29.03.08	27.03.07
Duration-Days	136	138
Crushing-M.Tons	741,383	589,378
Sucrose Recovery %	9.51	8.63
Sugar Production-M.Tons	70,558	50,796
Molasses Production-M.Tons	36,250	27,770

We feel that cane development and procurement strategy is the most critical element of remaining competitive in the industry. Our target is to ensure that Mehran's overall recovery always closes above 10% every season.

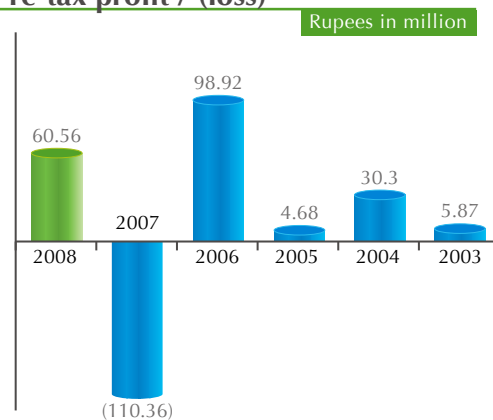


# Company Performance

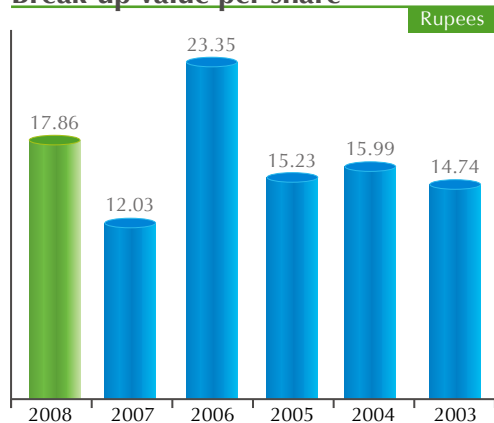
## Turnover



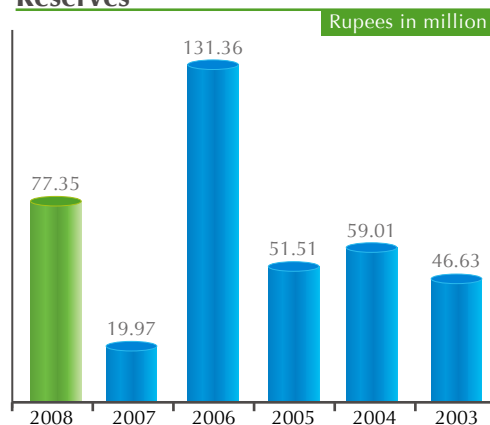
## Pre-tax profit / (loss)



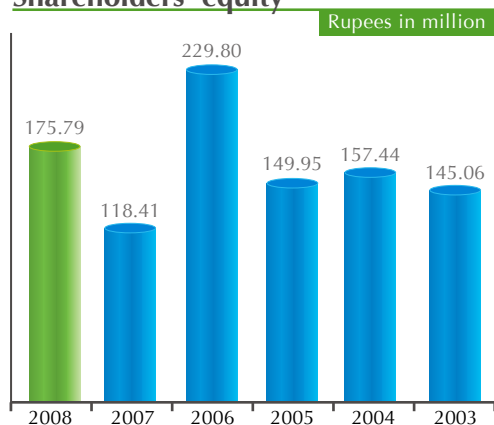
## Break-up value per share



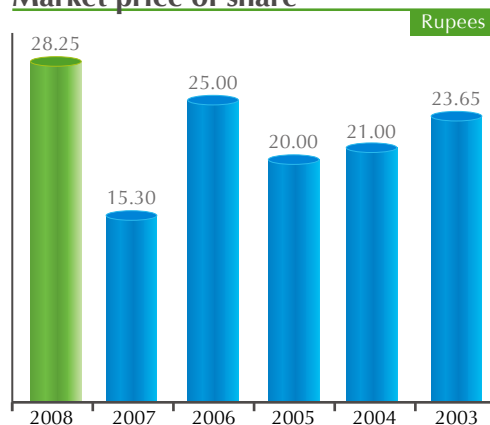
## Reserves



## Shareholders' equity



## Market price of share



# Financial Highlights

The Company had a record crushing of sugarcane and production of sugar. The previous highest sugar production was 63,000 tons in season 1997-1998. The crushing recovery increased by 26% compared to last year while sucrose recovery increased to 9.51%, an increase of 10.2% over last year. These factors resulted in sugar production to increase by 39% as compared to the previous year.

Special emphasis is being given to boost the Company's overall recovery percentage. Efforts are being made towards ensuring better cane development as well as procurement techniques. In terms of developments the company has

recently leased a second farm, thus taking its total farming to 350 acres. We cultivate high yielding and high sucrose varieties and give them to our growers in the form of seed loans, which are free of mark up and payable within 12 months. Efforts have been made for better procurement facilities, in terms of payment and price incentives to growers who have early maturing cane varieties.

We feel that cane development and procurement strategy is the most critical element of remaining competitive in the industry. Our target is to ensure that Mehran's overall recovery always closes above 10% every season.

## Financial Highlights Year Ended September 30

	2008	2007
	Rupees	
Turnover	1,439,287	1,485,943
Sales Tax/Excise Duty	154,847	197,224
Gross Profit / (Loss)	118,577	(7,360)
Pretax Profit / (Loss)	60,565	(110,357)
After tax Profit / (Loss)	57,376	(86,781)

The quantity sold increased by 6%. The redeeming feature was the conversion of gross loss into net profit. The main reasons for improvement are summarized below;

- Record highest crushing of sugarcane
- Record sugar production
- Reduction in average cane price by 6.35%
- Improvement in recovery of sucrose by 10.2%
- Improved selling price of molasses by 10.7%.
- Better capacity utilization at 77.87% as compared 61.01% last year
- Reduction in financial expenses from Rs. 57.77 million to Rs. 43.64 million
- Unicol's share of profit of Rs. 35.37 million as compared to last year's loss of Rs. 5.76 million





## Future Outlook

The recent financial debacle in the United States and Europe due to the collapse of major financial institutions has led to a credit crunch and an economic slow down in the developed world. Though not anticipated earlier, this, in turn, has had a coupling effect and thus a slow down in the developing world as well.

However, despite slow growth momentum in developing world, they are still expected to provide a source of resilience, benefiting from productivity growth and large domestic markets. Pakistan however has its own problems. Thus after a seven year stint we have headed back to an IMF program. One of the most stringent points of the program is to curb inflation and to do this the state bank is following a very tight monetary policy.

Tight monetary policy has resulted in higher KIBOR rates, which have increased to between 14 and 15 %. This has drastically increased the financial cost of most companies and will eventually hit their bottom line.

The Pakistan sugar industry is expected to produce 3.5 million tons of sugar for the season 2008-2009. This along with a carry over of 700,000 tons means that the country would have 4.2 million tons available stock. Consumption is expected at between 4.4 - 4.5 million tons. This situation would mean that in the second half of the year Pakistan could become a sugar importer, in order to fulfill its shortage as well as to build buffer stocks.

On the cane front, the minimum support price announced by the Sindh Government at Rs. 81/40 kgs depicts a staggering 29% increase over the last year. In addition, the 30 % expected shortage of sugarcane during 2008-09 might also affect the pricing of sugar cane, which could rise. This will further increase the cost of production, as sugarcane constitutes a major component of the overall cost. In addition, the cost in other areas, primarily consumable, salaries and wages and financial expenses has increased substantially resulting in overall cost escalation.

Your company's continual effort to strictly monitor cane development and procurement activities has started paying

dividends in the shape of improved sucrose recovery. By the grace of God, your mill has so far been achieving one of the best sucrose recoveries in the province. The increase in transportation charges, due to higher fuel prices will also reduce infiltration of sugarcane to other areas, which should enable your mill to continue crushing consistently and achieve reasonable capacity utilization levels.

As the crushing season progresses, it will be extremely important to ensure prudent cane procurement as any reduction in sucrose recovery or abnormal increase in cane prices might play havoc with the financials.

Identically, sales policy will have to be very clear and decisive to ensure minimal financial charges. Due to the recent global financial turmoil, sugar prices have also come down slightly in line with other commodity prices. We however foresee prices to increase in the second half of the year as the domestic market is trading at values of 20% below the import replacement cost. Thus to plug the shortages imports will become viable, leading to higher domestic prices.

Depleting oil reserves and environment hazards has also led diversion of sugarcane towards production of ethanol. This has created vast export opportunities for the local industry, as international prices of molasses and ethanol are still attractive. Paucity of foreign exchanges has also brought Pakistan Government's focus back on blending of ethanol with petrol for use as fuel. However, the current price differential between petrol and ethanol is a critical factor in the final decision. The Government has already constituted a task force for considering this proposal and submitting its recommendations.

In view of persistent shortage of power in the country, the government is formulating a policy for cogeneration by the sugar industry. However, huge capital expenditure and the requirement of a dual fuel policy and its pricing are mitigating progress.





**Unicol Limited:**

The first full year of Unicol operations was a success. The ethanol plant operated at full capacity. The production and dispatches were well planned and resulted in very low finished product stocks thus minimizing financial expenses. Profit was further boosted by higher oil prices, which allowed the company to fetch higher ethanol prices. Devaluation of currency and strong capacity utilization also allowed the margins to remain favorable. Some important statistics relating to Unicol are given below:

Production in liters:		34 million
Sales in liters:		28 million
Sales	Rs.	893 million
Profit before Tax	Rs.	120 million
Profit after Tax	Rs.	110 million
Unicol EPS:		3.52
Return on Equity:		35%







# Corporate and Social Responsibility

## CONTRIBUTION TO SOCIETY

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

we set out our pledge to connecting business decisions with ethical, social and environmental concerns.

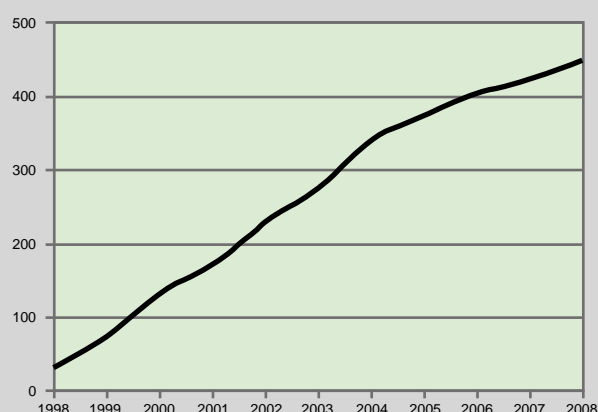
MSML through its vast social activities, has much to be proud of in improving the health and education standards in the under developed areas of Sindh especially in our mills area. Most of our efforts are targeted at improving the quality of life of people in under-served areas. We fund programs that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

**Some of the projects undertaken include:**

### DAOOD MEMORIAL SCHOOL (DMS)

Daood Memorial School, situated within the premises of MSML, is a fully equipped educational center specifically meant for employees of the mills and generally for the youth of Tando Allahyar and its vicinity. For over 10 years, the school has been facilitating students to learn and create their future themselves. By the grace of Allah Almighty and due to the untiring efforts and commitment of the management, DMS, as we call it, has been growing steadily. It has been providing education upto Matriculation since 2006. Considering the growth of DMS, we plan to increase the number of students from 423 to 600 in next three years. The graph and table below show the growth trend in DMS.

Period	No. of Students	Growth %
1998 – 99	30	-
1999 – 00	75	150%
2000 – 01	134	79%
2001 – 02	171	28%
2002 – 03	228	33%
2003 – 04	276	21%
2004 – 05	342	12%
2005 – 06	375	21%
2006 – 07	403	7.5%
2007 – 08	423	5%



#### Growth Plan (Projected)

2008 – 09	450	6%
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### 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 18,225 patients for various ailments. During the period October 2007 to September 2008, it had provided services to 1,099 patients. Due to its great utility, MSML plans to shortly start another well-equipped unit in order to expand the coverage area.

### MSM FREE EYE CAMP

Free Eye Camp is being organized once every year at the mills premises where large number of needy persons from nearby areas turn up for various eye-related problems. Necessary major and minor operations are carried out. Follow up visit is also conducted by concerned doctors to ensure that treatment given earlier is yielding desired results.

### 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 330 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.



## STATEMENT OF ETHICS & BUSINESS PRACTICES

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

## AUDIT COMMITTEE

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

## EXTERNAL AUDIT

The Company wishes to place on record its appreciation for the services rendered by the Company's auditors M/s. Ford Rhodes Sidat Hyder & Co., Chartered Accountants, who completed the audit of financial statements of the Company for the year ended September 30, 2008.

## 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).

## 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 five meetings of the Board were convened and the attendance of the members was as follows:

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

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.





## 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, 2008;
- 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.162.67 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, 2008 was Rs. 56.92 million.
- There is also an un-funded gratuity scheme. On the basis of actuarial valuation conducted during 2007, a net liability of Rs. 5.5 million as at September 30, 2008 has been provided.
- None of the directors, CEO, GMF, Company Secretary and their spouses and minor children carried out any transaction in the shares of the Company during the year under review :

For and on behalf of the Board of Directors

  
**Mohammed Kasim Hasham**  
Chairman

Karachi: December 22, 2008

## 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, 2008 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, 2008 is included in the annexed shareholders' information.

## ACKNOWLEDGMENT

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

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

  
**Mohammed Ebrahim Hasham**  
Chief Executive Officer



# Notice of Annual General Meeting

Notice is hereby given that the 43<sup>rd</sup> Annual General Meeting of the members of the Company will be held at I.C.A.P. Auditorium, Chartered Accountants Avenue, Clifton, Karachi on Friday, January 30, 2009 at 1730 PST to transact the following business:

## ORDINARY BUSINESS

1. To confirm the minutes of the Extraordinary General Meeting held on April 08,2008;
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, 2008;
3. To appoint auditors for the year ending September 30, 2009 and to fix their remuneration. The retiring auditors M/s. Ford Rhodes Sidat Hyder & Co., Chartered Accountants being eligible, have offered themselves for the re-appointment.

## SPECIAL BUSINESS

4. To approve the remuneration of the Chief Executive Officer and 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.

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

By order of the of Board of Directors

**Muhammad Hanif Aziz**  
Company Secretary

**Karachi:** December 22, 2008



# Notice of Annual General Meeting

## NOTES

1. The share transfer books of the Company will remain closed from January 24, 2009 to January 30, 2009 (both days inclusive).
2. A member entitled to attend and vote at the Annual General Meeting may appoint another member as his/her proxy to attend and vote in his/her behalf. Proxies in order to be effective must be received by the Company at its Registered Office not later than 48 hours before the time of the Meeting.
3. The shareholders whose shares are registered in their account/sub-account with Central Depository System (CDS) are requested to bring NIC alongwith their account number in CDS and participant's ID number for verification. In case of appointment of proxy by such account holders and sub-account holders the guide lines as contained in SECP's circular 1 of 26<sup>th</sup> January, 2000 to be followed.
4. The shareholders are requested to notify the Company immediately the change in their address, if any.
5. The shareholders are also requested to intimate us their CNIC # to implement the requirements of Annual Returns (Form A) which the company is required to file with the SECP under section 156 of the Ordinance.

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

This Statement sets out material facts concerning Special Business to be transacted at the 43<sup>rd</sup> Annual General Meeting of the Company to be held on January 30, 2009. The approval of the Members of the Company will be sought for:

### Item No. 4

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
Chief Executive Officer	Rs. 200,000	Rs. 275,000	Jan-07
Working Director	Rs. 120,000	Rs. 200,000	Jan-07
Working Director	Rs. 50,000	Rs. 70,000	Jan-07





# Statement of Compliance with the Code of Corporate Governance

for the year ended September 30, 2008

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 three executive and four 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 NBF, 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, 2008 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
11. The financial statements of the Company were duly endorsed by the CEO and CFO before approval of the Board.
12. The directors, CEO and executives do not hold any interest in the shares of the Company other than disclosed in the pattern of shareholdings.
13. The Company has complied with all the corporate and financial reporting requirements of the Code.
14. The Audit Committee comprises three members, of whom two are non-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.

For and on behalf of the Board



**Mohammed Ebrahim Hasham**  
Chief Executive Officer

**Karachi:** December 22, 2008

## 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 with the best practices contained in the Code of Corporate Governance (the Code) for the year ended **30 September 2008** prepared by the Board of Directors of **Mehran Sugar Mills Limited** to comply with the Listing Regulation No. 37 of the 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 of Compliance 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 system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code, effective for the year ended **30 September 2008**.

Ford Rhodes Sidat Hyder & Co.  
Chartered Accountants

**KARACHI:** December 22, 2008



# Financial Statements

for the year ended September 30, 2008



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# Auditors' Report to the Members

We have audited the annexed balance sheet of **Mehran Sugar Mills Limited** as at **30 September 2008** and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

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

- a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion:
  - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for the changes as stated in note 4.3 to the 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, 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 2008** and of the **profit**, its cash flows and changes in equity for the year then ended; and
- d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Without qualifying our opinion we draw attention to:

- i) note 6 and 11.1 to the financial statements in respect of long-term receivable – unsecured and trade debts - unsecured (net of related liability) of Rs. 42.511 million and Rs. 8.327 million respectively, which are subject to the outcome of litigation. The ultimate outcome of these matters cannot presently be determined and hence, no provision for any impairment loss that may result therefrom has been made in these financial statements; and
- ii) note 27 to the financial statements. The Company is defendant in various law suits which are pending adjudications. The ultimate outcome of the matters cannot presently be determined and, no provision for any liability that may result has been made in these financial statements.

Ford Rhodes Sidat Hyder & Co.  
Chartered Accountants

KARACHI: December 22, 2008



# Balance Sheet

as at September 30, 2008

	Note	2008	2007
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	5	425,335,708	419,794,883
Long-term receivable-unsecured	6	42,510,996	42,510,996
Long-term investment	7	134,607,391	94,236,980
Long-term deposits		312,400	350,400
		602,766,495	556,893,259
<b>CURRENT ASSETS</b>			
Biological assets	8	3,969,286	2,165,915
Stores and spare parts	9	40,330,562	25,583,636
Stock-in-trade	10	437,057,566	118,386,838
Trade debts-unsecured	11	30,511,612	31,072,631
Loans and advances-unsecured	12	27,207,375	10,129,393
Trade deposits and short-term prepayments	13	4,842,340	10,646,287
Other receivables		654,506	785,649
Short-term investments	14	16,899,764	3,654,000
Income tax recoverable		25,692,180	2,106,910
Cash and bank balances	15	1,657,708	2,210,174
		588,822,899	206,741,433
<b>TOTAL ASSETS</b>		<b>1,191,589,394</b>	<b>763,634,692</b>
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Share capital	16	98,437,500	98,437,500
Reserves	17	77,350,289	19,974,398
		175,787,789	118,411,898
<b>NON-CURRENT LIABILITIES</b>			
Subordinated loans	18	27,982,232	42,652,232
Long-term financing-secured	19	126,250,000	151,076,950
Liabilities against assets subject to finance lease	20	1,260,797	1,127,857
Deferred liabilities	21	5,483,775	5,851,629
Deferred taxation	22	23,133,753	22,340,769
Provisions	23	119,290,919	100,710,743
		303,401,476	323,760,180
<b>CURRENT LIABILITIES</b>			
Trade and other payables	24	449,757,145	124,990,064
Accrued mark-up	25	29,406,047	31,149,654
Short-term borrowings-secured	26	167,482,776	87,095,838
Current maturity of liabilities against assets subject to finance lease	20	1,354,380	1,500,180
Current portion of long-term financing	19	13,750,000	48,541,658
Provision for market committee fee	23	32,700,000	-
Sales tax payable		17,949,781	28,185,220
		712,400,129	321,462,614
<b>CONTINGENCIES AND COMMITMENTS</b>	27	-	-
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,191,589,394</b>	<b>763,634,692</b>

The annexed notes from 1 to 46 form an integral part of these financial statements.

  
**Mohammed Ebrahim Hasham**  
 Chief Executive Officer

  
**Khurram Kasim**  
 Director



# Profit and Loss Account

for the year ended September 30, 2008

	Note	2008	2007
Rupees			
Turnover-net	28	1,284,440,469	1,288,719,617
Cost of sales	29	(1,165,863,557)	(1,296,080,119)
Gross profit/(loss)		118,576,912	(7,360,502)
Distribution costs	30	(13,663,398)	(1,924,450)
Administrative expenses	31	(57,795,387)	(41,309,976)
Other operating expenses	32	(6,752,804)	(3,016,425)
Other operating income	33	28,467,359	6,790,635
		49,744,230	(39,460,216)
		68,832,682	(46,820,718)
Share of profit/(loss) from an associate	7	35,370,411	(5,763,000)
Finance costs	34	(43,638,528)	(57,773,160)
<b>Profit/(loss) before taxation</b>		60,564,565	(110,356,878)
Taxation	35	(3,188,674)	23,575,800
<b>Profit/(loss) after taxation</b>		57,375,891	(86,781,078)
<b>Basic and diluted earnings/(loss) per share</b>	36	5.83	(8.82)

The annexed notes from 1 to 46 form an integral part of these financial statements.



**Mohammed Ebrahim Hasham**  
Chief Executive Officer



**Khurram Kasim**  
Director



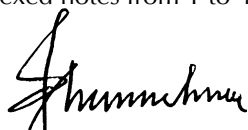


# Cash Flow Statement

for the year ended September 30, 2008

	Note	2008	2007
		Rupees	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Profit/(loss) before taxation</b>		60,564,565	(110,356,878)
<b>Adjustment for non-cash items:</b>			
Depreciation		34,690,269	34,280,208
Provision for staff gratuity/(prepaid cost– written back)		795,839	(2,297,647)
Share of (profit)/loss from an associate		(35,370,411)	5,763,000
Provision no longer required written back		(20,850,964)	-
Gain on disposal of fixed assets		(1,009,186)	(464,090)
Provision for additional tax on bagasse		-	2,933,925
Finance costs		43,638,528	57,773,160
Provision for quality premium		75,065,065	-
Provision for doubtful deposits		7,196,113	-
Provision for impairment on short-term investments		3,482,695	-
Security deposits adjusted against expenses		38,000	-
Working capital changes	37	(38,467,369)	116,391,374
		69,208,579	214,379,930
Staff gratuity paid		(1,163,693)	(317,966)
Taxes paid		(25,978,016)	(7,795,417)
Finance costs paid		(45,382,135)	(51,484,890)
Payment of road cess and surcharges on roads		-	(96,589)
Payment of additional tax on bagasse		(2,933,925)	-
<b>Net cash generated from operating activities</b>		54,315,375	44,328,190
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Fixed capital expenditure		(40,338,273)	(57,444,377)
Long-term investments		(5,000,000)	(20,000,000)
Short-term investment		(16,728,459)	-
Proceeds from disposal of operating fixed assets		2,818,365	1,861,446
<b>Net cash used in investing activities</b>		(59,248,367)	(75,582,931)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Subordinated loans – net		(14,670,000)	1,252,232
Long term financing (paid)/obtained-net		(59,618,608)	115,541,343
Liabilities against assets subject to finance lease		(1,714,860)	1,342,924
Dividend paid		(2,944)	(23,768,445)
Net cash( used in)/ generated from financing activities		(76,006,412)	94,368,054
Net (decrease) / increase in cash and cash equivalents during the year		(80,939,404)	63,113,313
Cash and cash equivalents at the beginning of the year		(84,885,664)	(147,998,977)
<b>Cash and cash equivalents at the end of the year</b>		(165,825,068)	(84,885,664)
<b>Cash and cash equivalents comprise of:</b>			
Cash and bank balances	15	1,657,708	2,210,174
Short-term borrowings	26	(167,482,776)	(87,095,838)
		(165,825,068)	(84,885,664)

The annexed notes from 1 to 46 form an integral part of these financial statements.

  
**Mohammed Ebrahim Hasham**  
 Chief Executive Officer

  
**Khurram Kasim**  
 Director



# Statement of Changes in Equity

for the year ended September 30, 2008

	Share capital	Reserves			Total Reserves	Total
		Capital reserve share premium	Revenue reserve general reserve	Accumulated (Losses) / Profit		
<b>Balance as at September 30, 2006</b>	98,437,500	63,281,250	85,000,000	(16,916,399)	131,364,851	229,802,351
Final dividend for the year ended September 30, 2006 @Rs. 2.50 per share	-	-	-	(24,609,375)	(24,609,375)	(24,609,375)
Loss after taxation for the year ended September 30, 2007	-	-	-	(86,781,078)	(86,781,078)	(86,781,078)
<b>Balance as at September 30, 2007</b>	98,437,500	63,281,250	85,000,000	(128,306,852)	19,974,398	118,411,898
Profit after taxation for the year ended September 30, 2008	-	-	-	57,375,891	57,375,891	57,375,891
<b>Balance as at September 30, 2008</b>	98,437,500	63,281,250	85,000,000	(70,930,961)	77,350,289	175,787,789

The annexed notes from 1 to 46 form an integral part of these financial statements.

  
**Mohammed Ebrahim Hasham**  
 Chief Executive Officer

  
**Khurram Kasim**  
 Director



# Notes to the Financial Statements

for the year ended September 30, 2008

## 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. 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 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.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

### **Property, plant and equipment**

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

### **Stock-in-trade and stores and spare parts**

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

### **Trade debts and receivables**

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





# Notes to the Financial Statements

for the year ended September 30, 2008

## Taxation

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

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

## Staff Retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 21.2 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.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 4.1 Accounting convention

These financial statements have been prepared under the historical cost convention, except for available for sales financial assets which are shown at fair value as required under IAS-39 "Financial Instruments; Recognition and Measurement".

### 4.2 Standards, interpretations and amendments to published approved accounting standards that are not yet effective:

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 and interpretation:

<b>Standards or interpretation</b>	<b>Effective date (accounting periods beginning on or after)</b>
IAS 1 – Presentation of Financial Statements (Revised)	January 01, 2009
IAS 23 – Borrowing Costs (Revised)	January 01, 2009
IAS 27 – Consolidated and Separate Financial Statements (Revised)	January 01, 2009
IFRS 3 – Business Combinations	January 01, 2009
IFRS 7 – Financial Instruments: Disclosure	July 01, 2008
IFRS 8 – Operating Segments	January 01, 2009
IFRIC 12 – Service Concession Arrangements	January 01, 2008
IFRIC 13 – Customer Loyalty Programs	July 01, 2008
IFRIC 14 – The Limit on Defined Benefit Assets, Minimum Funding Requirements and their Interactions	January 01, 2008



The Company expects that the adoption of the above standards and interpretations will have no material impact on the Company's financial statements in the period of initial application other than certain changes and enhancements in the presentation and disclosures.

#### 4.3 Change in Accounting Policy

Upto 30th September 2007, the company recognized expenses incurred on its Farms as prepaid expenses, which were subsequently netted off against the revenue earned in the following years. However during the year, International Accounting Standard (IAS) – 41 "Agriculture" became effective which requires biological assets to be measured on initial recognition and at each balance sheet date at its fair value less estimated point-of-sale costs. A gain or loss arising on initial recognition of a biological asset at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale cost of a biological asset shall be included in profit or loss for the period in which it arises. This change in accounting policy has been accounted for retrospectively and comparative information has been reclassified in accordance with the treatment specified in International Accounting Standard (IAS) – 8 "Accounting Policy, Changes in Accounting Estimates and Errors".

The above change in accounting policy resulted in a reclassification of prepaid expenses as biological assets by Rs 3,969,286/- (2007: Rs 2,165,915/-).

#### 4.4 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 is 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

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



# Notes to the Financial Statements

for the year ended September 30, 2008

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

## 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.

## 4.5 Investments

### 4.5.1 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.

### 4.5.2 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 sold, collected or otherwise disposed off, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in income.

## 4.6 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.





#### 4.7 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.

#### 4.8 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.

#### 4.9 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.

#### 4.10 Staff retirement benefits

##### Gratuity

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

##### Provident fund

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

##### Compensated absences

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

#### 4.11 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, and tax paid on final tax regime basis.



# Notes to the Financial Statements

for the year ended September 30, 2008

## Deferred

Deferred tax is provided in full using the balance sheet liability method on all temporary differences arising at the balance sheet date, between the tax bases of the assets and the liabilities and their carrying amounts. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which these can be utilized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantively enacted by the balance sheet date. In this regard, the effects on deferred taxation of the portion of income expected to be subject to final tax regime is adjusted in accordance with the requirement of Accounting Technical Release – 27 of the Institute of Chartered Accountants of Pakistan. Deferred tax is charged or credited to income.

### 4.12 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.

### 4.13 Provisions

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

### 4.14 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.

### 4.15 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.

### 4.16 Impairment

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

### 4.17 Related Party Transactions

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



#### 4.18 Financial instruments

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

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

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

#### 4.19 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.

#### 4.20 Revenue recognition

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

Return on bank deposits is recognized on accrual basis.

#### 4.21 Dividend and appropriation to reserves

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

#### 4.22 Functional and presentation currency

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

	Note	2008	2007
<b>5. PROPERTY, PLANT AND EQUIPMENT</b>		Rupees	
Operating fixed assets	5.1	418,634,999	391,208,615
Capital work-in-progress	5.2	6,700,709	28,586,268
		425,335,708	419,794,883





# Notes to the Financial Statements

for the year ended September 30, 2008

## 5.1 Operating fixed assets

2008 Description	COST			DEPRECIATION			Book value at Sep. 30, 2008	Dep. Rate %
	Cost at Oct. 01, 2007	Additions / *transfers/ (deletions)	Cost at Sep. 30, 2008	Accumulated depreciation at Oct 01, 2007	Depreciation for the year/ (accumulated depreciation on deletions)	Accumulated depreciation at sep 30, 2008		
<b>Rupees</b>								
<b>Owned</b>								
Freehold land	180,720	-	180,720	-	-	-	180,720	-
Building on freehold land								
- Factory	70,371,247	206,387	70,577,634	49,203,707	2,118,474	51,322,181	19,255,453	10
- Non-factory	14,119,611	-	14,119,611	6,367,412	387,610	6,755,022	7,364,589	5
Plant, machinery and equipment	705,305,617	57,862,343 (1,325,000)	761,842,960	365,971,008	28,157,132 (879,384)	393,248,756	368,594,204	7.5
Furniture and fittings	2,447,847	-	2,447,847	1,986,251	46,160	2,032,411	415,436	10
Vehicles	20,590,187	1,944,559 * 2,205,000 (2,689,150)	22,050,596	12,740,414	1,749,408 * 1,293,365 (1,984,507)	13,798,680	8,251,916	20
Office equipment	6,087,892	335,000	6,422,892	4,847,447	147,178	4,994,625	1,428,267	10
Electric installation	9,929,234	181,232	10,110,466	6,443,788	365,452	6,809,240	3,301,226	10
Weighbridge and scales	965,624	-	965,624	802,014	16,361	818,375	147,249	10
Workshop tools and other equipment	6,498,096	662,800	7,160,896	3,806,710	281,189	4,087,899	3,072,997	10
Computers	2,711,572	577,411	3,288,983	1,624,521	402,381	2,026,902	1,262,081	30
Airconditioners and refrigerators	5,388,161	454,100	5,842,261	3,983,702	160,886	4,144,588	1,697,673	10
	844,595,808	62,223,832 * 2,205,000 (4,014,150)	905,010,490	457,776,974	33,832,231 * 1,293,365 (2,863,891)	490,038,679	414,971,811	
<b>Leased</b>								
Vehicles	6,722,000	1,702,000 *(2,205,000) (969,000)	5,250,000	2,332,219	858,038 *(1,293,365) (310,080)	1,586,812	3,663,188	20
<b>Total</b>	<b>851,317,808</b>	<b>63,925,832</b> <b>(4,983,150)</b>	<b>910,260,490</b>	<b>460,109,193</b>	<b>34,690,269</b> <b>(3,173,971)</b>	<b>491,625,491</b>	<b>418,634,999</b>	

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

Note	2008	2007
	<b>Rupees</b>	
<b>5.1.1 Depreciation charge for the year has been allocated as follows:</b>		
Cost of sales	31,326,218	30,019,116
Administrative expenses	3,364,051	4,261,092
	<b>34,690,269</b>	<b>34,280,208</b>



# Notes to the Financial Statements

for the year ended September 30, 2008

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

Particular	Cost	Accumulated depreciation	Book Value	Sale proceeds	Gain / (Loss)	Mode of disposal	Particulars of Purchaser
Rotary Type Pressure Filter 1100 M2	1,325,000	879,384	445,616	1,000,000	554,384	Negotiation	Mirpurkhas Sugar Mills Ltd.
Mazda Pickup CK 5636	946,150	858,104	88,046	300,000	211,954	Negotiation	Mr.Syed Inam-ul-Hassan Rizvi
KIA Sportage BC 4847	1,549,000	1,009,259	539,741	443,965	(95,776)	Negotiation	Mr.Shad Khan Awan
Jialing Motorcycle KAX 6930	43,000	28,812	14,188	43,000	28,812	Negotiation	Mr.Abdul Rehman (Employee)
Honda CDI Motorcycle KBI 2618	54,000	29,520	24,480	54,000	29,520	Negotiation	Mr. Gul Muhammad (Employee)
Jialing Motorcycle KAC 4030	43,000	28,812	14,188	43,000	28,812	Negotiation	Mr. Mumtaz (Employee)
Honda CDI Motorcycle KBF 0310	54,000	30,000	24,000	59,400	35,400	Negotiation	Mr. Fahad Ali Naqvi (Employee)
Toyota Corolla AMG-432	969,000	310,080	658,920	875,000	216,080	Insurance claim received for total damage of vehicle	Adamjee Insurance Company Limited
2008	4,983,150	3,173,971	1,809,179	2,818,365	1,009,186		

	Note	2008	2007
		Rupees	
<b>5.2 CAPITAL WORK-IN-PROGRESS</b>			
Civil works		369,000	-
Advance against supply of plant and machinery		6,331,709	28,586,268
		<u>6,700,709</u>	<u>28,586,268</u>
<b>6. LONG-TERM RECEIVABLE – Unsecured</b>			
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
	6.1	<u>42,510,996</u>	<u>42,510,996</u>

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 1994, 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. Hence, the management of the Company is confident that the Company will be able to recover in excess of the carrying value of the investment. Therefore, no provision has been made against the above receivable in these financial statements.

## 7. LONG TERM INVESTMENT

- In an associate

2008	2007	Face value per share Rupees	Note	2008	2007	
Number of Shares				Rupees		
10,499,998	9,999,998	10	Unicol Limited - an un-quoted company	7.1	134,607,391	94,236,980

### 7.1 Movement of investment in an associate

Opening balance	94,236,980	79,999,980
Shares further acquired during the year	5,000,000	20,000,000
Share of profit/(loss) for the year – net of tax	35,370,411	(5,763,000)
	134,607,391	94,236,980

The Company holds 33.33 (2007: 33.33) percent of the investee's total equity.

### 7.2 The results of the associate based on summarized financial information of the associate company based on unaudited financial statements, for the year ended September 30, 2008, are as follows:

Aggregate amount of:

- assets	1,235,985,890	997,099,000
- liabilities	830,214,145	714,359,000
- revenue	893,441,726	59,202,000
-profit/( loss)	110,357,993	(17,291,000)

## 8. BIOLOGICAL ASSETS – At fair value

Carrying value at beginning of the year	2,165,915	4,872,002
Addition due to cultivation	3,828,570	2,165,915
Gain arising from changes in fair value less estimated point-of-sale cost	140,716	-
	6,135,201	7,037,917
Reduction due to harvesting	(2,165,915)	(4,872,002)
Carrying value at end of the year	3,969,286	2,165,915





# Notes to the Financial Statements

for the year ended September 30, 2008

## Operations and Principal Activities at Farms:

The Company is engaged in sugarcane cultivation, which is also supplied to various sugarcane growers.

## 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.

	Note	2008	2007
<b>9. STORES AND SPARE PARTS</b>		<b>Rupees</b>	
Stores		18,526,640	11,913,298
Spare parts		21,803,922	13,670,338
		<u>40,330,562</u>	<u>25,583,636</u>

## 10. STOCK-IN-TRADE

Manufactured sugar			
- Finished	10.1 & 10.2	436,076,232	115,925,126
- Work-in-process		981,334	2,461,712
		<u>437,057,566</u>	<u>118,386,838</u>

10.1 Included in the stock is a quantity of 13,801 metric tones having average cost of Rs.290.665 million which belongs to Trading Corporation of Pakistan (Private) Limited (TCP) against the forward sale contract. This stock has been valued at Net Realizable Value (NRV) of Rs.287.430 million being lower than the average cost of the stock.

10.2 Further stock having value of Rs. 169.974 million is pledged against short term borrowings facility obtained from a bank.

## 11. TRADE DEBTS – unsecured

Considered good	11.1,11.2 & 11.3	30,511,612	31,072,631
Considered doubtful		2,468,025	2,468,025
		<u>32,979,637</u>	<u>33,540,656</u>
Less: Provision for doubtful debts		2,468,025	2,468,025
		<u>30,511,612</u>	<u>31,072,631</u>

11.1 Includes an amount of Rs. 14.519 million due from the Food department, Government of Sindh. This represents amount withheld by the Government of Sindh on account of a dispute regarding the quality of sugar. Consequently, the Company has withheld mark-up due to the Food department, amounting to Rs. 6.192 million, as referred to in note 25 to the financial statements. Since then, the matter is under litigation and pending before the Honorable High Court of Sindh. Based on the merit of the case, the management is confident that the amount would be fully recovered and, therefore, no provision against the above amount has been made in these financial statements.



11.2 Includes receivable from an associated company amounting to Rs.15.796 million (2007: Nil).

11.3 The maximum aggregate amount due from associated company at the end of any month during the year was Rs. 72.75 million (2007: Rs. 6.491 million).

	Note	2008	2007
		Rupees	
<b>12. LOANS AND ADVANCES – Unsecured considered good</b>			
Loans to staff	12.1	2,615,783	1,782,587
Advances			
- to suppliers		6,549,289	4,571,181
- to cane growers	12.2	17,840,896	3,602,709
- against expenses		201,407	172,916
		24,591,592	8,346,806
		27,207,375	10,129,393

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

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

### 13. TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS

Trade deposits:

Considered good

Considered doubtful

Less: Provision for doubtful deposits

Short-term prepayments

	13.1	1,107,000	8,771,623
		7,196,113	-
		8,303,113	8,771,623
		(7,196,113)	-
		1,107,000	8,771,623
		3,735,340	1,874,664
		4,842,340	10,646,287

13.1 Represents a sum of Rs. 7.196 million paid by the Company to the Director General Defence Procurement (DGDP) as tender money during the year 1997 which has been withheld by them on account of DGDP's risk purchase claim on the Company, as fully described in note 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

**Held to maturity**

Term deposit certificates

**Available for sale**

Investment in quoted securities

	14.1	3,654,000	3,654,000
	14.2 & 14.3	13,245,764	-
		16,899,764	3,654,000

14.1 Includes certificates of the value of Rs. 3.654 million (2007: 3.654 million) deposited with the bankers under lien against guarantees issued by them on behalf of the Company having maturity upto six months. These carry profit at the rate of 2.5 to 3 (2007: 2.97 to 3.07) percent per annum.



# Notes to the Financial Statements

for the year ended September 30, 2008

14.2 SHORT TERM INVESTMENTS – available-for-sale, at fair value	Note	2008	2007
		Rupees	
<b>Quoted companies</b>			
Bank Al- Habib Ltd 40,100 (2007:Nil) Ordinary shares of Rs.10/- each		1,369,014	-
Cherat Cement Ltd 58,600(2007:Nil) Ordinary shares of Rs.10/- each		931,740	-
D.G.Khan Cement Ltd 15000(2007: Nil) Ordinary shares of Rs.10/- each		589,200	-
Engro Chemicals Ltd 2500(2007: Nil) Ordinary shares of Rs.10/- each		451,100	-
Eye Television Network Ltd 15,000(2007: Nil) Ordinary shares of Rs.10/- each		595,650	-
Indus Motors Ltd 4,000(2007: Nil) Ordinary shares of Rs.10/- each		573,200	-
Lucky Cement Ltd 17,500(2007:Nil) Ordinary shares of Rs.10/-each		1,010,975	-
National Refinery Ltd 3500 (2007:Nil) Ordinary shares of Rs.10/- each		686,105	-
NIB Bank Ltd 75,000(2007:Nil) Ordinary shares of Rs.10/-each		633,750	-
Oil & Gas Development Company Ltd 15,400(2007:Nil) Ordinary shares of Rs.10/each		1,454,222	-
Packages Ltd 2,500(2007:Nil) Ordinary shares of Rs.10/each		354,350	-
Pak Suzuki Motor Company Ltd 3,000(2007:Nil) Ordinary shares of Rs.10/each		251,370	-
Pakistan Petroleum Ltd 8250(2007:Nil) Ordinary shares of Rs.10/each		1,597,613	-
Pakistan State Oil Company Ltd 2500(2007:Nil) Ordinary shares of Rs.10/each		699,975	-
United Bank Ltd 30,000(2007:Nil) Ordinary shares of Rs.10/each		2,047,500	-
		<b>13,245,764</b>	<b>-</b>

14.3 The aggregate cost of the above investment is Rs.16.728 million (2007: Rs. Nil). These investments are stated at fair value. Impairment in the ordinary shares of Rs.3.483 million (2007: Rs. Nil) has been charged to profit and loss account. Refer note 32 to the financial statements in this regard.



	Note	2008	2007
<b>Rupees</b>			
<b>15. CASH AND BANK BALANCES</b>			
Cash in hand		21,588	17,126
Cash at banks in current accounts		1,636,120	2,193,048
		<u>1,657,708</u>	<u>2,210,174</u>
<b>16. SHARE CAPITAL</b>			
Authorized capital			
		<b>2008</b>	<b>2007</b>
		<b>Number of Shares</b>	
		50,000,000	50,000,000
		Ordinary shares of Rs. 10 each	500,000,000
			500,000,000
<b>Issued, subscribed and paid-up capital</b>			
5,968,750	5,968,750	Ordinary shares of Rs. 10/- each fully paid 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
3,525,000	3,525,000	Ordinary shares of Rs. 10/- each issued as bonus shares	35,250,000
			35,250,000
<u>9,843,750</u>	<u>9,843,750</u>		<u>98,437,500</u>
			<u>98,437,500</u>
<b>17. RESERVES</b>			
<b>Capital reserve</b>			
Share Premium		63,281,250	63,281,250
<b>Revenue reserve</b>			
General		85,000,000	85,000,000
Accumulated losses		(70,930,961)	(128,306,852)
		<u>77,350,289</u>	<u>19,974,398</u>
<b>18. SUBORDINATED LOANS – Unsecured</b>			
From directors		6,082,232	9,252,232
From other related parties		21,900,000	33,400,000
	18.1	<u>27,982,232</u>	<u>42,652,232</u>





# Notes to the Financial Statements

for the year ended September 30, 2008

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

These carry mark-up at the rate of 3 months KIBOR prevailing at the beginning of the quarter (2007: 3 months KIBOR prevailing at the beginning of the quarter) per annum.

## 19. LONG TERM FINANCING – Secured

	Note	Installments		Make-up		2008 Rupees	2007 Rupees
		Number	Commencing from	2008	2007		
<b>From banking companies</b>							
PICIC Commercial Bank Limited – TF I		20 quarterly	March 2005	3 months KIBOR plus 2.75% with a floor of 13% per annum	3 months KIBOR plus 2.75% with a floor of 13% per annum	-	27,000,000
PICIC Commercial Bank Limited – TF II		16 quarterly	March 2005	3 months KIBOR plus 2.75% with a floor of 13% per annum	3 months KIBOR plus 2.75% with a floor of 13% per annum	-	18,750,000
PICIC Commercial Bank Limited – TF III		60 monthly	October 2005	3 months KIBOR plus 2.75% with a floor of 13% per annum	3 months KIBOR plus 2.75% with a floor of 13% per annum	-	3,868,608
PICIC Commercial Bank Limited – TF IV		16 quarterly	January 2008	3 months KIBOR plus 2.75% with a floor of 13% per annum	3 months KIBOR plus 2.75% with a floor of 13% per annum	-	10,000,000
PICIC Commercial Bank Limited – TF V		16 quarterly	January 2008	3 months KIBOR plus 2.75% with a floor of 13% per annum	3 months KIBOR plus 2.75% with a floor of 13% per annum	-	40,000,000
Mybank Limited		16 quarterly	June 2008	6 months KIBOR plus 3% with a floor of 14% per annum	6 months KIBOR plus 3% with a floor of 14% per annum	-	100,000,000
Bank Alfalah Limited	19.1	16 quarterly	October 2008	6 months KIBOR plus 2.5% per annum	-	40,000,000	-
Al Baraka Islamic Bank	19.1	16 quarterly	July 2009	6 months KIBOR plus 1.8% per annum	-	100,000,000	-
Less: Current portion shown under current liabilities						140,000,000	199,618,608
						13,750,000	48,541,658
						<u>126,250,000</u>	<u>151,076,950</u>

19.1 This is secured by way of first pari passu charge over fixed assets of the company.



## 20. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES

Represent finance leases entered into with a bank for vehicles. Total lease rentals due under various lease agreements aggregate to Rs. 3,360,432/- (2007: Rs. 2,939,496/-) and are payable in equal monthly installments latest by September 2013. Taxes, repairs, replacement and insurance costs are to be borne by the lessee. In case of termination of agreement, the lessee has to pay the entire rent for unexpired period. Financing rates of approximately 7 to 16.64 (2007: 7 to 13) 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:

	2008		2007	
	Minimum lease payments	Present Value	Minimum lease payments	Present Value
	Rupees			
Within one year	1,671,465	1,354,380	1,737,009	1,500,180
After one year but not more than five years	1,688,967	1,260,797	1,202,487	1,127,857
Total minimum lease payments	3,360,432	2,615,177	2,939,496	2,628,037
Less: Amount representing finance charges	745,255	-	311,459	-
Present value of minimum lease payments	2,615,177	2,615,177	2,628,037	2,628,037
Less: Current maturity shown under current liability	1,354,380	1,354,380	1,500,180	1,500,180
	1,260,797	1,260,797	1,127,857	1,127,857

	Note	2008	2007
		Rupees	
<b>21. DEFERRED LIABILITIES</b>			
Staff gratuity	21.1	5,483,775	5,851,629
<b>21.1 Staff gratuity</b>			
Opening net liability		5,851,629	8,467,242
Expense/(prepaid cost) for the year		795,839	(2,297,647)
		6,647,468	6,169,595
Benefits paid during the year		(1,163,693)	(317,966)
Liability to be recognized		5,483,775	5,851,629
<b>Expense for the year ended September 30, 2008</b>			
Current service cost		210,676	304,846
Interest cost		585,163	592,707
Transitional asset recognized		-	(3,195,200)
(Prepaid cost)/expense for the year		795,839	(2,297,647)
<b>Reconciliation</b>			
Present value of defined benefit obligation		5,483,775	5,851,629
Unrealized actuarial losses		-	-
Liability to be recognized as at September 30		5,483,775	5,851,629
The (credit)/charge for the year has been allocated as follows:			
Cost of sales		787,845	(2,241,189)
Distribution costs		7,994	(22,741)
Administrative expenses		-	(33,717)
		795,839	(2,297,647)



# Notes to the Financial Statements

for the year ended September 30, 2008

Comparisons for five years: As at September 30	2008	2007	2006	2005	2004
Present value of defined benefit obligation	5,483,775	5,851,629	8,467,242	8,330,665	7,124,000
Fair value of plan assets	-	-	-	-	-
(Surplus) / deficit	5,483,775	5,851,629	8,467,242	8,330,665	7,124,000

21.2 The Projected Unit Credit Method, using the following significant assumptions was used for the valuation of the scheme:

- discount rate at 10 % per annum;
- expected rate of increase in salary level at 7 % per annum;
- expected average remaining life of employees 30 years.

22. DEFERRED TAXATION	Note	2008	2007
		Rupees	
<b>Credit balances arising due to :</b>			
Accelerated tax depreciation		91,380,303	83,216,045
Assets subject to finance lease		366,804	616,610
<b>Debit balances arising due to:</b>			
Provision for gratuity		(1,919,321)	(2,048,070)
Provision for doubtful debts		(863,809)	(863,809)
Provision for doubtful deposits		(2,518,640)	-
Provision for impairment on short-term investments		(1,218,943)	-
Minimum tax impact		(25,443,114)	(18,979,836)
Unabsorbed tax losses		(36,649,527)	(39,600,171)
		(68,613,354)	(61,491,886)
		23,133,753	22,340,769
<b>23. PROVISIONS</b>			
Market committee fee	23.1	32,700,000	53,550,964
Quality premium	23.2	119,290,919	44,225,854
Additional tax on bagasse		-	2,933,925
		151,990,919	100,710,743
Current portion shown under current liabilities		(32,700,000)	-
		119,290,919	100,710,743

23.1 The Market Committee filed a law suit for the recovery of market committee fee before the Senior Civil Judge Tando Allahyar during the year 1999-2000. The Company 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 in the sum of Rs. 43.7 million plus fee amounting to Rs. 9.85 million relating to the years upto 2003-2004. Subsequently, the Government of Sindh withdrew the levy of Market Committee for crushing season of 2004-2005. The Company filed an appeal against the said order with the District Judge, Hyderabad and the same 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. Subsequent to the year ended September 30, 2008, the Honorable High Court of Sindh has 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. Accordingly, the Company has reversed the excess provision of Rs.20.851 million in these financial statements.



23.2 The sugar mills in Sindh are required to pay quality premium to the cane growers at the rate of fifty (50) paisas per forty (40) Kg cane for each 0.1 percent of excess sucrose recovery above the benchmark of 8.7 percent determined on over all sucrose recovery of each mill. The Company challenged the levy of quality premium before the Honorable High Court of Sindh, which decided the matter against the Company. The Company has filed an appeal with the Honorable Supreme Court of Pakistan. While admitting the appeal against the impugned judgment of the Honorable High Court 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.

	Note	2008	2007
Rupees			
<b>24. TRADE AND OTHER PAYABLES</b>			
Creditors		146,407,937	21,178,876
Accrued expenses		3,761,234	1,801,399
Advances from customers		287,627,931	93,187,181
Workers' profits participation fund		3,187,609	-
Unclaimed dividend		4,300,568	4,303,512
Other liabilities		4,471,866	4,519,096
		<u>449,757,145</u>	<u>124,990,064</u>
<b>25. ACCRUED MARK-UP</b>			
- Subordinated loans – from related parties		8,953,773	8,230,959
- Short-term borrowings		8,561,994	9,547,755
- Long-term financing		5,697,951	7,178,611
- Advances	11.1	6,192,329	6,192,329
		<u>29,406,047</u>	<u>31,149,654</u>
<b>26. SHORT-TERM BORROWINGS – Secured</b>			
From Banking companies	26.1	<u>167,482,776</u>	<u>87,095,838</u>

26.1 These are 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 directors of the company. These finances form part of the aggregate facility of Rs.725 million (2007: Rs. 675 million). The finances carry mark-up ranging between 11.33 to 15.38 (2007: 11.30 to 13.41) percent payable quarterly.

## 27. CONTINGENCIES AND COMMITMENTS

### CONTINGENCIES

27.1 Contribution demanded by SESSI Rs. 3.28 million (2007: 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.





# Notes to the Financial Statements

for the year ended September 30, 2008

- 27.2 DGDG risk purchase claim Rs. 38.58 million (2007: Rs. 38.58 million) which is disputed by the Company on the ground that the goods were already delivered and the DGDG had no right to make the risk purchase claim and that the DGDG 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 (2007: 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 of Punjab, 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 Sindh High Court which has granted a stay to the Company against the order of Customs, Excise and Sales Tax Appellate Tribunal, Karachi upholding allegation of non payment of sales tax on advances etc., amounting to Rs.11,087,051/-(2007: Rs.11,087,051/-). Based on the facts and advise of the legal advisor, the management is confident of a favourable outcome and hence no provision is required to be made in these financial statements.
- 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.10,756,624/- alongwith additional tax and penalty while framing his order. Based on the advise of the legal advisor, the management is confident of a favourable outcome and hence no provision is required to be made in these financial statements.

## COMMITMENTS

Commitments in respect of capital expenditure as on September 30, 2008 amounted to Rs.14.179 million (2007: Rs. 3.352 million).

Commitments in respect of operating lease rentals for farms as on September 30, 2008 amounted to Rs. 14.16 million (2007:15.52 million).

Commitments in respect of forward sales contract with Trading Corporation of Pakistan (TCP) as on September 30, 2008 amounted to Rs. 287.430 million.

	2008	2007
	Rupees	
Outstanding letter of guarantees	3,654,000	3,700,000

## 28. TURNOVER - net

Sales		
- Local sales	1,076,656,633	1,396,262,698
- Export sales	237,249,500	-
- Molasses	124,425,206	87,109,245
- Bagasse	956,189	2,571,267
	1,439,287,528	1,485,943,210
Less:		
- Sales tax	(146,717,829)	(197,223,593)
- Special excise duty	(8,129,230)	-
	(154,847,059)	(197,223,593)
	1,284,440,469	1,288,719,617



29. COST OF SALES	Note	2008	2007
Rupees			
<b>Manufactured sugar:</b>			
Cost of sugarcane consumed (including procurement and other expenses)		1,284,258,621	1,093,169,577
Road cess on sugarcane		4,633,688	3,709,605
Salaries, wages and other benefits	29.1	61,994,675	57,255,011
Stores and spare parts consumed		66,242,028	58,999,892
Repairs and maintenance		17,977,626	15,093,702
Fuel, electricity and water charges		7,431,132	8,131,497
Vehicle running and maintenance expenses		1,052,548	1,081,288
Insurance		4,246,710	2,406,111
Depreciation	5.1.1	31,326,218	30,019,116
Other overheads		5,371,039	4,078,671
		1,484,534,285	1,273,944,470
Opening stock of work-in-process		2,461,712	898,494
Closing stock of work-in-process		(981,334)	(2,461,712)
		1,480,378	(1,563,218)
Cost of goods manufactured		1,486,014,663	1,272,381,252
<b>Imported Sugar</b>			
Opening stock of imported sugar		-	97,266,000
Cost of sugar imported		-	782,139
Cost of sugar imported		-	98,048,139
Opening stock of finished goods		115,925,126	41,575,854
Closing stock of finished goods		(436,076,232)	(115,925,126)
		(320,151,106)	(74,349,272)
		1,165,863,557	1,296,080,119

29.1 This includes contribution to provident fund of Rs. 1,274,233/- (2007: Rs. 1,480,517/-) and gratuity fund of Rs.787,845/- [2007: Rs. (2,241,189/-)].

### 30. DISTRIBUTION COSTS

Salaries, wages and other benefits	30.1	604,358	559,072
Insurance		6,646	7,370
Staking and loading		2,705,485	1,358,008
Export expenses		10,346,909	-
		13,663,398	1,924,450

30.1 This includes contribution to provident fund of Rs. 23,620/- (2007: Rs. 22,143/-) and gratuity fund of Rs.7,994/- [2007: Rs. (22,741/-)].



# Notes to the Financial Statements

for the year ended September 30, 2008

	Note	2008	2007
		Rupees	
<b>31. ADMINISTRATIVE EXPENSES</b>			
Salaries and other benefits	31.1	31,690,214	23,940,722
Rent, rates and taxes		1,005,255	826,783
Electricity, telephone, fax and postage		3,133,884	2,328,870
Printing and stationery		1,021,864	942,906
Travelling and conveyance		3,035,568	1,458,991
Vehicle running and maintenance expenses		2,732,885	2,658,214
Auditors' remuneration	31.2	663,520	456,480
Legal and professional		1,242,000	917,500
Fees and subscription		905,879	475,946
Insurance		60,367	80,333
Repairs and maintenance		623,385	1,301,698
Advertising		128,118	132,454
Donations	31.3	615,121	1,099,435
Depreciation	5.1.1	3,364,051	4,261,092
Provision for doubtful deposits	13.1	7,196,113	-
Other expenses		377,163	428,552
		<b>57,795,387</b>	<b>41,309,976</b>

31.1 This includes contribution to provident fund of Rs. 960,421/- (2007: Rs. 657,435/-) and gratuity fund of Rs. Nil [2007: Rs. (33,717/-)].

## 31.2 Auditors' remuneration

### Statutory audit

Ford Rhodes Sidat Hyder & Co.

Statutory audit fee	350,000	255,000
Review of half yearly financial statements and compliance with Code of Corporate Governance	165,000	70,000
Out of pocket expenses	98,520	81,480
	<b>613,520</b>	<b>406,480</b>

### Cost audit

Haroon Zakaria & Co.

Cost audit fee	50,000	50,000
	<b>663,520</b>	<b>456,480</b>

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

## 32. OTHER OPERATING EXPENSES

Zakat	82,500	82,500
Workers' Profits Participation Fund	3,187,609	-
Provision for impairment on short-term investments	3,482,695	-
Additional tax on bagasse	-	2,933,925
	<b>6,752,804</b>	<b>3,016,425</b>



	Note	2008	2007
Rupees			
<b>33. OTHER OPERATING INCOME</b>			
Profit on bank deposits		88,829	90,400
Gain on disposal of fixed assets		1,009,186	464,090
Scrap sales		1,707,719	1,307,624
Rental income		198,400	173,200
Net farm income		1,578,553	3,900,313
Profit on short term investments		147,236	-
Exchange gain		2,886,472	-
Provision of market committee fee no longer required written-back	23.1	20,850,964	-
Miscellaneous income		-	855,008
		<u>28,467,359</u>	<u>6,790,635</u>

### 34. FINANCE COSTS

#### Mark-up on:

Long-term financing		16,177,524	15,455,040
Subordinated loans – from related parties		3,907,818	4,387,783
Short-term borrowings		22,277,190	35,813,328
Lease finance		285,678	385,441
		<u>42,648,210</u>	<u>56,041,592</u>
Bank charges		990,318	1,731,568
		<u>43,638,528</u>	<u>57,773,160</u>

### 35. TAXATION

Current	35.1	2,414,207	6,450,136
Prior year		(18,517)	(15,026)
		<u>2,395,690</u>	<u>6,435,110</u>
Deferred		792,984	(30,010,910)
		<u>3,188,674</u>	<u>(23,575,800)</u>

**35.1** In view of tax losses, the company is only subject to taxation under final tax regime, therefore, no numerical tax reconciliation is prepared.

**35.1.1** Income tax assessments of the Company have been completed upto the tax year 2008 (accounting year ended September 30, 2007).

### 36. BASIC AND DILUTED EARNING/(LOSS) PER SHARE

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

Earnings/(loss) after taxation attributable to ordinary shares	(Rupees)	57,375,891	(86,781,078)
Weighted average number of ordinary shares		9,843,750	9,843,750
Earnings/(loss) per share – after tax	(Rupees)	5.83	(8.82)





# Notes to the Financial Statements

for the year ended September 30, 2008

37. WORKING CAPITAL CHANGES	Note	2008	2007
Rupees			
<b>(Increase)/decrease in current assets</b>			
Biological assets		(1,803,371)	2,706,087
Stores and spare parts		(14,746,926)	(1,279,640)
Stock-in-trade		(318,670,728)	21,353,510
Trade debts		561,019	26,887,352
Loans and advances		(17,077,982)	4,893,949
Trade deposits and short-term prepayments		(1,392,166)	6,405,177
Other receivables		131,143	(371,936)
		(352,999,011)	60,594,499
<b>Increase / (decrease) in current liabilities</b>			
Trade and other payables		324,767,081	59,796,775
Sales tax payable		(10,235,439)	(3,999,900)
		314,531,642	55,796,875
		(38,467,369)	116,391,374

## 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 and companies where directors also hold directorship, directors and key management personnel. Transactions with related parties, other than remuneration and benefits to directors and key management personnel under the terms of their employment, as disclosed in respective note 40, are as follows:

### Relationships – Common directorship

Sales	124,746,984	36,523,259
Expenses shared	275,354	(208,186)
Investment made in an associated company	5,000,000	20,000,000
Insurance premium	4,142,112	-
Receipt of subordinated loans	-	7,500,000
Repayment of subordinated loans	14,670,000	6,247,768
Mark-up on subordinated loan	3,907,818	4,387,783

### Retirement benefit plans

Provident fund contribution	2,258,274	2,160,091
-----------------------------	-----------	-----------

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



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

### 39. CAPACITY AND PRODUCTION

	Rated capacity		Capacity Utilization	
	M. Tons	Days	M. Tons	Days
Season 2007-2008	7000 TCD	160	5451 TCD	136
Season 2006-2007	7000 TCD	160	4271 TCD	138

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:

	2008				2007			
	Chief Executive Officer	Directors	Executives	Total	Chief Executive Officer	Directors	Executives	Total
	Rupees							
Fees	6,000	38,000	-	44,000	2,000	23,000	-	25,000
Managerial remuneration	1,584,000	1,776,000	5,392,264	8,752,264	1,399,500	1,514,550	6,181,310	9,095,360
Retirement benefits	-	42,000	542,439	584,439	-	37,755	480,843	518,598
Perquisites and other benefits	816,000	915,000	3,256,494	4,987,494	700,500	783,075	1,376,484	2,860,059
	2,406,000	2,771,000	9,191,197	14,368,197	2,102,000	2,358,380	8,038,637	12,499,017
Number of persons	1	3	8	12	1	3	8	12

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. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to remain as a going concern and continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company had a gearing ratio of 83.69% (2007: 83.12%) as of the balance sheet date.

### 42. FINANCIAL INSTRUMENTS

#### 42.1 Interest / mark-up / profit rate risk exposure

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



# Notes to the Financial Statements

for the year ended September 30, 2008

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

	2008								
	Rupees								
	Interest/mark-up/profit bearing				Non Interest/mark-up/profit bearing				Total
	Maturity upto one year	Maturity from one to five years	Maturity after five years	Sub-total	Maturity upto one year	Maturity from one to five years	Maturity after five years	Sub-total	
Financial assets									
Long-term receivable	-	-	-	-	-	-	42,510,996	42,510,996	42,510,996
Long term investment	-	-	-	-	-	-	134,607,391	134,607,391	134,607,391
Long term deposits	-	-	-	-	-	-	312,400	312,400	312,400
Trade debts	-	-	-	-	30,511,612	-	-	30,511,612	30,511,612
Loans and advances	-	-	-	-	27,207,375	-	-	27,207,375	27,207,375
Trade deposits	-	-	-	-	1,107,000	-	-	1,107,000	1,107,000
Other receivables	-	-	-	-	654,506	-	-	654,506	654,506
Short-term investments	16,899,764	-	-	16,899,764	-	-	-	-	16,899,764
Cash and bank balances	-	-	-	-	1,657,708	-	-	1,657,708	1,657,708
	16,899,764	-	-	16,899,764	61,138,201	-	177,430,787	238,568,988	255,468,752
Financial liabilities									
Subordinated loans	-	27,982,232	-	27,982,232	-	-	-	-	27,982,232
Long-term financing	13,750,000	126,250,000	-	140,000,000	-	-	-	-	140,000,000
Liabilities against assets									
subject to finance lease	1,354,380	1,260,797	-	2,615,177	-	-	-	-	2,615,177
Trade and other payables	-	-	-	-	449,757,145	-	-	449,757,145	449,757,145
Mark-up accrued on									
loans and other payables	-	-	-	-	29,406,047	-	-	29,406,047	29,406,047
Short-term borrowings	167,482,776	-	-	167,482,776	-	-	-	-	167,482,776
	182,587,156	155,493,029	-	338,080,185	479,163,192	-	-	479,163,192	817,243,377
Net financial Assets / (liabilities) 2008	(165,687,392)	(155,493,029)	-	(321,180,421)	(418,024,991)	-	177,430,787	(240,594,204)	(561,774,625)

	2007								
	Rupees								
	Interest/mark-up/profit bearing				Non Interest/mark-up/profit bearing				Total
	Maturity upto one year	Maturity from one to five years	Maturity after five years	Sub-total	Maturity upto one year	Maturity from one to five years	Maturity after five years	Sub-total	
Financial assets									
Long-term receivable	-	-	-	-	-	-	42,510,996	42,510,996	42,510,996
Long term investment	-	-	-	-	-	-	94,236,980	94,236,980	94,236,980
Long term deposits	-	-	-	-	-	-	350,400	350,400	350,400
Trade debts	-	-	-	-	31,072,631	-	-	31,072,631	31,072,631
Loans and advances	-	-	-	-	10,129,393	-	-	10,129,393	10,129,393
Trade deposits	-	-	-	-	10,646,287	-	-	10,646,287	10,646,287
Other receivables	-	-	-	-	785,649	-	-	785,649	785,649
Short-term investments	3,654,000	-	-	3,654,000	-	-	-	-	3,654,000
Cash and bank balances	-	-	-	-	2,210,174	-	-	2,210,174	2,210,174
	3,654,000	-	-	3,654,000	54,844,134	-	137,098,376	191,942,510	195,596,510
Financial liabilities									
Subordinated loans	-	42,652,232	-	42,652,232	-	-	-	-	42,652,232
Long-term financing	48,541,658	151,076,950	-	199,618,608	-	-	-	-	199,618,608
Liabilities against assets									
subject to finance lease	1,500,180	1,127,857	-	2,628,037	-	-	-	-	2,628,037
Trade and other payables	-	-	-	-	124,990,064	-	-	123,573,756	123,573,756
Mark-up accrued on loans and									
Other payables	-	-	-	-	31,149,654	-	-	31,149,654	31,149,654
Short-term borrowings	87,095,838	-	-	87,095,838	-	-	-	-	87,095,838
	137,137,676	194,857,039	-	331,994,715	156,139,718	-	-	154,723,410	486,718,125
Net financial Assets / (liabilities)	2007 (133,483,676)	(194,857,039)	-	(328,340,715)	(99,879,276)	-	137,098,376	37,219,100	(291,121,615)

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





# Notes to the Financial Statements

for the year ended September 30, 2008

## Credit risk

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

## Liquidity risk

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

## Foreign exchange risk management

Foreign currency risk is the risk that the value of a financial asset or a liability will fluctuate due to a change in foreign exchange rates. The Company is exposed to foreign exchange risk due to its export sales. The Company does not have any formal foreign currency risk management policy.

## Fair value of financial instruments

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

## 43. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on December 22, 2008 by the Board of Directors of the Company.

## 44. CORRESPONDING FIGURES

Certain prior period's figures have been reclassified consequent upon certain changes in current year's presentation. The summary of material reclassification is as follows:

Note	Reclassification		Nature	Rupees
	From	To		
13	Trade deposits and short-term prepayments	Biological assets	Biological assets recognized as per IAS-41 "Agriculture"	2,165,915
21	Deferred liabilities	Deferred taxation	Shown separately	22,340,769

## 45. DIVIDEND AND APPROPRIATIONS

Subsequent to the year ended September 30, 2008, the Board of Directors did not recommended dividend (2007: Nil) in their meeting held on December 22, 2008.

## 46. GENERAL

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



# Pattern of Shareholdings

as at September 30, 2008

Number of Shareholders	Shareholdings		Total Shares held
	From	To	
877	1	100	21,175
142	101	500	40,132
50	501	1000	39,208
62	1001	5000	151,992
25	5001	10000	180,270
8	10001	15000	101,006
5	15001	20000	83,487
5	20001	25000	105,537
2	25001	35000	63,072
1	35001	45000	41,000
2	45001	50000	92,002
3	50001	55000	155,040
1	55001	60000	59,500
3	65001	70000	204,206
1	75001	80000	79,642
1	85001	90000	86,608
4	95001	100000	397,653
2	100001	150000	236,206
2	150001	400000	502,316
1	1030001	1035000	1,030,077
1	1035001	1040000	1,039,053
1	1670001	1675000	1,674,018
1	1725001	1730000	1,729,675
1	1730001	1735000	1,730,875
1,201			9,843,750

## Categories Of Shareholders as at September 30, 2008

Categories of Share Holders	Number of Shareholders	Number of Shares held	Percentage
Individuals	1,181	9,647,485	98.01
Investment Companies	2	33,534	0.34
Insurance Companies	3	113,594	1.15
Joint Stock Companies	8	17,887	0.18
Financial Institutions	3	25,445	0.26
Others			
Okhaai Memon Youth Services	1	5,235	0.05
Hussain Ebrahim Foundation	1	437	0.00
Administrator, Abandoned Properties, Government of Pakistan	1	132	0.00
Corporate Law Authority	1	1	0.00
Total	1,201	9,843,750	100.00



# Additional Information

Categories		Number of Shareholders	Share held	Percentage	
a) Associated Undertaking and related parties		1	14,327	0.15	
b) NIT and ICP					
	National Bank of Pakistan (Trustee Deptt.)	1	4,100	0.04	
	Investment Corporation of Pakistan	1	534	0.01	
c) Directors / CEO and their spouse and minor children					
	Mr. Mohammed Kasim Hasham	Chairman	1	1,730,875	17.58
	Mr. Mohammed Ebrahim Hasham	CEO	1	1,674,018	17.01
	Mr. Mohammed Hussain Hasham	Director	1	1,729,675	17.57
	Mr. Khurram Kasim	Director	1	1,039,053	10.56
	Mr. Ahmed Ebrahim Hasham	Director	1	1,030,077	10.46
	Mr. Muhammad Iqbal	Director	1	2,502	0.03
	Mr. Abdul Razzaq	Director	1	2,500	0.03
	Mrs. Kulsoom Kasim	Spouse	1	104,500	1.06
	Mrs. Khursheed Ebrahim	Spouse	1	74,377	0.76
	Mrs. Marium Hussain	Spouse	1	99,909	1.01
d) Executives		None	0	0.00	
e) Public Sector Companies and Corporations		2	133	0.00	
f) Bank, DFIs, NBFIs, Insurance Companies, Mudarbas & Mutual Funds					
	MCB Bank Limited	1	80	0.00	
	Habib Bank Limited	1	21,265	0.22	
	Adamjee Insurance Company Limited	1	14,327	0.15	
	EFU General Insurance Limited	1	14	0.00	
	State Life Insurance Corporation of Pakistan	1	99,253	1.01	
	National Bank Of Pakistan	1	4,100	0.04	
	Investment Corporation of Pakistan	1	534	0.01	
g) Shareholders holding 10% or more voting interest					
	Mr. Mohammed Kasim Hasham	1	1,730,875	17.58	
	Mr. Mohammed Ebrahim Hasham	1	1,674,018	17.01	
	Mr. Mohammed Hussain Hasham	1	1,729,675	17.57	
	Mr. Khurram Kasim	1	1,039,053	10.56	
	Mr. Ahmed Ebrahim Hasham	1	1,030,077	10.46	



# Proxy Form

## 43rd 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 43rd Annual General Meeting of  
the Company to be held on January 30, 2009 at 1730 pst and at any adjournment thereof.

As witness my our hand seal this \_\_\_\_\_ day of \_\_\_\_\_ 2009

Signed by the said \_\_\_\_\_

in the presence of \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Signature of  
Shareholder

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 of the meeting
2. No person shall act as proxy unless he himself is a member of the Company, except that a corporation may appoint a person who is not a member.
3. If a member appoints more than one proxy and more than one instruments of proxy are deposited by a member with the Company, all such instruments of proxy shall be rendered invalid.

### For CDC Account Holders / Corporate Entities.

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

- i) The Proxy form shall be witnessed by two persons whose names, 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 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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