

DIRECTORS' REPORT FOR THE YEAR ENDED 30 SEPTEMBER 2007

The Directors of your Company take pleasure to present Annual Report and Audited Financial Statements of the Company for the year ended 30 September 2007 together with the Auditors' Report thereon.

OPERATIONAL PERFORMANCE

Sugarcane production in the country was at 54.87 metric tons (M. Tons) in the crushing season 2006-07 which is exceeded by 24% as compared to last year's production and sugar production of 3.6 M.Tons also showing an increase of 22% over last season's production. The crushing season of the Company for the current period commenced on 23 November 2006 and ended on 15 April 2007. Operating results for the year under review are as under:

		23 November 2006 To 15 April 2007	22 November 2005 To 25 March 2006
Crushing days	No.	142	123
Average recovery	%	7.86	8.52
Cane crushed	M. Tones	518,687	424,017
Sugar produced	M. Tones	40,766	36,116
Average Cane Price	Per 40 Kg	66.39	88.92

- The Company has operated at reasonably enhanced level of crushing during the period under review due to better availability of sugarcane. The mill was operated for 142 days with average crushing of 3,653 M. Tons per day and during the season, mill crushed 518,687 M. Tons sugarcane with 22% increase as compared with the corresponding period.
- Sugarcane crop was affected in the months of December and January due to cold winter spell and sever frost which adversely affected the sucrose contents and resulted in low recovery rate. Low yielding variety of sugarcane in the region also aggravated the low recovery rate. Due to aforesaid reasons the recovery rate of the Company decreased from 8.52% to 7.86%.
- The Company produced 40,766 M. Tons which is 13% higher than the last year. Although the Company succeeded to increase crushing of sugarcane by 22% but low recovery rate has blocked to produce the sugar in the same proportion.

FINANCIAL INDICATORS

The financial results of your company for the year ended 30 September 2007 are summarized as follows:

	<u>For the year ended 30 September</u>	
	<u>2007</u>	<u>2006</u>
	Rupees in Thousands	
Net sales	876,449	953,926
Gross profit/(loss)	2,252	(1,895)
Net loss before tax	(135,787)	(108,061)
Net loss after tax	(110,794)	(117,942)
Loss per share – Basic and Diluted (Rupees.)	(3.42)	(3.64)

- During the period under review net sales of the Company has been decreased by 8%. The prices of sugar in the local market remained depressed and dropped significantly due to higher production of sugar in the country. This condition is worsened by Trading Corporation of Pakistan (TCP) by importing sugar from abroad and then off loaded sugar stock by Utility Stores at subsidized prices. The Company is incurring heavy expenditure for production for sugar but unable to get economically viable prices of end product due to poor management and policies of the Government.
- The season started with sugar price at Rs. 33 per Kg but continued pressure and intervention of Govt. policies, resulted in drop of sugar prices upto Rs. 25 per Kg. and it fluctuated between Rs. 28 to Rs. 25.
- Increase in working capital due to lesser sale of sugar, increase in mark-up rates are the major reason for higher financial charges which increased from Rs. 81.248 million to Rs. 108.617 million as compared with the corresponding year. The Company earned a gross profit amounting of Rs. 2.25 Million but the financial charges have eroded the profitability of the Company.

AUDITORS' OBSERVATION

- The auditors' report to the members of the Company has drawn attention to other transactions entered with related parties. These transactions pertain to sharing of joint resources & other expenses incurred due to common management in order to achieve operational efficiency and maximum utilization of resources.
- The management wants to ensure you that your Company has not suffered any financial loss resulting from such transactions as indicated in Note 35.1 to the financial statements because proper markup has been received on such transactions hence the true spirit of corporate law regarding such transactions has been followed.

FUTURE OUTLOOK

- Future prospects of the sugar industry depend on the consistent policies of the Govt. towards maintenance of reasonable sugar prices which will help to great extent to reduce the impact of higher production cost. The industry deserves a fair market price of sugar keeping in view the production cost of sugar plus economic return on equity.
- The prices of sugar are declining day by day due to unsold carried forward stocks available with mills and substantial buffer stock with Trading Corporation of Pakistan (TCP). TCP can play a pivotal role in maintaining of sugar prices.
- Lack of coordination between the Government, sugarcane growers, and sugar industry is responsible for deteriorating economics of sugar industry. Therefore, there is dire need to examine the reason for economic distress for the industry and to take suitable steps to save this industry.
- The Industry, growers and government should work together to chalk out future strategy to benefit the parties directly involved and allowing the sugar industry to operate progressively.
- In view of above stated circumstances we expect a challenging and competitive ambiance and sugar industry will remain under constant pressure throughout the year. Despite better anticipated sugarcane production, the price war for procurement of sugarcane is likely to prevail. Decreasing trend in sugar prices will mitigate the profitability margin and further more huge volume of loans and financial charges.
- We have taken some firm steps to procure the sugarcane to ensure the availability of raw material at lower cost and have devised a strategy to cope the situation to reduce our dependence on borrowing in the coming year. The Management is doing its utmost efforts to improve the profitability by focusing on reduction of cost and improvement in efficiencies.

DIVIDEND:

Due to losses, no dividend is being declared.

AUDITORS:

The present auditors M/s Rahman Sarfraz Rahim Iqbal Rafiq, Chartered Accountants, are retiring after completing their assignment for financial year ended 30 September 2007 and being eligible for re-appointment, have offered themselves for re-appointment. The Audit Committee has recommended the re-appointment of M/s Rahman Sarfraz Rahim Iqbal Rafiq, Chartered Accountants, as auditors of the Company for year ending on 30 September 2008.

STATEMENT ON CORPORATE AND FINANCIAL REPORTING FRAMEWORK:

The Board of Directors and the Company remain committed to the principles of good corporate governance practices with emphasis on transparency and disclosures. The Board and management are fully cognizant with their responsibilities and monitoring Company's operation and performance to enhance the accuracy, comprehensiveness and transparency of financial and non-financial information. The Company is completely compliant of the Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan. The following statements are a manifestation of its commitment towards compliance with best practices of Code of Corporate Governance:-

- The financial statements, prepared by the management of the Company, present fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- Proper books of accounts have been maintained as required by the Companies Ordinance, 1984.
- Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and departure therefrom, if any, has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented by the management and monitored by internal and external auditor as well as Audit Committee. The Board reviews the effectiveness of established internal control through Audit Committee and further improvement in the internal control systems, wherever required.
- There are no doubts upon the Company's ability to continue as a going concern. The Company has adequate resources to continue in operation for the foreseeable future.
- There has been no material departure from the best practices of the Corporate Governance as detailed in the Listing Regulations.
- Key operating and financial data of last six years, in summarized form, is annexed.
- Information about outstanding taxes and other government levies are given in related note(s) to the accounts.
- The company strictly complies with the standard of safety rules & regulations. It also follows environmental friendly policies.
- During the year under review, five (05) meetings of the Board of Directors were held. The attendance by each Director is as follows:

Sr. No.	Name of Directors	Attendance
1.	Mian Muhammad Ilyas Mehraj.	4
2.	Mian Waqas Riaz.	5
3.	Hafiz M. Irfan Hussain Butt.	5
4.	Mr. Raza Mustafa	3
5.	Mr. Sohail Ahmed Butt	3
6.	Mr. Iqbal Latif	-
7.	Air Commodore (R) Pervaiz Akhtar Khan	-
8.	Major General (R) Shujaat Ali Khan	-

Leaves of absence were granted to the Directors who could not attend the Board of Directors' Meetings.

- The Statement of Code of Ethics and Business Practices has been developed and acknowledged by the Directors and employees of the Company.
- The Audit Committee continued to exist in compliance with the Code of Corporate Governance and it comprises the following members:-

Sr. No.	Name	Designation
1.	Hafiz M. Irfan Hussain Butt.	Chairman
2.	Mr. Raza Mustafa	Member
3.	Mr. Sohail Ahmed Butt	Member

- A statement of the pattern of shareholdings of certain classes of shareholders as per Section 236 of the Companies Ordinance, 1984, whose disclosure is required under the reporting framework, is annexed.
- No trading of shares by the Directors, Chief Executive, Chief Financial Officer, Company Secretary and their spouses & minor children has been carried out during the year. Detail of number of shares held by them is annexed.
- All the major decisions relating to investment or disinvestment of funds, changes in significant policies and overall corporate strategies, appointment, remuneration and terms & conditions of appointment of Chief Executive Officer and Executive Directors are taken by the Board of Directors.

ACKNOWLEDGEMENT:

The Board acknowledges the continued interest and support of esteemed shareholders and extremely grateful for their trust and confidence. The Board would like to extend its assurance that the Board would continue to work in the best interest of the Company and to create value addition for its shareholders.

The Directors express their sincere appreciation to the sugarcane growers, valuable customers, regulatory departments of the Government, financial institutions and all other related institutions for their contribution, persistent assistance and patronage which give strength to pursue our corporate objectives with renewed vigor.

The Directors deeply appreciate devotion, loyalty hard work and laudable services rendered by the executives, all the employees and workers of the Company at its various divisions. The Board thanks all mighty Allah for His divine blessings and the courage He has bestowed upon us and asks for His continued benevolence upon the Company and the country.

On behalf of the Board

(Siddique Akbar Butt)

Place: Lahore
Dated: 08 January, 2008