



Directors' Report

The Directors of your Company are pleased to present Thirty First Annual Report with the Audited Financial Statements of the Company for the year ended September 30, 2016.

ABOUT THE INDUSTRY:

Industry Overview

Pakistan's Economy, during the Fiscal Year (FY) 2015-16, witnessed the highest Gross Domestic Product (GDP) Growth in the last eight years. The GDP during FY 2015-16 was 4.7% as compared to 4.0% in the year 2014-15 but this is less than the growth target for the FY 2015-16, which was 5.5%.

In fact, the positive impact of an improvement in growth-enabling factors, were partially offset by dismal performance of the agricultural sector during the year. Like FY 2014-15, the overall agricultural sector remained under stress in FY 2015-16, due to depressed commodity prices and unfavorable weather conditions all over the Pakistan. The agriculture sector experienced a decline during FY 2015-16 despite a better growth performance of sugarcane crops and one other crop compared to the previous year.

The Government support on output prices largely protected sugarcane growers from the impact of subdued commodity prices in the international market. The provincial governments of Sindh and Punjab announced indicative sugarcane price at Rs. 172 and Rs. 180 per 40 kg respectively, which led the domestic market price of sugar higher than the average in the global market.

Policy challenge pertained to gradual build-up of sugar stocks over the years. Specifically, the attractive support prices for sugarcane crop increased their production to levels that exceeded even their domestic consumption. Although the government offered high rebate on the export of surplus stocks, this was not sufficient to boost exports due to wide margin between domestic and international prices.

The sugarcane crop, despite missing the target of 68 million tons for the year, still posted a respectable growth of 4.2% to reach 65.5 million tons. Encouragingly, this growth stemmed from better productivity, as the area under sugarcane cultivation was reduced slightly. More importantly, market price of sugarcane crop largely remained in favour of growers, which shored up their margins as well.

The decline in sugar production, despite better sugarcane crop in FY 2015-16, can be attributed mainly to a lower recovery in sugar content compared to the last year. Specifically, mills could not offload their large carryover stock in the market in the expectation that the domestic prices will raise more. The export of sugar was not viable due to depressed prices in the international market.

The government in the federal budget 2016-17 changed the indirect tax mode from sales tax in federal excise mode to sales tax and thereafter fixed the value of sugar at Rs. 56 per kg, which now stands revised at Rs. 60 per kg for the purpose of levying sales tax. This tax is payable at the rate of 8% for registered buyers and 10% for the unregistered buyers.

ABOUT YOUR COMPANY:

Operating Results

A brief summary of operating results of the Company for the year ended September 30, 2016 along with the comparatives for the corresponding year is given below:

	2015-2016	2014-2015
Season started on	05-11-2015	15-11-2014
Season completed on	29-02-2016	31-03-2015
Duration of crushing Days	117	137
Sugarcane crushed M-Tons	563,617	630,317
Sugar Produced M-Tons	57,387.5	64,271
Sucrose recovery %	10.20	10.19

Review of Operation

The crushing rate was higher by 217 Metric Tons per day and become 4,817 Metric Tons per day as compared with an average of 4,600 Metric Tons per day of the previous season.



As mentioned above, the Company operated for a shorter period of time due to lesser availability of sugarcane as compared to last year; However the Sucrose recovery is higher by 0.01% which slightly offsetting the effect of decrease in crushing to certain extent.

The Sindh Government had notified the price of sugarcane at Rs. 172 per maund for the season 2015-16, lower yields of sugarcane crop has created a shortage of sugarcane for crushing in Sindh, which led to price competition amongst the sugar mills. This resulted in increase in cost of sugarcane and pushed up the cost of production.

Financial Results

The key financial figures of the Company for the year ended September 30, 2016 along with the comparatives for the corresponding year are summarized as under:

	2016 (Rupees in '000)	2015
Profit before taxation	11,060	89,783
Taxation	(2,893)	32,383
Profit after taxation	13,953	57,400
Earnings per share-basic and diluted (Rupees)	1.17	4.80

Review of Financial Results

During the year under review, production is decreased by almost 10.7% and sales quantity is also decreased by 6.1% as compared with last year, the net sugar sales revenue is decreased only by 1.27%, showing an increase in average selling price.

On the other hand cost of production increased due to increase in the cost of sugar cane, low production/sale of molasses and Bagasse, even the sale of Electricity could not give much input to the cost of production.

The Profit before taxation is at decline from the previous period, the contributing factors as reported earlier are high cost of sugarcane and provision of Rs. 18,713 thousand in respect of Inland Freight Subsidy receivable from Trade Development Authority of Pakistan.

Statement on Corporate and Financial Reporting Framework

In compliance with the Code of Corporate Governance, the Board of Directors hereby confirms that:

- The Financial Statements for the year ended September 30, 2016, prepared by the Management, present fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- Proper books of accounts of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of Financial Statements and there is no departure there from
- 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 going concern.
- There has been no material departure from the best practices of the Corporate Governance as detailed in the Listing Regulations of the Pakistan Stock Exchange.
- The Key Operating and Financial Data for last ten years in summarized form are annexed.
- There are no statutory over dues otherwise than those disclosed in the financial statements and statutory payments due on account of taxes duties, levies and charges are being made in the normal course of business.
- An unfunded gratuity scheme is in operation for all permanent eligible employees. Provision are made annually to cover the obligation on the basis of actuarial valuation, related details of which are mentioned in the Notes to the Financial Statements.
- The Pattern of Shareholding is annexed.
- To the best of our knowledge, the Directors, Executives and their spouses and their minor children have not undertaken any trading of Company's shares during the year.
- A Statement of Compliance with the Code of Corporate Governance for the year is annexed with the Report.

**Attendance of Board of Directors in Board Meeting**

Five Board meetings were held during the year. Leave of absence was granted to the Director unable to attend the meeting. Attendance by each Director was as mentioned below:

Name of Directors	Status	No. of meeting attended
1) Mr. Ghulam Dastagir Rajar	Chairman	4
2) Haji Khuda Bux Rajar	Chief Executive	5
3) Mr. Mohammad Aslam	Director	5
4) Mr. Rahim Bux	Director	5
5) Mr. Ghulam Hyder	Director	5
6) Mr. Qazi Shamsuddin	Director	3
7) Mr. Shahid Aziz	Director (N.I.T)	5

Attendance of Members in Meeting of Audit Committee

Five meetings of Audit Committee were held during the year. Attendance by each Member was as mentioned below:

Name of Directors	Status	No. of Meetings Attended
1) Mr. Rahim Bux	Chairman	5
2) Mr. Shahid Aziz	Member	5
3) Mr. Mohammad Aslam	Member	5

Attendance of Members in Meeting of Human Resource & Remuneration (H. R. & R.) Committee

Two meetings of H. R. & R. Committee were held during the year. Attendance by each Member was as mentioned below:

Name of Directors	Status	No. of Meetings Attended
1) Mr. Rahim Bux	Chairman	2
2) Mr. Muhammad Aslam	Member	2
3) Mr. Shahid Aziz	Member	2

Attendance of Members in Meeting of Information Technology Committee

Two meetings of Information Technology Committee were held during the year. Attendance by each Member was as mentioned below:

Name of Members	Status	No. of Meetings Attended
1) Mr. Ghulam Hyder	Chairman	2
2) Syed Rehan Ahmad Hashmi	Member	2
3) Mr. Muhammad Ahmed	Member	2

Board Evaluation

Complying with the Code of Corporate Governance, the Board approved Self-Evaluation mechanism for evaluation of performance of the Board, its directors and committees through discussion and questions focusing on the Board's scope, objectives, functions, responsibilities, the Company's performance and monitoring. The Board has evaluated all the factors based on the inputs of the Directors made in the Board Meeting.

Threshold for determining Executive

Pursuant to the requirement of Clause xvi (i) of the Code of Corporate Governance, the Board has revised and set out a Threshold for determining an 'Executive' in respect of trading of Company's shares. The person whose annual basic salary exceeds Rupees 2.1 million during the year commencing from October 01, 2015 upto the next period is treated as executive..

Related Party Transactions

Related party transactions were placed before the Board Audit Committee and were approved by the Board. These transactions were in-line with the requirements of International Financial Reporting Standards (IFRS) and the Companies Ordinance, 1984. The Company maintains a thorough and complete record of all such transactions.

Materiality Approach

Determining materiality levels is subjective and varied between organizations. Authorizations for transactions and delegation of powers have been define clearly and carried out through formalized process in the Company. The Company has approved materiality policy, which is reviewed annually to check its relevance.



Human Resource Management & Succession Planning

The Company is committed to build the better organizational culture that is shaped by empowered employees who demonstrate a deep belief in the Company's Vision and Values. H.R. Management Policy is integral part of the Company's business strategy. The Company fosters leadership, individual accountability and team work. The Company believes in pro-active approach towards Succession Planning. The Company recruits employees, develops their knowledge, skills, abilities and prepares them for advancement and promotion into more challenging roles. Succession Planning ensures that employees are constantly developed to fill each needed role. The Company looks for people who exemplify continuous improvement when it is spotting Successors for future.

Conflict of Interest

The management of Company has the policy for actual and perceived conflicts of interest and measures are adopted to avoid, identify the existence and to disclose the existence of conflict of interest. The primary goal of Company is to manage conflicts of interest to ensure that decisions are made and are seen to be made on proper grounds, for legitimate reasons and without bias. The Company has set the procedures to manage and monitor the conflict of interest.

Sustainability & Corporate Social Responsibility

Sanghar Sugar Mills Limited (the Company) acknowledges its social and ethical responsibility to carry out its business in order to keep it safe and protect it for the generations to come. Sustainability Policy is considered to be essential for continuing of the business at Sanghar Sugar Mills Limited. The Company considers itself accountable to its stakeholders and informs them about the initiative and measures taken to ensure sustainability and has identified the following dimensions of performing social responsibilities which contributing to economy, environment, health, education and society.

- i. To support the sugarcane growers of the area and provide better quality seeds and fertilizers to achieve improvement in quality of sugarcane and enhance its quantity and productivity in order to have regular, constant and better supply in future the major basic raw material for sugar mills.
- ii. To alleviate illiteracy in the rural areas of the Country, the Company has launched education program and is providing education facilities at the premises adjacent to the Mills' Employees' Colony by the well experienced and trained staff on concessional basis to the children of the factory employees and persons living nearby in rural areas.
- iii. To follow consciously the needs of the Society concerning health, safety and environment for achieving the objective. The Company is responsive to make efforts to minimize the accidental risks, have necessary medical facilities and continuously strive to improve greenery and maintain clean and safe environment around the Mills, better housekeeping, safeguarding the health of employees and application of the principles of safety in its operations, the consumers and public at large by following the rules and regulations in this regard.
- iv. The Company's efforts have primarily on improving the social conditions of the Communities and employees related to the Company by establishing fair working conditions, ensuring occupational safety, setting social standard, establishing minimum wages, zero tolerance on child labour and forced labour etc.
- v. The Company is continuously striving to improve greenery, maintaining clean environment around the mills and better house-keeping.
- vi. To encourage employment of workforce living in the rural areas in order to yield significant gain and uplift their living standard.
- vii. The Company treats all employees fairly and compensates them according to the industry practice. The Company provides the benefits such as perquisites, annual leaves, pick and drop, facility of mess, safe and healthy working conditions etc along-with group insurance, making payments to Employees Old Age Benefits Institution, Employees Welfare Fund, Worker's Profit Participation Funds.
- viii. The Company is committed to maintaining the principles of integrity and trust with respect to privacy of the employees of the Company.
- ix. The Company made donations amounting to Rs. 1,200 thousand during the year as compared to Rs. 1,156 thousand during the last year. These donations do not include any amount paid to any person or organization in which any director or their spouse had any interest.

Contribution to National Exchequer

The Company is contributing to the National growth by sharing its revenue with the nation in the form of taxes, rates and duties. The Company is also contributing the Country to improve foreign reserves by earning foreign currency through exports of sugar as and when allowed. The Company contributed to National Exchequer in the form income taxes, sales tax and other levies amounting to Rs. 222,324 thousand during the year as compared to Rs. 255,818 thousand during the last year.



Subsequent Event After the Year End

Donation of Land:

The Company reviews its Corporate Social Responsibility by taking various measures to ensure its contribution to health and making efforts to minimize the accidental risks, have necessary medical facilities to safeguard the health of its employees and the society. In order to improve and extend Health Facilities for its employees, besides rural people living in the vicinity of Sanghar Sugar Mills in Sanghar, the Company has deliberated Ministry of Overseas Pakistanis & Human Resources Development, Workers Welfare Fund, Government of Pakistan, Islamabad, which has expressed its willingness to construct Fifty Beds Hospital by Workers Welfare Fund on the premises of Sanghar Sugar Mills in Sanghar, if the Company is ready to donate (free of cost and any charge or mortgage) Five Acres Land and transfer its Title to Workers Welfare Fund, Ministry of Overseas Pakistanis & Human Resource Development, Government of Pakistan.

On November 23, 2016, the shareholders of the Company approved the Board of Directors proposal in the Extra Ordinary General Meeting that the donation (free of cost and any charge or mortgage) and Transfer 05 Acres Land valuing Rs. 2.5 million, out of 320 Acres Land of the Company in Sanghar. The details are given in note 44.1 of the financial statements

In order to implement the Agreements with the Ministry of Overseas Pakistanis & Human Resource Development, Workers Welfare Fund, Government of Pakistan, Islamabad, for the purpose of construction of Fifty Beds Hospital on the above said Land in the vicinity of Sanghar Sugar Mills located in Sanghar, the formalities of transfer of Land and other documentation is in process till date.

Appointment of Company Secretary:

After the year end, Company Secretary Mr. Abdul Ghafoor Ateeq, resigned, which was accepted with effect from 1st day of December 2016 as requested by him. Thereafter, Mr. Muhammad Mubeen Alam appointed as Company Secretary in place of Mr. Abdul Ghafoor Ateeq, with effect from December 06, 2016 as approved by the Board of Directors through resolution by circulation, which was subsequently ratified by the Board of Directors.

Future Prospects

Crushing season 2016-17 is started on scheduled time. The expected increase in availability of sugarcane and in turn production of sugar may results in surplus stock at the end of season. The approval of export by Economic Coordination Committee may offset the impact of surplus sugar stock in the country.

As reported earlier, the capacity expansion work is in progress and your management is working hard to make the trial run during the current season.

Dividend

The Board of Directors of the Company in its meeting held on January 07, 2017 has decided to recommend to pay cash dividend at Paisa Sixty only (Rs. 0.60) per share i.e. 6% for the year ended September 30, 2016 (2015: Cash Dividend at Rs. 2/- per share i.e. 20%).

Appropriation

Final Dividend for the year ended September 30, 2015 @ Rs. 2/- per share, declared by Board of Directors and subsequently approved during the year in Annual General Meeting. An amount of Rs. 23,892 thousand was appropriated during the year against the dividend paid to shareholders of the Company. The appropriation is disclosed in the statement of Changes in Equity.

Auditors

The present Auditors M/s. Kerston Hyder Bhimji & Co. Chartered Accountants retire at the conclusion of forthcoming Annual General Meeting and being eligible, have offered themselves for re-appointment. As suggested by the Audit Committee in terms of the Code of Corporate Governance, the Board of Directors has recommended their appointment as Auditors of the Company for the year ending September 30, 2017.

Acknowledgement

Your Directors place on record their appreciation for devotion of duty, loyalty and hard work of the executives, officers, staff members and workers for smooth running of the Company's affair and hope that they will continue for enhancement of productivity with great zeal and spirit under the blessings of Almighty Allah.

The Directors would like to thank all the government functionaries, banking and non-banking financial institutions, suppliers and shareholders for their continued support and cooperation for the betterment and prosperity of the Company.

For and on behalf of the Board of Directors

Karachi: January 07, 2017

Chief Executive