

Directors' Report

The Directors of your Company are pleased to present Twenty Ninth Annual Report with the Audited Financial Statements of the Company for the year ended September 30, 2014.

Review of the Performance of the Company

The crushing season for the year 2013-2014 started on November 01, 2013 and completed on March 31, 2014. Due to bumper crop in Sanghar district, your Company was able to operate for 151 days crushing at the rate of 4,889 M. Tons of cane per day compared with 4,482 M. Tons per day of the previous season, achieving its second highest crushing and highest recovery in the history of Sanghar Sugar Mills Limited.

Operating Results

A brief summary of operating results of the Company for the year ended September 30, 2014 along with the comparatives for the corresponding year is given as under.

	2013-2014	2012-2013
Season started on	01-11-2013	03-11-2012
Season completed on	31-03-2014	03-03-2013
Duration of crushing days	151	121
Sugarcane Crushed (M. Tons)	738,209	542,289
Cane sugar produced (M. Tons)	72,530	52,823
Sucrose recovery (%)	9.81	9.77

Review of Operation

The Company operated at better level during the year ended September 30, 2014 under the prevailing circumstances as compared with the previous year.

Financial Results

The key financial figures of the Company for the year ended September 30, 2014 along with the comparatives for the corresponding year are summarized as under:

	2014	2013
	(Rupees in '000)	
Profit before taxation	36,091	14,271
Taxation	27,359	7,370
Profit after taxation	<u>8,732</u>	<u>6,901</u>
Earning per share-basic and diluted (Rupees)	<u>0.73</u>	<u>0.58</u>

Review of Financial Results

As reported above, the Company has manufactured the larger quantity of sugar as compared with the corresponding year. But due to the persistent depressed prices of sugar during the reporting year, the Company earned profit after taxation of Rs. 8,732 thousand as compared with profit after taxation of Rs. 6,901 thousand during the corresponding year ended September 30, 2013.

Future Prospects

As already reported above and in the previous reports of the Company, the sugar industry is functioning under the peculiar environment affected by the policies of Federal and Provincial Governments as well as the trend of the international and local markets. The Government exercises control over the price of sugarcane to protect the interest of the sugarcane growers, but similar practice is not exercised over the price of sugar to have a win win position for all the stakeholders. Under these circumstances, despite the approval for export to the tune of 650,000 M. Tons for the Country, the all over situation of the sugar industry could not be termed as satisfactory.

In these circumstances, in order to make the Company competitive, your Company is exploring the possibility of selling available surplus (Electricity) to the electric distribution company and are in process of finalizing the agreement with Hyderabad Electric Supply Company in this behalf.

Contribution to the Economy

The Company's contribution to the National Exchequer in the form of income tax, sales tax and other levies and charges, was Rs. 283,052 thousands during the year as compared to Rs 96,588 thousand during the last year. This does not include withholding tax that is deducted by the Company from payments made to employees, suppliers etc and deposited with Government Treasury.

Health, Safety and Environment

Your Company, its directors and management are conscious to follow 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 regards.

Corporate Social Responsibility

Your Company is socially responsible and committed to conduct its business ethically and with responsibility. The Company is conscious of the role to play as responsible corporate citizen in fulfilling the various needs of the society concerning health, safety, environment, employee relationship and social welfare of the society. The Company considers itself accountable to its stakeholders and has identified dimensions of performing the social responsibilities which are contributing to economy, environment and society. The management pursues the strategy by following strategic guidelines to be a good corporate citizen:

- i) Encouraging employment of work force living in the rural areas in order to yield significant gain and uplift their living standard.
- ii) Continuously striving to improve greenery, maintain a clean environment around the Mills and better housekeeping.
- iii) Making arrangement for civic, health, education and accommodation facilities to employees.
- iv) Support social causes.

On the corporate social responsibility front, the Company has already launched education program and accordingly providing education facilities at premises adjacent to employees' colony at the factory in order to provide primary education facilities by qualified staff on concessional fees basis to the children of the factory employees and others living nearby in the rural areas in order to alleviate illiteracy and poverty. The Company has always supported other noble causes which help the members of the society.

Sustainability of the Company, its employees and shareholders of the Company is the prime concern of your Directors and various developments on this are under active consideration which will be reported in the ensuing periods.

Statement on Corporate and Financial Reporting Framework

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

- i. The financial statements for the year ended September 30, 2014, prepared by the Management, present its state of affairs fairly, the results of its operations, cash flows and changes in equity.
- ii. Proper books of accounts of the Company have been maintained.
- iii. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- iv. International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departures there from has been adequately disclosed and explained.
- v. The system of internal control is sound in design and has been effectively implemented and monitored.
- vi. There are no significant doubts upon the Company's ability to continue as going concern.

Sanghar Sugar Mills Limited

- vii. There has been no material departure from the best practices of the Corporate Governance as detailed in the Listing Regulations.
- viii. The key operating and financial data for last ten years in summarized form are annexed.
- ix. Keeping in view the Financial Results and factors stated under “Future Prospects” mentioned above and in order to utilize the available financial resources to make the Company competitive, it is considered not to declare any cash dividend or bonus shares for the year ended September 30, 2014.
- x. There are no over dues and statutory payments due on account of taxes duties, levies and charges are being made in the normal course of business.
- xi. An unfunded gratuity scheme is in operation for all permanent employees. Provision are made annually to cover the obligation on the basis of actuarial valuation and charged to income currently, related details of which are mentioned in the Notes to the Financial Statements.
- xii. The Pattern of Shareholding as on September 30, 2014 is annexed.
- xiii. To the best of our knowledge, the Directors, Executives and their spouse and their minor children have not undertaken any trading of Company's shares during the year ended September 30, 2014.
- xiv. A statement of Compliance with the Code of Corporate Governance for the year ended September 30, 2014 is annexed with the Report.

Board of Directors

During the year ended September 30, 2014, there was no change in the Board of Directors of the Company. The conditions in relation to the Chairman and Chief Executive and at least one independent director was applicable with effect from next election of directors, i.e., November 03, 2014, as provided under proviso of the clause (vi) of the Code of Corporate Governance and have been complied with on reconstitution of Board of Directors as mentioned below under the heading “Reconstituted Board of Directors After Election”. The Board was composed of three Executive Directors and five Non-Executive Directors and five Board meetings were held during the year ended September 30, 2014. Leave of absence was granted to the Directors who could not attend the Board meeting. Attendance by each director was as follows:

	Name of Directors	Status	Category	No. of meetings attended
1)	Haji Khuda Bux Rajar	Chairman & Chief Executive	Executive Director	4
2)	Mr. Ghulam Dastagir Rajar	Director	Non-Executive Director	5
3)	Mr. Mohammad Aslam	Director	Executive Director	5
4)	Mr. Gul Mohammad	Director	Executive Director	5
5)	Mr. Jam Mitha Khan	Director	Non-Executive Director	3
6)	Mr. Qazi Shamsuddin	Director	Non-Executive Director	3
7)	Mr. Shahid Aziz	Director	Non-Executive Director	3
8)	Mr. Irshad Husain	Director	Non-Executive Director	5

Audit Committee

The Board has already setup an Audit Committee comprising three Non-Executive Directors. Its five meetings were held during the year ended September 30, 2014. Leave of absence (L) was granted to the directors who could not attend the meeting. Attendance by each director (P) was as follows:

Name of Directors		Meeting of Audit Committee held on				
		27.11.13	09.01.2014	29.01.2014	29.05.2014	23.07.2014
Mr. Ghulam Dastagir Rajar	(Chairman)	P	P	P	P	P
Mr. Shahid Aziz	(Member)	L	L	P	P	P
Mr. Jam Mitha Khan	(Member)	P	P	P	L	L

Human Resource & Remuneration Committee (H.R.& R. Committee)

The Board has already formed a Human Resource & Remuneration Committee comprising three Non-Executive Directors. Its two meetings were held during the year ended September 30, 2014. Leave of absence (L) were granted who could not attend its meeting. Attendance by each director (P) was as follows:

Name of Directors		Meeting of H.R. & R. Committee held on	
		27.11.13	29.05.2014
Mr. Ghulam Dastagir Rajar	(Chairman)	P	P
Mr. Shahid Aziz	(Member)	L	P
Mr. Jam Mitha Khan	(Member)	P	L

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 as Threshold for determining an 'Executive' in respect of trading of company's shares whose annual basic salary exceeds Rupees 1.5 million concerning the period commencing from October 01, 2013 upto the next period when it will be revised and approved by the Board as and when deemed necessary.

Board Evaluation

The Board of Directors has formulated a policy to evaluate its own performance and a framework has been developed to carry out Evaluation of efficiency and effectiveness of the members of the Board, Board as a whole and its committees in order to improve governance and transparency as well improve the performance of the Company.

Directors' Training Program

The Directors are well aware of their duties and responsibilities under the Code. One Director - Haji Khuda Bux Rajar is exempt from Directors' Training Program in accordance with criteria defined in clause (xi) of CCG. Three Directors - Mr. Ghulam Dastagir Rajar, Mr. Mohammad Aslam and Mr. Gul Mohammad have completed approved Directors' Training Program and rest of the Directors to be trained within specified time under the CCG.

Revaluation of Property, Plant and Machinery

The Directors are pleased to report that the Company's free hold land, building, plant and machinery were revalued on September 30, 2014 by the independent professional valuers M/s. Oceanic Surveyors (Pvt) Ltd in order to be current with prevailing fair market value and accordingly the carrying value of such assets has been adjusted. The details of which are fully disclosed in the annexed Notes to the Financial Statements for the year ended September 30, 2014.

Reconstituted Board of Directors After Election

The Shareholders of the Company in the Extra Ordinary General Meeting of the Company held on October 30, 2014 elected the Seven Directors for the tenure of three years commencing from November 04, 2014, namely (1) Haji Khuda Bux (2) Mr. Ghulam Dastagir Rajar (3) Mr. Mohammad Aslam (4) Mr. Ghulam Hyder (5) Mr. Gul Mohammad (6) Mr. Qazi Shamsuddin and (7) Mr. Shahid Aziz (Representing N.I.T).

Subsequently Mr. Gul Mohammad (Re-elected Director) resigned on November 01, 2014 which was accepted by the Board of Directors in its meeting held on November 05, 2014 (after holidays during November 02 to 04, 2014 due to Aashura) and Mr. Rahim Bux was appointed/co-opted by the Board as the Director of the Company in his place in order to fill the casual vacancy immediately.

The Board in this meeting elected Mr. Ghulam Dastagir Rajar as the new Chairman of the Board in place of Haji Khuda Bux Rajar. The Board also re-appointed Haji Khuda Bux Rajar as the Chief Executive of the Company and re-appointed Mr. Mohammad Aslam as Working Director for next three years effective from November 04, 2014 as authorized by the Articles of Association of the Company on the remuneration, terms and conditions mentioned in the Abstract u/s 218(2) of the Companies Ordinance 1984 which was circulated as required within the specific time in this regard. Accordingly, the Reconstituted Board of Directors from November 05, 2014 has the following composition:

	Names of Directors	Status	Category
1)	Mr. Ghulam Dastagir Rajar	Chairman	Non-Executive Director
2)	Haji Khuda Bux Rajar	Chief Executive	Executive Director
3)	Mr. Mohammad Aslam	Director	Executive Director
4)	Mr. Rahim Bux	Director	Independent Director
5)	Mr. Ghulam Hyder	Director	Non-Executive Director
6)	Mr. Qazi Shamsuddin	Director	Non-Executive Director
7)	Mr. Shahid Aziz	Director (N.I.T)	Non-Executive Director

Reconstituted Audit Committee

The Board after election of Directors has reconstituted the Audit Committee effective from November 05, 2014 for the tenure of three years in order to comply with the provisions of the Code of Corporate Governance. Accordingly, the Board appointed three members of the Audit Committee having the following composition:-

	Names of Directors	Status	Category
1)	Mr. Rahim Bux	Chairman	Independent Director
2)	Mr. Ghulam Hyder	Member	Non-Executive Director
3)	Mr. Shahid Aziz	Member	Non-Executive Director having financial skill & experience

Reconstituted Human Resource & Remuneration Committee

The Board after election of Directors has reconstituted the Human Resource & Remuneration Committee effective from November 05, 2014 for the tenure of three years in order to comply with the provisions of the Code of Corporate Governance. Accordingly, the Board appointed three members of the H.R. & R. Committee having the following composition:-

	Names of Directors	Status	Category
1)	Mr. Rahim Bux	Chairman	Independent Director
2)	Mr. Ghulam Hyder	Member	Non-Executive Director
3)	Mr. Shahid Aziz	Member	Non-Executive Director

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, 2015.

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

Chief Executive

Karachi: January 08, 2015