

Directors' Report

The Directors of your Company are pleased to present Thirty Fourth Annual Report with the Audited Financial Statements of the Company for the year ended September 30, 2019.

ABOUT THE INDUSTRY:

INDUSTRY OVERVIEW

Pakistan is among the large sugarcane producer in the world. Like other cash crops, sugarcane is one of the most important cash crops of Pakistan and it is a main contributor for sugar production besides paper and board industry. Pakistan is ranked number nine in the world for sugar production. On the other hand, it is the 8th largest sugar consuming country in the world. Currently, there is more than one million hectares of land used for sugarcane cultivation which produces more than five million tons of refined sugar annually.

The sugar industry is the country's second largest agriculture-based industry after textiles. In addition to sugar, sugarcane is employed in the production of pharmaceutical ethanol, bagasse for paper and chip board manufacturing, and press mud used as a rich source of organic fertilizer for crop production. Sugarcane is typically grown on the high delta away from areas that flood along Pakistan's major rivers.

Sugarcane production is forecast at 64 million metric tons. The sugarcane production cycle swaps between 3 to 5 years. After three successive years of increases in sugar production, it is on a downward trajectory mainly due to a decrease in area followed by a significant acreage of ratoon crop (older crop). During 2018-19 sugarcane acreage decreased by 12 percent and in 2019-20 it is expected to decrease by five percent, mainly due to better prospects offered by crops such as cotton and corn.

After the textile industry, the sugar industry is the only industry which can be called a model for agro-based industries. Sugarcane is a labor-intensive crop that requires about 134 man-days/hectare. Sugarcane cultivation provides a partial and seasonal employment to 3.9 million people approximately, which is about 12.14% of the total agricultural labor force.

There are several sugar mills in the country, providing job opportunities to people and contributing billions of rupees to the government exchequer annually in the form of taxes. Though sugar industry in Pakistan has always remained under criticism mainly on the grounds of earning huge profits through cartelization. Though the socio-economic growth in the rural population of Sindh, Punjab and the Khyber Pakhtunkhwa is associated with the sugar industry. These sugar mills normally contact the farmers directly to understand their problems and facilitate them in solving the issues of availability of seeds, fertilizers and pesticides.

Given that sugarcane prices are fixed by the government and sugar prices are determined by market forces, which is exhibiting a declining trend, the same may result in a cost-price mismatch, whereby change in retail sugar prices may not correspond with the change in raw material costs including other overheads as well.

The last couple of years, the conflict between farmers and sugar millers over the issue of price is deepened. The farmers are insisting on higher price for sugarcane and the sugar mills are complains about ever increasing cost of production which affects the price of sugar in the open market.

The support prices for the sugarcane are fixed by the provincial governments from year to year and are usually different for Punjab and Sindh. Over the last 10 years, there has been an increase of 220% in the support prices of sugarcane whereas the sugar prices have increased by 100% during the same period. This gap of over 100% is affecting the sugar industry badly and some of the mills who did not sustain the loss are closed or at the verge of being closing down. Sugarcane is the main ingredient of sugar industry of Pakistan and hence the 80% of the total cost of production; along with overheads. High government taxes also contributes in enhancing the prices.

ABOUT YOUR COMPANY:

PRINCIPAL ACTIVITIES

The Company is principally engaged in the manufacture and sale of sugar and sale of its by-products i.e. molasses and bagasse. The Company has also installed bagasse fired transmission equipment to sell surplus electric power. The manufacturing facilities are located at Sanghar Sindhri Road, Deh Kehore, District Sanghar in the province of Sindh.

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OPERATING RESULTS & ITS REVIEW

	2018-2019	2017-2018
Season started on	21-11-2018	30-11-2017
Season completed on	28-02-2019	19-04-2018
Duration of crushing days	100	142
Sugarcane crushed (Metric Tons)	490,932	712,124
Average daily crushing (Metric Tons)	4,909.32	5,014.96
Cane sugar produced (Metric Tons)	52,799.25	73,776
Sucrose recovery (%)	10.75	10.37

Sugarcane production / crushing activities was started on November 21, 2018 and crushing operations were continued till February 28, 2019. Plant remained operational for only 100 days due to inadequate sugarcane production. Company barely able to produce 52,799.25 M. Tons of sugar resulting in a decline of 28.43% in production as compared to last season. Sucrose recovery remained at 10.75% showing an increase of 0.38% as compared to last year of recovery of 10.37%.

FINANCIAL RESULTS & ITS REVIEW

The key financial figures of the Company for the year ended September 30, 2019 along with the comparatives for the corresponding year are summarized as under:

	2019	2018
	(Rupees in '000)	
(Loss) / Profit before taxation	(148,608)	24,868
Taxation	49,753	(5,442)
(Loss) / Profit after taxation	(98,855)	19,426
(Loss) / Earnings per share-basic and diluted (Rupees)	(8.28)	1.63

Despite the fact that your Management has managed to control manufacturing & administrative expenses despite phenomenal increase in inflation, the final results remained in negative due to the depreciation cost and financial cost.

Depreciation increases due to the impact of revaluation surplus of fixed assets and financial charges increases due to increase in KIBOR from 8.5% at the beginning of the year to 13.25% at the end of the financial year.

All our efforts of achieving higher recovery, selling sugar efficiently, keeping expenses at controllable level could not bear fruits of profits due to the facts mentioned above.

COMMENTS ON AUDITOR'S REPORT

The statutory auditors of the Company emphasizing the matter in their report regarding non-provision of Rs. 22 per maund for the season 2017-18, in this regard we would like to inform you and as explained above, your financials are prepared by taking sugar cane purchased at Rs. 160 per 40 k.g. in the light of the interim order passed by the Honourable High Court of Sindh with the consent of all the stakeholders, we hope that considering the continued depressed economic condition of the sugar industry, the final decision by the Courts is likely to be in line with the consent order.

STATEMENT ON CORPORATE AND FINANCIAL REPORTING FRAMEWORK

The Board of Directors and the Company remain committed to the principles of good corporate management practice with emphasis on transparency and disclosures. The Board and management are cognizant of their responsibilities and monitor the operations and performance to enhance the accuracy, comprehensiveness and transparency of financial and non-financial information.

The Company is fully compliant with the Code of Corporate Governance and as per the requirements of the listing regulations, following specific statements are being given hereunder:

- o 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.
- o Proper books of accounts of the Company have been maintained.
- o Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

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- o International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of Financial Statements and there is no departure there from.
- o The system of internal control is sound in design and has been effectively implemented and monitored.
- o There are no significant doubts upon the Company's ability to continue as going concern.
- o There has been no material departure from the best practices of the Corporate Governance as detailed in the Regulations.
- o The Key Operating and Financial Data for last ten years in summarized form are annexed.
- o 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.
- o An unfunded gratuity scheme is in operation for all permanent eligible employees and also the Leave Encashment Scheme for eligible employees to be paid at the time of retirement or leaving the Company. 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.
- o The Pattern of Shareholding is annexed.
- o In terms of the Listed Companies (Code of Corporate Governance) Regulations, 2019, the Companies shall ensure that all the directors on their boards have acquired the prescribed certification under Director Training Program. All the directors, except Chief Executive, have attended and completed directors' training course conducted by Institute of Cost & Management Accountant of Pakistan. The Chief Executive has the prescribed education and experience required for exemption under Regulations accordingly he is exempted from attending directors' training program.
- o The Board strives to continuously improve its and Board Committees' effectiveness. Board of Directors has developed a mechanism as required under the Code of Corporate Governance to undertake annual evaluation to assess Board's and its Committees' performance. The Board also reviews developments in corporate governance to ensure that the Company always remains aligned with best practices.
- o 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.
- o Statement of Compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2019 for the year is annexed with the Report.

CORPORATE GOVERNANCE & ADHERENCE TO BEST PRACTICES OF CORPORATE GOVERNANCE

The Company has a long history of adherence to high standards of ethical practices, and it continues to uphold these standards going forward. The Board defines a path of continuous improvement by constantly challenging existing processes and the Board has fiduciary responsibility for the proper direction and control of the activities of the Company. This responsibility includes such areas of stewardship as the identification and control of the Company's business risks, the integrity of management information systems and transparent reporting to shareholders.

The Corporate Governance structure of the Company is based on the Articles of Association as well as statutory, regulatory and other compliance requirements applicable to companies listed on the Pakistan Stock Exchange and the same is complemented by several internal procedures including a risk assessment and control system, as well as system of assurance on compliance with the applicable laws, regulations and the Company's Code of Conduct.

NUMBER OF DIRECTORS

The total numbers of Directors are seven as per the following:

- a) Male: Seven
- b) Female: Nil

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COMPOSITION OF THE BOARD

The composition of Board is as follows:

Independent Director

Mr. Rahim Bux

Other Non-Executive Directors

Mr. Gul Muhammad

Mr. Mohammad Aslam

Mr. Qazi Shamsuddin

Mr. Shahid Aziz (N.I.T.)

Executive Directors

Haji Khuda Bux Rajar

Mr. Ghulam Hyder

Female Director

None

BOARD COMMITTEES

The Board has formed committees comprising of members given below:

a) Audit Committee:

Name	Status
Mr. Rahim Bux	Chairman
Mr. Mohammad Aslam	Member
Mr. Shahid Aziz	Member

b) Human Resource and Remuneration Committee:

Name	Status
Mr. Rahim Bux	Chairman
Mr. Mohammad Aslam	Member
Mr. Shahid Aziz	Member

c) Risk Management Committee:

Name	Status
Mr. Mohammad Aslam	Chairman
Mr. Ghulam Hyder	Member
Mr. Shahid Aziz	Member

d) Corporate Social Responsibility Committee:

Name	Status
Mr. Rahim Bux	Chairman
Mr. Mohammad Aslam	Member
Mr. Shahid Aziz	Member
S. Rehan Ahmad Hashmi	Member

e) Information Technology & Steering Committee:

Name	Status
Mr. Ghulam Hyder	Chairman
S. Rehan Ahmad Hashmi	Member
Mr. Sheraz Khan	Member

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ATTENDANCE OF BOARD OF DIRECTORS AND COMMITTEES

Attendance of Board of Directors in Board Meeting

Four 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 Meetings Attended
1)	Mr. Ghulam Dastagir Rajar (Resigned on December 04, 2019)	Ex-Chairman	2
2)	Mr. Gul Muhammad (Appointed on December 04, 2019)	Chairman	—
3)	Haji Khuda Bux Rajar	Chief Executive	3
4)	Mr. Mohammad Aslam	Director	4
5)	Mr. Rahim Bux	Director	4
6)	Mr. Ghulam Hyder	Director	3
7)	Mr. Qazi Shamsuddin	Director	4
8)	Mr. Shahid Aziz	Director (N.I.T.)	4

Attendance of Members in Meeting of Audit Committee

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

	Name of Members	Status	No. of Meetings Attended
1)	Mr. Rahim Bux	Chairman	4
2)	Mr. Shahid Aziz	Member	4
3)	Mr. Mohammad Aslam	Member	4

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 Members	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. Sheraz Khan	Member	1
4)	Mr. Ebad Azhar	Member	1

Mr. Sheraz Khan was appointed on May 01, 2019 in place of Mr. Ebad Azhar

Attendance of Members in Meeting of Corporate Social Responsibility (CSR) Committee

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

	Name of Members	Status	No. of Meetings Attended
1)	Mr. Rahim Bux	Chairman	4
2)	Mr. Muhammad Aslam	Member	4
3)	Mr. Shahid Aziz	Member	4
4)	Syed Rehan Ahmad Hashmi	Member	4

Attendance of Members in Meeting of Risk Management Committee

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

	Name of Members	Status	No. of Meetings Attended
1)	Mr. Muhammad Aslam	Chairman	2
2)	Mr. Ghulam Hyder	Member	1
3)	Mr. Shahid Aziz	Member	2

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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 purpose of the evaluation is to ensure that the Board's performance is measured with reference to overall corporate objectives, governance structure of the Company, statutory & regulatory compliance, effectiveness, collaboration and value addition. The Board has evaluated all the factors based on the inputs of the Directors made in the Board Meeting. All members of the Board participated in performance evaluation and provided their feedback.

DIRECTORS TRAINING

One Director of the Company has the prescribed education and experience. Therefore, he is exempted from attending Director's Training Program pursuant to the Code of Corporate Governance Regulations. All other Directors have already completed approved Directors' Training Program as specified in the Corporate Governance.

ADEQUACY OF INTERNAL FINANCIAL CONTROLS

Directors confirm that the compliance with highest standard of Corporate Governance and comprehensive policies and procedures on internal financial controls has been approved by the Board and are in place and have been effectively implemented and monitored. The Board has established a system of internal control and formulated policies for ensuring efficient conduct of its business, safeguarding the Company's assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records and the timely preparation of reliable financial information.

THRESHOLD FOR DETERMINING EXECUTIVE

Pursuant to the requirement of Clause 5.6.1 (a) & (d) of the Listing Regulations (Rule Book) of the Pakistan Stock Exchange, the Board has set out a Threshold for determining an 'Executive' in respect of trading of Company's shares. The person whose annual basic salary exceeds Rs. 2.3 million during the year is treated as executive.

RELATED PARTY TRANSACTIONS

The Related party transactions were placed before the Board Audit Committee and approved by the Board. These transactions were in-line with the requirements of International Financial Reporting Standards (IFRS) and the Companies Act, 2017. The Company maintains a thorough and complete record of all such transactions.

Remuneration of Chief Executive, Directors and Executives

The aggregate amount charged during the year for remuneration, including all benefits to the Chief Executive, Directors and Executives of the Company are disclosed in Note No. 39 of the annexed Financial Statements. Synopsis of Policy for Directors' remuneration and meeting fee are annexed with the report.

Other Transactions

The Company in the normal course of business carried out transactions with Key Management Personnel (KMP) / related parties. The transactions reflect economic substance and are executed in the normal course of business and are disclosed in Note No. 40 of the annexed Financial Statements.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly.

Name of Related parties with whom the Company has entered into transactions or had agreements and arrangements in place during the financial year along with the basis of relationship are also disclosed in respective notes to the financial statements. Contract or arrangements with related parties were in the ordinary course of business and were at arm's length basis.

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.

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HUMAN RESOURCE MANAGEMENT & SUCCESSION PLANNING

Human resource planning and management is one of the most important considerations with the senior management. The Board has established a Committee which is involved in the selection, evaluation, compensation and succession planning of key management personnel. It is also involved in recommending improvements in the human resource policies and procedures and their periodic review.

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. No employee will perform any kind of work (directly or indirectly) for a third party without proper approval. Employees must notify their any actual or potential conflict of interest situation and obtain an advice or ruling as the case may be. 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.

Every director is required to provide to the Board complete details regarding any material transaction which may bring conflict of interest with the Company for prior approval of the Board. The interested director(s) do not participate in the discussion neither they vote on such matters. The transactions with all the related parties are made on arms length basis and complete details are provided to the Board for their approval. Further all the transactions with the related parties are fully disclosed in the financial statements of the Company.

IMPACT OF COMPANY'S BUSINESS ON ENVIRONMENT

It is the responsibility of the Company to make the environment healthy and clean. Therefore, the Company has made serious efforts and are installing equipment to reduce the pollution and making a good impact of Company's business on Environment. The Company has installed collection units to retrieve oil / grease e.t.c. from the waste water and ash collectors are also installed at the chimneys to absorb the ash. Further, the feasibility of Effluent treatment plant and consideration of other environmental factors are in process and will be finalized. The first step of which is required the facilities to identify environmental gaps. This includes the consumption of fresh water and energy at the facility as well as effluent discharges, soil and ground water monitoring and emissions from vehicles, generators and boilers. The aim is to address the identified environmental gaps in the subsequent years.

Further, it is to inform you that the Company has finalized the Environmental Management Plan and has also conducted all environmental examination and is working hard to significantly reduce the consumption of water by doing following steps;

- o Increase in imbibition water Temperature at Mill House from 40 Centigrade to 55 Centigrade using condensate water in place of raw water.
- o Reactivation of cooling tower for vertical crystallizer by this we are re cycling water use for crystallizer cooling purposes. Intake of fresh water is minimized only to make up water loss due to evaporation.
- o Process chemicals are prepared with condensate water in place of raw water. o We are working on reducing, re cycle and re use of water.
- o The installation of Effluent Treatment Plant is in progress and more than 50% work has been completed and we are hopeful that it will be completed before the end of crushing season 2019-20.

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INVESTOR GRIEVANCE AND COMPLAINTS

The Company allows full access to all shareholders including potential investors, to call for relevant information or details on Company's operations and their own shareholding. The required information is provided immediately or a query / grievance is resolved promptly in accordance with the regulatory guidelines.

SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY

Report of Sustainability and Corporate Social Responsibility is annexed

RISK MANAGEMENT & STRATEGY

The Company's overall risk management program focus on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's operations. The Company's risk management policies are established to identify and analyze the risk faced by the Company, to set appropriate risk limits and control, and to monitor risks and adherence to limits. The Board of Directors has overall responsibility for the establishment and oversight of Company's risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company considers the following material risk:

Operational Risk

To mitigate the operational risks, necessary strategies have been developed and substantial investments are continuously being made to ensure the reliability of operating plant. The Company has carried out necessary repairs & maintenance as required.

Market Risk

The Company is not materially exposed to the prices of raw material due to the fixation of prices by the Government. Strategies has been planned and implemented to overcome the huge cost of raw material. Further, the Company is not exposed to the risk of exchange rate fluctuation as at the year-end but the Company was exposed during the year to due to the export of sugar. The management has planned to use of financial instruments in future.

Credit Risk

To manage exposure to credit risk in respect of trade receivables, management performs credit reviews taking into account the customer's financial position, past experience and other factors. The Company manages credit risk interalia by setting out credit limits in relation to individual customers and / or by obtaining advance against the sales and / or through letter of credits and / or by providing adequate allowance for doubtful debts. Where considered necessary, advance payments are obtained from certain parties or by obtain advance payments from counter parties. The Company believes that it is not exposed to major concentration of credit risk.

Liquidity Risk

The Company manages liquidity risk by maintaining sufficient cash and ensuring the fund availability through adequate credit facilities. As at the year-end, the Company has available un-availed short term borrowing facilities and also has cash & bank balances. The management believes that the Company is not significantly exposed to the liquidity risk.

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 contributed to National Exchequer in the form income taxes, sales tax and other levies amounting to Rs. 425,841 thousand during the year as compared to Rs. 475,408 thousand during the last year.

FUTURE PROSPECTS

Your management see decrease in production of sugar due to low cultivation of sugarcane, this phenomenon will increase the cost of sugar produced. However, we also see higher selling prices of sugar. We expect that all the stakeholders will keep the cost of sugarcane in-line with the selling price of sugar.

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CAPITAL RESERVE

Revaluation surplus on property, plant & equipment is presented in the statement of financial position as part of equity and in the statement of changes in equity as a capital reserve being the part of equity. This surplus is a capital reserve and is not available for distribution to shareholders of the Company in accordance with the Section 241 of the Companies Act, 2017.

DIVIDEND & APPROPRIATION

Due to the circumstances already discussed, the Board of Directors of the Company in its meeting does not recommend any dividend and or appropriation for the year ended September 30, 2019.

AUDITORS

The present Auditors M/s. Kreston 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, 2020.

SUBSEQUENT EVENT

After the year end September 30, 2019, the Board of Directors meeting was held on December 04, 2019 in which the Board has accepted the resignation of Mr. Ghulam Dastagir Rajar as a Chairman of the Board of Directors and as the Director as well. Upon Resignation, the casual vacancy occurred, which was also filled by accepting the consent given by Mr. Gul Muhammad as Director and also elect him as the Chairman of the Board of Directors. The Role and Responsibilities have also been informed to him for being the Chairman of the Board of Directors and he has already been completed the Training program of Certified Director.

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 & on Behalf of the Board

Gul Muhammad
Chairman

Haji Khuda Bux Rajar
Chief Executive Officer

Karachi: December 28, 2019