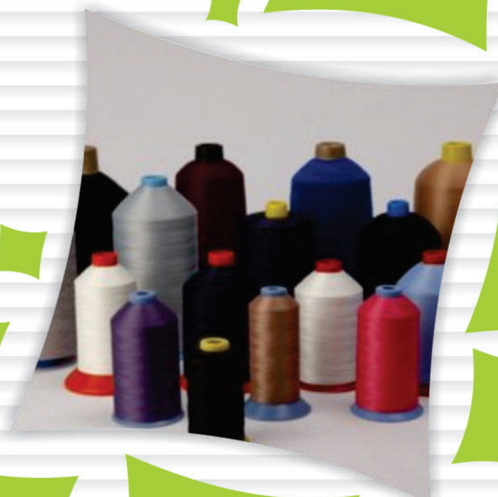
Annual Report

2013



SARGODHA SPINNING MILLS LIMITED

CONTENTS

COMPANY INFORMATION

BOARD OF DIRECTORS	Mian Farrukh Naseem	**Chairman/Chief Executive**
	Mian Aamir Naseem	
	Mian Shahzad Aslam	
	Mr. Saad Naseem	
	Mrs. Hina Farrukh	
	Mr. Irfan Qamar	
	Mr. Shahid Mahmud	
AUDIT COMMITTEE	Mian Aamir Naseem	**Chairman**
	Mian Shahzad Aslam	**Member**
	Mrs. Hina Farrukh	**Member**
HUMAN RESOURCE & REMUNERATION COMMITTEE	Mian Aamir Naseem	**Chairman**
	Mian Farrukh Naseem	**Member**
	Mr. Irfan Qamar	**Member**
CHIEF FINANCIAL OFFICER	Mr. Mazhar Hussain	
COMPANY SECRETARY	Mr. Mazhar Hussain	
AUDITORS	Riaz Ahmad & Company Chartered Accountants	
BANKERS	National Bank of Pakistan NIB Bank Limited Habib Bank Limited Bank Al-Falah Limited	
SHARE REGISTRAR	Corplink (Pvt) Limited Wings Arcade, 1-K, Commercial, Model Town, Lahore. Tel: 042-35887262, 35839182 Fax: 042-35869037	
REGISTERED OFFICE	A-601/B, City Towers, 6-K, Main Boulevard, Gulberg-II, Lahore. Ph: 042-35788758-59	
WEBSITE ADDRESS	www.sargodhaspinning.com	
MILLS	8 - K.M. Sargodha Road, Faisalabad. Ph: 041-8868132-5	

VISION STATEMENT

To Strive for excellence through commitments, integrity, honesty and team work.

MISSION STATEMENT

To be a model amongst the textile spinning, capable of producing high quality blended and hundred percent cotton yarn both for knitting and weaving.

- Complete satisfaction of Buyers/Consumers is our Motto.
- Manufacturing of blended and hundred percent cotton yarn as per the customers' requirements and market demand.
- Keeping pace with the rapidly changing technology by continuously balancing, modernization and replacement (BMR) of plant and machinery.
- Enhancing the profitability by improved efficiency and cost controls.
- Betterment of Mills Employees as quality policy.
- Protecting the environment and contributing towards the economic strength of the country and function as a good corporate citizen.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 27th Annual General Meeting of the Shareholders of SARGODHA SPINNING MILLS LIMITED will be held on Thursday, October 31, 2013 at 10:00 a.m. at the Registered Office of the Company at A-601/B, City Towers, 6-K Main Boulevard, Gulberg-II, Lahore to transact the following business:

1. To receive, consider and adopt the Audited Accounts for the year ended June 30, 2013 together with Directors' and Auditors' Reports thereon.

2. To appoint auditors for the year 2013-2014 and fix their remuneration.

By order of the Board

(Mazhar Hussain)
Company Secretary

LAHORE: October 03, 2013

NOTES:

1. The Share Transfer Books of the Company will remain closed from October 25, 2013 to October 31, 2013 (both days inclusive). Transfers received at Corplink (Pvt) Limited, Wings Arcade, I-K, Commercial, Model Town, Lahore, the Registrar and Shares Transfer Office of the Company by the close of business on October 24, 2013 will be treated in time.

2. A member eligible to attend and vote at this meeting may appoint another member as his/her proxy to attend and vote instead of him/her. Proxies in order to be effective must be received by the Company at the Registered Office not less than 48 hours before the time of holding the meeting. A proxy must be a member.

3. Any Individual Beneficial Owner of CDC, entitled to attend and vote at this meeting, must bring his/her original C.N.I.C or Passport to prove his/her identity and in case of Proxy must enclose an attested copy of his/her C.N.I.C or Passport. Representative of corporate members should bring the usual documents required for such purposes.

4. Shareholders are requested to immediately notify the change of address, if any to Share Registrar of the Company.

DIRECTORS' REPORT

Dear Shareholders,

The Directors of the Company welcome you to the 27th Annual General Meeting and take this opportunity to present the Annual Report together with Audited Accounts of the Company for the year ended June 30, 2013.

Financial Results

The financial results of the company in comparative form are as follows:-

	(RUPEES IN THOUSAND)	
	June 30 2013	June 30 2012
Sales	2,975,596	2,337,805
Cost of Sales	(2,704,416)	(2,206,256)
Gross Profit	271,180	131,549
Distribution Cost	(70,219)	(56,131)
Administrative Expenses	(47,920)	(36,413)
Other Expenses	(19,640)	(5,048)
	(137,779)	(97,592)
	133,401	33,957
Other Income	15,636	7,214
Profit From Operations	149,037	41,171
Finance Cost	(61,568)	(79,981)
Profit / (Loss) Before Taxation	87,469	(38,810)
Provision For Taxation	(23,757)	(22,803)
Profit / (Loss) After Taxation	63,712	(61,613)
Earnings / (Loss) Per Share - Basic And Diluted (Rupees)	2.04	(1.97)

During the year under review, your company earned profit after tax of Rs.63.712 million as compared to previous year after tax loss of Rs. 61.613 million. Sales were made amounting to Rs. 2,975.596 million as compared to previous year sale of Rs. 2,337.805 million representing an increase of 27.28 % against previous year sales. During the year under review our one unit comprising of 28800 spindles remained on production of 100% cotton carded yarn which is being exported far eastern countries. During the year we exported yarn to the extent of Rs.1740.813 million which is around 59% of total sales. Earning per share is Rs. 2.04 as compared to loss of Rs. 1.97 per share of comparative year.

During the year under review, the company has achieved better financial results mainly due to good quality of cotton crop, reasonable prices of raw material, better utilization of mills capacity, reduction in finance cost due to repayment of long term loans and decline in mark-up rate and efficient working capital management. Energy shortages remained continued this year as well and mills remained closed for numbers of days.

Future Prospects

The management is optimistic about the growth and profitability of the company in the coming year. Textile industry in Pakistan is facing uphill task to cope with prolonged power outages and energy shortfalls especially in the Province of Punjab. Government has increased the tariff of electricity around 56% and gas 18% from the month of August 2013 and further increase in power tariff is expected during the year. Due to these measures, cost of energy shall be significantly high in the coming year. Government has lowered the target of cotton production during the current year season due to which upward movement of cotton prices is expected. The prevailing rate ranging between Rs. 7,000/- to Rs.7,400/- Per maund. The above stated facts have made it very difficult for the textile mills to compete in the international market. The manufacturing costs have escalated due to rapid devaluation of Pak Currency in the recent month and resulting increase in raw material prices and other input costs.

The company has once again restarted the BMR program to compete with the fast changing trends and to meet the market requirements and to make the project more viable. During the year under review the company has purchased one second hand Murata 7/II cone winding machine, and in subsequent period purchased one second hand Murata 7/II cone winding machine and imported one new Reiter D-45 drawing machine and both has been installed. Further letters of credit for purchase of one Simplex machine from china has been established and the shipment is scheduled in October 2013. With these additions the quality and production of yarn will improve.

Dividend

The directors have not recommended any dividend for the year ended June 30, 2013 due to tight liquidity position of the company.

Corporate and Financial Reporting Framework

a. The financial statements, prepared by the management of the company, present its state of affairs fairly, the results of its operations, cash flows and changes in equity.

b. Proper books of account have been maintained by the Company.

c. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

d. International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed and explained.

e. The system of internal control is sound in design and has been effectively implemented and monitored.

f. There are no significant doubts upon the company's ability to continue as a going concern.

g. There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.

h. Key operating and financial data of last six years is annexed to the annual report.

i. There are no outstanding statutory payments on account of taxes, duties, levies and charges except routine payments of various levies.

j. Value of investments of provident fund as on 30-06-2013 was Rs.13.651 million un-audited (2012:Rs. 9.079 million audited).

k. The pattern of shareholding and the additional information as required by the CCG is annexed to the annual report.

l. Directors, CEO, CFO, Company Secretary and their spouses and minor children have made transaction in the company's shares during the year is as follows:

Sr.No.	Name	Sale	Purchase
1	Mrs. Hina Farrukh (CDC)	-	3,500
2	Mrs. Fatima Aamir W/o Mian Aamir Naseem (CDC)	-	8,650

Board of Directors Meetings

During the year, seven meetings of the Board of Directors were held and attendance of these meetings is as follows:

Sr. No.	Name of Director	No. of Meetings Attended
1.	Mian Farrukh Naseem	7
2.	Mian Aamir Naseem	7
3.	Mian Shahzad Aslam	6
4.	Mr. Saad Naseem	7
5.	Syed Arif Hussain	2
6.	Mr. Irfan Qamar	7
7.	Mr. Shahid Mahmud	7
8.	Mrs. Hina Farrukh	3

Leave of absence was granted to director who could not attended the meeting. Syed Arif Hussain, Director has resigned and in his place Mrs. Hina Farrukh has been appointed as Director with effect from 13th October, 2012.

Audit Committee

The Board of Directors in compliance with the Code of Corporate Governance has established an Audit Committee. The audit committee comprises of the following non-executive directors.

Mian Aamir Naseem	Chairman
Mian Shahzad Aslam	Member
Mrs. Hina Farrukh	Member

During the year, six meetings of the Audit Committee were held and attendance of these meetings is as follows:

Name	No. of Meetings Attended	
Mian Aamir Naseem	6	
Mian Shahzad Aslam	6	
Syed Arif Hussain	1	outgoing member
Mrs. Hina Farrukh	4	incoming member

Human Resource Committee

In compliance with the Code of Corporate Governance, the Board of Directors has constituted a Human Resource Committee. It comprises three members, of whom two are non-executive directors and the chairman of the committee is a non-executive director.

Mian Aamir Naseem	Chairman
Mian Farrukh Naseem	Member
Mr. Irfan Qamar	Member

Directors Training Programme

The Board arranged one training program for one of its directors which has been completed subsequent to the reporting date.

Auditors

The present Auditors M/s Riaz Ahmad & Company, Chartered Accountants, retire and being eligible offer them for re-appointment. The audit committee of the board has recommended the re-appointment of M/s Riaz Ahmad & Company, Chartered Accountants, as external auditors of the Company for the year 2013-2014.

Corporate Social Responsibility

The company recognizes that the key to a successful and sustainable business is to give back to the society from where we derive economic benefits. We create value for our local community, employees and the government by providing a vast array of facilities to our employees, financial assistance to the families of our deceased employees, promoting a better work life balance amongst our employees, contributing regularly to the national exchequer as per law.

Health, Safety and Environment:

We work continuously to ensure that our employees work in a safe and healthy working environment. Besides, the Company is registered with Social Security Department of the Government and pay regular contribution for the health of worker of the Company.

Work-Life Balance:

In order to promote a healthy work – life balance we strictly follow a 9:00 a.m to 5:00 p.m. working routine. This ensures that our employees have plenty of time after work for extra - curricular activities with their families and friends.

Business Ethics and Anti-corruption Measures:

The management is committed to conduct all business activities with integrity, honesty and in full compliance with the current laws and regulations. A code of conduct has been developed and approved by the Board, which is signed by all employees.

Contribution to the National Exchequer:

To meet our legal and social obligation towards the development of the economy of the country, the company has contributed Rs.54.955 million in the FY 2012-13 into the Government exchequer on account of taxes, levies, excise duty and sales tax.

Energy Conservation:

The Company has taken many measures at mill premises to conserve the energy by fixing energy conserving devices.

Acknowledgements

The board avails the opportunity to appreciate the devoted work done by the executives, officers, staff and workers of the company.

for and on behalf of the Board

LAHORE: October 03, 2013.

(MIAN FARRUKH NASEEM)
Chairman/Chief Executive

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 35 of listing regulations of Karachi and Lahore Stock Exchanges 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 company encourages representation of independent non-executive directors and directors representing minority interests on its board of directors. At present the board includes:

Category	**Names**
Independent Directors	Nil
Executive Directors	Mian Farrukh Naseem
	Mr. Saad Naseem
	Mr. Shahid Mahmuud
Non Executive Directors	Mian Aamir Naseem
	Mian Shahzad Aslam
	Mrs. Hina Farrukh
	Mr. Irfan Qamar

   The condition of clause (i) (b), i (d) of the code relating to composition of Board is applicable on the expiry of its current term.

2. The directors have confirmed that none of them is serving as director on more than seven listed companies, including this Company.

3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. During the year ended June 30, 2013 one casual vacancy occurred on the Board and filled up within the stipulated period.

5. The Company has prepared a ‘Code of Conduct‘ and has ensured that appropriate steps which have been taken to disseminate it throughout the company along with its supporting policies and procedures.

6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and executive and non executive director have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman 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 in time.

9. The Board arranged one training program for one of its directors which has been completed subsequent to the reporting date.

10. There is no change in the position of CFO, Company Secretary and Head of Internal Audit during the year. Their remuneration and terms and conditions of employment have been approved by the Board.

11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by CEO and CFO before approval by the Board.

13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

14. The Company has complied with all the corporate and financial reporting requirements of the CCG.

15. The Board has formed an Audit Committee comprising of three members all of whom are non-executive directors including the chairman of the committee.

16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

17. The board has formed an HR and Remuneration Committee. It comprises three members, of whom two are non-executive directors and the chairman of the committee is a non executive director.

18. The Board has set up an effective internal audit function who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the company and they are involved in the internal audit function on full time basis.

19. The statutory auditors of the Company have confirmed that they have been given a 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.

20. 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.

21. The 'closed period', prior to the announcement of interim/final results, and business decision, which may materially affect the market price of company's securities, was determined and intimated to directors, employees and stock exchanges.

22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).

23. We confirm that all other material principles enshrined in the CCG have been complied with.

for and on behalf of the Board

LAHORE: October 03, 2013.

(MIAN FARRUKH NASEEM)
Chairman/Chief Executive

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of SARGODHA SPINNING MILLS LIMITED ("the Company") for the year ended 30 June 2013, to comply with the Listing Regulations of the respective Stock Exchanges, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance 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 of Corporate Governance 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Listing Regulations of the Karachi and Lahore Stock Exchanges require the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price, recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

The Board has made arrangements for directors' training program for one of the non-exempted director of the Company as required by clause (xi) of the Code of Corporate Governance. However, the certification of the respective director was completed after the reporting date.

Based on our review, except for the matter described in the preceding paragraph, 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 of Corporate Governance as applicable to the Company for the year ended 30 June 2013.

RIAZ AHMAD & COMPANY
Chartered Accountants

Name of engagement partner:
Muhammad Atif Mirza

LAHORE: October 03, 2013

SIX YEARS' FINANCIAL DATA AT A GLANCE

(RUPEES IN THOUSAND)

PARTICULARS	2013	2012	2011	2010	2009	2008
ASSETS EMPLOYED						
Operating Fixed Assets	1,005,825	1,044,771	1,083,044	990,142	1,022,956	1,072,560
Capital Work in Progress	54	-	-	245	-	-
Assets subject to Finance Lease	-	-	-	7,222	19,741	21,934
Long Term Investments	3,104	924	310	259	190	529
Long Term Security Deposits	3,654	3,654	3,550	3,365	5,807	5,494
Deferred Tax	-	-	-	-	-	-
Current Assets	373,763	405,071	322,062	329,060	173,604	277,606
TOTAL ASSETS EMPLOYED	1,386,400	1,454,420	1,408,966	1,330,293	1,222,298	1,378,123
FINANCED BY						
Share Holder's Equity	112,905	42,526	97,617	91,621	(35,668)	82,055
Surplus on Revaluation of Property, plant & equipment	667,945	672,432	678,340	579,247	586,720	594,681
Sponsor Advance - Interest Free	30,644	30,644	30,644	30,644	30,644	30,644
Long Term Financing	65,022	93,403	132,022	186,218	139,368	186,609
Liabilities Against Assets Subject to Finance Lease	-	-	-	-	9,353	18,372
Current Liabilities	509,884	615,415	470,343	442,563	491,881	465,762
TOTAL EQUITY AND LIABILITIES	1,386,400	1,454,420	1,408,966	1,330,293	1,222,298	1,378,123
PROFIT & LOSS ACCOUNT						
Sales	2,975,596	2,337,805	3,499,736	1,928,141	1,402,105	1,505,524
Cost of Sales	2,704,416	2,206,256	3,243,996	1,638,531	1,386,328	1,437,053
GROSS PROFIT	271,180	131,549	255,740	289,610	15,777	68,471
Administrative Expenses	47,920	36,413	35,538	26,896	25,170	26,368
Distribution Cost	70,219	56,131	90,343	57,966	35,181	27,529
Other Expenses	19,640	5,048	4,848	10,676	3,259	3,026
Other Income	15,636	7,214	17,664	18,678	329	668
PROFIT / (LOSS) FROM OPERATIONS	149,037	41,171	142,675	212,750	(47,504)	12,216
Finance Cost	61,568	79,981	96,357	77,694	76,119	63,890
PROFIT / (LOSS) BEFORE TAXATION	87,469	(38,810)	46,318	135,056	(123,623)	(51,674)
Provision for Taxation	(23,757)	(22,803)	(31,290)	(15,043)	(4,986)	(7,528)
PROFIT / (LOSS) AFTER TAXATION	63,712	(61,613)	15,028	120,013	(128,609)	(59,202)
Effect of Changes in Accounting Policy	-	-	-	-	-	-
Final dividend for the year ended 30.06.10	-	-	(15,600)	-	-	-
Transfer From Revaluation Surplus	4,487	5,908	6,517	7,207	7,961	8,810
Surplus on revaluation of investment	2,180	614	51	69	2,925	(321)
PREVIOUS YEAR'S BALANCE B/F	(269,474)	(214,383)	(220,379)	(347,668)	(229,945)	(179,232)
BALANCE CARRIED TO B/S	(199,095)	(269,474)	(214,383)	(220,379)	(347,668)	(229,945)
EARNINGS / (LOSS) PER SHARE (Rs.)	2.04	(1.97)	0.48	3.85	(4.12)	(1.90)
Number of Spindles installed	54,432	54,432	54,432	54,432	54,432	54,432
Number of Spindles worked - average	43,380	43,228	48,937	51,270	51,528	54,432
Nubmer of Shifts per Day	3	3	3	3	3	3
Actual Production Converted into 20's Count (Kgs. In million)	16.692	14.222	15.731	14.959	16.364	22.544

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of SARGODHA SPINNING MILLS LIMITED as at 30 June 2013 and the related profit and loss account, statement of comprehensive income, 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;
- 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, statement of comprehensive income, 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 June 2013 and of the profit, its comprehensive income, 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).

RIAZ AHMAD & COMPANY
Chartered Accountants

Name of engagement partner:
Muhammad Atif Mirza

LAHORE : October 03, 2013

BALANCE SHEET AS

	Note	2013	2012
		(RUPEES IN THOUSAND)	
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorized share capital 42,000,000 (2012: 42,000,000) ordinary shares of Rupees 10 each		420,000	420,000
Issued, subscribed and paid-up share capital 31,200,000 (2012: 31,200,000) ordinary shares of Rupees 10 each fully paid-up in cash	3	312,000	312,000
Capital reserve		2,914	734
Accumulated loss		(202,009)	(270,208)
Total equity		112,905	42,526
Surplus on revaluation of property, plant and equipment	4	667,945	672,432
LIABILITIES			
NON - CURRENT LIABILITIES			
Sponsors' advances - interest free	5	30,644	30,644
Long term financing	6	65,022	93,403
		95,666	124,047
CURRENT LIABILITIES			
Trade and other payables	7	176,458	173,809
Accrued mark up	8	12,718	16,457
Short term borrowings	9	260,949	345,978
Current portion of long term financing	6	36,130	55,770
Provision for taxation		23,629	23,401
		509,884	615,415
TOTAL LIABILITIES		605,550	739,462
CONTINGENCIES AND COMMITMENTS	10		
TOTAL EQUITY AND LIABILITIES		1,386,400	1,454,420

The annexed notes form an integral part of these financial statements.

(Mian Farrukh Naseem)
Chief Executive

AT 30 JUNE 2013

	Note	2013	2012
		(RUPEES IN THOUSAND)	
ASSETS			
NON - CURRENT ASSETS			
Property, plant and equipment	11	1,005,879	1,044,771
Long term investment	12	3,104	924
Long term security deposits		3,654	3,654
Deferred income tax	13	-	-
		1,012,637	1,049,349
CURRENT ASSETS			
Stores and spare parts	14	29,457	25,140
Stock in trade	15	243,961	275,376
Trade debts	16	47,480	64,422
Advances	17	2,935	1,001
Short term deposits and prepayments	18	1,724	461
Other receivables	19	47,249	37,793
Cash and bank balances	20	957	878
		373,763	405,071
TOTAL ASSETS		1,386,400	1,454,420

(Mian Aamir Naseem)
Director

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013	2012
		(RUPEES IN THOUSAND)	
SALES	21	2,975,596	2,337,805
COST OF SALES	22	(2,704,416)	(2,206,256)
GROSS PROFIT		271,180	131,549
DISTRIBUTION COST	23	(70,219)	(56,131)
ADMINISTRATIVE EXPENSES	24	(47,920)	(36,413)
OTHER EXPENSES	25	(19,640)	(5,048)
		(137,779)	(97,592)
		133,401	33,957
OTHER INCOME	26	15,636	7,214
PROFIT FROM OPERATIONS		149,037	41,171
FINANCE COST	27	(61,568)	(79,981)
PROFIT / (LOSS) BEFORE TAXATION		87,469	(38,810)
TAXATION	28	(23,757)	(22,803)
PROFIT / (LOSS) AFTER TAXATION		63,712	(61,613)
EARNINGS / (LOSS) PER SHARE - BASIC AND DILUTED (RUPEES)	31	2.04	(1.97)

The annexed notes form an integral part of these financial statements.

(Mian Farrukh Naseem)
Chief Executive

(Mian Aamir Naseem)
Director

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013

	2013	2012
	(RUPEES IN THOUSAND)	
PROFIT / (LOSS) AFTER TAXATION	63,712	(61,613)
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified to profit or loss	-	-
Items that may be reclassified subsequently to profit or loss:		
Surplus arising on re-measurement of available for sale investment to fair value	2,180	614
Other comprehensive income for the year	2,180	614
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR	65,892	(60,999)

The annexed notes form an integral part of these financial statements.

(Mian Farrukh Naseem)
Chief Executive

(Mian Aamir Naseem)
Director

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2013

	2013	2012
	(RUPEES IN THOUSAND)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) before taxation	87,469	(38,810)
Adjustments for non-cash charges and other items:		
Depreciation	38,328	42,369
Gain on sale of property, plant and equipment	(14,974)	-
Credit balances written back	(295)	-
Provision for slow moving and obsolete stores and spare parts	536	-
Provision of workers' welfare fund written back	-	(5,003)
Provision for doubtful debts	-	1,358
Balances written off	-	93
Exchange (gain) / loss	(151)	3,597
Fair value adjustment on long term financing	-	(1,986)
Interest expense due to impact of IAS 39	4,059	6,685
Finance cost	57,509	73,296
Cash flows from operating activities before working capital changes	172,481	81,599
(Increase) / decrease in current assets		
Stores and spare parts	(4,853)	4,223
Stock in trade	31,415	(113,841)
Trade debts	14,441	8,456
Advances	(1,934)	6,306
Short term deposits and prepayments	(1,263)	125
Other receivables	(6,789)	(3,198)
Increase in trade and other payables	2,944	48,403
Effect on cash flows due to working capital changes	33,961	(49,526)
Cash generated from operations	206,442	32,073
Finance cost paid	(61,248)	(68,717)
Income tax paid	(26,196)	(22,917)
Dividend paid	-	(2)
Net cash from / (used in) operating activities	118,998	(59,563)

	(RUPEES IN THOUSAND) 2013	2012
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure on property, plant and equipment	(7,762)	(4,096)
Proceeds from sale of property, plant and equipment	23,300	-
Long term security deposits	-	(104)
Net cash from / (used in) investing activities	15,538	(4,200)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long term financing - secured	(52,080)	(68,976)
Short term borrowings - net	(82,377)	133,172
Net cash (used in) / from financing activities	(134,457)	64,196
Net increase in cash and cash equivalents	79	433
Cash and cash equivalents at the beginning of the year	878	445
Cash and cash equivalents at the end of the year	957	878

The annexed notes form an integral part of these financial statements.

(Mian Farrukh Naseem)
Chief Executive

(Mian Aamir Naseem)
Director

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013

(RUPEES IN THOUSAND)

	ISSUED, SUBSCRIBED AND SHARE CAPITAL	CAPITAL RESERVE FAIR VALUE RESERVE	ACCUMULATED LOSS	TOTAL EQUITY
Balance as at 30 June 2011	312,000	120	(214,503)	97,617
Transferred from surplus on revaluation of property, plant and equipment - net of deferred tax	-	-	5,908	5,908
Loss for the year ended 30 June 2012	-	-	(61,613)	(61,613)
Other comprehensive income for the year	-	614	-	614
Total comprehensive loss for the year	-	614	(61,613)	(60,999)
Balance as at 30 June 2012	312,000	734	(270,208)	42,526
Transferred from surplus on revaluation of property, plant and equipment - net of deferred tax	-	-	4,487	4,487
Profit for the year ended 30 June 2013	-	-	63,712	63,712
Other comprehensive income for the year	-	2,180	-	2,180
Total comprehensive income for the year	-	2,180	63,712	65,892
Balance as at 30 June 2013	312,000	2,914	(202,009)	112,905

The annexed notes form an integral part of these financial statements.

(Mian Farrukh Naseem)
Chief Executive

(Mian Aamir Naseem)
Director

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

1. THE COMPANY AND ITS OPERATIONS

Sargodha Spinning Mills Limited ('the Company') is a public limited company incorporated in Pakistan under the Companies Ordinance, 1984 and is listed on Karachi and Lahore stock exchanges. Its registered office is situated at A-601/ B, City Towers, 6-K Main Boulevard, Gulberg-II, Lahore. The Company is principally engaged in the manufacturing and trading of yarn made from raw cotton and synthetic fibre and trading of fabric of all types and to generate electricity for internal use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated:

2.1 Basis of Preparation

a) 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 (IFRS) 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.

b) Accounting convention

These financial statements have been prepared under the historical cost convention except for the financial instruments which are carried at fair value and certain items of property, plant and equipment which are carried at revalued amount.

c) Critical accounting estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Company's financial statements or where judgments were exercised in application of accounting policies are as follows:

Useful lives, patterns of economic benefits and impairments

Estimates with respect to useful lives and pattern of flow of economic benefits are based on the analysis of the management of the Company. Further, the Company reviews the value of assets for possible impairment on an annual basis. Any change in the estimates in the future might affect the carrying amount of respective item of property, plant and equipment, with a corresponding effect on the depreciation charge and impairment.

Inventories

Net realizable value of inventories is determined with reference to currently prevailing selling prices less estimated expenditure to make sales.

Taxation

In making the estimates for income tax currently payable by the Company, the management takes into account the current income tax law and the decisions of appellate authorities on certain issues in the past.

Provision for doubtful debts

The Company reviews its receivable against any provision required for any doubtful balances on an ongoing basis. The provision is made while taking into consideration expected recoveries, if any.

d) Amendments to published approved standards that are effective in current year and are relevant to the Company

The following amendments to published approved standards are mandatory for the Company's accounting periods beginning on or after 01 July 2012:

IAS 1 (Amendments), 'Presentation of Financial Statements' (effective for annual periods beginning on or after 01 July 2012). The main change resulting from these amendments is a requirement for entities to group items presented in Other Comprehensive Income (OCI) on the basis of whether they are potentially re-classifiable to profit or loss subsequently (reclassification adjustments). The amendments does not address which items are presented in OCI. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

e) Amendments to published approved standards that are effective in current year but not relevant to the Company

There are other amendments to the published approved standards that are mandatory for accounting periods beginning on or after 01 July 2012 but are considered not to be relevant or do not have any significant impact on the Company's financial statements and are therefore not detailed in these financial statements.

f) Standards and amendments to published approved standards that are not yet effective but relevant to the Company

Following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 01 July 2013 or later periods:

IFRS 7 (Amendment), 'Financial Instruments: Disclosures' (effective for annual periods beginning on or after 01 January 2013). The International Accounting Standards Board (IASB) has amended the accounting requirements and disclosures related to offsetting of financial assets and financial liabilities by issuing amendments to IAS 32 'Financial Instruments: Presentation' and IFRS 7. These amendments are the result of IASB and US Financial Accounting Standard Board undertaking a joint project to address the differences in their respective accounting standards regarding offsetting of financial instruments. The clarifying amendments to IAS 32 are effective for annual periods beginning on or after 01 January 2014. However, these amendments are not expected to have a material impact on the Company's financial statements.

IFRS 9 'Financial Instruments' (effective for annual periods beginning on or after 01 January 2015). It addresses the classification, measurement and recognition of financial assets and financial liabilities. This is the first part of a new standard on classification and measurement of financial assets and financial liabilities that shall replace IAS 39 ‘Financial Instruments: Recognition and Measurement’. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. For liabilities, the standard retains most of the IAS 39 requirements. These include amortized-cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity’s own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. This change shall mainly affect financial institutions. There shall be no impact on the Company’s accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the Company does not have any such liabilities.

IFRS 13 ‘Fair value Measurement’ (effective for annual periods beginning on or after 01 January 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. This standard is not expected to have a material impact on the Company’s financial statements.

IAS 36 (Amendments) ‘Impairment of Assets’ (effective for annual periods beginning on or after 01 January 2014). Amendments have been made in IAS 36 to reduce the circumstances in which the recoverable amount of assets or cash- generating units is required to be disclosed, clarify the disclosures required and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. However, the amendments are not expected to have a material impact on the Company’s financial statements.

On 17 May 2012, IASB issued Annual Improvements to IFRSs: 2009 – 2011 Cycle, incorporating amendments to five IFRSs more specifically in IAS 1 'Presentation of Financial Statements' and IAS 32 ‘Financial instruments: Presentation’, that are considered relevant to the Company's financial statements. These amendments are effective for annual periods beginning on or after 01 January 2013. These amendments are unlikely to have a significant impact on the Company's financial statements and have therefore not been analyzed in detail.

g) Standards, interpretations and amendments to published approved standards that are not yet effective and not considered relevant to the Company

There are other standards, amendments to published approved standards and new interpretations that are mandatory for accounting periods beginning on or after 01 July 2013 but are considered not to be relevant or do not have any significant impact on the Company's financial statements and are therefore not detailed in these financial statements.

2.2 Employees’ retirement benefits

The Company operates a funded provident fund scheme covering all permanent employees. Equal monthly contributions are made both by the Company and employees at the rate of 6.25 percent of basic salary to the fund. The Company's contributions to fund are charged to profit and loss account.

2.3 Taxation

a) Current

Provision for current income tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current income tax is calculated using prevailing income tax rates or tax rates expected to apply to the profit for the year if enacted. The charge for current income tax also includes adjustments, where considered necessary, to provision for income tax made in previous years arising from assessments framed during the year for such years.

b) Deferred

Deferred income tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred income 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. Deferred income tax is charged or credited in profit and loss account, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the income tax is also recognized in other comprehensive income or directly in equity, respectively.

2.4 Foreign currencies

These financial statements are presented in Pak Rupees, which is the Company's functional currency. All monetary assets and liabilities denominated in foreign currencies are translated into Pak Rupees at the rates of exchange prevailing at the balance sheet date, while the transactions in foreign currencies during the year are initially recorded in functional currency at the rates of exchange prevailing at the transaction date. All non-monetary items are translated into Pak Rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined. Exchange gains and losses are recorded in the profit and loss account.

2.5 Property, plant and equipment

a) Owned

(i) Cost

Property, plant and equipment except freehold land, buildings on freehold land, plant and machinery and capital work in progress are stated at cost less accumulated depreciation and accumulated impairment losses (if any). Freehold land is stated at revalued amount less any identified impairment loss, buildings on freehold land and plant and machinery are stated at revalued amounts less accumulated depreciation and impairment losses, if any, while capital work in progress is stated at cost less any identified impairment loss.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to profit and loss account during the period in which they are incurred.

(ii) Depreciation

Depreciation on all property, plant and equipment is charged to profit and loss account on the reducing balance method so as to write off the cost of the assets over their estimated useful lives at the rates given in Note 11.1. Depreciation charge commences from the month in which asset is available for use and continues until the month of disposal. The residual values and useful lives are reviewed by the management, at each financial year end and adjusted if impact on depreciation is significant.

(iii) De-recognition

An item of property, plant and equipment is de-recognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and carrying amount of the asset) is included in the profit and loss account in the year the asset is de-recognized.

b) Leased

These are stated at lower of present value of minimum lease payments under the lease agreements and the fair value of assets acquired on lease. Aggregate amount of obligation relating to assets subject to finance lease is accounted for at net present value of liabilities.

2.6 Investments

Classification of an investment is made on the basis of intended purpose for holding such investment. Management determines the appropriate classification of its investments at the time of purchase and re-evaluates such designation on regular basis.

Investments are initially measured at fair value plus transaction costs directly attributable to acquisition, except for “Investment at fair value through profit or loss” which is measured initially at fair value.

The Company assess at the end of each reporting period whether there is any objective evidence that investments are impaired. If any such evidence exists, the Company applies the provisions of IAS 39 'Financial Instruments: Recognition and Measurement'.

a) Investments at fair value through profit or loss account

Investment classified as held-for-trading and those designated as such are included in this category. Investments are classified as held-for-trading if these are acquired for the purpose of selling in the short term. Gains or losses on investments held-for-trading are recognized in profit and loss account.

b) Held to maturity

Investments with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held to maturity are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization, using the effective interest method, of any difference between the initially recognized amount and the maturity amount. For investments carried at amortized cost, gains and losses are recognized in profit and loss account when the investments are de-recognized or impaired, as well as through the amortization process.

c) Available for sale

Investments intended to be held for an indefinite period of time, which may be sold in response to need for liquidity, or changes to interest rates or equity prices are classified as available-for-sale. After initial recognition, investments which are classified as available-for-sale are measured at fair value. Gains or losses on available-for-sale investments are recognized directly in statement of other comprehensive income until the investment is sold, de-recognized or is determined to be impaired, at which time the cumulative gain or loss previously reported in statement of other comprehensive income is included in profit and loss account. These are sub-categorized as under:

Quoted

For investments that are actively traded in organized capital markets, fair value is determined by reference to stock exchange quoted market bids at the close of business on the balance sheet date.

Unquoted

Unquoted investments, where the fair value cannot be reliably determined, are recognized at cost less impairment loss, if any.

2.7 Inventories

Inventories, except for stock in transit and waste stock are stated at lower of cost and net realizable value. Cost is determined as follows:

a) Stores and spares

Useable stores and spares are valued principally at moving average cost, while items considered obsolete are carried at nil value. Items in transit are valued at cost comprising invoice value plus other charges paid thereon.

b) Stock in trade

Cost of raw material is based on annual average cost.

Cost of work-in-process and finished goods comprise cost of direct material, labour and appropriate manufacturing overheads.

Materials in transit are stated at cost comprising invoice values plus other charges paid thereon. Waste stock is valued at net realizable value.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.8 Trade debts and other receivables

Trade debts and other receivables are carried at original invoice value less an estimate made for doubtful debts based on a review of all outstanding amounts at the year end. Bad debts are written off when identified.

2.9 Borrowing cost

Mark-up, interest, profit and other charges on long term financing are capitalized for the period up to the date of commissioning of the respective qualifying assets acquired out of the proceeds of such borrowings. All other mark-up, interest, profit and other charges are charged to profit and loss account during the year.

2.10 Provisions

Provisions are recognized when the Company has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made. However, provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

2.11 Impairment

a) Financial assets

A financial asset is considered to be impaired if objective evidence indicate that one or more events has a negative effect on the estimated future cash flow of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as a difference between its carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of available for sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

b) Non-financial assets

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 such indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognized wherever the carrying amount of the asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit and loss account.

2.12 Trade and other payables

Liabilities for trade and other amounts payable are initially recognized at fair value which is normally the transaction cost.

2.13 Borrowings

Borrowings are recognized initially at fair value and are subsequently stated at amortized cost. Any difference between the proceeds and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

2.14 Revenue recognition

a) Revenue from sales is recognized on dispatch of goods to customers.

b) Dividend on equity investment is recognized when the right to receive dividend is established.

c) Profit on bank deposits is recognized on a time proportion basis taking into account, the principal outstanding and rates of profits applicable thereon.

2.15 Share capital

Ordinary shares are classified as share capital.

2.16 Financial instruments

Financial instruments are recognized at fair value when the Company becomes party to the contractual provisions of the instrument by following trade date accounting. Any gain or loss on the subsequent measurement (except available for sale investments) is charged to the profit and loss account. The Company de-recognizes a financial asset or a portion of financial asset when, and only when, the enterprise looses the control over contractual right that comprises the financial asset or a portion of financial asset. While a financial liability or a part of financial liability is de-recognized from the balance sheet when, and only when, it is extinguished, i.e., when the obligation specified in contract is discharged, cancelled or expired.

The particular measurement methods adopted are disclosed in the individual policy statements associated with each item.

Financial assets are long term investments, trade debts, deposits, loans and advances, other receivables and cash and bank balances.

Financial liabilities are classified according to the substance of the contractual agreements entered into. Significant financial liabilities are Sponsors' advances, long term financing, accrued mark up, short term borrowings and trade and other payables.

Financial assets and liabilities are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

2.17 Dividend and other appropriations

Dividend to the shareholders is recognized in the period in which it is declared and other appropriations are recognized in the period, in which these are approved by the Board of Directors.

2.18 Cash and cash equivalents

Cash and cash equivalents of the Company consist of cash in hand and balances with banks.

3. ISSUED, SUBSCRIBED AND PAID-UP SHARE CAPITAL

500 (2012: 500) ordinary shares of the Company are held by Husein Sugar Mills Limited – an associated company.

	(RUPEES IN THOUSAND) 2013	2012
4. SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT		
Opening balance as at 01 July	672,432	678,340
Less: Transferred to statement of changes in equity - net of deferred tax (Note 4.1)	4,487	5,908
Closing balance as at 30 June	667,945	672,432

4.1 Surplus on revaluation of property, plant and equipment to the extent of depreciation charged on appreciated value of corresponding item of property, plant and equipment is transferred to statement of changes in equity net of deferred tax.

5. SPONSORS' ADVANCES - INTEREST FREE

These represent interest free unsecured advances obtained from sponsors with unidentified period of repayment. These include advances of Rupees 21.700 million (2012: Rupees 21.700 million) which are subordinated to loans obtained from banking companies.

6. LONG TERM FINANCING

From banking companies - secured

	2013	2012
National Bank of Pakistan:		
Term finance (Note 6.1 and 6.9)	3,620	10,168
Term finance (Note 6.2)	21,000	35,000
Demand finance (Note 6.3 and 6.9)	10,499	15,302
Demand finance (Note 6.4 and 6.9)	-	3,542
Demand finance (Note 6.5 and 6.9)	-	3,502
Habib Bank Limited (Note 6.6 and 6.9)	-	6,150
NIB Bank Limited (Note 6.7)	41,378	52,262
NIB Bank Limited (Note 6.8 and 6.9)	24,655	23,247
	101,152	149,173
Less: Current portion shown under current liabilities	36,130	55,770
	65,022	93,403

6.1 This term finance facility is secured against first charge on fixed assets of Unit No. 1 of the Company and personal guarantees of directors. According to rescheduling arrangement dated 06 March 2010, this facility is repayable in 8 equal half yearly installments of Rupees 3.611 million each commenced from 31 December 2009. This facility carries no mark up.

6.2 This term finance facility is secured against registered first charge on fixed assets of Unit No. 1 of the Company and personal guarantees of directors. According to rescheduling arrangement dated 06 March 2010, this facility is repayable in 10 equal half yearly installments of Rupees 7.000 million each commenced from 28 February 2010 and ending on 28 August 2014. This facility carries markup at the rate of 6 months KIBOR plus 3% per annum. Mark up is payable on quarterly basis.

6.3 According to rescheduling arrangement dated 06 March 2010, the short term borrowing of the Company was converted into this demand finance facility. This facility is secured against first charge on fixed assets of Unit No. 1 of the Company and personal guarantees of the sponsoring directors. This facility is repayable in 60 equal monthly installments of Rupees 0.500 million each commenced from 01 July 2010 and ending on 01 June 2015. This facility carries no mark up.

6.4 According to rescheduling arrangement dated 06 March 2010, the short term borrowing of the Company was converted into this demand finance facility which has been repaid during the year. This facility was secured against first charge on fixed assets of Unit No. 1 of the Company and personal guarantees of the sponsoring directors. This facility carried no mark up and was repayable in 30 equal monthly installments of Rupees 0.900 million each commenced from 01 April 2010 and ended on 01 September 2012.

6.5 According to the rescheduling arrangement dated 06 March 2010, the frozen mark up for the period from 01 July 2008 to 30 June 2009 on a term finance facility of the Company was converted into this demand finance facility. This facility was secured against first charge on the fixed assets of Unit No. 1 of the Company and personal guarantees of the sponsoring directors. This facility carried no mark up and was repayable in 24 equal monthly installments of Rupees 0.525 million each commenced from 01 January 2011 and ended on 01 December 2012.

6.6 This foreign currency loan, obtained for import of machinery for Unit No. 2 of the Company, has been repaid during the year. The foreign currency loan was converted into Pak Rupees at the rates of exchange prevailing on the respective dates of opening of letters of credit under the terms of agreement. The loan was secured against:

(i) first charge by way of mortgage on the Company's present and future immovable properties ranking pari passu with existing creditors;

(ii) first charge by way of hypothecation on plant and machinery and first floating charge on all other assets of the Company; and

(iii) demand promissory note.

According to rescheduling arrangements, this facility carried no mark up and was repayable in 120 equal monthly installments of Rupees 2.070 million each commenced from 30 September 2000.

6.7 This finance was obtained for Balancing Modernization and Replacement (BMR). This is secured against registered first charge on all the present and future assets of Unit No. 2 of the Company ranking pari passu and personal guarantees of sponsoring directors. As per rescheduling arrangements dated 29 December 2011, this finance is repayable in 21 quarterly installments. Mark up of Rupees 12.302 million up to 30 April 2009 was frozen by the bank and this may be waived off subject to timely repayment of principal and mark up. The payment of mark up for the period from May 2009 to June 2011 and fifty percent mark up for the period from July 2011 to 30 June 2012 has been deferred and will be paid in 10 equal quarterly installments commencing from 31 March 2017. The remaining fifty percent mark up (from July 2011 to June 2012) and mark up for the period from July 2012 to December 2016 at the rate of three months KIBOR will be paid in quarterly installments commenced from July 2011.

6.8 This represents accrued mark up deferred by the bank on the long term finance facility as explained in Note 6.7.

6.9 Fair value of these loans are estimated at the present value of future cash flows discounted at the effective interest rate of 14% per annum.

	(RUPEES IN THOUSAND) 2013	2012
7. TRADE AND OTHER PAYABLES		
Creditors	61,189	78,818
Accrued liabilities	107,553	70,766
Advances from customers	112	20,479
Retention money	111	111
Payable to provident fund trust	861	588
Income tax deducted at source	139	247
Unclaimed dividend	1,066	1,066
Security deposits	823	1,734
Workers' profit participation fund (Note 7.1)	4,604	-
	176,458	173,809

7.1 Workers' profit participation fund

	2013	2012
Balance as at 01 July	-	2,601
Add: Interest for the year (Note 27)	-	282
Add: Provision for the year (Note 25)	4,604	-
	4,604	2,883
Less: Payments during the year	-	2,883
Balance as at 30 June	4,604	-

7.1.1 The Company retains workers' profit participation fund for its business operations till the date of allocation to workers. Interest is paid at prescribed rate under the Companies Profit (Workers' Participation) Act, 1968 on funds utilized by the Company till the date of allocation to workers.

8. ACCRUED MARK UP

	2013	2012
Long term financing	1,658	2,174
Short term borrowings	11,060	14,283
	12,718	16,457

9. SHORT TERM BORROWINGS

From banking companies - secured

	2013	2012
Export finance (Note 9.1 and 9.2)	99,666	102,856
Others (Note 9.1 and 9.3)	161,283	243,122
	260,949	345,978

9.1 These borrowings are secured against pledge / hypothecation of raw materials, work-in-process, finished goods, lien on export / import documents, letter of indemnity, trust receipt on bank's standard form, charge on current assets / fixed assets of the Company and personal guarantees of directors.

9.2 The rates of mark up on Pak Rupees finances and US Dollar finances ranged from 11.76% to 14.49% (2012: 14.26% to 16.05%) per annum and 1.91740% to 3.79180% (2012: 2.07304% to 5.04453%) per annum respectively on the balance outstanding.

9.3 The rates of mark up range from 11.81% to 14.49% (2012: 14.48% to 16.53%) per annum on the balance outstanding.

10. CONTINGENCIES AND COMMITMENTS

Contingencies

10.1 The Company is contingently liable for Rupees 4.161 million (2012: Rupees 4.161 million) on account of custom duty on humidification plant and excise duty on yarn.

10.2 The Company has issued counter-guarantee of Rupees 17.215 million (2012: Rupees 17.215 million) in favour of the bank for issuing letters of guarantee favouring Sui Northern Gas Pipelines Limited for gas connection and Faisalabad Electric Supply Company for electricity connection.

10.3 Sales tax recoverable includes an amount of Rupees 1.234 million (2012: Rupees 1.234 million) deferred by sales tax department against which the Company has filed appeals to the Sales Tax Collectorate, Faisalabad.

10.4 The Company has not recognized gas infrastructure development cess amounting to Rupees 3.845 million notified by Sui Northern Gas Pipelines Limited (SNGPL) for the period from July 2012 to June 2013. Stay order has been obtained from Honourable Islamabad High Court, Islamabad. The Management based on advice of legal counsel, believes that it has strong grounds of appeal and payment / accrual of such charges will not be required.

10.5 During the year, the Company has paid under protest an amount of Rupees 14.500 million against sales tax amnesty scheme dated 07 March 2013. Later on sales tax demand of Rupees 51.708 million inclusive of already paid amount was confronted by Sales Tax Department and Company has obtained stay order from Honorably Lahore High Court, Lahore. The Managment based on advice of legal counsel, believes that it has stong grounds of apeal and payment of any further sales tax will not be required.

	(RUPEES IN THOUSAND)	
	2013	2012
10.6 Commitments		
Letter of credit for capital expenditures	5,810	-
Letters of credit for other than capital expenditures	9,463	36,264

		(RUPEES IN THOUSAND)	
11.	**PROPERTY, PLANT AND EQUIPMENT**	**2013**	**2012**
	Operating fixed assets - owned (Note 11.1)	1,005,825	1,044,771
	Capital work-in-progress - Plant and machinery	54	-
		1,005,879	1,044,771

11.1 Reconciliation of carrying amounts of operating fixed assets at the beginning and at the end of the year is as follows:

(RUPEES IN THOUSAND)

	OWNED									TOTAL
	Freehold land	Buildings on freehold land	Plant and machinery	Stand -by Equipment	Electrical installations	Vehicles	Furniture and Fixtures	Office and other equipment	Factory equipment	
As at 01 July 2011										
Cost / revalued amount	624,300	167,597	1,183,439	11,076	10,723	10,646	3,105	2,100	2,952	2,015,938
Accumulated depreciation	-	(80,158)	(826,277)	(9,269)	(5,918)	(6,230)	(1,993)	(1,190)	(1,859)	(932,894)
Net book value	624,300	87,439	357,162	1,807	4,805	4,416	1,112	910	1,093	1,083,044
Year ended 30 June 2012										
Opening net book value	624,300	87,439	357,162	1,807	4,805	4,416	1,112	910	1,093	1,083,044
Additions	-	544	1,496	-	-	1,883	77	61	35	4,096
Depreciation charge	-	(4,397)	(35,763)	(181)	(481)	(1,228)	(112)	(94)	(113)	(42,369)
Closing net book value	624,300	83,586	322,895	1,626	4,324	5,071	1,077	877	1,015	1,044,771
As at 30 June 2012										
Cost / revalued amount	624,300	168,141	1,184,935	11,076	10,723	12,529	3,182	2,161	2,987	2,020,034
Accumulated depreciation	-	(84,555)	(862,040)	(9,450)	(6,399)	(7,458)	(2,105)	(1,284)	(1,972)	(975,263)
Net book value	624,300	83,586	322,895	1,626	4,324	5,071	1,077	877	1,015	1,044,771
Year ended 30 June 2013										
Opening net book value	624,300	83,586	322,895	1,626	4,324	5,071	1,077	877	1,015	1,044,771
Additions	-	-	4,066	-	-	3,452	-	-	190	7,708
Disposals:										
Cost	-	(9,222)	(1,334)	-	-	(1,071)	(590)	-	-	(12,217)
Accumulated depreciation	-	2,584	183	-	-	827	297	-	-	3,891
	-	(6,638)	(1,151)	-	-	(244)	(293)	-	-	(8,326)
Depreciation charge	-	(3,847)	(32,481)	(163)	(433)	(1,135)	(78)	(88)	(103)	(38,328)
Closing net book value	624,300	73,101	293,329	1,463	3,891	7,144	706	789	1,102	1,005,825
As at 30 June 2013										
Cost / revalued amount	624,300	158,919	1,187,667	11,076	10,723	14,910	2,592	2,161	3,177	2,015,525
Accumulated depreciation	-	(85,818)	(894,338)	(9,613)	(6,832)	(7,766)	(1,886)	(1,372)	(2,075)	(1,009,700)
Net book value	624,300	73,101	293,329	1,463	3,891	7,144	706	789	1,102	1,005,825
Annual rate of depreciation (%)	-	5	10	10	10	20	10	10	10	

11.2 Property, plant and equipment of the Company were revalued as at 30 September 1995, 31 March 2004 and 31 December 2007 by independent valuers. The latest revaluation as at 23 December 2010 was carried out only for freehold land by Messers Masud Associates, the approved valuers. Had there been no revaluation, the value of the assets would have been lower by Rupees 697.784 million (2012: Rupees 706.033 million).

11.3 The book value of freehold land, buildings on freehold land and plant and machinery on cost basis is Rupees 14.016 million, Rupees 47.917 million and Rupees 232.476 million respectively (2012: Rupees 14.016 million, Rupees 57.077 million and Rupees 255.281 million respectively).

11.4 Detail of property, plant and equipment, exceeding the book value of Rupees 50,000, disposed of during the year is as follows:

(RUPEES IN THOUSAND)

DESCRIPTION	QTY	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	SALE PROCEEDS	MODE OF DISPOSAL	PARTICULARS OF PURCHASER
Building on freehold land							
City tower office - 601A	1	9,222	2,584	6,638	20,160	Negotiation	Shadab Textile Mills Limited - an associated company
Plant and machinery							
B - 11 Machine	1	1,334	183	1,151	1,700	Negotiation	A.A Cotton Mills Limited
Vehicle							
Toyota corolla FSL - 882	1	1,071	827	244	600	Insurance claim	Premier Insurance Company Limited
		11,627	3,594	8,033	22,460		
Aggregate of other items of property, plant and equipment with individual book values not exceeding Rupees 50,000		590	297	293	840		
		12,217	**3,891**	**8,326**	**23,300**		

11.5 Depreciation charge for the year has been allocated as follows:

	2013	2012
	(RUPEES IN THOUSAND)	
Cost of sales (Note 22)	36,860	40,506
Distribution cost (Note 23)	92	37
Administrative expenses (Note 24)	1,376	1,826
	38,328	42,369

	(RUPEES IN THOUSAND) 2013	2012

12. LONG TERM INVESTMENT

Available for sale

Quoted

Sajjad Textile Mills Limited

	2013	2012
344,900 (2012: 344,900) fully paid ordinary shares of Rupees 10 each	3,449	3,449
Less: Impairment loss charged to profit and loss account	3,259	3,259
Add: Fair value adjustment	2,914	734
	3,104	924

13. DEFERRED INCOME TAX

The (liability) / asset for deferred income tax originated due to temporary differences relating to:

	2013	2012
Accelerated tax depreciation	(28,092)	(34,663)
Surplus on revaluation of property, plant and equipment	(29,750)	(33,512)
	(57,842)	(68,175)
Accumulated tax losses	114,917	141,309
Minimum tax available for carry forward	6,072	45,059
	63,147	118,193
Less: Deferred income tax asset not recognized	63,147	118,193
	-	-

13.1 The net deferred income tax asset of Rupees 63.147 million (2012: Rupees 118.193 million) has not been recognized in these financial statements as the temporary differences are not expected to reverse in foreseeable future because taxable profits may not be available against which the temporary differences can be utilized.

14. STORES AND SPARE PARTS

	2013	2012
Stores	6,131	3,820
Spare parts	23,862	21,320
	29,993	25,140
Less: Provision for slow moving and obsolete stores and spare parts (Note 25)	536	-
	29,457	25,140

15. STOCK IN TRADE

	2013	2012
Raw materials	198,535	210,568
Work-in-process	22,546	25,901
Finished goods	21,758	37,765
Waste	1,122	1,142
	243,961	275,376

	(RUPEES IN THOUSAND) 2013	2012
16. TRADE DEBTS		
Considered good:		
Secured - against letters of credit	27,014	34,076
Unsecured - local	20,466	30,346
	47,480	64,422
Considered doubtful:		
Others - unsecured	-	1,358
Less: Provision for doubtful trade debts		
Balance as on 01 July	1,358	-
Add: Provision for the year (Note 25)	-	1,358
Less: Trade debts written off against provision	(1,358)	-
Balance as on 30 June	-	1,358
	-	-

16.1 As at 30 June 2013, trade debts of Rupees 20.466 million (2012: Rupees 19.755 million) were past due but not impaired. These relate to a number of independent customers from whom there is no recent history of default. The ageing analysis of these trade debts is as follows:

	2013	2012
Upto 1 month	15,280	-
1 to 6 months	2,151	1,939
More than 6 months	3,035	17,816
	20,466	19,755

	2013	2012
17. ADVANCES		
Considered good		
Employees – interest free	307	297
Suppliers	1,362	429
Against expenses	115	11
Letters of credit	1,151	264
	2,935	1,001
18. SHORT TERM DEPOSITS AND PREPAYMENTS		
Deposits – margin against bank guarantees	1,133	-
Prepayments	591	461
	1,724	461
19. OTHER RECEIVABLES		
Sales tax	21,343	14,292
Advance income tax	25,487	22,820
Miscellaneous	419	681
	47,249	37,793
20. CASH AND BANK BALANCES		
Cash in hand	28	22
Cash with banks:		
Current accounts	928	855
Saving account (Note 20.1)	1	1
	929	856
	957	878

20.1 Rate of profit on saving bank account ranges from 5.952% to 6.031% (2012: 5.00% to 5.35%) per annum.

	(RUPEES IN THOUSAND) 2013	2012
21. SALES		
Export	1,740,813	1,280,281
Local (Note 21.1)	1,213,219	1,017,486
Waste	30,941	40,038
	2,984,973	2,337,805
Less: Sales tax	9,377	-
	2,975,596	2,337,805

21.1 This includes sale of Rupees NIL (2012: Rupees 3.364 million) to Shadab Textile Mills Limited - an associated company.

22. COST OF SALES

	2013	2012
Raw materials consumed (Note 22.1)	2,002,867	1,691,351
Salaries, wages and other benefits (Note 22.2)	220,331	145,510
Packing materials consumed	47,163	36,924
Stores and spare parts	63,962	52,596
Fuel and power	296,813	207,987
Repair and maintenance	8,092	7,687
Insurance	6,066	6,342
Other factory overheads	2,880	1,402
Depreciation (Note 11.5)	36,860	40,506
	2,685,034	2,190,305
Work-in-process inventory		
Opening stock	25,901	20,464
Closing stock	(22,546)	(25,901)
	3,355	(5,437)
Cost of goods manufactured	2,688,389	2,184,868
Finished goods inventory		
Opening stock	38,907	60,295
Closing stock	(22,880)	(38,907)
	16,027	21,388
	2,704,416	2,206,256

22.1 Raw materials consumed

	2013	2012
Opening stock	210,568	80,776
Add: Purchases	1,990,834	1,821,143
	2,201,402	1,901,919
Less: Closing stock	198,535	210,568
	2,002,867	1,691,351

22.2 Salaries, wages and other benefits include Rupees 3.964 million (2012: Rupees 1.817 million) in respect of contributions towards provident fund.

(RUPEES IN THOUSAND)

23. DISTRIBUTION COST

	2013	2012
Commission to selling agents	29,235	19,656
Salaries and other benefits (Note 23.1)	1,602	1,306
Freight and handling – local	2,874	3,406
Freight and forwarding – export	36,416	31,726
Depreciation (Note 11.5)	92	37
	70,219	56,131

23.1 Salaries and other benefits include Rupees 0.057 million (2012: Rupees 0.050 million) in respect of contributions towards provident fund.

24 ADMINISTRATIVE EXPENSES

	2013	2012
Salaries and other benefits (Note 24.1)	29,743	20,326
Travelling and conveyance	1,245	978
Rent, rates and taxes	631	620
Printing and stationery	1,133	688
Communication	837	873
Utilities	3,046	3,462
Vehicles' running	3,845	3,132
Insurance	734	890
Fee and subscription	959	710
Entertainment	799	633
Legal and professional	747	376
Auditors' remuneration (Note 24.2)	618	617
Repair and maintenance	2,131	1,168
Advertisement	41	87
Miscellaneous	35	27
Depreciation (Note 11.5)	1,376	1,826
	47,920	36,413

24.1 Salaries and other benefits include Rupees 0.646 million (2012: Rupees 0.540 million) in respect of contributions towards provident fund.

24.2 Auditors' remuneration

	2013	2012
Annual audit fee	500	500
Half yearly review fee	50	50
Reimbursable expenses	18	17
Other certification fee	50	50
	618	617

25. OTHER EXPENSES

	2013	2012
Exchange loss	-	3,597
Balances written off	-	93
Provision for slow moving and obsolete stores and spare parts (Note 14)	536	-
Provision for doubtful trade debts (Note 16)	-	1,358
Workers' profit participation fund (Note 7.1)	4,604	-
Sales tax paid under amnesty scheme (Note 10.5)	14,500	-
	19,640	5,048

	(RUPEES IN THOUSAND) 2013	2012
26. OTHER INCOME		
From financial assets		
Provision of workers' welfare fund written back	-	5,003
Fair value adjustment on long term financing	-	1,986
Exchange gain	151	-
Credit balances written back	295	-
From non-financial assets		
Sale of scrap	216	225
Gain on sale of fixed assets	14,974	-
	15,636	7,214
27. FINANCE COST		
Interest on workers' profit participation fund (Note 7.1)	-	282
Mark-up on:		
Long term financing	12,002	21,093
Short term borrowings	44,237	53,790
Bank and other charges	5,329	4,816
	61,568	79,981
28. TAXATION		
Current:		
- For the year (Note 28.1)	23,629	23,335
- Prior year	128	(532)
	23,757	22,803

28.1. Provision for current income tax represents final tax on export sales under section 169, minimum tax on local sales under section 113 of the Income Tax Ordinance, 2001. As the Company has carry forwardable tax losses of Rupees 337.99 million (2012: Rupees 403.739 million), therefore, it impracticable to prepare the tax charge reconciliation for the years presented.

29. REMUNERATION TO CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amount charged in the financial statements for the year for remuneration, allowances including all benefits to the Chief Executive, Directors and Executives of the Company is as follows:

(RUPEES IN THOUSAND)

DESCRIPTION	2013			2012		
	Chief Executive	Directors	Executive	Chief Executive	Directors	Executive
Managerial remuneration	1,260	1,064	3,323	720	812	1,766
House rent	582	434	1,277	324	325	678
Utility allowance	132	77	164	84	52	87
Medical allowance	126	106	327	72	81	174
Contribution to employees' provident fund trust	-	43	145	-	39	34
	2,100	1,724	5,236	1,200	1,309	2,739
Number of persons	1	2	4	1	2	3

29.1 Chief executive, directors and executives are provided with the Company maintained vehicles.

29.2 No meeting fee was paid to directors during the year under reference (2012: Rupees Nil).

29.3 No remuneration was paid to non-executive directors of the Company.

30. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise associated undertakings, other related companies and key management personnel. The Company in the normal course of business carried out transactions with various related parties. Details of transactions with related parties, other than those which have been specifically disclosed elsewhere in these financial statements are as follows:

	(RUPEES IN THOUSAND)	
	2013	**2012**
i) Transactions		
Associated company		
Purchase of spare parts	128	-
Sale of office building and furniture and fixtures	21,000	-
Other related parties		
The Company's contribution to provident fund trust	4,667	2,407
ii) Period end balances		
Other related parties		
Payable to provident fund trust	861	588

31. EARNINGS / (LOSS) PER SHARE – BASIC AND DILUTED

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

Profit / (loss) attributable to ordinary shareholders	(Rupees in thousand)	63,712	(61,613)
Weighted average number of ordinary shares	(Numbers)	31,200,000	31,200,000
Earnings / (loss) per share - Basic	(Rupees)	2.04	(1.97)

32. PROVIDENT FUND RELATED DISCLOSURES

The following information is based on un-audited financial statements of the provident fund for the year ended 30 June 2013 and audited financial statements of the provident fund for the year ended 30 June 2012:

	2013	2012
Size of the fund - Total assets	17,894	12,002
Cost of investments	13,651	9,079
Percentage of investments made	76.29%	75.65%
Fair value of investments	16,842	11,128

32.1 The break-up of cost of investments is as follows:

	(PERCENTAGE)		(RUPEES IN THOUSAND)	
	2013	**2012**	**2013**	**2012**
Deposits	37.73	22.90	5,151	2,079
Defence Savings certificates	62.27	77.10	8,500	7,000
	100.00	100.00	13,651	9,079

32.2 Investments out of the provident fund trust have been made in accordance with the provisions of section 227 of the Companies Ordinance, 1984 and the rules formulated for this purpose.

	2013	**2012**
33. NUMBER OF EMPLOYEES		
Number of employees as on June 30	1,575	1,436
Average number of employees during the year	1,505	1,310

34. FINANCIAL RISK MANAGEMENT

34.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance.

Risk management is carried out by the Board of Directors (the Board). The Board provides principles for overall risk management, as well as policies covering specific areas such as currency risk, interest rate risk, other price risk, credit risk and liquidity risk.

(a) Market risk

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

The Company is exposed to currency risk arising primarily with respect to the United States Dollar (USD). Currently, the Company's foreign exchange risk exposure is restricted to the amounts receivable from foreign entities and short term borrowings. The Company uses forward exchange contracts to hedge its foreign currency risk, when considered appropriate. The Company's exposure to currency risk was as follows:

	2013	**2012**
Trade debts - USD	273,420	362,515
Short term borrowing - USD	609,980	667,264
Net exposure - USD	(336,560)	(304,749)

The following significant exchange rates were applied during the year:

	2013	2012
Rupees per US Dollar		
Average rate	96.90	89.64
Reporting date rate	98.80	94.20

Sensitivity analysis

If the functional currency, at reporting date, had weakened / strengthened by 5% against the USD with all other variables held constant, the impact on profit after taxation for the year would have been Rupees 1.592 million lower / higher (2012: Impact on loss after taxation would have been Rupees 1.452 million higher / lower) mainly as a result of exchange losses / gains on translation of foreign exchange denominated financial instruments. Currency risk sensitivity to foreign exchange movements has been calculated on a symmetric basis. In management's opinion, the sensitivity analysis is unrepresentative of inherent currency risk as the year end exposure does not reflect the exposure during the year.

(ii) Interest rate risk

This represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company has no long-term interest-bearing assets except bank deposit. The Company's interest rate risk arises from long term financing and short term borrowings. Borrowings obtained at variable rates expose the Company to cash flow interest rate risk. Borrowings obtained at fixed rate expose the Company to fair value interest rate risk. At the balance sheet date the interest rate profile of the Company’s interest bearing financial instruments was:

	(RUPEES IN THOUSAND)	
	2013	2012
Fixed rate instruments		
Financial liabilities		
Long term financing	38,774	61,911
Floating rate instruments		
Financial asset		
Bank balances - saving account	1	1
Financial liabilities		
Long term financing	62,378	87,262
Short term borrowings	260,949	345,978

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rate at the balance sheet date would not affect profit or loss of the Company.

Cash flow sensitivity analysis for variable rate instruments

If interest rates at the year end date, fluctuates by 1% higher / lower with all other variables held constant, profit after taxation for the year would have been Rupees 3.072 million lower / higher (2012: Impact on loss after taxation would have been Rupees 4.332 million higher / lower) mainly as a result of higher / lower interest expense on floating rate borrowings. This analysis is prepared assuming the amounts of financial instruments outstanding at balance sheet dates were outstanding for the whole year.

(iii) Other price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instrument traded in the market. The Company is not exposed to commodity price risk.

Sensitivity analysis

The table below summarises the impact of increase / decrease in the Karachi Stock Exchange (KSE) Index on the Company's profit after taxation for the year and on equity (fair value reserve). The analysis is based on the assumption that the equity index had increased / decreased by 5% with all other variables held constant and all the Company's equity instruments moved according to the historical correlation with the index:

(RUPEES IN THOUSAND)

Index	Statement of other comprehensive income (fair vlaue reserve)	
	2013	**2012**
KSE 100 (5% increase in)	155	46
KSE 100 (5% decrease in)	155	46

Equity (fair value reserve) would increase / decrease as a result of gains / losses on remeasurement of equity investment classified as available for sale.

(b) Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

(RUPEES IN THOUSAND)

	2013	**2012**
Long term investment	3,104	924
Long term security deposits	3,654	3,654
Trade debts	47,480	64,422
Advances	307	297
Other receivables	419	681
Bank balances	929	856
	55,893	70,834

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (If available) or to historical information about counterparty default rate:

	RATING			(RUPEES IN THOUSAND)	
	Short Term	Long Term	Agency	2013	2012
Banks					
National Bank of Pakistan	A-1+	AAA	JCR-VIS	689	94
Askari Bank Limited	A1+	AA	PACRA	13	14
Bank Alfalah Limited	A1+	AA	PACRA	23	621
Habib Bank Limited	A-1+	AAA	JCR-VIS	27	25
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	40	39
NIB Bank Limited	A1+	AA -	PACRA	15	22
Standard Chartered Bank (Pakistan) Limited	A1+	AAA	PACRA	16	33
Soneri Bank Limited	A1+	AA -	PACRA	55	8
MCB Bank Limited	A1+	AAA	PACRA	26	-
Meezan Bank Limited	A-1+	AA	JCR-VIS	25	-
				929	856

The Company's exposure to credit risk and impairment losses, if any related to trade debts is disclosed in Note 16.

Due to the Company's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the Company. Accordingly the credit risk is minimal.

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk through committed credit facilities. At 30 June 2013, the Company had Rupees 352.763 million (2012: Rupees 299.022 million) available borrowing limits from financial institutions and Rupees 0.957 million (2012: Rupees 0.878 million) cash and bank balances. Inspite the fact that the Company is in a negative working capital position at the year end, the management believes that the liquidity risk is manageable. Following are the contractual maturities of financial liabilities, including interest payments. The amount disclosed in the table are undiscounted cash flows:

Contractual maturities of financial liabilities as at 30 June 2013:

(RUPEES IN THOUSAND)

	Carrying Amount	Contractual cash flows	6 Month or less	6-12 month	1-2 Year	More than 2 Years
Non-derivative financial liabilities:						
Sponsor's advances	30,644	30,644	-	-	-	30,644
Long term financing	101,152	123,953	22,657	17,642	26,537	57,118
Trade and other payables	170,742	170,742	170,742	-	-	-
Accrued mark up	12,718	12,718	12,718	-	-	-
Short term borrowings	260,949	275,158	275,158	-	-	-
	576,205	613,215	481,275	17,642	26,537	87,762

Contractual maturities of financial liabilities as at 30 June 2012:

(RUPEES IN THOUSAND)

	Carrying Amount	Contractual cash flows	6 Month or less	6-12 month	1-2 Year	More than 2 Years
Non-derivative financial liabilities:						
Sponsor's advances	30,644	30,644	-	-	-	30,644
Long term financing	149,173	189,027	43,260	23,492	37,245	85,030
Trade and other payables	152,495	152,495	152,495	-	-	-
Accrued mark up	16,457	16,457	16,457	-	-	-
Short term borrowings	345,978	368,337	368,337	-	-	-
	694,747	756,960	580,549	23,492	37,245	115,674

The contractual cash flows relating to the above financial liabilities have been determined on the basis of interest rates / mark up rates effective as at 30 June. The rates of interest / mark up have been disclosed in Note 6 and Note 9 to these financial statements.

34.2 Fair values of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in financial statements approximate their fair values. The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which fair value is observable:

(RUPEES IN THOUSAND)

	Level 1	Level 2	Level 3	Total
As at 30 June 2013				
Assets				
Available for sale financial asset	3,104	-	-	3,104
As at 30 June 2012				
Assets				
Available for sale financial asset	924	-	-	924

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial instruments held by the Company is the current bid price. These financial instruments are classified under level 1 in above referred table.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value a financial instrument are observable, those financial instruments are classified under level 2 in above referred table. The Company has no such type of financial instruments as on 30 June 2013.

If one or more of the significant inputs is not based on observable market data, the financial instrument is classified under level 3. The Company has no such type of financial instruments as on 30 June 2013. The carrying amount less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

34.3 Financial instruments by categories

(RUPEES IN THOUSAND)

	Loans and receivables	Available for sale	Total
As at 30 June 2013			
Assets as per balance sheet			
Long term investment	-	3,104	3,104
Long term security deposits	3,654	-	3,654
Trade debts	47,480	-	47,480
Advances	307	-	307
Other receivables	419	-	419
Cash and bank balances	957	-	957
	52,817	3,104	55,921

(RUPEES IN THOUSAND)

	Financial liabilities at amortized cost
Liabilities as per balance sheet	
Sponsors' advances	30,644
Long term financing	101,152
Trade and other payables	170,742
Accrued mark up	12,718
Short term borrowings	260,949
	576,205

(RUPEES IN THOUSAND)

	Loans and receivables	Available for sale	Total
As at 30 June 2012			
Assets as per balance sheet			
Long term investment	-	924	924
Long term security deposits	3,654	-	3,654
Trade debts	64,422	-	64,422
Advances	297	-	297
Other receivables	681	-	681
Cash and bank balances	878	-	878
	69,932	924	70,856

(RUPEES IN THOUSAND)

	Financial liabilities at amortized cost
Liabilities as per balance sheet	
Sponsors' advances	30,644
Long term financing	149,173
Trade and other payables	152,495
Accrued mark up	16,457
Short term borrowings	345,978
	694,747

35. CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue new shares.

	2013	2012
36. PLANT CAPACITY AND ACTUAL PRODUCTION		
Number of spindles installed	54,432	54,432
Number of spindles operated	43,380	43,228
100 % plant capacity converted to 20s count based on 3 shifts per day (Kgs)	18,654,162	16,925,727
Actual production converted to 20s count based on 3 shifts per day (Kgs)	16,692,300	14,222,171

36.1 Reason for low production

Under utilization of available capacity is due to normal maintenance and heavy load shedding.

37. OPERATING SEGMENT

i) These financial statements have been prepared on the basis of single reportable segment.

ii) Sales of yarn represents 98.97% (2012: 98.29%) of the total sales of the Company.

iii) 41.50% (2012: 45.23%) of the sales of the Company relates to customers in Pakistan. Of the remaining sales of the Company relating to customers outside Pakistan, 88.79% (2012: 82.03%) of those sales are made to customers in China.

iv) All non-current assets of the Company at 30 June 2013 are located in Pakistan.

v) The Company has one customer (China National Services Corporation) having sales of 10% or more during the year ended 30 June 2013 (2012: China National Services Corporation).

38. EVENTS AFTER THE REPORTING PERIOD

The Board of Directors of the Company has proposed a cash dividend for the year ended 30 June 2013 of Rupees Nil per share (2012: Rupees NIL) at their meeting held on 03 October 2013.

39. DATE OF AUTHORIZATION

These financial statements have been approved by the Board of Directors of the Company and authorized for issue on 03 October 2013.

40. CORRESPONDING FIGURES

Corresponding figures have been rearranged or reclassified, wherever necessary, for the purpose of comparison, however, no significant reclassification has been made during the year.

41. GENERAL

Figures have been rounded off to the nearest thousand of Rupees.

(Mian Farrukh Naseem)	(Mian Aamir Naseem)
Chief Executive	**Director**

FORM-34

THE COMPANIES ORDINANCE 1984
(Section 236(1) and 464)

PATTERN OF SHAREHOLDING

1. Incorporation Number **0014846**

2. Name of the Company **SARGODHA SPINNING MILLS LIMITED**

3. Pattern of holding of the shares held by the shareholders as at 30 06 2013

4.

No. of Shareholders	Shareholdings From		Shareholdings To	Total shares held
189	1	-	100	15,236
2343	101	-	500	1,121,941
86	501	-	1,000	83,900
101	1,001	-	5,000	243,461
9	5,001	-	10,000	74,900
12	10,001	-	15,000	146,372
2	15,001	-	20,000	35,483
5	20,001	-	25,000	111,728
5	30,001	-	35,000	160,800
3	40,001	-	45,000	130,000
1	50,001	-	55,000	53,776
3	60,001	-	65,000	191,000
1	65,001	-	70,000	65,300
2	75,001	-	80,000	152,500
1	105,001	-	110,000	105,182
1	120,001	-	125,000	122,500
3	150,001	-	155,000	462,858
1	170,001	-	175,000	171,600
1	180,001	-	185,000	181,500
1	190,001	-	195,000	195,000
2	200,001	-	205,000	407,525
1	315,001	-	320,000	315,261
1	445,001	-	450,000	449,119
1	460,001	-	465,000	460,212
1	585,001	-	590,000	588,202
1	635,001	-	640,000	637,139
1	720,001	-	725,000	723,000
3	730,001	-	735,000	2,198,908
1	840,001	-	845,000	842,200
1	920,001	-	925,000	921,635
1	1,505,001	-	1,510,000	1,505,525
2	1,730,001	-	1,735,000	3,460,526
1	1,880,001	-	1,885,000	1,882,425
1	1,910,001	-	1,915,000	1,913,225
1	2,695,001	-	2,700,000	2,698,319
1	3,985,001	-	3,990,000	3,988,200
1	4,380,001	-	4,385,000	4,383,542
2791				31,200,000

5.	Categories of shareholders	Shares Held	Percentage
5.1	Directors, Chief Executive Officer, and their spouse and minor children.	11,692,968	37.4775
5.2	Associated Companies, undertakings and related parties.	500	0.0016
5.3	NIT and ICP	588,702	1.8869
5.4	Banks, Development Financial Institutions, Non-Banking Financial Institutions.	35,331	0.1132
5.5	Insurance Companies	-	-
5.6	Modarabas and Mutual Funds	-	-
5.7	Shareholders holding 10%	8,371,742	26.8325
5.8	General public		
	a. Local	18,731,272	60.0361
	b. Foreign	-	-
5.9	Others (to be specified)		
	1. Joint Stock Companies	95,564	0.3063
	2. Pension Funds	53,776	0.1724
	3. Others	1,887	0.0060

6.	Signature of Company Secretary	
7.	Name of Signatory	Mr. Mazhar Hussain
8.	Designation	Company Secretary
9.	NIC Number	3 5 2 0 2 – 2 7 2 5 5 7 6 – 3
10.	Date	30-06-2013

DETAILS OF CATEGORIES OF SHAREHOLDERS UNDER C.C.G. AS AT JUNE 30, 2013

S.No.	Name	Shareholding	%age
	Associated Companies, Undertakings and Related parties		
	Husein Sugar Mills Limited	500	0.0016
	Mutual Funds	-	-
	DIRECTORS AND THEIR SPOUSE AND MINOR CHILDREN		
1.	Mian Shahzad Aslam	1,913,225	6.1321
2.	Mian Farrukh Naseem	4,383,542	14.0498
3.	Mian Aamir Naseem	3,988,200	12.7827
4.	Mr. Saad Naseem	122,500	0.3926
5.	Mr. Irfan Qamar	500	0.0016
6.	Mr. Shahid Mahmud	500	0.0016
7.	Mrs. Hina Farrukh	112,382	0.3602
8.	Mrs. Fatima Aamir W/o Mian Aamir Naseem	1,172,119	3.7568
	Executives:	-	-
	Public Sector Companies & Corporations:	-	-
	Bank, Development Finance Institutions, Non Banking Finance Companies, Insurance Companies, Takaful, Modarabas and Pension Funds:	89,107	0.2856
	Sharesholders holding five percent or more voting interest in the listed company		
1.	Mian Farrukh Naseem	4,383,542	14.0498
2.	Mian Aamir Naseem	3,988,200	12.7827
3.	Mst. Nusrat Shamim	2,713,319	8.6965
4.	Mian Shahzad Aslam	1,913,225	6.1321
5.	Mian Sajjad Aslam	1,900,207	6.0904
6.	Mr. Mustafa Ali Tariq	1,730,263	5.5457
7.	Mr. Ahmed Ali Tariq	1,730,263	5.5457
8.	Mian Pervaiz Aslam	1,820,786	5.8359

All trades in the shares of the listed company, carried out by its Directors, Executives and their spouses and minor childern are as follows:-

S. No.	Name	Sale	Purchase
1.	Mrs. Hina Farrukh (CDC)	0	3,500
2.	Mrs. Fatima Aamir W/o Mian Aamir Naseem (CDC)	0	8,650

FORM OF PROXY

I / We ____________________

Son / Daughter / Wife of ____________________

being a member of SARGODHA SPINNING MILLS LIMITED and holder of ____________________ (Number of Shares)

Ordinary Shares as per Registered Folio No. ____________________

hererby appoint Mr. ____________________ of ____________________

of failing him Mr. ____________________ of ____________________

who is also a member of SARGODHA SPINNING MILLS LIMITED, Vide Registered Folio No. ________

as my / our proxy to vote for me / us and on my / our behalf at the 27th Annual General Meeting of the Company to be held on Thursday, October 31, 2013 at 10:00 a.m. and at any adjournment thereof.

As witness my / our hand (s) this ____________ day of ____________ 2013

1. Witness:

Signature ____________

Name ____________

Address ____________

____

____

Affix Revenue Stamps of Rs. 5/-

____

Signature of Member

2. Witness:

Signature ____________

Name ____________

Address ____________

____

____

Shareholder's Folio No. ____________

CDC A/c No. ____________

NIC No. | | | | | | | | | | | | | | | |

NOTE:

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote on his / her behalf. Proxies in order to be valid must be received at the Registered Office of the Company 48 hours before the time of the meeting. A proxy must be member of the Company.

2. CDC shareholders are requested to bring with them their Computrised National Identity Cards alongwith the participants' ID numbers and their account numbers at the time of attending the Annual General Meeting in order to facilitate identification of the respective shareholders.

3. Signature should agree with specimen signature registered with the company.