Annual Report 2010

Sargodha Spinning Mills Limited

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COMPANY INFORMATION

BOARD OF DIRECTORS	Mian Farrukh Naseem	**Chairman/Chief Executive Officer**
	Mian Aamir Naseem	
	Mian Shahzad Aslam	
	Mr. Saad Naseem	
	Syed Arif Hussain	
	Mr. Irfan Qamar	
	Mr. Shahid Mahmud	
AUDIT COMMITTEE	Mian Aamir Naseem	**Chairman**
	Mian Shahzad Aslam	**Member**
	Syed Arif Hussain	**Member**
CHIEF FINANCIAL OFFICER	Mr. Mazhar Hussain	
COMPANY SECRETARY	Mr. Mazhar Hussain	
AUDITORS	Riaz Ahmad & Company Chartered Accountants	
BANKERS	NIB Bank Limited National Bank of Pakistan Habib Bank Limited Bank Al-Falah Limited	
SHARE REGISTRAR	Corplink (Pvt) Limited Wings Arcade, 1-K, Commercial, Motel 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	
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.

STATEMENT OF ETHICS AND BUSINESS PRACTICES

- Formulate, implement, follow up and monitor the objectives, strategies, policies, procedures and overall business plan of the company.
- Oversee that the affairs of the company are being carried out prudently within the framework of objectives, existing laws/regulations and high business ethics.
- Ensure compliance of the company affairs as per legal and regulatory requirements and guidelines of the statutory authorities.
- Motivate and encourage initiatives and self realization in fellow members.
- Protect the interest and assets of the company.
- Maintain organizational effectiveness for the achievement of the organizational goals.
- Foster the conducive environment through respective policies.
- Company employees will avoid making personal gain (other than approved benefits) at the company's expenses and/or participating in or assisting activities which are against the company's interest.
- Company employees will not engage directly or indirectly without the permission of the company in any other business or paid occupation while in the service of the company.
- The company will not knowingly assist fraudulent activities of others.
- Ensure that the company interest supersedes all other interest.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 24th Annual General Meeting of the Shareholders of SARGODHA SPINNING MILLS LIMITED will be held on Saturday, October 30, 2010 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 confirm the minutes of Annual General Meeting held on October 31, 2009.
2. To receive, consider and adopt the Audited Accounts for the year ended June 30, 2010 together with Directors' and Auditors' Reports thereon.
3. To declare and approve the Cash Dividend at Rs. 0.50 per share i.e 5% for the year ended June 30, 2010 as recommended by the Board of Directors.
4. To appoint Auditors for the year 2010-2011 and fix their remuneration.
5. To transact any other business of the Company with the permission of the Chair.

By order of the Board

LAHORE: October 05, 2010.

(Mazhar Hussain)
Company Secretary

NOTES:

1. The Share Transfer Books of the Company will remain closed from October 24, 2010 to October 30, 2010 (both days inclusive). Transfers received at Corplink (Pvt) Limited, Wings Arcade, 1-K, Commercial, Model Town, Lahore, the Registrar and Shares Transfer Office of the Company by the close of business on October 23, 2010 will be treated in time for the purpose of above entitlement to the fransferees.
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 CNIC or Passport to prove his/her identity and in case of Proxy must enclose an attested copy of his/her CNIC or Passport. Representative of corporate members should bring the usual documents required for such purposes.
4. Shareholders who has not yet supplied copy of their CNIC in complaince to our letter dated 16-04-2010 are once again advised through this notice to send a copy of their CNIC mentioning company name & Folio Number at our Share Registrar’s address for compliance of SECP notice at the earliest possible.
5. Shareholders are rqurested 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 24th Annual General Meeting and pleased to present the Annual Report together with Audited Accounts of the Company for the year ended June 30, 2010.

Financial Results

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

	(RUPEES IN THOUSAND)	
	June 30 2010	**June 30 2009**
Sales	1,928,141	1,402,105
Cost Of Sales	(1,638,531)	(1,386,328)
Gross Profit	289,610	15,777
Distribution Cost	(57,966)	(35,181)
Administrative Expenses	(26,896)	(25,170)
Other Operating Expenses	(10,676)	(3,259)
	(95,538)	(63,610)
	194,072	(47,833)
Other Operating Income	18,678	329
Profit / (Loss) From Operations	212,750	(47,504)
Finance Cost	(77,694)	(76,119)
Profit / (Loss) Before Taxation	135,056	(123,623)
Provision For Taxation	(15,043)	(4,986)
Profit / (Loss) After Taxation	120,013	(128,609)
Earnings Per Share – Basic And Diluted (Rupees)	3.85	(4.12)

By the grace of Almighty Allah, your company earned after tax profit of Rs. 120.013 million for the year ended June 30, 2010 as compared to after tax loss of Rs. 128.609 million for the year ended June 30, 2009. Sales revenue and gross profit increased by 37.52% and 13.89% respectively as compared to previous year. The increase in sales revenue and gross profit is mainly due to recovery of international yarn market both price and demand from the worldwide recessionary economic scenario.

International demand for textile related products especially yarn, grew considerably due to probably future increase in cotton prices. Domestic retail demand in India and China has also played a major role in keeping the yarn prices high. Earning per share for the year ended June 30, 2010 stood at Rs. 3.85 as compared to loss of Rs. 4.12 per share in the corresponding year.

During the year under review the cotton prices domestically and internationally remained as high as never before. Wages & other benefits cost and power & fuel cost increased due to increase in minimum wage rate and gas & electricity tariff respectively. Stores and spares cost increased due to proper maintenance of machinery and inflation.

Dividend

The Board of Directors has recommended 5% cash dividend to shareholders of the company.

Future outlook

The profitability during the current year has shown a phenomenal improvement but the recent heavy rains and floods situation in the country have wiped off the positive expectation. The floods have caused huge losses to Pakistan agriculture economy and hit the cotton growing areas of Punjab and Sindh. At present production of 11 million bales is expected against the set target of 14 million bales for the year 2010-2011. The prices of cotton in the local market are prevailing between 7000/- per mnd to Rs. 7200/- per mnd.

Shortage of electricity and gas emerged as top issues of the year. The government as well as textile policy promised undisturbed supply of power and gas to industry. For the last three years in the winter season (i.e. from the month of October to February) there was a long shut down of gas but to our utmost surprise this year unprecedented gas load shedding has also started during the summer season. The supply of gas and electricity to the industry has worsened the situation and is making survival of spinning very difficult.

We foresee Chinese sourcing of yarn from Pakistan therefore demand for Pakistani yarn will support the prices. However, we endeavour to achieve positive result in the current year.

Corporate and Financial Reporting Framework

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

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

c. Appropriate accounting policies have been consistently applied, except for the changes as described in note 2.1(d)(i) to the financial statements in preparation of the financial statements and accounting estimates are based on reasonable and prudent judgment.

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

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. 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 the routine payments of various levies.

j. Value of investments of provident fund as on 30-06-2010 was Rs. 8.000 million.

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 not made transaction in the company's shares during the year, except as disclosed in the pattern of shareholding in terms of transmission made to Mian Farrukh Naseem and Mian Aamir Naseem directors of the company.

Board of Directors Meetings

During the period 2009-2010, five meetings of the Board of Directors were held. The attendance position of each Director is as follows:

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

Syed Arif Hussain resigned on 31.10.2009 and was re-appointed on 23.12.2009. Mr. Ahmad Ali Tariq was appointed on 31.10.2009 and resigned on 23.12.2009.

Subsequently Mrs. Hina Farrukh has resigned w.e.f. 24.08.2010 and Mr.Saad Naseem has been appointed in her place w.e.f. 24.08.2010.

Audit Committee

The Board of Directors in compliance with the Code of Corporate Governance has established an Audit Committee. The names of its members are given in the Company profile.

Auditors

The present Auditors M/s Riaz Ahmad & Company, Chartered Accountants, retire and being eligible offer themselves 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 2010-2011.

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 05, 2010.

(MIAN FARRUKH NASEEM)
Chairman/Chief Executive Officer

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulation 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. At present Board of Directors include six independent non executive directors.

2. The directors have confirmed that none of them is serving as director in more than ten 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 period casual vacancy in the Board was occured twice and was filled up by the Board within 30 days.

5. The Company has prepared a 'Statement of Ethics and Business Practices' which has been signed by all the directors and employees of the Company.

6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company.

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 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 orientation course for its director(s) to apprise them of their duties and responsibilities.

10. There is no change in the position of CFO, Company Secretary and Head of Internal Audit during the year.

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 Code.

15. The Audit Committee continued its functions during the year. The committee comprises three members, of whom all 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 set up an effective internal audit function.

18. 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.

19. 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.

20. We confirm that all other material principles contained in the Code have been complied with.

for and on behalf of the Board

LAHORE: October 05, 2010.

(MIAN FARRUKH NASEEM)
Chairman/Chief Executive Officer

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 2010, 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 system 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 thsoe that prevail in arm's length transactions and transactions which are not executed at arms'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 transaction 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.

Based on our review, 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 2010.

RIAZ AHMAD & COMPANY
Chartered Accountants
Name of Engagement partner:
Syd Mustafa Ali

LAHORE: October 05, 2010

SIX YEARS' FINANCIAL DATA AT A GLANCE

(RUPEES IN THOUSAND)

PARTICULARS	2010	2009	2008	2007	2006	2005
ASSETS EMPLOYED						
Operating Fixed Assets	990,142	1,022,956	1,072,560	796,837	781,752	739,506
Capital Work in Progress	245	-	-	-	6,124	8,384
Assets subject to Finance Lease	7,222	19,741	21,934	24,371	11,007	-
Long Term Investments	259	190	529	850	540	1,557
Long Term Security Deposits	3,365	5,807	5,494	6,275	4,739	2,765
Deferred Tax	-	-	-	-	-	-
Current Assets	329,060	173,604	277,606	265,585	342,213	259,177
TOTAL ASSETS EMPLOYED	1,330,293	1,222,298	1,378,123	1,093,918	1,146,375	1,011,389
FINANCED BY						
Share Holder's Equity	91,621	(35,668)	82,055	132,768	182,907	127,752
Surplus on Revaluation of Property, plant & equipment	579,247	586,720	594,681	275,559	289,062	300,181
Sponsor Advance - Interest Free	30,644	30,644	30,644	30,644	27,694	27,693
Long Term Financing	186,218	153,334	186,609	217,689	234,229	227,336
Liabilities Against Assets Subject to Finance Lease	-	9,353	18,372	21,144	11,098	-
Deferred Taxation	-	-	-	-	5,126	47
Current Liabilities	442,563	477,915	465,762	416,114	396,259	328,380
TOTAL EQUITY AND LIABILITIES	1,330,293	1,222,298	1,378,123	1,093,918	1,146,375	1,011,389
PROFIT & LOSS ACCOUNT						
Sales	1,928,141	1,402,105	1,505,524	1,349,123	1,430,953	960,987
Cost of Sales	1,638,531	1,386,328	1,437,053	1,309,615	1,280,791	868,472
GROSS PROFIT	289,610	15,777	68,471	39,508	150,162	92,515
Administrative Expenses	26,896	25,170	26,368	27,154	23,889	14,823
Distribution Cost	57,966	35,181	27,529	28,712	28,877	9,740
Other Operating Expenses	10,676	3,259	3,026	7,689	3,531	2,560
Other Operating Income	18,678	329	668	312	2,034	1,649
PROFIT / (LOSS) FROM OPERATIONS	212,750	(47,504)	12,216	(23,735)	95,899	67,041
Finance Cost	77,694	76,119	63,890	72,811	38,618	18,429
PROFIT / (LOSS) BEFORE TAXATION	135,056	(123,623)	(51,674)	(96,546)	57,281	48,612
Provision for Taxation	(15,043)	(4,986)	(7,528)	(3,592)	(12,228)	(20,067)
PROFIT / (LOSS) AFTER TAXATION	120,013	(128,609)	(59,202)	(100,138)	45,053	28,545
Effect of Changes in Accounting Policy	-	-	-	-	39,665	-
Transfer From Revaluation Surplus	7,207	7,961	8,810	10,024	11,119	9,005
Surplus on revaluation of investment	69	-	-	-	-	-
PREVIOUS YEAR'S BALANCE B/F	(347,668)	(227,020)	(176,628)	(86,514)	(182,351)	(219,901)
BALANCE CARRIED TO B/S	(220,379)	(347,668)	(227,020)	(176,628)	(86,514)	(182,351)
EARNINGS PER SHARE (Rs.)	3.85	(4.12)	(1.90)	(3.21)	1.44	0.91
Number of Spindles installed	54,432	54,432	54,432	54,432	53,760	48,640
Number of Spindles worked	51,270	51,528	54,432	53,944	50,062	48,640
Nubmer of Shifts per Day	3	3	3	3	3	3
Actual Production Converted into 20's Count (Kgs. In million)	14.959	16.364	22.544	18.655	20.456	15.880

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **SARGODHA SPINNING MILLS LIMITED** as at 30 June 2010 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 except for the changes as stated in Note 2.1(d)(i) with which we concur;

- 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 2010 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).

LAHORE: October 05, 2010.

RIAZ AHMAD & COMPANY
Chartered Accountants
Name of Engagement partner:
Syed Mustafa Ali

BALANCE SHEET AS

	Note	2010	2009
		(RUPEES IN THOUSAND)	
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorized share capital 42,000,000 (2009: 42,000,000) ordinary shares of Rupees 10 each		420,000	420,000
Issued, subscribed and paid up share capital 31,200,000 (2009: 31,200,000) ordinary shares of Rupees 10 each fully paid up in cash	3	312,000	312,000
Reserves		(220,379)	(347,668)
Total equity		91,621	(35,668)
Surplus on revaluation of property, plant and equipment	4	579,247	586,720
NON - CURRENT LIABILITIES			
Sponsors' advances - interest free	5	30,644	30,644
Long term financing - secured	6	186,218	153,334
Liabilities against assets subject to finance lease	7	-	9,353
		216,862	193,331
CURRENT LIABILITIES			
Trade and other payables	8	121,882	180,762
Accrued mark up	9	12,821	29,890
Short term borrowings - secured	10	192,111	148,079
Current portion of non-current liabilities	11	100,580	114,101
Provision for taxation		15,169	5,083
		442,563	477,915
TOTAL LIABILITIES		659,425	671,246
CONTINGENCIES AND COMMITMENTS	12		
TOTAL EQUITY AND LIABILITIES		1,330,293	1,222,298

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

(Mian Farrukh Naseem)
Chief Executive Officer

AT 30 JUNE 2010

	Note	2010	2009
		(RUPEES IN THOUSAND)	
ASSETS			
NON - CURRENT ASSETS			
Property, plant and equipment	13	997,609	1,042,697
Long term investments	14	259	190
Long term security deposits		3,365	5,807
Deferred tax	15	-	-
		1,001,233	1,048,694
CURRENT ASSETS			
Stores and spare parts	16	23,451	21,472
Stock in trade	17	185,480	107,324
Trade debts	18	53,008	15,453
Loans and advances	19	32,440	148
Trade deposits and short term prepayments	20	1,962	1,579
Other receivables	21	29,251	25,139
Cash and bank balances	22	3,468	2,489
		329,060	173,604
TOTAL ASSETS		1,330,293	1,222,298

(Mian Aamir Naseem)
Director

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010	2009
		(RUPEES IN THOUSAND)	
SALES	23	1,928,141	1,402,105
COST OF SALES	24	(1,638,531)	(1,386,328)
GROSS PROFIT		289,610	15,777
DISTRIBUTION COST	25	(57,966)	(35,181)
ADMINISTRATIVE EXPENSES	26	(26,896)	(25,170)
OTHER OPERATING EXPENSES	27	(10,676)	(3,259)
		(95,538)	(63,610)
		194,072	(47,833)
OTHER OPERATING INCOME	28	18,678	329
PROFIT / (LOSS) FROM OPERATIONS		212,750	(47,504)
FINANCE COST	29	(77,694)	(76,119)
PROFIT / (LOSS) BEFORE TAXATION		135,056	(123,623)
PROVISION FOR TAXATION	30	(15,043)	(4,986)
PROFIT / (LOSS) AFTER TAXATION		120,013	(128,609)
EARNINGS / (LOSS) PER SHARE - BASIC AND DILUTED (RUPEES)	33	3.85	(4.12)

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

(Mian Farrukh Naseem)
Chief Executive Officer

(Mian Aamir Naseem)
Director

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010

	(RUPEES IN THOUSAND)	
	2010	2009
PROFIT / (LOSS) AFTER TAXATION	120,013	(128,609)
OTHER COMPREHENSIVE INCOME		
Deficit on revaluation of investment transferred to profit and loss account due to impairment	-	2,925
Surplus on revaluation of investment	69	-
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR	120,082	(125,684)

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

(Mian Farrukh Naseem)
Chief Executive Officer

(Mian Aamir Naseem)
Director

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2010

	2010	2009
	(RUPEES IN THOUSAND)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (Loss) before taxation	135,056	(123,623)
Adjustments for non-cash charges and other items:		
Depreciation	48,277	53,322
Gain on sale of property, plant and equipment	(1,231)	-
Credit balances written back	(377)	(189)
Excise duty written off	444	-
Exchange loss	223	-
Impairment loss on investment	-	3,259
Fair value adjustment on long term financing	(16,837)	-
Interest expense due to impact of IAS-39	5,937	8,520
Finance cost	71,757	67,599
Cash flows from operating activities before working capital changes	243,249	8,888
(Increase) / decrease in current assets		
Stores and spare parts	(1,979)	(2,033)
Stock in trade	(78,156)	84,304
Trade debts	(37,778)	19,882
Loans and advances	(32,292)	196
Trade deposits and short term prepayments	(827)	(23)
Other receivables	2,331	1,161
	(148,701)	103,487
Increase / (decrease) in trade and other payables	(59,184)	26,708
Effect on cash flows due to working capital changes	(207,885)	130,195
Cash generated from operations	35,364	139,083
Finance cost paid	(82,272)	(38,972)
Income tax paid	(10,719)	(6,264)
Net cash (used in) / generated from operating activities	(57,627)	93,847

	(RUPEES IN THOUSAND)	
	2010	2009
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure on property, plant and equipment	(6,622)	(1,525)
Long term security deposits	2,442	(313)
Proceeds from sale of property, plant and equipment	4,255	-
Proceeds from sale of investment	-	5
Net cash flows from / (used in) investing activities	75	(1,833)
CASH FLOWS FROM FINANCING ACTIVITIES		
Long term financing - secured	(19,625)	(9,785)
Repayment of liabilities against assets subject to finance lease	(18,978)	(2,154)
Short term borrowings - net	97,134	(79,281)
Net cash from / (used in) financing activities	58,531	(91,220)
Net increase in cash and cash equivalents	979	794
Cash and cash equivalents at the beginning of the year	2,489	1,695
Cash and cash equivalents at the end of the year (Note 22)	3,468	2,489

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

(Mian Farrukh Naseem)
Chief Executive Officer

(Mian Aamir Naseem)
Director

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010

(RUPEES IN THOUSAND)

	SHARE CAPITAL	RESERVES			TOTAL EQUITY
		CAPITAL	REVENUE	TOTAL	
		FAIR VALUE	ACCUMULATED LOSS		
Balance as at 30 June 2008	312,000	(2,925)	(227,020)	(229,945)	82,055
Transfer from surplus on revaluation of property, plant and equipment - net of deferred tax	-	-	7,961	7,961	7,961
Total comprehensive income / (loss) for the year ended 30 June 2009	-	2,925	(128,609)	(125,684)	(125,684)
Balance as at 30 June 2009	312,000	-	(347,668)	(347,668)	(35,668)
Transfer from surplus on revaluation of property, plant and equipment - net of deferred tax	-	-	7,207	7,207	7,207
Total comprehensive income for the year ended 30 June 2010	-	69	120,013	120,082	120,082
Balance as at 30 June 2010	312,000	69	(220,448)	(220,379)	91,621

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

(Mian Farrukh Naseem)
Chief Executive Officer

(Mian Aamir Naseem)
Director

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

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 manufacture and trading of yarn made from raw cotton and synthetic fibre and 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 affect on the depreciation charge and impairment.

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) Standards and amendments to published approved accounting standards that are effective in current year

(i) Changes in accounting policies and disclosures arising from standards and amendments to published approved accounting standards that are effective in the current year

IAS 1 (Revised) 'Presentation of Financial Statements' (effective for annual periods beginning on or after 01 January 2009).The revised standard prohibits the presentation of items of income and expenses (that is ‘non-owner changes in equity’) in the statement of changes in equity, requiring ‘non-owner changes in equity’ to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

IFRS 7 (Amendment) ‘Financial instruments: Disclosures’ (effective for annual periods beginning on or after 01 January 2009). This amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

(ii) Other amendment to published approved accounting standards that are effective in the current year

IAS 23 (Amendment) 'Borrowing Costs' (effective for annual periods beginning on or after 01 January 2009). It requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The Company's accounting policy on borrowing cost, as disclosed in note 2.9, complies with the above mentioned requirements to capitalize borrowing cost and hence this change has not impacted the Company's accounting policy.

e) Standards, interpretations and amendments to published approved accounting standards that are effective in current year but not relevant

There are other new standards, interpretations and amendments to the published approved accounting standards that are mandatory for accounting periods beginning on or after 01 July 2009 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 accounting standards that are not yet effective but relevant

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 2010 or later periods:

IFRS 9 'Financial Instruments' (effective for annual periods beginning on or after 01 January 2013). IFRS 9 has superseded the IAS 39 'Financial Instruments: Recognition and Measurement'. It requires that all equity investments are to be measured at fair value while eliminating the cost model for unquoted equity investments. Certain categories of financial instruments available under IAS 39 will be eliminated. Moreover, it also amends certain disclosure requirements relating to financial instruments under IFRS 7. The management of the Company is in the process of evaluating impacts of the aforesaid standard on the Company's financial statements.

There are other amendments resulting from annual Improvements projects initiated by International Accounting Standards Board in April 2009 and May 2010, specifically in IFRS 7 'Financial Instruments: Disclosures', IAS 1 'Presentation of Financial Statements', IAS 7 'Statement of Cash Flows', IAS 24 'Related Party Disclosures', and IAS 36 'Impairment of Assets' that are considered relevant to the Company's financial statements. 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 accounting standards that are not effective in current year and not considered relevant

There are other accounting standards, amendments to published approved accounting standards and new interpretations that are mandatory for accounting periods beginning on or after 01 July 2010 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

Current

Provision for current 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 tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

Deferred

Deferred 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 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 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 tax is also recognized in other comprehensive income or directly in equity, respectively.

2.4 Foreign currencies

The financial statements are prepared in Pak Rupees, which is the Company's functional and presentation currency.

All monetary assets and liabilities denominated in foreign currencies are translated into Pak Rupees at exchange rate prevailing at the balance sheet date or at the contracted rates while transactions in foreign currency during the year are recorded at the rates of exchange prevailing at transaction date or at the contracted rates. Exchange gains and losses are charged to profit and loss account.

2.5 Property, plant and equipment

Owned

a) 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, 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.

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.

b) 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 No 13. 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.

c) Derecognition

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition 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 derecognized.

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. Assets so acquired are depreciated over their expected useful lives at the rates mentioned in note no 13.

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' to all investments.

Investments at Fair Value through Profit or Loss Account

These are recognized at fair value and changes in carrying values are included in profit or loss account.

Held to Maturity

These are stated at amortized cost less impairment loss, if any, recognized to reflect irrecoverable amounts. Impairment losses are charged to profit and loss account.

Available for Sale

These are stated at fair value and changes in carrying values are recognized in statement of other comprehensive income, until investment is sold or determined to be impaired at which time the cumulative gain or loss previously recognized in statement of other comprehensive income is included in profit and loss account for the period.

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

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.

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 contract price.

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 originated by the Company are recognized and carried at original invoice amount less an allowance for any un-collectible amounts. Known bad debts are written off and provision is made against debts considered doubtful when collection of the full amount is no longer probable.

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 had 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 a 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 equity.

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 derecognizes 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 derecognized 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 and 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 long term financing, 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.

2.19 Related party transactions

All transactions with related parties are carried out at arm's length prices determined in accordance with comparable uncontrolled price method.

3. ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL

500 (2009: 500) ordinary shares of the Company are held by Hussein Sugar Mills Limited – an associated Company.

	(RUPEES IN THOUSAND) 2010	2009
4. SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT		
Opening balance as at 01 July	586,720	594,681
Less: Transfer to statement of changes in equity - net of deferred tax (Note 4.1)	7,207	7,961
Less: Surplus on revaluation of assets disposed of	266	-
Closing balance as at 30 June	579,247	586,720

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 has been 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 (2009: Rupees 21.700 million) which are subordinated to loans obtained from Banking Companies.

6. LONG TERM FINANCING - secured

From Banking Companies

	2010	2009
National Bank of Pakistan:		
Term finance (Note 6.1)	20,952	24,563
Term finance (Note 6.2)	9,048	18,096
Term finance (Note 6.3)	63,000	70,000
Demand finance (Note 6.4)	21,889	-
Demand finance (Note 6.5)	20,931	-
Demand finance (Note 6.6)	10,282	-
Habib Bank Limited (Note 6.7)	43,635	50,096
NIB Bank Limited (Note 6.8)	69,338	79,680
NIB Bank Limited (Accrued markup) (Note 6.9)	23,520	13,966
	282,595	256,401
Less: Current portion shown under current liabilities (Note 11)	96,377	103,067
	186,218	153,334

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 with the bank, this facility is repayable in 8 equal half yearly installments of Rupees 3.611 million commenced from 31 December 2009 and ending on 30 June 2013. This facility carries no markup.

6.2 This term finance facility is secured against first charge on fixed assets of Unit No.1 of the Company, exclusive hypothecation charge on generators and personal guarantees of directors. According to rescheduling arrangement dated 06 March 2010 with the bank, this facility is repayable in 4 equal half yearly installments of Rupees 4.524 million commenced from 31 December 2009 and ending on 30 June 2011. This facility carries markup at the rate of 3 months kibor plus 3% per annum. Markup is repayable on quarterly basis.

6.3 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 with the bank, this facility is repayable in ten equal half yearly installments of Rupees 7.000 million 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. Markup is repayable on quarterly basis.

6.4 According to rescheduling arrangement dated 06 March 2010 with the bank, the short term borrowing of the Company is 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 commencing from 01 July 2010 and ending on 01 June 2015. This facility carries no mark up.

6.5 According to rescheduling arrangement dated 06 March 2010 with the bank, the short term borrowing of the Company is 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 30 equal monthly installments of Rupees 0.900 million each commenced from 01 April 2010 and ending on 01 September 2012. This facility carries no mark up.

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

6.7 This represents foreign currency loan obtained for import of machinery for Unit No.2 of the Company and interest thereon. 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 is 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 finance is payable in 120 equal monthly installments of Rupees 2.070 million each commenced from 30 September 2000. No further interest / mark-up will be charged on outstanding balance if payments are made as per agreed schedule. In case of default, interest will be charged at the rate of 20 percent per annum on overdue / defaulted payments. During the year ended 30 June 2008 as per sanction letter dated 20 March 2008 the bank allowed temporary relief to pay monthly installments of Rupees 1.035 million instead of Rupees 2.070 million from January 2008 to June 2008.

6.8 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. According to rescheduling arrangement, dated 29 March 2007, the principal amount was repayable in 16 quarterly installments commenced from 30 December 2007. During the year ended 30 June 2008 this finance was rescheduled again to start the repayment from 30 December 2008. As per latest rescheduling arrangements of year ended 30 June 2009 this finance is payable in 31 quarterly installments commenced from 30 June 2009. 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 repayment of mark up for the period from May 2009 to June 2011 has been deferred and it will be paid in 10 equal quarterly installments commencing from 31 March 2017. Mark up for the period from July 2011 to December 2016 will be paid in quarterly installments commencing from 30 September 2011. It carries mark up at the rate of three months KIBOR.

6.9 This represents accrued mark up deferred by the bank on the long term finance facility explained in note 6.8.

	(RUPEES IN THOUSAND)	
	2010	**2009**
7. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE		
Minimum lease payments	4,506	23,888
Less: Unamortized finance charges	303	3,501
Present value of minimum lease payments (Note 7.2)	4,203	20,387
Less: Current portion shown under current liabilities (Note 11)	4,203	11,034
	-	9,353

7.1 The minimum lease payments are discounted at an implicit interest rate of 6 months KIBOR plus 3 percent per annum (2009: 6 months KIBOR plus 3 percent to 4.5 percent per annum). Rentals are payable in quarterly installments and in case of default, an additional charge at the rate of 2.1 percent per month on outstanding amount shall be payable. Taxes, repairs and insurance costs are borne by the Company. The Company shall have no right to terminate lease agreement. The lease agreement carries renewal and purchase option at the end of lease term. Lease liability is secured against deposit of Rupees 1.110 million (2009: 2.646 million) included in short term security deposits.

7.2 Minimum lease payments and their present values are regrouped as under:

(RUPEES IN THOUSAND)

	2010		2009	
	Not later than one year	Later than one year but not later than five year	Not later than one year	Later than one year but not later than five year
Minimum lease payments	4,506	-	13,989	9,899
Present value of minimum lease payments	4,203	-	11,034	9,353

		2010	2009
		(RUPEES IN THOUSAND)	
8.	**TRADE AND OTHER PAYABLES**		
	Creditors	47,178	143,704
	Accrued liabilities	59,704	33,117
	Advances from customers	1,245	1,012
	Retention money	20	-
	Payable to provident fund trust	448	333
	Income tax deducted at source	865	183
	Unclaimed dividend	683	683
	Security deposits	1,730	1,730
	Workers' profit participation fund	7,253	-
	Workers' welfare fund	2,756	-
		121,882	180,762
9.	**ACCRUED MARK-UP**		
	Long term financing	29,147	27,718
	Short term borrowings	7,128	15,131
	Liabilities against assets subject to finance lease	66	1,007
		36,341	43,856
	Less: Accrued mark up deferred by the bank (Note 6)	23,520	13,966
		12,821	29,890
10.	**SHORT TERM BORROWINGS - SECURED**		
	From Banking Companies		
	Export finance – preshipment (Note 10.1 and 10.2)	70,903	72,505
	Others (Note 10.1 and 10.3)	121,208	75,574
		192,111	148,079

10.1 These borrowings are secured against pledge / hypothecation of raw materials, work-in-process, finished goods, stores, lien on export documents, charge on current assets of the Company and personal guarantees of directors.

10.2 These borrowings carry mark up at the rates LIBOR plus 2 percent and 3 month KIBOR plus 2.5 percent per annum (2009: LIBOR plus 2 percent and 3 month KIBOR plus 2.5 percent per annum).

10.3 These borrowings carry mark up at the rates 3 month KIBOR plus 2.5 percent and 6 month KIBOR plus 1.5 percent per annum with floor of 13.5% (2009: 3 month KIBOR plus 2.5 percent and 6 month KIBOR plus 1.5 percent per annum).

11. CURRENT PORTION OF NON-CURRENT LIABILITIES

	2010	2009
Long term financing (Note 6)	96,377	103,067
Liabilities against assets subject to finance lease (Note 7)	4,203	11,034
	100,580	114,101

12. CONTINGENCIES AND COMMITMENTS

Contingencies

12.1 The Company is contingently liable for Rupees 4.161 million (2009: Rupees 4.161 million) on account of custom duty on humidification plant and excise duty on yarn.

12.2 The Company has issued counter-guarantee of Rupees 16.172 million (2009: Rupees 14.129 million) in favour of the bank for issuing letters of guarantee favouring Sui Northern Gas Pipelines Limited for gas connection.

12.3 Sales tax recoverable includes an amount of Rupees 2.257 million (2009: Rupees 3.090 million) deferred by sales tax department against which the Company has filed appeals to the Sales Tax Collectorate, Faisalabad.

Commitments

12.4 Letters of credit for other than capital expenditure are Rupees 74.587 million (2009: Rupees 0.535 million).

	(RUPEES IN THOUSAND) 2010	2009
13. PROPERTY, PLANT AND EQUIPMENT		
Operating assets (Note 13.1)	997,364	1,042,697
Capital work in progress - Building	245	-
	997,609	1,042,697

13.1 Operating Assets

(RUPEES IN THOUSAND)

	OWNED								LEASED	
	Freehold land	Buildings on freehold land	Plant and machinery	Electrical installations	Vehicles	Furniture and Fixtures	Office and other equipment	Factory equipment	Plant and machinery	TOTAL
At 01 July 2008										
Cost / revalued amount	518,600	163,958	1,159,566	10,723	10,859	2,875	1,844	2,952	26,461	1,897,838
Accumulated depreciation	-	(66,128)	(718,872)	(4,132)	(5,662)	(1,644)	(926)	(1,453)	(4,527)	(803,344)
Net book value	518,600	97,830	440,694	6,591	5,197	1,231	918	1,499	21,934	1,094,494
Year ended 30 June 2009										
Opening net book value	518,600	97,830	440,694	6,591	5,197	1,231	918	1,499	21,934	1,094,494
Additions	-	-	1,504	-	-	21	-	-	-	1,525
Depreciation charge	-	(4,890)	(44,175)	(659)	(1,039)	(124)	(92)	(150)	(2,193)	(53,322)
Closing net book value	518,600	92,940	398,023	5,932	4,158	1,128	826	1,349	19,741	1,042,697
At 30 June 2009										
Cost / revalued amount	518,600	163,958	1,161,070	10,723	10,859	2,896	1,844	2,952	26,461	1,899,363
Accumulated depreciation	-	(71,018)	(763,047)	(4,791)	(6,701)	(1,768)	(1,018)	(1,603)	(6,720)	(856,666)
Net book value	518,600	92,940	398,023	5,932	4,158	1,128	826	1,349	19,741	1,042,697
Year ended 30 June 2010										
Opening net book value	518,600	92,940	398,023	5,932	4,158	1,128	826	1,349	19,741	1,042,697
Additions	-	769	2,350	-	3,157	33	68	-	-	6,377
Transfer:										
Cost	-	-	15,361	-	-	-	-	-	(15,361)	-
Accumulated depreciation	-	-	(4,718)	-	-	-	-	-	4,718	-
	-	-	10,643	-	-	-	-	-	(10,643)	-
Disposals:										
Cost / Revalued amount	-	-	(16,843)	-	(2,686)	-	-	-	-	(19,529)
Accumulated depreciation	-	-	14,245	-	1,851	-	-	-	-	16,096
	-	-	(2,598)	-	(835)	-	-	-	-	(3,433)
Depreciation charge	-	(4,654)	(39,909)	(593)	(911)	(113)	(86)	(135)	(1,876)	(48,277)
Closing net book value	518,600	89,055	368,509	5,339	5,569	1,048	808	1,214	7,222	997,364
At 30 June 2010										
Cost / revalued amount	518,600	164,727	1,161,938	10,723	11,330	2,929	1,912	2,952	11,100	1,886,211
Accumulated depreciation	-	(75,672)	(793,429)	(5,384)	(5,761)	(1,881)	(1,104)	(1,738)	(3,878)	(888,847)
Net book value	518,600	89,055	368,509	5,339	5,569	1,048	808	1,214	7,222	997,364
Annual rate of depreciation (%)	-	5	10	10	20	10	10	10	10	

13.2 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 31 December 2007 was carried out only for freehold land by Messrs Masud Associates, the approved valuers. Had there been no revaluation, the value of the assets would have been lower by Rupees 619.587 million (2009: Rupees 631.084 million).

13.3 The book value of land, buildings on freehold land and plant and machinery on cost basis is Rupees 14.016 million, Rupees 59.682 million and Rupees 282.879 million respectively (2009: Rupees 14.016 million, Rupees 62.022 million and Rupees 302.441 million respectively).

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

	(RUPEES IN THOUSAND) 2010	2009
Cost of sales (Note 24)	46,692	51,567
Distribution cost (Note 25)	70	87
Administrative expenses (Note 26)	1,515	1,668
	48,277	53,322

13.5 Detail of operating assets disposed of during the year is as follows:

(RUPEES IN THOUSAND)

DESCRIPTION	QTY.	COST/ REVALUED AMOUNT	ACCUMULATED DEPRECIATION	NET BOOK VALUE	SALE PROCEED	MODE OF DISPOSAL	PARTICULARS OF PURCHASERS
Plant and Machinery							
Ring Frame	8	14,693	12,428	2,265	1,630	Negotiation	Mr. Azmat Hayat, Faisalabad
Cone Winding Machine	3	2,100	1,775	325	684	Negotiation	Mr. Muhammad Yaseen, Faisalabad
Waste Opener Machine	1	50	42	8	25	Negotiation	Mr. Muhammad Riaz, Lahore
		16,843	14,245	2,598	2,339		
Vehicle							
Toyota Land Cruiser JAA-624	1	478	245	233	251	Negotiation	Mr. Salman Aziz Khan, Sargodha
Honda Civic LRM-9515	1	1,253	1,030	223	815	Negotiation	Mr. Asif Ali Chaudhry, Cantt Lahore
Honda Civic LWG-5937	1	955	576	379	850	Negotiation	Mr. Asif Ali Chaudhry, Cantt Lahore
		2,686	1,851	835	1,916		
		19,529	16,096	3,433	4,255		

	(RUPEES IN THOUSAND) 2010	2009

14. LONG TERM INVESTMENTS

	2010	2009
Available for Sale		
Quoted		
Sajjad Textile Mills Limited		
344,900 (2009: 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: Surplus on revaluation of investment	69	-
	259	190

15. DEFERRED TAX

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

	2010	2009
Accelerated tax depreciation	(41,089)	(54,557)
Surplus on revaluation of property, plant and equipment	(40,251)	(44,275)
Finance lease	(529)	-
	(81,869)	(98,832)
Finance lease	-	150
Accumulated tax losses	154,943	179,459
Minimum tax available for carry forward	19,404	19,503
	92,478	100,280
Less: Deferred tax asset not recognized	92,478	100,280
	-	-

15.1 The net deferred income tax asset of Rupees 92.478 million (2009: 100.280 million) has not been recognized in these financial statements as the temporary differences are not expected to reverse in foreseeable future because taxable profits will not be probably available against which the temporary differences can be utilized.

16. STORES AND SPARE PARTS

	2010	2009
Stores	4,736	2,290
Spare parts	18,715	19,182
	23,451	21,472

17. STOCK IN TRADE

	2010	2009
Raw materials	53,681	39,806
Work-in-process (Note 17.1)	18,008	9,632
Finished goods (Note 17.1 and 17.2)	111,977	56,976
Waste	1,814	910
	185,480	107,324

17.1 This includes work in process and finished goods of Rupees Nil (2009: Rupees 3.411 million) valued at net realizable value.

17.2 This includes stock of Rupees 3.363 million (30 June 2009: Nil) held with third party H. M. Ibrahim.

	(RUPEES IN THOUSAND) 2010	2009
18. TRADE DEBTS		
Considered good:		
Secured - against letters of credit	4,456	11,565
Unsecured - local	48,552	3,888
	53,008	15,453

As at 30 June 2010, trade debts of Rupees 1.620 million (2009 : Rupees 3.662 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:

	2010	2009
Upto 1 month	135	-
1 to 6 months	80	2,228
More than 6 months	1,405	1,434
	1,620	3,662

19. LOANS AND ADVANCES

	2010	2009
Considered good		
Employees – interest free	-	8
Suppliers	11,424	54
Against expenses	52	25
Letters of credit	19,470	61
Others	1,494	-
	32,440	148

20. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS

	2010	2009
Deposits		
Excise duty	-	444
Security deposit	1,110	-
Others	155	745
Prepayments	697	390
	1,962	1,579

21. OTHER RECEIVABLES

	2010	2009
Sales tax	12,111	14,538
Advance income tax	16,531	10,088
Miscellaneous	609	513
	29,251	25,139

22. CASH AND BANK BALANCES

	2010	2009
Cash in hand	277	12
Cash with banks:		
Current accounts	3,170	2,437
Term deposit accounts (Note 22.1)	21	40
	3,191	2,477
	3,468	2,489

22.1 Rate of profit on term deposit accounts ranges from 1.74% to 5.03% (2009: 1.78% to 4.93%) per annum.

	(RUPEES IN THOUSAND) 2010	2009
23. SALES		
Export	985,310	485,053
Local	907,161	896,084
Waste	35,670	20,968
	1,928,141	1,402,105

24. COST OF SALES

	2010	2009
Raw materials consumed (Note 24.1)	1,282,084	1,015,636
Salaries, wages and other benefits (Note 24.2)	117,806	101,546
Processing and weaving charges	-	168
Packing materials consumed	29,309	26,112
Stores and spare parts (Note 24.3)	38,276	28,943
Fuel and power	178,868	130,857
Repair and maintenance	3,758	3,690
Insurance	4,264	5,109
Other factory overheads	1,755	1,229
Depreciation (Note 13.4)	46,692	51,567
	1,702,812	1,364,857
Work-in-process inventory		
Opening stock	9,632	15,253
Closing stock	(18,008)	(9,632)
	(8,376)	5,621
Cost of goods manufactured	1,694,436	1,370,478
Finished goods inventory		
Opening stock	57,886	73,736
Closing stock	(113,791)	(57,886)
	(55,905)	15,850
	1,638,531	1,386,328

24.1 RAW MATERIALS CONSUMED

	2010	2009
Opening stock	39,806	102,639
Add: Purchases (Note 24.1.1)	1,295,959	952,803
	1,335,765	1,055,442
Less: Closing Stock	53,681	39,806
	1,282,084	1,015,636

24.1.1 This includes purchase of Rupees 1.488 million (2009: Rupees NIL) from Shadab Textile Mills Limited - an associated Company.

24.2 Salaries, wages and other benefits include Rupees 1.915 million (2009: Rupees 2.002 million) in respect of contributions towards provident fund.

24.3 This includes stores and spare parts of Rupees 0.570 million (2009: Rupees NIL) purchased from Shadab Textile Mills Limited - an associated Company.

25. DISTRIBUTION COST

	(RUPEES IN THOUSAND) 2010	2009
Commission to selling agents	28,352	19,221
Salaries and other benefits (Note 25.1)	1,153	1,265
Freight and handling – local	2,639	2,211
Freight and forwarding – export	25,752	12,397
Depreciation (Note 13.4)	70	87
	57,966	35,181

25.1 Salaries and other benefits include Rupees 0.0436 million (2009: Rupees 0.0480 million) in respect of contributions towards provident fund.

26. ADMINISTRATIVE EXPENSES

	2010	2009
Salaries, and other benefits (Note 26.1)	15,474	14,041
Traveling and conveyance	342	318
Rent, rates and taxes	601	1,053
Printing and stationery	637	560
Communication	817	768
Electricity and sui gas	1,655	1,603
Vehicles’ running	2,068	1,735
Insurance	616	600
Fee and subscription	473	502
Entertainment	322	271
Legal and professional	339	505
Auditors’ remuneration (Note 26.2)	598	460
Repair and maintenance	1,352	931
Advertisement	65	121
Miscellaneous	22	34
Depreciation (Note 13.4)	1,515	1,668
	26,896	25,170

26.1 Salaries and other benefits include Rupees 0.360 million (2009: Rupees 0.364 million) in respect of contributions towards provident fund.

26.2 AUDITORS' REMUNERATION

	2010	2009
Annual audit fee	500	375
Half yearly review fee	35	25
Reimbursable expenses	13	10
Other certification fee	50	50
	598	460

27. OTHER OPERATING EXPENSES

	2010	2009
Impairment loss on long term investment (Note 14)	-	3,259
Excise duty written off	444	-
Exchange loss	223	-
Workers' profit participation fund	7,253	-
Workers' welfare fund	2,756	-
	10,676	3,259

		2010	2009
		(RUPEES IN THOUSAND)	
28.	**OTHER OPERATING INCOME**		
	From Financial Assets		
	Credit balances written back	377	189
	Fair value adjustment on long term financing	16,837	-
	From Non-Financial Assets		
	Sale of scrap	231	140
	Gain on sale of fixed assets	1,231	-
	Miscellaneous	2	-
		18,678	329
29.	**FINANCE COST**		
	Interest on employees provident fund trust	222	231
	Mark-up on:		
	Long term financing	23,041	36,615
	Liabilities against assets subject to finance lease	1,853	3,428
	Short term borrowings	45,010	32,931
	Bank and other charges	7,568	2,914
		77,694	76,119
30.	**PROVISION FOR TAXATION**		
	Current:		
	- For the year (Note 30.1)	15,069	4,983
	- Prior year adjustment	(26)	3
		15,043	4,986

30.1 Provision for current income tax represents final tax on export sales under section 169, minimum tax on local sales under section 113 and tax on income from other sources under respective section of the Income Tax Ordinance, 2001. As the Company has carry forwardable tax losses of Rupees 442.694 million (2009: Rupees 512.740 million), therefore, it is impracticable to prepare the tax charge reconciliation for the years presented.

31. REMUNERATION TO CHIEF EXECUTIVE OFFICER AND EXECUTIVES

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

(RUPEES IN THOUSAND)

DESCRIPTION	2010		2009	
	Chief Executive	Executive	Chief Executive	Executive
Managerial remuneration	636	1,659	636	1,505
Housing	286	641	259	671
Utility allowance	73	82	65	74
Medical	65	164	-	60
Contribution to employees' provident fund trust	-	103	-	93
	1060	2,649	960	2,403
Number of persons	1	2	1	2

31.1 Chief Executive and certain executives are provided with free maintained vehicles.

31.2 No meeting fee was paid to directors during the year under reference (2009: Rupees Nil).

32. 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)	
	2010	**2009**
Post Employment Benefits		
Expense charged in respect of retirement benefit plan	2,318	2,414

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

There is no dilutive effect on the basic earnings per share, which is based on

Profit / (Loss) attributable to ordinary shareholders (Rupees in thousand)		120,013	(128,609)
Weighted average number of ordinary shares	(Numbers)	31 200 000	31 200 000
Earnings / (Loss) per share-Basic	(Rupees)	3.85	(4.12)

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 minimise 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 / payable from / to the foreign entities. 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:

	2010	2009
Trade debts - USD	52,180	142,602
Short term finances - USD	711,484	653,748
Net exposure - USD	(659,304)	(511,146)

The following significant exchange rates were applied during the year:

Rupees per US Dollar		
Average rate	84.27	77.35
Reporting date rate	85.60	81.10

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 2.629 million lower / higher (2009: Impact on loss after taxation would have been Rupees 2.078 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 significant long-term interest-bearing assets. 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)	
	2010	**2009**
Fixed rate instruments		
Financial liabilities		
Long term financing	117,689	92,755
Floating rate instrument		
Financial asset		
Bank balances- term deposit accounts	21	40
Financial liabilities		
Long term financing	141,386	149,680
Liabilities against assets subject to finance lease	4,203	20,387
Short term borrowings	192,111	148,079

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 3.144 million lower / higher (2009: Impact on loss after taxation would have been Rupees 3.159 million higher / lower) mainly as a result of higher / lower interest expense on floating rate borrowings. This analysis is prepared assuming the amounts of liabilities 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 / (loss) 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	Impact on profit / (loss) after taxation		Impact on other components of equity (fair value reserve)		
	2010	2009		2010	2009
KSE 100 (5% increase) - decrease in loss	-	9	Increase in fair value reserve	13	-
KSE 100 (5% decrease) -increase in loss	-	9	Increase in fair value reserve	13	-

Equity (fair value reserve) would increase / decrease as a result of gains / losses on equity investments 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:

	2010	2009
	(RUPEES IN THOUSAND)	
Long term investments	259	190
Long term security deposit	3,365	5,807
Trade debts	53,008	15,453
Loans and advances	-	8
Short term deposits	155	1,189
Other receivables	609	513
Bank balances	3,191	2,477
	60,587	25,637

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	2010	2009
Banks					
National Bank of Pakistan	A-1+	AAA	JCR-VIS	1,703	29
Allied Bank Limited	A1+	AA	PACRA	9	20
Askari Bank Limited	A1+	AA	PACRA	16	19
Bank Alfalah Limited	A1+	AA	PACRA	1,320	2,264
Habib Bank Limited	A-1+	AA+	JCR-VIS	51	41
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	51	23
MCB Bank Limited	A1+	AA+	PACRA	-	-
NIB Bank Limited	A1+	AA -	PACRA	21	40
Silkbank Limited	A-3	A -	JCR-VIS	-	3
Standard Chartered Bank (Pakistan) Limited	A1+	AAA	PACRA	6	18
United Bank Limited	A-1+	AA+	JCR-VIS	2	3
Soneri Bank Limited	A1+	AA -	PACRA	12	17
				3,191	2,477

The Company's exposure to credit risk and impairment losses, if any related to trade debts is disclosed in Note 18.

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 2010, the Company had Rupees 427.889 million (2009: Rupees 175.5 million) available borrowing limits from financial institutions and Rupees 3.468 million (2009: Rupees 2.489 million) cash and bank balances. Inspite the fact that the Company is in a negative working capital position at the year end, management believes 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 2010

(RUPEES IN THOUSAND)

	Carrying Amount	Contractual cash flows	6 Month or less	6-12 month	1-2 Year	More than 2 Years
Sponsor's advance	30,644	30,644	-	-	-	30,644
Long term financing	282,595	330,516	57,596	40,484	65,807	166,629
Liabilities against assets subject to finance lease	4,203	4,441	1,632	2,809	-	-
Trade and other payables	109,316	109,316	109,316	-	-	-
Accrued mark-up	12,821	12,821	12,821	-	-	-
Short term borrowings	192,111	203,015	203,015	-	-	-
	631,690	690,753	384,380	43,293	65,807	197,273

Contractual maturities of financial liabilities as at 30 June 2009

(RUPEES IN THOUSAND)

	Carrying Amount	Contractual cash flows	6 Month or less	6-12 month	1-2 Year	More than 2 Years
Sponsor's advance	30,644	30,644	-	-	-	30,644
Long term financing	256,401	344,032	88,170	39,137	34,423	182,302
Liabilities against assets subject to finance lease	20,387	22,881	7,415	5,567	9,899	-
Trade and other payables	179,234	179,234	179,234	-	-	-
Accrued mark-up	29,890	29,890	29,890	-	-	-
Short term borrowings	148,079	153,048	151,227	1,821	-	-
	664,635	759,729	455,936	46,525	44,322	212,946

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 note 7 and note 10 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 2010				
Assets				
Available for sale financial assets	259	-	-	259
As at 30 June 2009				
Assets				
Available for sale financial assets	190	-	-	190

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 maximise 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 2010

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 2010. The carrying amount less impairment provisin of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discountng the future contractual cash flows at the current market interest rate that is available to the Company for similer financial instruments.

34.3 Financial instruments by categories

(RUPEES IN THOUSAND)

	Loans and receivables	Available for sale	Total
As at 30 June 2010			
Assets as per balance sheet			
Investments	-	259	259
Long term security deposit	3,365	-	3,365
Trade debts	53,008	-	53,008
Short term deposits	155	-	155
Other receivables	609	-	609
Cash and bank balances	3,468	-	3,468
	60,605	259	60,864

(RUPEES IN THOUSAND)

	Financial liabilities at amortized cost
Liabilities as per balance sheet	
Sponsors' advance	30,644
Long term financing	259,075
Liabilities against assets subject to finance lease	4,203
Trade and other payables	109,316
Accrued mark-up	12,821
Short term borrowings	192,111
	608,170

(RUPEES IN THOUSAND)

	Loans and receivables	Available for sale	Total
As at 30 June 2009			
Assets as per balance sheet			
Investments	-	190	190
Long term security deposit	5,807	-	5,807
Trade debts	15,453	-	15,453
Loans and advances	8	-	8
Short term deposits	1,189	-	1,189
Other receivables	513	-	513
Cash and bank balances	2,489	-	2,489
	25,459	190	25,649

	(RUPEES IN THOUSAND) Financial liabilities at amortized cost
Liabilities as per balance sheet	
Sponsors' advance	30,644
Long term financing	256,401
Liabilities against assets subject to finance lease	20,387
Trade and other payables	179,234
Accrued mark-up	29,890
Short term borrowings	148,079
	664,635

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.

36. PLANT CAPACITY AND ACTUAL PRODUCTION

	(Kilograms in thousand) 2010	2009
Production at normal capacity converted to 20s count based on 3 shifts per day.	19,328	21,528
Actual production converted to 20s count based on 3 shifts per day	14,959	16,364

36.1 Reason for low production

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

37. EVENTS AFTER THE REPORTING PERIOD

The Board of Directors of the Company has proposed a cash dividend for the year ended 30 June 2010 of Rupees 0.5 per share (2009: Nil) at their meeting held on 05 October 2010.

38. DATE OF AUTHORISATION

These financial statements have been approved by the Board of Directors of the Company and authorized for issue on 05 October 2010.

39. 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.

40. GENERAL

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

(Mian Farrukh Naseem)
Chief Executive Officer

(Mian Aamir Naseem)
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 2010

4.

No. of Shareholders	Shareholdings From		To	Total shares held
164	1	-	100	15242
2452	101	-	500	1173709
113	501	-	1000	109698
148	1001	-	5000	394684
25	5001	-	10000	201524
20	10001	-	15000	251179
5	15001	-	20000	92348
7	20001	-	25000	157554
1	25001	-	30000	27327
4	30001	-	35000	130400
4	40001	-	45000	171000
1	55001	-	60000	55994
3	60001	-	65000	191000
1	65001	-	70000	65300
2	75001	-	80000	152500
2	120001	-	125000	247500
3	150001	-	155000	462858
1	170001	-	175000	171600
1	180001	--	185000	181500
1	190001	-	195000	195000
2	200001	-	205000	407525
1	295001	-	300000	297500
1	460001	-	465000	460212
1	480001	-	485000	481139
1	585001	-	590000	588202
1	720001	-	725000	723000
3	730001	-	735000	2198908
1	840001	-	845000	842200
1	920001	-	925000	921635
1	1505001	-	1510000	1505525
2	1730001	-	1735000	3460526
1	1880001	-	1885000	1882425
1	1910001	-	1915000	1913225
1	2695001	-	2700000	2698319
1	4135001	-	4140000	4136671
1	4235001	-	4240000	4235071
2978				**31200000**

5.	Categories of shareholders	Shares Held	Percentage
5.1	Directors, Chief Executive Officer, and their spouse and minor children.	10.294,167	32.9941
5.2	Associated Companies, undertakings and related parties.	500	0.0016
5.3	NIT and ICP	603,849	1.9354
5.4	Banks, Development Financial Institutions, Non-Banking Financial Institutions.	91,494	0.2933
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	19,977,668	64.0310
	b. Foreign	-	-
5.9	Others (to be specified)		
	1. Joint Stock Companies	232,322	0.7446
	2. Investment Companies	-	0.0000

6.	Signature of Company Secretary	
7.	Name of Signatory	Mr. Mazhar Hussain
8.	Designation	Company Secretary
9.	NIC Number	_____ – _______ – _
10.	Date	30-06-2010

DETAILS OF CATEGORIES OF SHAREHOLDERS UNDER C.C.G. AS AT JUNE 30, 2010

DIRECTORS, CEO THEIR SPOUSE AND MINOR CHILDREN

S. No.	Name	Shareholding	%age
1.	Mian Shahzad Aslam	1,913,225	6.1321
2.	Mian Farrukh Naseem	4,136,671	13.2586
3.	Mian Aamir Naseem	4,235,071	13.5739
4.	Mrs. Hin Farrukh	7,200,	0.0231
5.	Syed Arif Hussain	1,000	0.0032
6.	Mr. Irfan Qamar	500	0.0016
7.	Mr. Shahid Mahmud	500	0.0016
		10,294,167	32.9941
	ASSOCIATED COMPANIES		
1.	Husein Sugar Mills Limited	500	0.0016
		500	0.0016
	NIT & ICP		
1.	Investment Bank of Pakistan	500	0.0016
2.	National Investment Trust Limited (CDC)	15,147	0.0485
3.	National Bank of Pakistan, Trustee Deptt. (CDC)	588,202	1.8853
		603,849	1.9354
	FINANCIAL INSTITUTION		
1.	National Bank of Pakistan. (CDC)	55,994	0.1795
2.	Escorts Investment Bank Limited (CDC)	1,000	0.0032
3.	Pakistan Industrial Credit & Investment Corporation Limited	34,500	0.1106
		91,494	0.2933
	JOINT STOK COMPANIES		
1.	H.M. Investment (Pvt) Limited (CDC)	600	0.0019
2.	A.H.K.D Securities (Pvt) Ltd. (CDC)	21	0.0001
3.	Adeel & Nadeem Securities (Pvt) Ltd. (CDC)	800	0.0026
4.	Adam Lubricants (Pvt) Limited	2,000	0.0064
5.	Al-Haq Securities (Pvt) Ltd. (CDC)	500	0.0016
6.	Durvesh Securities (Pvt) Ltd. (CDC)	500	0.0016
7.	Fateh Textile Mills Limited (CDC)	500	0.0016
8.	Ismail Abdul Shakoor Securities (Pvt) Ltd. (CDC)	3,000	0.0096
9.	Jamshaid & Hassan Scurities (Pvt) Ltd. (CDC)	900	0.0029
10.	KSR Stock Brokerage (Pvt) Ltd. (CDC)	10,000	0.0321
11.	Maniar Financials (Pvt) Ltd. (CDC)	4,500	0.0144
12.	Salim Sozer Securities (Pvt) Ltd. (CDC)	125,000	0.4006
13.	Sargodha Jute Mills Limited (CDC)	30,800	0.0987
14.	Y.S. Securities & Services (Pvt) Ltd. (CDC)	4,700	0.0151
15.	Stock Master Securities (Pvt) Ltd. (CDC)	6,501	0.0208
16.	Shahzad Textile Mills Limited. (CDC)	42,000	0.1346
		232,322	0.7446
	SHARES HELD BY THE GENERAL PUBLIC	19,977,668	64.0310
		31,200,000	100.0000
	SHAREHOLDERS HOLDING 10% OR MORE OF TOTAL CAPITAL		
1.	Mian Farrukh Naseem	4,136,671	13.2586
2.	Mian Aamir Naseem	4,235,071	13.5739
		8,371,742	26.8325

During the financial years the trading in shares of the Company by the Directors, CEO, CFO, Company Secretary and their spouses and minor children is as follows.

S. No.	Name	Purchase	Sale
1.	Mian Farrukh Naseem	273,371	-
2.	Mian Aamir Naseem	273,371	-

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 24th Annual General Meeting of the Company to be held on Saturday, October 30, 2010 at 10:00 a.m. and at any adjournment thereof.

As witness my / our hand (s) this ______________ day of ______________ 2010

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.