Annual Report 2011

Sargodha Spinning Mills Limited

CONTENTS

COMPANY INFORMATION

BOARD OF DIRECTORS	Mian Farrukh Naseem	**Chairman/Chief Executive**
	Mian Aamir Naseem	
	Mian Shahzad Aslam	
	Mr. Saad Naseem	
	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 25th Annual General Meeting of the Shareholders of SARGODHA SPINNING MILLS LIMITED will be held on Monday, October 31, 2011 at 10:30 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 the Annual General Meeting held on October 30, 2010.
2. To receive, consider and adopt the Audited Accounts for the year ended June 30, 2011 together with Directors' and Auditors' Reports thereon.
3. To appoint auditors for the year 2011-2012 and fix their remuneration.
4. To transact any other business of the Company with the permission of the Chair.

By order of the Board

LAHORE: October 05, 2011.

(Mazhar Hussain)
Company Secretary

NOTES:

1. The Share Transfer Books of the Company will remain closed from October 25, 2011 to October 31, 2011 (both days inclusive). Transfers received at Corplink (Pvt) Limited, Wings Arcade, I-K, Commercial, Model Town, Lahore, the Registrar and Shares Transfer Office of the Company by the close of business on October 24, 2011 will be treated in time.
2. A member eligible to attend and vote at this meeting may appoint another member as his/her proxy to attend and vote instead of him/her. Proxies in order to be effective must be received by the Company at the Registered Office not less than 48 hours before the time of holding the meeting. A proxy must be a member.
3. Any Individual Beneficial Owner of CDC, entitled to attend and vote at this meeting, must bring his/her original C.N.I.C or Passport to prove his/her identity and in case of Proxy must enclose an attested copy of his/her C.N.I.C or Passport. Representative of corporate members should bring the usual documents required for such purposes.
4. Shareholders are requested to immediately notify the change of address, if any to Share Registrar of the Company.

DIRECTORS' REPORT

Dear Shareholders,

The Directors of the Company welcome you to the 25th Annual General Meeting and pleased to present the Annual Report together with Audited Accounts of the Company for the year ended June 30, 2011.

Financial Results

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

	(RUPEES IN THOUSAND) June 30 2011	June 30 2010
Sales	3,499,736	1,928,141
Cost of Sales	(3,243,996)	(1,638,531)
Gross Profit	255,740	289,610
Distribution Cost	(90,343)	(57,966)
Administrative Expenses	(35,538)	(26,896)
Other Operating Expenses	(4,848)	(10,676)
	(130,729)	(95,538)
	125,011	194,072
Other Operating Income	17,664	18,678
Profit From Operations	142,675	212,750
Finance Cost	(96,357)	(77,694)
Profit Before Taxation	46,318	135,056
Provision For Taxation	(31,290)	(15,043)
Profit After Taxation	15,028	120,013
Earning Per Share -Basic and Diluted (Rupees)	0.48	3.85

During the year under review, the company earned profit after tax Rs. 15.028 million as compared to previous year profit after tax Rs. 120.013 million. Sales were made amounting to Rs. 3499.736 million including export sales of Rs. 1841.598 million representing an increase of 81.51% against previous year sales. Earning per share is Rs. 0.48 as compared to Rs.3.85 of previous year.

During the year, the local as well as international prices of cotton were at its peak in March i.e. Rs.14,000/- per maund. These prices were historically high and have never been seen before. The company achieved better financial results in the first three quarters but during the last quarter i.e. April 2011 to June 2011 cotton prices fell so sharply that the profit made during the first 9 months was almost wiped out. The demand of yarn in export markets, especially in China decreased due to higher cost and reduction in demand of their products in the world market. The local market also became depressed and prices of yarn have reduced drastically resultantly sale has not absorbed the prices of raw material and conversion cost. In the last quarter of the year the production process remain closed partially / laid off.

The carrying value of stock in trade at average cost as of June 30, 2011 was higher than the prices of yarn sold and the replacement cost of the raw cotton purchased subsequent to the year end, your company was required to perform Net Realizable Value (NRV) test as per the company's policy which is to measure inventory at lower of cost and NRV. This policy is as per the International Accounting Standard 2 "Inventories" which is a part of the approved accounting standards as applicable in Pakistan, the accounting framework of the company. As a result of the performing NRV test, the aggregate amount of write-down of inventories to net realizable value recognized in these financial statements during the year is Rs. 29.670 million.

Future Prospects

Frequent power break downs and long hours load shedding by wapda and continuous curtailment of gas supply are the major factors affecting the productivity of the company. In the previous years gas was not supplied to the industrial sectors during winter but unfortunately this year we are facing severe shortage of gas during summer on weekly basis. In this situation, the production process during the current year remain closed partially / laid off and we are unable to meet the fixed, variable and other costs, resulting the company is suffering cash loss. Without continuous supply of energy, full capacity utilization is not possible.

Higher interest rates prevailing in the country are also hampering the industry alongwith inflationary pressures and all factors like energy cost, wages, salaries, spare parts, packing material and many other things. Market conditions are totally unfavourable. Despite the reduction in prices of yarn, the major portion of production is accumulating gradually. All the factors mentioned above are affecting the company results adversely.

Dividend

The directors have not recommended any dividend for the year ended June 30, 2011 due to tight liquidity position.

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 in preparation of 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 30-06-2011 was Rs. 9.500 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 Form – 34 i.e. Mian Aamir Naseem Director of the Company has gifted 246,871 Shares to Mian Farrukh Naseem Director of the Company

Board of Directors Meetings

During the year, five meetings of the Board of Director were held, Attendance of these meetings 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	Syed Arif Hussain	5
6	Mr. Irfan Qammar	5
7	Mr. Shahid Mahmud	5
8	Mr. Saad Naseem**	4

*Ceased to be Director on August 24, 2010.
**Appointed Director in place of Mrs. Hina Farrukh on August 24, 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 them for re-appointment. The audit committee of the board has recommended the re-appointment of M/s Riaz Ahmad & Company, Chartered Accountants, as external auditors of the Company for the year 2011-2012.

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, 2011.

(MIAN FARRUKH NASEEM)
Chairman/Chief Executive

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in 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 five 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 one casual vacancy occurred on the Board 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 director' 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, 2011.

(MIAN FARRUKH NASEEM)
Chairman/Chief Executive

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **SARGODHA SPINNING MILLS LIMITED** ("the Company") for the year ended 30 June 2011, to comply with the Listing Regulations of the respective Stock Exchanges, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the statement of compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the company to comply with the code.

As part of our audit of financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Listing Regulations of the Karachi and Lahore Stock Exchanges require the company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at 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 transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

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 2011.

RIAZ AHMAD & COMPANY
Chartered Accountants

Name of engagement partner:
Syed Mustafa Ali

LAHORE: October 05, 2011

SIX YEARS' FINANCIAL DATA AT A GLANCE

(RUPEES IN THOUSAND)

PARTICULARS	2011	2010	2009	2008	2007	2006
ASSETS EMPLOYED						
Operating Fixed Assets	1,083,044	990,142	1,022,956	1,072,560	796,837	781,752
Capital Work in Progress	-	245	-	-	-	6,124
Assets subject to Finance Lease	-	7,222	19,741	21,934	24,371	11,007
Long Term Investments	310	259	190	529	850	540
Long Term Security Deposits	3,365	3,365	5,807	5,494	6,275	4,739
Deferred Tax	-	-	-	-	-	-
Current Assets	322,247	329,060	173,604	277,606	265,585	342,213
TOTAL ASSETS EMPLOYED	1,408,966	1,330,293	1,222,298	1,378,123	1,093,918	1,146,375
FINANCED BY						
Share Holder's Equity	97,617	91,621	(35,668)	82,055	132,768	182,907
Surplus on Revaluation of Property, plant & equipment	678,340	579,247	586,720	594,681	275,559	289,062
Sponsor Advance - Interest Free	30,644	30,644	30,644	30,644	30,644	27,694
Long Term Financing	132,022	186,218	139,368	186,609	217,689	234,229
Liabilities Against Assets Subject to Finance Lease	-	-	9,353	18,372	21,144	11,098
Deferred Taxation	-	-	-	-	-	5,126
Current Liabilities	470,343	442,563	491,881	465,762	416,114	396,259
TOTAL EQUITY AND LIABILITIES	1,408,966	1,330,293	1,222,298	1,378,123	1,093,918	1,146,375
PROFIT & LOSS ACCOUNT						
Sales	3,499,736	1,928,141	1,402,105	1,505,524	1,349,123	1,430,953
Cost of Sales	3,243,996	1,638,531	1,386,328	1,437,053	1,309,615	1,280,791
GROSS PROFIT	255,740	289,610	15,777	68,471	39,508	150,162
Administrative Expenses	35,538	26,896	25,170	26,368	27,154	23,889
Distribution Cost	90,343	57,966	35,181	27,529	28,712	28,877
Other Operating Expenses	4,848	10,676	3,259	3,026	7,689	3,531
Other Operating Income	17,664	18,678	329	668	312	2,034
PROFIT / (LOSS) FROM OPERATIONS	142,675	212,750	(47,504)	12,216	(23,735)	95,899
Finance Cost	96,357	77,694	76,119	63,890	72,811	38,618
PROFIT / (LOSS) BEFORE TAXATION	46,318	135,056	(123,623)	(51,674)	(96,546)	57,281
Provision for Taxation	(31,290)	(15,043)	(4,986)	(7,528)	(3,592)	(12,228)
PROFIT / (LOSS) AFTER TAXATION	15,028	120,013	(128,609)	(59,202)	(100,138)	45,053
Effect of Changes in Accounting Policy	-	-	-	-	-	39,665
Final dividend for the year ended 30.06.10	(15,600)	-	-	-	-	-
Transfer From Revaluation Surplus	6,517	7,207	7,961	8,810	10,024	11,119
Surplus on revaluation of investment	51	69	-	-	-	-
PREVIOUS YEAR'S BALANCE B/F	(220,379)	(347,668)	(227,020)	(176,628)	(86,514)	(182,351)
BALANCE CARRIED TO B/S	(214,383)	(220,379)	(347,668)	(227,020)	(176,628)	(86,514)
EARNINGS PER SHARE (Rs.)	0.48	3.85	(4.12)	(1.90)	(3.21)	1.44
Number of Spindles installed	54,432	54,432	54,432	54,432	54,432	53,760
Number of Spindles worked - average	48,937	51,270	51,528	54,432	53,944	50,062
Nubmer of Shifts per Day	3	3	3	3	3	3
Actual Production Converted into 20's Count (Kgs. In million)	15.731	14.959	16.364	22.544	18.655	20.456

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **SARGODHA SPINNING MILLS LIMITED** as at 30 June 2011 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

(a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion:

i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

ii) the expenditure incurred during the year was for the purpose of the Company's business; and

iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 2011 and of the profit, its comprehensive income, its cash flows and changes in equity for the year then ended; and

(d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

RIAZ AHMAD & COMPANY
Chartered Accountants

Name of engagement partner:
Syed Mustafa Ali

LAHORE: October 05, 2011.

BALANCE SHEET AS

	Note	2011	2010
		(RUPEES IN THOUSAND)	
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorized share capital 42,000,000 (2010: 42,000,000) ordinary shares of Rupees 10 each		420,000	420,000
Issued, subscribed and paid up share capital 31,200,000 (2010: 31,200,000) ordinary shares of Rupees 10 each fully paid up in cash	3	312,000	312,000
Capital reserve		120	69
Accumulated loss		(214,503)	(220,448)
Total equity		97,617	91,621
Surplus on revaluation of property, plant and equipment	4	678,340	579,247
LIABILITIES			
NON - CURRENT LIABILITIES			
Sponsors' advances - interest free	5	30,644	30,644
Long term financing - secured	6	132,022	186,218
		162,666	216,862
CURRENT LIABILITIES			
Trade and other payables	7	130,411	121,882
Accrued mark up	8	15,592	12,821
Short term borrowings	9	210,021	192,111
Current portion of non-current liabilities	10	77,714	100,580
Provision for taxation		36,605	15,169
		470,343	442,563
TOTAL LIABILITIES		633,009	659,425
CONTINGENCIES AND COMMITMENTS	11		
TOTAL EQUITY AND LIABILITIES		1,408,966	1,330,293

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

(Mian Farrukh Naseem)
Chief Executive

AT 30 JUNE 2011

	Note	2011	2010
		(RUPEES IN THOUSAND)	
ASSETS			
NON - CURRENT ASSETS			
Property, plant and equipment	12	1,083,044	997,609
Long term investment	13	310	259
Long term security deposits		3,365	3,365
Deferred income tax	14	-	-
		1,086,719	1,001,233
CURRENT ASSETS			
Stores and spare parts	15	29,363	23,451
Stock in trade	16	161,535	185,480
Trade debts	17	75,141	53,008
Loans and advances	18	7,307	32,440
Trade deposits and short term prepayments	19	771	1,962
Other receivables	20	47,685	29,251
Cash and bank balances	21	445	3,468
		322,247	329,060
TOTAL ASSETS		1,408,966	1,330,293

Aamir Naseem

(Mian Aamir Naseem)
Director

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011	2010
		(RUPEES IN THOUSAND)	
SALES	22	3,499,736	1,928,141
COST OF SALES	23	(3,243,996)	(1,638,531)
GROSS PROFIT		255,740	289,610
DISTRIBUTION COST	24	(90,343)	(57,966)
ADMINISTRATIVE EXPENSES	25	(35,538)	(26,896)
OTHER OPERATING EXPENSES	26	(4,848)	(10,676)
		(130,729)	(95,538)
		125,011	194,072
OTHER OPERATING INCOME	27	17,664	18,678
PROFIT FROM OPERATIONS		142,675	212,750
FINANCE COST	28	(96,357)	(77,694)
PROFIT BEFORE TAXATION		46,318	135,056
PROVISION FOR TAXATION	29	(31,290)	(15,043)
PROFIT AFTER TAXATION		15,028	120,013
EARNINGS PER SHARE - BASIC AND DILUTED (RUPEES)	32	0.48	3.85

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

(Mian Farrukh Naseem)
Chief Executive

(Mian Aamir Naseem)
Director

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2011

	(RUPEES IN THOUSAND) 2011	2010
PROFIT AFTER TAXATION	15,028	120,013
OTHER COMPREHENSIVE INCOME		
Surplus arising on re-measurement of available for sale investment to fair value	51	69
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	15,079	120,082

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

(Mian Farrukh Naseem)
Chief Executive

(Mian Aamir Naseem)
Director

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2011

	2011	2010
	(RUPEES IN THOUSAND)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	46,318	135,056
Adjustments for non-cash charges and other items:		
Depreciation	45,726	48,277
Gain on sale of property, plant and equipment	(1,521)	(1,231)
Credit balances written back	(4,368)	(377)
Excise duty written off	-	444
Exchange (gain) / loss	(46)	223
Fair value adjustment on long term financing	(11,729)	(16,837)
Interest expense due to impact of IAS 39	8,894	5,937
Finance cost	87,463	71,757
Cash flows from operating activities before working capital changes	170,737	243,249
(Increase) / decrease in current assets		
Stores and spare parts	(5,912)	(1,979)
Stock in trade	23,945	(78,156)
Trade debts	(22,133)	(37,778)
Loans and advances	25,133	(32,292)
Trade deposits and short term prepayments	1,191	(827)
Other receivables	1,391	2,331
	23,615	(148,701)
Increase / (decrease) in trade and other payables	13,289	(59,184)
Effect on cash flows due to working capital changes	36,904	(207,885)
Cash generated from operations	207,641	35,364
Finance cost paid	(76,096)	(82,272)
Income tax paid	(30,002)	(10,719)
Dividend paid	(15,216)	-
Net cash generated from / (used in) operating activities	86,327	(57,627)

	(RUPEES IN THOUSAND)	
	2011	2010
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure on property, plant and equipment	(24,430)	(6,622)
Long term security deposits	-	2,442
Proceeds from sale of property, plant and equipment	-	4,255
Net cash from / (used in) investing activities	(24,430)	75
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long term financing - secured	(78,620)	(19,625)
Repayment of liabilities against assets subject to finance lease	(4,203)	(18,978)
Short term borrowings - net	17,903	97,134
Net cash from / (used in) financing activities	(64,920)	58,531
Net increase / (decrease) in cash and cash equivalents	(3,023)	979
Cash and cash equivalents at the beginning of the year	3,468	2,489
Cash and cash equivalents at the end of the year	445	3,468

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

(Mian Farrukh Naseem)
Chief Executive

(Mian Aamir Naseem)
Director

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2011

(RUPEES IN THOUSAND)

	SHARE CAPITAL	CAPITAL RESERVE FAIR VALUE RESERVE	ACCUMULATED LOSS	TOTAL EQUITY
Balance as at 30 June 2009	312,000	-	(347,668)	(35,668)
Transfer from surplus on revaluation of property, plant and equipment - net of deferred tax	-	-	7,207	7,207
Total comprehensive income for the year ended 30 June 2010	-	69	120,013	120,082
Balance as at 30 June 2010	312,000	69	(220,448)	91,621
Final dividend for the year ended 30 June 2010 @ Rupee 0.5 per share	-	-	(15,600)	(15,600)
Transfer from surplus on revaluation of property, plant and equipment - net of deferred tax	-	-	6,517	6,517
Total comprehensive income for the year ended 30 June 2011	-	51	15,028	15,079
Balance as at 30 June 2011	312,000	120	(214,503)	97,617

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

(Mian Farrukh Naseem)
Chief Executive

(Mian Aamir Naseem)
Director

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

1. THE COMPANY AND ITS OPERATIONS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation

a) Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

b) Accounting convention

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

c) Critical accounting estimates and judgments

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

Useful lives, patterns of economic benefits and impairments

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

Inventories

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

Taxation

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

Provision for doubtful debts

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

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

The following amendments to published approved standards are mandatory for the Company's accounting periods beginning on or after 01 July 2010:

International Accounting Standard (IAS) 1 (Amendment), 'Presentation of Financial Statements' (effective for annual periods beginning on or after 01 January 2010). The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The application of the amendment does not affect the results or net assets of the Company as it is only concerned with presentation and disclosures.

IAS 7 (Amendment), 'Statement of Cash Flows' (effective for annual periods beginning on or after 01 January 2010). The amendment provides clarification that only expenditure that results in a recognized asset in the balance sheet can be classified as a cash flow from investing activity. The clarification results in an improvement in the alignment of the classification of cash flows from investing activities in the cash flow statement and the presentation of recognized assets in the balance sheet. The application of the amendment does not affect the results or net assets of the Company as it is only concerned with presentation and disclosures.

e) Interpretations and amendments to published approved standards that are effective in current year but not relevant to the company

There are other new interpretations and amendments to the published approved standards 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.

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

Following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 01 July 2011 or later periods:

IFRS 9 'Financial Instruments' (effective for annual periods beginning on or after 01 January 2013). This standard is the first step in the process to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Company's accounting for its financial assets.

IFRS 7 (Amendment), 'Financial Instruments: Disclosures' (effective for annual periods beginning on or after 01 July 2011). The new disclosure requirements apply to transfer of financial assets. An entity transfers a financial asset when it transfers the contractual rights to receive cash flows of the asset to another party. These amendments are part of the IASBs comprehensive review of off balance sheet activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial asset. The management of the Company is in the process of evaluating the impacts of the aforesaid amendment on the Company's financial statements.

IFRS 13 'Fair Value Measurement' (effective for annual period beginning on or after 01 January 2013). IFRS 13 establishes a single framework for measuring fair value where that is required by other standards. IFRS 13 applies to both financial and non-financial items measured at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The management of the Company is in the process of evaluating the impacts of the aforesaid standard on the Company's financial statements.

IAS 1 (Amendments), 'Presentation of Financial Statements' (effective for annual periods beginning on or after 01 July 2012). It clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

There are other amendments resulting from annual improvements project initiated by International Accounting Standards Board in May 2010, specifically in IFRS 7 'Financial Instruments: Disclosures', IAS 1 'Presentation of Financial Statements' and IAS 24 'Related Party Disclosures' 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 standards that are not yet effective and not considered relevant to the Company

There are other standards, amendments to published approved standards and new interpretations that are mandatory for accounting periods beginning on or after 01 July 2011 but are considered not to be relevant or do not have any significant impact on the Company's financial statements and are therefore not detailed in these financial statements.

2.2 Employees' retirement benefits

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

2.3 Taxation

a) **Current**

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

b) Deferred

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

Deferred income tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred income tax is charged or credited in profit and loss account, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the income tax is also recognized in other comprehensive income or directly in equity, respectively.

2.4 Foreign currencies

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

2.5 Property, plant and equipment

a) Owned

i) Cost

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

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

ii) Depreciation

Depreciation on all property, plant and equipment is charged to profit and loss account on the reducing balance method so as to write off the cost of the assets over their estimated useful lives at the rates given in Note 12. Depreciation charge commences from the month in which asset is available for use and continues until the month of disposal. The residual values and useful lives are reviewed by the management, at each financial year end and adjusted if impact on depreciation is significant.

iii) De-recognition

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

b) Leased

These are stated at lower of present value of minimum lease payments under the lease agreements and the fair value of assets acquired on lease. Aggregate amount of obligation relating to assets subject to finance lease is accounted for at net present value of liabilities. Assets so acquired are depreciated over their expected useful lives at the rates mentioned in Note 12.

2.6 Investments

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

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

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

a) Investments at fair value through profit or loss account

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

b) Held to maturity

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

c) Available for sale

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

Quoted

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

Unquoted

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

2.7 Inventories

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

a) Stores and spares

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

b) Stock in trade

Cost of raw material is based on annual average cost.

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

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

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

2.8 Trade debts and other receivables

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

2.9 Borrowing cost

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

2.10 Provisions

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

2.11 Impairment

a) Financial assets

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

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

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

b) Non-financial assets

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

2.12 Trade and other payables

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

2.13 Borrowings

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

2.14 Revenue recognition

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

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

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

2.15 Share capital

Ordinary shares are classified as share capital.

2.16 Financial instruments

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

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

Financial assets are long term investments, trade debts, deposits, loans and advances 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.

3. ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL

500 (2010: 500) ordinary shares of the Company are held by Hussein Sugar Mills Limited – an associated Company.

		(RUPEES IN THOUSAND) 2011	2010
4. SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT			
Opening balance as at 01 July		579,247	586,720
Add:	Surplus on revaluation incorporated during the year	105,700	-
Less:	Transfer to statement of changes in equity - net of deferred tax (Note 4.1)	6,517	7,207
Less:	Surplus on revaluation of assets disposed of	90	266
Closing balance as at 30 June		678,340	579,247

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 (2010: Rupees 21.700 million) which are subordinated to loans obtained from banking companies.

6. LONG TERM FINANCING - secured

From Banking Companies

	2011	2010
National Bank of Pakistan:		
Term finance (Note 6.1 and 6.10)	15,913	20,952
Term finance (Note 6.2)	-	9,048
Term finance (Note 6.3)	49,000	63,000
Demand finance (Note 6.4 and 6.10)	18,578	21,889
Demand finance (Note 6.5 and 6.10)	12,385	20,931
Demand finance (Note 6.6 and 6.10)	8,484	10,282
Habib Bank Limited (Note 6.7 and 6.10)	24,300	43,635
NIB Bank Limited (Note 6.8)	60,688	69,338
NIB Bank Limited (Accrued markup) (Note 6.9)	20,388	23,520
	209,736	282,595
Less: Current portion shown under current liabilities (Note 10)	77,714	96,377
	132,022	186,218

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 each commenced from 31 December 2009 and ending on 30 June 2013. This facility carries no markup.

6.2 This term finance facility was 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 has been repaid in 4 equal half yearly installments of Rupees 4.524 million each commenced from 31 December 2009 and ended on 30 June 2011. This facility carried markup at the rate of 3 months Kibor plus 4% per annum. Markup was 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 each commenced from 28 February 2010 and ending on 28 August 2014. This facility carries markup at the rate of 6 months Kibor plus 3% per annum. 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 was converted into this demand finance facility. This facility is secured against first charge on fixed assets of Unit No.1 of the Company and personal guarantees of the sponsoring directors. This facility is repayable in 60 equal monthly installments of Rupees 0.500 million each commenced from 01 July 2010 and ending on 01 June 2015. This facility carries no mark up.

6.5 According to rescheduling arrangement dated 06 March 2010 with the bank, the short term borrowing of the Company was converted into this demand finance facility. This facility is secured against first charge on fixed assets of Unit No.1 of the Company and personal guarantees of the sponsoring directors. This facility is repayable in 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 was 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 commenced 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.

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. As per latest rescheduling arrangements carried out during the 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 as explained in Note 6.8 to these financial statements.

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

(RUPEES IN THOUSAND)

	2011	**2010**
7. TRADE AND OTHER PAYABLES		
Creditors	46,717	47,178
Accrued liabilities	52,453	59,704
Advances from customers	20,231	1,245
Retention money	113	20
Payable to provident fund trust	400	448
Income tax deducted at source	95	865
Unclaimed dividend	1,068	683
Security deposits	1,730	1,730
Workers' profit participation fund (Note 7.1)	2,601	7,253
Workers' welfare fund	5,003	2,756
	130,411	121,882

7.1 Workers' profit participation fund

Balance as on 01 July	7,253	-
Interest for the year (Note 28)	862	-
Add: Provision for the year (Note 26)	2,601	7,253
	10,716	7,253
Less: Payments during the year	8,115	-
	2,601	7,253

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

8. ACCRUED MARK-UP

Long term financing	2,253	5,627
Short term borrowings	13,339	7,128
Liabilities against assets subject to finance lease	-	66
	15,592	12,821

	(RUPEES IN THOUSAND) 2011	2010
9. SHORT TERM BORROWINGS		
From banking companies - Secured		
Export finance (Note 9.1 and 9.2)	100,271	70,903
Others (Note 9.1 and 9.3)	109,750	121,208
	210,021	192,111

9.1 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.

9.2 These borrowings carry mark up at the rates LIBOR plus 3 percent to 3.5 percent per annum and 3 month KIBOR plus 2.5 percent per annum (2010: LIBOR plus 2 percent and 3 month KIBOR plus 2.5 percent per annum).

9.3 These borrowings carry mark up at the rates 3 month KIBOR plus 2.5 percent per annum and 3 month KIBOR plus 3 percent per annum (2010: 3 month KIBOR plus 2.5 percent per annum and 6 month KIBOR plus 1.5 percent per annum with floor of 13.5%).

10. CURRENT PORTION OF NON-CURRENT LIABILITIES

	2011	2010
Long term financing (Note 6)	77,714	96,377
Liabilities against assets subject to finance lease (Note 10.1)	-	4,203
	77,714	100,580

10.1 This represents current portion of lease finance facility matured during the year.

11. CONTINGENCIES AND COMMITMENTS

Contingencies

11.1 The Company is contingently liable for Rupees 4.161 million (2010: Rupees 4.161 million) on account of custom duty on humidification plant and excise duty on yarn.

11.2 The Company has issued counter-guarantee of Rupees 16.172 million (2010: Rupees 16.172 million) in favour of the bank for issuing letters of guarantee favouring Sui Northern Gas Pipelines Limited for gas connection.

11.3 Sales tax recoverable includes an amount of Rupees 2.179 million (2010: Rupees 2.257 million) deferred by sales tax department against which the Company has filed appeals to the Sales Tax Collectorate, Faisalabad.

Commitments

11.4 Letters of credit for other than capital expenditures are Rupees 15.979 million (2010: Rupees 74.587 million).

	(RUPEES IN THOUSAND)	
	2011	2010
12 PROPERTY, PLANT AND EQUIPMENT		
Operating assets (Note 12.1)	1,083,044	997,364
Capital work in progress - Building	-	245
	1,083,044	997,609

12.1 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	TOTAL	Plant and machinery	TOTAL
As at 01 July 2009											
Cost / revalued amount	518,600	163,958	1,161,070	10,723	10,859	2,896	1,844	2,952	1,872,902	26,461	1,899,363
Accumulated depreciation	-	(71,018)	(763,047)	(4,791)	(6,701)	(1,768)	(1,018)	(1,603)	(849,946)	(6,720)	(856,666)
Net book value	518,600	92,940	398,023	5,932	4,158	1,128	826	1,349	1,022,956	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	1,022,956	19,741	1,042,697
Additions	-	769	2,350	-	3,157	33	68	-	6,377	-	6,377
Transfer from leased assets:											
Cost	-	-	15,361	-	-	-	-	-	15,361	(15,361)	-
Accumulated depreciation	-	-	(4,718)	-	-	-	-	-	(4,718)	4,718	-
	-	-	10,643	-	-	-	-	-	10,643	(10,643)	-
Disposals:											
Cost / revalued amount	-	-	(16,843)	-	(2,686)	-	-	-	(19,529)	-	(19,529)
Accumulated depreciation	-	-	14,245	-	1,851	-	-	-	16,096	-	16,096
	-	-	(2,598)	-	(835)	-	-	-	(3,433)	-	(3,433)
Depreciation charge	-	(4,654)	(39,909)	(593)	(911)	(113)	(86)	(135)	(46,401)	(1,876)	(48,277)
Closing net book value	518,600	89,055	368,509	5,339	5,569	1,048	808	1,214	990,142	7,222	997,364
As at 30 June 2010											
Cost / revalued amount	518,600	164,727	1,161,938	10,723	11,330	2,929	1,912	2,952	1,875,111	11,100	1,886,211
Accumulated depreciation	-	(75,672)	(793,429)	(5,384)	(5,761)	(1,881)	(1,104)	(1,738)	(884,969)	(3,878)	(888,847)
Net book value	518,600	89,055	368,509	5,339	5,569	1,048	808	1,214	990,142	7,222	997,364
Year ended 30 June 2011											
Opening net book value	518,600	89,055	368,509	5,339	5,569	1,048	808	1,214	990,142	7,222	997,364
Additions	-	2,870	22,981	-	-	176	188	-	26,215	-	26,215
Surplus on revaluation	105,700	-	-	-	-	-	-	-	105,700	-	105,700
Transfer from leased assets:											
Cost	-	-	11,100	-	-	-	-	-	11,100	(11,100)	-
Accumulated depreciation	-	-	(4,540)	-	-	-	-	-	(4,540)	4,540	-
	-	-	6,560	-	-	-	-	-	6,560	(6,560)	-
Disposals:											
Cost / revalued amount	-	-	(1,504)	-	(684)	-	-	-	(2,188)	-	(2,188)
Accumulated depreciation	-	-	1,035	-	644	-	-	-	1,679	-	1,679
	-	-	(469)	-	(40)	-	-	-	(509)	-	(509)
Depreciation charge	-	(4,486)	(38,612)	(534)	(1,113)	(112)	(86)	(121)	(45,064)	(662)	(45,726)
Closing net book value	624,300	87,439	358,969	4,805	4,416	1,112	910	1,093	1,083,044	-	1,083,044
As at 30 June 2011											
Cost / revalued amount	624,300	167,597	1,194,515	10,723	10,646	3,105	2,100	2,952	2,015,938	-	2,015,938
Accumulated depreciation	-	(80,158)	(835,546)	(5,918)	(6,230)	(1,993)	(1,190)	(1,859)	(932,894)	-	(932,894)
Net book value	624,300	87,439	358,969	4,805	4,416	1,112	910	1,093	1,083,044	-	1,083,044
Annual rate of depreciation (%)	-	5	10	10	20	10	10	10		10	

12.2 Property, plant and equipment of the Company were revalued as at 30 September 1995, 31 March 2004 and 31 December 2007 by independent valuers. The latest revaluation as at 23 December 2010 was carried out only for freehold land by Messrs Masud Associates, the approved valuers. Had there been no revaluation, the value of the assets would have been lower by Rupees 715.122 million (2010: Rupees 619.587 million).

12.3 The book value of freehold land, buildings on freehold land and plant and machinery on cost basis is Rupees 14.016 million, Rupees 59.534 million and Rupees 282.036 million respectively (2010: Rupees 14.016 million, Rupees 59.682 million and Rupees 282.879 million respectively).

12.4 During the year, the Company acquired plant and machinery with an aggregate cost of Rupees 25.970 million of which 1.540 million was acquired by exchange of assets. Cash payment of Rupees 24.430 million was made to purchase plant and machinery.

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

	(RUPEES IN THOUSAND) 2011	2010
Cost of sales (Note 23)	43,963	46,692
Distribution cost (Note 24)	56	70
Administrative expenses (Note 25)	1,707	1,515
	45,726	48,277

12.6 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/ Claim	MODE OF DISPOSAL	PARTICULARS OF PURCHASERS / INSURER
Plant and machinery							
Card Machines	7	1,504	1,035	469	1,540	Negotiation	Noshad Textile Machinery Traders, Faisalabad
Vehicles							
Honda City FDV - 9666	1	684	644	40	400	Insurance claim	Premier Insurance Company Limited, Lahore
		2,188	1,679	509	1,940		

	(RUPEES IN THOUSAND) 2011	2010
13. LONG TERM INVESTMENT		
Available for Sale		
Quoted		
Sajjad Textile Mills Limited		
344,900 (2010: 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	120	69
	310	259

14. DEFERRED INCOME TAX

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

	2011	2010
Accelerated tax depreciation	(38,357)	(41,089)
Surplus on revaluation of property, plant and equipment	(36,693)	(40,251)
Finance lease	-	(529)
	(75,050)	(81,869)
Accumulated tax losses	141,800	154,943
Minimum tax available for carry forward	34,307	19,404
	101,057	92,478
Less: Deferred income tax asset not recognized	101,057	92,478
	-	-

14.1 The net deferred income tax assets of Rupees 101.057 million (2010:92.478 million) has not been reconginzed in these financial statements as the temporary differences are not expected to reverse in foreseeable future because taxable profits may not be available against which the temporary differences can be utilized.

15. STORES AND SPARE PARTS

	2011	2010
Stores	4,726	4,736
Spare parts	24,637	18,715
	29,363	23,451

16. STOCK IN TRADE

	2011	2010
Raw materials	80,776	53,681
Work-in-process	20,464	18,008
Finished goods	59,952	111,977
Waste	343	1,814
	161,535	185,480

16.1 Stock in trade includes raw material, work in process and finished goods of Rupees 153.565 million (2010: Rupees Nil) valued at net realizable value.

16.2 Stock in trade includes finished goods of Rupees 3.346 million (30 June 2010: 3.363) held with third party Al Misk Corporation.

16.3 The aggregate amount of write-down of inventories to net realizable value recognized during the year was Rupees 29.670 million (2010: Rupees Nil)

	(RUPEES IN THOUSAND) 2011	2010
17. TRADE DEBTS		
Considered good:		
Secured - against letters of credit	30,382	4,456
Unsecured - local	44,759	48,552
	75,141	53,008

17.1 As at 30 June 2011, trade debts of Rupees 19.266 million (2010 : Rupees 1.620 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:

	2011	2010
Upto 1 month	8,848	135
1 to 6 months	8,113	80
More than 6 months	2,305	1,405
	19,266	1,620

18. LOANS AND ADVANCES

	2011	2010
Considered good		
Employees – interest free	2	-
Suppliers	2,209	11,424
Against expenses	55	52
Letters of credit	4,596	19,470
Others	445	1,494
	7,307	32,440

19. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS

	2011	2010
Deposits		
Security deposit	-	1,110
Others	185	155
Prepayments	586	697
	771	1,962

20. OTHER RECEIVABLES

	2011	2010
Sales tax	10,582	12,111
Advance income tax	35,910	16,531
Miscellaneous	1,193	609
	47,685	29,251

21. CASH AND BANK BALANCES

	2011	2010
Cash in hand	113	277
Cash with banks:		
Current accounts	331	3,170
Term deposit accounts (Note 21.1)	1	21
	332	3,191
	445	3,468

21.1 Rate of profit on term deposit accounts ranges from 1.74% to 5.03% (2010: 1.74% to 5.03%) per annum.

22. SALES

	(RUPEES IN THOUSAND) 2011	2010
Export	1,841,598	985,310
Local	1,585,174	907,161
Waste	72,964	35,670
	3,499,736	1,928,141

23. COST OF SALES

	2011	2010
Raw materials consumed (Note 23.1)	2,670,895	1,282,084
Salaries, wages and other benefits (Note 23.2)	152,729	117,806
Packing materials consumed	37,873	29,309
Stores and spare parts (Note 23.3)	51,286	38,276
Fuel and power	220,967	178,868
Repair and maintenance	7,862	3,758
Insurance	5,569	4,264
Other factory overheads	1,812	1,755
Depreciation (Note 12.5)	43,963	46,692
	3,192,956	1,702,812
Work-in-process inventory		
Opening stock	18,008	9,632
Closing stock	(20,464)	(18,008)
	(2,456)	(8,376)
Cost of goods manufactured	3,190,500	1,694,436
Finished goods inventory		
Opening stock	113,791	57,886
Closing stock	(60,295)	(113,791)
	53,496	(55,905)
	3,243,996	1,638,531

23.1 RAW MATERIALS CONSUMED

	2011	2010
Opening stock	53,681	39,806
Add: Purchases (Note 23.1.1)	2,697,990	1,295,959
	2,751,671	1,335,765
Less: Closing stock	80,776	53,681
	2,670,895	1,282,084

23.1.1 This includes purchase of Rupees 18.567 million (2010: Rupees 1.488 million) from Shadab Textile Mills Limited - an associated company.

23.2 Salaries, wages and other benefits include Rupees 2.491 million (2010: Rupees 1.915 million) in respect of contributions towards provident fund.

23.3 This includes stores and spare parts of Rupees Nil (2010: Rupees 0.570 million) purchased from Shadab Textile Mills Limited - an associated company.

	(RUPEES IN THOUSAND) 2011	2010

24. DISTRIBUTION COST

	2011	2010
Commission to selling agents	43,004	28,352
Salaries and other benefits (Note 24.1)	1,250	1,153
Freight and handling – local	5,423	2,639
Freight and forwarding – export	40,610	25,752
Depreciation (Note 12.5)	56	70
	90,343	57,966

24.1 Salaries and other benefits include Rupees 0.0476 million (2010: Rupees 0.0436 million) in respect of contributions towards provident fund.

25. ADMINISTRATIVE EXPENSES

	2011	2010
Salaries, and other benefits (Note 25.1)	20,920	15,474
Traveling and conveyance	1,041	342
Rent, rates and taxes	616	601
Printing and stationery	767	637
Communication	806	817
Electricity and sui gas	2,617	1,655
Vehicles' running	2,142	2,068
Insurance	1,041	616
Fee and subscription	443	473
Entertainment	487	322
Legal and professional	698	339
Auditors' remuneration (Note 25.2)	615	598
Repair and maintenance	1,577	1,352
Advertisement	37	65
Miscellaneous	24	22
Depreciation (Note 12.5)	1,707	1,515
	35,538	26,896

25.1 Salaries and other benefits include Rupees 0.480 million (2010: 0.360 million) in respect of contributions towards provident fund.

25.2 AUDITORS' REMUNERATION

	2011	2010
Annual audit fee	500	500
Half yearly review fee	50	35
Reimbursable expenses	15	13
Other certification fee	50	50
	615	598

26. OTHER OPERATING EXPENSES

	2011	2010
Excise duty written off	-	444
Exchange loss	-	223
Workers' profit participation fund (Note 7.1)	2,601	7,253
Workers' welfare fund	2,247	2,756
	4,848	10,676

	(RUPEES IN THOUSAND) 2011	2010
27. OTHER OPERATING INCOME		
From financial assets		
Credit balances written back	4,368	377
Fair value adjustment on long term financing	11,729	16,837
Exchange gain	46	-
From non-financial assets		
Sale of scrap	-	231
Gain on sale of fixed assets	1,521	1,231
Miscellaneous	-	2
	17,664	18,678
28. FINANCE COST		
Interest on employees provident fund trust	-	222
Interest on workers' profit participation fund (Note 7.1)	862	-
Mark-up on:		
Long term financing	26,439	23,041
Liabilities against assets subject to finance lease	344	1,853
Short term borrowings	61,637	45,010
Bank and other charges	7,075	7,568
	96,357	77,694
29. PROVISION FOR TAXATION		
Current:		
- For the year (Note 29.1)	36,539	15,069
- Prior years	(5,249)	(26)
	31,290	15,043

29.1 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 405.144 million (2010: Rupees 442.694 million), therefore, it is impracticable to prepare the tax charge reconciliation for the years presented.

30. REMUNERATION TO CHIEF EXECUTIVE DIRECTORS AND EXECUTIVES

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

(RUPEES IN THOUSAND)

DESCRIPTION	2011			2010		
	Chief Executive	Directors	Executive	Chief Executive	Directors	Executive
Managerial remuneration	720	744	1270	636	552	1107
House rent	324	296	469	286	212	429
Utility allowance	84	46	60	73	27	55
Medical	72	74	120	65	54	110
Contribution to employees' provident fund trust	-	38	75	-	34	69
	1200	1198	1994	1,060	879	1770
Number of persons	1	2	1	1	1	1

30.1 Chief Executive, directors and executive are provided with Company maintained vehicles.

30.2 No meeting fee was paid to directors during the year under reference (2010: Rupees Nil).

31. 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)	
	2011	2010
Post employment benefit		
Company's contribution to provident fund trust	3,019	2,318

32. EARNINGS PER SHARE – BASIC AND DILUTED

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

		2011	2010
Profit attributable to ordinary shareholders	(Rupees in thousand)	15,028	120,013
Weighted average number of ordinary shares	(Numbers)	31 200 000	31 200 000
Earnings per share-Basic	(Rupees)	0.48	3.85

33. FINANCIAL RISK MANAGEMENT

33.1 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 and short term borrowings. The Company uses forward exchange contracts to hedge its foreign currency risk, when considered appropriate. The Company's exposure to currency risk was as follows:

	2011	2010
Trade debts - USD	353,902	52,180
Short term borrowing - USD	700,418	711,484
Net exposure - USD	(346,516)	(659,304)

The following significant exchange rates were applied during the year:

Rupees per US Dollar		
Average rate	85.76	84.27
Reporting date rate	86.05	85.60

Sensitivity analysis

If the functional currency, at reporting date, had weakened / strengthened by 5% against the USD with all other variables held constant, the impact on profit after taxation for the year would have been Rupees 1.401 million (2010: Rupees 2.629 million) lower / higher mainly as a result of exchange losses / gains on translation of foreign exchange denominated financial instruments. Currency risk sensitivity to foreign exchange movements has been calculated on a symmetric basis. In management's opinion, the sensitivity analysis is unrepresentative of inherent currency risk as the year end exposure does not reflect the exposure during the year.

(ii) Interest rate risk

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

The Company has no long-term interest-bearing assets. 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)	
	2011	**2010**
Fixed rate instruments		
Financial liabilities		
Long term financing	100,048	117,689
Floating rate instruments		
Financial asset		
Bank balances- term deposit accounts	1	21
Financial liabilities		
Long term financing	109,688	141,386
Liabilities against assets subject to finance lease	-	4,203
Short term borrowings	210,021	192,111

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 2.973 million (2010: Rupees 3.144 million) lower / higher 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 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 after taxation		Statement of other comprehensive income (fair vlaue reserve)	
	2011	2010	2011	2010
KSE 100 (5% increase in)	-	-	16	13
KSE 100 (5% decrease in)	-	-	16	13

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

(b) Credit risk

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

	(RUPEES IN THOUSAND) 2011	2010
Long term investment	310	259
Long term security deposits	3,365	3,365
Trade debts	75,141	53,008
Loans and advances	447	1494
Short term deposits	185	1,265
Other receivables	1,193	609
Bank balances	332	3,191
	80,973	63,191

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	2011	2010
Banks					
National Bank of Pakistan	A-1+	AAA	JCR-VIS	86	1,703
Allied Bank Limited	A1+	AA	PACRA	-	9
Askari Bank Limited	A1+	AA	PACRA	17	16
Bank Alfalah Limited	A1+	AA	PACRA	66	1,320
Habib Bank Limited	A-1+	AA+	JCR-VIS	32	51
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	89	51
NIB Bank Limited	A1+	AA -	PACRA	21	21
Standard Chartered Bank (Pakistan) Limited	A1+	AAA	PACRA	3	6
United Bank Limited	A-1+	AA+	JCR-VIS	-	2
Soneri Bank Limited	A1+	AA -	PACRA	18	12
				332	3,191

The Company's exposure to credit risk and impairment losses, if any related to trade debts is disclosed in Note 17.

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 2011, the Company had Rupees 354.979 million (2010: Rupees 427.889 million) available borrowing limits from financial institutions and Rupees 0.445 million (2010: Rupees 3.468 million) cash and bank balances. Inspite the fact that the Company is in a negative working capital position at the year end, the management believes that the liquidity risk is manageable. Following are the contractual maturities of financial liabilities, including interest payments. The amount disclosed in the table are undiscounted cash flows:

Contractual maturities of financial liabilities as at 30 June 2011

(RUPEES IN THOUSAND)

	Carrying Amount	Contractual cash flows	6 Month or less	6-12 month	1-2 Year	More than 2 Years
Non-derivative financial liabilities:						
Sponsor's advance	30,644	30,644	-	-	-	30,644
Long term financing	209,736	238,866	19,110	46,559	54,806	118,391
Trade and other payables	102,081	102,081	102,081	-	-	-
Accrued mark-up	15,592	15,592	15,592	-	-	-
Short term borrowings	210,021	221,609	221,609	-	-	-
	568,074	608,792	358,392	46,559	54,806	149,035

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
Non-derivative financial liabilities:						
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	109,315	109,315	109,315	-	-	-
Accrued mark-up	12,821	12,821	12,821	-	-	-
Short term borrowings	192,111	203,015	203,015	-	-	-
	631,689	690,752	384,379	43,293	65,807	197,273

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

33.2 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 2011				
Assets				
Available for sale financial asset	310	-	-	310
As at 30 June 2010				
Assets				
Available for sale financial asset	259	-	-	259

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 2011.

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 2011. The carrying amount less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

33.3 Financial instruments by categories

(RUPEES IN THOUSAND)

	Loans and receivables	Available for sale	Total
As at 30 June 2011			
Assets as per balance sheet			
Investment	-	310	310
Long term security deposits	3,365	-	3,365
Trade debts	75,141	-	75,141
Loans and advances	447	-	447
Short term deposits	185	-	185
Other receivables	1,193	-	1,193
Cash and bank balances	445	-	445
	80,776	310	81,086

(RUPEES IN THOUSAND)

	Financial liabilities at amortized cost
Liabilities as per balance sheet	
Sponsors' advance	30,644
Long term financing	209,736
Trade and other payables	102,081
Accrued mark-up	15,592
Short term borrowings	210,021
	568,074

(RUPEES IN THOUSAND)

	Loans and receivables	Available for sale	Total
As at 30 June 2010			
Assets as per balance sheet			
Investment	-	259	259
Long term security deposits	3,365	-	3,365
Trade debts	53,008	-	53,008
Loans and advances	1,494	-	1,494
Short term deposits	1,265	-	1,265
Other receivables	609	-	609
Cash and bank balances	3,468	-	3,468
	63,209	259	63,468

	(RUPEES IN THOUSAND) Financial liabilities at amortized cost
Liabilities as per balance sheet	
Sponsors' advance	30,644
Long term financing	282,595
Liabilities against assets subject to finance lease	4,203
Trade and other payables	109,315
Accrued mark-up	12,821
Short term borrowings	192,111
	631,689

34. 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.

35. PLANT CAPACITY AND ACTUAL PRODUCTION

	(Kilograms in thousand) 2011	2010
Production at normal capacity converted to 20s count based on 3 shifts per day	19,453	19,328
Actual production converted to 20s count based on 3 shifts per day	15,731	14,959

35.1 Reason for low production

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

36. EVENTS AFTER THE REPORTING PERIOD

The Board of Directors of the Company has proposed a cash dividend for the year ended 30 June 2011 of Rupees Nil per share (2010: Rupees 0.5 per share) at their meeting held on 05 October 2011.

37. DATE OF AUTHORISATION

These financial statements have been approved by the Board of Directors of the Company and authorized for issue on 05 October 2011

38 . 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.

39. GENERAL

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

(Mian Farrukh Naseem)
Chief Executive

(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 2011
4.

No. of Shareholders	Shareholdings From		Shareholdings To	Total shares held
172	1	-	100	15475
2401	101	-	500	1149907
108	501	-	1000	105200
127	1001	-	5000	334839
22	5001	-	10000	167809
19	10001	-	15000	231664
6	15001	-	20000	108829
5	20001	-	25000	114300
5	30001	-	35000	160800
1	35001	-	40000	35434
4	40001	-	45000	172523
1	55001	-	60000	55994
3	60001	-	65000	191000
1	65001	-	70000	65300
2	75001	-	80000	152500
2	120001	-	125000	247500
1	125001	-	130000	127885
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	3985001	-	3990000	3988200
1	4380001	-	4385000	4383542
2906				**31200000**

5.	Categories of shareholders	Shares Held	Percentage
5.1	Directors, Chief Executive Officer, and their spouse and minor children.	11,437,167	36.6576
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	18,840,418	60.3860
	b. Foreign	-	-
5.9	Others (to be specified)		
	1. Joint Stock Companies	226,572	0.7262

6.	Signature of Company Secretary	
7.	Name of Signatory	Mr. Mazhar Hussain
8.	Designation	Company Secretary
9.	NIC Number	– –
10.	Date	30-06-2011

DETAILS OF CATEGORIES OF SHAREHOLDERS UNDER C.C.G. AS AT JUNE 30, 2011

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	4,383,542	14.0498
3.	Mian Aamir Naseem	3,988,200	12.7827
4.	Miran Saad Naseem	122,500	0.3926
5.	Syed Arif Hussain	1,000	0.0032
6.	Mr. Irfan Qamar	500	0.0016
7.	Mr. Shahid Mahmud	500	0.0016
8.	Mrs. Hin Farrukh W/O Mian Farrukh Naseem	7,200	0.0231
9.	Mrs. Fatima Aamir W/O Mian Aamir Naseem	723,000	2.3173
	Mrs. Fatima Aamir W/O Mian Aamir Naseem (CDC)	297,500	0.9535
		11,437,167	36.6576
	ASSOCIATED COMPANIES		
1.	Husein Sugar Mills Limited	500	0.0016
		500	0.0016
	NIT & ICP		
1.	Investment Corporation 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 STOCK COMPANIES		
1.	H.M. Investment (Pvt) Limited (CDC)	600	0.0019
2.	A.H.K.D Securities (Pvt) Ltd. (CDC)	1	0.0000
3.	Adeel & Nadeem Securities (Pvt) Ltd. (CDC)	500	0.0016
4.	Adam Lubricants Limited	2,000	0.0064
5.	Al-Haq Securities (Pvt) Ltd. (CDC)	500	0.0016
6.	Fateh Textile Mills Limited (CDC)	500	0.0016
7.	Ismail Abdul Shakoor Securities (Pvt) Ltd. (CDC)	3,000	0.0096
8.	Jamshaid & Hassan Scurities (Pvt) Ltd. (CDC)	900	0.0029
9.	KSR Stock Brokerage (Pvt) Ltd. (CDC)	10,000	0.0321
10.	Maniar Financials (Pvt) Ltd. (CDC)	4,500	0.0144
11.	Pearl Capital Management (Pvt) Ltd. (CDC)	7	0.0000
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)	1,564	0.0050
16.	Shahzad Textile Mills Limited. (CDC)	42,000	0.1346
		226,572	0.7262
	SHARES HELD BY THE GENERAL PUBLIC	18,840,418	60.3860
		31,200,000	100.0000
	SHAREHOLDERS HOLDING 10% OR MORE OF TOTAL CAPITAL		
1.	Mian Farrukh Naseem	4,383,542	14.0498
2.	Mian Aamir Naseem	3,988,200	12.7827
		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	246,871	-
2.	Mian Aamir Naseem	-	246,871

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 25th Annual General Meeting of the Company to be held on Monday, October 31, 2011 at 10:30 a.m. and at any adjournment thereof.

As witness my / our hand (s) this __________ day of __________ 2011

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.