

**CONTENTS**

Company Information	3
Vision / Mission Statement	4
Statement of Ethics and Business Practices	5
Notice of Annual General Meeting	6-7
Directors' Report	8-10
Statement of Compliance with the Code of Corporate Governance	11-12
Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance	13
Six Year's Financial Data	14
Auditors' Report to the Members	15
Balance Sheet	16-17
Profit and Loss Account	18
Cash Flow Statement	19-20
Statement of Changes in Equity	21
Notes to the Financial Statements	22-45
Pattern of Shareholding	46-48
Form of Proxy	

**COMPANY INFORMATION**

BOARD OF DIRECTORS	Mian Farrukh Naseem Mian Aamir Naseem Mian Shahzad Aslam Mrs. Hina Farrukh Syed Arif Hussain Mr. Irfan Qamar Mr. Shahid Mehmud	Chairman / Chief Executive Officer
AUDIT COMMITTEE	Mian Aamir Naseem Mian Shahzad Aslam Syed Arif Hussain	Chairman Member 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, Model Town, Lahore. Tel: 042-5887262, 5839182 Fax: 042-5869037	
REGISTERED OFFICE	A-601/B City Towers, 6-K, Main Boulevard, Gulberg-II, Lahore. Ph: 042-5788758-59	
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 customer's 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 23rd Annual General Meeting of the Shareholders of SARGODHA SPINNING MILLS LIMITED will be held on Saturday, October 31, 2009 at 10:00 a.m. at the Registered Office of the Company at A-601/B, City Towers, 6-K Main Boulevard, Gulberg-II, Lahore to transact the following business:

1. To confirm the minutes of Extra Ordinary General Meeting held on March 31, 2009.
2. To receive, consider and adopt the Audited Accounts for the year ended June 30, 2009 together with Directors' and Auditors' Reports thereon.
3. To appoint auditors for the year 2009-2010 and fix their remuneration.

SPECIAL BUSINESS

4. To pass the following special resolutions, to amend following clauses of Articles of Association of the Company.

RESOLVED that words appearing "the amount or rate of commission shall not exceed 2 1/2% of the price at which the shares are issued" in 7th line to 9th line of clause 11 of Articles be and is hereby replaced with words "the commission paid or agreed to be paid does not exceed such rate percent of amount as may generally or in particular case be fixed by the commission".

RESOLVED that the word "six" appearing in 4th line of clause 32(b) of Articles be and is hereby replaced with the word "four".

RESOLVED that the word "Five" appearing in the start of sentence of clause 38 of Articles be and is hereby replaced with the word "Ten".

RESOLVED that the word "two" appearing in the 2nd last line of clause 76 of Articles be and is hereby replaced with the word "four" and the expression "one in each quarter" be and is hereby added after expression "Directors" occurring in last line of clause 76 of Articles.

RESOLVED that the word "six" appearing in 5th line of clause 108 of Articles be and is hereby replaced with the word "four".

RESOLVED that the Chief Executive or Company Secretary be and is hereby authorized singly to take all such steps as may be necessary to incorporate the above amendments, in the Articles of Association of the Company.

5. To transact any other business of the Company with the permission of the Chair.

By order of the Board

LAHORE:
Date: October 07, 2009.

(Mazhar Hussain)
Company Secretary

**NOTES:**

1. The Share Transfer Books of the Company will remain closed from October 25, 2009 to October 31, 2009 (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, 2009 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 N.I.C or Passport to prove his/her identity and in case of Proxy must enclose an attested copy of his/her 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.

STATEMENT UNDER SECTION 160 (1)(b) OF THE COMPANIES ORDINANCE, 1984.

Changes in Articles of Association are being proposed to bring in conformity with the Companies Ordinance, 1984 as amended from time to time and certain amendments are also necessary to incorporate the stipulations contained in the Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan and the provisions of the Listing Regulations issued by the Stock Exchanges. The directors have no personal interest with the changes. The Articles of Association of the Company with the changes has been kept at the registered Office, which can be inspected from 10:00 a.m. to 11:30 a.m. in all working days.



DIRECTORS' REPORT

Dear Shareholders,

The Directors of the Company welcome you to the 23rd Annual General Meeting and pleased to present the Annual Report together with Audited Accounts of the Company for the year ended June 30, 2009.

Financial Results

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

	(RUPEES IN THOUSAND)	
	June 30, 2009	June 30, 2008
Sales	1,402,105	1,505,524
Cost of Sales	1,386,328	1,437,053
Gross Profit	<u>15,777</u>	<u>68,471</u>
Distribution Cost	35,181	27,529
Administrative Expenses	25,170	26,368
Other Operating Expenses	3,259	3,026
	<u>63,610</u>	<u>56,923</u>
	(47,833)	11,548
Other Operating Income	329	668
(Loss)/Profit From Operations	<u>(47,504)</u>	<u>12,216</u>
Finance Cost	76,119	63,890
(Loss) Before Taxation	<u>(123,623)</u>	<u>(51,674)</u>
Provision for Taxation	(4,986)	(7,528)
(Loss) After Taxation	<u>(128,609)</u>	<u>(59,202)</u>
Earnings Per Share - Basic and Diluted (Rupees)	<u>(4.12)</u>	<u>(1.90)</u>

During the year under review, sales were made amounting to Rs. 1,402.105 million including export sales of Rs. 485.053 million as compared to last year sales of Rs. 1,505.524 million. The company suffered after tax loss for the year Rs. 128.609 million as compared to after tax loss of Rs. 59.202 million of last year. Your company produced 16.364 million Kgs of yarn as against production of 22.544 million Kgs during last year by achieving an average capacity utilization of 76% as against 95% of the previous year.

The textile industry has probably never been in such a dire situation. Many units had to shut down during the year being no longer economically viable under the prevailing circumstances. Our spinning unit-1 was temporarily shutdown due to heavy load shedding. Performance of industrial sector overall remain depressed. The financial results of the company mainly effected due to the factors beyond any one's control like unprecedented increase in cost of cotton and fibre and all inputs, devaluation in Pak currency, increase in financial cost due to high Kibor rate and increase in electricity tariff. Power disruption due to shut down of Gas during winter and intermittent supply of electricity by Wapda is the major factor. Global economic recession has also affected the financial results of the company.

The auditors expressed modified opinion regarding going concern of the company because the company sustained a net loss of Rupees 128.609 million during the year ended 30 June 2009 due to the factors mentioned above. The management has submitted requests to the Banks / Financial Institution for rescheduling / restructuring of long term loans and current obligations. NIB Bank Limited has rescheduled our outstanding debts. The management is negotiating with other financial institutions to reschedule the remaining long term financing on soft terms. Spinning Unit No. 2 of the company is working on production of cotton carded yarn which is being exported. Spinning Unit No. 1, which is closed since March, 2009 has



partially restarted its production and it is expected that it will be operative at maximum available capacity upto the year ending 30 June 2010.

The management expects that rescheduling / restructuring of outstanding loans, reduction in rate of mark up, improvement in market conditions, continued financial support from sponsors and availability of continuous supply of Gas and Electricity will provide quite relief to the company's financial liquidity and will help in servicing its debts well in time and carrying out the operation smoothly.

Dividend

The directors have not recommended any dividend for the year due to net loss suffered by the company.

Future Prospects

Chances of the global recovery from recession appear to be bright. We are hopeful for a better year as compared to last year in the wake of strong yarn demand from china and other countries. Textile industry needs a comprehensive relief package that assures finances at reasonable rates, 24 Hours uninterrupted energy supply at reasonable rates, market access to large importing economies. To strengthen the textile sector, banks should bring down mark up rate and there should be cap on gas and electricity tariff for at least next three years. However, the management is trying best to improve the results by controlling the factors which are in its control.

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 30-06-2009 was Rs. 0.185 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 made no transaction in the company's shares during the year.



Board of Directors Meetings

During the period 2008-2009, five meetings of the Board of Directors were held. The attendance position of each Director is as follows:

<u>Sr.No.</u>	<u>Name of Director</u>	<u>No. of Meetings Attended</u>	
1	Mian Farrukh Naseem	5	
2	Mian Aamir Naseem	5	
3	Mian Shahzad Aslam	5	
4	Mian Sajjad Aslam	-	Resigned
5	Mrs. Hina Farrukh	4	
6	Syed Arif Hussain	5	
7	Mr. Irfan Qammar	5	
8	Mr. Shahid Mehmood	5	Appointed in place of Mian Sajjad Aslam w.e.f 14.07.2008

Audit Committee

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

Auditors

The present Auditors M/s Riaz Ahmad & Company, Chartered Accountants, retire and being eligible offer themselves for re-appointment. The audit committee of the board has recommended the re-appointment of M/s Riaz Ahmad & Company, Chartered Accountants, as external auditors of the Company for the year 2009-2010.

Acknowledgements

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

For and behalf of the Board

MIAN FARRUKH NASEEM
Chairman / Chief Executive Officer

Lahore: October 07, 2009



STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulation of Karachi and Lahore Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the Code in the following manner:

1. The company encourages representation of independent non-executive directors. At present Board of Directors include six independent non executive directors.
2. The directors have confirmed that none of them is serving as director in more than ten listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, DFI or an NBFIs or, being a member of stock exchange, has been declared as a defaulter by that stock exchange.
4. During the period one casual vacancy occurred in 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. The Board has approved appointment of Head of Internal Audit, including remuneration and terms and conditions of employment, as determined by the CEO. There is no change in the position of Company Secretary and Chief Financial Officer during the year.
11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by CEO and CFO before approval by the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.



15. The Audit Committee continued its functions during the year. The committee comprises three members, of whom all are non-executive directors including the chairman of the committee.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has set up an effective internal audit function.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

(Mian Farrukh Naseem)
Chairman/Chief Executive Officer

LAHORE: October 7, 2009



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 2009, 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, Sub-Regulation (xiii a) of Listing Regulations 35 (Previously Regulation No. 37) notified by the Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 requires the company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

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 2009.

LAHORE: October 01, 2009

(RIAZ AHMAD & COMPANY)
Chartered Accountants



SIX YEARS' FINANCIAL DATA AT A GLANCE

(RUPEES IN THOUSANDS)

PARTICULARS	2009	2008	2007	2006	2005	2004
ASSETS EMPLOYED						
Property, plant & equipment	1,022,956	1,072,560	796,837	781,752	739,506	678,269
Capital Work in Progress	-	-	-	6,124	8,384	15,491
Assets subject to Finance Lease	19,741	21,934	24,371	11,007	-	-
Long Term Investments	190	529	850	540	1,557	1,212
Long Term Security Deposits	5,807	5,494	6,275	4,739	2,765	2,839
Deferred Tax Asset	-	-	-	-	-	14,700
Current Assets	173,604	277,606	265,585	342,213	259,177	246,569
TOTAL ASSETS EMPLOYED	1,222,298	1,378,123	1,093,918	1,146,375	1,011,389	959,080
FINANCED BY						
Share Holders' Equity	(35,668)	82,055	132,768	182,907	127,752	89,857
Surplus on Revaluation of Property, plant & equipment	586,720	594,681	275,559	289,062	300,181	310,024
Sponsor Advance - Interest Free	30,644	30,644	30,644	27,694	27,693	15,943
Long Term Financing	139,368	186,609	217,689	234,229	227,336	207,946
Liabilities Against Assets Subject to Finance Lease	9,353	18,372	21,144	11,098	-	-
Deferred Taxation	-	-	-	5,126	47	-
Current Liabilities	491,881	465,762	416,114	396,259	328,380	335,310
TOTAL FUNDS INVESTED	1,222,298	1,378,123	1,093,918	1,146,375	1,011,389	959,080
PROFIT & LOSS ACCOUNT						
Sales - Net	1,402,105	1,505,524	1,349,123	1,430,953	960,987	1,330,563
Cost of Sales	1,386,328	1,437,053	1,309,615	1,280,791	868,472	1,270,868
GROSS PROFIT	15,777	68,471	39,508	150,162	92,515	59,695
Administrative & General	28,429	29,394	34,843	24,393	14,823	20,755
Selling & Distribution	35,181	27,529	28,712	28,877	9,740	8,810
OPERATING PROFIT / (LOSS)	(47,833)	11,548	(24,047)	96,892	67,952	30,130
Other Income	329	668	312	2,034	1,649	636
	(47,504)	12,216	(23,735)	98,926	69,601	30,766
Financial Cost	76,119	63,890	72,811	38,618	18,429	15,638
W.P.P.F	-	-	-	3,027	2,560	762
PROFIT/(LOSS) BEFORE TAXATION	(123,623)	(51,674)	(96,546)	57,281	48,612	14,366
Taxation	(4,986)	(7,528)	(3,592)	(12,228)	(20,067)	80,080
PROFIT/(LOSS) AFTER TAXATION	(128,609)	(59,202)	(100,138)	45,053	28,545	94,446
Effect of Change in Accounting Policy	-	-	-	39,665	-	-
Transfer From Revaluation Surplus	7,961	8,810	10,024	11,119	9,005	17,557
PREVIOUS YEAR'S BALANCE B/F	(227,020)	(176,628)	(86,514)	(182,351)	(219,901)	(331,904)
BALANCE CARRIED TO B/S	(347,668)	(227,020)	(176,628)	(86,514)	(182,351)	(219,901)
EARNING PER SHARE (Rs.)	(4.12)	(1.90)	(3.21)	1.44	0.91	3.03
Number of Spindles Installed	54,432	54,432	54,432	53,760	48,640	48,640
Number of Spindles Worked	51,528	54,432	53,944	50,062	48,640	48,640
Number of Shifts Per Day	3	3	3	3	3	3
Actual Production Converted into 20'S Count (Kgs. in million)	16.364	22.544	18.655	20.456	15.880	21.986



AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **SARGODHA SPINNING MILLS LIMITED** as at 30 June 2009 and the related profit and loss account, 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, 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 2009 and of the loss, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

Without qualifying our opinion we draw attention to Note No. 1.2 to the financial statements, which indicates that the Company has incurred a net loss of Rupees 128.609 million during the year ended 30 June 2009 which has turned the equity into negative balance of Rupees 35.668 million. At balance sheet date, the Company's current liabilities exceeded its current assets by Rupees 318.277 million. The Company is facing problems in timely repayments of financing. Production at Spinning Unit-1 of the Company is temporarily shutdown due to heavy load shedding. These conditions, alongwith other matters as set forth in the Note No. 1.2, indicate the existence of material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements have however been prepared on a going concern basis on the basis of continued support by lending institutions and sponsors.

LAHORE: October 01, 2009

RIAZ AHMAD AND COMPANY
Chartered Accountants
Syed Mustafa Ali

**BALANCE SHEET AS**

	NOTE	(RUPEES IN THOUSAND)	
		2009	2008
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised share capital 42,000,000 (30 June 2008: 42,000,000) ordinary shares of Rupees 10 each		420,000	420,000
Issued, subscribed and paid up share capital 31,200,000 (30 June 2008: 31,200,000) ordinary shares of Rupees 10 each fully paid up in cash	3	312,000	312,000
Reserves		(347,668)	(229,945)
Total equity		(35,668)	82,055
Surplus on revaluation of property, plant and equipment	4	586,720	594,681
NON CURRENT LIABILITIES			
Sponsors' advances - interest free	5	30,644	30,644
Long term financing - secured	6	139,368	186,609
Liabilities against assets subject to finance lease	7	9,353	18,372
		179,365	235,625
CURRENT LIABILITIES			
Trade and other payables	8	180,762	154,286
Accrued mark up	9	43,856	15,229
Short term borrowings - secured	10	148,079	227,360
Current portion of non-current liabilities	11	114,101	61,260
Provision for taxation		5,083	7,627
		491,881	465,762
TOTAL LIABILITIES		671,246	701,387
CONTINGENCIES AND COMMITMENTS	12		
TOTAL EQUITY AND LIABILITIES		1,222,298	1,378,123

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

(Mian Farrukh Naseem)
Chief Executive Officer



AT 30 JUNE 2009

	NOTE	(RUPEES IN THOUSAND)	
		2009	2008
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	13	1,042,697	1,094,494
Long term investments	14	190	529
Long term security deposits		5,807	5,494
Deferred tax	15	-	-
		<hr/>	<hr/>
		1,048,694	1,100,517
CURRENT ASSETS			
Stores and spare parts	16	21,472	19,439
Stock in trade	17	107,324	191,628
Trade debts	18	15,453	35,335
Loan and advances	19	148	344
Trade deposits and short term prepayments	20	1,579	1,556
Other receivables	21	25,139	27,609
Cash and bank balances	22	2,489	1,695
		<hr/>	<hr/>
		173,604	277,606
		<hr/>	<hr/>
TOTAL ASSETS		<u>1,222,298</u>	<u>1,378,123</u>

(Mian Aamir Naseem)
Director

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2009**

	NOTE	(RUPEES IN THOUSAND)	
		2009	2008
SALES	23	1,402,105	1,505,524
COST OF SALES	24	1,386,328	1,437,053
GROSS PROFIT		15,777	68,471
DISTRIBUTION COST	25	35,181	27,529
ADMINISTRATIVE EXPENSES	26	25,170	26,368
OTHER OPERATING EXPENSES	27	3,259	3,026
		63,610	56,923
		(47,833)	11,548
OTHER OPERATING INCOME	28	329	668
(LOSS) / PROFIT FROM OPERATIONS		(47,504)	12,216
FINANCE COST	29	76,119	63,890
LOSS BEFORE TAXATION		(123,623)	(51,674)
PROVISION FOR TAXATION	30	(4,986)	(7,528)
LOSS AFTER TAXATION		(128,609)	(59,202)
EARNINGS PER SHARE - BASIC AND DILUTED (RUPEES)	33	(4.12)	(1.90)

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

(Mian Farrukh Naseem)
Chief Executive Officer

(Mian Aamir Naseem)
Director



CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2009

	(RUPEES IN THOUSAND)	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before taxation	(123,623)	(51,674)
Adjustments for non-cash charges and other items:		
Depreciation	53,322	58,906
Loss on sale of property, plant and equipment	-	72
Credit balances written back	(189)	(546)
Exchange loss	-	2,272
Provision for doubtful receivables	-	682
Impairment loss on investment	3,259	-
Interest expense due to impact of IAS-39	8,520	10,578
Finance cost	67,599	53,312
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE WORKING CAPITAL CHANGES	8,888	73,602
(INCREASE) / DECREASE IN CURRENT ASSETS		
Stores and spare parts	(2,033)	(623)
Stock in trade	84,304	(41,905)
Trade debts	19,882	23,282
Loans and advances	196	1,283
Trade deposits and short term prepayments	(23)	(310)
Other receivables	1,161	(5,364)
	103,487	(23,637)
INCREASE / (DECREASE) IN CURRENT LIABILITIES		
Trade and other payables	26,708	5,028
	26,708	5,028
EFFECT ON CASH FLOWS DUE TO WORKING CAPITAL CHANGES	130,195	(18,609)
CASH GENERATED FROM OPERATIONS	139,083	54,993
Finance cost paid	(38,972)	(50,303)
Income tax paid	(6,264)	(5,661)
NET CASH FROM OPERATING ACTIVITIES	93,847	(971)



	(RUPEES IN THOUSAND)	
	2009	2008
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure on property, plant and equipment	(1,525)	(5,567)
Long term security deposits	(313)	781
Proceeds from sale of property, plant and equipment	-	9,684
Proceeds from sale of investment	5	-
NET CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES	(1,833)	4,898
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long term financing - secured	(9,785)	(29,713)
Repayment of liabilities against assets subject to finance lease	(2,154)	(3,916)
Short term borrowings - net	(79,281)	30,403
NET CASH USED IN FINANCING ACTIVITIES	(91,220)	(3,226)
NET INCREASE IN CASH AND CASH EQUIVALENTS	794	701
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	1,695	994
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (NOTE 22)	<u>2,489</u>	<u>1,695</u>

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

(Mian Farrukh Naseem)
Chief Executive Officer

(Mian Aamir Naseem)
Director



**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2009**

(RUPEES IN THOUSAND)

	SHARE CAPITAL	R E S E R V E S			TOTAL EQUITY
		CAPITAL	REVENUE	TOTAL	
		FAIR VALUE	ACCUMULATED LOSS		
Balance as at 30 June 2007	312,000	(2,604)	(176,628)	(179,232)	132,768
Fair value adjustment on investment	-	(321)	-	(321)	(321)
Transfer from surplus on revaluation of property, plant and equipment - net of deferred tax	-	-	8,810	8,810	8,810
Loss for the year ended 30 June 2008	-	-	(59,202)	(59,202)	(59,202)
Balance as at 30 June 2008	312,000	(2,925)	(227,020)	(229,945)	82,055
Fair value adjustment on investment due to impairment loss	-	2,925	-	2,925	2,925
Transfer from surplus on revaluation of property, plant and equipment - net of deferred tax	-	-	7,961	7,961	7,961
Loss for the year ended 30 June 2009	-	-	(128,609)	(128,609)	(128,609)
Balance as at 30 June 2009	312,000	-	(347,668)	(347,668)	(35,668)

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

(Mian Farrukh Naseem)
Chief Executive Officer

(Mian Aamir Naseem)
Director



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

1. THE COMPANY AND ITS OPERATIONS

- 1.1 Sargodha Spinning Mills Limited ('The Company') is a public limited Company incorporated in Pakistan under the Companies Ordinance, 1984 and is listed on Karachi and Lahore stock exchanges. Its registered office is situated at A-601/B, City Towers, 6-K Main Boulevard, Gulberg-II, Lahore. The Company is principally engaged in the manufacture and trading of yarn made from raw cotton and synthetic fibre and fabric of all types and to generate electricity for internal use.
- 1.2 During the year ended 30 June 2009, the Company has incurred a net loss of Rupees 128.609 million. The Company has suffered accumulated loss of Rupees 347.668 million as on 30 June 2009 which has turned the equity into negative balance of Rupees 35.668 million. Current liabilities of the Company exceeded its current assets by Rupees 318.277 million. These factors raise doubt that the Company will not be able to continue as a going concern. During the year ended 30 June 2009, long term financing from NIB Bank Limited has been rescheduled and management is negotiating with other financial institutions to reschedule the remaining long term financing on soft terms. Spinning Unit No.2 of the Company is working on production of cotton carded yarn which is being exported. Subsequent to balance sheet date, production of Spinning Unit No.1 has been partially started and it is expected that Spinning Unit No.1 will be operative at maximum available capacity during the year ending 30 June 2010. Management expects that rescheduling / restructuring of outstanding loans, reduction in the rate of mark up, improvement in market conditions, continued support from sponsors and availability of continuous supply of gas and electricity would provide relief to the Company's financial liquidity and would help in carrying out operations smoothly and in servicing its debts well in time. Therefore, these financial statements have been prepared on going concern basis and do not include any adjustments that may be necessary if the company is unable to continue as going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation

a) Statement of Compliance

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

b) Accounting Convention

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

c) Critical accounting estimates and judgments

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



assumptions and estimates are significant to the Company's financial statements or where judgments were exercised in application of accounting policies are as follows:

Useful lives, patterns of economic benefits and impairments

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

Taxation

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

Provision for doubtful debts

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

d) Standard that is effective in current year.

IFRS 7 'Financial Instruments: Disclosures'. The Securities and Exchange Commission of Pakistan (SECP) vide S.R.O 411(I) / 2008 dated 28 April 2008 notified the adoption of IFRS 7. IFRS 7 is mandatory for Company's accounting period beginning on or after the date of notification i.e 28 April 2008. IFRS 7 has superseded IAS 30 and disclosure requirements of IAS 32. Adoption of IFRS 7 has only impacted the format and extent of disclosures presented in the financial statements.

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

There are other new standards, interpretations and amendments to the published approved accounting standards that are mandatory for accounting periods beginning on or after 01 July 2008 but are considered not to be relevant or do not have any significant impact on the Company's financial statements and are therefore not detailed in these financial statements.

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

The 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 2009 or later periods:

IAS 1 'Presentation of Financial Statements' (effective for annual periods beginning on or after 01 January 2009), issued in September 2007 revises the existing IAS 1 and requires apart from changing the names of certain financial statements, presentation of transactions with owners in statement of changes in equity and with non-owners in the Comprehensive Income Statement. Adoption of the aforesaid standard will only impact the presentation of the financial statements.

IAS 23 (Amendment) 'Borrowing Costs' (effective for annual periods beginning on or after 01 January 2009). It requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. On adoption the option of immediately expensing those borrowing costs will be withdrawn. This change will not affect the financial statements as the Company already has the policy to capitalize its borrowing costs.



IFRS 7 (Amendment) 'Financial Instruments: Disclosures' (effective for annual periods beginning on or after 01 January 2009). This amendment has expanded the disclosures required in respect of fair value measurements recognized in the statement of financial position. Moreover, amendments have also been made to the liquidity risk disclosures. Such amendments are not expected to have any significant impact on the Company's financial statements other than increase in disclosures.

There are other amendments resulting from May 2008 and April 2009 Annual Improvements to IFRSs, specifically in IFRS 8 'Operating Segments', IAS 1 'Presentation of Financial Statements', IAS 7 'Statement of Cash Flows', IAS 23 'Borrowing Costs', IAS 28 'Investments in Associates' and IAS 36 'Impairment of Assets' that are considered relevant to the Company's financial statements. These amendments are unlikely to have a significant impact on the Company's financial statements and have therefore not been analyzed in detail.

g) Standards, interpretations and amendments to published approved accounting standards that are not effective in current year and not considered relevant.

There are other accounting standards, amendments to published approved accounting standards and new interpretations that are mandatory for accounting periods beginning on or after 01 July 2009 but are considered not to be relevant or do not have any significant impact on the Company's financial statements and are therefore not detailed in these financial statements.

2.2 Employees' retirement benefits

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

2.3 Taxation

Current

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

Deferred

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

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in profit and loss account, except in the case of items credited or charged to equity in which case it is included in equity.

2.4 Foreign currencies

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

All monetary assets and liabilities denominated in foreign currencies are translated in to Pak Rupees at exchange rate prevailing at the balance sheet date or at the contracted rates while transactions in



foreign currency during the year are recorded at the rates of exchange prevailing at transaction date or at the contracted rates. Exchange gains and losses are charged to profit and loss account.

2.5 Property, plant and equipment

Owned

a) Cost

Property, plant and equipment except freehold land, buildings on freehold land, plant and machinery and capital work in progress are stated at cost less accumulated depreciation and accumulated impairment losses (if any). Freehold land is stated at revalued amount, buildings on freehold land and plant and machinery are stated at revalued amounts less accumulated depreciation and impairment losses, if any, while capital work in progress is stated at cost. Cost in relation to property, plant and equipment signifies historical cost and mark up, applicable exchange differences on foreign currency loans (up to 30 September 2004).

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

b) Depreciation

Depreciation on all property, plant and equipment is charged to profit and loss account on the reducing balance method so as to write off the cost of the assets over their estimated useful lives at the rates given in Note No 13. Depreciation charge commences from the month in which asset is available for use and continues until the month of disposal. The residual values and useful lives are reviewed by the management, at each financial year end and adjusted if impact on depreciation is significant.

c) Derecognition

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

Leased

These are stated at lower of present value of minimum lease payments under the lease agreements and the fair value of assets acquired on lease. Aggregate amount of obligation relating to assets subject to finance lease is accounted for at net present value of liabilities. Assets so acquired are depreciated over their expected useful lives at the rates mentioned in note no 13.

2.6 Investments

The Company's management determines the appropriate classification of its investments at the time of purchase. Investments are initially measured at cost plus transaction costs directly attributable to acquisition, except for "investments at fair value through profit or loss account" which is measured initially at fair value.

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

**Investments at Fair Value through Profit or Loss Account**

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

Held to Maturity

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

Available for Sale

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

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bids at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment. Unquoted investments, where the fair value cannot be reliably determined, are recognized at cost less impairment loss, if any.

2.7 Inventories

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

Stores and spares

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

Stock in trade

Cost of raw material is based on annual average cost.

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

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

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

2.8 Trade debts and other receivables

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

2.9 Borrowing cost

Mark-up, interest, profit and other charges on long term financing are capitalized for the period up to



the date of commissioning of the respective qualifying assets acquired out of the proceeds of such borrowings. All other mark-up, interest, profit and other charges are charged to profit and loss account during the year.

2.10 Provisions

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

2.11 Impairment

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 as income if right to receive payment is established.
- (c) Profit on bank deposits is recognized on a time proportion basis taking into account, the principal outstanding and rates of profits applicable thereon.

2.15 Share Capital

Ordinary shares are classified as equity.

2.16 Financial Instruments

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



expired.

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

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

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

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

2.17 Dividend and other appropriations

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

2.18 Cash and cash equivalents

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

2.19 Related party transactions

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

3. ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL

500 ordinary shares (30 June 2008: 500) of the Company are held by Hussein Sugar Mills Limited – an associated Company.

(RUPEES IN THOUSAND)
2009 2008

4. SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT

Opening balance as at 01 July	594,681	275,559
Add: Surplus on revaluation of land carried out on 31 December 2007	-	328,340
Less: Transfer to statement of changes in equity - net of deferred tax (Note 4.1)	7,961	8,810
Surplus on revaluation of assets disposed of	-	408
Closing balance as at 30 June	<u>586,720</u>	<u>594,681</u>

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 (2008: Rupees 21.700 million) which are subordinated to loans obtained from Banking Companies.

(RUPEES IN THOUSAND)
2009 2008

6. LONG TERM FINANCING - secured**From Banking Companies**

National Bank of Pakistan:

Demand finance (Note 6.1)	24,563	24,206
Term finance (Note 6.2)	18,096	18,096
Term finance (Note 6.3)	70,000	70,000

Habib Bank Limited (Note 6.4)	50,096	51,718
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NIB Bank Limited (Note 6.5)	79,680	79,680
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Less: Current portion shown under current liabilities (Note 11)	103,067	57,091
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139,368	186,609
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- 6.1** This finance is secured against equitable / registered mortgage on fixed assets of Unit No.1 of the Company and personal guarantees of directors. According to rescheduling arrangement dated 20 March 1999, the principal amount of Rupees 32.862 million has been paid in 13 equal half yearly installments commenced from 30 September 1999. Frozen mark-up at the time of rescheduling and mark up at the rate of 8 percent per annum on principal amount of Rupees 32.862 million were payable in 10 equal half yearly installments commenced from 01 January 2006. During the year ended 30 June 2007 this finance was rescheduled to repay the balance amount in 10 equal half yearly installments. However, after repayment of Rupees 1 million this finance was once again rescheduled on 19 April 2008, now remaining balance is payable in 9 half yearly installments commenced from 30 June 2008. Closing balance of this finance includes overdue payments of Rupees 7.222 million (30 June 2008: Rupees 2.611 million).
- 6.2** This finance was obtained for import of three natural gas generators. This is secured against first charge on fixed assets of the Company, exclusive hypothecation charge over generators and personal guarantees of directors. This finance was converted into long term finance export oriented projects scheme of the Government of Pakistan on 08 January 2007. It carries mark-up at the rate of State Bank of Pakistan refinance rate plus 2 percent per annum, which is payable on quarterly basis. The remaining principal amount is payable in 8 equal half yearly installments commenced from 31 December 2006. According to agreement additional markup at the rate of three months KIBOR plus 3 percent will be charged in case of non payment of principal on due dates. During the year Rupees 424,146 was charged by bank in addition to the normal mark up due to non payment on due dates. Closing balance of this finance includes overdue payments of Rupees 9.048 million (30 June 2008: Nil).
- 6.3** This finance was obtained for Balancing Modernization and Replacement (BMR). This is secured against registered first charge over fixed assets of the Company and personal guarantees of directors. As per agreement dated 10 October 2005 principal amount was repayable in 10 equal half yearly installments commenced from 28 February 2008. During the year ended 30 June 2008 this finance was rescheduled to repay the principal portion in 10 equal half yearly installments commenced from 28 February 2009. It carries mark-up at the rate of six months KIBOR plus 3 percent per annum subject to floor of 6 percent. Markup is payable on half yearly basis. Closing balance of this finance includes overdue payments of Rupees 7 million (30 June 2008: Nil).



6.4 This represents foreign currency loan obtained for import of machinery for Unit No.2 of the Company and interest thereon. The foreign currency loan was converted into Pak Rupees at the rates of exchange prevailing on the respective dates of opening of letters of credit under the terms of agreement. The loan is secured against:

- (i) first charge by way of mortgage on the Company's present and future immovable properties ranking pari passu with existing creditors;
- (ii) first charge by way of hypothecation on plant and machinery and first floating charge on all other assets of the Company; and
- (iii) demand promissory note.

According to rescheduling arrangements, this finance is payable in 120 equal monthly installments of Rupees 2.070 million each commenced from 30 September 2000. No further interest / mark-up will be charged on outstanding balance if payments are made as per agreed schedule. In case of default, interest will be charged at the rate of 20 percent per annum on overdue / defaulted payments. During the year ended 30 June 2008 as per sanction letter dated 20 March 2008 the bank allowed temporary relief to pay monthly installments of Rupees 1.035 million instead of 2.070 million from January 2008 to June 2008. Closing balance of this finance includes overdue payments of Rupees 18.700 million (30 June 2008: Rupees 1.035 million)

6.5 This finance was obtained for Balancing Modernization and Replacement (BMR). This is secured against registered first charge on all the present and future assets of Unit No.2 of the Company ranking pari passu and personal guarantees of sponsoring directors. According to rescheduling arrangement, dated 29 March 2007, the principal amount was repayable in 16 quarterly installments commenced from 30 December 2007. During the year ended 30 June 2008 this finance was rescheduled again to start the repayment from 30 December 2008. As per latest rescheduling arrangements of year ended 30 June 2009 this finance will be paid in 31 quarterly installments starting from 30 June 2009. Mark up of Rupees 12.302 million up to 30 April 2009 has been frozen by the bank and will be kept in mark up receivable account. This mark up 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. Closing balance of this finance includes overdue payments of Rupees 0.900 million (30 June 2008: Nil).

	(RUPEES IN THOUSAND)	
	2009	2008
7. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE		
Minimum lease payments	23,888	28,753
Less: Unamortized finance charges	3,501	6,212
	20,387	22,541
Present value of minimum lease payments (Note 7.2)	20,387	22,541
Less: Current portion shown under current liabilities (Note 11)	11,034	4,169
	9,353	18,372

7.1 The minimum lease payments are discounted at an implicit interest rate ranging from 6 months KIBOR plus 3 percent to 4.5 percent per annum (30 June 2008: 6 months KIBOR plus 3 percent to 4.5 percent per annum). Rentals are payable in quarterly installments and in case of default, an additional charge ranging from at the rate of 2 percent to 3 percent per month on outstanding amount shall be payable. Taxes, repairs and insurance costs are borne by the Company. The Company shall have no right to terminate lease agreement. The lease agreement carries renewal and purchase option at the end of lease term. Lease liability is secured against deposit of Rupees 2.646 million (30 June 2008: 2.646 million) included in long term security deposits.



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

(RUPEES IN THOUSAND)

	2009		2008	
	Not later than one year	Later than one year but not later than five year	Not later than one year	Later than one year but not later than five year
Minimum lease payments	13,989	9,899	7,525	21,228
Present value of minimum lease payments	11,034	9,353	4,169	18,372

(RUPEES IN THOUSAND)

2009 2008

8. TRADE AND OTHER PAYABLES

Creditors	143,704	107,638
Accrued liabilities	33,117	33,660
Advances from customers	1,012	9,652
Retention money	-	461
Payable to provident fund trust	333	236
Income tax deducted at source	183	226
Unclaimed dividend	683	683
Security deposits	1,730	1,730
	<u>180,762</u>	<u>154,286</u>

9 ACCRUED MARK-UP

Long term financing (Note 9.1)	27,718	7,380
Short term borrowings (Note 9.2)	15,131	7,650
Liabilities against assets subject to finance lease	1,007	199
	<u>43,856</u>	<u>15,229</u>

9.1 This includes overdue mark up of Rupees 13.752 million (30 June 2008: 7.379 million).

9.2 This includes overdue mark up of Rupees 5.979 million (30 June 2008: Nil).

10 SHORT TERM BORROWINGS - SECURED**From Banking Companies**

Export finance – Preshipment (Note 10.1 and 10.2)	72,505	72,202
Others (Note 10.1 and 10.3)	75,574	155,158
	<u>148,079</u>	<u>227,360</u>

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



- 10.2** These borrowings carry mark up at the rates LIBOR plus 2 percent and 3 month KIBOR plus 2.5 percent per annum (30 June 2008: LIBOR plus 2 percent and 3 month KIBOR plus 2 percent per annum). Closing balance of this finance includes overdue payments of Rupees 26.418 million (30 June 2008: Rupees 4.253 million).
- 10.3** These borrowings carry mark up at the rates 3 month KIBOR plus 2.5 percent and 6 month KIBOR plus 1.5 percent per annum with floor of 13.5% (30 June 2008: 3 month KIBOR plus 2 percent and 6 month KIBOR plus 1.5 percent per annum).

(RUPEES IN THOUSAND)
2009 2008

11 CURRENT PORTION OF NON-CURRENT LIABILITIES

Long term financing (Note 6)	103,067	57,091
Liabilities against assets subject to finance lease (Note 7)	11,034	4,169
	<u>114,101</u>	<u>61,260</u>

12 CONTINGENCIES AND COMMITMENTS

Contingencies

- 12.1** The Company is contingently liable for Rupees 4.161 million (30 June 2008: Rupees 4.161 million) on account of custom duty on humidification plant and excise duty on yarn.
- 12.2** The Company has issued counter-guarantee of Rupees 14.129 million (30 June 2008: Rupees 11.557 million) in favour of the bank for issuing letters of guarantee favouring Sui Northern Gas Pipelines Limited for gas connections.
- 12.3** Sales tax recoverable includes an amount of Rupees 3.090 million (30 June 2008: Rupees 5.959 million) deferred by sales tax department against which Company has filed appeals to the Sales Tax Collectorate, Faisalabad.

Commitments

- 12.4** Letters of credit for other than capital expenditure are Rupees 0.535 (30 June 2008: Rupees Nil).



13. Property, Plant and equipment (RUPEES IN THOUSAND)

	OWNED							LEASED	TOTAL	
	Freehold land	Buildings on freehold land	Plant and machinery	Electrical installations	Vehicles	Furniture and Fixtures	Office and other equipment	Factory equipment		Plant and machinery
At 01 July 2007										
Cost / revalued amount	190,260	163,443	1,161,850	10,715	11,807	2,875	1,812	2,952	26,461	1,572,175
Accumulated depreciation	-	61,000	675,759	3,400	5,099	1,508	825	1,286	2,090	750,967
Net book value	190,260	102,443	486,091	7,315	6,708	1,367	987	1,666	24,371	821,208
Year ended 30 June 2008										
Opening net book value	190,260	102,443	486,091	7,315	6,708	1,367	987	1,666	24,371	821,208
Additions	-	515	5,012	8	-	-	32	-	-	5,567
Surplus on revaluation	328,340	-	-	-	-	-	-	-	-	328,340
Disposal:										
Cost	-	-	7,296	-	948	-	-	-	-	8,244
Accumulated depreciation	-	-	(5,768)	-	(761)	-	-	-	-	(6,529)
Depreciation charge	-	5,128	48,881	732	1,324	136	101	167	2,437	58,906
Closing net book value	518,600	97,830	440,694	6,591	5,197	1,231	918	1,499	21,934	1,094,494
At 30 June 2008										
Cost / revalued amount	518,600	163,958	1,159,566	10,723	10,859	2,875	1,844	2,952	26,461	1,897,838
Accumulated depreciation	-	66,128	718,872	4,132	5,662	1,644	926	1,453	4,527	803,344
Net book value	518,600	97,830	440,694	6,591	5,197	1,231	918	1,499	21,934	1,094,494
Year ended 30 June 2009										
Opening net book value	518,600	97,830	440,694	6,591	5,197	1,231	918	1,499	21,934	1,094,494
Additions	-	-	1,504	-	-	21	-	-	-	1,525
Depreciation charge	-	4,890	44,175	659	1,039	124	92	150	2,193	53,322
Closing net book value	518,600	92,940	398,023	5,932	4,158	1,128	826	1,349	19,741	1,042,697
At 30 June 2009										
Cost / revalued amount	518,600	163,958	1,161,070	10,723	10,859	2,896	1,844	2,952	26,461	1,899,363
Accumulated depreciation	-	71,018	763,047	4,791	6,701	1,768	1,018	1,603	6,720	856,666
Net book value	518,600	92,940	398,023	5,932	4,158	1,128	826	1,349	19,741	1,042,697
Annual rate of depreciation %	-	5	10	20	10	10	10	10	10	10



- 13.1** Property, plant and equipment of the Company were revalued as at 30 September 1995, 31 March 2004 and 31 December 2007 by independent valuers. The latest revaluation as at 31 December 2007 was carried out only for freehold land by Messrs Masud Associates, the approved valuers. Had there been no revaluation, the value of the assets would have been lower by Rupees 631.084 million (2008: Rupees 643.333 million).
- 13.2** The book value of land, buildings on freehold land and plant and machinery on cost basis is Rupees 14.016 million, Rupees 62.022 million and Rupees 302.441 million respectively (2008: Rupees 14.016 million, Rupees 65.286 million and Rupees 334.489 million respectively).
- 13.3** Depreciation charge for the year has been allocated as follows:

	(RUPEES IN THOUSAND) 2009	2008
Cost of sales (Note 24)	51,567	56,818
Distribution cost (Note 25)	87	109
Administrative expenses (Note 26)	1,668	1,979
	<u>53,322</u>	<u>58,906</u>



		(RUPEES IN THOUSAND)	
		2009	2008
14.	LONG TERM INVESTMENTS		
	Available for Sale		
	Quoted		
	Sajjad Textile Mills Limited		
	344,900 (30 June 2008: 344,900) fully paid ordinary shares of Rupees 10 each	3,449	3,449
	Deficit on revaluation of investment	-	2,925
	Less: Impairment loss charged to Profit and loss account (Note 27)	3,259	-
		190	524
	Unquoted		
	Sargodha Industrial Urban Development Co-operative Society Limited - An Associated Undertaking		
	50 fully paid ordinary shares of Rupees 100 each	-	5
	Equity held Nil (30 June 2008: 10.22%)		
	Break-up value Rupees 100 per share as per last available audited accounts		
		190	529
14.1	Market value of investment in Sajjad Textile Mills Limited is Rupees 0.190 million as at 30 June 2009 (30 June 2008: Rupees 0.524 million). Full Impairment against this investment has been provided in these financial statements.		
15.	DEFERRED TAX		
	The (liability) / asset for deferred taxation originated due to temporary differences relating to:		
	Accelerated tax depreciation	(54,557)	(87,237)
	Surplus on revaluation of property, plant and equipment	(44,275)	(48,562)
		(98,832)	(135,799)
	Finance lease	150	213
	Accumulated tax losses	179,459	159,897
	Minimum tax available for carry forward	19,503	26,156
		100,280	50,467
	Less: Deferred tax asset not recognized	100,280	50,467
		-	-
15.1	The net deferred income tax asset of Rupees 100.280 million (30 June 2008: 50.467 million) has not been recognized in these financial statements as the temporary differences are not expected to reverse in foreseeable future because taxable profits will not be probably available against which the temporary differences can be utilized.		
16	STORES AND SPARE PARTS		
	Stores	2,290	2,237
	Spare parts	19,182	17,202
		21,472	19,439
17.	STOCK IN TRADE		
	Raw materials	39,806	102,639
	Work-in-process (Note 17.1)	9,632	15,253
	Finished goods (Note 17.1 and 17.2)	56,976	72,777
	Waste	910	959
		107,324	191,628



- 17.1 This includes work in process and finished goods of Rupees 1.432 million and Rupees 1.979 million respectively valued at net realizable value (30 June 2008: Nil).
- 17.2 This includes stock of Rupees Nil (30 June 2008: 0.621 million) and Rupees Nil (30 June 2008: 0.084 million) held with third parties Qandhari Packing Store and Zafar Fabric (Private) Limited respectively.

(RUPEES IN THOUSAND)
2009 2008

18 TRADE DEBTS**Considered good:**

Secured - against letters of credit	11,565	24,843
Unsecured - local	3,888	10,492
	15,453	35,335

As at 30 June 2009, trade debts of Rupees 3.662 million (30 June 2008 : Rupees 8.420 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:

Upto 1 month	-	6,268
1 to 6 months	2,228	567
More than 6 months	1,434	1,585
	3,662	8,420

19 LOANS AND ADVANCES**Considered good**

Employees – interest free	8	7
Contractors	-	207
Suppliers	54	124
Against expenses	25	6
Letters of credit	61	-
	148	344

20 TRADE DEPOSITS AND SHORT TERM PREPAYMENTS**Deposits**

Excise duty	444	25
Others	745	718

Prepayments

	390	813
	1,579	1,556

21 OTHER RECEIVABLES

Sales tax	14,538	14,781
Advance income tax	10,088	11,397
Miscellaneous	513	2,113
	25,139	28,291

Less: Provision for doubtful receivables	-	682
	25,139	27,609

22 CASH AND BANK BALANCES

Cash in hand	12	69
Cash with banks:		
Current accounts	2,437	1,530
Term deposit accounts (Note 22.1)	40	96
	2,477	1,626
	2,489	1,695



22.1 Rate of profit on term deposit accounts ranges from 1.78% to 4.93% (2008: 1.49%) per annum.

		(RUPEES IN THOUSAND)	
		2009	2008
23	SALES		
	Export	485,053	323,112
	Local	896,084	1,162,618
	Waste	20,968	19,794
		<u>1,402,105</u>	<u>1,505,524</u>
24	COST OF SALES		
	Raw materials consumed (Note 24.1)	1,015,636	1,104,679
	Salaries, wages and other benefits (Note 24.2)	101,546	110,362
	Processing and weaving charges	168	2,813
	Packing materials consumed	26,112	25,463
	Stores and spare parts	28,943	34,330
	Fuel and power	130,857	137,172
	Repair and maintenance	3,690	4,111
	Insurance	5,109	5,022
	Other factory overheads	1,229	2,258
	Depreciation (Note 13.3)	51,567	56,818
		<u>1,364,857</u>	<u>1,483,028</u>
	Work-in-process inventory		
	Opening stock	15,253	14,128
	Closing stock	(9,632)	(15,253)
		<u>5,621</u>	<u>(1,125)</u>
	Cost of goods manufactured	1,370,478	1,481,903
	Finished goods inventory		
	Opening stock	73,736	28,886
	Closing stock	(57,886)	(73,736)
		<u>15,850</u>	<u>(44,850)</u>
		<u>1,386,328</u>	<u>1,437,053</u>
24.1	RAW MATERIALS CONSUMED		
	Opening stock	102,639	106,709
	Add: Purchases (Note 24.1.1)	952,803	1,100,609
		<u>1,055,442</u>	<u>1,207,318</u>
	Less: Closing Stock	39,806	102,639
		<u>1,015,636</u>	<u>1,104,679</u>
24.1.1	Purchases includes Rupees Nil (2008: Rupees 5.399 million) from Shadab Textiles Mills Limited-an associated Company.		
24.2	Salaries, wages and other benefits include Rupees 2.002 million (2008: Rupees 2.276 million) in respect of contributions towards provident fund.		
25	DISTRIBUTION COST		
	Commission to selling agents	19,221	14,615
	Salaries and other benefits (Note 25.1)	1,265	1,220
	Freight and handling – local	2,211	2,360
	Freight and forwarding – export	12,397	9,225
	Depreciation (Note 13.3)	87	109
		<u>35,181</u>	<u>27,529</u>



- 25.1 Salaries and other benefits include Rupees 0.048 million (2008: Rupees 0.046 million) in respect of contributions towards provident fund.

(RUPEES IN THOUSAND)
2009 2008

26 ADMINISTRATIVE EXPENSES

Salaries, and other benefits (Note 26.1)	14,041	14,312
Traveling and conveyance	318	254
Rent, rates and taxes	1,053	1,945
Printing and stationery	560	538
Communication	768	844
Electricity and sui gas	1,603	1,787
Vehicles' running	1,735	1,673
Insurance	600	581
Subscription	502	553
Entertainment	271	283
Legal and professional	505	293
Auditors' remuneration (Note 26.2)	460	233
Repair and maintenance	931	995
Advertisement	121	60
Miscellaneous	34	38
Depreciation (Note 13.3)	1,668	1,979
	25,170	26,368

- 26.1 Salaries and other benefits include Rupees 0.364 million (2008: 0.360 million) in respect of contributions towards provident fund.

26.2 AUDITORS' REMUNERATION

Annual audit fee	375	150
Half yearly review fee	25	25
Reimbursable expenses	10	8
Other certification fee	50	50
	460	233

27 OTHER OPERATING EXPENSES

Loss on sale of property, plant and equipment	-	72
Exchange loss	-	2,272
Provision for doubtful receivables	-	682
Impairment loss on long term investment (Note 14)	3,259	-
	3,259	3,026

28 OTHER OPERATING INCOME

From Financial Assets		
Credit balances written back	189	546
From Non-Financial Assets		
Sale of scrap	140	122
	329	668



		(RUPEES IN THOUSAND)	
		2009	2008
29	FINANCE COST		
	Interest on Employees provident fund trust	231	90
	Mark-up on:		
	Long term financing	36,615	31,590
	Liabilities against assets subject to finance lease	3,428	3,018
	Short term borrowings	32,931	25,023
	Bank and other charges	2,914	4,169
		76,119	63,890
30	PROVISION FOR TAXATION		
	Current:		
	- For the year (Note 30.1)	4,983	7,528
	- Prior year	3	-
		4,986	7,528

30.1 The Company is under the ambit of final tax upto the extent of export sales under section 169 of the Income Tax Ordinance, 2001. Provision for income tax is made accordingly. No provision for income tax was considered necessary for income which is not subject to final tax under section 169 of the Income Tax Ordinance, 2001, as the Company has carry forwardable losses of Rupees 512.740 million (2008: Rupees 456.848 million).

30.2 The Company has loss before taxation and provision for taxation is made on the basis as explained in the note 30.1, therefore, it is impracticable to prepare the tax charge reconciliation for the years presented.

31 REMUNERATION TO CHIEF EXECUTIVE OFFICER AND EXECUTIVES

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

(RUPEES IN THOUSAND)				
DESCRIPTION	2009		2008	
	Chief Executive	Executives	Chief Executive	Executives
Managerial remuneration	636	1,505	636	977
Housing	259	671	259	436
Utility allowance	65	74	65	49
Medical	-	60	-	39
Contribution to employees' provident fund trust	-	93	-	50
	960	2,403	960	1,551
Number of persons	1	2	1	1

31.1 The Chief Executive Officer has been provided Company maintained cars.

31.2 No meeting fee was paid to directors during the year under reference (2008: Rupees Nil).

(RUPEES IN THOUSAND)
2009 2008**32 TRANSACTIONS WITH RELATED PARTIES**

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

Post Employment Benefits

Expense charged in respect of retirement benefit plan	2,414	2,682
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33 EARNINGS PER SHARE – BASIC AND DILUTED

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

Loss attributable to ordinary shareholders	(Rupees in thousand)	(128,609)	(59,202)
Weighted average number of ordinary shares	(Numbers)	31,200,000	31,200,000
Earnings per share-Basic	(Rupees)	(4.12)	(1.90)

34 FINANCIAL RISK MANAGEMENT**34.1 Financial risk factors**

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

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

(a) Market risk**(i) Currency risk**

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

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

	2009	2008
Trade debts - USD	142,602	365,345
Short term finances - USD	653,748	944,317
Net exposure - USD	(511,146)	(578,972)

The following significant exchange rates were applied during the year:

Rupees per US Dollar

Average rate	77.35	60.85
Reporting date rate	81.10	68.00

**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 loss after taxation for the year would have been Rupees 2.078 million (30 June 2008: Rupees 1.981 million) respectively higher / lower, mainly as a result of exchange losses / gains on translation of foreign exchange denominated financial instruments. Currency risk sensitivity to foreign exchange movements has been calculated on a symmetric basis. In management's opinion, the sensitivity analysis is unrepresentative of inherent currency risk as the year end exposure does not reflect the exposure during the year.

(ii) Interest rate risk

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

The Company has no significant long-term interest-bearing assets. The Company's interest rate risk arises from long term financing and short term borrowings. Borrowings obtained at variable rates expose the Company to cash flow interest rate risk. Borrowings obtained at fixed rate expose the Company to fair value interest rate risk.

At the balance sheet date the interest rate profile of the Company's interest bearing financial instruments was:

	(RUPEES IN THOUSAND)	
	2009	2008
Fixed rate instruments		
Financial liabilities		
Long term financing	92,755	94,020
Floating rate instruments		
Financial asset		
Bank balances- term deposit accounts	40	96
Financial liabilities		
Long term financing	149,680	149,680
Liabilities against assets subject to finance lease	20,387	22,541
Short term borrowings	148,079	227,360

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, loss after taxation for the year would have been Rupees 3.159 million (2008: Rupees 3.996 million) higher / lower, mainly as a result of higher / lower interest expense on floating rate borrowings. This analysis is prepared assuming the amounts of liabilities outstanding at balance sheet dates were outstanding for the whole year.

(iii) Other price risk

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

**Sensitivity analysis**

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

Index	Impact on loss after taxation		Impact on other components of equity (fair value reserve)	
	2009	2008	2009	2008
----- (RUPEES IN THOUSAND) -----				
KSE 100 (5% increase-Decrease in loss)	9	-	Increase in fair value reserve	- 26
KSE 100 (5% decrease-increase in loss)	9	-	decrease in fair value reserve	- 26

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

(b) Credit risk

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

	(RUPEES IN THOUSAND)	
	2009	2008
Long term investments	190	529
Long term security deposit	5,807	5,494
Trade debts	15,453	35,335
Loans and advances	8	7
Short term deposits	1,189	743
Other receivables	513	2,113
Bank balances	2,477	1,626
	25,637	45,847

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			2009	2008
	Short Term	Long Term	Agency	(RUPEES IN THOUSAND)	
Banks					
National Bank of Pakistan	A-1+	AAA	JCR-VIS	29	158
Allied Bank Limited	A1+	AA	PACRA	20	19
Askari Bank Limited	A1+	AA	PACRA	19	10
Bank Alfalah Limited	A1+	AA	PACRA	2,264	33
Habib Bank Limited	A-1+	AA+	JCR-VIS	41	42
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	23	1,249
MCB Bank Limited	A1+	AA+	PACRA	-	-
NIB Bank Limited	A1+	AA-	PACRA	40	96
Silkbank Limited	A-3	A-	JCR-VIS	3	4
Standard Chartered Bank (Pakistan) Limited	A1+	AAA	PACRA	18	-
United Bank Limited	A-1+	AA+	JCR-VIS	3	3
Soneri Bank Limited	A1+	AA-	PACRA	17	12
				2,477	1,626



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

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

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk through committed credit facilities. At 30 June 2009, the Company had Rupees 175.5 million (30 June 2008: Rupees 885 million) available borrowing limits from financial institutions and Rupees 2.489 million (30 June 2008: Rupees 1.695 million) cash and bank balances. In spite of the fact that the Company is in a negative working capital position at the year end, management believes the liquidity risk is manageable. Following are the contractual maturities of financial liabilities, including interest payments. The amount disclosed in the table are undiscounted cash flows:

Contractual maturities of financial liabilities as at 30 June 2009

	Carrying Amount	Contractual cash flows	6 month or less	6-12 month	1-2 Year	More than 2 Years
----- (RUPEES IN THOUSAND) -----						
Sponsor's advance	30,644	30,644	-	-	-	30,644
Long term financing	242,435	371,750	115,888	39,137	34,423	182,302
Liabilities against assets subject to finance lease	20,387	23,888	8,422	5,567	9,899	-
Trade and other payables	179,234	179,234	179,234	-	-	-
Short term borrowings	148,079	168,179	166,358	1,821	-	-
	<u>620,779</u>	<u>773,695</u>	<u>469,902</u>	<u>46,525</u>	<u>44,322</u>	<u>212,946</u>

Contractual maturities of financial liabilities as at 30 June 2008

	Carrying Amount	Contractual cash flows	6 month or less	6-12 month	1-2 Year	More than 2 Years
----- (RUPEES IN THOUSAND) -----						
Sponsor's advance	30,644	30,644	-	-	-	30,644
Long term financing	243,700	356,208	46,956	47,640	88,400	173,212
Liabilities against assets subject to finance lease	22,541	28,753	3,322	4,203	11,239	9,989
Trade and other payables	144,172	144,172	144,172	-	-	-
Short term borrowings	227,360	244,900	244,900	-	-	-
	<u>668,417</u>	<u>804,677</u>	<u>439,350</u>	<u>51,843</u>	<u>99,639</u>	<u>213,845</u>

The contractual cash flows relating to the above financial liabilities have been determined on the basis of interest rates / mark up rates effective as at 30 June. The rates of interest / mark up have been disclosed in note 6 note 7 and note 10 to these financial statements.

34.2 Fair values of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date.



34.3 Financial instruments by categories

Loans and receivables	Available for sale	Total
-----------------------	--------------------	-------

(RUPEES IN THOUSAND)

As at 30 June 2009

Assets as per balance sheet

Investments	-	190	190
Long term security deposit	5,807	-	5,807
Trade debts	15,453	-	15,453
Loans and advances	8	-	8
Short term deposits	1,189	-	1,189
Other receivables	513	-	513
Cash and bank balances	2,489	-	2,489
	<u>25,459</u>	<u>190</u>	<u>25,649</u>

Financial liabilities at amortized cost

(RUPEES IN THOUSAND)

Liabilities as per balance sheet

Sponsors' advance	30,644
Long term financing	242,435
Liabilities against assets subject to finance lease	20,387
Trade and other payables	179,234
Accrued mark-up	43,856
Short term borrowings	148,079
	<u>664,635</u>

Loans and receivables	Available for sale	Total
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(RUPEES IN THOUSAND)

As at 30 June 2008

Assets as per balance sheet

Investments	-	529	529
Long term security deposit	5,494	-	5,494
Trade debts	35,335	-	35,335
Loans and advances	7	-	7
Short term deposits	743	-	743
Other receivables	2,113	-	2,113
Cash and bank balances	1,695	-	1,695
	<u>45,387</u>	<u>529</u>	<u>45,916</u>

Financial liabilities at
amortized cost

(RUPEES IN THOUSAND)

Liabilities as per balance sheet

Sponsors' advance	30,644
Long term financing	243,700
Liabilities against assets subject to finance lease	22,541
Trade and other payables	144,172
Accrued mark-up	15,229
Short term borrowings	227,360
	683,646

35 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue new shares.

36 PLANT CAPACITY AND ACTUAL PRODUCTION	2009	2008
	(Kilograms in thousand)	
Production at normal capacity converted to 20s count based on 3 shifts per day	21,528	23,832
Actual production converted to 20s count based on 3 shifts per day	16,364	22,544

36.1 Reason for low production

Under utilization of available capacity is due to normal maintenance. Spinning Unit No.1 is solely dependent on power supply of WAPDA, due to heavy load shedding its production is temporarily shut down.

37 EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors of the Company in its meeting held on October 07, 2009 has not proposed any dividend in respect of the year ended 30 June 2009 (30 June 2008: Nil).

38 DATE OF AUTHORISATION

These financial statements have been approved by the Board of Directors of the Company and authorized for issue on October 07, 2009.

39 CORRESPONDING FIGURES

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

40 GENERAL

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

(Mian Farrukh Naseem)
Chief Executive Officer

(Mian Aamir Naseem)
Director



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

FORM 34

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 2009**

4. No. of shareholders	Shareholdings		Total shares held
	From	To	
156	1	100	15,402
2,477	101	500	1,185,499
117	501	1,000	114,500
147	1,001	5,000	393,699
28	5,001	10,000	225,100
14	10,001	15,000	177,800
8	15,001	20,000	148,800
7	20,001	25,000	156,500
5	30,001	35,000	161,400
3	40,001	45,000	130,000
3	60,001	65,000	191,000
1	65,001	70,000	65,300
2	75,001	80,000	152,500
2	120,001	125,000	247,500
1	170,001	175,000	171,600
1	180,001	185,000	181,500
1	190,001	195,000	195,000
2	200,001	205,000	407,525
1	295,001	300,000	297,500
1	460,001	465,000	460,212
1	585,001	590,000	588,202
1	605,001	610,000	605,898
1	720,001	725,000	723,000
3	730,001	735,000	2,198,908
1	840,001	845,000	842,200
1	920,001	925,000	921,635
1	955,001	960,000	956,800
2	1,085,001	1,090,000	2,173,226
1	1,285,001	1,290,000	1,287,300
1	1,505,001	1,510,000	1,505,525
1	1,880,001	1,885,000	1,882,425
1	1,910,001	1,915,000	1,913,225
1	2,695,001	2,700,000	2,698,319
1	3,860,001	3,865,000	3,863,300
1	3,960,001	3,965,000	3,961,700

2,995

31,200,000



5. Categories of shareholders	Shares Held	Percentage
5.1 Directors, Chief Executive Officers, and their spouse and minor children.	9,747,425	31.2417%
5.2 Associated Companies, undertakings and related parties	500	0.0016%
5.3 NIT and ICP	1,194,600	3.8288%
5.4 Banks Development Financial Institution, Non Banking Financial Institutions.	41,600	0.1333%
5.5 Insurance Companies	--	--
5.6 Modarabas and Mutual Funds	--	--
5.7 Share holders holding 10%	7,825,000	25.0801%
5.8 General Public A. Local B. Foreign	19,985,075 --	64.0547% --
5.9 Others (to be specified) 1. Joint Stock Companies	230,800	0.7397%
6. Signature of Company Secretary		
7. Name of Signatory	Mazhar Hussain	
8. Designation	Company Secretary	
9. NIC Number	35202-2725576-3	
10. Date	Day	Year
	3 0	2 0 0 9



CATEGORIES OF SHAREHOLDERS REQUIRED UNDER C.C.G. AS ON JUNE 30, 2009

S.No.	NAME	HOLDING	%AGE
ASSOCIATED COMPANIES			
1	M/s Husein Sugar Mills Limited	500	0.0016%
		500	0.0016%
NIT and ICP			
1	Investment Corp. of Pakistan	500	0.0016%
2	Nbp Trustee-NI(U)T (LOC) Fund	605,898	1.9420%
3	National Bank Of Pakistan, Trustee Deptt. (CDC)	588,202	1.8853%
		1,194,600	3.8288%
DIRECTORS, CEO THEIR SPOUSE AND MINOR CHILDREN			
1	Mian Shahzad Aslam	1,913,225	6.1321%
2	Mian Farrukh Naseem	3,863,300	12.3824%
3	Mian Aamir Naseem	3,961,700	12.6978%
4	Mrs. Hina Farrukh	7,200	0.0231%
5	Syed Arif Hussain	1,000	0.0032%
6	Mr. Irfan Qamar	500	0.0016%
7	Mr. Shahid Mahmood	500	0.0016%
		9,747,425	31.2417%
PUBLIC SECTOR COMPANIES & CORPORATION			
1	H.m. Investment (pvt) Limited (CDC)	600	0.0019%
2	Azee Securities (pvt) Limited (CDC)	500	0.0016%
3	Adeel & Nadeem Securities (Pvt) Ltd. (CDC)	800	0.0026%
4	Adam Lubricants (Pvt) Limited	2,000	0.0064%
5	Al-haq Securities (Pvt) Ltd. (CDC)	500	0.0016%
6	Capital Vision Securities (Pvt) Ltd. (CDC)	1,100	0.0032%
7	Durvesh Securities (Pvt) Ltd. (CDC)	500	0.0016%
8	Fateh Textile Mills Limited. (CDC)	500	0.0016%
9	Hum Securities (Pvt) Ltd. (CDC)	500	0.0016%
10	Ismail Abdul Shakoor Securities (Pvt) Ltd. (CDC)	3,000	0.0096%
11	Jamshaid & Hasan Securities (Pvt) Ltd. (CDC)	900	0.0029%
12	KSR Stock Brokerage (Pvt) Ltd. (CDC)	10,000	0.0321%
13	Masmaniar Financials (Pvt) Ltd. (CDC)	4,500	0.0144%
14	Salim Sozer Securities (Pvt) Ltd. (CDC)	125,000	0.4006%
15	Sargodha Jute Mills Limited. (CDC)	30,800	0.0987%
16	Time Securities (Pvt) Ltd. (CDC)	2,000	0.0064%
17	Y.S Securities & Services (Pvt) Ltd. (CDC)	5,700	0.0183%
18	Shahzad Textile Mills Limited	42,000	0.1346%
		230,800	0.7397%
FINANCIAL INSTITUTION			
1.	Bank Alfalah Limited (CDC)	6,000	0.0192%
2.	Escorts Investment Bank Limited (CDC)	1,000	0.0032%
3.	Pakistan Industrial Credit & Investment Corporation Limited	34,500	0.1106%
4.	Invest Capital Investment Bank Limited (CDC)	100	0.0003%
		41,600	0.1333%
SHARES HELD BY THE GENERAL PUBLIC		19,985,075	64.0547%
TOTAL:		31,200,000	100.0000%
SHAREHOLDERS HOLDING 10% OR MORE OF TOTAL CAPITAL			
1	Mian Farrukh Naseem	3,863,300	12.3824%
2	Mian Aamir Naseem	3,961,700	12.6978%
		7,825,000	25.0801%

During the financial year 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	Mr. Shahid Mahmood	500	-

