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Reliance Cotton Spinning Mills Limited Quarterly Accounts September 30, 2015

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Company Information

Board of Directors

Mr. Mohammad Abdullah	Chairman
Mr. Shayan Abdullah	Chief Executive
Mr. Amer Abdullah	
Mr. Yousuf Abdullah	
Mr. Nabeel Abdullah	
Mr. Mohammad Yamin	
Mr. Asif Elahi	Independent Director

Audit Committee

Mr. Amer Abdullah	Chairman
Mr. Asif Elahi	Member
Mr. Nabeel Abdullah	Member

Human Resource

& Remuneration Committee

Mr. Mohammad Yamin	Chairman
Mr. Shayan Abdullah	Member
Mr. Asif Elahi	Member

Chief Financial Officer

Mr. Naveed ul Islam

Company Secretary

Mr. Umar Rahi

Bankers of the Company

Habib Bank Limited
Habib Metropolitan Bank Limited
MCB Bank Limited
Meezan Bank Limited
United Bank Limited

Auditors

Deloitte Yousuf Adil
Chartered Accountants

Management Consultant

Deloitte Yousuf Adil
Chartered Accountants

Tax Consultant

Deloitte Yousuf Adil
Chartered Accountants

Legal Advisor

Hassan & Hassan Advocated

Share Registrar

Hameed Majeed Associates (Pvt) Limited

Geographical Presence:

Registered Office

312, Cotton Exchange Building,
I.I. Chundrigar Road, Karachi

Mills

Ferozwattoan
District, Sheikhpura Punjab

Company Website

www.sapphire.com.pk/rcsmi

Directors' Review

We are pleased to present un-audited interim financial information of the company for the quarter ended September 30, 2015.

Profitability of the Company has decreased as compared to corresponding period of the last year due to decrease in sale rates and increase in cost of production.

Salient features of the period under review are as follows:

- Sales volume remained at Rs. 810.637 million which is lesser by 27.16% as compared to the corresponding period (2014: Rs. 1,112.952 million).
- Gross profit for the period remained at Rs. 83.547 million as compared to Rs. 166.144 million of the last comparative period.
- The Company has earned after tax profit of Rs. 37.492 million as against Rs. 76.779 million of the comparative period of last year showing decline of 51.17%.
- The earnings per share (EPS) for the quarter ended September 30, 2015 is Rs. 3.64 as against Rs. 7.46 of the same period of last year.

FUTURE OUTLOOK

Textile sector in Pakistan is facing challenges of poor demand and continuous decline in sale rates both in local and international markets. This uncertain situation is prevailing since last year and still seems no sign of improvement in near future. On the other hand industry in Pakistan is being burdened with various types of taxes and high cost of production, which has resulted the sector unviable against the regional competitors.

Despite all these difficulties, the management is committed to mitigate negative impacts by cost curtailing measures and diversification in product range.

ACKNOWLEDGEMENT

The directors appreciate the hard work and commendable services rendered by staff and workers of the Company.

For and on behalf of the Board of Directors

Karachi :
Dated: October 28, 2015

Shayan Abdullah
Chief Executive

CONDENSED INTERIM BALANCE SHEET

AS AT SEPTEMBER 30, 2015

		Un-Audited September 30, 2015	Audited June 30, 2015
	Note	-----Rupees-----	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	4	1,470,000,784	1,483,821,749
Long term investments	5	620,348,645	627,402,950
Long term deposits		9,129,670	9,129,670
		2,099,479,099	2,120,354,369
CURRENT ASSETS			
Stores, spare parts and loose tools		36,580,919	41,109,792
Stock in trade		733,620,116	853,124,362
Trade debts		387,502,742	434,038,719
Loans and advances		45,557,107	5,406,078
Deposit and short term prepayments		2,026,408	1,348,780
Other receivables		13,750,723	13,476,572
Advance income tax		74,498,389	65,924,143
Tax refunds due from the Government		156,979,726	188,395,154
Cash and bank balances		10,660,983	7,679,271
		1,461,177,113	1,610,502,871
		3,560,656,212	3,730,857,240
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorized capital:			
12,000,000 (June 30, 2015: 12,000,000) ordinary shares of Rs.10 each		120,000,000	120,000,000
Issued, subscribed and paid up capital:			
10,292,000 (June 30, 2015: 10,292,000) ordinary shares of Rs.10 each		102,920,000	102,920,000
General reserve		130,000,000	130,000,000
Capital reserve		118,289,454	144,013,053
Un-appropriated profit		1,577,635,812	1,540,143,805
		1,928,845,266	1,917,076,858
NON-CURRENT LIABILITIES			
Deferred liabilities			
- employee benefits - unfunded		66,040,261	62,258,658
- deferred tax		42,354,871	43,034,414
		108,395,132	105,293,072
CURRENT LIABILITIES			
Trade and other payables		190,468,912	278,733,515
Mark-up accrued		21,340,820	18,119,425
Short term borrowings	6	1,234,036,131	1,342,194,285
Current portion of long term financing		33,333,333	33,333,333
Provision for taxation		44,236,618	36,106,752
		1,523,415,814	1,708,487,310
CONTINGENCIES AND COMMITMENTS	7	3,560,656,212	3,730,857,240

The annexed notes from 1 to 12 form an integral part of these financial statements.

Karachi
Dated: October 28, 2015

Shayan Abdullah
Chief Executive Officer

Amer Abdullah
Director

CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (Un-audited) FOR THE QUARTER ENDED SEPTEMBER 30, 2015

		Un-audited Quarter ended September 30, 2015	Un-audited Quarter ended September 30, 2014
	Note	-----Rupees-----	
Sales	8	810,636,755	1,112,951,790
Cost of sales	9	(727,089,759)	(946,807,335)
Gross profit		83,546,996	166,144,455
Distribution cost		(19,736,780)	(25,011,322)
Administrative expenses		(9,832,392)	(9,268,134)
Other income		1,646,639	1,630,695
Other operating expenses		(2,059,535)	(5,376,045)
		(29,982,068)	(38,024,806)
		53,564,928	128,119,649
Finance cost		(27,291,896)	(55,581,989)
Share of profit of associates		18,669,294	15,276,391
Profit before taxation		44,942,326	87,814,051
Provision for taxation		(7,450,319)	(11,034,663)
Profit for the period		37,492,007	76,779,388
Earnings per share - basic and diluted		3.64	7.46

The annexed notes from 1 to 12 form an integral part of these financial statements.

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (Un-audited)
FOR THE QUARTER ENDED SEPTEMBER 30, 2015

	Un-audited Quarter ended September 30, 2015	Un-audited Quarter ended September 30, 2014
	-----Rupees-----	
Profit for the period	37,492,007	76,779,388
Other comprehensive income:		
Share in associates' unrealized (loss) on available for sale investments - net	(21,038,824)	(8,854,644)
Share in associate's unrealized gain on hedging instruments	144,360	3,851
Other comprehensive (loss) for the period	(20,894,464)	(8,850,793)
Total comprehensive income for the period	16,597,543	67,928,595

The annexed notes from 1 to 12 form an integral part of these financial statements.

Karachi
Dated: October 28, 2015

Shayan Abdullah
Chief Executive Officer

Amer Abdullah
Director

CONDENSED INTERIM CASH FLOW STATEMENT (Un-audited) FOR THE QUARTER ENDED SEPTEMBER 30, 2015

	Un-audited Quarter ended September 30, 2015	Un-audited Quarter ended September 30, 2014
	-----Rupees-----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	44,942,326	87,814,051
Adjustments for:		
Depreciation of property, plant and equipment	32,821,105	31,165,293
Provision for employee benefits	5,454,000	4,950,000
Gain on disposal of property, plant and equipment	(1,052,463)	-
Finance cost	(27,291,896)	55,581,989
Share of profit of associates	(18,669,294)	(15,276,391)
	36,203,778	164,234,942
Working capital changes		
(Increase) / decrease in current assets		
Stores, spare parts and loose tools	4,528,873	(4,025,656)
Stock in trade	119,504,246	265,835,646
Trade debts	46,535,977	(24,165,642)
Loans and advances	(40,151,029)	(1,924,419)
Deposits and short term prepayments	(677,628)	(253,382)
Other receivables	(274,151)	(843,158)
(Decrease)/Increase in current liabilities		
Trade and other payables	(88,264,142)	(2,131,947)
	41,202,146	232,491,442
Cash generated from operations	77,405,925	396,726,384
Dividend paid	(466)	-
Employee benefits paid	(1,672,397)	(2,335,080)
Finance cost paid	30,513,291	(61,673,285)
Sales tax paid	31,415,429	(8,842,690)
Income taxes paid	(8,574,242)	(15,813,768)
	51,681,615	(88,664,823)
Net cash generated from operating activities	129,087,540	308,061,561
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure on property, plant and equipment	(20,347,674)	(8,323,542)
Proceeds from disposal of property, plant and equipment	2,400,000	-
Long term loans - net	-	57,000
Net cash used in investing activities	(17,947,674)	(8,266,542)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long term financing	-	(8,333,332)
Short term borrowings - net	(108,158,154)	(302,403,319)
Net cash from financing activities	(108,158,154)	(310,736,651)
Net increase/(decrease) in cash and cash equivalents	2,981,712	(10,941,632)
Cash and cash equivalents at the beginning of period	7,679,271	19,937,567
Cash and cash equivalents at the end of period	10,660,983	8,995,935

The annexed notes from 1 to 12 form an integral part of these financial statements.

Karachi
Dated: October 28, 2015

Shayan Abdullah
Chief Executive Officer

Amer Abdullah
Director

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE QUARTER ENDED SEPTEMBER 30, 2015

	Revenue reserves		Capital reserve				Sub-total	Total
	General reserve	Un-appropriated profit	Share in associates' unrealized gain on investments - net	Share in associate's unrealized gain / (loss) on hedging instruments	Share in associate's remeasurement of post retirement benefits obligation	Share of items directly recognized in equity by associates		
Balance as at Jul 01, 2014	102,920,000	130,000,000	1,420,145,118	99,774,934	145,173	(741,688)	54,642,854	153,821,273
Comprehensive income:								
Profit for the quarter ended September 30, 2014	-	-	76,779,388	-	-	-	-	76,779,388
Other comprehensive income	-	-	(8,854,644)	3,851	-	-	(8,850,793)	(8,850,793)
Total comprehensive income	-	-	76,779,388	(8,854,644)	3,851	-	(8,850,793)	67,928,595
Effects of items directly recognized in equity by associates	-	-	-	-	-	(102,947)	(102,947)	(102,947)
Balance as at September 30, 2014	102,920,000	130,000,000	1,496,924,506	90,920,290	149,024	(741,688)	54,539,907	1,874,712,039
Comprehensive income:								
Profit for the nine months ended June 30, 2015	-	-	65,942,960	-	-	-	-	65,942,960
Other comprehensive income	-	-	(7,285,661)	(1,163,219)	(162,735)	(783,880)	(2,109,834)	(9,395,495)
Total comprehensive income	-	-	58,657,299	(1,163,219)	(162,735)	(783,880)	(2,109,834)	56,547,465
Effects of items directly recognized in equity by associates	-	-	-	-	-	1,255,354	1,255,354	1,255,354
Transactions with owners:								
Final dividend for the year ended June 30, 2014 @ Rs.1.5 per share	-	-	(15,438,000)	-	-	-	-	(15,438,000)
Balance as at June 30, 2015	102,920,000	130,000,000	1,540,143,805	89,757,071	(13,711)	(1,525,568)	55,795,261	1,917,076,858
Comprehensive income:								
Profit for the quarter ended September 30, 2015	-	-	37,492,007	-	-	-	-	37,492,007
Other comprehensive income	-	-	-	(21,038,824)	144,360	-	(20,894,464)	(20,894,464)
Total comprehensive income	-	-	37,492,007	(21,038,824)	144,360	-	(20,894,464)	16,597,543
Effects of items directly recognized in equity by associates	-	-	-	-	-	(4,829,135)	(4,829,135)	(4,829,135)
Balance as at September 30, 2015	102,920,000	130,000,000	1,577,635,812	68,718,247	130,649	(1,525,568)	50,966,126	1,928,845,266

The annexed notes from 1 to 12 form an integral part of these financial statements.

Karachi
Dated: October 28, 2015

Shayan Abdullah
Chief Executive Officer

Amer Abdullah
Director

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (Un-audited) FOR THE QUARTER ENDED SEPTEMBER 30, 2015

1 GENERAL INFORMATION

Reliance Cotton Spinning Mills Limited ("the Company") was incorporated in Pakistan on June 13, 1990 as a public limited company under the Companies Ordinance, 1984. The registered office of the Company is situated at 312, Cotton Exchange Building, I.I. Chundrigar Road, Karachi. The Company is currently listed on Karachi Stock Exchange Limited and Lahore Stock Exchange Limited. The principal activity of the Company is manufacturing and sale of yarn. The mills are located at Warburton Road, Ferozwattoan, District Sheikhpura Punjab.

- 1.1 This condensed interim financial information is presented in Pak Rupees, which is the Company's functional and presentation currency.

2 BASIS OF PREPARATION

- 2.1 This condensed interim financial information of the Company for the quarter ended September 30, 2015 has been prepared in accordance with the requirements of the International Accounting Standard 34 "Interim Financial Reporting" and provisions of and directives issued under the Companies Ordinance, 1984. In case where requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984 have been followed.

- 2.2 This condensed interim financial information does not include all of the information required for the annual financial statements and should be read in conjunction with the financial statements of the Company for the year ended June 30, 2015.

3 ACCOUNTING POLICIES AND ESTIMATES

Judgments and estimates made by management in the preparation of this condensed interim financial information are the same as those applied to the preparation of the annual audited financial statement for the year ended June 30, 2015.

	Note	Un-audited September 30 2015 Rupees	Audited June 30 2015 Rupees
4 PROPERTY, PLANT AND EQUIPMENT			
Operating assets	4.1	1,310,319,335	1,325,660,013
Capital work in progress	4.2	159,681,450	158,161,736
		1,470,000,784	1,483,821,749
4.1 Operating assets			
Opening book value		1,325,660,013	1,289,232,611
Additions during the period / year			
Freehold land		-	17,990,000
Plant and machinery		10,000,000	-
Vehicles		2,566,210	-
Computers		-	192,499
		12,566,210	18,182,499
Transfer from capital work in progress			
Factory Building		-	81,847,838
Plant and machinery		6,261,750	61,988,350
Vehicles		-	7,354,061
		6,261,750	151,190,249
Book value of assets disposed off during the period / year		(2,122,621)	(131,404,715)
Depreciation charged during the period / year		(32,046,017)	(1,540,631)
		1,310,319,335	1,325,660,013

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (Un-audited) FOR THE QUARTER ENDED SEPTEMBER 30, 2015

	Note	Un-audited September 30 2015 Rupees	Audited June 30 2015 Rupees
4.2 Capital work in progress			
Buildings - civil works		63,141,831	63,006,368
Plant and machinery		15,515,750	14,131,500
Electric installation		80,523,868	80,523,868
Advances for Vehicles		500,000	500,000
		159,681,450	158,161,736
5 LONG TERM INVESTMENTS			
Investments in associates - at equity method:			
Quoted:			
Sapphire Fibres Limited	5.2	346,471,333	351,680,520
Sapphire Textile Mills Limited	5.3	71,506,838	73,008,307
SFL Limited	5.4	58,081,078	58,165,846
Un quoted:			
Sapphire Finishing Mills Limited	5.5	59,917,673	58,547,645
Sapphire Holding Limited	5.6	30,570,524	31,744,979
Sapphire Power Generation Limited	5.7	53,801,199	54,255,653
		620,348,645	627,402,950
5.1	The existence of significant influence by the Company is evidenced by the representation on the board of directors of associated companies.		
5.2 Sapphire Fibres Limited			
393,697 (June 30, 2015: 393,697) ordinary shares of Rs. 10 each - cost		41,956,482	41,956,482
Equity held: 1.9997%			
Share of post acquisition profit directly recognized in equity		304,514,851	314,645,251
Dividend received		-	(4,921,213)
		346,471,333	351,680,520
5.3 Sapphire Textile Mills Limited			
100,223 (June 30, 2015: 100,223) ordinary shares of Rs. 10 each - cost		8,114,578	8,114,578
Equity held: 0.50%			
Share of post acquisition profit directly recognized in equity		63,392,260	65,895,959
Dividend received		-	(1,002,230)
		71,506,838	73,008,307
5.4 SFL Limited			
401,570 (June 30, 2015: 401,570) ordinary shares of Rs. 10 each - cost		2,439,475	2,439,475
Equity held: 1.9987%			
Share of post acquisition profit		55,641,603	55,726,371
		58,081,078	58,165,846

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (Un-audited) FOR THE QUARTER ENDED SEPTEMBER 30, 2015

	Un-audited September 30 2015 Rupees	Audited June 30 2015 Rupees
5.5 Sapphire Finishing Mills Limited		
1,556,000 (June 30, 2015: 1,556,000) ordinary shares of Rs. 10 each - cost	16,509,160	16,509,160
Equity held: 1.69%		
Share of post acquisition profit directly recognized in equity	43,408,513	44,372,485
Dividend received	-	(2,334,000)
	59,917,673	58,547,645
5.6 Sapphire Holding Limited		
100,223 (June 30, 2015: 100,223) ordinary shares of Rs. 10 each - cost	524,950	524,950
Equity held: 0.50%		
Share of post acquisition profit	30,045,574	31,220,029
	30,570,524	31,744,979
5.7 Sapphire Power Generation Limited		
555,000 (June 30, 2015: 555,000) ordinary shares of Rs. 10 each - cost	19,425,000	19,425,000
Equity held: 3.46%		
Share of post acquisition profit	34,376,199	34,830,653
	53,801,199	54,255,653
6 SHORT TERM BORROWINGS		
From banking companies - secured		
Running finance	554,194,165	122,163,938
Foreign currency import finance	157,317,696	147,288,147
Other short term finance	522,000,000	1,072,742,200
Temporary overdraft	524,271	-
	1,234,036,131	1,342,194,285
7 CONTINGENCIES AND COMMITMENTS		
7.1 Contingencies		
Guarantees have been issued by banks on behalf of the Company in the normal course of business	63,818,048	53,863,694
Post dated cheques issued in favour of Commissioner Inland Revenue	186,434,382	181,839,732
	250,252,430	235,703,426
7.2 Claims not acknowledged as debt		
<p>During the last year it was discovered that there were unauthorized withdrawals of funds from one of the Company's bank accounts (running finance account) using forged signatures on cheques from cheque books issued by the Bank's staff without the Company's authority. On becoming aware of the matter, an FIR has been lodged in addition to taking up the matter with the bank. Based on the advice of its legal counsel, the management believes that the Company does not have any liability whatsoever in respect of such net unauthorized withdrawals of funds accumulating to Rs.20,605,789/- (including markup).</p> <p>Furthermore the Company has filed a suit on 21 March, 2014 in the honourable Sindh High Court, which has granted a stay order on 8 April, 2014 in favour of the Company whereby the bank has been restrained from placing the Company's name in the State Bank Credit Information Bureau (CIB) list of defaulter and prevented from taking coercive action against the Company.</p>		
7.3 Claims of Input Sales Tax		
<p>The Company has claimed an input tax of Rs. 13.985 million and the same has been disallowed by Federal Board of Revenue (FBR) Pakistan by a notice dated June 20, 2015. However the Company has filed an appeal dated July 07, 2015 against the FBR decision and has reasonable grounds to claim the tax.</p>		

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (Un-audited) FOR THE QUARTER ENDED SEPTEMBER 30, 2015

		Un-audited September 30 2015 Rupees	Audited June 30 2015 Rupees
7.4	Commitments		
	Irrevocable letters of credit for import of:		
	-stores and spare parts	8,176,036	2,137,439
	-raw material	54,105,885	16,322,220
	Contract for capital expenditure	20,027,673	21,547,386
		82,309,593	40,007,045
		Un-audited Quarter ended September 30, 2015 Rupees	Un-audited Quarter ended September 30, 2014 Rupees
8	SALES		
	Local		
	Yarn	142,410,061	197,409,151
	Waste	17,035,645	10,726,559
		159,445,706	208,135,710
	Export		
	Yarn	151,208,543	462,383,573
	Yarn (Indirect export)	486,690,596	429,268,852
	Waste	12,602,881	11,767,724
		650,502,019	903,420,149
		809,947,725	1,111,555,859
	Processing services	-	546,000
	Export rebate	689,030	849,931
		810,636,755	1,112,951,790
8.1	Sales tax on local and indirect export sales is Rs.15.059 million (2014: Rs.10.442 million)		
9	COST OF SALES		
	Raw material consumed	477,510,266	644,941,466
	Packing material consumed	14,526,255	14,574,726
	Store and spare parts consumed	17,394,650	19,014,593
	Salaries, wages and benefits	86,173,512	72,214,352
	Fuel and power	78,538,046	93,841,418
	Insurance	3,010,047	3,524,544
	Repairs and maintenance	925,974	1,155,826
	Travelling and conveyance	1,285,872	1,312,519
	Processing and doubling charges	41,707,738	21,822,008
	Other manufacturing overheads	1,456,145	556,538
	Depreciation	32,821,105	31,165,291
		755,349,610	904,123,281
	Work in process		
	At beginning of period	120,307,562	134,041,989
	At end of period	(134,519,524)	(137,315,301)
		(14,211,962)	(3,273,312)
	Cost of goods manufactured	741,137,648	900,849,969
	Finished goods		
	At beginning of period	61,104,299	180,364,434
	Yarn purchased	-	1,513,962
	At end of period	(75,152,188)	(135,921,029)
		(14,047,889)	45,957,367
		727,089,759	946,807,335

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (Un-audited) FOR THE QUARTER ENDED SEPTEMBER 30, 2015

10 TRANSACTIONS WITH RELATED PARTIES

The related parties comprise associated companies, other related group companies, directors of the Company, key management personnel and post employment benefit plans. The Company in the normal course of business enters into transactions with various related parties.

The transactions with related parties during the period generally consist of sales and purchases.

Nature and description of related party transactions during the period along with monetary values are as follows:

		Un-audited Quarter ended September 30, 2015 Rupees	Un-audited Quarter ended September 30, 2014 Rupees
Nature of Relationship	Nature of Transaction		
Associated companies	Sales of finished goods, raw material / stores and spare parts	67,170,187	171,570,582
	Purchases of;		
	- finished goods, raw material / stores and	3,568,248	72,029,182
	- machinery	10,200,000	-
	- electricity	40,296,255	19,150,282
	Services obtained	478,605	1,047,090
	Shared expenses paid	839,964	898,625
Post-employment benefits	Contribution for the period	11,615,642	10,707,005
Key Management Personnel	Remuneration and other benefits	5,454,000	4,950,000

Transactions with related parties are carried out at arm's length in the normal course of business. The consideration is computed on commercial terms and conditions.

11 DATE OF AUTHORIZATION FOR ISSUE

The condensed interim financial information have been approved by the Board of Directors of the Company and authorized for issue on October 28, 2015.

12 GENERAL

Figures have been rounded off to the nearest rupee.